AIR NEW ZEALAND

# ANNUAL FINANCIAL RESULTS


2014

A STAR ALLIANCE MEMBER

# 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 2014.

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 2014 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 which enable with reasonable accuracy, the determination of the financial position of the Group and facilitate compliance of the financial statements with the Financial Reporting Act 1993.

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

27 August 2014

Jan Dawson
DEPUTY CHAIRMAN

# FINANCIAL STATEMENTS



# GENERAL INFORMATION



*This document, in conjunction with the Air New Zealand Annual Shareholder Review 2014, constitutes the 2014 Annual Report to shareholders of Air New Zealand Limited.

# STATEMENT OF FINANCIAL PERFORMANCE

FOR THE YEAR TO 30 JUNE 2014

| | NOTES | GROUP 2014 $M | GROUP 2013 $M | COMPANY 2014 $M | COMPANY 2013 $M |
|---|---|---|---|---|---|
| **Operating Revenue** | | | | | |
| Passenger revenue | | 3,851 | 3,765 | 3,237 | 3,193 |
| Cargo | | 287 | 301 | 281 | 296 |
| Contract services | | 277 | 310 | 223 | 242 |
| Other revenue | | 248 | 239 | 460 | 490 |
| | 1, 2 | 4,663 | 4,615 | 4,201 | 4,221 |
| **Operating Expenditure** | | | | | |
| Labour | | (1,151) | (1,068) | (1,002) | (915) |
| Fuel | | (1,121) | (1,204) | (1,026) | (1,109) |
| Maintenance | | (285) | (302) | (206) | (225) |
| Aircraft operations | | (424) | (419) | (321) | (326) |
| Passenger services | | (212) | (222) | (203) | (214) |
| Sales and marketing | | (280) | (274) | (264) | (257) |
| Foreign exchange gains | | 45 | 7 | 59 | 4 |
| Other expenses | | (222) | (236) | (62) | (213) |
| | 3 | (3,650) | (3,718) | (3,025) | (3,255) |
| **Earnings Before Finance Costs, Depreciation, Amortisation, Rental Expenses and Taxation** | | 1,013 | 897 | 1,176 | 966 |
| Depreciation and amortisation | | (436) | (411) | (261) | (277) |
| Rental and lease expenses | 3 | (174) | (177) | (281) | (258) |
| **Earnings Before Finance Costs and Taxation** | | 403 | 309 | 634 | 431 |
| Finance income | | 44 | 37 | 47 | 40 |
| Finance costs | | (90) | (91) | (73) | (81) |
| **Profit Before Taxation** | | 357 | 255 | 608 | 390 |
| Taxation expense | 4 | (95) | (74) | (76) | (42) |
| **Net Profit Attributable to Shareholders of Parent Company** | | 262 | 181 | 532 | 348 |
| **Per Share Information:** | | | | | |
| Basic earnings per share (cents) | 5 | 23.8 | 16.5 | | |
| Diluted earnings per share (cents) | 5 | 23.6 | 16.4 | | |
| Interim and final dividends declared per share (cents) | 22 | 10.0 | 8.0 | | |
| Special dividend declared per share (cents) | 22 | 10.0 | - | | |
| Net tangible assets per share (cents) | | 161 | 157 | | |

| | NOTE | GROUP 2014 $M | GROUP 2013 $M |
|---|---|---|---|
| **Supplementary Information** | | | |
| Earnings before Taxation (per NZ IFRS above) | | 357 | 255 |
| Reverse net (gains)/losses on derivatives that hedge exposures in other financial periods: | | | |
| Fuel derivatives | | (22) | (2) |
| Foreign exchange derivatives | | (3) | 2 |
| **Normalised Earnings before Taxation** | 3 | 332 | 255 |
| **Normalised Earnings after Taxation** | | 244 | 181 |
| **Per Share Information:** | | | |
| Basic normalised earnings per share (cents) | | 22.2 | 16.5 |

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

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

# STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR TO 30 JUNE 2014

| | NOTES | GROUP 2014 $M | GROUP 2013 $M | COMPANY 2014 $M | COMPANY 2013 $M |
|---|---|---|---|---|---|
| **Net Profit for the Year** | | 262 | 181 | 532 | 348 |
| **Other Comprehensive Income:** | | | | | |
| **Items that will not be reclassified to profit or loss:** | | | | | |
| Changes in fair value of investment in quoted equity instruments | 13 | (18) | (6) | - | - |
| Actuarial gains on defined benefit plans | 28 | 8 | 13 | 8 | 13 |
| Taxation on above reserve movements | | (3) | (2) | (3) | (2) |
| **Total items that will not be reclassified to profit or loss** | | (13) | 5 | 5 | 11 |
| **Items that may be reclassified subsequently to profit or loss:** | | | | | |
| Changes in fair value of cash flow hedges | | (20) | 85 | (33) | 82 |
| Transfers to net profit from cash flow hedge reserve | | (48) | (5) | (46) | - |
| Transfers to asset carrying value from cash flow hedge reserve | | (33) | (28) | (33) | (28) |
| Net translation loss on investment in foreign operations | | (5) | (8) | - | - |
| Taxation on above reserve movements | | 28 | (15) | 32 | (16) |
| **Total items that may be reclassified subsequently to profit or loss** | | (78) | 29 | (80) | 38 |
| **Total Other Comprehensive Income for the Year, Net of Taxation** | | (91) | 34 | (75) | 49 |
| **Total Comprehensive Income for the Year, Attributable to Shareholders of the Parent Company** | | 171 | 215 | 457 | 397 |

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

# STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR TO 30 JUNE 2014

| | NOTES | GROUP 2014 $M | GROUP 2013 $M | COMPANY 2014 $M | COMPANY 2013 $M |
|---|---|---|---|---|---|
| **Issued Capital** | | | | | |
| Balance at the beginning of the year | | 2,277 | 2,282 | 2,285 | 2,290 |
| Acquisition of treasury stock (share buyback) | | - | (11) | - | (11) |
| Shares issued | | 1 | 1 | 1 | 1 |
| Equity-settled share-based payments | | 4 | 5 | 4 | 5 |
| Balance at the end of the year | 24 | 2,282 | 2,277 | 2,290 | 2,285 |
| **Cash Flow Hedge Reserve** | | | | | |
| Balance at the beginning of the year | | 123 | 86 | 119 | 81 |
| Changes in fair value of cash flow hedges | | (20) | 85 | (33) | 82 |
| Transfers to net profit ("Fuel") | | (7) | (2) | (7) | (2) |
| Transfers to net profit ("Foreign exchange gains") | | (41) | (3) | (39) | 2 |
| Transfers to asset carrying value | | (33) | (28) | (33) | (28) |
| Taxation on above reserve movements | | 29 | (15) | 32 | (16) |
| Balance at the end of the year | 20 | 51 | 123 | 39 | 119 |
| **Investment Revaluation Reserve** | | | | | |
| Balance at the beginning of the year | | (47) | (41) | - | - |
| Changes in fair value of investment in quoted equity instruments | 13 | (18) | (6) | - | - |
| Balance at the end of the year | | (65) | (47) | - | - |
| **Foreign Currency Translation Reserve** | | | | | |
| Balance at the beginning of the year | | (17) | (9) | - | - |
| Net translation loss on investment in foreign operations | | (5) | (8) | - | - |
| Taxation on above reserve movements | | (1) | - | - | - |
| Balance at the end of the year | | (23) | (17) | - | - |
| **Retained Deficit** | | | | | |
| Balance at the beginning of the year | | (535) | (656) | (1,199) | (1,487) |
| Net profit for the year | | 262 | 181 | 532 | 348 |
| Dividends on Ordinary Shares | 22 | (105) | (71) | (105) | (71) |
| Actuarial gains on defined benefit plans | 28 | 8 | 13 | 8 | 13 |
| Taxation on above reserve movements | | (3) | (2) | (3) | (2) |
| Balance at the end of the year | | (373) | (535) | (767) | (1,199) |
| **Total Equity Attributable to Shareholders of the Parent Company** | | 1,872 | 1,801 | 1,562 | 1,205 |
| **Non-controlling Interests** | | | | | |
| Balance at the beginning of the year | | - | 1 | - | - |
| Disposed through business combinations | | - | (1) | - | - |
| **Total Equity Attributable to Non-controlling Interest** | | - | - | - | - |
| **Total Equity at the End of the Year** | | 1,872 | 1,801 | 1,562 | 1,205 |
| **Total Equity** | | | | | |
| Balance at the beginning of the year | | 1,801 | 1,663 | 1,205 | 884 |
| Net profit for the year | | 262 | 181 | 532 | 348 |
| Total other comprehensive income for the year, net of taxation | | (91) | 34 | (75) | 49 |
| ***Transactions with owners:*** | | | | | |
| Acquisition of treasury stock (share buyback) | 24 | - | (11) | - | (11) |
| Shares issued | 24 | 1 | 1 | 1 | 1 |
| Equity-settled share-based payments | 24 | 4 | 5 | 4 | 5 |
| Dividends on Ordinary Shares | 22 | (105) | (71) | (105) | (71) |
| Disposed through business combinations | | - | (1) | - | - |
| **Transactions with owners** | | (100) | (77) | (100) | (76) |
| **Balance at the End of the Year** | | 1,872 | 1,801 | 1,562 | 1,205 |

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

# STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2014

| | NOTES | GROUP 2014 $M | GROUP 2013 $M | COMPANY 2014 $M | COMPANY 2013 $M |
|---|---|---|---|---|---|
| **Current Assets** | | | | | |
| Bank and short term deposits | 6 | 1,234 | 1,150 | 1,231 | 1,146 |
| Trade and other receivables | 7 | 349 | 350 | 305 | 302 |
| Inventories | 8 | 169 | 155 | 140 | 125 |
| Derivative financial assets | 20 | 30 | 98 | 30 | 98 |
| Income taxation | | - | - | - | 2 |
| Assets held for resale | 9 | 4 | 7 | 3 | 4 |
| Other assets | 10 | 41 | 83 | 56 | 75 |
| **Total Current Assets** | | 1,827 | 1,843 | 1,765 | 1,752 |
| **Non-Current Assets** | | | | | |
| Trade and other receivables | 7 | 55 | 49 | 20 | 12 |
| Property, plant and equipment | 11 | 2,994 | 2,933 | 1,609 | 1,782 |
| Intangible assets | 12 | 79 | 69 | 76 | 62 |
| Investment in quoted equity instruments | 13 | 422 | 261 | - | - |
| Investments in other entities | 14 | 48 | 47 | 516 | 368 |
| Assets held for resale | 9 | 2 | - | 2 | - |
| Other assets | 10 | 423 | 394 | 890 | 731 |
| **Total Non-Current Assets** | | 4,023 | 3,753 | 3,113 | 2,955 |
| **Total Assets** | | 5,850 | 5,596 | 4,878 | 4,707 |
| **Current Liabilities** | | | | | |
| Bank overdraft and short term borrowings | 6 | - | - | - | 1 |
| Trade and other payables | | 398 | 382 | 366 | 347 |
| Revenue in advance | 15 | 930 | 918 | 918 | 910 |
| Interest-bearing liabilities | 16 | 190 | 159 | 86 | 87 |
| Derivative financial liabilities | 20 | 57 | 13 | 57 | 8 |
| Provisions | 17 | 31 | 15 | 24 | 11 |
| Income taxation | | 52 | 27 | 18 | - |
| Other liabilities | 21 | 214 | 200 | 555 | 665 |
| **Total Current Liabilities** | | 1,872 | 1,714 | 2,024 | 2,029 |
| **Non-Current Liabilities** | | | | | |
| Revenue in advance | 15 | 148 | 140 | 148 | 140 |
| Interest-bearing liabilities | 16 | 1,543 | 1,470 | 781 | 921 |
| Derivative financial liabilities | 20 | 1 | - | 1 | - |
| Provisions | 17 | 165 | 145 | 164 | 144 |
| Other liabilities | 21 | 20 | 21 | 72 | 73 |
| Deferred taxation | 23 | 229 | 305 | 126 | 195 |
| **Total Non-Current Liabilities** | | 2,106 | 2,081 | 1,292 | 1,473 |
| **Total Liabilities** | | 3,978 | 3,795 | 3,316 | 3,502 |
| **Net Assets** | | 1,872 | 1,801 | 1,562 | 1,205 |
| **Equity** | | | | | |
| Issued capital | 24 | 2,282 | 2,277 | 2,290 | 2,285 |
| Reserves | | (410) | (476) | (728) | (1,080) |
| **Total Equity** | | 1,872 | 1,801 | 1,562 | 1,205 |

Tony Carter
CHAIRMAN

Jan Dawson
DEPUTY CHAIRMAN

For and on behalf of the Board, 27 August 2014

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

# STATEMENT OF CASH FLOWS

FOR THE YEAR TO 30 JUNE 2014

| | NOTES | GROUP 2014 $M | GROUP 2013 $M | COMPANY 2014 $M | COMPANY 2013 $M |
|---|---|---|---|---|---|
| **Cash Flows from Operating Activities** | | | | | |
| Receipts from customers | | 4,696 | 4,654 | 4,020 | 4,021 |
| Dividends received from subsidiaries | | - | - | 200 | 248 |
| Payments to suppliers and employees | | (3,805) | (3,838) | (3,420) | (3,419) |
| Income tax paid | | (119) | (28) | (118) | (27) |
| Interest paid | | (79) | (84) | (73) | (83) |
| Interest received | | 41 | 35 | 45 | 38 |
| | | 734 | 739 | 654 | 778 |
| Rollover of foreign exchange contracts* | | (4) | 11 | (4) | 11 |
| **Net Cash Flow from Operating Activities** | 6 | 730 | 750 | 650 | 789 |
| **Cash Flows from Investing Activities** | | | | | |
| Disposal of property, plant and equipment, intangibles and assets held for resale | | 27 | 9 | 23 | 7 |
| Acquisition of property, plant and equipment and intangibles | | (644) | (382) | (221) | (209) |
| Acquisition of quoted equity instruments | | (136) | (46) | - | - |
| Distribution from associates | | - | 15 | - | - |
| Rollover of foreign exchange contracts* | | (33) | (28) | (33) | (28) |
| Other assets | | - | (44) | - | - |
| Interest-bearing assets | | 59 | (4) | 59 | (4) |
| **Net Cash Flow from Investing Activities** | | (727) | (480) | (172) | (234) |
| **Cash Flows from Financing Activities** | | | | | |
| Shares issued | | 1 | 1 | 1 | 1 |
| Interest-bearing liabilities drawdowns | | 376 | 114 | - | - |
| Acquisition of treasury stock (share buyback) | 24 | - | (11) | - | (11) |
| Net decrease in related party funding | | - | - | (171) | (232) |
| Interest-bearing liabilities payments | | (157) | (149) | (83) | (81) |
| Rollover of foreign exchange contracts* | | (31) | (30) | (31) | (30) |
| Dividends on Ordinary Shares | 22 | (108) | (72) | (108) | (72) |
| **Net Cash Flow from Financing Activities** | | 81 | (147) | (392) | (425) |
| **Increase in Cash and Cash Equivalents** | | 84 | 123 | 86 | 130 |
| Cash and cash equivalents at the beginning of the year | | 1,150 | 1,027 | 1,145 | 1,015 |
| **Cash and Cash Equivalents at the End of the Year** | 6 | 1,234 | 1,150 | 1,231 | 1,145 |

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

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

# STATEMENT OF ACCOUNTING POLICIES

FOR THE YEAR TO 30 JUNE 2014

## ENTITIES REPORTING

The financial statements presented are those of Air New Zealand Limited (the Company) and its subsidiaries, joint ventures and associates (the Group). References to "Air New Zealand" are used where the Group and Company are similarly affected.

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

## STATUTORY BASE

Air New Zealand Limited is a company domiciled in New Zealand, registered under the Companies Act 1993 and listed on the New Zealand and Australian Stock Exchanges. The Company is an issuer under the Financial Reporting Act 1993.

## 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"). Air New Zealand is a profit-oriented entity.

The financial statements were approved by the Board of Directors on 27 August 2014.

### 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 below and are presented in New Zealand Dollars which is the Company'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 below:

**(a) Revenue in advance**

Revenue in advance includes transportation sales in advance and loyalty programmes. Unused tickets are recognised in revenue using estimates regarding the timing of recognition based on the terms and conditions of the ticket and historical trends. The fair value of consideration received in respect of loyalty programmes is deferred, net of estimated expiry, until such time as the member has redeemed their Airpoints. Further information is disclosed in the accounting policies under "Airline revenue" and "Loyalty programmes".

**(b) Maintenance provisions**

Where there is a commitment 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 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. Estimates are required to be made in respect of the timing and cost of maintenance. Further information is disclosed in the accounting policies under "Maintenance costs" and within Note 17 Provisions.

**(c) Estimated impairment of non-financial assets**

Non-financial assets (including property, plant and equipment, intangible assets, assets held for resale, and investments in other entities) are reviewed at each reporting date to determine whether there are any indicators that the carrying amount may not be recoverable. Goodwill is tested for impairment annually. Value in use models are prepared to support the carrying value of the assets and require estimates and assumptions to be applied to derive future cash flows. Further details are provided in the accounting policies under "Impairment" and Note 11 Property, Plant and Equipment, Note 12 Intangible Assets, Note 14 Investments in Other Entities and Note 29 Related Parties.

**(d) Residual values and useful lives of aircraft related assets**

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. Further information is provided in the accounting policies under "Property, plant and equipment" and Note 11 Property, Plant and Equipment.

**(e) Taxation**

The preparation of the financial statements requires management to make estimates about items that are not known at balance date or prior to the Group reporting its final result. These items may ultimately impact the amount of tax payable by the Group.

Judgements are also 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 deferred tax assets and deferred tax 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 deferred tax assets and liabilities may require adjustment, resulting in a corresponding credit or charge to the Statement of Financial Performance. Further information is provided in the accounting policies under "Taxation", Note 4 Taxation Expense and Note 23 Deferred Taxation.

**(f) Contingent liabilities**

Judgements and estimates are applied to determining 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. Further information is disclosed within Note 27 Contingent Liabilities.

## SIGNIFICANT ACCOUNTING POLICIES

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

The Group has adopted the following new framework, standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of 1 July 2013.

(a) External Reporting Board Standard A1 "Accounting Standards Framework (For-profit Entities Update)" (XRB A1)

(b) NZ IFRS 10 - Consolidated Financial Statements

(c) NZ IFRS 11 - Joint Arrangements

(d) NZ IFRS 12 - Disclosure of Interests in Other Entities

(e) NZ IFRS 13 - Fair Value Measurement

(f) NZ IAS 19 (2011) - Employee Benefits

(g) NZ IAS 27 (2011) - Separate Financial Statements

(h) NZ IAS 28 (2011) - Investments in Associates and Joint Ventures

(i) Amendments to NZ IFRS 7 - Financial instruments: Disclosures and NZ IAS 32 - Financial Instruments: Presentation

Comparative information has been restated to reflect these new and amended standards, and reclassified to achieve consistency in disclosure with the current period. The nature and effect of these changes are explained in detail in Note 30.

Air New Zealand has elected to early adopt all other NZ IFRSs and Interpretations that had been issued by the New Zealand Accounting Standards Board, except as noted below. The early adoption did not have a material impact on the financial statements.

NZ IFRS 9 (2010) - Financial Instruments and NZ IFRS 9 - Financial Instruments (2013) (Hedge Accounting and amendments to NZ IFRS 9, NZ IFRS 7 and NZ IAS 39) have not been adopted as at 30 June 2014. These Standards, which are effective for periods commencing on or after 1 January 2017, will be adopted with effect from 1 July 2014. The Standards add requirements related to the classification and measurement of financial liabilities, and derecognition of financial assets and financial liabilities to NZ IFRS 9 (2009) and replace the hedge accounting requirements of NZ IAS 39. The 2013 version aligns hedge accounting more closely with risk management and establishes a more principles based approach to hedge accounting. Adoption of these Standards with effect from 1 July 2014 will have the effect of restating $2 million losses from earnings to other comprehensive income as at 1 July 2013 and a further $1 million loss in the year ended 30 June 2014. These changes relate to the change in treatment of the time value of fuel options from being marked to market through earnings to being deferred in an equity reserve until maturity of the options, at which stage the deferred amount will be reclassified to earnings.

NZ IFRS 9 (2014) - Financial Instruments has not been adopted as at 30 June 2014. It includes a framework for classification and measurement of financial instruments and a single, forward-looking impairment model. This Standard, which becomes effective for annual periods commencing on or after 1 January 2018, is not expected to have a significant impact on the financial statements.

NZ IFRS 15 - Revenue from Contracts with Customers has not been adopted early. This standard has an objective of a single revenue recognition model that applies to revenue from contracts with customers in all industries. This standard, which becomes effective for annual periods commencing on or after 1 January 2017, is not expected to have a significant impact on the financial statements.

Amendments to XRB A1 Accounting Standards Framework: Omnibus Amendments (Legislative update) issued in February 2014 which amended various paragraphs of XRB A1 to reflect legislative changes has not been applied. This standard, which becomes effective for annual periods commencing on or after 1 April 2014 will not have an impact on the financial statements other than disclosure.

## BASIS OF CONSOLIDATION

The consolidated financial statements include those of the Company 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.

**Subsidiaries, associates and joint venture companies**

In the Company's separate financial statements, investments in subsidiaries, associates and joint venture companies are accounted for at cost less accumulated impairment losses.

Subsidiaries are entities that are controlled either directly or indirectly, by the Company.

Associates are those entities in which the Group, either directly or indirectly, holds a significant but not a controlling interest. Joint ventures are entities whose activities are jointly controlled by the Group and the Group has rights to the net assets of the entity. 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. Goodwill relating to associates and joint ventures is included in the carrying amount of the investment. Dividends reduce the carrying value of the investment.

The amount recognised in the Statement of Financial Performance reflects the Group's share of the earnings of associates and joint ventures. The Group recognises its share of changes in other comprehensive income within the Statement of Comprehensive Income.

Investments in associates and joint ventures are carried at the lower of the equity accounted amount and the recoverable amount. 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.

## 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.

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.

## REVENUE RECOGNITION

**Airline 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.

**Contract 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 on completion of the contract.

**Other revenue**

Other revenue is recognised at the time the service is provided.

### 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, net of estimated expiry (non-redeemed Airpoints Dollars), until 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, 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.

Deferred Airpoints revenue is recorded within revenue in advance in the Statement of Financial Position.

### Investment revenue

Dividend revenue is recognised when the right to receive payment is established.

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

## CASH FLOWS

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

## BORROWING COSTS

Borrowing costs directly attributable to the acquisition of qualifying assets, such as aircraft, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale. Qualifying assets are assets which necessarily take a substantial period of time to get ready for their intended use. All other borrowing costs are recognised in the Statement of Financial Performance in the period in which they are incurred.

## LEASE PAYMENTS

### 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.

### Finance leases

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.

## MAINTENANCE COSTS

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.

Where there is a commitment 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 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.

All other maintenance costs are expensed as incurred.

## FINANCIAL INSTRUMENTS

### Non-derivative financial instruments

Non-derivative financial instruments include cash and cash equivalents, trade and other receivables (excluding prepayments), amounts owing from related parties, interest-bearing assets, non interest-bearing assets, investment in quoted equity instruments, interest-bearing liabilities, trade and other payables and amounts owing to related parties. These are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, non-derivative financial instruments are recognised as described below.

### Financial assets

***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.

***Trade and other receivables***

Trade and other receivables are recognised at cost less any provision for impairment. A provision for impairment is established when collection is considered to be doubtful. When a trade receivable is considered uncollectible, it is written-off against the provision.

***Interest-bearing assets***

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

***Non interest-bearing assets***

Non interest-bearing assets are measured at amortised cost, less any impairment.

***Investment in quoted equity instruments***

Changes in the fair value of the investment in quoted equity instruments, including any related foreign exchange component, are recognised through other comprehensive income where an irrevocable election has been made at inception to do so. This election is made in order to ensure the appropriate representation of long-term, strategic investments as distinct from those held for trading. Dividends from such investments are recognised in profit or loss when the right to receive payment has been established. The cumulative gains or losses held in other comprehensive income are not transferred to profit or loss on derecognition or otherwise, although they may be transferred within equity.

***Amounts owing from subsidiaries, joint ventures and associates***

Amounts owing from related parties are recognised at cost less any provision for impairment. A provision for impairment is established when collection is considered to be doubtful. When an amount owing from a related party is considered uncollectible, it is written-off against the provision.

**Financial liabilities**

***Interest-bearing liabilities***

***Borrowings and Bonds***

Borrowings and Bonds 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 and Bonds 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.

***Finance leases***

Finance lease obligations are initially stated at fair value, net of transaction costs incurred. The obligations are subsequently stated at amortised cost.

***Trade and other payables***

Trade and other payables are stated at cost.

***Amounts owing to subsidiaries, joint ventures and associates***

Amounts owing to related parties are stated at cost.

**Derivative financial instruments**

Air New Zealand uses derivative financial instruments to manage its exposure to foreign exchange, fuel price, and interest rate risks arising from operational, financing and investment activities. Equity derivatives are used to provide price protection in the event of a further purchase of shares in Virgin Australia Holdings Limited. Derivative financial instruments are recognised initially at fair value and transaction costs are expensed immediately. Subsequent to initial recognition, derivative financial instruments are recognised as described below:

***Derivative financial instruments at fair value through profit or loss***

Derivative financial instruments, other than those designated as hedging instruments in a qualifying cash flow hedge (refer below), 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 in accordance with NZ IAS 39 - Financial Instruments: Recognition and Measurement, recognition of any resultant gain or loss depends on the nature of the hedging relationship, as detailed below.

***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 IAS 39 - Financial Instruments: Recognition and Measurement. 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, or the designation of the hedge relationship is revoked or changed, 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.

***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.

***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 gain or loss attributable to the hedged risk is recognised in the Statement of Financial Performance with an adjustment to the carrying amount of the hedged item.

## FAIR VALUE ESTIMATION

The fair value of the investment in quoted equity instruments is determined by reference to quoted market prices in an active market. This equates to "Level 1" of the fair value hierarchy defined within NZ IFRS - 13 Fair Value Measurement. 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 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. The fair value of all other financial instruments approximates the carrying value.

## 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.

## 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.

### 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.

### Manufacturers' credits

The Group receives credits and other contributions from manufacturers in connection with the acquisition of certain aircraft and engines. Depending on the reason for which the amounts are received, the credits and other contributions are either recorded as a reduction to the cost of the related aircraft and engines, or offset against the associated operating expense. When the aircraft are held under operating leases, the amounts are deferred and deducted from the operating lease rentals on a straight-line basis over the period of the related lease as deferred credits.

## DEPRECIATION

### Aircraft

Depreciation of the aircraft fleet is calculated to write down the cost of these assets on a straight line basis to an estimated residual value over their economic lives. The aircraft and related engines, simulators and spares are being depreciated on a straight line basis as follows:

| | |
|---|---|
| Airframe | 10 - 22 years |
| Engines | 5 – 17 years |
| Engine overhauls | period to next overhaul |

The residual values of aircraft are reviewed annually by reference to external projected values.

### Non-aircraft

Non-aircraft assets are depreciated on a straight line basis using the following estimated economic lives:

| | |
|---|---|
| Buildings | 50 – 100 years |
| Aircraft specific plant and equipment | 10 – 20 years |
| Non-aircraft specific leasehold improvements, plant, equipment, furniture and vehicles | 2 - 10 years |

Gains and losses on disposal are determined by comparing proceeds with carrying amounts. These are included in the Statement of Financial Performance.

## INTANGIBLE ASSETS

### Goodwill

Goodwill represents the cost of an acquisition over and above the fair value of the Group's share of the net identifiable assets acquired. Goodwill arising on acquisition of a subsidiary is included in intangible assets. Goodwill arising on acquisition of an associate or joint venture is included in the carrying value of the investment in that associate or joint venture. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

### Computer software and licences

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.

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

### Development costs

Expenditure related to development costs which is applied to external customer products and services is recognised as an asset and stated at cost. The assets are amortised on a straight line basis over the period of the expected benefits. All other development costs are recognised in the Statement of Financial Performance as incurred.

## IMPAIRMENT

### Impairment of financial assets at amortised cost

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.

### Impairment of non-financial assets

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).

Aircraft are operated by the airline as a single network and are assessed for impairment as one cash-generating unit, inclusive of related infrastructural assets. Estimated net cash flows used in determining recoverable amounts are based on the directors' current assessment of the Group's future trading prospects and the assets' ultimate net sale proceeds and have been discounted to their net present value. Aircraft which have been withdrawn from service and have no intention of being reintroduced into the operating fleet, or there has been a significant decline in operating requirements, are assessed for impairment on an individual basis.

Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised in prior years.

## 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. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets classified as held for resale are measured at the lower of the asset's previous carrying amount and its fair value less costs to sell.

## 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.

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

## 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.

## SHARE CAPITAL

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

Where a member of the Group purchases the Company's share capital, the consideration paid is deducted from equity under the treasury stock method, until they are reissued or otherwise disposed of.

## TREASURY STOCK

When shares are acquired by the Company, the amount of consideration paid is recognised directly in equity. Acquired shares are classified as treasury stock and presented as a deduction from issued capital. When treasury stock are 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 issued capital.

## RESERVES

### Cash flow hedge reserve

The cash flow hedge reserve comprises 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.

### Foreign currency translation reserve

The foreign currency translation reserve comprises 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.

### Investment revaluation reserve

The investment revaluation reserve comprises changes in the fair value of the investment in quoted equity instruments.

## FINANCIAL GUARANTEE CONTRACTS

Where the Company enters into financial guarantee contracts to guarantee the indebtedness of other companies within the Group, the Company considers these to be insurance contracts (as defined by NZ IFRS 4 - Insurance contracts) and accounts for them as such.

## TAXATION

The income taxation expense for the period is the taxation payable on the current period's taxable income at tax rates enacted or substantively enacted at reporting date. This is adjusted by changes in deferred taxation assets and liabilities. Income taxation expense is recognised in the Statement of Financial Performance except where it relates to items recognised directly in equity, in which case it is recognised in equity.

Deferred income taxation is provided in full, using the balance sheet liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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.

## EMPLOYEE BENEFITS

### Pension obligations

Payments to defined contribution retirement plans are charged as an expense as they fall due. Payments made to multi-employer retirement benefit schemes are treated in the same way as payments to defined contribution schemes where sufficient information is not available to use defined benefit accounting.

Air New Zealand's net obligation in respect of defined benefit pension plans is calculated separately for each plan 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 to the plan.

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognised immediately in other comprehensive income. Air New Zealand determines the net interest expense/income on the defined benefit liability/asset for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then net defined benefit liability/asset, taking into account any changes in the net defined benefit liability/asset during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to defined benefit plans are recognised in the Statement of Financial Performance.

### Share based compensation

All equity options are disclosed in the notes to the financial statements. The fair value (at grant date) of options granted to employees is recognised as an expense, within the Statement of Financial Performance, over the vesting period of the options, with a corresponding entry to "Issued 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 share options that will ultimately vest.

### Termination costs

Termination costs are recognised as an expense when the Group is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to terminate employment before the normal retirement date.

## 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.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR TO 30 JUNE 2014

## 1. SEGMENTAL INFORMATION

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

### Geographical

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

| | GROUP 2014 $M | GROUP 2013 $M |
|---|---|---|
| **Analysis of revenue by geographical region of original sale** | | |
| New Zealand | 2,747 | 2,659 |
| Australia and Pacific Islands | 682 | 711 |
| United Kingdom and Europe | 270 | 306 |
| Asia | 326 | 366 |
| North America | 638 | 573 |
| **Total operating revenue** | 4,663 | 4,615 |

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

## 2. REVENUE AND OTHER INCOME

The following disclosure provides additional information in relation to Revenue and Other Income included within the Statement of Financial Performance.

| | GROUP 2014 $M | GROUP 2013 $M | COMPANY 2014 $M | COMPANY 2013 $M |
|---|---|---|---|---|
| Operating revenue | 4,663 | 4,615 | 4,201 | 4,221 |
| Finance income | 44 | 37 | 47 | 40 |
| **Total operating revenue, including finance income** | 4,707 | 4,652 | 4,248 | 4,261 |
| Share of the profit of associates | 11 | 5 | - | - |
| Dividend income from related parties | - | - | 200 | 248 |

## 3. EXPENSES

The following disclosure provides additional information in relation to Expenses included within the Statement of Financial Performance.

| | GROUP 2014 $M | GROUP 2013 $M | COMPANY 2014 $M | COMPANY 2013 $M |
|---|---|---|---|---|
| The following amounts have been debited/(credited) in profit before tax: | | | | |
| **(a) Gains, losses and impairment** | | | | |
| Loss on disposal of property, plant and equipment, intangibles and assets held for resale | 2 | 7 | 1 | 5 |
| Impairment on property, plant and equipment, intangibles and assets held for resale | 4 | 7 | 2 | 1 |
| Reversal of impairment on investments in subsidiaries (refer Note 29) | - | - | (150) | - |
| **(b) Rental and lease expenses** | | | | |
| Aircraft | 126 | 130 | 240 | 219 |
| Buildings | 48 | 47 | 41 | 39 |
| Total rental and lease expenses | 174 | 177 | 281 | 258 |
| **(c) Other costs** | | | | |
| Audit and review of financial statements* | 1 | 1 | 1 | 1 |
| Net foreign exchange loss/(gain) on working capital balances | 3 | (4) | 2 | (5) |

*Other fees were paid for tax compliance work of $19k (30 June 2013: $18k) and other services of $26k relating to business and information technology processes and security controls (30 June 2013: $2k).

### 3. EXPENSES (CONTINUED)

| | GROUP 2014 $M | GROUP 2013 $M | COMPANY 2014 $M | COMPANY 2013 $M |
|---|---|---|---|---|
| **(d) Derivative financial instruments (refer also to Note 20)** | | | | |
| Accounting ineffectiveness on cash flow hedges | (40) | 7 | (40) | 7 |
| Components of derivatives excluded from hedge designations | 19 | 22 | 19 | 22 |
| Non-hedge accounted derivatives** | 92 | 12 | 95 | 9 |
| Transfers to net profit from cash flow hedge reserve | (48) | (5) | (46) | - |
| Total earnings impact of derivative financial instruments | 23 | 36 | 28 | 38 |

**Largely offset by foreign exchange gains/losses on United States denominated interest-bearing liabilities and aircraft lease return provisions within "Foreign exchange gains" as noted below.

"Foreign exchange gains" as disclosed in the Statement of Financial Performance comprise realised gains/(losses) from operating hedge derivatives, the translation of monetary assets and liabilities denominated in foreign currencies and ineffective and non-hedge accounted foreign currency derivatives.

"Normalised earnings", disclosed as supplementary information at the foot of the Statement of Financial Performance, shows earnings after excluding movements on derivatives that hedge exposures in other financial periods. The adjustments match derivative gains or losses with the underlying hedged transaction. Such movements comprise the time value on open derivatives and amounts required to be recognised as ineffective for accounting purposes (refer Note 20). The amounts recognised in the Statement of Financial Performance in relation to (gains)/losses on derivatives which hedge exposures in other financial periods are $22 million of gains for fuel derivatives (30 June 2013: gains of $2 million) and $3 million of gains on foreign exchange derivatives (30 June 2013: losses of $2 million).

### 4. TAXATION EXPENSE

| | GROUP 2014 $M | GROUP 2013 $M | COMPANY 2014 $M | COMPANY 2013 $M |
|---|---|---|---|---|
| **Current taxation expense** | | | | |
| Current year | (155) | (95) | (124) | (65) |
| Adjustment for prior periods | (1) | 2 | (3) | - |
| | (156) | (93) | (127) | (65) |
| **Deferred taxation expense** | | | | |
| Origination of temporary differences | 61 | 19 | 51 | 23 |
| | 61 | 19 | 51 | 23 |
| **Total taxation expense recognised in earnings** | (95) | (74) | (76) | (42) |
| | | | | |
| **Reconciliation of effective tax rate** | | | | |
| Profit before taxation | 357 | 255 | 608 | 390 |
| Taxation at 28% | (100) | (72) | (170) | (109) |
| **Adjustments** | | | | |
| Non-deductible expenses | (4) | (6) | (2) | (3) |
| Non-taxable income | 6 | 1 | 99 | 70 |
| Over/(under) provided in prior periods | 3 | 2 | (2) | - |
| Other | - | 1 | (1) | - |
| **Taxation expense** | (95) | (74) | (76) | (42) |

The Group and Company have $146 million imputation credits as at 30 June 2014 (30 June 2013: $41 million in Group and Company).

### 5. EARNINGS PER SHARE

| | GROUP 2014 | GROUP 2013 |
|---|---|---|
| **Earnings per share attributable to equity holders of the Company** | | |
| Basic earnings per share (cents) | 23.8 | 16.5 |
| Diluted earnings per share (cents) | 23.6 | 16.4 |
| | $M | $M |
| **Earnings for the purpose of basic and diluted earnings per share:** | | |
| Net Profit Attributable to Shareholders of the Parent Company | 262 | 181 |
| | | |
| **Weighted average number of shares (in millions of shares)** | | |
| Weighted average number of Ordinary Shares for basic earnings per share | 1,101 | 1,096 |
| Effect of dilutive ordinary shares: | | |
| Share options | 11 | 8 |
| **Weighted average number of Ordinary Shares for diluted earnings per share** | 1,112 | 1,104 |

## 6. NOTES TO THE STATEMENT OF CASH FLOWS

### Composition of closing cash and cash equivalents

Cash and cash equivalents, as stated in the Statement of Cash Flows, are reconciled to the related balances in the Statement of Financial Position as follows:

| | GROUP 2014 $M | GROUP 2013 $M | COMPANY 2014 $M | COMPANY 2013 $M |
|---|---|---|---|---|
| Cash balances | 68 | 23 | 64 | 19 |
| Other short term deposits and short term bills | 1,166 | 1,127 | 1,167 | 1,127 |
| Bank and short term deposits | 1,234 | 1,150 | 1,231 | 1,146 |
| Bank overdraft and short term borrowings | - | - | - | (1) |
| **Total cash and cash equivalents** | 1,234 | 1,150 | 1,231 | 1,145 |

### Reconciliation of Net Profit Attributable to Shareholders to Net Cash Flows from Operating Activities:

| | GROUP 2014 $M | GROUP 2013 $M | COMPANY 2014 $M | COMPANY 2013 $M |
|---|---|---|---|---|
| **Net profit attributable to shareholders** | 262 | 181 | 532 | 348 |
| **Plus/(less) non-cash items:** | | | | |
| Depreciation and amortisation | 436 | 411 | 261 | 277 |
| Loss on disposal of property, plant and equipment, intangibles and assets held for resale | 2 | 7 | 1 | 5 |
| Impairment on property, plant and equipment, intangibles and assets held for resale | 4 | 7 | 2 | 1 |
| Reversal of impairment on investments in subsidiaries | - | - | (150) | - |
| Share of profit of associates | (11) | (5) | - | - |
| Unrealised (gains)/losses on fuel derivatives | (24) | 2 | (24) | 2 |
| (Gain)/loss on equity derivative | (5) | 3 | - | (2) |
| Foreign exchange gains | (1) | (1) | (1) | (2) |
| Other non-cash items | 9 | 13 | 5 | 8 |
| | 672 | 618 | 626 | 637 |
| **Net working capital movements:** | | | | |
| Assets | (6) | 31 | (14) | 50 |
| Revenue in advance | 20 | 21 | 16 | 23 |
| Deferred foreign exchange (gains)/losses | (4) | 11 | (4) | 11 |
| Liabilities | 48 | 69 | 26 | 68 |
| | 58 | 132 | 24 | 152 |
| **Net cash flow from operating activities** | 730 | 750 | 650 | 789 |

## 7. TRADE AND OTHER RECEIVABLES

| | GROUP 2014 $M | GROUP 2013 $M | COMPANY 2014 $M | COMPANY 2013 $M |
|---|---|---|---|---|
| **Current** | | | | |
| Trade receivables | 297 | 305 | 274 | 276 |
| Other receivables | 2 | 3 | 2 | 3 |
| Less: allowance for doubtful debts | (1) | (2) | (1) | (1) |
| | 298 | 306 | 275 | 278 |
| Prepayments | 51 | 44 | 30 | 24 |
| | 349 | 350 | 305 | 302 |
| **Non-current** | | | | |
| Prepayments | 55 | 49 | 20 | 12 |
| | 55 | 49 | 20 | 12 |
| **Trade and other receivables is represented by:** | | | | |
| Current | 264 | 277 | 243 | 258 |
| Past due 1- 90 days | 33 | 27 | 31 | 18 |
| Past due greater than 90 days | 2 | 4 | 2 | 3 |
| Allowance for doubtful debts | (1) | (2) | (1) | (1) |
| | 298 | 306 | 275 | 278 |

## 8. INVENTORIES

| | GROUP 2014 $M | GROUP 2013 $M | COMPANY 2014 $M | COMPANY 2013 $M |
|---|---|---|---|---|
| Engineering expendables | 154 | 138 | 126 | 108 |
| Consumable stores | 15 | 17 | 14 | 17 |
| | 169 | 155 | 140 | 125 |
| Held at cost | 139 | 134 | 110 | 104 |
| Held at fair value less costs to sell | 30 | 21 | 30 | 21 |
| | 169 | 155 | 140 | 125 |
| **Movement in the provision for inventory obsolescence** | | | | |
| Balance at the beginning of the year | (38) | (27) | (37) | (26) |
| Net increase in the provision | (7) | (11) | (7) | (11) |
| **Balance at the end of the year** | (45) | (38) | (44) | (37) |

## 9. ASSETS HELD FOR RESALE

| | GROUP 2014 $M | GROUP 2013 $M | COMPANY 2014 $M | COMPANY 2013 $M |
|---|---|---|---|---|
| **Current** | | | | |
| Aircraft related assets | 4 | 7 | 3 | 4 |
| | 4 | 7 | 3 | 4 |
| **Non-current** | | | | |
| Aircraft related assets | 2 | - | 2 | - |
| | 2 | - | 2 | - |

In anticipation of the exit of the Boeing 747-400 and Boeing 767-300 fleet spares and engines are being marketed for sale. It is expected that proceeds will be received over the next two years. In addition the Group disposed of rotable assets as part of a maintenance pooling arrangement in July 2014. 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.

## 10. OTHER ASSETS

| | GROUP 2014 $M | GROUP 2013 $M | COMPANY 2014 $M | COMPANY 2013 $M |
|---|---|---|---|---|
| **Current** | | | | |
| Contract work in progress | 23 | 31 | 10 | 19 |
| Amounts owing from subsidiaries | - | - | 35 | 50 |
| Amounts owing from joint ventures and associates | 7 | 3 | 2 | 2 |
| Non interest-bearing assets | - | 44 | - | - |
| Other assets (including defined pension assets) | 11 | 5 | 9 | 4 |
| | 41 | 83 | 56 | 75 |
| **Non-current** | | | | |
| Capital work in progress | 83 | 49 | 78 | 44 |
| Amounts owing from subsidiaries | - | - | 476 | 350 |
| Progress payments on aircraft, engines and simulators | 209 | 151 | 209 | 151 |
| Interest-bearing assets | 125 | 184 | 125 | 184 |
| Other assets | 6 | 10 | 2 | 2 |
| | 423 | 394 | 890 | 731 |

As at 30 June 2013 non interest-bearing assets included an equity derivative share purchase option held in Virgin Australia Holdings Limited.

Interest-bearing assets include registered transferable certificates of deposit (RTDs) that have been provided as security over credit card obligations incurred by Air New Zealand. The RTD's bear a three month fixed interest rate and mature in December 2018. These are subject to potential offsetting under master netting arrangements, as disclosed in Note 19.

## 11. PROPERTY, PLANT AND EQUIPMENT

| | GROUP 2014 $M | GROUP 2013 $M | COMPANY 2014 $M | COMPANY 2013 $M |
|---|---|---|---|---|
| **Property, plant and equipment comprises:** | | | | |
| Aircraft, spare engines and simulators | 2,569 | 2,488 | 1,236 | 1,392 |
| Spares | 101 | 116 | 76 | 90 |
| Plant and equipment | 112 | 112 | 100 | 99 |
| Land and buildings | 212 | 217 | 197 | 201 |
| | 2,994 | 2,933 | 1,609 | 1,782 |
| **AIRCRAFT, SPARE ENGINES AND SIMULATORS** | | | | |
| Cost | 3,932 | 3,822 | 2,098 | 2,112 |
| Accumulated depreciation | (1,439) | (1,216) | (706) | (569) |
| Provision for impairment | (5) | - | - | - |
| Carrying value at the beginning of the year | 2,488 | 2,606 | 1,392 | 1,543 |
| Additions | 440 | 220 | 19 | 51 |
| Disposals | (7) | (6) | (2) | (1) |
| Depreciation | (335) | (319) | (169) | (194) |
| Impairment losses recognised during the year | - | (5) | - | (1) |
| Transfer to assets held for resale | (5) | (8) | (4) | (6) |
| Net foreign currency exchange differences (refer Note 18) | (12) | - | - | - |
| Carrying value at the end of the year | 2,569 | 2,488 | 1,236 | 1,392 |
| **Represented by:** | | | | |
| Cost | 4,272 | 3,932 | 2,062 | 2,098 |
| Accumulated depreciation | (1,698) | (1,439) | (826) | (706) |
| Provision for impairment | (5) | (5) | - | - |
| **Carrying value at the end of the year** | 2,569 | 2,488 | 1,236 | 1,392 |
| Aircraft, spare engines and simulators comprise: | | | | |
| Finance leased aircraft and spare engines | 1,819 | 1,765 | 1,124 | 1,235 |
| Owned aircraft, spare engines and simulators | 750 | 723 | 112 | 157 |
| | 2,569 | 2,488 | 1,236 | 1,392 |
| **SPARES** | | | | |
| Cost | 263 | 264 | 214 | 219 |
| Accumulated depreciation | (147) | (136) | (124) | (115) |
| Carrying value at the beginning of the year | 116 | 128 | 90 | 104 |
| Additions | 24 | 13 | 19 | 7 |
| Disposals | (16) | (5) | (13) | (4) |
| Depreciation | (18) | (19) | (15) | (16) |
| Transfer to assets held for resale | (5) | (1) | (5) | (1) |
| Carrying value at the end of the year | 101 | 116 | 76 | 90 |
| **Represented by:** | | | | |
| Cost | 236 | 263 | 187 | 214 |
| Accumulated depreciation | (135) | (147) | (111) | (124) |
| **Carrying value at the end of the year** | 101 | 116 | 76 | 90 |
| **PLANT AND EQUIPMENT** | | | | |
| Cost | 363 | 366 | 328 | 330 |
| Accumulated depreciation | (251) | (242) | (229) | (222) |
| Carrying value at the beginning of the year | 112 | 124 | 99 | 108 |
| Additions | 28 | 17 | 26 | 16 |
| Disposals | - | (1) | - | - |
| Depreciation | (28) | (28) | (25) | (25) |
| Carrying value at the end of the year | 112 | 112 | 100 | 99 |
| **Represented by:** | | | | |
| Cost | 382 | 363 | 347 | 328 |
| Accumulated depreciation | (270) | (251) | (247) | (229) |
| **Carrying value at the end of the year** | 112 | 112 | 100 | 99 |

**11. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)**

| | GROUP 2014 $M | GROUP 2013 $M | COMPANY 2014 $M | COMPANY 2013 $M |
|---|---|---|---|---|
| **LAND AND BUILDINGS** | | | | |
| Cost | 350 | 346 | 322 | 317 |
| Accumulated depreciation | (133) | (114) | (121) | (104) |
| Carrying value at the beginning of the year | 217 | 232 | 201 | 213 |
| Additions | 25 | 13 | 24 | 13 |
| Disposals | - | (2) | - | (2) |
| Depreciation | (30) | (26) | (28) | (23) |
| Carrying value at the end of the year | 212 | 217 | 197 | 201 |
| **Represented by:** | | | | |
| Cost | 371 | 350 | 342 | 322 |
| Accumulated depreciation | (159) | (133) | (145) | (121) |
| **Carrying value at the end of the year** | 212 | 217 | 197 | 201 |
| Land and buildings comprise: | | | | |
| Leasehold properties | 196 | 206 | 181 | 190 |
| Freehold properties | 16 | 11 | 16 | 11 |
| | 212 | 217 | 197 | 201 |

Certain aircraft and aircraft related assets with a carrying value of $2,091 million as at 30 June 2014 (30 June 2013: $1,916 million) are pledged as security over borrowings and finance lease obligations.

The useful lives and residual values applied to property, plant and equipment are reviewed annually to ensure that they continue to be appropriate. During the year ended 30 June 2014 the useful lives and residual values were reassessed for the Boeing 767-300 fleet and six exiting Beech aircraft and depreciation expense was increased in the Group by $18 million.

New Zealand generally accepted accounting practice requires book values to be written down to the higher of fair value less costs to sell or value in use. The indicative market valuations of aircraft were less than the book value as at balance date. Accordingly the aircraft carrying values were tested for impairment based on a value in use discounted cash flow valuation. Cash flow projections were sourced for 5 years from Board reviewed business plans and extrapolated using an average growth rate of approximately 2.0 percent (30 June 2013: 2.0 percent). Key assumptions include exchange rates, jet fuel costs, passenger load factors, route yields 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 fuel prices, exchange rates, economic demand and terminal values. The cash flow projections are discounted using rates between 8.0 and 10.0 percent (30 June 2013: 8.0 and 10.0 percent).

The Boeing 747-400 aircraft were separately tested and no impairment was identified in the year ended 30 June 2014 (30 June 2013: $5 million). The discounted cash flows from the other aircraft confirmed that there was no impairment to the remaining aircraft as in the opinion of the directors, the recoverable value from continued use of the aircraft as part of a network and their ultimate sale proceeds exceeded the book value of the aircraft, based on the directors' current assessment of the Group's future trading prospects.

## 12. INTANGIBLE ASSETS

| | GROUP 2014 $M | GROUP 2013 $M | COMPANY 2014 $M | COMPANY 2013 $M |
|---|---|---|---|---|
| **Intangible assets comprise:** | | | | |
| Internally developed software | 72 | 59 | 70 | 55 |
| Externally purchased software | 6 | 7 | 5 | 7 |
| Development costs | - | 2 | - | - |
| Goodwill | 1 | 1 | 1 | - |
| | 79 | 69 | 76 | 62 |
| **INTERNALLY DEVELOPED SOFTWARE** | | | | |
| Cost | 174 | 150 | 167 | 143 |
| Accumulated amortisation | (115) | (101) | (112) | (99) |
| Carrying value at the beginning of the year | 59 | 49 | 55 | 44 |
| Additions | 34 | 26 | 35 | 26 |
| Amortisation | (21) | (15) | (20) | (15) |
| Net foreign currency exchange differences | - | (1) | - | - |
| Carrying value at the end of the year | 72 | 59 | 70 | 55 |
| **Represented by:** | | | | |
| Cost | 205 | 174 | 199 | 167 |
| Accumulated amortisation | (133) | (115) | (129) | (112) |
| **Carrying value at the end of the year** | 72 | 59 | 70 | 55 |
| **EXTERNALLY PURCHASED SOFTWARE** | | | | |
| Cost | 166 | 173 | 161 | 165 |
| Accumulated amortisation | (159) | (160) | (154) | (155) |
| Provision for impairment | - | (2) | - | - |
| Carrying value at the beginning of the year | 7 | 11 | 7 | 10 |
| Additions | 3 | 1 | 2 | 1 |
| Disposals from business combinations | - | (1) | - | - |
| Amortisation | (4) | (4) | (4) | (4) |
| Carrying value at the end of the year | 6 | 7 | 5 | 7 |
| **Represented by:** | | | | |
| Cost | 165 | 166 | 159 | 161 |
| Accumulated amortisation | (159) | (159) | (154) | (154) |
| **Carrying value at the end of the year** | 6 | 7 | 5 | 7 |

Development costs arise from the Group's engineering activities and will be applied to external customer products and services.
An impairment provision of $1 million was recognised during the year (30 June 2013: Nil). There were no additions in the year ended 30 June 2014 (30 June 2013: Nil).

## 13. INVESTMENT IN QUOTED EQUITY INSTRUMENTS

| | GROUP 2014 $M | GROUP 2013 $M | COMPANY 2014 $M | COMPANY 2013 $M |
|---|---|---|---|---|
| **Investment in Virgin Australia Holdings Limited** | | | | |
| Balance at the beginning of the year | 261 | 203 | - | - |
| Acquisitions | 179 | 62 | - | - |
| Fair value changes recognised in other comprehensive income | (18) | (6) | - | - |
| Transaction costs | - | 2 | - | - |
| **Balance at the end of the year** | 422 | 261 | - | - |

During the year, the Group acquired a further ownership interest in Virgin Australia Holdings Limited (Virgin Australia) at a cost of A$160 million, taking the ownership interest to 25.99% (30 June 2013: acquisitions of A$45 million (excluding transaction costs) resulting in an ownership interest of 19.99%). As at 30 June 2014 Air New Zealand treated the investment as an investment in quoted equity instruments, rather than an equity accounted associate, as the directors considered that the Group did not have the ability to exercise significant influence over Virgin Australia due to the composition of other shareholdings and lack of representation on the Board.

On 4 July 2014, the Chief Executive Officer of Air New Zealand was appointed to the Board of Directors of Virgin Australia which demonstrates, from an accounting perspective, that the Group is able to exercise significant influence going forward. Accordingly, the investment will be treated as an associate for the financial year ended 30 June 2015 and the equity method of accounting applied. Revaluation losses accumulated in the Investment Revaluation Reserve will be transferred to Retained Deficit at the date of gaining significant influence.

## 14. INVESTMENTS IN OTHER ENTITIES

| | GROUP 2014 $M | GROUP 2013 $M | COMPANY 2014 $M | COMPANY 2013 $M |
|---|---|---|---|---|
| Investments in subsidiaries | - | - | 515 | 367 |
| Investments in associates | 46 | 45 | - | - |
| Investments in joint ventures | 1 | 1 | - | - |
| Investments in other entities | 1 | 1 | 1 | 1 |
| | 48 | 47 | 516 | 368 |

During the year ended 30 June 2014, the Company reversed $150 million of impairment losses in subsidiaries (30 June 2013: Nil) and recognised an additional $1 million of impairment provisions. Refer to Note 29 for further details.

### 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 |
| Altitude Aerospace Interiors Limited | Aviation design engineering | New Zealand |
| Eagle Airways Limited | Aviation | New Zealand |
| Mount Cook Airline Limited | Aviation | New Zealand |
| Safe Air Limited | Engineering services | New Zealand |
| TAE Gas Turbines Pty Limited | Engineering services | Australia |
| TAE Aviation Pty Limited | Aviation engineering | Australia |

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 |
| Pacific Leisure Group Limited | Joint Venture | 50 | Wholesale travel distributor | New Zealand | 30 June |

### SUMMARY FINANCIAL INFORMATION OF ASSOCIATES

| | GROUP 2014 $M | GROUP 2013 $M |
|---|---|---|
| Assets and liabilities of associates are as follows: | | |
| Current assets | 139 | 117 |
| Non-current assets | 37 | 22 |
| Current liabilities | (62) | (40) |
| Non-current liabilities | (20) | (7) |
| **Net identifiable tangible assets – 100%** | 94 | 92 |
| Group share of net identifiable tangible assets | 46 | 45 |
| **Carrying value of investment in associates** | 46 | 45 |
| Results of associates – 100% | | |
| Revenue | 360 | 270 |
| Expenses | (337) | (260) |
| Profit after taxation | 23 | 10 |
| **Total comprehensive income** | 23 | 10 |
| **Group share of profit after taxation** | 11 | 5 |

### 15. REVENUE IN ADVANCE

| | GROUP 2014 $M | GROUP 2013 $M | COMPANY 2014 $M | COMPANY 2013 $M |
|---|---|---|---|---|
| **Current** | | | | |
| Transportation sales in advance | 802 | 796 | 802 | 796 |
| Loyalty programme | 101 | 101 | 101 | 101 |
| Other | 27 | 21 | 15 | 13 |
| | 930 | 918 | 918 | 910 |
| **Non-current** | | | | |
| Loyalty programme | 143 | 135 | 143 | 135 |
| Other | 5 | 5 | 5 | 5 |
| | 148 | 140 | 148 | 140 |

### 16. INTEREST-BEARING LIABILITIES

| | GROUP 2014 $M | GROUP 2013 $M | COMPANY 2014 $M | COMPANY 2013 $M |
|---|---|---|---|---|
| **Current** | | | | |
| Secured borrowings | 22 | 15 | - | - |
| Finance lease liabilities | 168 | 144 | 86 | 87 |
| | 190 | 159 | 86 | 87 |
| **Non-current** | | | | |
| Secured borrowings | 191 | 69 | - | - |
| Unsecured bonds | 150 | 150 | 150 | 150 |
| Finance lease liabilities | 1,202 | 1,251 | 631 | 771 |
| | 1,543 | 1,470 | 781 | 921 |
| **Interest rates basis:** | | | | |
| Fixed rate | 727 | 756 | 434 | 500 |
| Floating rate | 1,006 | 873 | 433 | 508 |
| **At amortised cost** | 1,733 | 1,629 | 867 | 1,008 |

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

Finance lease liabilities are secured over aircraft and are subject to both fixed and floating interest rates. Fixed interest rates ranged from 0.5 percent to 4.1 percent in 2014 (30 June 2013: 0.8 percent to 4.1 percent). Purchase options are available on expiry or, if applicable under the lease agreement, on early termination of the finance leases. The Company's finance lease liabilities are with related parties.

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

| | GROUP 2014 $M | GROUP 2013 $M | COMPANY 2014 $M | COMPANY 2013 $M |
|---|---|---|---|---|
| **Finance lease liabilities** | | | | |
| Repayable as follows: | | | | |
| Not later than 1 year | 191 | 169 | 103 | 105 |
| Later than 1 year and not later than 5 years | 734 | 742 | 375 | 425 |
| Later than 5 years | 591 | 642 | 321 | 426 |
| | 1,516 | 1,553 | 799 | 956 |
| Less future finance costs | (146) | (158) | (82) | (98) |
| **Present value of future rentals** | 1,370 | 1,395 | 717 | 858 |
| **Repayable as follows:** | | | | |
| Not later than 1 year | 168 | 144 | 86 | 87 |
| Later than 1 year and not later than 5 years | 654 | 663 | 331 | 374 |
| Later than 5 years | 548 | 588 | 300 | 397 |
| | 1,370 | 1,395 | 717 | 858 |

## 17. PROVISIONS

| | GROUP 2014 $M | GROUP 2013 $M | COMPANY 2014 $M | COMPANY 2013 $M |
|---|---|---|---|---|
| **Provisions** | | | | |
| Aircraft lease return costs | 173 | 154 | 173 | 154 |
| Restructuring | 14 | 4 | 13 | 1 |
| Other | 9 | 2 | 2 | - |
| | 196 | 160 | 188 | 155 |
| Represented by: | | | | |
| Current | 31 | 15 | 24 | 11 |
| Non-current | 165 | 145 | 164 | 144 |
| | 196 | 160 | 188 | 155 |
| **Aircraft lease return costs** | | | | |
| Balance at the beginning of the year | 154 | 150 | 154 | 150 |
| Amount provided | 58 | 61 | 58 | 61 |
| Amount utilised and released | (22) | (58) | (22) | (58) |
| Foreign exchange differences | (17) | 1 | (17) | 1 |
| **Balance at the end of the year** | 173 | 154 | 173 | 154 |
| Represented by: | | | | |
| Current | 20 | 10 | 20 | 10 |
| Non-current | 153 | 144 | 153 | 144 |
| | 173 | 154 | 173 | 154 |

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 based on 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 upon the end of the lease.

| | GROUP 2014 $M | GROUP 2013 $M | COMPANY 2014 $M | COMPANY 2013 $M |
|---|---|---|---|---|
| **Restructuring** | | | | |
| Balance at the beginning of the year | 4 | 4 | 1 | 4 |
| Amount provided | 25 | 7 | 25 | 3 |
| Amount utilised | (15) | (7) | (13) | (6) |
| **Balance at the end of the year** | 14 | 4 | 13 | 1 |
| Represented by: | | | | |
| Current | 3 | 4 | 2 | 1 |
| Non-current | 11 | - | 11 | - |
| | 14 | 4 | 13 | 1 |

A restructuring provision is created where a detailed formal plan is developed and a valid expectation exists. Costs relating to ongoing activities are not provided for.

| | GROUP 2014 $M | GROUP 2013 $M | COMPANY 2014 $M | COMPANY 2013 $M |
|---|---|---|---|---|
| **Other** | | | | |
| Balance at the beginning of the year | 2 | 1 | - | - |
| Amount raised | 7 | 1 | 2 | - |
| **Balance at the end of the year** | 9 | 2 | 2 | - |
| Represented by: | | | | |
| Current | 8 | 1 | 2 | - |
| Non-current | 1 | 1 | - | - |
| | 9 | 2 | 2 | - |

Other provisions include amounts relating to insurance, warranties and an onerous contract. 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.

## 18. FINANCIAL RISK MANAGEMENT

Air New Zealand is subject to credit, foreign currency, interest rate, fuel and equity 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. 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.

### 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 and sales.

Air New Zealand has a formal foreign exchange management policy (approved by the Board of Directors) to enter into foreign exchange contracts to manage economic exposure to fluctuations in foreign exchange rates impacting operating cash flows, capital expenditure 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.

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 outflows are primarily denominated in United States Dollars. Excluding the Chinese Renminbi (which has a generally pegged exchange rate), the Group's treasury risk management policy is to hedge between 70% 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. In accordance with this policy, 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 18 months. The parameters align the hedge terms for foreign currency and fuel price risk. 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.

A proportion of United States Dollar denominated borrowings is designated as the hedging instrument in qualifying cash flow hedges of highly probable forecast foreign currency sales of non-financial assets. Other USD denominated borrowings are designated in fair value hedges of certain underlying USD aircraft values. A further proportion of United States denominated borrowings remains unhedged to provide a natural offset to foreign currency movements within depreciation expense, resulting from revisions made to aircraft residual values during the year. These strategies reduce the level of derivative cover required to offset the foreign exchange exposure on the remaining unhedged United States borrowings and finance lease obligations. Japanese Yen denominated finance lease obligations are designated as the hedging instrument in qualifying cash flow hedges of highly probable forecast Japanese Yen revenues.

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

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 financial instruments outstanding at reporting date is summarised as follows:

## 18. FINANCIAL RISK MANAGEMENT (CONTINUED)

| GROUP AS AT 30 JUNE 2014 ALL EXPRESSED IN NZ$M | NZD | USD | AUD | EUR | JPY | GBP | OTHER | TOTAL |
|---|---|---|---|---|---|---|---|---|
| **Foreign currency risk** | | | | | | | | |
| **Non-derivative financial instruments** | | | | | | | | |
| Interest-bearing assets | 90 | - | 35 | - | - | - | - | 125 |
| Investment in quoted equity instruments | - | - | 422 | - | - | - | - | 422 |
| Interest-bearing liabilities | (611) | (905) | - | - | (217) | - | - | (1,733) |
| Net financial position exposure before hedging activities | (521) | (905) | 457 | - | (217) | - | - | (1,186) |
| **Foreign currency derivatives** | | | | | | | | |
| **Notional principal** | | | | | | | | |
| Cash flow hedges | (500) | 1,009 | (260) | (61) | (49) | (95) | (83) | (39) |
| Non-hedge accounted | (561) | 585 | (42) | 1 | 2 | (1) | 2 | (14) |
| | (1,582) | 689 | 155 | (60) | (264) | (96) | (81) | (1,239) |
| Cash flows in respect of foreign currency cash flow hedges are expected to occur as follows: | | | | | | | | |
| Not later than 1 year | (480) | 984 | (260) | (59) | (49) | (91) | (83) | (38) |
| Later than 1 year and not later than 2 years | (20) | 25 | - | (2) | - | (4) | - | (1) |
| | (500) | 1,009 | (260) | (61) | (49) | (95) | (83) | (39) |

| GROUP AS AT 30 JUNE 2013 ALL EXPRESSED IN NZ$M | NZD | USD | AUD | EUR | JPY | GBP | OTHER | TOTAL |
|---|---|---|---|---|---|---|---|---|
| **Foreign currency risk** | | | | | | | | |
| **Non-derivative financial instruments** | | | | | | | | |
| Non interest-bearing assets | - | - | 44 | - | - | - | - | 44 |
| Interest-bearing assets | 145 | - | 39 | - | - | - | - | 184 |
| Investment in quoted equity instruments | - | - | 261 | - | - | - | - | 261 |
| Interest-bearing liabilities | (682) | (740) | - | - | (207) | - | - | (1,629) |
| Net financial position exposure before hedging activities | (537) | (740) | 344 | - | (207) | - | - | (1,140) |
| **Foreign currency derivatives** | | | | | | | | |
| **Notional principal** | | | | | | | | |
| Cash flow hedges | (533) | 1,103 | (241) | (48) | (57) | (78) | (88) | 58 |
| Non-hedge accounted | (652) | 762 | (81) | 4 | (4) | 4 | 1 | 34 |
| | (1,722) | 1,125 | 22 | (44) | (268) | (74) | (87) | (1,048) |
| Cash flows in respect of foreign currency cash flow hedges are expected to occur as follows: | | | | | | | | |
| Not later than 1 year | (533) | 1,103 | (241) | (48) | (57) | (78) | (88) | 58 |
| | (533) | 1,103 | (241) | (48) | (57) | (78) | (88) | 58 |

### 18. FINANCIAL RISK MANAGEMENT (CONTINUED)

COMPANY
AS AT 30 JUNE 2014
ALL EXPRESSED IN NZ$M

| | NZD | USD | AUD | EUR | JPY | GBP | OTHER | TOTAL |
|---|---|---|---|---|---|---|---|---|
| **Foreign currency risk** | | | | | | | | |
| **Non-derivative financial instruments** | | | | | | | | |
| Interest-bearing assets | 90 | - | 35 | - | - | - | - | 125 |
| Amounts owing from subsidiaries* | 842 | (245) | 11 | - | (97) | - | - | 511 |
| Interest-bearing liabilities | (452) | (294) | - | - | (121) | - | - | (867) |
| Net financial position exposure before hedging activities | 480 | (539) | 46 | - | (218) | - | - | (231) |
| **Foreign currency derivatives** | | | | | | | | |
| **Notional principal** | | | | | | | | |
| Cash flow hedges | (500) | 1,009 | (260) | (61) | (49) | (95) | (83) | (39) |
| Non-hedge accounted | (561) | 585 | (42) | 1 | 2 | (1) | 2 | (14) |
| | (581) | 1,055 | (256) | (60) | (265) | (96) | (81) | (284) |
| Cash flows in respect of foreign currency cash flow hedges are expected to occur as follows: | | | | | | | | |
| Not later than 1 year | (480) | 984 | (260) | (59) | (49) | (91) | (83) | (38) |
| Later than 1 year and not later than 2 years | (20) | 25 | - | (2) | - | (4) | - | (1) |
| | (500) | 1,009 | (260) | (61) | (49) | (95) | (83) | (39) |

COMPANY
AS AT 30 JUNE 2013
ALL EXPRESSED IN NZ$M

| | NZD | USD | AUD | EUR | JPY | GBP | OTHER | TOTAL |
|---|---|---|---|---|---|---|---|---|
| **Foreign currency risk** | | | | | | | | |
| **Non-derivative financial instruments** | | | | | | | | |
| Interest-bearing assets | 145 | - | 39 | - | - | - | - | 184 |
| Amounts owing from subsidiaries* | 808 | (357) | 8 | - | (59) | - | - | 400 |
| Interest-bearing liabilities | (496) | (362) | - | - | (150) | - | - | (1,008) |
| Net financial position exposure before hedging activities | 457 | (719) | 47 | - | (209) | - | - | (424) |
| **Foreign currency derivatives** | | | | | | | | |
| **Notional principal** | | | | | | | | |
| Cash flow hedges | (538) | 1,107 | (241) | (48) | (57) | (78) | (88) | 57 |
| Non-hedge accounted | (652) | 762 | (81) | 4 | (4) | 4 | 1 | 34 |
| | (733) | 1,150 | (275) | (44) | (270) | (74) | (87) | (333) |
| Cash flows in respect of foreign currency cash flow hedges are expected to occur as follows: | | | | | | | | |
| Not later than 1 year | (538) | 1,107 | (241) | (48) | (57) | (78) | (88) | 57 |
| | (538) | 1,107 | (241) | (48) | (57) | (78) | (88) | 57 |

*Foreign currency derivatives executed through the Parent company are used to provide an offset at an Air New Zealand Group level of translation gains or losses on United States dollar denominated interest-bearing liabilities (primarily held by a wholly owned subsidiary). Foreign currency exposure is managed at a legal entity level within the Group through related party foreign currency deposits and loans. United States dollar denominated payables to a subsidiary form part of a set-off arrangement with a New Zealand dollar denominated intercompany receivable from that subsidiary. The amounts prior to set off are shown in the table above and the net amount disclosed in Notes 10 and 19.

Japanese Yen denominated finance lease obligations held within a wholly owned subsidiary are designated at the Air New Zealand Group level as qualifying cash flow hedges of highly probable forecast Japanese revenue arising through the Parent company. Japanese Yen denominated payables to a subsidiary forms part of a set-off arrangement with a New Zealand dollar denominated intercompany receivable from that subsidiary, for which the amounts prior to set off are disclosed in the table above. The net amount is disclosed in Notes 10 and 19. The forecast transactions are not included in the above table.

Other foreign currency balances with related parties are immaterial to foreign currency fluctuations.

## 18. FINANCIAL RISK MANAGEMENT (CONTINUED)

### SENSITIVITY ANALYSES

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.

**Foreign currency sensitivity on financial instruments**

The following table demonstrates the sensitivity of the above 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.

| | GROUP AS AT 30 JUNE 2014 ALL EXPRESSED IN NZ$M | | | | | |
|---|---|---|---|---|---|---|
| | USD | AUD | EUR | JPY | GBP | OTHER |
| On profit before taxation | | | | | | |
| 5 cents appreciation | 15 | - | - | - | - | - |
| 5 cents depreciation | (16) | - | - | - | - | - |
| On equity | | | | | | |
| 5 cents appreciation | (53) | (9) | 4 | 14 | 6 | 4 |
| 5 cents depreciation | 59 | 10 | (4) | (16) | (6) | (5) |

| | GROUP AS AT 30 JUNE 2013 ALL EXPRESSED IN NZ$M | | | | | |
|---|---|---|---|---|---|---|
| | USD | AUD | EUR | JPY | GBP | OTHER |
| On profit before taxation | | | | | | |
| 5 cents appreciation | (5) | - | - | - | - | - |
| 5 cents depreciation | 6 | - | - | - | - | - |
| On equity | | | | | | |
| 5 cents appreciation | (63) | (1) | 3 | 16 | 5 | 5 |
| 5 cents depreciation | 71 | 1 | (3) | (18) | (5) | (6) |

| | COMPANY AS AT 30 JUNE 2014 ALL EXPRESSED IN NZ$M | | | | | |
|---|---|---|---|---|---|---|
| | USD | AUD | EUR | JPY | GBP | OTHER |
| On profit before taxation | | | | | | |
| 5 cents appreciation | (3) | - | - | 5 | - | - |
| 5 cents depreciation | 3 | - | - | (5) | - | - |
| On equity | | | | | | |
| 5 cents appreciation | (55) | 14 | 3 | 9 | 5 | 4 |
| 5 cents depreciation | 62 | (16) | (3) | (11) | (5) | (5) |

| | COMPANY AS AT 30 JUNE 2013 ALL EXPRESSED IN NZ$M | | | | | |
|---|---|---|---|---|---|---|
| | USD | AUD | EUR | JPY | GBP | OTHER |
| On profit before taxation | | | | | | |
| 5 cents appreciation | (3) | 2 | - | 4 | - | - |
| 5 cents depreciation | 3 | (2) | - | (4) | - | - |
| On equity | | | | | | |
| 5 cents appreciation | (67) | 15 | 3 | 12 | 5 | 5 |
| 5 cents depreciation | 75 | (17) | (3) | (14) | (5) | (6) |

## 18. FINANCIAL RISK MANAGEMENT (CONTINUED)

| SIGNIFICANT FOREIGN EXCHANGE RATES USED AT BALANCE DATE FOR ONE NEW ZEALAND DOLLAR ARE: | 2014 | 2013 |
|---|---|---|
| Australian Dollar | 0.9315 | 0.8400 |
| European Community Euro | 0.6430 | 0.5980 |
| Japanese Yen | 89.00 | 76.80 |
| United Kingdom Pound | 0.5150 | 0.5110 |
| United States Dollar | 0.8775 | 0.7800 |

### Fuel price risk

Air New Zealand has entered into fuel swap and option agreements to reduce the impact of price changes on fuel costs in accordance with policy approved by the Board of Directors. Uplift in the first three months is hedged between 50% and 80% with the volume falling to 20% in the twelfth month. The intrinsic value component of these fuel derivatives is designated as a cash flow hedge. All other components are marked to market through earnings, as are any short-dated outright derivatives. As at 30 June 2014, the Group had hedged 4.2 million barrels (30 June 2013: 3.6 million barrels) with a fair value asset of $25 million (30 June 2013: $1 million liability). The contracts mature within 11 months (30 June 2013: 11 months).

### 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, including the refining margin, remain constant and the respective impacts on profit before taxation and equity are dictated by the proportion of intrinsic/time value of the options at reporting date as well as the proportion of effective/ineffective hedges. In practice, these elements would vary independently. This analysis does not include the future forecast hedged fuel transactions.

| | GROUP AND COMPANY | | | |
|---|---|---|---|---|
| *Price movement per barrel:* | 2014 $M + USD 20 | 2014 $M - USD 20 | 2013 $M + USD 20 | 2013 $M - USD 20 |
| On profit before taxation | 58 | (49) | 33 | (34) |
| On cash flow hedge reserve (within equity) | 21 | (14) | 37 | (31) |

### 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.

In the year to 30 June 2014, there were no interest rate derivatives in place, nor any impact on earnings (30 June 2013: 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:

| *Interest rate change:* | 2014 $M +50 bp* | 2014 $M - 50 bp* | 2013 $M + 50 bp* | 2013 $M - 50 bp* |
|---|---|---|---|---|
| On profit before taxation | | | | |
| Group | (5) | 5 | (4) | 4 |
| Company | (2) | 2 | (3) | 3 |

*bp = basis points

The above 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.

### Equity price risk

Equity price risk is the risk of loss to Air New Zealand arising from adverse fluctuations in the price of an equity investment or equity derivative.

## 18. FINANCIAL RISK MANAGEMENT (CONTINUED)

Air New Zealand had exposure to equity price risk arising on the equity investment. As at 30 June 2013 the Group held an equity derivative in Virgin Australia Holdings Limited. This investment is held for strategic rather than trading purposes. The Group does not hedge this risk.

**Equity investment price risk sensitivity on financial instruments**

The sensitivity to reasonably possible changes in the quoted price of an equity investment or derivative with all other variables held constant, is set out below.

| *Equity investment price change:* | 2014 $M + 25% | 2014 $M - 25% | 2013 $M + 25% | 2013 $M - 25% |
|---|---|---|---|---|
| On profit before taxation | | | | |
| Group | - | - | 11 | (11) |
| On investment revaluation reserve (within equity) | | | | |
| Group | 105 | (105) | 65 | (65) |

**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:

| GROUP AS AT 30 JUNE 2014 | STATEMENT OF FINANCIAL POSITION $M | CONTRACTUAL CASH FLOWS $M | < 1 YEAR $M | 1 - 2 YEARS $M | 2 - 5 YEARS $M | 5+ YEARS $M |
|---|---|---|---|---|---|---|
| Trade and other payables | 398 | 398 | 398 | - | - | - |
| Secured borrowings | 213 | 236 | 26 | 40 | 56 | 114 |
| Unsecured bonds | 150 | 176 | 10 | 10 | 156 | - |
| Finance lease obligations | 1,370 | 1,516 | 191 | 195 | 539 | 591 |
| **Total non-derivative liabilities** | 2,131 | 2,326 | 625 | 245 | 751 | 705 |

| GROUP AS AT 30 JUNE 2013 | STATEMENT OF FINANCIAL POSITION $M | CONTRACTUAL CASH FLOWS $M | < 1 YEAR $M | 1 - 2 YEARS $M | 2 - 5 YEARS $M | 5+ YEARS $M |
|---|---|---|---|---|---|---|
| Trade and other payables | 382 | 382 | 382 | - | - | - |
| Secured borrowings | 84 | 88 | 16 | 17 | 51 | 4 |
| Unsecured bonds | 150 | 186 | 10 | 10 | 166 | - |
| Finance lease obligations | 1,395 | 1,553 | 169 | 188 | 554 | 642 |
| **Total non-derivative liabilities** | 2,011 | 2,209 | 577 | 215 | 771 | 646 |

| COMPANY AS AT 30 JUNE 2014 | STATEMENT OF FINANCIAL POSITION $M | CONTRACTUAL CASH FLOWS $M | < 1 YEAR $M | 1 - 2 YEARS $M | 2 - 5 YEARS $M | 5+ YEARS $M |
|---|---|---|---|---|---|---|
| Trade and other payables | 366 | 366 | 366 | - | - | - |
| Unsecured bonds | 150 | 176 | 10 | 10 | 156 | - |
| Finance lease obligations | 717 | 799 | 103 | 105 | 270 | 321 |
| Amounts owing to subsidiaries | 417 | 417 | 362 | - | - | 55 |
| **Total non-derivative liabilities** | 1,650 | 1,758 | 841 | 115 | 426 | 376 |

| COMPANY AS AT 30 JUNE 2013 | STATEMENT OF FINANCIAL POSITION $M | CONTRACTUAL CASH FLOWS $M | < 1 YEAR $M | 1 - 2 YEARS $M | 2 - 5 YEARS $M | 5+ YEARS $M |
|---|---|---|---|---|---|---|
| Bank overdraft and short-term borrowings | 1 | 1 | 1 | - | - | - |
| Trade and other payables | 347 | 347 | 347 | - | - | - |
| Unsecured bonds | 150 | 186 | 10 | 10 | 166 | - |
| Finance lease obligations | 858 | 956 | 105 | 107 | 318 | 426 |
| Amounts owing to subsidiaries | 539 | 539 | 483 | - | - | 56 |
| **Total non-derivative liabilities** | 1,895 | 2,029 | 946 | 117 | 484 | 482 |

## 18. FINANCIAL RISK MANAGEMENT (CONTINUED)

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

| | GROUP AS AT 30 JUNE 2014 | | | | | |
|---|---|---|---|---|---|---|
| | STATEMENT OF FINANCIAL POSITION $M | CONTRACTUAL CASH FLOWS $M | < 1 YEAR $M | 1 - 2 YEARS $M | 2 - 5 YEARS $M | 5+ YEARS $M |
| Foreign exchange derivatives: | | | | | | |
| - Inflow | | 2,460 | 2,435 | 25 | - | - |
| - Outflow | | (2,518) | (2,492) | (26) | - | - |
| | (53) | (58) | (57) | (1) | - | - |
| Fuel derivatives | 25 | 21 | 21 | - | - | - |
| | (28) | (37) | (36) | (1) | - | - |

| | GROUP AS AT 30 JUNE 2013 | | | | | |
|---|---|---|---|---|---|---|
| | STATEMENT OF FINANCIAL POSITION $M | CONTRACTUAL CASH FLOWS $M | < 1 YEAR $M | 1 - 2 YEARS $M | 2 - 5 YEARS $M | 5+ YEARS $M |
| Foreign exchange derivatives: | | | | | | |
| - Inflow | | 2,047 | 2,047 | - | - | - |
| - Outflow | | (1,964) | (1,964) | - | - | - |
| | 91 | 83 | 83 | - | - | - |
| Fuel derivatives | (1) | (6) | (6) | - | - | - |
| Equity derivatives | (5) | - | - | | | |
| | 85 | 77 | 77 | - | - | - |

| | COMPANY AS AT 30 JUNE 2014 | | | | | |
|---|---|---|---|---|---|---|
| | STATEMENT OF FINANCIAL POSITION $M | CONTRACTUAL CASH FLOWS $M | < 1 YEAR $M | 1 - 2 YEARS $M | 2 - 5 YEARS $M | 5+ YEARS $M |
| Foreign exchange derivatives: | | | | | | |
| - Inflow | | 2,460 | 2,435 | 25 | - | - |
| - Outflow | | (2,518) | (2,492) | (26) | - | - |
| | (53) | (58) | (57) | (1) | - | - |
| Fuel derivatives | 25 | 21 | 21 | - | - | - |
| | (28) | (37) | (36) | (1) | - | - |

| | COMPANY AS AT 30 JUNE 2013 | | | | | |
|---|---|---|---|---|---|---|
| | STATEMENT OF FINANCIAL POSITION $M | CONTRACTUAL CASH FLOWS $M | < 1 YEAR $M | 1 - 2 YEARS $M | 2 - 5 YEARS $M | 5+ YEARS $M |
| Foreign exchange derivatives: | | | | | | |
| - Inflow | | 2,053 | 2,053 | - | - | - |
| - Outflow | | (1,970) | (1,970) | - | - | - |
| | 91 | 83 | 83 | - | - | - |
| Fuel derivatives | (1) | (6) | (6) | - | - | - |
| | 90 | 77 | 77 | - | - | - |

### 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 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.

## 18. FINANCIAL RISK MANAGEMENT (CONTINUED)

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

**Fair value hierarchy**

All financial instruments for which fair value is recognised or disclosed are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1: Quoted market prices in an active market (that are unadjusted) for identical assets and liabilities.
Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
Level 3: Unobservable inputs for the asset or liability.

**Fair value estimation**

The fair value of the investment in quoted equity instruments was determined by reference to quoted market prices in an active market. This equates to "Level 1" of the fair value hierarchy defined within NZ IFRS 13 - Fair Value Measurement.

The fair value of derivative financial instruments is based on published market prices for similar assets or liabilities 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 equity derivatives is determined using quoted equity prices and exchange rates at reporting date. Fair values are discounted back to present value.

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.

The fair value of all other financial instruments approximates the carrying value.

The following table presents the Group's assets and liabilities measured and recognised at fair value on a recurring basis:

| | LEVEL | GROUP FAIR VALUE/ CARRYING VALUE 2014 $M | GROUP FAIR VALUE/ CARRYING VALUE 2013 $M | COMPANY FAIR VALUE/ CARRYING VALUE 2014 $M | COMPANY FAIR VALUE/ CARRYING VALUE 2013 $M |
|---|---|---|---|---|---|
| **Investment in quoted equity instruments** | 1 | 422 | 261 | - | - |
| **Derivative financial assets** | | | | | |
| Foreign currency | 2 | 5 | 93 | 5 | 93 |
| Fuel | 2 | 25 | 5 | 25 | 5 |
| Total derivative financial assets | | 30 | 98 | 30 | 98 |
| **Derivative financial liabilities** | | | | | |
| Foreign currency | 2 | (58) | (2) | (58) | (2) |
| Fuel | 2 | - | (6) | - | (6) |
| Equity | 2 | - | (5) | - | - |
| Total derivative financial liabilities | | (58) | (13) | (58) | (8) |

Interest-bearing liabilities are initially stated at fair value, net of transactions costs incurred. They are subsequently stated at amortised cost using the effective interest rate method, where appropriate. The fair value of interest-bearing liabilities as at balance date and as compared to their carrying value is presented below.

| | LEVEL | GROUP 2014 $M | GROUP 2013 $M | COMPANY 2014 $M | COMPANY 2013 $M |
|---|---|---|---|---|---|
| **Interest-bearing liabilities** | | | | | |
| Carrying value | | 1,733 | 1,629 | 867 | 1,008 |
| Fair value | 2 | 1,671 | 1,560 | 849 | 970 |

## 19. OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES

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 financial assets and financial liabilities are subject to offsetting, enforceable master netting arrangements and similar agreements.

### 19. OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES (CONTINUED)

| | NOTES | GROSS AMOUNT OF RECOGNISED FINANCIAL ASSETS AND FINANCIAL LIABILITIES | GROSS AMOUNT OF RECOGNISED FINANCIAL ASSETS AND FINANCIAL LIABILITIES SET-OFF IN THE BALANCE SHEET | NET AMOUNTS OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES PRESENTED IN THE BALANCE SHEET | RELATED AMOUNTS NOT SET-OFF IN THE BALANCE SHEET | RELATED AMOUNTS NOT SET-OFF IN THE BALANCE SHEET | NET AMOUNT |
|---|---|---|---|---|---|---|---|
| | | | | | **Financial instruments** | **Financial collateral** | |
| | | $M | $M | $M | $M | $M | $M |
| **GROUP** | | | | | | | |
| **As at 30 June 2014** | | | | | | | |
| **Financial assets** | | | | | | | |
| Bank and short term deposits | 29 | 1,239 | (5) | 1,234 | (52) | (52) | 1,130 |
| Trade and other receivables | | 410 | (6) | 404 | - | - | 404 |
| Derivative financial assets | | 30 | - | 30 | (5) | - | 25 |
| Interest-bearing assets | 10 | 125 | - | 125 | - | - | 125 |
| **Financial liabilities** | | | | | | | |
| Bank overdraft | 29 | (5) | 5 | - | - | - | - |
| Trade and other payables | | (404) | 6 | (398) | - | - | (398) |
| Derivative financial liabilities | | (58) | - | (58) | 58 | - | - |
| **As at 30 June 2013** | | | | | | | |
| **Financial assets** | | | | | | | |
| Bank and short term deposits | 29 | 1,164 | (14) | 1,150 | (5) | (51) | 1,094 |
| Trade and other receivables | | 407 | (8) | 399 | - | - | 399 |
| Derivative financial assets | | 98 | - | 98 | (3) | - | 95 |
| Interest-bearing assets | 10 | 184 | - | 184 | - | - | 184 |
| **Financial liabilities** | | | | | | | |
| Bank overdraft | 29 | (14) | 14 | - | - | - | - |
| Trade and other payables | | (390) | 8 | (382) | - | - | (382) |
| Derivative financial liabilities | | (13) | - | (13) | 8 | - | (5) |

| | NOTES | GROSS AMOUNT OF RECOGNISED FINANCIAL ASSETS AND FINANCIAL LIABILITIES | GROSS AMOUNT OF RECOGNISED FINANCIAL ASSETS AND FINANCIAL LIABILITIES SET-OFF IN THE BALANCE SHEET | NET AMOUNTS OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES PRESENTED IN THE BALANCE SHEET | RELATED AMOUNTS NOT SET-OFF IN THE BALANCE SHEET | RELATED AMOUNTS NOT SET-OFF IN THE BALANCE SHEET | NET AMOUNT |
|---|---|---|---|---|---|---|---|
| | | | | | **Financial instruments** | **Financial collateral*** | |
| | | $M | $M | $M | $M | $M | $M |
| **COMPANY** | | | | | | | |
| **As at 30 June 2014** | | | | | | | |
| **Financial assets** | | | | | | | |
| Bank and short term deposits | 29 | 1,236 | (5) | 1,231 | (52) | (52) | 1,127 |
| Trade and other receivables | | 331 | (6) | 325 | - | - | 325 |
| Derivative financial assets | | 30 | - | 30 | (5) | - | 25 |
| Amounts owing from subsidiaries | 18 | 853 | (342) | 511 | - | - | 511 |
| Interest-bearing assets | 10 | 125 | - | 125 | - | - | 125 |
| **Financial liabilities** | | | | | | | |
| Bank overdraft | 29 | (5) | 5 | - | - | - | - |
| Trade and other payables | | (372) | 6 | (366) | - | - | (366) |
| Derivative financial liabilities | | (58) | - | (58) | 58 | - | - |
| Amounts owing to subsidiaries | | (759) | 342 | (417) | - | - | (417) |
| **As at 30 June 2013** | | | | | | | |
| **Financial assets** | | | | | | | |
| Bank and short term deposits | 29 | 1,159 | (13) | 1,146 | (6) | (51) | 1,089 |
| Trade and other receivables | | 322 | (8) | 314 | - | - | 314 |
| Derivative financial assets | | 98 | - | 98 | (3) | - | 95 |
| Amounts owing from subsidiaries | 18 | 816 | (416) | 400 | - | - | 400 |
| Interest-bearing assets | 10 | 184 | - | 184 | - | - | 184 |
| **Financial liabilities** | | | | | | | |
| Bank overdraft | 29 | (14) | 13 | (1) | 1 | - | - |
| Trade and other payables | | (355) | 8 | (347) | - | - | (347) |
| Derivative financial liabilities | | (8) | - | (8) | 8 | - | - |
| Amounts owing to subsidiaries | | (955) | 416 | (539) | - | - | (539) |

*Letters of credit with subsidiary entities are included in the Company under the master netting arrangements.

## 20. DERIVATIVE FINANCIAL INSTRUMENTS

This note summarises the impact of derivative financial instruments on the Statement of Financial Position, Statement of Changes in Equity, Statement of Comprehensive Income and Statement of Financial Performance. The nature and purpose of derivative financial instruments is detailed in Note 18.

Derivatives are required to be recognised in the Statement of Financial Position at their fair market value, with subsequent changes in fair value being recognised through earnings. Changes in the fair value of those derivatives which have been successfully designated as part of a cash flow hedge relationship are recognised through the cash flow hedge reserve, to the extent that they are effective. Any accounting ineffectiveness is recognised through earnings.

Derivative financial instruments recognised on the Statement of Financial Position are as follows:

| | GROUP 2014 $M | GROUP 2013 $M | COMPANY 2014 $M | COMPANY 2013 $M |
|---|---|---|---|---|
| Current derivative financial assets | 30 | 98 | 30 | 98 |
| | 30 | 98 | 30 | 98 |
| Current derivative financial liabilities | (57) | (13) | (57) | (8) |
| Term derivative financial liabilities | (1) | - | (1) | - |
| | (58) | (13) | (58) | (8) |
| **Net derivative financial instruments** | (28) | 85 | (28) | 90 |
| Of which: | | | | |
| Designated as cash flow hedges | (14) | 56 | (14) | 55 |
| Non-hedge accounted | (14) | 29 | (14) | 35 |
| **Net derivative financial instruments** | (28) | 85 | (28) | 90 |

### Derivatives designated as cash flow hedges

Air New Zealand manages its exposure to highly probable future foreign currency and fuel transactions through the use of derivatives designated within qualifying cash flow hedges. The use of cash flow hedges allows the timing of the recognition of gains or losses on the hedging instrument to be matched with that of the gains or losses arising on the underlying hedged exposures, subject to the requirements of NZ IAS 39 - Financial Instruments: Recognition and Measurement.

NZ IAS 39 requires hedge effectiveness to be determined for accounting purposes within strict parameters. Each derivative transaction used to hedge identified risks must be documented and proven to be effective in offsetting changes in the value of the underlying risk within a range of 80% - 125%. This measure of effectiveness may result in economically appropriate hedging transactions being deemed ineffective for accounting purposes. In particular, the use of crude oil derivatives as a proxy for jet fuel, and the high volatility of fuel markets may cause cash flow hedges in respect of fuel derivatives to fail the accounting hedge effectiveness test.

Risk management practices are determined on an economic basis, rather than being designed to achieve a particular accounting outcome. Consequently, it is expected that this will result in some transactions failing the accounting hedge effectiveness criteria from time to time and ineffectiveness being recorded through earnings in periods other than when the hedged item occurs, causing some volatility through earnings.

Some components of hedge accounted derivatives are excluded from the designated risk. Cash flow hedges in respect of fuel derivatives only include the intrinsic value of the fuel options with all other components of the option value (mainly time value) being marked to market through “Fuel”. Similarly, forward points (the differential in interest rates between currencies) are excluded from the hedge designation in respect of foreign currency derivatives which hedge account forecast foreign currency operating revenue and expenditure transactions. These components are not hedge accounted and, accordingly, marked to market through “Finance costs”.

To the extent that qualifying cash flow hedges were assessed as highly effective, a summary of the amounts that were included in the cash flow hedge reserve, together with the nature of the hedged risk exposure is as follows:

| | GROUP 2014 $M | GROUP 2013 $M | COMPANY 2014 $M | COMPANY 2013 $M |
|---|---|---|---|---|
| Future foreign currency operating revenue and expenditure | 43 | 116 | 29 | 112 |
| Future foreign currency capital expenditure | 26 | 59 | 26 | 59 |
| Future foreign currency sales of non-financial assets | 3 | 2 | - | - |
| Future fuel expenditure | 1 | (3) | 1 | (3) |
| | 73 | 174 | 56 | 168 |
| Tax effect | (22) | (51) | (17) | (49) |
| Cash flow hedge reserve | 51 | 123 | 39 | 119 |

## 20. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

**Foreign currency hedges**

The Group uses foreign currency derivatives to hedge account the foreign currency risk arising on future foreign currency operating revenue, operating expense and capital expenditure transactions.

Forward points are excluded from the hedge designation in respect of operating revenue and expenditure transactions and are marked to market through earnings. Forward point costs of $21 million in respect of these derivatives were marked to market through "Finance costs" in the year to 30 June 2014 (30 June 2013: $23 million of costs).

Accounting ineffectiveness arising in the year to 30 June 2014 on these cash flow hedges was nil on both operating and capital transactions (30 June 2013: Nil on both operating and capital transactions).

**Fuel hedges**

Where the Group uses crude oil options or collar options to hedge price risk in jet fuel, the intrinsic value component of these derivatives is designated as a cash flow hedge. All other components (mainly time value) are marked to market through earnings, with gains of $2 million recognised within "Fuel" in the year to 30 June 2014 (30 June 2013: $1 million gain).

Accounting ineffectiveness arising in the year to 30 June 2014 of $40 million gain was recognised within "Fuel" (30 June 2013: $7 million loss).

## NON-HEDGE ACCOUNTED DERIVATIVES

**Foreign currency derivatives**

Where changes in the fair value of a derivative provide a natural offset to the underlying hedged item as it impacts earnings, hedge accounting is not applied. Both the changes in value of the hedged item and the hedging instrument are recognised through the same line within the Statement of Financial Performance.

Foreign currency translation gains or losses on lease return provisions and non-hedge accounted United States Dollar denominated interest-bearing liabilities are recognised in the Statement of Financial Performance within "Foreign exchange gains". Marked to market gains or losses on non-hedge accounted foreign currency derivatives provide a natural offset to these foreign exchange movements, and are also recognised within "Foreign exchange gains".

During the year to 30 June 2014, a loss of $77 million was recognised in respect of the above non-hedge accounted foreign currency derivatives (30 June 2013: $8 million gain), which was offset by exchange movements on the underlying exposures. Forward point costs of $18 million in respect of these derivatives were marked to market through "Finance costs" in the year to 30 June 2014 (30 June 2013: $17 million of costs).

**Fuel derivatives**

Short-dated fuel derivatives are not hedge accounted due to the short term nature of these instruments, and are marked to market through earnings. In the year to 30 June 2014, no amount was recognised within "Fuel" (30 June 2013: Nil).

**Equity swaps**

During the year to 30 June 2013, Air New Zealand entered into an equity derivative representing an additional interest of 3% of shares in Virgin Australia Holdings Limited (Virgin Australia). The derivative was a share forward transaction which carried no voting rights. The derivative was exercised during the year ended 30 June 2014 with a gain of $5 million (30 June 2013: loss of $5 million) being recognised in "Other expenses" and a loss of $2 million in "Foreign exchange gains" (30 June 2013: Nil) in the Statement of Financial Performance.

Air New Zealand also exercised a 1.5% interest during the year ended 30 June 2013, recognising $2 million gains within the "Non-hedge accounted derivatives" line in Note 3 and in "Other expenses" in the Statement of Financial Performance.

### 21. OTHER LIABILITIES

| | GROUP 2014 $M | GROUP 2013 $M | COMPANY 2014 $M | COMPANY 2013 $M |
|---|---|---|---|---|
| **Current** | | | | |
| Employee entitlements | 205 | 186 | 186 | 169 |
| Amounts owing to subsidiaries | - | - | 362 | 483 |
| Other liabilities (including defined pension liabilities) | 9 | 14 | 7 | 13 |
| | 214 | 200 | 555 | 665 |
| **Non-current** | | | | |
| Employee entitlements | 14 | 13 | 14 | 13 |
| Other liabilities | 6 | 8 | 3 | 4 |
| Amounts owing to subsidiaries | - | - | 55 | 56 |
| | 20 | 21 | 72 | 73 |

### 22. DISTRIBUTIONS TO OWNERS

| | GROUP 2014 $M | GROUP 2013 $M | COMPANY 2014 $M | COMPANY 2013 $M |
|---|---|---|---|---|
| **Distributions recognised** | | | | |
| Final dividend on Ordinary Shares | 55 | 38 | 55 | 38 |
| Interim dividend on Ordinary Shares | 50 | 33 | 50 | 33 |
| | 105 | 71 | 105 | 71 |
| **Distributions paid** | | | | |
| Final dividend on Ordinary Shares | 56 | 38 | 56 | 38 |
| Interim dividend on Ordinary Shares | 52 | 34 | 52 | 34 |
| | 108 | 72 | 108 | 72 |

On 26 August 2014, the Board of Directors declared a final dividend for the 2014 financial year of 5.5 cents per Ordinary Share and a special dividend of 10.0 cents per Ordinary Share, payable on 22 September 2014 to registered shareholders at 12 September 2014. The total dividends payable will be $172 million. Imputation credits will be attached and supplementary dividends paid to non-resident shareholders. These dividends have not been recognised in the June 2014 financial statements.

An interim dividend of 4.5 cents per Ordinary Share was paid on 21 March 2014. Imputation credits were attached and supplementary dividends paid to non-resident shareholders.

A final dividend in respect of the 2013 financial year of 5.0 cents per Ordinary Share was paid on 23 September 2013. Imputation credits were attached and supplementary dividends paid to non-resident shareholders.

The dividend reinvestment plan is currently suspended.

### 23. DEFERRED TAXATION

Deferred tax assets and liabilities are attributable to the following:

| | NON-AIRCRAFT ASSETS $M | AIRCRAFT RELATED $M | PROVISIONS AND ACCRUALS $M | DERIVATIVE FINANCIAL INSTRUMENTS $M | PENSION OBLIGATIONS $M | UNUSED TAX LOSSES $M | TOTAL $M |
|---|---|---|---|---|---|---|---|
| **GROUP** | | | | | | | |
| As at 1 July 2012 | 25 | 346 | (72) | 11 | (7) | (13) | 290 |
| Amounts recognised in equity | - | - | - | 19 | 2 | - | 21 |
| Reclassified to Income Taxation | - | - | - | - | - | 13 | 13 |
| Amounts recognised in earnings | (2) | (12) | (5) | - | - | - | (19) |
| As at 30 June 2013 | 23 | 334 | (77) | 30 | (5) | - | 305 |
| Amounts recognised in equity | - | - | - | (18) | 3 | - | (15) |
| Amounts recognised in earnings | (8) | (32) | (21) | - | - | - | (61) |
| **As at 30 June 2014** | 15 | 302 | (98) | 12 | (2) | - | 229 |
| **COMPANY** | | | | | | | |
| As at 1 July 2012 | 21 | 244 | (71) | 9 | (7) | (13) | 183 |
| Amounts recognised in equity | - | - | - | 20 | 2 | - | 22 |
| Reclassified to Income Taxation | - | - | - | - | - | 13 | 13 |
| Amounts recognised in earnings | - | (21) | (2) | - | - | - | (23) |
| As at 30 June 2013 | 21 | 223 | (73) | 29 | (5) | - | 195 |
| Amounts recognised in equity | - | - | - | (21) | 3 | - | (18) |
| Amounts recognised in earnings | (7) | (24) | (20) | - | - | - | (51) |
| **As at 30 June 2014** | 14 | 199 | (93) | 8 | (2) | - | 126 |

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.

Unused tax losses of nil (30 June 2013: Nil) are available to carry forward against future taxable profits. In the 2013 financial year, tax losses from the prior year were reclassified to "Income Taxation" to reflect that they were be fully utilised.

### 24. ISSUED CAPITAL

| | GROUP 2014 $M | GROUP 2013 $M | COMPANY 2014 $M | COMPANY 2013 $M |
|---|---|---|---|---|
| **Authorised, Issued and Fully Paid in Capital** | | | | |
| **Ordinary Shares** | | | | |
| Balance at the beginning of the year | 2,277 | 2,282 | 2,285 | 2,290 |
| Shares issued | 1 | 1 | 1 | 1 |
| Acquisition of treasury stock (share buyback) | - | (11) | - | (11) |
| Equity-settled share-based payments | 4 | 5 | 4 | 5 |
| **Balance at the end of the year** | 2,282 | 2,277 | 2,290 | 2,285 |
| **Represented by:** | | | | |
| Paid in capital | 2,273 | 2,273 | 2,281 | 2,281 |
| Treasury stock | (3) | (11) | (3) | (11) |
| Equity-settled share-based payments | 12 | 15 | 12 | 15 |
| | 2,282 | 2,277 | 2,290 | 2,285 |

| | GROUP 2014 $M | GROUP 2013 $M | COMPANY 2014 $M | COMPANY 2013 $M |
|---|---|---|---|---|
| **Number of Ordinary Shares on issue** | | | | |
| Balance at the beginning of the year | 1,103,924,560 | 1,099,707,174 | 1,103,924,560 | 1,099,707,174 |
| Mandatory shares issued under Long Term Incentive Plan | 877,055 | 370,732 | 877,055 | 370,732 |
| Exercise of Long Term Incentive Plan options | 9,622,668 | 3,846,654 | 9,622,668 | 3,846,654 |
| **Balance at the end of the year** | 1,114,424,283 | 1,103,924,560 | 1,114,424,283 | 1,103,924,560 |

## 24. ISSUED CAPITAL (CONTINUED)

### SHARE ISSUE DETAILS AND RIGHTS

**Ordinary Shares**

At 30 June 2014, there were 1,114,424,283 fully paid Ordinary Shares on issue (30 June 2013: 1,103,924,560). The amount of treasury stock held as at 30 June 2014 is 2,515,463 shares (30 June 2013: 8,767,795 shares).

On 20 September 2013, 877,055 Ordinary Shares were issued to executives under the Mandatory Shareholding section of the Long Term Incentive Plan (21 September 2012: 370,732 Ordinary Shares). The issue price of $1.043 per Ordinary Share represented a discounted price determined on the basis of an independent valuation, reflecting restrictions placed on the transfer of the shares under the terms of the Long Term Incentive Plan Rules (21 September 2012: $0.84 per Ordinary Share).

The dividend reinvestment plan is currently suspended.

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.

### EQUITY-SETTLED SHARE-BASED PAYMENTS

**Options over Ordinary Shares**

Share options are granted to a number of senior executives on attainment of predetermined performance objectives. The Company is currently undertaking a stock settled share appreciation rights scheme whereby shares are issued equating to the delta between the market price and the exercise price.

The total expense recognised in the year ended 30 June 2014 in respect of equity-settled share-based payment transactions was $4 million (30 June 2013: $5 million). The total outstanding options at 30 June 2014 is 74,389,248 (30 June 2013: 97,413,817).

| | GROUP AND COMPANY | | | | | |
|---|---|---|---|---|---|---|
| | 2014 LONG TERM INCENTIVE PLAN | 2014 CEO OPTION PLAN* | 2014 CFO OPTION PLAN | 2013 LONG TERM INCENTIVE PLAN | 2013 CEO OPTION PLAN* | 2013 CFO OPTION PLAN |
| **Number of options outstanding** | | | | | | |
| Outstanding at beginning of the year | 66,837,243 | 28,177,436 | 2,399,138 | 60,679,081 | 19,569,917 | - |
| Granted during the year | 16,473,959 | - | - | 25,610,275 | 8,607,519 | 2,399,138 |
| Exercised during the year | (18,101,585) | (20,238,671) | - | (16,412,875) | - | - |
| Lapsed during the year | (1,158,272) | - | - | (3,039,238) | - | - |
| **Outstanding at the end of the year**** | 64,051,345 | 7,938,765 | 2,399,138 | 66,837,243 | 28,177,436 | 2,399,138 |
| Number of options exercisable as at end of the year | 5,517,001 | 7,938,765 | - | 12,134,225 | 28,177,436 | - |
| Weighted average exercise price for those options exercisable as at the end of the year ($) | 1.42 | 1.18 | - | 1.06 | 1.10 | - |
| Weighted average exercise price for those options exercised during the year ($) | 1.18 | 1.07 | - | 0.98 | - | - |
| Weighted average share price at the date of exercise ($) | 1.90 | 1.94 | - | 1.31 | - | - |
| Weighted average remaining period to contractual maturity (years) | 3.0 | 0.2 | 3.3 | 3.0 | 1.2 | 4.3 |

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

** The People Remuneration and Diversity Committee of the Board will adjust option 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.

## 24. ISSUED CAPITAL (CONTINUED)

### Long Term Incentive Plan (LTIP)

On 20 September 2013, 16,473,959 options with a fair value of $3.3 million were issued to executives under the LTIP (21 September 2012: 21,610,275 options (issue 1) with a fair value of $4.0 million; 21 December 2012: 4,000,000 options (issue 2) with a fair value of $1,112,000). Total options outstanding under the LTIP are 64,051,345 (30 June 2013: 66,837,243). The unamortised fair value of outstanding LTIP options (measured at grant date) is $4.5 million (30 June 2013: $5.0 million).

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

The exercise price will be set three years after issue, and will be based on the Company 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 by the Company over the same period. The specified index comprises the total shareholder return for the NZSX All Gross Index and the Bloomberg World Airline Total Return Index (adjusted for dividends) in 50:50 proportions.

The general principles underlying the Black Scholes option pricing model have been used to value these options using a Monte Carlo simulation approach. The key inputs to this model for options granted in that year were as follows:

| | GROUP AND COMPANY | | | | | |
|---|---|---|---|---|---|---|
| | 2014 | ISSUE 1 2013 | ISSUE 2 2013 | 2012 | 2011 | 2010 |
| Weighted average share price (cents) | 139 | 112 | 146 | 111 | 129 | 124 |
| Expected volatility of share price (%) | 27 | 30 | 30 | 35 | 37 | 40 |
| Expected volatility of performance benchmark index (%) | 15 | 15 | 15 | 17 | 17 | 17 |
| Correlation of volatility indices | 0.25 | 0.20 | 0.25 | 0.45 | 0.45 | 0.50 |
| Contractual life (years) | 5.0 | 5.0 | 4.8 | 5.0 | 5.0 | 5.0 |
| Risk free rate (%) | 4.40 | 3.10 | 3.30 | 4.09 | 4.72 | 5.50 |
| Expected dividend yield | 5.8 | 4.9 | 3.8 | 5.0 | 5.4 | 5.2 |
| Discount to reflect negotiability restrictions (%) | 25 | 25 | 25 | 25 | 25 | 25 |

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

The volatility and correlation estimates were derived from measuring these parameters using historical data over the preceding three to five years. The risk free rate was based on the five year 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.

### CFO Option Plan

On 21 September 2012, 2,399,138 options with a fair value of $0.4 million were issued to the Chief Financial Officer under the CFO Option Plan. The options were issued in two tranches, with 1,142,857 options being issued to the first tranche and 1,256,281 options being allocated to the second tranche. Total options outstanding under the CFO Option Plan are 2,399,138 (30 June 2013: 2,399,138). The unamortised fair value of outstanding CFO Option Plan options (measured at grant date) as at 30 June 2014 is $0.2 million (30 June 2013: $0.3 million).

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

The exercise price will be set for the first tranche two years after issue, and the second tranche four years after issue, and will be based on the Company 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 by the Company over the same period. The specified index comprises the total shareholder return for the NZSX All Gross Index and the Bloomberg World Airline Total Return Index (adjusted for dividends) in 50:50 proportions.

## 24. ISSUED CAPITAL (CONTINUED)

The general principles underlying the Black Scholes option pricing model have been used to value these options using a Monte Carlo simulation approach. The key inputs to this model for options granted in that year were as follows:

| | GROUP AND COMPANY | |
|---|---|---|
| | TRANCHE 1 2013 | TRANCHE 2 2013 |
| Weighted average share price (cents) | 112 | 112 |
| Expected volatility of share price (%) | 30 | 30 |
| Expected volatility of performance benchmark index (%) | 15 | 20 |
| Correlation of volatility indices | 0.20 | 0.20 |
| Contractual life (years) | 4.0 | 6.0 |
| Risk free rate (%) | 2.90 | 3.30 |
| Expected dividend yield | 4.9 | 4.9 |
| Discount to reflect negotiability restrictions (%) | 20 | 25 |

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

The volatility and correlation estimates were derived from measuring these parameters using historical data over the preceding two years for the first tranche and four years for the second tranche. The risk free rate was based on a four year zero coupon bond yield for the first tranche and six year zero coupon bond yield for the second tranche 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.

### CEO Option Plan

On 21 September 2012, 8,607,519 options with a fair value of $1.1 million were issued to the former Chief Executive Officer under the CEO Option Plan. Total options outstanding under the CEO Option Plan are 7,938,765 (30 June 2013: 28,177,436). As at 30 June 2014 the fair value of outstanding CEO options has been fully amortised (30 June 2013: fully amortised).

Options issued in the 2013 financial year were exercisable immediately. The exercise price was determined using a Black Scholes option pricing model based on the Company share price over the 10 business days from 4 to 17 September 2012 adjusted for expected distributions in September 2014.

The general principles underlying the Black Scholes option pricing model have been used to value these options. In the 2010 to 2012 years the option pricing model used a Monte Carlo simulation approach. A simplified approach has been applied in the 2013 year given the exercise price was fixed at issue date. The key inputs to this model for options granted in that year were as follows:

| | GROUP AND COMPANY | | | |
|---|---|---|---|---|
| | 2013 | 2012 | 2011 | 2010 |
| Weighted average share price (cents) | 112 | 111 | 129 | 124 |
| Expected volatility of share price (%) | 25 | 30 | 37 | 40 |
| Expected volatility of performance benchmark index (%) | - | 17 | 17 | 17 |
| Correlation of volatility indices | - | 0.40 | 0.45 | 0.50 |
| Contractual life (years) | 2.0 | 3.0 | 4.0 | 5.0 |
| Risk free rate (%) | 2.60 | 3.54 | 4.46 | 5.50 |
| Expected dividend yield | 3.35 | 5.0 | 5.4 | 5.2 |
| Discount to reflect negotiability restrictions (%) | 5 | 12.5 | 20 | 25 |

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

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

## APPLICATION OF TREASURY STOCK METHOD

### Share repurchase

On 28 September 2012 the Group announced an on-market share buyback programme with the intention to acquire up to 3% of its Ordinary Shares. During the year ended 30 June 2013 the Group acquired treasury stock of 8,767,702 shares for $11 million. The total cost of the share buyback including transaction costs has been deducted from Capital. Shares acquired under the share buyback are held as treasury stock and may be used for the purposes of fulfilling obligations under employee share-based compensation plans.

On 27 September 2013, the Group announced that it was renewing the on-market share buyback facility established on 28 September 2012. Under the facility Air New Zealand may purchase up to 3% or up to $45 million of its shares (whichever is lower) over the 12 month period to 28 September 2014. No shares were acquired during the 2014 financial year.

During the year ended 30 June 2014 the Group utilised treasury stock of 6,252,332 Ordinary Shares to fulfil obligations under employee share-based compensation plans. Total treasury stock held as at 30 June 2014 is 2,515,370 shares.

## 24. ISSUED CAPITAL (CONTINUED)

### 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 2014 was 93 (30 June 2013: 93).

### 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.

### 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.

## 25. CAPITAL COMMITMENTS

| | GROUP 2014 $M | GROUP 2013 $M | COMPANY 2014 $M | COMPANY 2013 $M |
|---|---|---|---|---|
| Aircraft and engines | 2,409 | 2,080 | 2,392 | 2,049 |
| Other property, plant and equipment and intangible assets | 9 | 12 | 5 | 12 |
| | 2,418 | 2,092 | 2,397 | 2,061 |

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

In June 2014 the Group entered into an agreement to acquire three A321 NEO aircraft and ten A320 NEO aircraft. The aircraft are due to be delivered from the fourth quarter of 2017 through to the fourth quarter of 2019.

In November 2009 the Group entered into an agreement to acquire fourteen Airbus A320 aircraft and associated engines with five aircraft deliveries remaining as at balance date. Under the agreement the Group secured the right to purchase up to an additional eleven aircraft. In April 2014 the Group converted one purchase right into a firm order and obtained one further purchase right, bringing the total firm aircraft orders remaining to six. The aircraft will be delivered between July 2014 and November 2015.

In November 2011 the Group entered into an agreement to acquire seven ATR72-600 aircraft of which commitments remain at balance date for three aircraft. In September 2013 and March 2014 the Group committed to acquire two additional ATR72-600 aircraft by converting existing options into firm deliveries, bringing the total remaining firm orders to five. The aircraft will be delivered between September 2014 to January 2016.

The Group has a contractual commitment to acquire a further nine Boeing 787-9 (B787-9) aircraft and associated engines and spares. The B787-9 aircraft that are subject to firm commitments are scheduled for delivery between September 2014 to October 2017.

## 26. OPERATING LEASE COMMITMENTS

| | GROUP 2014 $M | GROUP 2013 $M | COMPANY 2014 $M | COMPANY 2013 $M |
|---|---|---|---|---|
| **Aircraft leases payable** | | | | |
| Not later than 1 year | 146 | 135 | 91 | 51 |
| Later than 1 year and not later than 5 years | 433 | 586 | 323 | 194 |
| Later than 5 years | 58 | 123 | - | 110 |
| | 637 | 844 | 414 | 355 |
| **Property leases payable** | | | | |
| Not later than 1 year | 35 | 35 | 32 | 32 |
| Later than 1 year and not later than 5 years | 105 | 105 | 99 | 98 |
| Later than 5 years | 65 | 93 | 64 | 90 |
| | 205 | 233 | 195 | 220 |

The Company leases a number of aircraft from its wholly owned subsidiary, Air New Zealand Aircraft Holdings Limited.

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

### 27. CONTINGENT LIABILITIES

| | GROUP 2014 $M | GROUP 2013 $M | COMPANY 2014 $M | COMPANY 2013 $M |
|---|---|---|---|---|
| Uncalled capital of subsidiaries | - | - | 10 | 12 |
| Guarantee of subsidiary operating lease commitments | - | - | 641 | 853 |
| Guarantee of subsidiary indebtedness and performance | - | - | 1,584 | 1,482 |
| Letters of credit and performance bonds | 52 | 51 | 47 | 46 |
| | 52 | 51 | 2,282 | 2,393 |

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

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

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

The allegations of anti-competitive conduct in the air cargo business in Hong Kong and Singapore are the subject of proceedings by the Australian Competition and Consumer Commission. A defended hearing in the Federal Court concluded in May 2013 and a decision is awaited.

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

The Group has a partnership agreement with Pratt and Whitney in relation to the CEC in which it holds a 49 percent interest (Note 14). By the nature of the agreement, joint and several liability exists between the two parties. Total liabilities of the CEC are $82 million (30 June 2013: $47 million).

The Company enters into financial guarantee contracts to guarantee the indebtedness of other companies within the Group. Air New Zealand treats the guarantee contract as a contingent liability until such time as it becomes probable that the Company will be required to make a payment under the guarantee.

The Company guarantees aircraft end of lease obligations of Air New Zealand Aircraft Holdings Limited (30 June 2013: Air New Zealand Aircraft Holdings Limited and New Zealand International Airlines Limited).

The Company provides a guarantee to the Royal New Zealand Air Force (RNZAF) of the performance of a wholly owned subsidiary, Safe Air Limited, in respect of their contractual obligations with the RNZAF. The Company also provided a letter of financial support to Altitude Aerospace Interiors Limited (a wholly owned subsidiary) for the period to 30 November 2014 to enable it to meet its financial obligations as they fall due.

## 28. PENSION OBLIGATIONS

### Defined benefit plans

The Group operates two defined benefit plans for qualifying employees in New Zealand and overseas. The New Zealand plan 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 most recent actuarial valuations were provided for 30 June 2014.

### Movement in net defined benefit obligation

The following table shows a reconciliation from the opening balances to the closing balances for the net defined obligation and it's components.

| | GROUP AND COMPANY DEFINED BENEFIT OBLIGATION | | GROUP AND COMPANY FAIR VALUE OF PLAN ASSETS | | GROUP AND COMPANY NET DEFINED BENEFIT OBLIGATION | |
|---|---|---|---|---|---|---|
| | 2014 $M | 2013 $M | 2014 $M | 2013 $M | 2014 $M | 2013 $M |
| **Balance at the beginning of the year** | (131) | (134) | 126 | 114 | (5) | (20) |
| **Included in profit or loss** | | | | | | |
| Current service cost | (2) | (3) | - | - | (2) | (3) |
| Interest (expense)/income | (4) | (3) | 4 | 3 | - | - |
| | (6) | (6) | 4 | 3 | (2) | (3) |
| **Included in OCI** | | | | | | |
| Remeasurements gain/(loss): | | | | | | |
| Actuarial gain/(loss) arising from: | | | | | | |
| - financial assumptions | 7 | (3) | - | - | 7 | (3) |
| - experience assumptions | (4) | - | - | - | (4) | - |
| Return on plan assets excluding interest income | - | - | 4 | 12 | 4 | 12 |
| Effect of movements in exchange rates | - | 1 | - | (1) | - | - |
| Other | 1 | 4 | - | - | 1 | 4 |
| | 4 | 2 | 4 | 11 | 8 | 13 |
| **Other** | | | | | | |
| Contributions paid by employer | - | - | 5 | 5 | 5 | 5 |
| Contributions paid by members | (2) | (2) | 2 | 2 | - | - |
| Benefits paid | 19 | 9 | (19) | (9) | - | - |
| | 17 | 7 | (12) | (2) | 5 | 5 |
| **Balance at the end of the year** | (116) | (131) | 122 | 126 | 6 | (5) |
| Represented by: | | | | | | |
| Defined benefit asset | | | | | 7 | - |
| Defined benefit liability | | | | | (1) | (5) |

The Group expects to contribute approximately $5 million to its defined benefit plans in 2015.

| | GROUP AND COMPANY | |
|---|---|---|
| | 2014 | 2013 |
| **Major categories of plan assets:** | | |
| Fixed interest unit fund | 55% | 55% |
| New Zealand equity unit fund | 7% | 7% |
| Overseas equity unit fund | 36% | 33% |
| Commodities fund | - | 3% |
| Other assets | 2% | 2% |
| | 100% | 100% |

The fair value of plan assets is predominantly determined based on quoted prices in active markets for identical assets and liabilities (level 1 of the fair value hierarchy). None of the above relate to the Company's own financial instruments, nor property occupied by or other assets used by the Company.

### Assumptions used

The following table provides the weighted average assumptions used by the actuaries to develop the net periodic pension cost and the actuarial present value of projected benefit obligations for the Group's plans:

| | GROUP AND COMPANY | |
|---|---|---|
| | 2014 | 2013 |
| Gross discount rate | 3.9% | 3.1% |
| Future base salary increases | 3.5% | 3.3% |

## 28. PENSION OBLIGATIONS (CONTINUED)

### Defined contribution plans

The Group operates defined contribution retirement plans for qualifying employees. The assets of the plan are held separately from those of the Group and invested in funds under the control of trustees. Employees receive a benefit on retirement or upon resignation, based upon the employee's accumulated contributions plus a proportion of the company's contributions depending upon their period of membership. Where employees leave service prior to vesting fully in the contributions, the forfeited contributions are retained in the plan and may be used by the plan to meet expenses, fund the company's future contributions or provide other benefits for members.

The Group contributes to the NPF Defined Benefit Plan Contributors retirement plan, to which other employers contribute in respect of their own employees. This has been accounted for as a defined contribution plan as insufficient information is available to allocate the plan across all participants on a meaningful basis. The Group is not a dominant participant in the plan, contributing approximately 14.2% of the plan's total annual contributions (30 June 2013: 13.1%). The information in respect of 2014 presented below is the same as that disclosed for 2013 as the actuarial valuation for the scheme was not available at the time of preparing these financial statements.

| | GROUP AND COMPANY | |
|---|---|---|
| | 2014 $M | 2013 $M |
| **Overall position of the plan in respect of all employers:** | | |
| Present value of defined benefit obligation | (226) | (226) |
| Fair value of plan assets | 244 | 244 |
| **Past service surplus** | 18 | 18 |

The past service surplus of the plan is actuarially valued each year using the attained age valuation methodology. Participating employers are contractually obliged to contribute at rates specified by the trustee who act on the advice of the actuary. The agreed contribution requirements seek to fund any deficit over the future working lifetime of the members. Should the fund be in deficit at the time of winding up the scheme, the Group would be obliged to fund its share of that deficit.

Contributions of $43 million were made to Group defined contribution plans during the year (30 June 2013: $40 million). Contributions of $37 million were made to Company defined contribution plans during the year (30 June 2013: $34 million).

## 29. RELATED PARTIES

### Crown

The Crown, the major shareholder of the Company, owns 52 percent of the issued capital of the Company (30 June 2013: 73 percent). The balance is owned by the public. On 25 November 2013 the Crown completed the sale of 221,336,465 Ordinary Shares reducing the shareholding by 20 percent.

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.

All members of the Group are considered to be related parties of the Company. This includes the subsidiaries, joint ventures and associates identified in Note 14.

### Key management personnel

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

| | GROUP 2014 $M | GROUP 2013 $M | COMPANY 2014 $M | COMPANY 2013 $M |
|---|---|---|---|---|
| Short-term employee costs | 12 | 11 | 12 | 11 |
| Directors' fees | 1 | 1 | 1 | 1 |
| Share-based payments | 4 | 5 | 4 | 5 |
| | 17 | 17 | 17 | 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

The Air New Zealand A and B Staff Share Purchase Schemes were established by the Group in 1998. All full time and regular part-time employees were invited to participate in the Schemes with a share allotment date, being 12 August 1998. The shares were held by the Trustees during a three year restrictive period, which expired in September 2001. As at 30 June 2014, the Scheme held 93 unallocated Ordinary Shares (30 June 2013: 93 shares).

### Executive share option plans

Executive share option plans are detailed in Note 24.

## 29. RELATED PARTIES (CONTINUED)

**Transactions between the Company and its subsidiaries, associated companies and joint ventures**

***Subsidiaries***

During the year there have been transactions between the Company and its subsidiaries as follows:

| | COMPANY 2014 $M | COMPANY 2013 $M |
|---|---|---|
| Operating revenue (excluding dividend revenue) | 97 | 89 |
| Dividend revenue | 200 | 248 |
| Finance costs* | (20) | (27) |
| Operating expenditure | (118) | (253) |
| Included within Operating expenditure ("Other expenses") are the following amounts: | | |
| Impairment of investment in subsidiaries | (1) | - |
| Reversal of impairment of investment in subsidiaries | 150 | - |

* Finance costs include finance income of $4 million (30 June 2013: $3 million) and finance costs of $24 million (30 June 2013: $30 million).

The Company has undertaken finance and operating lease arrangements with its wholly owned subsidiary, Air New Zealand Aircraft Holdings Limited, relating to its aircraft. Lease expense of $242 million was recognised by the Company during the year (30 June 2013: $222 million).

Related party balances have no fixed settlement dates and are unsecured. Non-current amounts owing to subsidiaries (as shown in Note 21) reflect deposits held in respect of capital investments. Certain balances are non interest-bearing and the remainder are subject to interest at current floating rates. For balances outstanding at year end refer to Notes 10 and 21. Provisions for doubtful debts of $114 million were held by the Company against outstanding balances from subsidiaries (30 June 2013: $115 million).

The Company has provided guarantees of financial indebtedness to Air New Zealand Aircraft Holdings Limited of $1,582 million (30 June 2013: $1,478 million).

As at 30 June 2014, the Company has guaranteed the obligations of Air New Zealand Aircraft Holdings Limited under aircraft operating lease arrangements amounting to $637 million (30 June 2013: Air New Zealand Aircraft Holdings Limited and New Zealand International Airlines Limited $844 million), and property lease obligations of subsidiaries of $4 million (30 June 2013: $9 million).

The Company guarantees aircraft end of lease obligations of Air New Zealand Aircraft Holdings Limited (30 June 2013: Air New Zealand Aircraft Holdings Limited and New Zealand International Airlines Limited).

During the year the investment in Air New Zealand Aircraft Holdings Limited, was assessed for impairment using a value in use model. Key assumptions include exchange rates, lease rentals, and terminal values. The discount rate applied in the value in use model was 5.6 percent (30 June 2013: 5.8 percent) and the growth rate was 2.5 percent as at 30 June 2014 (30 June 2013: 2.5 percent). The model resulted in a reversal of an impairment loss of $150 million which had been provided for in prior years (30 June 2013: Nil).

The Group has a set-off arrangement on certain Bank of New Zealand balances, allowing the offset of overdraft amounts against in-fund amounts. Interest is earned (or accrued) by Air New Zealand Limited based on the net position across the Group. This interest is not allocated to subsidiary companies. The following entities are included in the set-off arrangement:

Air Nelson Limited
Air New Zealand Limited
Eagle Airways Limited
Mount Cook Airlines Limited

***Associates***

Transactions between Air New Zealand and its associates were as follows:

| | COMPANY 2014 $M | COMPANY 2013 $M |
|---|---|---|
| Operating revenue | 3 | 4 |
| Operating expenditure | (4) | (12) |

During the year Air New Zealand engaged the Christchurch Engine Centre (CEC) to provide maintenance services on certain V2500 engines for $4 million (30 June 2013: $12 million). There was no amount outstanding at the end of the year (30 June 2013: Nil).
Air New Zealand receives contract services revenue and provides certain administration services to CEC. Amounts outstanding at the end of the year, which are disclosed within Note 10 are $2 million (30 June 2013: $2 million).

**29. RELATED PARTIES (CONTINUED)**

On 9 May 2014 the CEC declared a distribution to the Group of $4 million. The amount was outstanding as at 30 June 2014.
On 22 May 2013 the CEC paid a distribution of $15 million.

***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.

**30. CHANGES IN ACCOUNTING POLICIES**

The principal accounting policies used in the preparation of these financial statements are set out in the Statement of Accounting Policies.

The Group has adopted the following new framework, standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of 1 July 2013.

(a) External Reporting Board Standard A1 "Accounting Standards Framework (For-profit Entities Update)" (XRB A1)
(b) NZ IFRS 10 - Consolidated Financial Statements
(c) NZ IFRS 11 - Joint Arrangements
(d) NZ IFRS 12 - Disclosure of Interests in Other Entities
(e) NZ IFRS 13 - Fair Value Measurement
(f) NZ IAS 19 (2011) - Employee Benefits
(g) NZ IAS 27 (2011) - Separate Financial Statements
(h) NZ IAS 28 (2011) - Investments in Associates and Joint Ventures
(i) Amendments to NZ IFRS 7 - Financial instruments: Disclosures and NZ IAS 32 - Financial Instruments: Presentation

Comparative information has been restated to reflect these new and amended standards and frameworks. The nature and effect of these changes are explained below:

***(a) XRB A1 "Accounting Standards Framework (For-profit Entities Update)"***

XRB A1 establishes a for-profit tier structure and outlines which suite of accounting standards entities in different tiers must follow. For the purposes of complying with NZ GAAP, the Group and Company are required to report in accordance with Tier 1 For-profit Accounting Standards (NZ IFRS). XRB A1, which was adopted with effect from 1 July 2013, has had no financial impact on the financial statements.

***(b) NZ IFRS 10 - Consolidated Financial Statements***

Upon adoption of NZ IFRS 10, the Group has changed its accounting policy for determining whether it has control over and consequently consolidates its investees. NZ IFRS 10 builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included in the consolidated financial statements of the parent company.
The standard, which was adopted with effect from 1 July 2013, has not had any impact on the consolidated financial statements.

***(c) NZ IFRS 11 - Joint Arrangements***

Upon adoption of NZ IFRS 11, the Group has changed its accounting policy for its interests in joint arrangements. NZ IFRS 11 focuses on the rights and obligations of joint arrangements as opposed to the legal form, and requires the equity method of accounting for joint ventures.

The Group has re-evaluated its involvement in the 51% investment in ANZGT Field Services LLC and has reclassified it from a subsidiary to a joint venture with effect from 1 July 2013.

In the Statement of Financial Position, the previously consolidated property, plant and equipment, share capital and minority interests are replaced by an equity accounted investment of $1 million. The standard has not had any net impact on the Statement of Financial Performance. The quantitative impact of adopting NZ IFRS 11 is set out in the tables.

***(d) NZ IFRS 12 - Disclosure of Interests in Other Entities***

NZ IFRS 12 sets out disclosure requirements for entities that have interests in subsidiaries, joint arrangements, associates and consolidated structured entities. The standard has not had any impact on the consolidated financial statements, with the exception of additional disclosures relating to the primary statements of joint ventures or associates and a reconciliation from that information to the carrying amount of the Groups' investment in those entities.

***(e) NZ IFRS 13 - Fair Value Measurement***

NZ IFRS 13 replaces the fair value measurement guidance contained in individual NZ IFRSs with a single source of guidance. It defines fair value, establishes a framework for measuring fair value and sets out disclosure requirements. The standard, which was adopted with effect from 1 July 2013, has had no financial impact on the financial statements other than additional disclosure.

## 30. CHANGES IN ACCOUNTING POLICIES (CONTINUED)

### *(f) NZ IAS 19 (2011) - Employee Benefits*

Following the adoption of the amendments to NZ IAS 19 (2011) - Employee Benefits, the Group has changed its accounting policy with respect to both the recognition of actuarial gains and losses and also the basis for determining the income or expense related to its post-employment defined benefit plans.

The amendments remove the use of the corridor method previously permitted for recognising actuarial gains and losses. Under NZ IAS 19 (2011), actuarial gains and losses will be recognised immediately as a remeasurement through other comprehensive income. In the Statement of Financial Position, previously unrecognised actuarial losses of $13 million as at 30 June 2013 (30 June 2012: $24 million) are now recognised within Retained Deficit, which results in the conversion of the previously recognised net defined benefit asset into a net defined benefit obligation of $4 million as at 30 June 2013 (30 June 2012: $18 million). These balances include the Group's obligation to pay employer contribution withholding tax on future contributions. Deferred tax adjustments were recognised in respect of the above.

There is a $1 million net decrease in the Statement of Financial Performance for the year to 30 June 2013. The changes include:

- actuarial gains or losses are no longer recognised in the Statement of Financial Performance (that is, those which fell outside the corridor); and
- administration costs are now recognised as they are incurred with no allowance for future costs.

The quantitative impact of adopting NZ IAS 19 (2011) is set out in the tables below.

### *(g) NZ IAS 27 (2011) - Separate Financial Statements*

NZ IAS 27 (2011) carries forward the existing accounting and disclosure requirements for separate financial statements with some minor clarifications. The amendments, which were adopted with effect from 1 July 2013, have not had any impact on the financial statements.

### *(h) NZ IAS 28 (2011) - Investments in Associates and Joint Ventures*

NZ IAS 28 (2011) clarifies that an investment in an associate or joint venture that meets the criteria to be classified as held for sale is within the scope of NZ IFRS 5 - Non-Current Assets Held for Sale and Discontinued Operations. The amendments, which were adopted with effect from 1 July 2013, have not had any impact on the consolidated financial statements.

### *(i) Amendments to NZ IFRS 7 - Financial instruments: Disclosures and NZ IAS 32 - Financial Instruments: Presentation*

Amendments to NZ IFRS 7 include minimum disclosures relating to financial assets and financial liabilities that are either offset in the Statement of Financial Position or are subject to enforceable master netting or similar arrangements. The amendments, which were adopted with effect from 1 July 2013, have had no impact on the financial statement other than disclosure. The new disclosure is set out in Note 19 and includes a reconciliation of gross and net amounts of financial assets and financial liabilities showing separately amounts offset and not offset in the Statement of Financial Position.

Amendments to NZ IAS 32 clarify that an entity currently has a legally enforceable right of set-off if that right is not contingent upon a future event and is enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties. These amendments, which are effective for annual periods commencing on or after 1 January 2014, have been adopted early with effect from 1 July 2013, and have not had any impact on the financial statements.

### Summary of quantitative impacts

The following tables summarise the impacts of the above changes on the Group's previously reported financial performance, other comprehensive income, financial position and cash flows. The impacts relate to the changes related to joint arrangements (see (c)) and the changes related to defined benefit pension plans (see (f)). Only the line items that have changed are shown in the tables below.

| | IMPACT OF CHANGES IN ACCOUNTING POLICIES | | | | | | |
|---|---|---|---|---|---|---|---|
| | GROUP AS PREVIOUSLY REPORTED $M | GROUP JOINT ARRANGEMENTS (SEE (C)) $M | GROUP DEFINED BENEFIT PLANS (SEE (F)) $M | GROUP AS RESTATED $M | COMPANY AS PREVIOUSLY REPORTED $M | COMPANY DEFINED BENEFIT PLANS (SEE (F)) $M | COMPANY AS RESTATED $M |
| **STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR TO 30 JUNE 2013** | | | | | | | |
| Contract services | 313 | (3) | - | 310 | 242 | - | 242 |
| **Operating revenue** | 4,618 | (3) | - | 4,615 | 4,221 | - | 4,221 |
| Labour | (1,069) | 2 | (1) | (1,068) | (914) | (1) | (915) |
| Maintenance | (303) | 1 | - | (302) | (225) | - | (225) |
| **Operating expenditure** | (3,720) | 3 | (1) | (3,718) | (3,254) | (1) | (3,255) |
| **Net Profit Attributable to Shareholders of Parent Company** | 182 | - | (1) | 181 | 349 | (1) | 348 |

## 30. CHANGES IN ACCOUNTING POLICIES (CONTINUED)

| | | IMPACT OF CHANGES IN ACCOUNTING POLICIES | | | | | |
|---|---|---|---|---|---|---|---|
| | GROUP AS PREVIOUSLY REPORTED $M | GROUP JOINT ARRANGEMENTS (SEE (C)) $M | GROUP DEFINED BENEFIT PLANS (SEE (F)) $M | GROUP AS RESTATED $M | COMPANY AS PREVIOUSLY REPORTED $M | COMPANY DEFINED BENEFIT PLANS (SEE (F)) $M | COMPANY AS RESTATED $M |
| **STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR TO 30 JUNE 2013** | | | | | | | |
| **Net profit for the year** | 182 | - | (1) | 181 | 349 | (1) | 348 |
| Actuarial gains on defined benefit plans | - | - | 13 | 13 | - | 13 | 13 |
| Taxation on above reserve movements | - | - | (2) | (2) | - | (2) | (2) |
| **Total items that will not be reclassified to profit or loss** | (6) | - | 11 | 5 | - | 11 | 11 |
| **Total Other Comprehensive Income for the Year, Net of Taxation** | 23 | - | 11 | 34 | 38 | 11 | 49 |
| **Total Comprehensive Income for the Year, Attributable to Shareholders of the Parent Company** | 205 | - | 10 | 215 | 387 | 10 | 397 |
| **STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2013** | | | | | | | |
| Other assets | 98 | - | (15) | 83 | 90 | (15) | 75 |
| **Total Current Assets** | 1,858 | - | (15) | 1,843 | 1,767 | (15) | 1,752 |
| Property, plant and equipment | 2,935 | (2) | - | 2,933 | 1,782 | - | 1,782 |
| Investments in other entities | 46 | 1 | - | 47 | 368 | - | 368 |
| **Total Non-Current Assets** | 3,754 | (1) | - | 3,753 | 2,955 | - | 2,955 |
| **Total Assets** | 5,612 | (1) | (15) | 5,596 | 4,722 | (15) | 4,707 |
| Other liabilities | 196 | - | 4 | 200 | 661 | 4 | 665 |
| **Total Current Liabilities** | 1,710 | - | 4 | 1,714 | 2,025 | 4 | 2,029 |
| Deferred taxation | 310 | - | (5) | 305 | 200 | (5) | 195 |
| **Total Non-Current Liabilities** | 2,086 | - | (5) | 2,081 | 1,478 | (5) | 1,473 |
| **Total Liabilities** | 3,796 | - | (1) | 3,795 | 3,503 | (1) | 3,502 |
| **Net Assets** | 1,816 | (1) | (14) | 1,801 | 1,219 | (14) | 1,205 |
| **Equity** | | | | | | | |
| Reserves* | (462) | - | (14) | (476) | (1,066) | (14) | (1,080) |
| **Parent interests** | 1,815 | - | (14) | 1,801 | 1,219 | (14) | 1,205 |
| Non-controlling interests | 1 | (1) | - | - | - | - | - |
| **Total Equity** | 1,816 | (1) | (14) | 1,801 | 1,219 | (14) | 1,205 |

* The impact of the changes in accounting policies was recognised within Retained Deficit.

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| **STATEMENT OF CASH FLOWS FOR THE YEAR TO 30 JUNE 2013** | | | | | | | |
| **Cash flows from Operating Activities** | | | | | | | |
| Receipts from customers | 4,657 | (3) | - | 4,654 | 4,021 | - | 4,021 |
| Payments to suppliers and employees | (3,841) | 3 | - | (3,838) | (3,419) | - | (3,419) |

### 30. CHANGES IN ACCOUNTING POLICIES (CONTINUED)

In accordance with the requirements of NZ IAS 1, a full Statement of Financial Position as at 30 June 2012 is presented below, which is the start of the comparative period applicable to these annual financial statements. The impacts of the new and amended Standards adopted with effect from 1 July 2013 on this Statement of Financial Position are also set out below.

| STATEMENT OF FINANCIAL POSITION FOR THE YEAR TO 30 JUNE 2012 | GROUP AS PREVIOUSLY REPORTED $M | IMPACT OF CHANGES IN ACCOUNTING POLICIES: GROUP JOINT ARRANGEMENTS (SEE (C)) $M | IMPACT OF CHANGES IN ACCOUNTING POLICIES: GROUP DEFINED BENEFIT PLANS (SEE (F)) $M | GROUP AS RESTATED $M | COMPANY AS PREVIOUSLY REPORTED $M | IMPACT OF CHANGES IN ACCOUNTING POLICIES: COMPANY DEFINED BENEFIT PLANS (SEE (F)) $M | COMPANY AS RESTATED $M |
|---|---|---|---|---|---|---|---|
| **Current Assets** | | | | | | | |
| Bank and short term deposits | 1,029 | - | - | 1,029 | 1,021 | - | 1,021 |
| Trade and other receivables | 374 | - | - | 374 | 335 | - | 335 |
| Inventories | 170 | - | - | 170 | 141 | - | 141 |
| Derivative financial assets | 40 | - | - | 40 | 41 | - | 41 |
| Income taxation | 20 | - | - | 20 | 49 | - | 49 |
| Assets held for resale | 9 | - | - | 9 | 8 | - | 8 |
| Other assets | 58 | - | (13) | 45 | 176 | (13) | 163 |
| **Total Current Assets** | 1,700 | - | (13) | 1,687 | 1,771 | (13) | 1,758 |
| **Non-Current Assets** | | | | | | | |
| Trade and other receivables | 48 | - | - | 48 | 7 | - | 7 |
| Property, plant and equipment | 3,092 | (2) | - | 3,090 | 1,968 | - | 1,968 |
| Intangible assets | 63 | - | - | 63 | 54 | - | 54 |
| Investments in quoted equity instruments | 203 | - | - | 203 | - | - | - |
| Investments in other entities | 60 | 1 | - | 61 | 408 | - | 408 |
| Derivative financial assets | 1 | - | - | 1 | 1 | - | 1 |
| Other assets | 292 | - | - | 292 | 525 | - | 525 |
| **Total Non-Current Assets** | 3,759 | (1) | - | 3,758 | 2,963 | - | 2,963 |
| **Total Assets** | 5,459 | (1) | (13) | 5,445 | 4,734 | (13) | 4,721 |
| **Current Liabilities** | | | | | | | |
| Bank overdraft and short term borrowings | 2 | - | - | 2 | 6 | - | 6 |
| Trade and other payables | 373 | - | - | 373 | 332 | - | 332 |
| Revenue in advance | 902 | - | - | 902 | 893 | - | 893 |
| Interest-bearing liabilities | 155 | - | - | 155 | 83 | - | 83 |
| Derivative financial liabilities | 14 | - | - | 14 | 15 | - | 15 |
| Provisions | 61 | - | - | 61 | 60 | - | 60 |
| Other liabilities | 176 | - | 18 | 194 | 862 | 18 | 880 |
| **Total Current Liabilities** | 1,683 | - | 18 | 1,701 | 2,251 | 18 | 2,269 |
| **Non-Current Liabilities** | | | | | | | |
| Revenue in advance | 135 | - | - | 135 | 134 | - | 134 |
| Interest-bearing liabilities | 1,537 | - | - | 1,537 | 1,039 | - | 1,039 |
| Derivative financial liabilities | - | - | - | - | 1 | - | 1 |
| Provisions | 94 | - | - | 94 | 94 | - | 94 |
| Other liabilities | 25 | - | - | 25 | 117 | - | 117 |
| Deferred taxation | 297 | - | (7) | 290 | 190 | (7) | 183 |
| **Total Non-Current Liabilities** | 2,088 | - | (7) | 2,081 | 1,575 | (7) | 1,568 |
| **Total Liabilities** | 3,771 | - | 11 | 3,782 | 3,826 | 11 | 3,837 |
| **Net Assets** | 1,688 | (1) | (24) | 1,663 | 908 | (24) | 884 |
| **Equity** | | | | | | | |
| Issued capital | 2,282 | - | - | 2,282 | 2,290 | - | 2,290 |
| Reserves* | (596) | - | (24) | (620) | (1,382) | (24) | (1,406) |
| Parent interests | 1,686 | - | (24) | 1,662 | 908 | (24) | 884 |
| Non-controlling interests | 2 | (1) | - | 1 | - | - | - |
| **Total Equity** | 1,688 | (1) | (24) | 1,663 | 908 | (24) | 884 |

* The impact of the changes in accounting policies was recognised within Retained Deficit.

# INDEPENDENT AUDITOR'S REPORT

Deloitte.

**TO THE SHAREHOLDERS OF AIR NEW ZEALAND LIMITED FOR THE YEAR ENDED 30 JUNE 2014**

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

We have audited the financial statements of the Company and Group on pages 2 to 50, that comprise the Statement of Financial Position as at 30 June 2014, 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.

**Opinion**

***Financial statements***

In our opinion the financial statements of the Company and Group on pages 2 to 50:

- comply with generally accepted accounting practice in New Zealand;
- comply with International Financial Reporting Standards; and
- give a true and fair view of the Company and Group's:
  - financial position as at 30 June 2014; and
  - financial performance and cash flows for the year ended on that date.

***Other legal requirements***

In accordance with the Financial Reporting Act 1993 we report that, in our opinion, proper accounting records have been kept by the Company and Group as far as appears from an examination of those records.

Our audit was completed on 27 August 2014. This is the date at which our opinion is expressed.

The basis of our opinion is explained below. In addition, we outline the responsibilities of the Board of Directors and our responsibilities, and we explain our independence.

**Basis of opinion**

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and carry out our audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

Material misstatements are differences or omissions of amounts and disclosures that, in our judgement, are likely to influence shareholders' overall understanding of the financial statements. If we had found material misstatements that were not corrected, we would have referred to them in our opinion.

An audit involves carrying out procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including our assessment of risks of material misstatement of the financial statements whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the preparation of the Company and Group's financial statements that give a true and fair view of the matters to which they relate. We consider internal control 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 Company and Group's internal control.

An audit also involves evaluating:

- the appropriateness of accounting policies used and whether they have been consistently applied;
- the reasonableness of the significant accounting estimates and judgements made by the Board of Directors;
- the adequacy of all disclosures in the financial statements; and
- the overall presentation of the financial statements.

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

In accordance with the Financial Reporting Act 1993, we report that we have obtained all the information and explanations we have required. We believe we have obtained sufficient and appropriate audit evidence to provide a basis for our audit opinion.

Deloitte.

**Responsibilities of the Board of Directors**

The Board of Directors is responsible for preparing financial statements that:

- comply with generally accepted accounting practice in New Zealand; and
- give a true and fair view of the Company and Group's financial position, financial performance and cash flows.

The Board of Directors is also responsible for such internal control as it determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is also responsible for the publication of the financial statements, whether in printed or electronic form.

The Board of Directors' responsibilities arise from the Financial Reporting Act 1993.

**Responsibilities of the Auditor**

We are responsible for expressing an independent opinion on the financial statements and reporting that opinion to you based on our audit. Our responsibility arises from section 15 of the Public Audit Act 2001.

**Independence**

When carrying out the audit, we followed the independence requirements of the Auditor-General, which incorporate the independence requirements of the External Reporting Board.

In addition to the audit we have carried out assignments in the areas of taxation compliance and other services, relating to business and information technology processes and security controls, which are compatible with those independence requirements. In addition to these assignments, principals and employees of our firm deal with the Company and Group on arm's length terms within the ordinary course of trading activities of the Company and Group. Other than the audit and these assignments and arm's length transactions, we have no relationship with or interests in the Company, or any of its subsidiaries.

Andrew Dick
DELOITTE

On behalf of the Auditor-General
Auckland, New Zealand

# HISTORICAL SUMMARY OF FINANCIAL PERFORMANCE

FOR THE YEAR TO 30 JUNE

| | 2014 $M | 2013 $M | 2012 $M | 2011 $M | 2010 $M |
|---|---|---|---|---|---|
| **Operating Revenue** | | | | | |
| Passenger revenue | 3,851 | 3,765 | 3,634 | 3,525 | 3,305 |
| Cargo | 287 | 301 | 298 | 278 | 255 |
| Contract services | 277 | 310 | 316 | 329 | 322 |
| Other revenue | 248 | 239 | 235 | 209 | 164 |
| | 4,663 | 4,615 | 4,483 | 4,341 | 4,046 |
| **Operating Expenditure** | | | | | |
| Labour | (1,151) | (1,068) | (1,050) | (1,034) | (976) |
| Fuel | (1,121) | (1,204) | (1,219) | (1,084) | (939) |
| Maintenance | (285) | (302) | (303) | (311) | (326) |
| Aircraft operations | (424) | (419) | (390) | (381) | (369) |
| Passenger services | (212) | (222) | (233) | (242) | (240) |
| Sales and marketing | (280) | (274) | (270) | (274) | (261) |
| Foreign exchange gains/(losses) | 45 | 7 | (68) | (118) | 6 |
| Other expenses | (222) | (236) | (235) | (234) | (233) |
| | (3,650) | (3,718) | (3,768) | (3,678) | (3,338) |
| **Earnings Before Finance Costs, Depreciation, Amortisation, Rental Expenses and Taxation** | 1,013 | 897 | 715 | 663 | 708 |
| Depreciation and amortisation | (436) | (411) | (348) | (316) | (294) |
| Rental and lease expenses | (174) | (177) | (209) | (238) | (263) |
| **Earnings Before Finance Costs and Taxation** | 403 | 309 | 158 | 109 | 151 |
| Finance income | 44 | 37 | 31 | 36 | 43 |
| Finance costs | (90) | (91) | (95) | (72) | (71) |
| **Profit Before Taxation** | 357 | 255 | 94 | 73 | 123 |
| Taxation (expense)/credit | (95) | (74) | (23) | 8 | (41) |
| **Net Profit Attributable to Shareholders of Parent Company** | 262 | 181 | 71 | 81 | 82 |
| **Normalised Earnings Before Taxation*** | 332 | 255 | 91 | 75 | 137 |
| **Normalised Earnings After Taxation*** | 244 | 181 | 69 | 82 | 92 |

Certain comparatives within the five year statistical review have been reclassified for comparative purposes, to ensure consistency with the current year. The Group adopted the amendments to NZ IAS 19 - Employee Benefits (2011) and NZ IFRS 11 - Joint Arrangements on 1 July 2013. Comparatives have been restated for the 2013 financial year only in respect of the adopted standards and the amounts for the 2010 to 2012 financial years are as previously published.

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

# HISTORICAL SUMMARY OF FINANCIAL POSITION

AS AT 30 JUNE

| | 2014 $M | 2013 $M | 2012 $M | 2011 $M | 2010 $M |
|---|---|---|---|---|---|
| **Current Assets** | | | | | |
| Bank and short term deposits | 1,234 | 1,150 | 1,029 | 860 | 1,067 |
| Other current assets | 593 | 693 | 658 | 615 | 621 |
| **Total Current Assets** | 1,827 | 1,843 | 1,687 | 1,475 | 1,688 |
| **Non-Current Assets** | | | | | |
| Property, plant and equipment | 2,994 | 2,933 | 3,090 | 2,714 | 2,230 |
| Other non-current assets | 1,029 | 820 | 668 | 713 | 679 |
| **Total Non-Current Assets** | 4,023 | 3,753 | 3,758 | 3,427 | 2,909 |
| **Total Assets** | 5,850 | 5,596 | 5,445 | 4,902 | 4,597 |
| **Current Liabilities** | | | | | |
| Net debt[1] | 190 | 159 | 157 | 152 | 175 |
| Other current liabilities | 1,682 | 1,555 | 1,544 | 1,664 | 1,432 |
| **Total Current Liabilities** | 1,872 | 1,714 | 1,701 | 1,816 | 1,607 |
| **Non-Current Liabilities** | | | | | |
| Net debt[1] | 1,543 | 1,470 | 1,537 | 1,103 | 900 |
| Other non-current liabilities | 563 | 611 | 544 | 479 | 524 |
| **Total Non-Current Liabilities** | 2,106 | 2,081 | 2,081 | 1,582 | 1,424 |
| **Total Liabilities** | 3,978 | 3,795 | 3,782 | 3,398 | 3,031 |
| **Net Assets** | 1,872 | 1,801 | 1,663 | 1,504 | 1,566 |
| **Total Equity** | 1,872 | 1,801 | 1,663 | 1,504 | 1,566 |

1. Net debt is comprised of bank overdraft, 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 the amendments to NZ IAS 19 - Employee Benefits (2011) and NZ IFRS 11 - Joint Arrangements on 1 July 2013. Comparatives in the Statement of Financial Position have been restated for the 2012 and 2013 financial year in respect of the adopted standards and the amounts for the 2010 and 2011 financial years are as previously published.

# HISTORICAL SUMMARY OF CASH FLOWS

FOR THE YEAR TO 30 JUNE

| | 2014 $M | 2013 $M | 2012 $M | 2011 $M | 2010 $M |
|---|---|---|---|---|---|
| Cash flow from operating activities | 730 | 750 | 472 | 466 | 334 |
| Cash flow from investing activities | (727) | (480) | (654) | (846) | (450) |
| Cash flow from financing activities | 81 | (147) | 349 | 173 | (390) |
| **Increase/(decrease) in cash holding** | 84 | 123 | 167 | (207) | (506) |
| **Total cash and cash equivalents** | 1,234 | 1,150 | 1,027 | 860 | 1,067 |

# FINANCIAL RATIOS

## FIVE YEAR STATISTICAL REVIEW

| | | 2014 $M | 2013 $M | 2012 $M | 2011 $M | 2010 $M |
|---|---|---|---|---|---|---|
| **PROFITABILITY** | | | | | | |
| EBIT/Revenue | % | 8.6 | 6.7 | 3.5 | 2.5 | 3.7 |
| EBITDRA/Revenue | % | 21.7 | 19.4 | 15.9 | 15.3 | 17.5 |
| Return on Assets[1] | % | 6.9 | 5.5 | 2.9 | 2.2 | 3.3 |
| Return on Equity[2] | % | 14.0 | 10.0 | 4.2 | 5.4 | 5.2 |
| Basic Earnings Per Ordinary Share | cps | 23.8 | 16.5 | 6.5 | 7.5 | 7.6 |
| Fixed Cover[3] | times | 4.6 | 3.9 | 2.6 | 2.4 | 2.4 |
| Passenger Revenue/RPK | cents | 13.7 | 13.6 | 13.5 | 13.1 | 12.8 |
| **LIQUIDITY** | | | | | | |
| Operating Cash Flow Per Share[4] | cps | 66.3 | 68.4 | 43.1 | 43.0 | 31.1 |
| **BALANCE SHEET** | | | | | | |
| Gearing (excl. net capitalised aircraft operating leases)[5] | % | 17.0 | 11.0 | 21.7 | 14.4 | (9.1) |
| Gearing (incl. net capitalised aircraft operating leases)[6] | % | 42.9 | 39.3 | 46.1 | 46.7 | 47.3 |
| Debt to Equity Ratio[7] | % | 212.5 | 210.7 | 223.4 | 225.9 | 193.6 |
| Net Tangible Assets Per Share[4] | $ | 1.61 | 1.57 | 1.48 | 1.33 | 1.41 |
| Working Capital Ratio[8] | % | 49.4 | 51.8 | 50.3 | 44.8 | 51.2 |
| **SHAREHOLDER VALUE** | | | | | | |
| Closing Share Price 30 June | $ | 2.08 | 1.49 | 0.86 | 1.12 | 1.07 |
| Weighted Average Number of Ordinary Shares | m | 1,101 | 1,096 | 1,096 | 1,084 | 1,073 |
| Total Number of Ordinary Shares | m | 1,114 | 1,104 | 1,100 | 1,091 | 1,077 |
| Total Market Capitalisation | $m | 2,318 | 1,639 | 946 | 1,222 | 1,152 |
| Total Shareholder Return | % | 40.1 | 72.7 | (23.2) | 4.7 | 18.9 |

1. EBIT/Total Assets
2. Net Profit After Tax/Total Equity
3. EBITDRA/(Rental and Lease Expenses and Net Finance Costs)
4. Per-share measures based upon Ordinary Shares
5. Net Debt (excluding capitalised operating leases)/Net Debt plus Equity
6. Net Debt (including capitalised operating leases)/Net Debt plus Equity
7. Total Liabilities/Total Equity
8. Current Assets/(Current Assets plus Current 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 the amendments to NZ IAS 19 - Employee Benefits (2011) and NZ IFRS 11 - Joint Arrangements on 1 July 2013. Comparatives have been restated for the 2013 financial year only in respect of the adopted standards and the amounts for the 2010 to 2012 financial years are as previously published.

# KEY OPERATING STATISTICS

FOR THE YEAR TO 30 JUNE

| | 2014 $M | 2013 $M | 2012 $M | 2011 $M | 2010 $M |
|---|---|---|---|---|---|
| **PASSENGERS CARRIED (000)** | | | | | |
| Domestic | 8,920 | 8,694 | 8,500 | 8,530 | 8,018 |
| International | | | | | |
| Australia and Pacific Islands | 3,277 | 3,181 | 3,073 | 2,965 | 2,700 |
| Asia* | 517 | 596 | 652 | 662 | 668 |
| North America and Europe | 1,005 | 940 | 897 | 946 | 938 |
| Total | 4,799 | 4,717 | 4,622 | 4,573 | 4,306 |
| Total Group | 13,719 | 13,411 | 13,122 | 13,103 | 12,324 |
| **AVAILABLE SEAT KILOMETRES (m)** | | | | | |
| Domestic | 5,385 | 5,108 | 4,969 | 4,904 | 4,724 |
| International | | | | | |
| Australia and Pacific Islands | 10,622 | 10,277 | 9,694 | 9,345 | 8,804 |
| Asia* | 5,656 | 6,780 | 7,495 | 7,432 | 7,557 |
| North America and Europe | 11,733 | 11,002 | 10,460 | 10,672 | 10,493 |
| Total | 28,011 | 28,059 | 27,649 | 27,449 | 26,854 |
| Total Group | 33,396 | 33,167 | 32,618 | 32,353 | 31,578 |
| **REVENUE PASSENGER KILOMETRES (m)** | | | | | |
| Domestic | 4,370 | 4,218 | 4,050 | 4,021 | 3,733 |
| International | | | | | |
| Australia and Pacific Islands | 8,858 | 8,580 | 8,164 | 7,799 | 7,086 |
| Asia* | 4,630 | 5,418 | 5,979 | 6,077 | 6,095 |
| North America and Europe | 10,220 | 9,517 | 8,820 | 9,099 | 8,915 |
| Total | 23,708 | 23,515 | 22,963 | 22,975 | 22,096 |
| Total Group | 28,078 | 27,733 | 27,013 | 26,996 | 25,829 |
| **PASSENGER LOAD FACTOR (%)** | | | | | |
| Domestic | 81.1 | 82.6 | 81.5 | 82.0 | 79.0 |
| International | | | | | |
| Australia and Pacific Islands | 83.4 | 83.5 | 84.2 | 83.5 | 80.5 |
| Asia* | 81.9 | 79.9 | 79.8 | 81.8 | 80.7 |
| North America and Europe | 87.1 | 86.5 | 84.3 | 85.3 | 85.0 |
| Total | 84.7 | 83.8 | 83.1 | 83.7 | 82.3 |
| Total Group | 84.1 | 83.6 | 82.8 | 83.4 | 81.8 |
| **GROUP EMPLOYEE NUMBERS (Full Time Equivalents)** | 10,546 | 10,336 | 10,453 | 10,861 | 10,499 |

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

New Zealand, Australia and Pacific Islands represent short haul operations. Asia, North 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.

# HISTORICAL SUMMARY OF DEBT

AS AT 30 JUNE

| | 2014 $M | 2013 $M | 2012 $M | 2011 $M | 2010 $M |
|---|---|---|---|---|---|
| **DEBT** | | | | | |
| Secured borrowings | 213 | 84 | 97 | 154 | 263 |
| Unsecured bonds | 150 | 150 | 150 | - | - |
| Finance lease liabilities | 1,370 | 1,395 | 1,445 | 1,101 | 812 |
| Bank overdraft and short term borrowings | - | - | 2 | - | - |
| | 1,733 | 1,629 | 1,694 | 1,255 | 1,075 |
| Bank and short term deposits | 1,234 | 1,150 | 1,029 | 860 | 1,067 |
| Net open derivatives held in relation to interest-bearing liabilities[1] | (10) | 28 | 4 | (28) | 1 |
| Non interest-bearing deposit (included within Other assets) | - | 44 | 13 | - | - |
| Interest-bearing secured deposit (included within Other assets) | 125 | 184 | 180 | 170 | 137 |
| **NET DEBT** | 384 | 223 | 468 | 253 | (130) |
| Net aircraft operating lease commitments[2] | 1,022 | 945 | 973 | 1,064 | 1,533 |
| **NET DEBT (INCLUDING OFF BALANCE SHEET)** | 1,406 | 1,168 | 1,441 | 1,317 | 1,403 |

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.

# CORPORATE GOVERNANCE AT AIR NEW ZEALAND

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

## ETHICAL STANDARDS

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

- **Guide to Business Conduct**

  This guide has been developed by the Group summarising the basic principles of legal and ethical conduct expected of everyone at Air New Zealand.

- **Open Communication and Just Culture**

  The Group has a policy on Open Communication and Just Culture to encourage open and honest communication by staff about any current or potential problem, complaint, suggestion, concern or question.

- **Avoiding Conflicts of Interest**

  To maintain integrity in decision making each director must advise the Board of any potential conflict of interest. If a significant conflict of interest exists the director concerned will have no involvement in the decision making process relating to that matter.

- **Trading in Air New Zealand Securities**

  Directors and employees of Air New Zealand are subject to limitations on their ability to buy or sell Air New Zealand shares in accordance with Air New Zealand's Securities Trading Policy, the NZSX and ASX Listing Rules and the Securities Markets Act 1988. This policy has been updated to reflect recent legislative changes.

- **Gifts, Entertainment and Inducements**

  Air New Zealand has a gifts, entertainment and inducements policy governing the acceptance and reporting of benefits given to staff by third parties.

- **Donations**

  The Air New Zealand Group has made donations totalling $66,810 in the financial year to 30 June 2014, including donations to the Air New Zealand Environmental Trust. No donations were made to any political party. It is Air New Zealand's policy not to make donations, in cash or in kind, or to provide free of charge travel to political parties.

- **Interests Register**

  In accordance with the Companies Act 1993 and the Securities Markets (Disclosure of Relevant Interests by Directors and Officers) Regulations 2003, Air New Zealand maintains an interests register in which relevant transactions and matters involving the directors are recorded.

## BOARD COMPOSITION

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

## BOARD ROLE AND RESPONSIBILITIES

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

### Management Delegation

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

### Chairman

Mr Tony Carter has been Chairman of Air New Zealand since 27 September 2013. Ms Jan Dawson was appointed Deputy Chairman on 27 September 2013. The chairman's role includes managing the Board; 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.

# CORPORATE GOVERNANCE AT AIR NEW ZEALAND (CONTINUED)

**Director Independence**

The Board's standards for determining the independence of a director including the requirements of the NZSX Listing Rules and the ASX Recommendations are set out in full in the Board's Charter. All eight of Air New Zealand's 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.

## BOARD COMMITTEES

The Board has delegated certain of its responsibilities to the Audit Committee, the Safety Committee and the People Remuneration and Diversity Committee. The committees play the following roles:

- The Audit Committee assists the Board in discharging its responsibilities in relation to the financial reporting, compliance and risk management practices of Air New Zealand. The Audit Committee is also responsible for overseeing the appointment and re-appointment of the external auditors, for ensuring the independence of the external auditor is maintained, and for approving the provision of any non-audit services in accordance with the Audit Independence Policy. Further detail is available in the Audit Committee Charter on the Air New Zealand website.
- The People Remuneration and Diversity Committee monitors issues related to management structure, diversity and remuneration of the Chief Executive Officer and other senior executives.
- The Safety Committee ensures that, at all times, Air New Zealand has workable systems and processes in place to provide the best practicable safety, security and environmental performance.

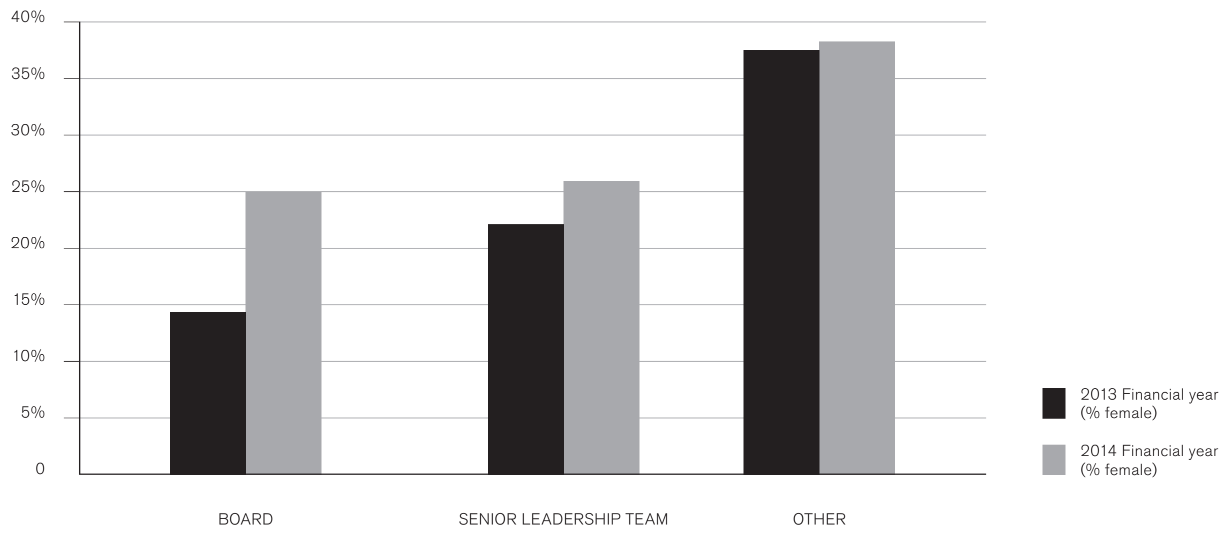
## DIVERSITY AND INCLUSION

Air New Zealand continues to be resolutely focused on diversity across its business. Our diversity objectives remain focused on increasing the representation of female and ethnic minority groups across our organisation and into leadership positions to ensure they are more reflective of both the populations in which we do business and our customer base.

In the 2014 financial year, Air New Zealand broadened its focus to include the concept of 'inclusion'. An 'inclusive' culture is one in which diversity is encouraged, understood, respected, valued and leveraged, in ways which ensure that talented people thrive and our customers and our reputation both benefit.

The proportion of women within the Air New Zealand workforce is set out in the graph below.

WORKFORCE GENDER REPRESENTATION




Strong progress was made across our stated 2014 objectives:

- Christopher Luxon communicated Air New Zealand's target to achieve 40% women constitution of Senior Leadership Team (SLT) membership by 2020 to all Air New Zealanders in his CEO message in August 2013. Milestone targets were set for 25% constitution by 2014 and 30% constitution by 2016. The company has met the 2014 target and is currently tracking at 26% of females in the SLT.
- A diversity project delivery team, representative of our target groups, continues to regularly meet and is actively prioritising, implementing and monitoring key initiatives. Executive members attend meetings on agenda items they sponsor.
- Wide scale rollout of women's networking events across Air New Zealand locations including goal setting, personal branding, balancing work and home life and career journeys of senior women. These networking events are supported by toolkits and access to resources through our partnerships with Professionelle, DiverseNZ and EEO Trust. Over 800 women have attended these events.

A support and buddy programme to facilitate the retention of women returning from parental leave has been developed and rolled out.

Accelerated development of women identified as having potential to progress to more senior roles has been initiated with participation in leadership development centres, targeted development plans and access to coaches and mentors within the business.

Regular auditing of performance and reward processes for unconscious bias to identify any gender disparity has been put in place. The overall distribution of performance ratings is materially the same for males and females.

Unconscious bias training has been rolled out to the majority of SLT members and their direct reports. This also included the opportunity to take a series of unconscious bias tests online. Other groups who received training included all of HR, Hiring Managers during Recruitment Excellence Training and other parts of the organisation where this was requested, including Crew and Airport teams.

New recruits to Air New Zealand continue to be asked a range of diversity information enabling the building of a database of the diversity of our employees.

Cultural celebration programmes to increase cultural awareness were rolled out across the 2014 financial year including Matariki, Diwali, Chinese New Year, Polyfest, International Women's Day and National Sign Language week.

Looking to the 2015 financial year, a programme of work has been committed to which includes continuing making progress on the initiatives commenced in the 2014 financial year and in addition:

- Implementing a diversity and inclusion element into the employee engagement survey to be introduced into Air New Zealand in November 2014;
- Development of ethnicity targets for SLT constitution;
- Leverage and widen out participation in unconscious bias training to support the gender and ethnicity targets; and
- Expand the scope of cultural celebration programmes.

## REPORTING AND DISCLOSURE

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

## REMUNERATION AND PERFORMANCE EVALUATION

### Executives

Air New Zealand's performance management system applies to the executive management group. The focus is on establishing goals, measures and targets linked directly to the business plan and to the leadership behaviours needed to achieve business success. Air New Zealand's remuneration policies and practices are linked directly to the performance and development processes so that executive managers' achievement of Air New Zealand's goals is appropriately recognised and rewarded.

### Non-executive Directors

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

### Board Evaluation

The Board has included in its Charter a requirement to conduct an annual performance review of the Board as a whole after the financial year end. Individual director views and the views of members of the senior management 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, with individual feedback to each director as their evaluation is completed.

## DIFFERENCES IN PRACTICE TO NZX CODE AND ASX RECOMMENDATIONS

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

| ASX Corporate Governance Principles and Recommendations | NZX Corporate Governance Best Practice Code | Reason for not following |
|---|---|---|
| **2.1** The board should establish a nomination committee. | **2.2** Unless constrained by size, an Issuer should establish a nomination committee as recommended below in paragraph 3.11.<br>**3.11 – 3.13** Composition, charter and review of nomination committee. | The Board believes that a nomination committee is not required for Air New Zealand, as its whole Board should be (and is) involved in the selection and appointment process of any new Board members. |

# DIRECTORS' PROFILES

**Antony (Tony) Carter**

***Chairman***

**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**

***Deputy Chairman***

**Appointed 1 April 2011**

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

**Paul Bingham**

**Appointed 1 July 2008**

Mr Bingham is the Managing Director of Black Cat Cruises Limited, a tourism operation based at Banks Peninsula, near Christchurch. 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. He was a winner of the PATA Young Professional award. Across a 23 year career he has worked in the UK, USA, Singapore as well as New Zealand. Mr Bingham is also COO and Executive Director of Shuttlerock Limited, which has developed a software platform to aggregate visual and user generated content onto company websites.

**Dr James (Jim) Fox**

**Appointed 21 November 2006**

Dr Fox has more than 25 years experience as a public company director across a range of internationally based businesses. His particular track record is in the building of innovative, technology based companies in competitive international markets. After eight years working around the world with a large international management consulting company, he started his own technology based product and service company in 1987. Following the merger of Dr Fox's company with the then listed Vision Systems Limited in 1993, he took over as the CEO of the combined group. In December 2006, Dr Fox retired as the CEO of Vision Systems Limited following a heavily competed takeover of the company by a large USA based corporate which resulted in significant returns (close to $1 billion) to shareholders. Dr Fox is also a director of TTP Group (UK) Plc, Multiple Sclerosis Research Australia Limited, Genmark Diagnostics Inc (USA) and BIOTA Pharmaceuticals Inc (USA). Dr Fox is Chairman of the Air New Zealand Safety Committee.

# DIRECTORS' PROFILES (CONTINUED)

**Roger France**

**Appointed 1 October 2001**

Mr France is a director of Fisher & Paykel Healthcare Corporation Limited, Orion Corporation Limited and a Trustee of the Dilworth Trust Board. He was a partner at PricewaterhouseCoopers and one of its predecessor firms, Coopers & Lybrand, for over 15 years and was the Chief Financial Officer of two listed companies for 10 years. He was the Managing Partner of Coopers & Lybrand in Auckland for five years. Following the merger with PricewaterhouseCoopers, he led the firm's Corporate Value consulting practice in the Asia Pacific region and served as a member of its New Zealand Governance Board. Mr France brings strong financial analysis and business strategy skills to the Board.

**Robert (Rob) Jager**

**Appointed 1 April 2013**

Mr Jager is Chairman of the Shell Companies in New Zealand and General Manager, Shell Todd Oil Services. He was also appointed the Chair of the Workplace Health and Safety Review Taskforce in New Zealand.

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 over 30 years experience in the oil and gas industry, working for Shell in a variety of engineering, project, operational, business, management, and governance roles in New Zealand and overseas.

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

**Linda Jenkinson**

**Appointed 1 June 2014**

Ms Jenkinson is the Chair and Co-Founder of LesConcierges Inc., a San Francisco based global concierge services and solutions company that services some of the world's leading customer facing businesses.

Ms Jenkinson is currently a member of the Global Women Trust Advisory Board, a director of Massey University US Foundation and a director of TheGrid.

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

Ms Jenkinson was named one of the most influential women in the Bay Area for 2014 by the San Francisco Business Times and was the 2014 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**

**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. He is currently a director of Vector Limited and Zespri Group Limited and also serves as an Adjunct Professor of Management at the University of Auckland, specialising in international finance.

# DIRECTORS' INTERESTS

The following are particulars of general disclosures of interest by Directors of Air New Zealand Limited holding office at 30 June 2014, pursuant to section 140(2) of the Companies Act 1993. Where applicable, the disclosures also include directorships of subsidiaries of the relevant companies.

**Tony Carter**

| | |
|---|---|
| ANZ Bank New Zealand Limited | Director |
| Blues LLP | Chairman – appointed 1 September 2013 |
| Fisher & Paykel Healthcare Corporation Limited | Chairman |
| Fletcher Building Limited | Director |
| Foodstuffs Auckland Protection Trust | Trustee |
| Maurice Carter Charitable Trust | Trustee |
| New Zealand Initiative Limited | Co-Chairman – resigned 14 March 2014 |

**Jan Dawson**

| | |
|---|---|
| AIG Insurance New Zealand Limited | Director |
| Beca Group Limited | Director – appointed 20 December 2013 |
| Counties Manukau District Health Board | Deputy Chair – retired 4 December 2013 |
| Goodman Fielder Limited | Director |
| Jan Dawson Limited | Director |
| Meridian Energy Limited | Director |
| National Health Board Capital Investment Committee | Member |
| University of Auckland Council | Member |
| Voyager New Zealand Maritime Museum | Trustee |
| Westpac New Zealand Limited | Director |
| Yachting New Zealand | President – retired 19 October 2013 |

**Paul Bingham**

| | |
|---|---|
| Akaroa Harbour Cruises Limited | Director |
| Black Cat Group 2007 Limited | Managing Director |
| Destination Christchurch & Canterbury NZ Trust | Trustee |
| Dolphin Experience Limited | Director |
| Lyttelton Harbour Cruises Limited | Director |
| Pajo Trust | Trustee |
| Shuttlerock Limited | Director |

**Dr Jim Fox**

| | |
|---|---|
| BIOTA Pharmaceuticals Inc (USA) | Chairman |
| Genmark Diagnostics Inc (USA) | Director |
| Multiple Sclerosis Research Australia Limited | Director |
| TTP Group (UK) Plc | Director |

**Roger France**

| | |
|---|---|
| Dilworth Trust Board | Trustee |
| Fisher & Paykel Healthcare Corporation Limited | Director |
| Orion Corporation Limited | Director |
| Tappenden Management Limited | Director |
| The University of Auckland Council | Council Member – resigned 31 December 2013 |
| The University of Auckland Foundation | Trustee |
| Treasury Commercial Operations Advisory Board | Member – appointed 26 June 2014 |

# DIRECTORS' INTERESTS (CONTINUED)

**Rob Jager**

| | |
|---|---|
| Maui Development Limited | Director |
| Shell Energy Asia Limited | Director |
| Shell Exploration NZ Limited | Director |
| Shell Investments NZ Limited | Director |
| Shell New Zealand (2011) Limited | Director |

**Linda Jenkinson**

| | |
|---|---|
| LesConcierges Inc | Chair |
| Massey University US Foundation | Director |
| The Global Women Trust Advisory Board | Member |
| TheGrid | Director |

**Jonathan Mason**

| | |
|---|---|
| Beloit College (USA) Board of Trustees | Trustee |
| University of Auckland Endowment Fund | Trustee |
| Vector Limited | Director |
| Zespri Group Limited | Director |

# 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 costs and expenses of successfully defending legal proceedings. Specifically excluded are penalties and fines which may be imposed for breaches of law and criminal actions. In accordance with commercial practice, the insurance contract prohibits further disclosure of the terms of the policy. All directors who voted in favour of authorising the insurance certified that in their opinion, the cost of the insurance is fair to the Company.

# DIRECTORS' REMUNERATION

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

Directors received the following fees and remuneration from Air New Zealand Limited in the year to 30 June 2014[1]:

| NAME | DIRECTORS' FEES | COMMITTEE FEES | TOTAL REMUNERATION | VALUE OF TRAVEL ENTITLEMENT[2] |
|---|---|---|---|---|
| Tony Carter[3] (Chairman) | 228,375 | 7,500 | 235,875 | 48,304 |
| Jan Dawson (Deputy Chairman) | 100,125 | 40,000 | 140,125 | 34,163 |
| Paul Bingham | 90,000 | 17,500 | 107,500 | 54,440 |
| Jim Fox | 90,000 | 60,000 | 150,000 | 6,190 |
| Roger France | 90,000 | 40,000 | 130,000 | 45,392 |
| Rob Jager | 90,000 | 17,500 | 107,500 | 34,947 |
| Linda Jenkinson[4] | 7,500 | 833 | 8,333 | 16,533 |
| Jonathan Mason[5] | 30,000 | 9,167 | 39,167 | 4,694 |
| John Palmer[6] | 67,500 | 60,000 | 127,500 | 5,800 |
| **Total** | **793,500** | **252,500** | **1,046,000** | **250,463** |

1. No employee of the Group received or retains any remuneration or other benefits as a director of any subsidiary company.
2. Includes value of travel benefits for related parties and benefits accrued in prior years availed in current year.
3. GST exclusive.
4. Appointed 1 June 2014.
5. Appointed 1 March 2014.
6. Retired 31 March 2014.

# DIRECTORS' INTERESTS IN AIR NEW ZEALAND SECURITIES

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

| NAME | | BENEFICIAL INTEREST AT 30 JUNE 2014 | SHARES / BONDS SOLD | SHARES / BONDS PURCHASED | DATE OF TRANSACTION | COST | NON-BENEFICIAL INTEREST |
|---|---|---|---|---|---|---|---|
| Tony Carter | | | | | | | |
| | Shares | 97,189[1] | | | | | |
| | Bonds | 30,000[1] | | | | | |
| Jan Dawson | | | | | | | |
| | Shares | 20,000[2] | | | | | |
| | Bonds | 50,000[2] | | | | | |
| Paul Bingham | | | | | | | |
| | Shares | 5,000 | | | | | |
| | Bonds | 50,000 | | | | | |
| Jim Fox | | | | | | | |
| | Shares | 36,500 | | | | | |
| Roger France | | | | | | | |
| | Shares | 27,061[3] | | | | | 93[4] |
| Rob Jager | | | | | | | |
| | Shares | 0 | | | | | |
| Linda Jenkinson | | | | | | | |
| | Shares | 0 | | | | | |
| Jonathan Mason | | | | | | | |
| | Shares | 29,000[5] | | | | | |

1. In custody by First NZ Capital for Loughborough Investments Limited.
2. The shares and bonds are owned by the Kinross Trust.
3. All shares are owned by the France Family Trusts of which Mr France is a discretionary beneficiary.
4. Mr France is a trustee of the Staff Share Purchase Scheme.
5. The shares are owned by the Trumball Trust.

# 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 2014. No director of any subsidiary or joint venture received beneficially any director's fees or other benefits except as an employee.

| NEW ZEALAND COMPANIES | DIRECTORS |
|---|---|
| ADP (New Zealand) Limited | JHB/RG[1]/BJW[1]/MAS[2]/BP[2] |
| Air Nelson Limited | DWM/JGM/BP/GCK[2] |
| Air New Zealand Aircraft Holdings Limited | JHB/RSM/DWM |
| Air New Zealand Associated Companies Limited | JHB/NJT[2]/RSM |
| Air New Zealand Associated Companies (Australia) Limited | JHB/NJT[2]/RSM |
| Air New Zealand Holidays Limited (Amalgamated with Air New Zealand Associated Companies Limited on 18 June 2014) | DWM/JGM[1]/BP[2]/DBS[2] |
| Air New Zealand Express Limited | JHB/NJT[2]/RSM |
| Air New Zealand International Limited[3] | JHB/NJT[2]/RSM |
| Air New Zealand Tasman Pacific Limited (Amalgamated with Air New Zealand Associated Companies Limited on 7 May 2014) | DWM/BP |
| Air New Zealand Travel Business Limited | JHB/NJT[2]/RSM |
| Altitude Aerospace Interiors Limited | NJT[2]/RSM/JCF/SFJ/TNH[1] |
| ANNZES Engines Christchurch Limited | JHB/RSM |
| Ansett Australia & Air New Zealand Engineering Services Limited | JHB/RSM |
| C.I. Air Services Limited | JHB/NJT[2]/TT |
| Eagle Air Maintenance Limited | DWM/JGM/BP |
| Eagle Airways Limited | DWM/JGM/BP |
| Eagle Aviation Limited (Amalgamated with Air New Zealand Associated Companies Limited on 29 November 2013) | JHB/NJT[2]/RSM |
| Freedom Air Limited | JHB/NJT[2]/RSM |
| Mount Cook Airline Limited | DWM/JGM/BP/SW |
| National Airlines Company Limited | JHB/NJT[2]/RSM |
| New Zealand International Airlines Limited (Amalgamated with Air New Zealand Associated Companies Limited on 11 April 2014) | JHB/RSM/DWM |
| New Zealand Tourist Promotion Company Limited | JHB/NJT[2]/RSM |
| Pacific Leisure Group Limited[3] | JGM/AJB/DBF/DWM |
| Safe Air Limited | TNH/CET |
| Tasman Empire Airways 1965 Limited | JHB/NJT[2]/RSM |
| TEAL Insurance Limited | JHB/RSM/HJBR |
| Tourism New Zealand Limited (Name changed from Tasman Express Limited on 29 November 2013) | JHB/NJT[2]/RSM |
| Tourism New Zealand Limited (Amalgamated with Air New Zealand Associated Companies Limited on 25 November 2013) | JHB/NJT[2]/RSM |
| ValetPort Limited (Amalgamated with Air New Zealand Associated Companies Limited on 25 November 2013) | DWM/WJW/VJ |
| Zeal 320 Limited | JHB/NJT[2]/RSM |

## SUBSIDIARY AND JOINT VENTURE COMPANIES (CONTINUED)

| AUSTRALIAN COMPANIES | DIRECTORS |
|---|---|
| Air New Zealand (Australia) Pty Limited | JHB/LMG |
| Masling Industries Pty Ltd | AMS/TNH/RSM |
| Safe Air Australia Pty Ltd | JHB/DLMK |
| TAE Aviation Pty Limited | AMS/TNH/RSM |
| TAE Gas Turbines Pty Ltd | AMS/TNH/RSM |
| TAE Pty Limited | AMS/TNH/RSM |

| NON-AUSTRALASIAN COMPANIES | DIRECTORS |
|---|---|
| Air New Zealand Travel Services Limited (Japan) - Liquidated 27 February 2014 | DWM/EJO/CML |
| ANZGT Field Services LLC (USA)[4] | RI/TNH |

| DIRECTORS | | | |
|---|---|---|---|
| AJB | Andrew J Burns | JGM | Jeffrey G McDowall |
| AMS | Andrew M Sanderson | JHB | John H Blair |
| BP | Bruce Parton | LMG | Leanne M Geraghty |
| BJW | Brian J Wilson | MAS | Mark A Siladi |
| CET | Craig E Tolley | NJT | Norman J Thompson |
| CML | Christopher M Luxon | RI | Richard Ison |
| DBF | Desmond B Fielding | RG | Roger Gray |
| DBS | David B Simmons | RSM | Robert S McDonald |
| DLMK | Douglas L M Keesing | SFJ | Stephen Jones |
| DWM | David W Mackrell | SW | Sarah Williamson |
| EJO | Edward J Overy | TNH | Trevor N Hughes |
| GCK | Grant C Kerr | TT | Tamari'I Tutangata |
| HJBR | Hannah J Ringland | VJ | Verity Jade |
| JCF | James C Fox | WJW | William J Whittaker |

1. Appointed during the financial year.
2. Resigned during the financial year.
3. Amalgamated with Air New Zealand Travel Business Limited on 22 August 2014.
4. The company is a joint venture.

# EMPLOYEE REMUNERATION

| | Remuneration paid in FY14 including base for FY14, and incentive payments including options issued under the LTI scheme that relate to FY13 performance and paid in FY14 | |
|---|---|---|
| | NEW ZEALAND MANAGEMENT | AIRCREW, ENGINEERING, OVERSEAS & OTHERS |
| 100,000 - 110,000 | 110 | 342 |
| 110,000 - 120,000 | 152 | 381 |
| 120,000 - 130,000 | 132 | 229 |
| 130,000 - 140,000 | 76 | 233 |
| 140,000 - 150,000 | 61 | 181 |
| 150,000 - 160,000 | 43 | 146 |
| 160,000 - 170,000 | 53 | 131 |
| 170,000 - 180,000 | 45 | 90 |
| 180,000 - 190,000 | 24 | 51 |
| 190,000 - 200,000 | 24 | 47 |
| 200,000 - 210,000 | 27 | 25 |
| 210,000 - 220,000 | 18 | 26 |
| 220,000 - 230,000 | 15 | 56 |
| 230,000 - 240,000 | 4 | 56 |
| 240,000 - 250,000 | 9 | 37 |
| 250,000 - 260,000 | 7 | 41 |
| 260,000 - 270,000 | 10 | 37 |
| 270,000 - 280,000 | 5 | 27 |
| 280,000 - 290,000 | 6 | 13 |
| 290,000 - 300,000 | 2 | 10 |
| 300,000 - 310,000 | 5 | 10 |
| 310,000 - 320,000 | 5 | 24 |
| 320,000 - 330,000 | 4 | 22 |
| 330,000 - 340,000 | 2 | 11 |
| 340,000 - 350,000 | 4 | 19 |
| 350,000 - 360,000 | 3 | 22 |
| 360,000 - 370,000 | 3 | 23 |
| 370,000 - 380,000 | 3 | 12 |
| 380,000 - 390,000 | 2 | 9 |
| 390,000 - 400,000 | 2 | 6 |
| 400,000 - 410,000 | | 2 |
| 410,000 - 420,000 | 2 | 14 |
| 420,000 - 430,000 | | 12 |
| 430,000 - 440,000 | 1 | 11 |
| 440,000 - 450,000 | 1 | 8 |
| 450,000 - 460,000 | | 4 |
| 460,000 - 470,000 | | 2 |
| 470,000 - 480,000 | | 3 |
| 480,000 - 490,000 | 1 | 1 |
| 490,000 - 500,000 | | 1 |
| 500,000 - 510,000 | 1 | |
| 510,000 - 520,000 | | 2 |
| 530,000 - 540,000 | | 1 |
| 540,000 - 550,000 | 1 | 1 |
| 550,000 - 560,000 | 1 | 2 |
| 560,000 - 570,000 | 1 | |
| 580,000 - 590,000 | | 1 |
| 630,000 - 640,000 | 1 | |
| 650,000 - 660,000 | 1 | |
| 690,000 - 700,000 | | 1 |
| 700,000 - 710,000 | 3 | |
| 750,000 - 760,000 | 1 | |
| 770,000 - 780,000 | 1 | |
| 850,000 - 860,000 | 1 | |
| 880,000 - 890,000 | | 1 |
| 1,140,000 - 1,150,000 | 1 | |
| 1,220,000 - 1,230,000 | 1 | |
| 1,230,000 - 1,240,000 | 1 | |
| 1,660,000 - 1,670,000 | 1 | |
| 1,720,000 - 1,730,000 | 1 | |
| 1,860,000 – 1,870,000 | 1 | |
| 2,870,000 - 2,880,000 | 1 | |
| **GRAND TOTAL** | **880** | **2,384** |

# EMPLOYEE REMUNERATION (CONTINUED)

### REMUNERATION PHILOSOPHY

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

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

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

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

### FIXED BASE SALARY

Air New Zealand's philosophy is to set fixed base salaries 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.

The main factors for assessment for the 2014 financial year were:

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

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 Normalised Earnings before Taxation achieved by the Company over the previous five year period.

### LONG TERM INCENTIVE

Air New Zealand's long term incentive plan arrangements are designed to align the interests of the CEO and senior executives with those of our shareholders and to incentivise participants in the plan to enhance long term shareholder value. In the 2014 financial year the plan available to executives was the Air New Zealand Long Term Incentive Plan (LTIP).

There are two main elements to the LTIP:

#### Mandatory Shareholding

Participants are required to commit to investing a specified amount to purchase shares in the Company, which lies in the range of 25% to 66% of their base salary, according to seniority. Until the minimum shareholding level is attained, one third of the executive's after-tax annual performance incentive payment (40% in the case of the CEO) is retained to purchase shares in the Company up to the point where this mandatory shareholding level is achieved. The holding must be maintained to enable the CEO or executive to exercise any options.

#### Options

LTIP participants must achieve a performance rating of on target or better against individual STI targets to be eligible to receive a grant of options. Any grant of options is at the discretion of the People Remuneration and Diversity Committee (PRDC) of the Board of Directors but, in the normal course of events, is expected to equate to a value of 55% of fixed remuneration for the CEO, or 1½ times the STI earned on individual targets for all other scheme participants (the factor for the CEO being fixed to reflect the higher proportion of STI being based on Company performance rather than individual performance). The number of options to be allocated will be determined by an independent valuation of the options carried out each year at the time of issue.

# EMPLOYEE REMUNERATION (CONTINUED)

The exercise price of the options is set three years from issue date, and is calculated by multiplying the share price of the Company's shares at the date of issue by the movement in an index over the three years to exercise date, decreased by any distributions made by Air New Zealand over the same period.

The index comprises the Total Shareholder Return (TSR) for the NZSX All Gross Index and the TSR for the Bloomberg World Airline Total Return Index (adjusted for dividends) in equal proportions.

The share price at the date of issue is measured as the average daily closing price of ordinary shares over the ten business days starting on the third business day following the announcement of the Company's annual results.

Options may be exercised at any time after the third anniversary and before the fifth anniversary of the date of issue assuming any conditions outlined and any additional conditions set by the PRDC have been met.

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

## CEO REMUNERATION

### Fixed Base Salary

Over the course of the 2014 financial year, the CEO, Christopher Luxon, earned a base salary of $1,325,000 (the current CEO took office on 1 January 2013 and for the six months to 30 June 2013 earned a base salary of $625,000).

### Annual Performance Incentive

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

For the 2014 financial year, the CEO earned a total STI payment to the value of $1,457,500 (six months ended June 2013: $602,841). This payment will be made in the 2015 financial year.

### Long Term Incentive

The CEO participated in the Air New Zealand Long Term Incentive Plan (LTIP).

The CEO earned 2,642,913 options under the LTIP for the 2013 financial year valued independently at $0.203 each, for a total value of $536,511 (which were issued in September 2013).

The mandatory shareholding commitment of the LTIP for the CEO is 66% of the CEO's fixed base salary. This holding must be maintained to enable the CEO to exercise any options. The CEO owns or has a beneficial interest in 522,440 shares held as part of the mandatory shareholding (2013 financial year: 137,980 shares)

### 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 2014 financial year the Company contribution was $77,114 (six months ended 30 June 2013: $25,000).

# SHAREHOLDER STATISTICS

**Top Twenty Shareholders – 15 August 2014**

| | 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 | 52.30 |
| HSBC Nominees (New Zealand) Limited | 100,264,309 | 9.00 |
| JPMORGAN Chase Bank | 59,003,433 | 5.29 |
| HSBC Nominees (New Zealand) Limited | 45,841,286 | 4.11 |
| National Nominees New Zealand Limited | 42,805,611 | 3.84 |
| Citibank Nominees (NZ) Limited | 38,236,321 | 3.43 |
| TEA Custodians Limited | 29,409,880 | 2.64 |
| Cogent Nominees Limited | 25,271,761 | 2.27 |
| Accident Compensation Corporation | 24,138,865 | 2.17 |
| New Zealand Superannuation Fund Nominees Limited | 10,822,847 | 0.97 |
| Premier Nominees Limited | 6,806,436 | 0.61 |
| Investment Custodial Services Limited | 5,000,000 | 0.45 |
| National Nominees Limited | 4,652,410 | 0.42 |
| HSBC Custody Nominees (Australia) Limited | 4,530,532 | 0.41 |
| Guardian Nominees Ltd A/C Westpac NZ Shares 2002 Wholesale Trust | 4,331,481 | 0.39 |
| Citicorp Nominees Pty Limited | 4,275,455 | 0.38 |
| Custodial Services Limited | 3,493,150 | 0.31 |
| BNP Paribas Noms Pty Limited | 2,750,021 | 0.25 |
| Air New Zealand Limited* | 2,515,370 | 0.23 |
| New Zealand Permanent Trustees Limited | 2,450,000 | 0.22 |
| | **999,453,761** | **89.69** |

*Treasury Stock (excluding Staff Share Scheme)

**Substantial Security Holders**

The following information is provided in compliance with Section 35F of the Securities Markets Act 1988 and records Substantial Security Holder notices received in the period up to 15 August 2014. The total number of voting securities of Air New Zealand Limited at that date was 1,114,424,283.

| SUBSTANTIAL SECURITY HOLDER | VOTING SECURITIES IN THE COMPANY IN WHICH A RELEVANT INTEREST IS HELD |
|---|---|
| Her Majesty the Queen in Right of New Zealand | 596,242,383* ordinary shares |

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

***Relevant interests held as follows:**

Her Majesty the Queen in right of New Zealand acting by and through her Minister of Finance (582,854,593 ordinary shares) and New Zealand Superannuation Fund (13,387,790 ordinary shares) being property of Her Majesty the Queen in right of New Zealand and managed by the Guardians of New Zealand Superannuation.

# SHAREHOLDER STATISTICS (CONTINUED)

**Shareholder Statistics – 15 August 2014**

| SIZE OF SHAREHOLDING | SHAREHOLDERS | | SHARES | |
|---|---|---|---|---|
| ORDINARY SHARES | NUMBER | % | NUMBER | % |
| 1 to 1000 | 15,602 | 62.71 | 6,181,755 | 0.55 |
| 1001 to 5000 | 6,454 | 25.94 | 15,086,527 | 1.35 |
| 5001 to 10000 | 1,437 | 5.77 | 10,655,976 | 0.96 |
| 10001 to 100000 | 1,276 | 5.13 | 31,803,485 | 2.86 |
| 100001 and Over | 111 | 0.45 | 1,050,696,540 | 94.28 |
| **Total** | **24,880** | **100.00** | **1,114,424,283** | **100.00** |

### CURRENT ON-MARKET SHARE BUYBACKS

The Company is not, at the date of this Annual Report, undertaking any on-market share buybacks.

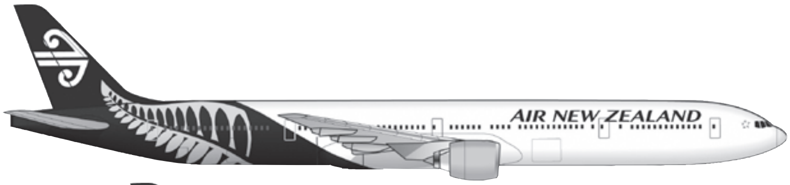
### NON-MARKETABLE PARCELS OF SHARES

As at 15 August 2014, 2,356 shareholders held Ordinary Shares of less than a marketable parcel.

# FLEET STATISTICS

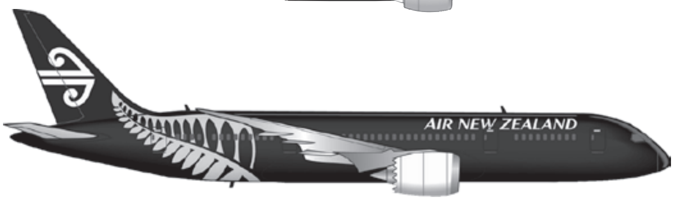
AS AT 30 JUNE 2014


**Boeing 747-400**
Number: 2
Average Age: 19.4 years
Maximum Passengers: 379
Cruising Speed: 920 km/hr
Average Daily Utilisation: 8:43




**Boeing 777-300ER**
Number: 6
Average Age: 2.6 years
Maximum Passengers: 332
Cruising Speed: 910 km/hr
Average Daily Utilisation: 15:36


**Boeing 777-200ER**
Number: 8
Average Age: 8.2 years
Maximum Passengers: 304
Cruising Speed: 910 km/hr
Average Daily Utilisation: 13:04

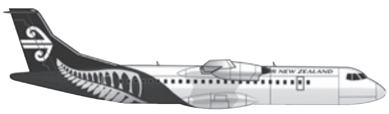



**Boeing 787-9 Dreamliner**
Number: 1
Average Age: 0.1 years
Maximum Passengers: 302
Cruising Speed: 910 km/hr
Average Daily Utilisation: n/a

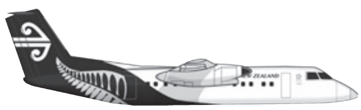

**Boeing 767-300ER**
Number: 5
Average Age: 18.8 years
Maximum Passengers: 230
Cruising Speed: 870 km/hr
Average Daily Utilisation: 11:58


**Airbus A320-200**
Number: 22
Average Age: 6.6 years
Maximum Passengers: 168 short haul or
171 domestic
Cruising Speed: 850 km/hr
Average Daily Utilisation: 9:56 short haul or 8:14 domestic


**Boeing 737-300**
Number: 7
Average Age: 15.1 years
Maximum Passengers:133
Cruising Speed: 790 km/hr
Average Daily Utilisation: 6:00



**ATR 72-500 / 72-600**
Number 72-500:11; 72-600:4
Average Age: 72-500:13.5 years; 72-600:1.3 years
Maximum Passengers: 68
Cruising Speed: 518 km/hr
Average Daily Utilisation: 7:08



**Bombardier Q300**
Number: 23
Average Age: 7.4 years
Maximum Passengers: 50
Cruising Speed: 520 km/hr
Average Daily Utilisation: 7:10

**Beech 1900D**
Number: 17
Average Age: 11.5 years
Maximum Passengers:19
Cruising Speed: 510 km/hr
Average Daily Utilisation: 4:35

# GENERAL INFORMATION

**Stock Exchange Listings**

Air New Zealand's Ordinary Shares are listed on:

| | NZSX MARKET | AUSTRALIAN STOCK EXCHANGE |
|---|---|---|
| Ticker: | AIR | AIZ |
| Date of full listing: | 24 October 1989 | 1 July 2002 |

## PLACE OF INCORPORATION

**New Zealand**

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

Neither the New Zealand Stock Exchange nor the Australian Stock Exchange has taken any disciplinary action against the Company during the financial year ended 30 June 2014.

## NEW ZEALAND EXCHANGE

**General:**

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

The following waivers from the NZSX Listing Rules were granted to the Company or relied upon by the Company during the financial year ended 30 June 2014:

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

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

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

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

## 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[2]):

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.

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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 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 auditors.

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

# GENERAL INFORMATION (CONTINUED)

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 20 percent or more 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).

# SHAREHOLDER DIRECTORY

**New Zealand**

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Fax: (64 9) 375 5990
Email: enquiries@linkmarketservices.co.nz

**Australia**

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Locked Bag A14, Sydney South
NSW 1235, Australia
Investor Enquires:
Phone: (61) 1300 554 474
Fax: (61 2) 9287 0303

**Investor Relations**

Investor Relations Office
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New Zealand
Phone: (64 9) 336 2287
Fax: (64 9) 336 2664
Email: investor@airnz.co.nz
Web site: www.airnzinvestor.com

**Annual Meeting**

Date: 30 September 2014
Time: 2.00 pm
Venue: Conference & Events Hall, Air Force Museum,
45 Harvard Avenue, Wigram, Christchurch

**Current Credit Rating**

Moody's rate Air New Zealand Baa3

**Auditor**

Deloitte (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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**Board of Directors**

Tony Carter – Chairman
Jan Dawson – Deputy Chairman
Paul Bingham
Dr Jim Fox
Roger France
Rob Jager
Linda Jenkinson
Jonathan Mason

**Chief Executive Officer**

Christopher Luxon

**Chief Financial Officer**

Rob McDonald

**General Counsel and Company Secretary**

John Blair

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