

Media Release

Media release
23 August 2018

Second highest profit in Air New Zealand's history enables reinvestment in customer experience and staff bonuses

Highlights

- Achieved second highest profit of **\$540 million**
- Investment of approximately **\$150 million** expected over the next four years to enhance customer experience in key areas, including new cabin experience, digital products and lounges
- Commitment to **third short term leased widebody aircraft** to further assist with schedule reliability during ongoing maintenance requirements associated with the global Rolls-Royce Trent 1000 engine issues
- Staff bonuses of up to **\$1,800** for all permanent employees who do not participate in a Short Term Incentive programme

Air New Zealand today announced earnings before taxation for the 2018 financial year of \$540 million, an increase from the prior year result of \$527 million, representing the second highest profit in the airline's history. Net profit after taxation grew 2.1 percent to \$390 million.

Shareholders of Air New Zealand will receive a final dividend of 11.0 cents per share, taking the total ordinary declared dividend for the year to 22.0 cents per share, an increase of 4.8 percent from the prior year. The dividend will be paid on 19 September, to shareholders on record as at 7 September.

Chairman Tony Carter praised the strength of the result, which demonstrates the airline's resiliency.

"This is an impressive financial result, driven by strong revenue growth across the airline's key markets, as well as continued focus on sustainable cost improvement, despite significantly higher fuel prices.

"The ability of the airline to achieve its second highest profit in such a challenging environment really speaks to the focused strategy and unique competitive advantages that Chief Executive Officer Christopher Luxon and his leadership team have spent years building," says Mr Carter.

In recognition of the robustness of the 2018 result, the Board has awarded staff bonuses of up to \$1,800 to be paid next week to approximately 8,500 Air New Zealanders who do not have other incentive programmes as part of their employment agreement.

Mr Luxon acknowledged the impact of external disruptions on the airline's operational performance and thanked both customers and staff for their loyalty and support.

"While we are very proud of the financial achievements of the 2018 financial year, I want to acknowledge the patience and loyalty of our customers who have been impacted by operational disruptions while travelling with us this year. These disruptions have resulted in a level of service for some that did not meet the high standards we set for ourselves.

"We do not take our customers' choice to fly with Air New Zealand for granted and remain focused on making improvements across all touch points of their travel journey," says Mr Luxon.

To deliver greater schedule reliability for customers going forward, Air New Zealand will be leasing three widebody aircraft, two Boeing 777-200s and one Boeing 777-300, as well as making adjustments to its schedule as the airline continues to work through the maintenance requirements associated with the global Rolls-Royce Trent 1000 engine issues.

“The adjustments to our schedule will essentially free up two widebody aircraft enabling us to provide greater schedule certainty for customers. This will include adjusting weekly frequency on our Buenos Aires and Taipei services, as well as seeking to retime our flights to Tokyo’s Haneda Airport. We are confident that these proactive steps will result in better reliability for our customers,” says Mr Luxon.

2019 promises to be an exciting year for the airline and its customers, as Air New Zealand will offer more cheap fares than ever over the next year as domestic jet capacity grows by three to five percent and regional turboprop capacity grows by five to seven percent.

“One of the benefits of a growing Air New Zealand is more opportunities than ever for Kiwis to snap up a bargain. In 2019, we will offer more than 2.9 million seats for travel in New Zealand for under \$100,” Mr Luxon says.

This year will also see the launch of new direct services to Chicago and Taipei commencing in November, new services to Brisbane from both Wellington and Queenstown beginning in December, as well as a new third daily service added to the Auckland-Singapore route in partnership with Singapore Airlines.

The airline is expecting to receive delivery of 10 Airbus A320/321 NEO aircraft, which will provide continued growth and cost benefits to the Tasman and Pacific Islands network. Air New Zealand will be the first airline to fly the Airbus NEO in Australasia. Two Boeing 787-9 aircraft with increased premium cabin space and next generation Rolls-Royce TEN engines will also join the fleet.

Anticipating continued future domestic network growth, Air New Zealand has announced capital expenditure for seven Airbus A321 NEO aircraft, with phased delivery expected from 2020 to 2024. The additional aircraft will be deployed on high demand routes to support further domestic growth. Equipped with new generation engines and approximately 25 percent more seats, the A321 NEOs are expected to deliver fuel savings and efficiencies of up to 15 percent compared to the airline’s existing A320 domestic aircraft, helping to reduce carbon emissions.

Air New Zealand’s Pacific Rim growth strategy has allowed for consistently profitable network expansion over the past five years, with 17 million passengers a year travelling on the airline compared with 13 million back in 2013. The airline is focusing on continued investment in regional lounges, customer contact centres and inflight products and services to enhance the customer experience.

Mr Luxon said the airline sees positive demand signals in the short term, with strong forward bookings heading into the peak summer season and passenger growth expected to continue its upward trajectory.

“Looking out over the next two years, the airline is expecting to grow by one million customers a year, reaching 19 million customers by the end of 2020,” says Mr Luxon.

Outlook

Based upon current market conditions and assuming an average jet fuel price of US\$85 per barrel, 2019 underlying earnings before taxation is expected to be in the range of \$425 million to \$525 million.

This excludes an estimated \$30 million to \$40 million impact from schedule changes prompted by the global Rolls-Royce engine issues.

Financial Highlights

- Record operating revenue of **\$5.5 billion**, up 7.4%
- Earnings before taxation of **\$540 million**, up 2.5%
- Net profit after taxation of **\$390 million**, up 2.1%
- Operating cash flow of **\$1 billion**, up 14%
- Fully imputed final dividend of **11.0 cents per share**, bringing the 2018 full year fully imputed ordinary dividends to **22.0 cents per share**, an increase of 4.8% from the prior year

Ends

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AIR NEW ZEALAND 



ANNUAL RESULTS

2018

23 AUGUST 2018

NZX: **AIR** | ASX: **AIZ** | US OTC: **ANZFY**

Forward-looking statements



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

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

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Agenda

Business update

Financial results

Outlook

Q&A

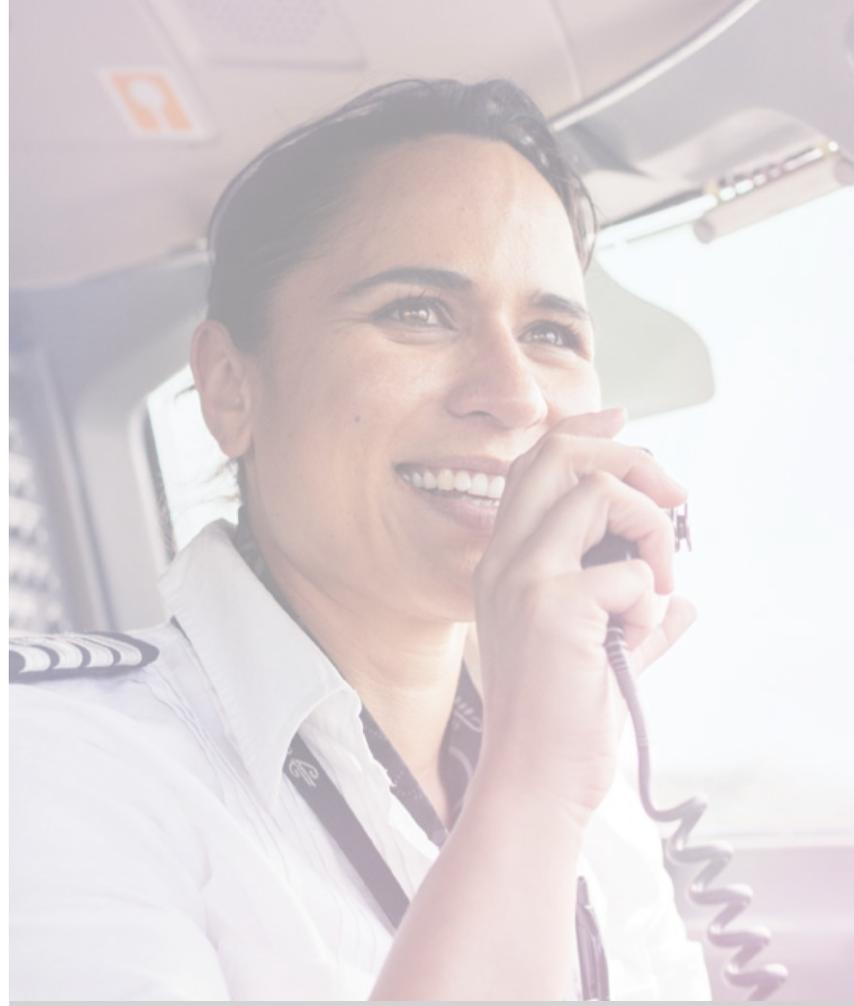


Business update

Christopher Luxon
Chief Executive Officer

A resilient business model providing strong results in all market conditions

- Another strong financial performance despite challenges, enabled by dedicated customer-focused culture
- Network expansion driven by profitable growth, focused on reinforcing and developing our market positions across the Pacific Rim
- Continuing to invest in the customer proposition
- Working through ongoing issues with Rolls-Royce Trent 1000 engines
- Relentless focus on improving unit cost performance remains
- Strong investment-grade balance sheet, delivering a consistent and sustainable ordinary dividend to shareholders

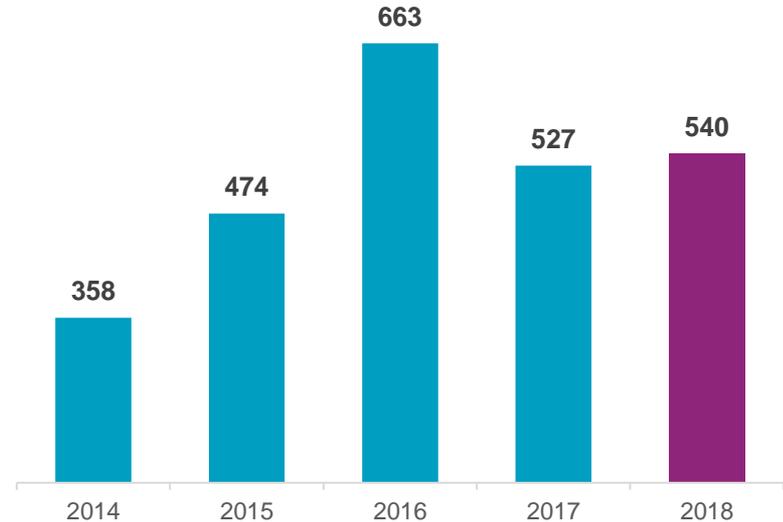




Our second-highest result in the airline's 78-year history

- Operating revenue **\$5.5 billion, up 7.4%**
- Earnings before taxation **\$540 million, up 2.5%**
- Net profit after taxation **\$390 million, up 2.1%**
- Operating cash flow **\$1,031 million, up 14%**

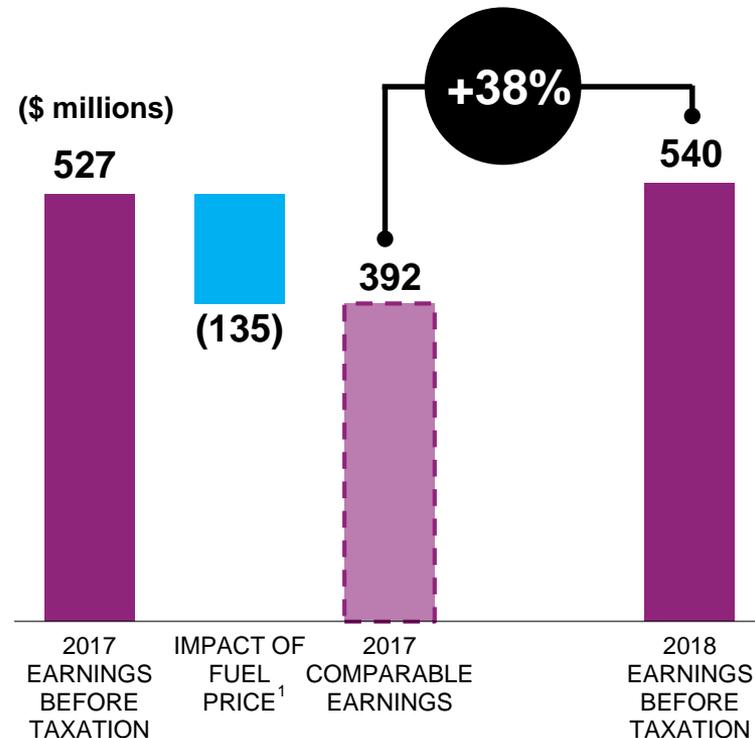
Earnings before taxation
(\$ millions)





Achieved our earnings guidance despite fuel price headwind of \$135 million

- Outlook statement from August 2017 aimed to “improve upon 2017 earnings” of \$527 million, based on average jet fuel price of US\$60 per barrel
- 2018 average jet fuel (MOPS) price increased 25% to US\$75 per barrel
- Hedging gains partially offset increase in fuel prices, resulting in a net fuel price headwind of \$135 million, or 16%



¹ \$135 million impact related to fuel price increase; details on fuel cost movement provided in supplementary slides.

Financial results

Jeff McDowall
Chief Financial Officer





Robust revenue performance and efficiencies more than offset increased operating costs

Revenue

- Passenger revenue excluding FX **up 6.7%**; reported up 6.9%
 - Strong demand **up 5.3%** on capacity growth of **5.0%**
 - RASK excluding FX **up 1.6%**; reported up 1.8%
- Cargo revenue excluding FX **up 9.6%**; reported up 10%

Cost

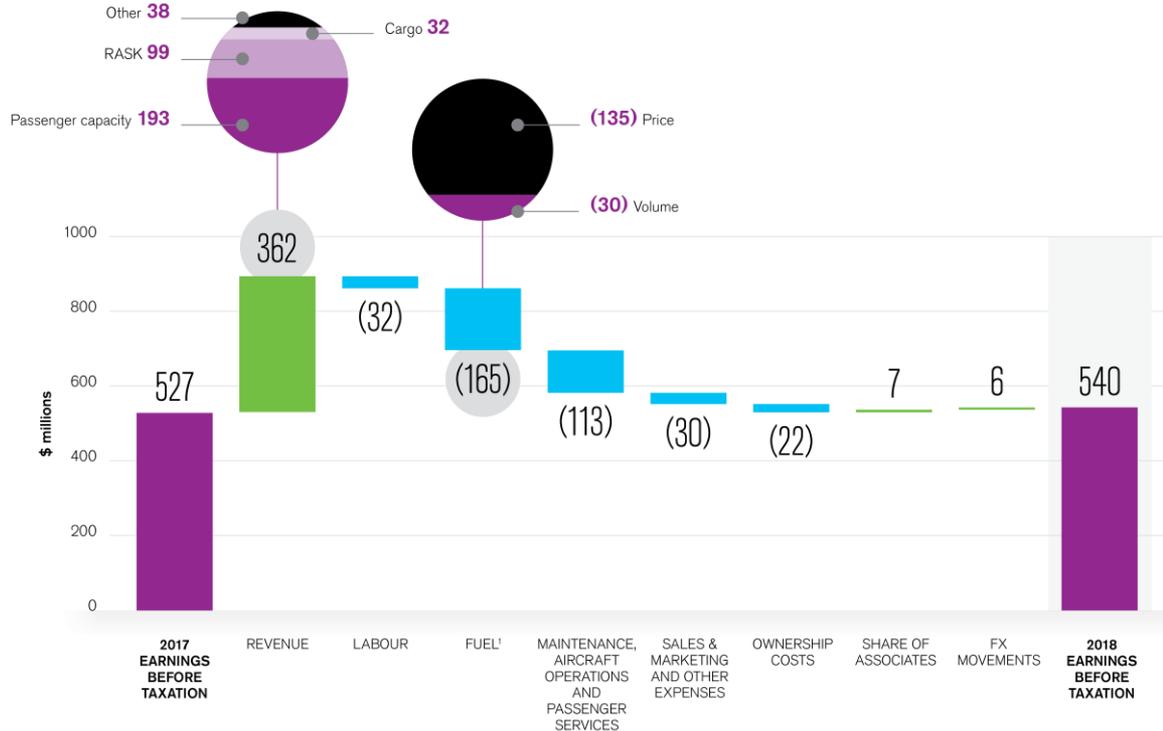
- CASK¹ **improved 0.5%**
 - Reported CASK including impact of fuel price **up 4.0%**
- Efficiencies contributed **\$104 million** to profitability
- Reported fuel cost **up \$160 million, 19%**² driven by:
 - Average fuel price increase (net of hedging benefits) of \$135 million (16%)
 - Volume growth of \$30 million, partially offset by \$5 million in FX benefits

¹ Excluding fuel price movement, FX, third party maintenance and other significant items in the comparative year, as disclosed in the 2017 Financial Results.

² Fuel cost movement details provided in supplementary slides.



Changes in profitability illustrate strong contribution of revenue growth

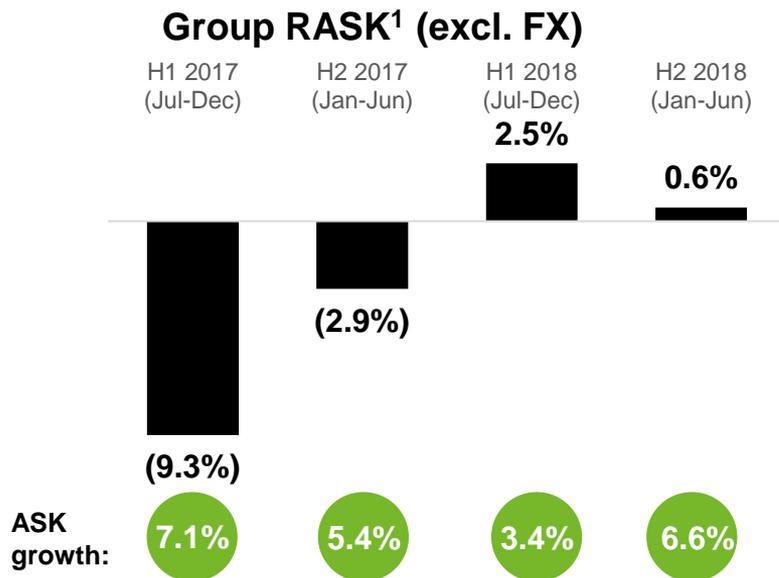


Additional commentary

- Third-party maintenance contracts represent a significant portion of Other Revenue growth
- Labour growth continues to lag ASK growth, up only 2.5% from prior year
- Maintenance, aircraft operations and passenger services includes costs related to third-party maintenance contracts (partially offsetting Other Revenue)
- Ownership cost increase driven by higher depreciation related to aircraft deliveries and increased investment in digital and lounges

¹ Excludes FX of \$5 million, fuel cost movement details provided in supplementary slides.

Record passenger revenues of \$4.7B achieved from growth across the business – Domestic especially strong



Sector	2018 RASK performance versus February 2018 expectations	
Domestic	Exceeded expectations	+
Tasman	Exceeded expectations	+
Pacific Islands ²	Met expectations	✓
Asia	Met expectations	✓
Americas/Europe	Met expectations	✓

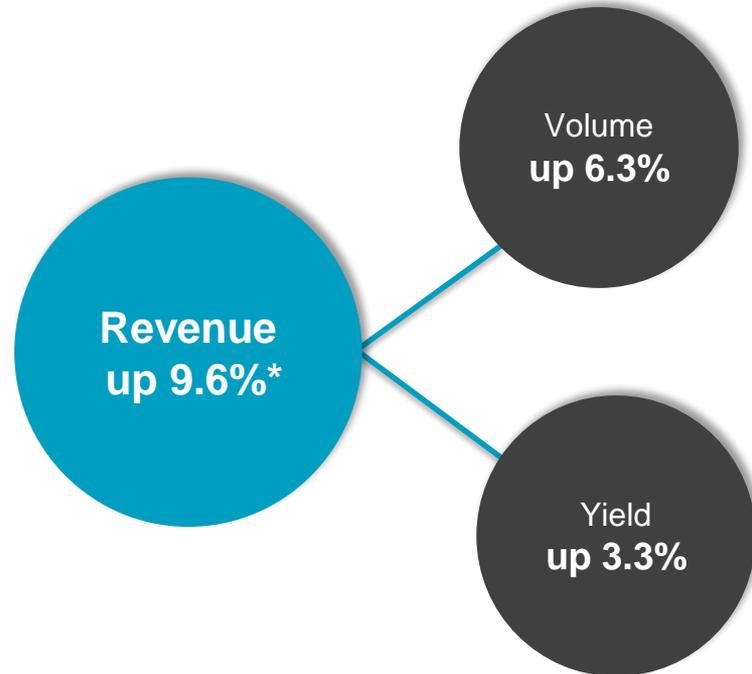
¹ Year-on-year movement in RASK.

² Pacific Islands includes Bali and Honolulu.



Cargo business again delivers a strong revenue performance

- Strong volume growth related to:
 - Improved loads of high density cargo from Asia and Japan to United States
 - Improved loads on main Tasman ports
 - Increased capacity between Pacific Islands and Haneda Airport (Tokyo)
- Yield improvements driven by:
 - Higher value product mix

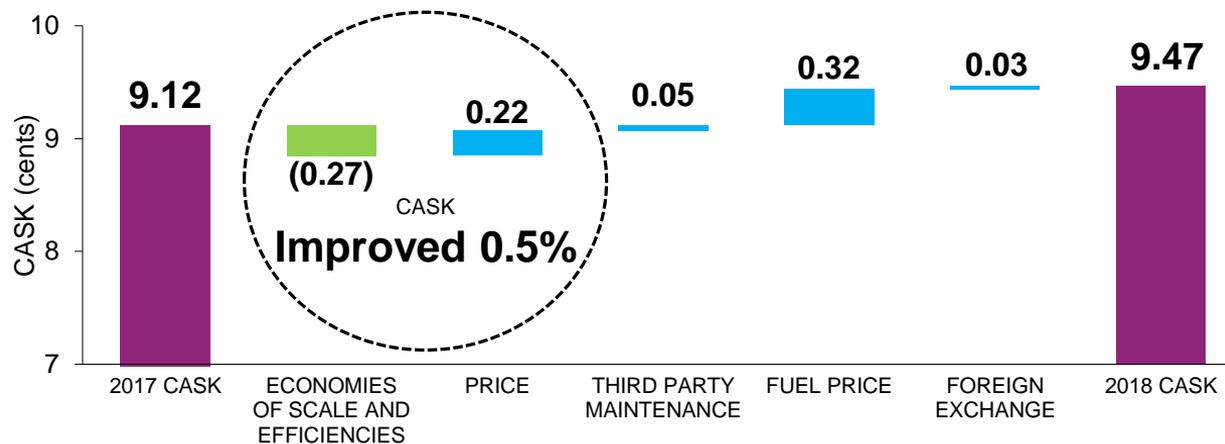


* Reported Cargo revenue increased 10%, inclusive of foreign exchange impact.



Relentless focus on unit costs drove underlying improvement

- **CASK* improved 0.5%**
 - Reported CASK increased 4.0%, driven by average fuel price increases of 16% and higher costs related to third party maintenance
- **\$104 million** of efficiencies from cost saving initiatives and economies of scale
- While not driven by capacity (ASKs), an increase in third party maintenance contracts resulted in additional costs, which were more than offset by revenue contribution



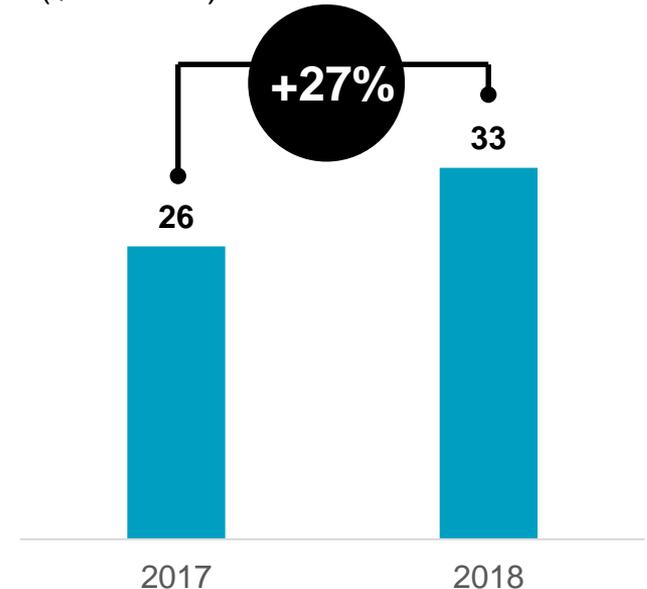
* Excluding fuel price movement, FX, third party maintenance and other significant items in the comparative year, as disclosed in the 2017 Financial Results

Significant growth from Christchurch Engine Centre joint venture, driven by increased volumes



- Air New Zealand has a 49% ownership stake in a maintenance, repair and overhaul (MRO) facility based in Christchurch and operated in conjunction with Pratt & Whitney
- The investment is equity accounted with the share of earnings being recognised in the income statement
- Services V2500 engines (powering A319/320/321 CEO aircraft) for global airlines
- Facility currently has the capability to service 120 engines each year
 - Significant strength in 2018 driven by increased volumes
 - Nearing capacity for 2019, growth expected albeit at a slower rate

Share of earnings of associates
(\$ millions)

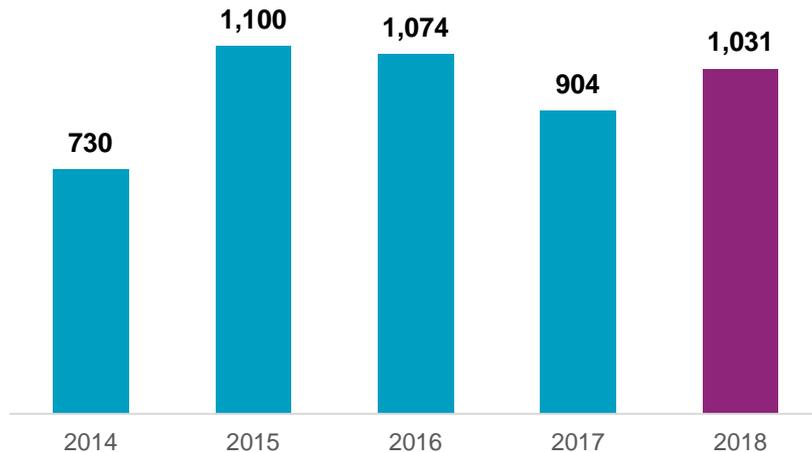




Operating cash flow continues to demonstrate strength

Operating cash flow

(\$ millions)



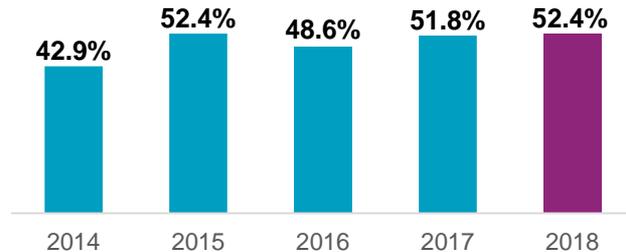
- Operating cash flow **\$1,031 million, up 14%**, reflecting:
 - Increase in cash operating earnings
 - Strong working capital cash flow as the business grows
 - Lower cash taxes paid due to transitional timing impact of legislative tax changes for engine maintenance
- Cash on hand of **\$1.3 billion, down 1.9%** from June 2017



Balance sheet remains strong

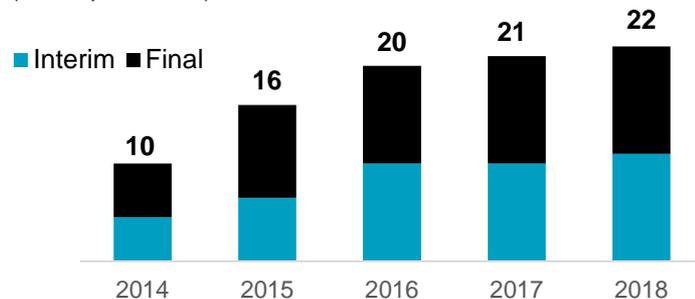
Gearing (%)

(including capitalised aircraft operating leases)



Ordinary dividends declared

(cents per share)



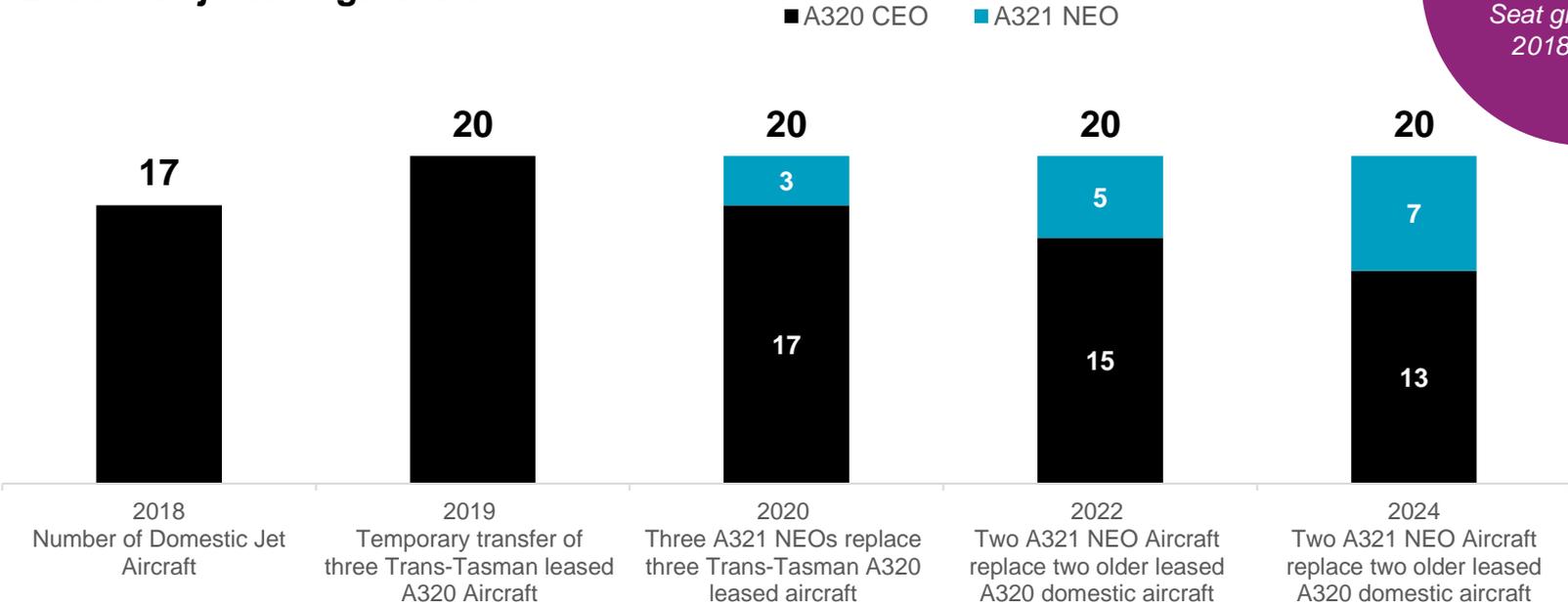
- Gearing was 52.4%, increasing 0.6 percentage points from June 2017, driven by foreign exchange and continued investment in fleet
- Stable outlook **Baa2** rating from Moody's
- Fully imputed final dividend of **11** cents per share, consistent with the prior year
 - Bringing the full year fully imputed ordinary dividend to **22** cents per share, a 4.8% increase from prior year

Measured Domestic growth with three A321 NEO aircraft commencing 2020



~25%
Seat growth from 2018 to 2024

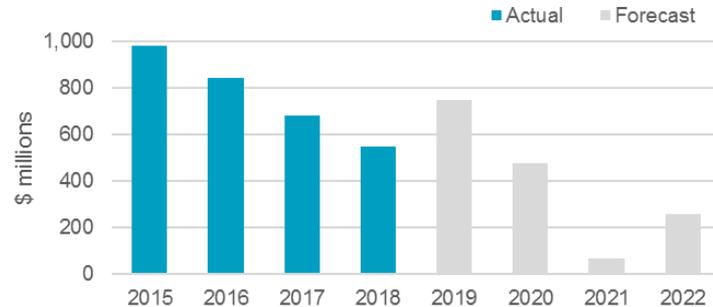
Domestic jet fleet growth forecast





Updating fleet capital expenditure forecast for Domestic units

Actual and forecast aircraft capital expenditure*
(\$ millions)



- Forecast investment of **\$1.5 billion** in aircraft and associated assets through 2022
- Assumes NZD/USD = 0.66
- Includes recent commitment for A321 NEO growth aircraft for domestic jet network (3 units in 2020 and 2 units in 2022)
- Delivery deferral of one A320 NEO for International Short-haul from 2020 will now arrive in 2022
- No assumptions on B777-200 replacement capital expenditure are included in current forecast
 - Still targeting replacement of B777-200 fleet from 2023

Aircraft delivery schedule (as at 30 June 2018)

	Number in existing fleet	Number on order	Delivery Dates (financial year)				
			2019	2020	2021	2022	
Owned fleet on order	Boeing 787-9	11	1	-	-	-	
	Airbus A320/A321 NEOs	-	13**	6	4	-	3
	ATR72-600	19	10	4	6	-	-
Operating leased aircraft	Boeing 787-9	-	2	1	1	-	-
	Airbus A320/A321 NEOs	-	5	4	1	-	-

* Includes progress payments on aircraft.

** Does not reflect two additional A321 NEO aircraft on order for expected delivery in 2024.



Mitigating fuel price and FX risk with hedging

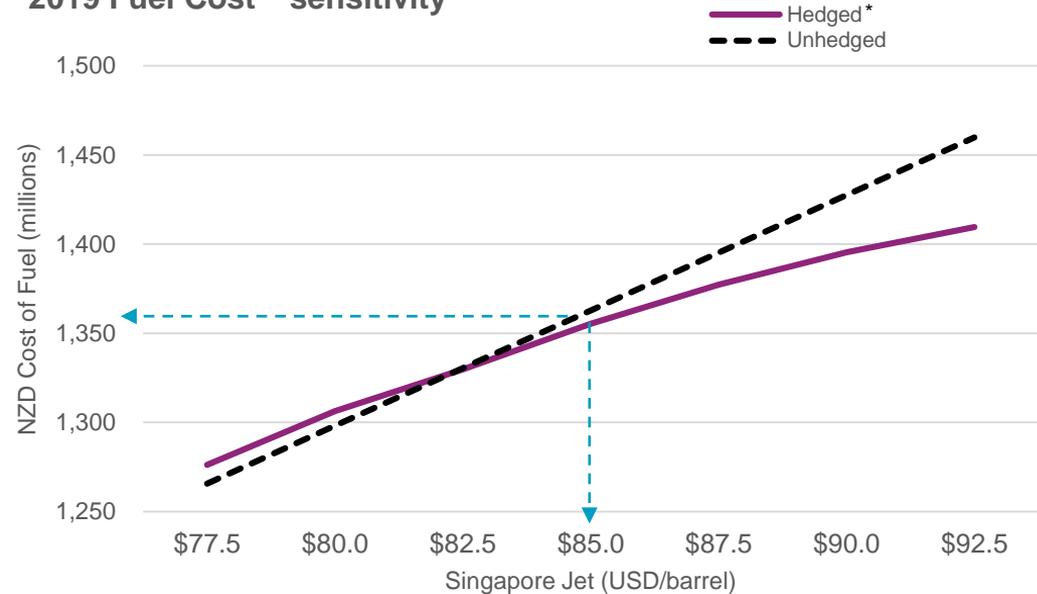
Fuel hedging

- Assuming average jet fuel price of US\$85 per barrel for 2019, fuel cost would be **~\$1.35 billion**
- 2019 hedges cover **66%*** of consumption
 - 1H 2019 is 78%* of consumption
 - 2H 2019 is 53%* of consumption

Foreign exchange hedging

- US dollar is **~80%** hedged for 2019 at **0.7105**

2019 Fuel Cost** sensitivity



*Based on fuel hedging disclosure as at 13 August 2018.

** Assumes NZD/USD rate of 0.66.

Outlook

Christopher Luxon
Chief Executive Officer





Market demand continues to be strong





Actively responding to the global Rolls-Royce engine issues

- To date, impact has been managed by working closely with Rolls-Royce and supporting capacity with temporarily leased aircraft
- Due to the extension of the Rolls-Royce engine maintenance programme and to reduce the risk of further customer disruption, we have taken proactive steps to adjust our schedule
- No technical issues are driving this delay – solely timing related
- Schedule changes will free up the equivalent of two widebody aircraft
- Estimated impact to 2019 earnings before taxation of \$30 million to \$40 million



Current capacity outlook reflects widebody schedule adjustments

Sector	Capacity growth	Commentary
Domestic	3% to 5%	<ul style="list-style-type: none">• Jet route growth driven by increased flying to Queenstown and Dunedin• Strong growth across regional ports
Tasman & Pacific Islands ¹	7% to 9%	<ul style="list-style-type: none">• Tasman growth with increased frequency and a deeper schedule to key markets commencing end of October• Launch of new services to Brisbane from Wellington and Queenstown• Annualisation of prior year Pacific Islands growth in 1H 2019• Introduction of larger A321 NEO aircraft accounts for ~2% of capacity growth
International long-haul	3% to 5%	<ul style="list-style-type: none">• Growth driven by launch of Chicago and Taipei markets in November, and second daily Singapore flight in April
Group	4% to 6%	

¹ Pacific Islands includes Bali and Honolulu.



2019 outlook

Based upon current market conditions and assuming an average jet fuel price of US\$85 per barrel, 2019 underlying earnings before taxation is expected to be in the range of \$425 million to \$525 million

This excludes an estimated \$30 million to \$40 million impact from schedule changes prompted by the global Rolls-Royce engine issues



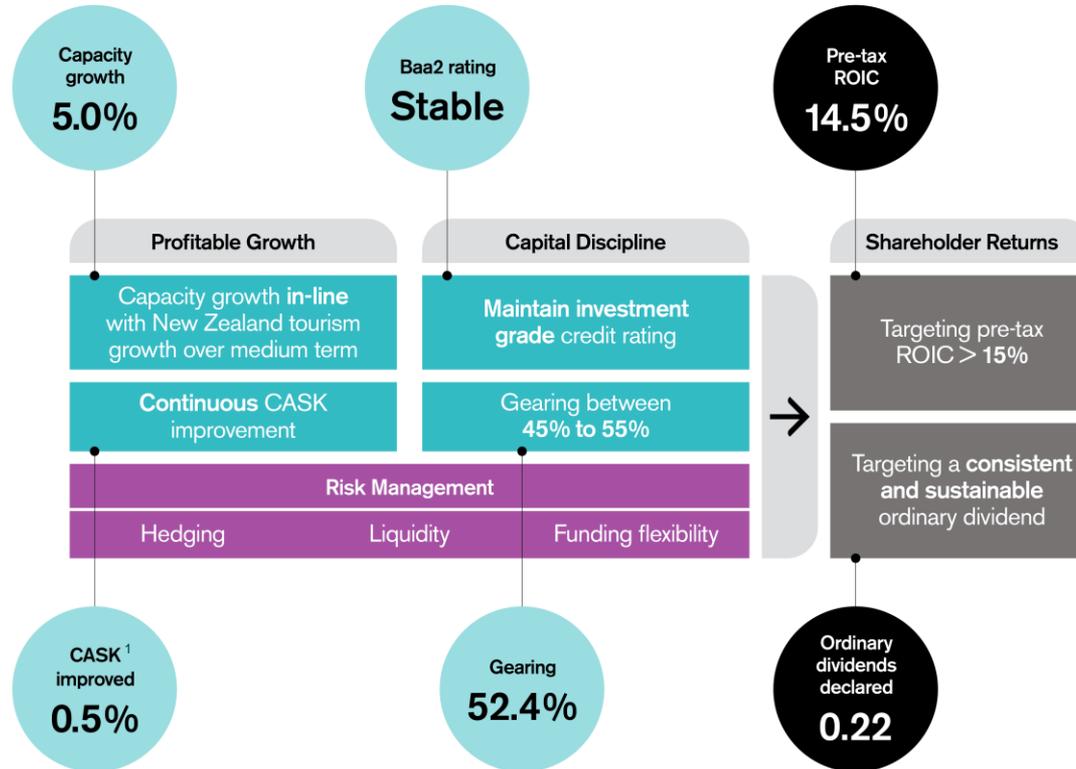
Thank you

Appendix





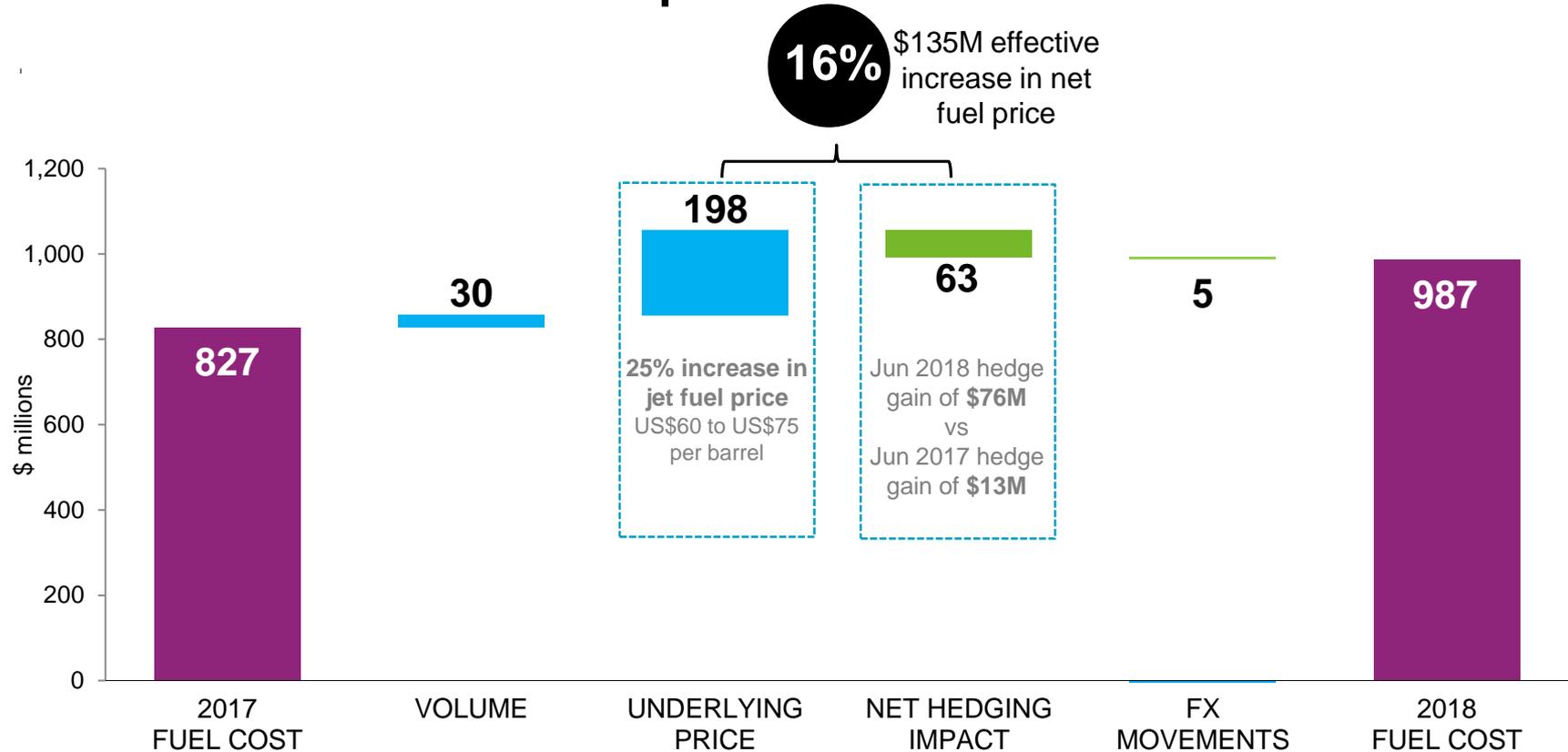
Maintaining a high level of return for our shareholders



¹ Excluding fuel price movement, FX, third party maintenance and other significant items.



Fuel cost movement in the period





Financial overview

	Jun 2018 \$M	Jun 2017 \$M	Movement \$M	Movement %
Operating revenue	5,485	5,109	376	7.4%
Earnings before taxation	540	527	13	2.5%
Net profit after taxation	390	382	8	2.1%
Operating cash flow	1,031	904	127	14%
Cash position	1,343	1,369	(26)	(1.9%)
Gearing	52.4%	51.8%		(0.6pts)
Ordinary dividends declared*	22.0 cps	21.0 cps		4.8%

* Dividends are fully imputed.



Group performance metrics

	Jun 2018	Jun 2017	Movement*
Passengers carried ('000s)	16,966	15,952	6.4%
Available seat kilometres (ASKs, millions)	44,274	42,169	5.0%
Revenue passenger kilometres (RPKs, millions)	36,662	34,814	5.3%
Load factor	82.8%	82.6%	0.2pts
Passenger revenue per ASKs as reported (RASK, cents)	10.6	10.4	1.8%
Passenger revenue per ASKs, excluding FX (RASK, cents)	10.5	10.4	1.6%

* Calculation based on numbers before rounding.



Domestic

	Jun 2018	Jun 2017	Movement*
Passengers carried ('000s)	11,089	10,379	6.8%
Available seat kilometres (ASKs, millions)	6,905	6,597	4.7%
Revenue passenger kilometres (RPKs, millions)	5,719	5,311	7.7%
Load factor	82.8%	80.5%	2.3pts
Passenger revenue per ASKs as reported (RASK, cents)	22.0	21.2	3.6%
Passenger revenue per ASKs, excluding FX (RASK, cents)	21.9	21.2	3.5%

* Calculation based on numbers before rounding.



Tasman & Pacific Islands¹

	Jun 2018	Jun 2017	Movement*
Passengers carried ('000s)	3,798	3,561	6.7%
Available seat kilometres (ASKs, millions)	12,963	12,039	7.7%
Revenue passenger kilometres (RPKs, millions)	10,584	9,784	8.2%
Load factor	81.6%	81.3%	0.3pts
Passenger revenue per ASKs as reported (RASK, cents)	9.6	9.2	4.5%
Passenger revenue per ASKs, excluding FX (RASK, cents)	9.6	9.2	3.8%

* Calculation based on numbers before rounding.

¹ Pacific Islands including Bali and Hawaii.



International

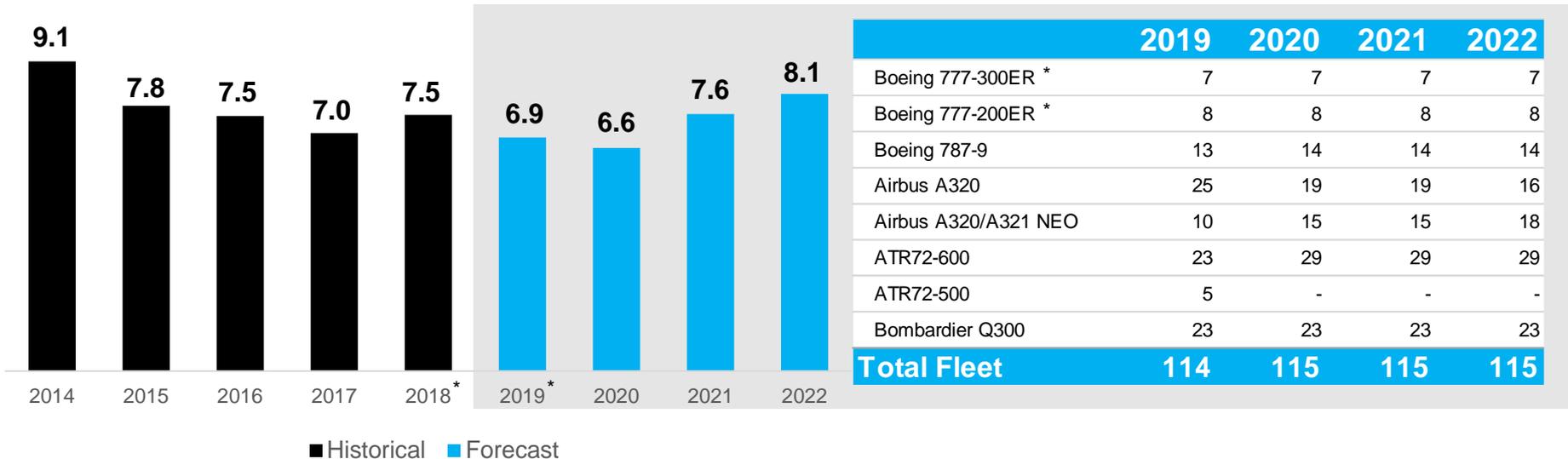
	Jun 2018	Jun 2017	Movement*
Passengers carried ('000s)	2,079	2,012	3.3%
Available seat kilometres (ASKs, millions)	24,406	23,533	3.7%
Revenue passenger kilometres (RPKs, millions)	20,359	19,719	3.3%
Load factor	83.4%	83.8%	(0.4)pts
Passenger revenue per ASKs as reported (RASK, cents)	7.9	7.9	(1.2)%
Passenger revenue per ASKs, excluding FX (RASK, cents)	7.8	7.9	(1.3)%

* Calculation based on numbers before rounding.



Projected aircraft in service and fleet age

Aircraft fleet age in years
(seat weighted)

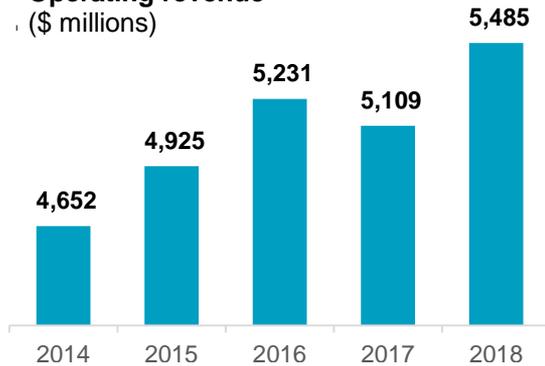


* Excludes short-term leases which provide cover for the Boeing 787-9 engine issues

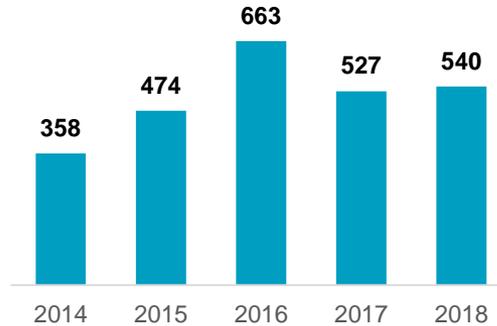


Key financial metrics

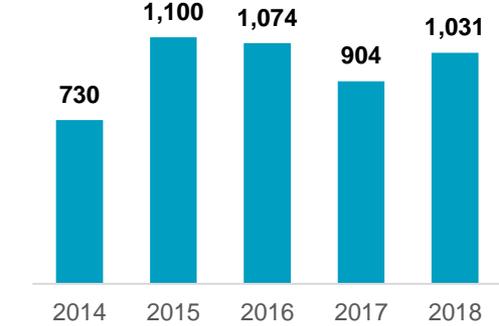
Operating revenue
(\$ millions)



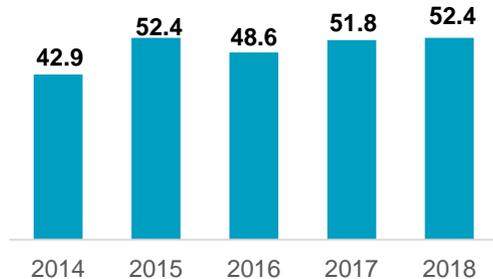
Earnings before taxation
(\$ millions)



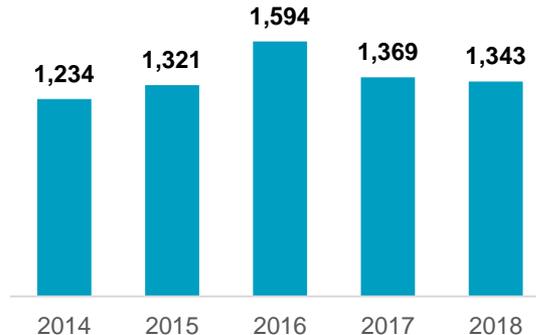
Operating cash flow
(\$ millions)



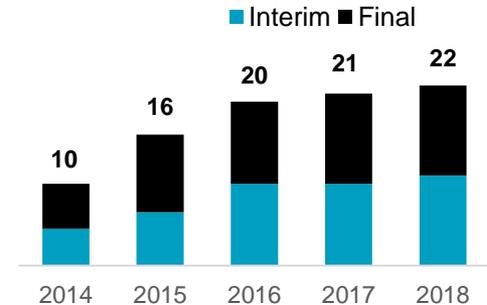
Gearing (%)
(including capitalised aircraft operating leases)



Cash on hand
(\$ millions)



Ordinary dividends declared
(cents per share)





Pre-tax ROIC calculation

	June 2018 \$M	June 2017 \$M	Reference in 2018 Annual Financial Results
Earnings before taxation	540	527	Statement of Financial Performance (page 2)
Add back: Net finance costs	33	44	Statement of Financial Performance (page 2)
Add back: Implied interest in operating leases ¹	57	59	Note 19 – Operating Leases (page 27) (refer to aircraft value within Rental and lease expenses recognised in earnings)
EBIT adjusted for operating lease interest	630	630	
Net debt (including off balance sheet items)	2,399	2,133	Historical Summary of Debt (page 46)
Equity	2,176	1,986	Statement of Financial Position (page 5)
Total capital employed	4,575	4,119	
Average capital employed²	4,347	4,109	
Pre-Tax Return on Invested Capital	14.5%	15.3%	

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

² Calculation of 2017 Average Capital Employed includes 2016 Total capital employed of \$4,098 million.



Glossary of key terms

Available Seat Kilometres (ASKs)	Number of seats operated multiplied by the distance flown (capacity)
Cost/ASK (CASK)	Operating expenses divided by the total ASK for the period
Gearing	Net Debt / (Net Debt + Equity); Net Debt includes capitalised aircraft operating leases
Net Debt	Interest-bearing liabilities and bank overdrafts, less bank and short-term deposits, net open derivatives held in relation to interest-bearing liabilities and interest-bearing assets, plus net aircraft operating lease commitments for the next twelve months multiplied by a factor of seven (excluding short-term leases in 2018, which provide cover for Boeing 787-9 engine issues)
Passenger Load Factor	RPKs as a percentage of ASKs
Passenger Revenue/ASK (RASK)	Passenger revenue for the period divided by the total ASK for the period
Pre-Tax Return on Invested Capital (ROIC)	Earnings before Interest and Taxation (EBIT), and aircraft lease expense divided by three, all divided by the average Capital Employed (being Net Debt plus Equity) over the period
Revenue Passenger Kilometres (RPKs)	Number of revenue passengers carried multiplied by the distance flown (demand)

The following non-GAAP measures are not audited: CASK, Gearing, Net Debt, RASK and ROIC. Amounts used within the calculations are derived from the audited Group financial statements and Five Year Statistical Review contained in the 2018 Annual Financial Results. The non-GAAP measures are used by management and the Board of Directors to assess the underlying financial performance of the Group in order to make decisions around the allocation of resources.

About Air New Zealand



Air New Zealand at a glance



78

Years in operation

30

International destinations

17m

Passengers carried annually

Record level

Customer satisfaction

13

Consecutive years of dividend payments

Pacific Rim

Focused network driven by alliance partnerships

20

Domestic destinations

11,900

Air New Zealand employees based globally

#1

Corporate reputation in New Zealand and Australia

Baa2

Investment grade credit rating from Moody's



Trading and ownership structure

AIR

NXZ stock ticker

AIZ

ASX stock ticker

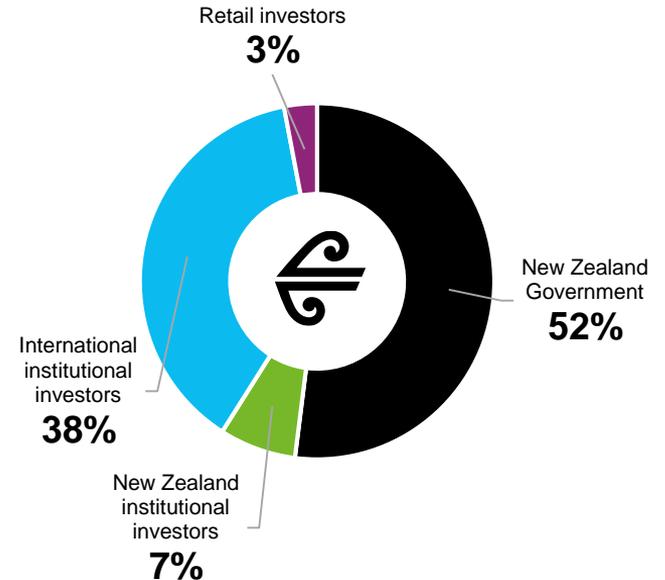
ANZFY

US OTC stock ticker

- Dual-listed on the NZX and ASX stock exchanges
 - 1.3 million average daily trading volume
 - Member of the NZX20 index – includes the 20 largest and most liquid companies of the NZX
-
- New Zealand Government holds 52%
 - No direct Board representation
 - Seven independent Directors

Share register

(as at 30 June 2018)



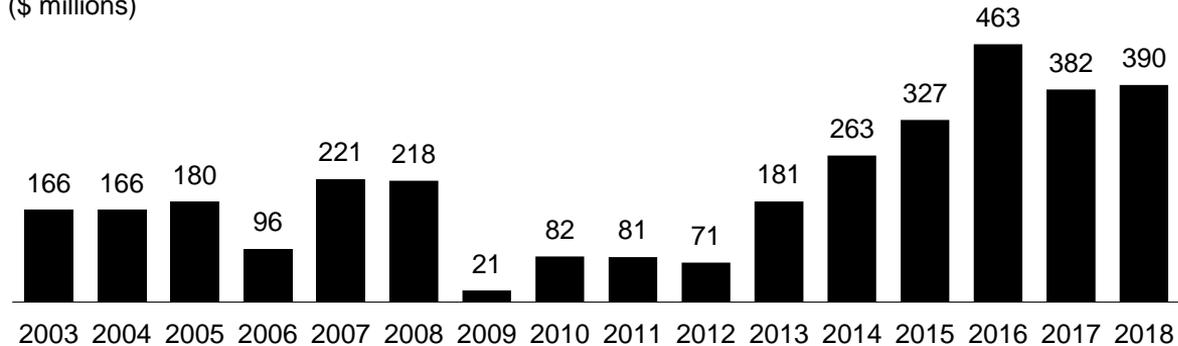


**Air New Zealand
has achieved
profitability and
dividends through
the cycle**

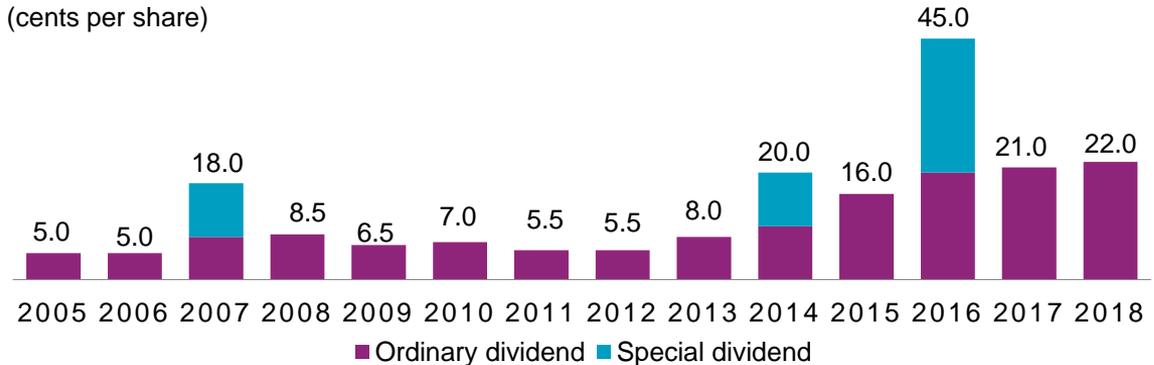
15 years
of consecutive profitability

13 years
of consecutive dividends

Net profit after tax
(\$ millions)



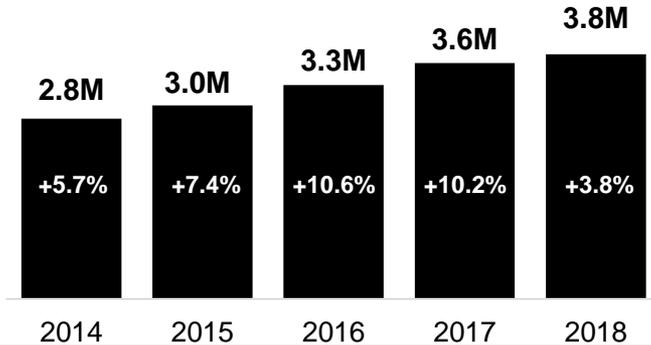
Dividends declared
(cents per share)



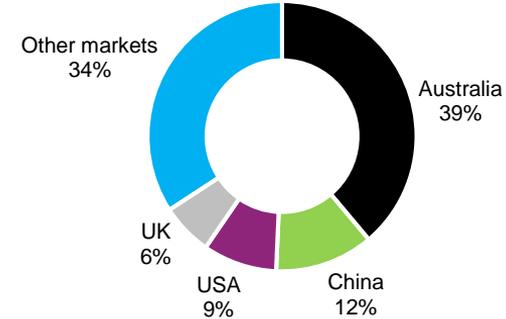


Inbound and outbound tourism demand remains strong

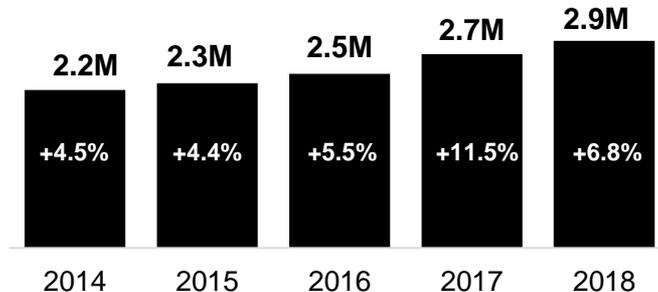
Inbound visitors to New Zealand*
(in millions and % growth from prior year)



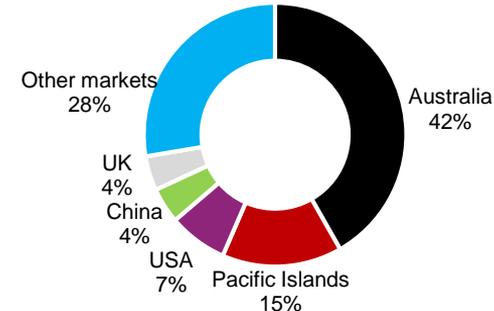
International visitor arrivals up 3.8% for the year ending 30 June 2018



Outbound tourism*
(in millions and % growth from prior year)



Outbound departures up 6.8% for the year ended 30 June 2018



* Statistics New Zealand, year ending 30 June.



Positioned to leverage our unique competitive advantages to drive future returns for our shareholders



- 1 Resilient core domestic business
- 2 Pacific Rim focused international network
- 3 Focused on sustainable cost improvements
- 4 Investment-grade financial strength



1 Resilient core domestic business

- Most iconic brand in New Zealand
- Unmatched network breadth and depth
 - ~80% marketshare
 - Over 400 flights daily to 20 domestic destinations
- Differentiated in-flight and ground product that is valued by customers
- Airpoints™ programme drives strong loyalty base with over 2.8 million members* and still growing
- Investing in the sustainable development of New Zealand tourism

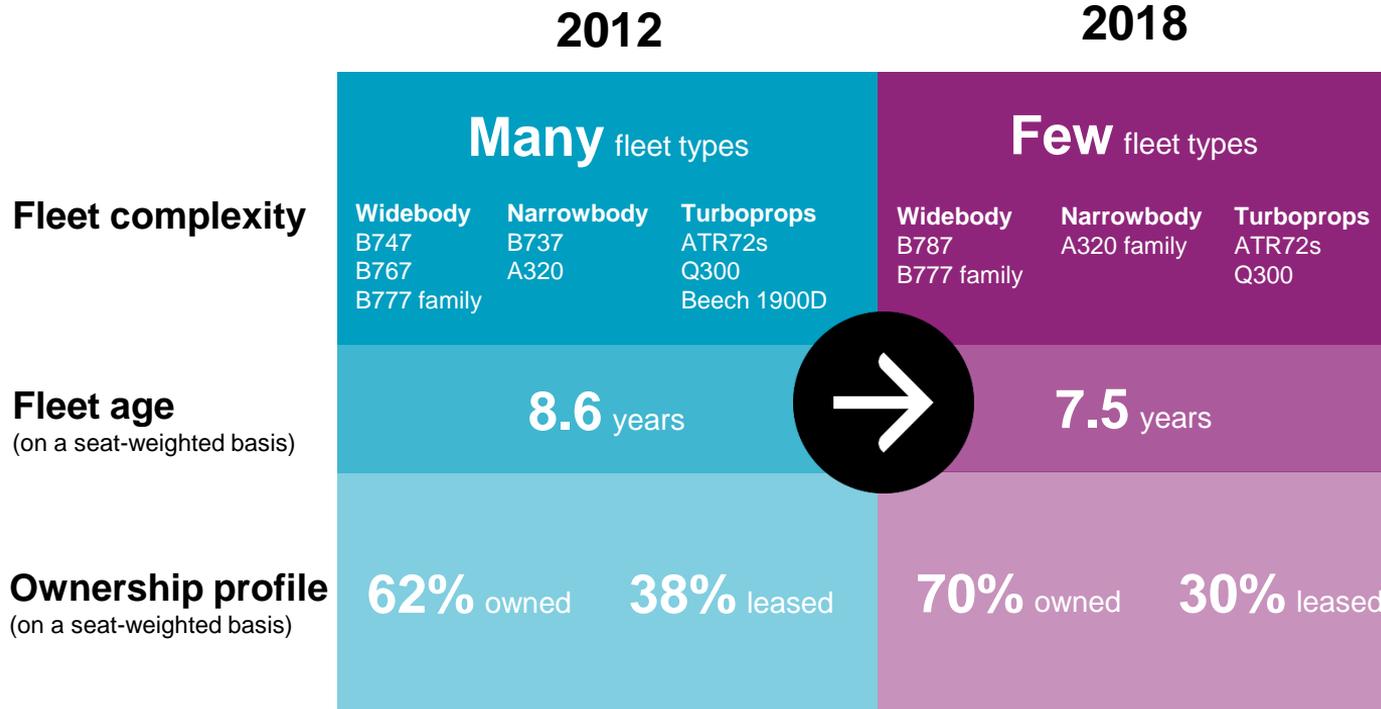


* Airpoints™ membership as at 30 June 2018.



3 Focused on sustainable cost improvements

A simpler and modern fleet helps drive improved efficiencies



Drivers of improved unit costs

- Network growth
- Fleet investment resulting in fuel efficiency and up-gauging, as well as simplification of operations
- Targeting a stable level of fixed operating costs to leverage economies of scale
- High performance engagement driving a stable level of wage inflation
- Daily culture of cost focus and continuous improvement



4 Investment grade financial strength

Providing stability and financial flexibility over the long-term

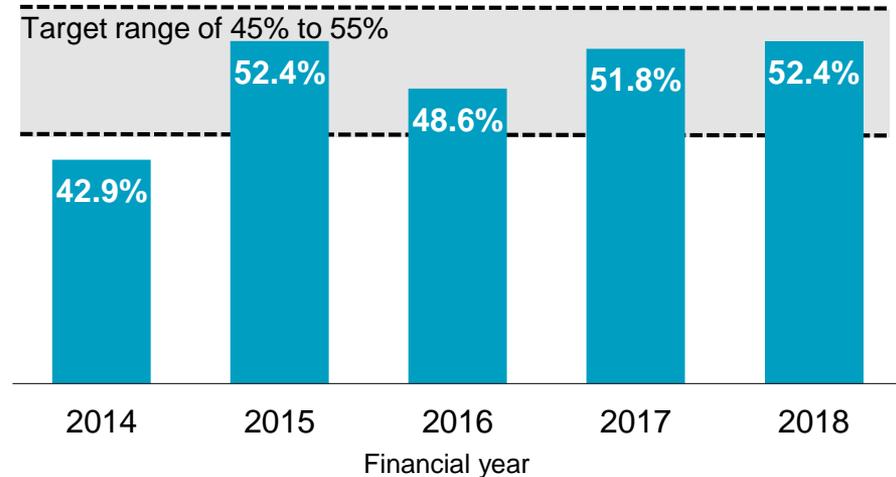
Moody's credit rating	
A3	Southwest
Baa1	easyJet
Baa2	AIR NEW ZEALAND  
Baa3	 DELTA  Lufthansa
Ba1	jetBlue
Ba2	UNITED  AIR CANADA 
Ba3	

Source: Bloomberg as at 14 August 2018.

Appropriate level of gearing

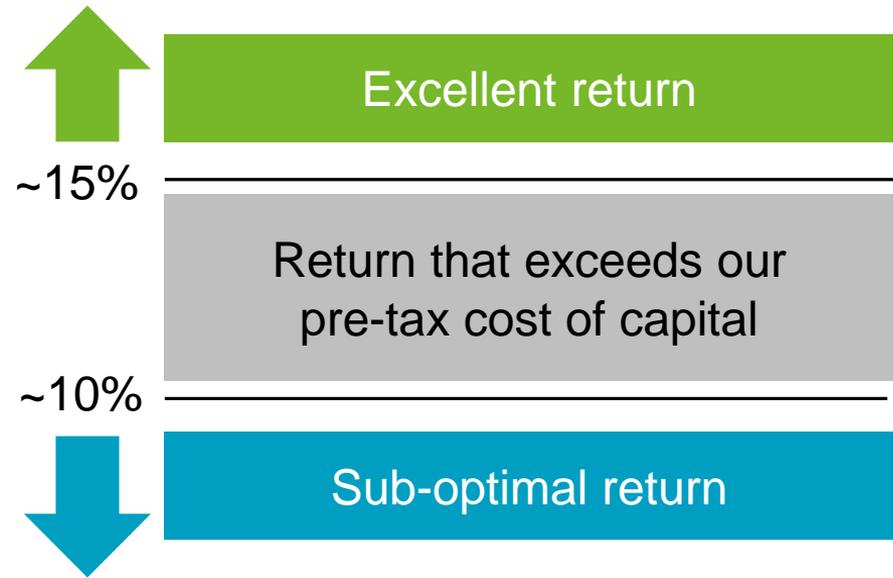
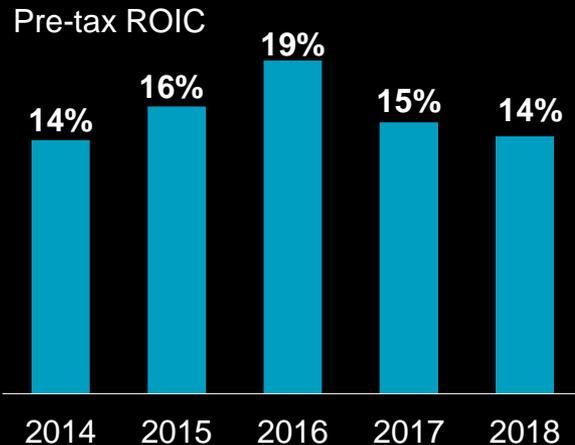
Gearing (%)

(including capitalised aircraft operating leases)





Putting ROIC performance into perspective



Find more information about Air New Zealand

Resources

Investor website: www.airnewzealand.co.nz/investor-centre

Monthly traffic updates: www.airnewzealand.co.nz/monthly-operating-data

Quarterly fuel hedging disclosure: www.airnewzealand.co.nz/fuel-hedging-announcements

Corporate governance: www.airnewzealand.co.nz/corporate-governance

Sustainability: <https://www.airnewzealand.co.nz/sustainability>

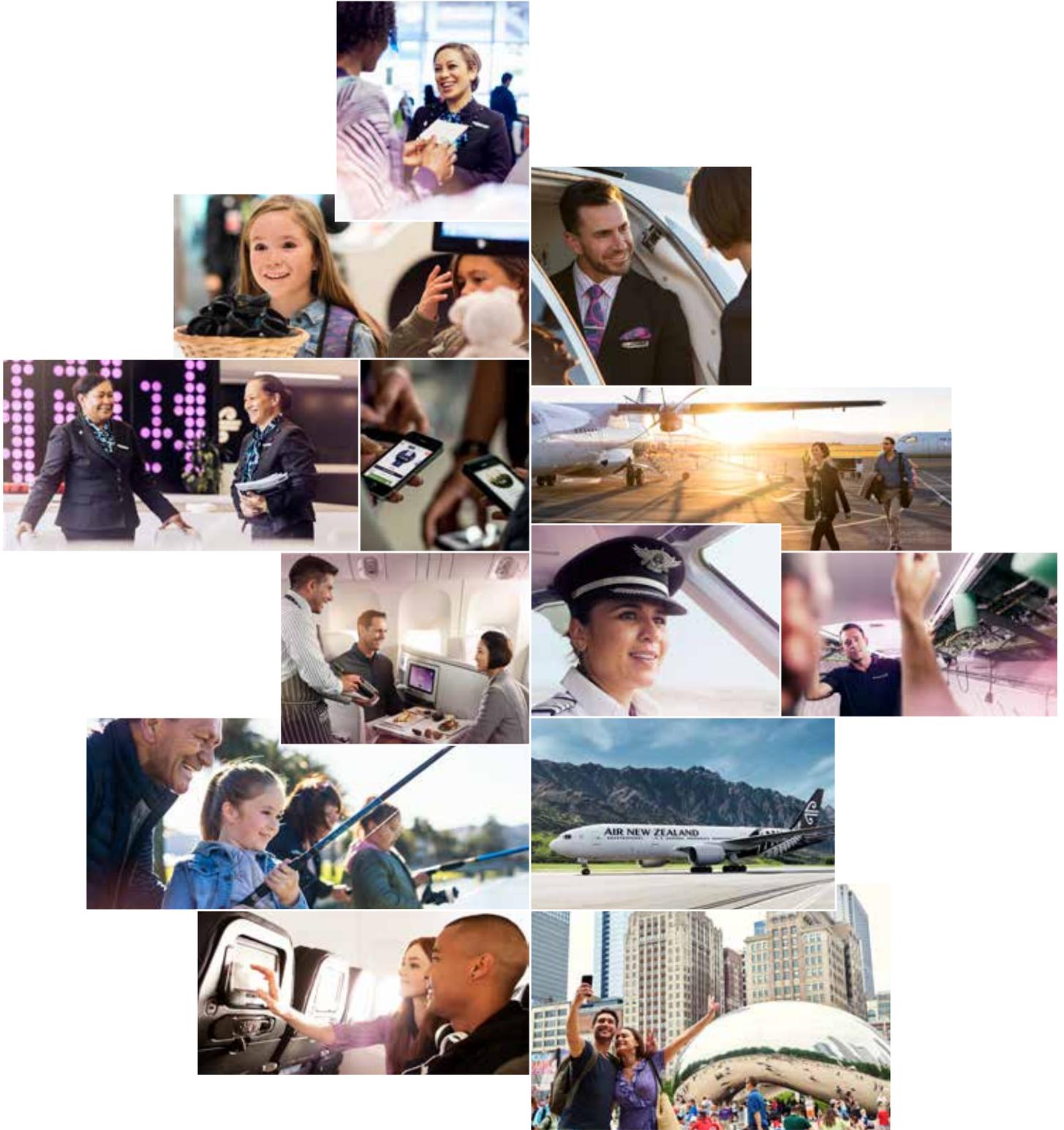
Contact information

Email: investor@airnz.co.nz

Share registrar: enquiries@linkmarketservices.com

AIR NEW ZEALAND 

A STAR ALLIANCE MEMBER 

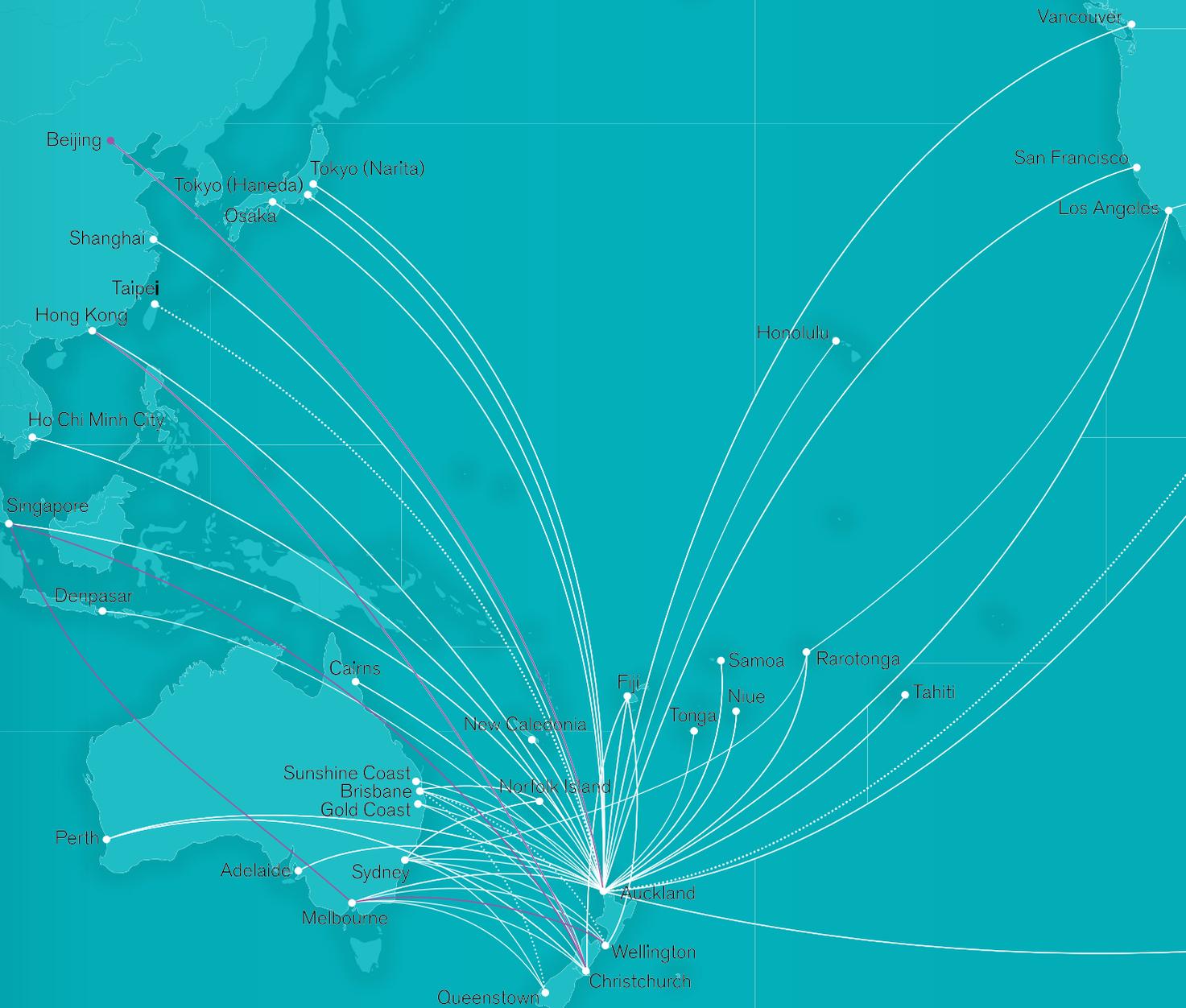


ANNUAL SHAREHOLDER REVIEW

2018

WHERE WE FLY

Kia ora



Key

- Routes operated by Air New Zealand
- New routes commencing in the 2019 financial year
- Routes operated solely by alliance partners



Chicago

Houston

London

Buenos Aires

Contents

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2018 KEY HIGHLIGHTS

No.1 employer
top rated in New Zealand
2018 Randstad Employer Brand research

39%
of women in
senior leadership positions;
up from 16% in 2012

**FTSE4Good
constituent¹**
for the second year in a row

**No.1 corporate
reputation**
in New Zealand and Australia
Colmar Brunton Corporate Reputation Index 2018

Over 2.8m
Airpoints™ members;
up 13% from 2017

934,000
flights paid for by
Airpoints™ Dollars during the year

**Awarded Best
Loyalty Programme**
in New Zealand
NZ Marketing Association

**Top Airline
in the World**
awarded by US luxury
and lifestyle travel magazine
Condé Nast Traveler

26% improvement
in 2018 total recordable
injuries compared to 2017

5.0% growth
in network capacity (ASKs)

6 new aircraft
added to fleet during the year;
consisting of 2 B787-9s
and 4 ATR72-600s

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



\$5.5b

Operating revenue

\$540m

Earnings before taxation

\$1b

Operating cash flow

22 cents

Full year declared dividend per share

The infographic features a woman's profile on the left, smiling and looking towards the right. Overlaid on the right side are five purple circles of varying sizes, each containing a financial highlight. The circles are arranged in a descending staircase pattern from top to bottom. The woman is wearing a purple and black patterned top and has her hair tied back in a bun.

Operating revenue

\$540m

Earnings before taxation

\$1b

Operating cash flow

22 cents

Full year declared dividend per share

LETTER FROM THE CHAIRMAN



A financial performance to be proud of

Air New Zealand has again proved the strength and agility of its business model, generating the second-highest result in the airline's history and investing for future success.

\$5.5 billion  **7.4%**
Operating revenue

\$540 million  **2.5%** **\$1.3b**
Earnings before taxation cash position

\$390 million  **2.1%** **52.4%**
Net profit after taxation gearing

\$1 billion **11 cents**
Operating cash flow per share final ordinary dividend

14.5% **22 cents**
Pre-tax Return on Invested Capital per share total ordinary dividend



Delivering on our strategy

Our Pacific Rim growth strategy has driven Air New Zealand's sustainable results over the past six years, with a focus on profitable growth across key markets where our unique competitive advantages can deliver long-term returns to our shareholders. This year is no different, as Air New Zealand increased capacity by 5.0 percent, reflecting growth across all regions of the network.

Disciplined investments continued to support our growth and drive efficiencies, with continued improvement in lounges, airport upgrades and additional 275-seat Boeing 787-9 Dreamliners and 68-seat ATR aircraft entering the fleet in the year.

Strong financial results

Air New Zealand delivered yet another impressive financial performance in 2018, reporting earnings before taxation of \$540 million, the second-highest result in the Company's 78-year history. This strong result compares to \$527 million in the prior year and is an excellent outcome that shareholders can be proud of, and is even more significant considering the challenges of increasing fuel prices during the year.

Operating revenue grew 7.4 percent, and was the key driver of earnings growth this year, as the Company's diversified network saw continued strong demand and positive pricing dynamics across most of the major markets. Significant growth across the cargo and contract services businesses also contributed to the strong revenue performance in the year.

Air New Zealand's continued focus on sustainable cost improvement helped to partially offset rising operating costs, which were up 9.2 percent, driven primarily by a 16 percent increase in the average fuel price. Efficiencies from cost saving initiatives and economies of scale contributed \$104 million to the result and enabled a 0.5 percent¹ improvement in unit costs.

Gearing and dividend

The Company's balance sheet remains strong with gearing of 52.4 percent. This is slightly higher than last year's gearing of 51.8 percent and reflects foreign exchange movements and additional investment in new aircraft. Air New Zealand continues to maintain a stable investment grade credit rating of Baa2 from Moody's.

As a Board we are very focused on delivering consistent and sustainable returns for our shareholders. Having reviewed the current trading environment and with the Company's strong financial position in mind, the Board is pleased to declare a fully imputed final dividend of 11.0 cents per share, bringing the total ordinary dividend for the 2018 financial year to 22.0 cents per share, an increase of 4.8 percent.

Staff bonus

One of the key things that sets us apart from others is our people and their unique commitment and passion for Air New Zealand. In recognition of the robustness of the financial result, the Board has awarded staff bonuses of up to \$1,800 to be paid to approximately 8,500 Air New Zealanders who do not have other incentive programmes as part of their employment agreement.

Executive Team changes

In September we will say goodbye to our Chief Operations Officer Bruce Parton, after 22 years with the airline. Bruce has made an immense contribution to the Company throughout his career, holding various senior leadership roles before his appointment to the Executive in 2013. His role has been accountable for the major operational areas of the Company with responsibility for leading more than 7,000 employees.

In July we welcomed Carrie Hurihanganui as our new Chief Ground Operations Officer, yet another example of the strong internal talent development at Air New Zealand.

Board succession

Succession planning is a key focus area of any Board, and I am pleased to announce that following the Annual Shareholders' Meeting in 2019, Dame Therese Walsh will succeed me as Chairman of Air New Zealand. Therese will be an excellent Chairman, and has already served on the Board for two years. She has the unanimous support of her fellow Directors and is an outstanding leader with extremely strong corporate governance and commercial skills.

Since joining the Board of Air New Zealand in 2010, it has been my privilege to lead such an iconic Kiwi company. The year ahead

is full of opportunities, and I look forward to spending this time supporting Christopher and the Executive team in all they are doing to supercharge New Zealand's success.

Outlook

Based upon current market conditions and assuming an average jet fuel price of US\$85 per barrel, 2019 underlying earnings before taxation is expected to be in the range of \$425 million to \$525 million.

This excludes an estimated \$30 million to \$40 million impact from schedule changes prompted by the global Rolls-Royce engine issues.

Tony Carter
Chairman

23 August 2018

1. Excluding FX, fuel price, third party maintenance and other significant items in the comparative year as disclosed in the 2017 Financial Results.

Q&A WITH OUR CHIEF EXECUTIVE OFFICER

Chief Executive Officer Christopher Luxon answers key questions on Air New Zealand's performance and priorities for the future.

Q. **What achievements are you most proud of in 2018?**

A. I think there is a great deal to be proud of this year. We have achieved the second-highest financial result in our history while dealing with some extraordinary operational challenges, and through it all, our people across the business have really stepped up for our customers.

If we put 2018 into context, we dealt with the rupture of the fuel pipeline into Auckland last September, the unscheduled maintenance issues on the Rolls-Royce Trent 1000 engines, a number of extreme weather events and rising fuel prices. It's been a rough road at times as we've navigated our way through these issues, and I'm immensely proud of the way Air New Zealanders from all areas of the business have pulled together in the face of these challenges.

For example, we've had off duty cabin crew and pilots volunteering at airports to help with check-in, and supplementing crews on flights that needed to stop and refuel. Staff across the whole business have been going above and beyond to keep our customers moving quickly and safely. It is that kind of dedication to going the extra mile for our customers which has always set Air New Zealand apart from other airlines.

Q. **What investments are you making in customer experience?**

A. Our customers are the core of our business and Air New Zealand is hugely committed to improve the experience they have when they fly with us. Our goal is to offer the best travel experience of any airline in the world and to succeed, we need to continuously look for ways to improve.

This year we have further invested in the airport experience particularly for customers travelling to and from regional New Zealand, opening lounges in Hamilton and Palmerston North, as well as Queenstown, and making investments in our airport kiosks to streamline the check-in experience.

We continue to upgrade our fleet, with Airbus A320/321 NEO aircraft commencing on our Tasman and Pacific Islands network later this year. I'm proud to say that Air New Zealand will be the first airline to operate the NEO in Australasia. Beginning in 2020, we will also be introducing A321 NEO aircraft on our domestic routes, which will provide significantly more seats and fuel efficiency than the current aircraft.

This year is also exciting as we look to replace our Boeing 777-200 fleet. Given the long lead times to receive aircraft, we recently issued a request for proposal to the airline manufacturers and expect to announce a decision on the replacement aircraft in the next six to eight months. Those aircraft will then come into service towards the end of the 2022 calendar year. Along with the new aircraft, we will be looking at improvements to the inflight product we offer our customers including seats, inflight entertainment, food and more.



Q. **You brought up the engine issues impacting the Boeing 787 Dreamliners – how is Air New Zealand addressing the impact to customers?**

A. The global Trent 1000 engine issues have been a significant challenge for the airline this year but in my opinion, we have responded quickly and have done everything in our control to minimise the disruption for our customers. Our engineering and maintenance teams have been working hard with the team at Rolls-Royce to manage the maintenance requirements and get our engines into its facility in Singapore as quickly as possible.

In saying all of this, I'm very aware that many of our customers have experienced delays and disruption to their travel plans, and that the onboard experience on some of our leased aircraft has been different to what customers expect when travelling with Air New Zealand. We made a conscious decision in December when the engine issues first came to light that we would do everything in our power to keep our customers moving. That is a very

different approach to many of the other airlines globally who chose instead to cancel thousands of flights and left their customers stranded, but we know that it's been a bit suboptimal at times.

We are working hard to improve both operational and service reliability – for example, we have secured three short-term dry lease aircraft (which means that our pilots and our crew will operate these aircraft). In addition, after being advised in late August that there is likely to be a timing-related delay in getting some of our engines back, we have made schedule adjustments to essentially free up two widebody aircraft and give greater schedule certainty to our customers.

We are also investing in people, adding staff to our contact centre and other key customer touchpoints. While the engine issues are not in our control, the relationship with our customers is what matters most, so we must continue to stay on our game and go the extra mile to ensure their travel journey with Air New Zealand is an enjoyable one.

Q. **Air New Zealand will be launching four new routes this coming year – how do these destinations fit into Air New Zealand's growth strategy?**

A. Our Pacific Rim growth strategy has allowed for consistently profitable network expansion over the past seven years, with 17 million passengers a year travelling on the airline compared with 13 million back in 2013. The new routes we will be flying this year complement this focus.

On the Tasman, we will be commencing new direct services to Brisbane from Wellington and Queenstown beginning in December. Australia is our biggest international market, with over 1.4 million inbound visitors this year and we have about 35 percent market share, the largest of any airline on the Tasman. As such, these new routes will strengthen our already strong customer proposition in Australasia.

Turning to long-haul, we will begin flying directly to Chicago in November, further deepening our footprint into the US market. We are proud to offer our customers more ways to get between New Zealand and the United States and more connection opportunities beyond our US gateways than any other airline in the world, thanks to our strong strategic alliance with United Airlines. Revenue alliances with our airline partners have been a key enabler of our profitable growth in large long-haul markets.

Finally, Taipei will become our seventh destination in Asia, and will be another strong addition to our network. New Zealand welcomed approximately 42,000 visitors from the area this year, all of whom had to use multi-stop options to get here. This route will further grow and diversify our Asian network, which has been a key pillar of growth.



Q. Can you give an update on Air New Zealand's role in supercharging regional New Zealand?

- A. At Air New Zealand we recognise that we have a responsibility to supercharge New Zealand's success socially, environmentally and economically. In order to do this, we need to promote regional New Zealand and our rich cultural history.
- Earlier this year we announced a partnership with Ngāti Porou, which we hope will generate economic and social growth in Tairāwhiti Gisborne. The East Coast is a pivotal piece of New Zealand's rich cultural history and we have worked closely with Ngāti Porou for the past two years now, as we both believe that Tairāwhiti Gisborne is one of the jewels in the New Zealand tourism proposition that is yet to meet its potential. By working with local iwi in a co-ordinated way, we are creating a new model for regional economic development – driving tourism flows, growing exports and creating more jobs. We have done this purposefully and deliberately – we want to set up a roadmap that can be rolled out to other regions across New Zealand to drive regional development and sustainable tourism. For us, it was vital that we embarked on this journey in partnership with local iwi, who like us aspire to leave New Zealand in a better place for future generations.
- We hope that this will open a new chapter in the role that Air New Zealand can play in supporting the aspirations of iwi around the country.

Q. There is discussion of a global pilot shortage. Is it impacting Air New Zealand?

- A. At Air New Zealand we have about 1,500 pilots. We'll take on about 150 new pilots this year and we've successfully recruited those and are well set up for the year, but we do recognise that things are changing and if we don't do things differently in the future we may have a pilot shortage problem.
- We are working with various stakeholders to determine how we can get more people interested in flying, so that we can continue to ensure a good pipeline of pilots over the next generation. As an example, we have been working closely with our unions to develop a clear career pathway, so that we can go into schools and communicate with kids exactly what is needed to become a pilot. That level of discussion also means convincing parents that there is a secure future in becoming a pilot, and it is therefore worth the investment that is required to train and earn the necessary credentials. Another area where we are looking to provide greater clarity is making sure that people studying and training to become pilots have greater visibility as to what their first jobs may be, thereby providing more confidence and security early in their career.

Q. How does Air New Zealand promote diversity in the workplace?

- A. We know the benefits that diversity brings to organisations culturally and commercially and it is important that we represent the customers we serve. At Air New Zealand we have an ambitious Diversity and Inclusion strategy. I believe it is critical to our success that we foster an environment and culture where our people feel valued and empowered to do their jobs, irrespective of labels like gender, ethnicity, sexuality or age.
- In recent years, we have formed our Māori & Pasifika, LGBTQI, Women and Asian employee networks, and created development opportunities and programmes for diverse talent through initiatives such as Women in Leadership, Emerging Leaders and TupuToa Internships.
- We have seen tangible results in our investment in gender diversity programmes focused on developing women for leadership positions, with 39 percent of our Senior Leadership Team comprised of women this year, which is close to our company-wide female representation of 42 percent. Our focus continues to be on improving this proportion, as well as increasing the number of women in groups such as pilots, engineering and maintenance and digital.
- In addition to gender diversity, we are working to develop and increase under-represented minority groups into management roles. This includes embedding inclusivity and cultural fluency as a key part of all leadership touchpoints through such initiatives as weaving Māori cultural competency through leadership programmes and providing coaching on cultural protocols and Te Reo Māori for senior leaders.
- We are dedicated to creating an environment where our people feel connected and developed. Looking ahead, we will continue to invest in a variety of areas to help create a sense of belonging across the airline.

Q. Can you discuss your thoughts on the changes within the Executive Team this year?

- A. The Executive spends a great deal of time on succession planning and ensuring that the talent population across the senior levels of the airline have the right mix of skills and experience. We work hard to actively develop our people across the business and were thrilled this year to be able to appoint two internal candidates, Nick Judd and Jeff McDowall, to the Executive Team after conducting a global search. Both Nick (our Chief Strategy, Networks and Alliances Officer) and Jeff (our Chief Financial Officer) have a wealth of experience with the airline and each bring their own unique skills and experience to the team, so we are excited to have them on board.



I think the fact that we can develop, retain and promote such high calibre talent is a testament not only to the airline's strong culture, but to the approach we have taken around internal and external talent development. The investment in talent programmes and building a stronger pipeline of internal candidates for succession roles has been a deliberate move over the past six years and we are really proud of the results.

Another great example of internal talent development and succession planning is the planned departure of our Chief Operations Officer Bruce Parton this September, after 22 years of immense contribution to Air New Zealand. We have been fortunate enough to welcome back Carrie Hurihanganui, who spent 18 years with the airline before joining National Australia Bank last year. Carrie brings a very customer-focused perspective to the role of Chief Ground Operations Officer, having started with Air New Zealand as a flight attendant in 1999 while she studied for her Bachelor of Business Management degree from Massey University. Carrie then built deep experience through numerous senior roles across airports, crew, airline operations and customer experience.

I am personally very excited to see the contribution that the new members of the Executive Team will bring to the airline as we look to innovate and further build upon our strengths.

Christopher Luxon
Chief Executive Officer

23 August 2018

L-R. | **Nick Judd** – Chief Strategy, Networks and Alliances Officer
Carrie Hurihanganui – Chief Ground Operations Officer
Jeff McDowall – Chief Financial Officer

AIR NEW ZEALANDERS MAKING A DIFFERENCE

Keeping our customers moving in tough times

Imagine this: you head to the office and the minute you sit down at your desk you are told there is a typhoon expected to land in Tokyo and at the same time, an aircraft is being held in Nadi as a result of volcanic ash cloud – how do you ensure the minimum amount of disruption to the daily flight schedule and take care of the impacted customers on those flights? Those are the types of scenarios that Air New Zealand's Customer Care team must work through on a daily basis.

24 hours a day, 7 days a week, a team of 60 people working at the airline's Auckland Airport campus is dedicated to responding to issues that might impact the on-time performance of flights across the domestic and international network. Customer Journey Managers focus on passenger care, social media alerts and customer recovery – with an overarching goal of keeping customers moving safely and quickly to their destinations.

"Dedication and resilience with a dash of good humour are the words I would use to describe the team," says Doug Grant, Senior Manager Customer Care and Communications, noting that the average tenure of the team is 17 years, and that maturity and knowledge is extremely valuable when coordinating time-sensitive decisions with operations, flight planning crew, airports teams and communications to mitigate impact to customers and keep them in the loop as much as possible. Anita Hawthorne, General Manager Customer Experience noted that the Customer Care team exemplifies the strong internal culture that differentiates the airline, saying, *"it is the extra mile that the team consistently works towards, under some tough circumstances, that underpins what makes Air New Zealanders so special and why customers feel such a strong bond with Air New Zealand."*



Taking Te Reo Māori to the skies

Captain Sara Mulvey, a domestic pilot who has worked for Air New Zealand for 10 years, started using Te Reo Māori to welcome passengers on board her flights and for some inflight communications in September. She sees it as an important way to normalise use of the Māori language in New Zealand and has been pleased to receive compliments from passengers at the end of the flight. *"The feedback from customers is overwhelmingly positive and there is a great appreciation for the language being heard on our airline – some customers even make the effort to thank me in Te Reo at the end of their flight,"* says Sara.

Since starting to use Te Reo inflight, Sara has had colleagues approach her for guidance on use of the language and hopes to encourage others to follow in her footsteps and embrace the use of Te Reo Māori in New Zealand. *"I would love to see New Zealand embrace our culture and I hope when my children are adults they will hear Te Reo Māori as much as they hear English."*



Inspiring the next generation of female engineers

Air New Zealand was proud to celebrate International Women in Engineering Day in June this year with a number of activities aimed at celebrating women in the industry and inspiring the next generation of females.

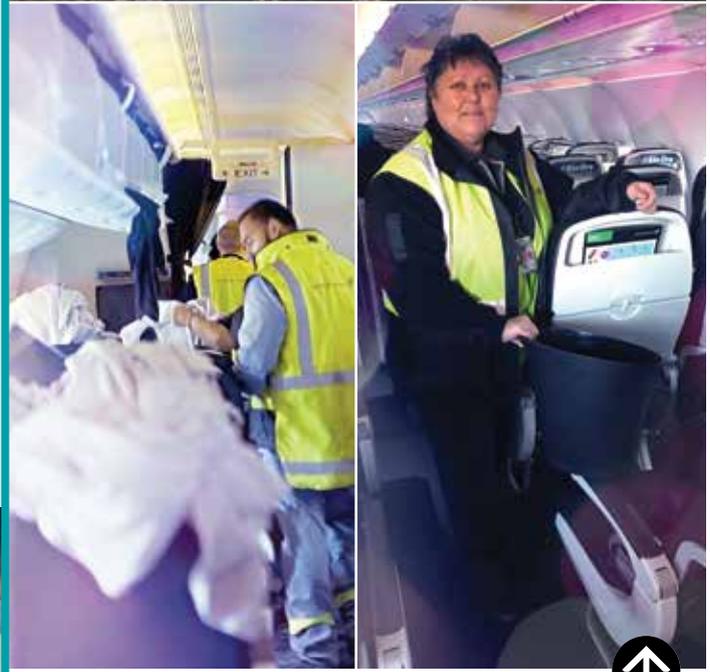
Partnering with not-for-profit organisation inKIND on its Finding Rosie project, Air New Zealand Fleet Technical Manager Jane Campbell and Reliability Engineer Georgia Craies had the privilege of taking Year 5 and 6 school girls from Viscount School in Mangere on a tour of our engineering hangers in Auckland. The Finding Rosie project aims to encourage primary-school girls into science, technology, engineering and maths (STEM) careers by finding real life Kiwi Rosies to share their career stories.

The girls, many of whom had never been on a plane before, were thrilled to watch an aircraft being towed into the hanger, sit in the cockpit of one of our Boeing 787-9 aircraft and hear more about what it's like to be an aircraft engineer.

Engineer Georgia Craies said that it was, *"amazing watching their faces light up when they see the planes and start realising what is out there and how big the industry is."*



School girls from Viscount School in Mangere ready to tour one of our engineering hangers in Auckland



Reducing inflight waste

Inflight waste is a huge challenge for the airline industry, so we are focused on playing our part and reducing the amount of waste we generate. Air New Zealand has a number of initiatives in place to help us to reduce inflight waste.

In the past year, the recycling rates on our domestic jet network have improved by 8 percent as a result of stronger collaboration between cabin crew and our operational teams to collect and separate recyclables. Liza Rolleston-Kerr, cabin crew on our domestic network says, *"Customers and crew alike are very supportive of our sustainability efforts. We are seeing more and more customers bringing their own refillable bottles and keep cups on board which is great."*

On the international network, one of our initiatives to reduce inflight waste has already hit its first-year target, diverting 150 tonnes of waste from landfill in a year. A further 82 tonnes of glass has also been diverted from landfill in the past year, taking the total amount to more than 230 tonnes – close to the equivalent weight of one of our empty Boeing 777s. Gina Eberle, Flight Service Manager, International Inflight Services says, *"Our people are so passionate about sustainability – they have so many great ideas for doing things differently and continuously improving our processes – they always want to do more."*

FINANCIAL COMMENTARY

The result, the second-highest in the Company's history, was driven by strong capacity growth matched by increased demand and supported by cost initiatives and scale economies, which more than offset increased fuel prices in the year.

Air New Zealand's earnings before taxation for the 2018 financial year were **\$540 million** up 2.5 percent on the previous year.

Net profit after taxation was **\$390 million** an increase of 2.1 percent.

Revenue

Operating revenue increased by \$376 million to \$5.5 billion, an increase of 7.4 percent on the prior year. Excluding the impact of foreign exchange, operating revenue increased 7.1 percent.

Passenger revenue increased by \$303 million to \$4.7 billion, a 6.9 percent increase. Excluding the impact of foreign exchange, passenger revenue increased by 6.7 percent. Capacity (Available Seat Kilometres, ASK) increased 5.0 percent, reflecting growth across all regions of the network. Demand (Revenue Passenger Kilometres, RPK) grew ahead of capacity at 5.3 percent, resulting in an improved load factor of 82.8 percent.

Passenger Revenue per Available Seat Kilometre (RASK) for the Group improved 1.8 percent, due to increased demand and the impact of stabilising competition. Excluding the benefit of foreign exchange, RASK improved 1.6 percent.

International long-haul capacity increased 3.7 percent due to the commencement of a new service to Haneda airport in Tokyo, increased frequency on the Buenos Aires and Vancouver routes and larger gauge aircraft on some of our services to the United States. Demand on international long-haul routes increased 3.3 percent, with load factor declining 0.4 percentage points to 83.4 percent. International long-haul RASK decreased by 1.2 percent reflecting the additional capacity growth into Japan and increased competition on the Atlantic which impacted the London service.

Excluding the adverse impact of foreign exchange, RASK declined by 1.3 percent.

Short-haul capacity grew 6.6 percent, driven by increased frequency on domestic main trunk routes such as Auckland to Queenstown, as well as increased frequency to Honolulu and Bali and larger-gauge aircraft on a number of Tasman, Pacific Islands and domestic jet routes. Demand growth of 8.0 percent exceeded capacity, with load factors improving by 1.1 percentage points to 82.1 percent. Short-haul RASK increased 3.4 percent, and excluding the impact of foreign exchange, increased 3.0 percent, driven by strong demand and stabilising competition on the Tasman.

Cargo revenue was \$370 million, an increase of \$35 million or 10 percent. Excluding the favourable impact of foreign exchange, cargo revenue increased 9.6 percent. Volume grew 6.3 percent and the yield increased 3.3 percent.

Contract services and other revenue was \$436 million, an increase of \$38 million or 9.5 percent on the prior year. The increase reflected higher third-party maintenance and ancillary revenue. There was no impact from foreign exchange.



Earnings before taxation



Ex Dividend date:

6 September 2018

Dividend Record date:

7 September 2018

Dividend Payment date:

19 September 2018

Expenses

Operating expenditure increased by \$352 million, a 9.2 percent increase on the prior year, largely driven by higher fuel prices.

Excluding the additional \$135 million related to increased fuel prices, the impact of unfavourable foreign exchange movements and third-party maintenance costs, operating expenditure increased 4.7 percent on a 5.0 percent increase in capacity.

Costs per ASK increased 4.0 percent this year, driven by fuel price increases, foreign exchange and increased costs related to third-party maintenance contracts. Excluding those items, costs per ASK improved 0.5 percent, as efficiencies achieved throughout the cost base offset inflation. Economies of scale and efficiencies contributed \$104 million in savings.

Labour costs were \$1.3 billion for the period, an increase of \$33 million or 2.6 percent. Excluding the impact of foreign exchange, labour costs increased 2.5 percent on a 5.0 percent increase in capacity. Rate and activity increases throughout the year were partially offset by productivity improvements. Headcount increased by 184 full time equivalent (FTE) employees to 11,074 FTEs, a 1.7 percent increase compared to the prior year.

Fuel costs were \$987 million, increasing by \$160 million or 19 percent. Excluding the \$5 million benefit from foreign exchange, fuel costs increased by 20 percent. The largest driver of the increase was underlying fuel prices which increased 25 percent, however this was offset by the impact of

hedging benefits of \$63 million, resulting in a net price related increase of \$135 million or 16 percent. Also contributing to the increase was 3.6 percent growth in volume (\$30 million), net of fleet efficiencies from new aircraft.

Aircraft operations, passenger services and maintenance costs were \$1.3 billion, an increase of \$115 million or 10 percent on the prior year. Increased capacity, passenger numbers and price increases drove increased aircraft operations and passenger services expenses. Maintenance expenditure increases were driven by third-party maintenance activity, higher jet fleet engine costs and growth in the fleet.

Sales and marketing and other expenses increased by \$31 million, or 5.1 percent, due to increased loyalty programme activity, commission volumes, property and digital costs, partially offset by lower advertising costs.

Depreciation, rental and lease expense and funding costs increased by \$18 million or 2.3 percent. Excluding the impact of foreign exchange, costs increased by 2.9 percent, reflecting an increase in aircraft depreciation due to delivery of new aircraft, as well as digital and lounge refurbishment costs.

The impact of foreign exchange rate changes on the revenue and cost base in the year resulted in a favourable foreign exchange movement of \$19 million. After taking into account a \$13 million unfavourable movement in hedging, overall foreign exchange had a net \$6 million positive impact on the Group result in the year.

Share of Earnings of Associates

The share of equity earnings of associates reflected \$33 million from the Christchurch Engine Centre, an increase of \$7 million, driven by continued growth in engine volumes.

Cash and Financial Position

Cash on hand at 30 June 2018 was \$1.3 billion, a small decrease of \$26 million from 30 June 2017 with net aircraft additions, dividends and debt repayments being offset by strong operating cash flows.

Operating cash flows were \$1.0 billion, an increase of 14 percent from the prior year, reflecting improved cash operating earnings, an increase in working capital cash flow and lower tax payments related to the change in legislation regarding the treatment of engine maintenance.

Net gearing, including capitalised aircraft operating leases, increased 0.6 percentage points to 52.4 percent. The increase was primarily due to foreign exchange movements and the purchase of new aircraft offset by strong operating earnings.

A fully imputed final ordinary dividend has been declared of 11.0 cents per share, bringing the full year 2018 ordinary dividends declared to 22.0 cents per share, an increase of 4.8 percent.

CHANGE IN PROFITABILITY

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

June 2017 earnings before taxation	\$527m	
Passenger capacity	\$193m	- Capacity increased by 5.0 percent from growth across the network due to the impact of a new Haneda route, increased frequency on Buenos Aires and Vancouver routes, increased widebody services and frequency across the Tasman and Pacific Islands network and domestic growth
Passenger RASK	\$99m	- Revenue per Available Seat Kilometre (RASK) improved 1.6 percent excluding FX driven by strong demand on the Domestic and Tasman and Pacific Islands routes. Loads increased by 0.2 percentage points to 82.8 percent - Long-haul RASK declined by 1.3 percent excluding FX and loads declined 0.4 percentage points on additional capacity growth - Short-haul RASK improved by 3.0 percent excluding FX and loads improved 1.1 percentage points
Cargo revenue	\$32m	- Higher cargo revenue due to increased volumes of 6.3 percent and yields of 3.3 percent
Contract services and other revenue	\$38m	- Increase in third party maintenance and ancillary revenue
Labour	-\$32m	- Increased activity (net of improved productivity) arising from capacity growth and general rate increases
Fuel	-\$165m	- The average fuel price increased 16 percent compared to the prior year (net of hedging benefits). Consumption increased by 3.6 percent due to an increase in capacity offset by fleet efficiencies
Maintenance	-\$32m	- Increase in third party maintenance work, increased jet fleet maintenance and growth in fleet
Aircraft operations and passenger services	-\$81m	- Increased activity and price increases
Sales and marketing and Other expenses	-\$30m	- Increased loyalty programme activity, commission volumes, property and digital costs partially offset by lower advertising costs
Depreciation, lease and funding costs	-\$22m	- Increase in depreciation reflecting new aircraft deliveries offset by reduced funding costs
Net impact of foreign exchange movements	\$6m	- Net favourable impact of currency movements on revenue and costs offset by higher foreign exchange hedging losses
Share of earnings from associates	\$7m	- Improved earnings from Christchurch Engine Centre driven by growth in engine volumes
June 2018 earnings before taxation	\$540m	

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



FINANCIAL SUMMARY

Financial Performance

	12 MONTHS TO 30 JUNE 2018 \$M	12 MONTHS TO 30 JUNE 2017 \$M
Operating Revenue		
Passenger revenue	4,679	4,376
Cargo	370	335
Contract services and other revenue	436	398
	5,485	5,109
Operating Expenditure		
Labour	(1,294)	(1,261)
Fuel	(987)	(827)
Maintenance	(352)	(321)
Aircraft operations	(611)	(556)
Passenger services	(295)	(266)
Sales and marketing	(357)	(352)
Foreign exchange losses	(19)	(6)
Other expenses	(278)	(252)
	(4,193)	(3,841)
Operating Earnings (excluding items below)	1,292	1,268
Depreciation and amortisation	(525)	(493)
Rental and lease expenses	(227)	(230)
Earnings Before Finance Costs, Associates and Taxation	540	545
Net finance costs	(33)	(44)
Share of earnings of associates (net of taxation)	33	26
Earnings Before Taxation	540	527
Taxation expense	(150)	(145)
Net Profit Attributable to Shareholders of Parent Company	390	382
Interim and final dividends declared per share (cents)	22.0	21.0
Net tangible assets per share (cents)	179	164

Cash Flows

	12 MONTHS TO 30 JUNE 2018 \$M	12 MONTHS TO 30 JUNE 2017 \$M
Cash inflows from operating activities	5,472	5,227
Cash outflows from operating activities	(4,441)	(4,323)
Net cash flow from operating activities	1,031	904
Net cash flow from investing activities	(778)	(616)
Net cash flow from financing activities	(279)	(513)
Decrease in cash and cash equivalents	(26)	(225)
Cash and cash equivalents at the beginning of the year	1,369	1,594
Cash and Cash Equivalents at the End of the Year	1,343	1,369

FINANCIAL SUMMARY (CONTINUED)

Financial Position		
AS AT	30 JUNE 2018 \$M	30 JUNE 2017 \$M
Bank and short-term deposits	1,343	1,369
Trade and other receivables	576	386
Inventories	75	86
Derivative financial assets	187	19
Income taxation	4	-
Other assets	68	27
Total Current Assets	2,253	1,887
Trade and other receivables	77	120
Property, plant and equipment	5,035	4,745
Intangible assets	170	149
Investments in other entities	118	95
Derivative financial assets	2	-
Other assets	191	175
Total Non-Current Assets	5,593	5,284
Total Assets	7,846	7,171
Trade and other payables	562	462
Revenue in advance	1,322	1,177
Interest-bearing liabilities	431	317
Derivative financial liabilities	1	65
Provisions	117	87
Income taxation	-	36
Other liabilities	263	261
Total Current Liabilities	2,696	2,405
Revenue in advance	185	184
Interest-bearing liabilities	2,303	2,197
Provisions	151	183
Other liabilities	27	23
Deferred taxation	308	193
Total Non-Current Liabilities	2,974	2,780
Total Liabilities	5,670	5,185
Net Assets	2,176	1,986
Issued capital	2,226	2,238
Reserves	(50)	(252)
Total Equity	2,176	1,986

The summary financial information has been derived from, and should be read in conjunction with, the Air New Zealand Group Annual Financial Statements (the 'Annual Financial Statements'). The Annual Financial Statements, dated 23 August 2018, are available at: airnzinvestor.com. The summary financial information cannot be expected to provide as complete an understanding as provided by the Annual Financial Statements. The accounting policies used in these financial statements are attached in the notes to the Annual Financial Statements.

Share Registrar

LINK MARKET SERVICES LIMITED

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Annual Financial Statements

The Annual Financial Statements are available by visiting our website airnzinvestor.com OR you may elect to have a copy sent to you by contacting Investor Relations.

ELECTRONIC SHAREHOLDER COMMUNICATION

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

Investor Relations Office

Private Bag 92007, Auckland 1142, New Zealand

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

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

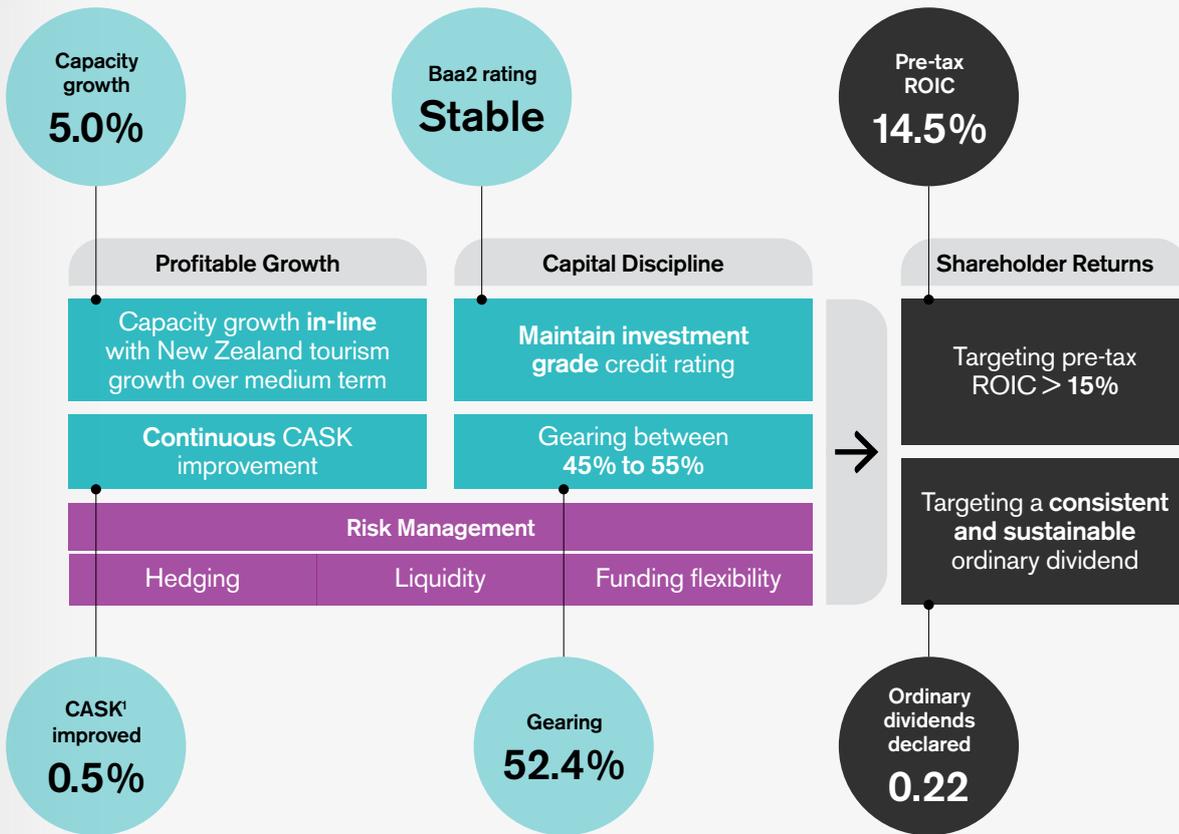
Fax: (64 9) 336 2664

Email: investor@airnz.co.nz

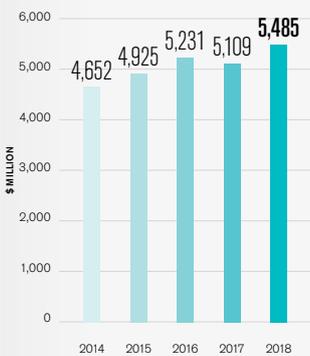
Website: airnzinvestor.com



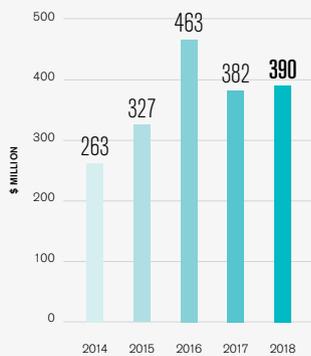
FINANCIAL FRAMEWORK – OUR 2018 PERFORMANCE



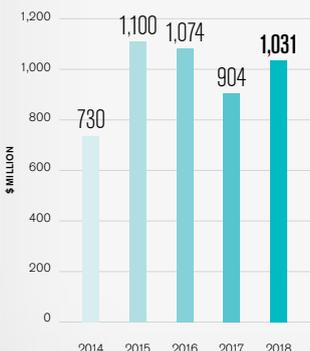
Operating revenue



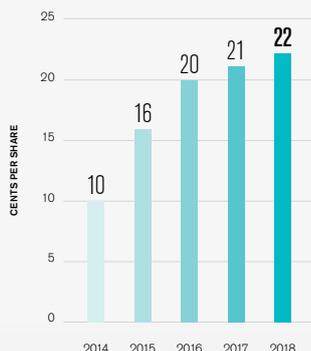
Net profit after taxation



Operating cash flow



Ordinary dividends declared



¹Excluding fuel price movement, FX, third party maintenance and other significant items in the comparative year, as disclosed in the 2017 Financial Results.



Department of
Conservation
Te Papa Atawhai



AIR NEW ZEALAND

*Helping our
precious
passengers
take flight*



AIR NEW ZEALAND

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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 2018.

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 2018 and the results of the Group's operations and cash flows for the year ended on that date.

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

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

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

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

Tony Carter
Chairman

23 August 2018

Jan Dawson
Deputy Chairman

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STATEMENT OF FINANCIAL PERFORMANCE

For the year to 30 June 2018

	NOTES	2018 \$M	2017 \$M
Operating Revenue			
Passenger revenue		4,679	4,376
Cargo		370	335
Contract services		193	164
Other revenue		243	234
	1	5,485	5,109
Operating Expenditure			
Labour		(1,294)	(1,261)
Fuel		(987)	(827)
Maintenance		(352)	(321)
Aircraft operations		(611)	(556)
Passenger services		(295)	(266)
Sales and marketing		(357)	(352)
Foreign exchange losses		(19)	(6)
Other expenses		(278)	(252)
	2	(4,193)	(3,841)
Operating Earnings (excluding items below)		1,292	1,268
Depreciation and amortisation		(525)	(493)
Rental and lease expenses	19	(227)	(230)
Earnings Before Finance Costs, Associates and Taxation		540	545
Finance income		40	43
Finance costs		(73)	(87)
Share of earnings of associates (net of taxation)	11	33	26
Earnings Before Taxation		540	527
Taxation expense	3	(150)	(145)
Net Profit Attributable to Shareholders of Parent Company		390	382
Per Share Information:			
Basic earnings per share (cents)	4	34.7	34.0
Diluted earnings per share (cents)	4	34.4	33.5
Interim and final dividends declared per share (cents)	16	22.0	21.0
Net tangible assets per share (cents)		179	164



STATEMENT OF COMPREHENSIVE INCOME

For the year to 30 June 2018

	NOTE	2018 \$M	2017 \$M
Net Profit for the Year		390	382
Other Comprehensive Income:			
Items that will not be reclassified to profit or loss:			
Actuarial losses on defined benefit plans		-	(3)
Taxation on above reserve movements	3	-	1
Total items that will not be reclassified to profit or loss		-	(2)
Items that may be reclassified subsequently to profit or loss:			
Changes in fair value of cash flow hedges		159	65
Transfers to net profit from cash flow hedge reserve		(92)	(32)
Net translation gain on investment in foreign operations		2	-
Changes in cost of hedging reserve		12	(8)
Taxation on above reserve movements		(21)	(8)
Total items that may be reclassified subsequently to profit or loss		60	17
Total Other Comprehensive Income for the Year, Net of Taxation		60	15
Total Comprehensive Income for the Year, Attributable to Shareholders of the Parent Company		450	397

STATEMENT OF CHANGES IN EQUITY

For the year to 30 June 2018

	NOTES	SHARE CAPITAL \$M	HEDGE RESERVES \$M	FOREIGN CURRENCY TRANSLATION RESERVE \$M	GENERAL RESERVES \$M	TOTAL EQUITY \$M
Balance as at 1 July 2017		2,238	9	(16)	(245)	1,986
Net profit for the year		-	-	-	390	390
Other comprehensive income for the year		-	57	3	-	60
Total Comprehensive Income for the Year		-	57	3	390	450
Transactions with Owners:						
Equity-settled share-based payments	17	5	-	-	-	5
Equity settlements of long-term incentive obligations	17	(17)	-	-	-	(17)
Dividends on Ordinary Shares	16	-	-	-	(248)	(248)
Total Transactions with Owners		(12)	-	-	(248)	(260)
Balance as at 30 June 2018		2,226	66	(13)	(103)	2,176

	NOTES	SHARE CAPITAL \$M	HEDGE RESERVES \$M	FOREIGN CURRENCY TRANSLATION RESERVE \$M	GENERAL RESERVES \$M	TOTAL EQUITY \$M
Balance as at 1 July 2016		2,252	(9)	(15)	(120)	2,108
Net profit for the year		-	-	-	382	382
Other comprehensive income for the year		-	18	(1)	(2)	15
Total Comprehensive Income for the Year		-	18	(1)	380	397
Transactions with Owners:						
Equity-settled share-based payments	17	5	-	-	-	5
Equity settlements of long-term incentive obligations	17	(19)	-	-	-	(19)
Dividends on Ordinary Shares	16	-	-	-	(505)	(505)
Total Transactions with Owners		(14)	-	-	(505)	(519)
Balance as at 30 June 2017		2,238	9	(16)	(245)	1,986



STATEMENT OF FINANCIAL POSITION

As at 30 June 2018

	NOTES	2018 \$M	2017 \$M
Current Assets			
Bank and short-term deposits	5	1,343	1,369
Trade and other receivables	6	576	386
Inventories	7	75	86
Derivative financial assets	22	187	19
Income taxation		4	-
Other assets	8	68	27
Total Current Assets		2,253	1,887
Non-Current Assets			
Trade and other receivables	6	77	120
Property, plant and equipment	9	5,035	4,745
Intangible assets	10	170	149
Investments in other entities	11	118	95
Derivative financial assets	22	2	-
Other assets	8	191	175
Total Non-Current Assets		5,593	5,284
Total Assets		7,846	7,171
Current Liabilities			
Trade and other payables		562	462
Revenue in advance	12	1,322	1,177
Interest-bearing liabilities	13	431	317
Derivative financial liabilities	22	1	65
Provisions	14	117	87
Income taxation		-	36
Other liabilities	15	263	261
Total Current Liabilities		2,696	2,405
Non-Current Liabilities			
Revenue in advance	12	185	184
Interest-bearing liabilities	13	2,303	2,197
Provisions	14	151	183
Other liabilities	15	27	23
Deferred taxation	3	308	193
Total Non-Current Liabilities		2,974	2,780
Total Liabilities		5,670	5,185
Net Assets		2,176	1,986
Equity			
Share capital	17	2,226	2,238
Reserves	18	(50)	(252)
Total Equity		2,176	1,986

Tony Carter
Chairman

For and on behalf of the Board, 23 August 2018

Jan Dawson
Deputy Chairman

STATEMENT OF CASH FLOWS

For the year to 30 June 2018

	NOTES	2018 \$M	2017 \$M
Cash Flows from Operating Activities			
Receipts from customers		5,434	5,187
Payments to suppliers and employees		(4,297)	(4,130)
Income tax paid		(81)	(116)
Interest paid		(63)	(77)
Interest received		38	40
Net Cash Flow from Operating Activities	5	1,031	904
Cash Flows from Investing Activities			
Disposal of property, plant and equipment, intangibles and assets held for resale		33	60
Disposal of investments in quoted equity instruments	2	-	68
Interest-bearing asset receipts		-	137
Distribution from associates	24	16	8
Acquisition of property, plant and equipment and intangibles		(809)	(853)
Acquisition of quoted equity instruments	2	-	(23)
Interest-bearing asset payments		(18)	(13)
Net Cash Flow from Investing Activities		(778)	(616)
Cash Flows from Financing Activities			
Interest-bearing liabilities drawdowns		347	512
Rollover of foreign exchange contracts*		(20)	9
Equity settlements of long-term incentive obligations	17	(17)	(19)
Interest-bearing liabilities payments		(329)	(485)
Dividends on Ordinary Shares	16	(260)	(530)
Net Cash Flow from Financing Activities		(279)	(513)
Decrease in Cash and Cash Equivalents		(26)	(225)
Cash and cash equivalents at the beginning of the year		1,369	1,594
Cash and Cash Equivalents at the End of the Year	5	1,343	1,369

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



STATEMENT OF ACCOUNTING POLICIES

For the year to 30 June 2018

Reporting entity

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

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

Statutory base

The parent company, Air New Zealand Limited, is a profit-oriented entity, domiciled in New Zealand, registered under the Companies Act 1993 and listed on the New Zealand and Australian Stock Exchanges. Air New Zealand Limited is a FMC Reporting Entity under the Financial Markets Conduct Act 2013 and the Financial Reporting Act 2013.

Basis of preparation

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

The financial statements were approved by the Board of Directors on 23 August 2018.

Basis of measurement

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

Use of accounting estimates and judgements

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

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

Area of estimate or judgement	Note
Revenue in advance	Note 1 Revenue recognition and segmental information
Aircraft lease return provisions	Note 14 Provisions
Estimated impairment of non-financial assets	'Impairment' accounting policy
	Note 9 Property, plant and equipment
Residual values and useful lives of aircraft related assets	Note 9 Property, plant and equipment
Taxation	Note 3 Taxation
Contingent liabilities	Note 21 Contingent liabilities

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

Significant accounting policies

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

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

Where necessary, comparative information has been reclassified to achieve consistency in disclosure with the current period. An amount of \$3 million has been reclassified within the Statement of Financial Performance from 'Other significant items' to 'Other expenses' for the year ended 30 June 2017.

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

STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

For the year to 30 June 2018

NZ IFRS 9 (2014) - Financial Instruments has not been adopted early. It includes a framework for classification and measurement of financial instruments and a single, forward-looking impairment model. This Standard, which becomes effective for annual reporting periods commencing on or after 1 January 2018, will have no impact on the financial statements.

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

The impact of NZ IFRS 15 will be presented in the annual financial statements for the year ending 30 June 2019 and the requirements will be retrospectively applied to the comparative period. The timing of recognition of the consideration for certain ancillary services will change to align with the principal performance obligations associated with the services provided. Although the net impact is not material, the related revenue will be reclassified from 'Other revenue' to 'Passenger revenue'. The cost of procuring third party products or services to fulfil Airpoints redemptions will also be reclassified from 'Sales and marketing' to offset against the related redemption revenue reported within 'Passenger revenue'. Reclassifications in the comparative year ended 30 June 2018 will result in an increase in 'Passenger revenue' of \$17 million, a decrease in 'Other revenue' of \$30 million and a decrease in 'Sales and marketing' of \$13 million.

NZ IFRS 16 - Leases has not been adopted early. This standard will fundamentally change the accounting treatment of leases by lessees. The current dual accounting model for lessees, which distinguishes between on balance sheet finance leases and off balance sheet operating leases, will no longer apply. Instead, there will be a single, on balance sheet accounting model for all leases which is similar to current finance lease accounting. Lessor accounting remains similar to current practice. This standard, which becomes effective for annual periods commencing on or after 1 January 2019, will have a significant impact on the financial statements. The Group is in the process of working through an implementation project for the new Standard, which will be finalised over the next 12 months.

In accordance with the transition provisions of NZ IFRS 16, comparatives will not be restated, with the cumulative effect being recognised in opening retained earnings at the date of initial application of 1 July 2019. The Group is in the process of evaluating the transitional accounting policy choices available under this approach.

The most significant areas of impact upon adoption of NZ IFRS 16 are set out below:

- recognition of a right of use asset and lease liability for operating leases on the Statement of Financial Position;
- recognition of depreciation and interest expense instead of operating lease rental expense in the Statement of Financial Performance;
- classification of the principal portion of lease payments as 'Financing activities' within the Statement of Cash Flows with the interest portion continuing to be presented within 'Operating activities'; and
- additional foreign exchange exposure in respect of the retranslation of the additional United States Dollar (USD) denominated aircraft operating lease liabilities recognised in the Statement of Financial Position.

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

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

Basis of consolidation

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

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

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



STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

For the year to 30 June 2018

Foreign currency translation

Functional currency

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

Transactions and balances

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

Group companies

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

- (a) assets and liabilities for each Statement of Financial Position presented are translated at the closing rate at the date of that Statement of Financial Position;
- (b) income and expenses for each Statement of Financial Performance are translated at exchange rates approximating those ruling at transaction date; and
- (c) all resulting exchange differences are recognised as a separate component of equity and in Other Comprehensive Income (within Foreign Currency Translation Reserve).

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

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

Impairment

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year to 30 June 2018

1. Revenue Recognition and Segmental Information



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

Passenger and cargo revenue

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

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

Loyalty programmes

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

Contract services revenue

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

Other revenue

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

Finance income

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

Segmental information

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

	2018 \$M	2017 \$M
Analysis of revenue by geographical region of original sale		
New Zealand	3,267	3,041
Australia and Pacific Islands	695	621
United Kingdom and Europe	274	278
Asia	476	440
America	773	729
Total operating revenue	5,485	5,109

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



NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year to and as at 30 June 2018

2. Expenses

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

	2018 \$M	2017 \$M
Superannuation expense	51	47
Audit and review of financial statements*	1	1
Fair value movement on divestment of Virgin Australia**	-	(22)
Legal settlements (included within Other expenses)***	3	16

* Other fees were paid for assurance engagements including Greenhouse Gas inventory review of \$18k (30 June 2017: \$21k), student fee protection audit of \$5k (30 June 2017: \$5k) and a US Passenger Facility Charge audit of \$46k (30 June 2017: \$77k). Non-assurance fees were paid for tax compliance work undertaken for the Corporate Taxpayers Group of \$17k (30 June 2017: \$13k), sustainability reporting of \$16k (30 June 2017: \$20k), global workforce research database of \$88k (30 June 2017: nil) and other services of \$5k (30 June 2017: employee speak-up line service of \$20k).

** As at 30 June 2016 the Group held a 2.5% shareholding in Virgin Australia Holdings Limited (Virgin Australia) which was classified as an 'Investment in quoted equity instruments' and stated at fair value with changes in fair value being recognised through profit or loss. On 4 August 2016 the Group participated in a Virgin Australia one for one pro-rata rights issue for a cost of \$23 million. The investment was fully disposed by October 2016 for \$68 million. The fair value movement (net of disposal costs) from 30 June 2016 to the date of disposal of \$22 million was recognised through the Statement of Financial Performance within 'Other expenses'.

*** Legal settlements include court penalties (A\$15 million) and costs (A\$2 million) related to allegations of anti-competitive conduct in the air cargo business in Hong Kong and Singapore which were the subject of proceedings by the Australian Competition and Consumer Commission (ACCC). The amount was fully provided for within the financial statements and was paid on 23 July 2018 (refer Note 21 for further details).

3. Taxation



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

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

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



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

	2018 \$M	2017 \$M
Current taxation expense		
Current year	(56)	(121)
	(56)	(121)
Deferred taxation expense		
Origination of temporary differences	(94)	(24)
Total taxation expense recognised in earnings	(150)	(145)
Reconciliation of effective tax rate		
Earnings before taxation	540	527
Taxation at 28%	(151)	(148)
Adjustments		
Non-deductible expenses	(4)	(6)
Virgin Australia	-	6
Non-taxable income	-	1
Equity settlements of long-term incentive obligations	5	5
Over provided in prior periods	1	-
Foreign tax paid	(1)	(3)
Taxation expense	(150)	(145)

The Group has \$225 million of imputation credits as at 30 June 2018 (30 June 2017: \$265 million).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year to and as at 30 June 2018

3. Taxation (continued)

Deferred taxation

Deferred tax assets and liabilities are attributable to the following:

	NON-AIRCRAFT ASSETS \$M	AIRCRAFT RELATED \$M	PROVISIONS AND ACCRUALS \$M	FINANCIAL INSTRUMENTS \$M	PENSION OBLIGATIONS \$M	TOTAL \$M
As at 1 July 2016	13	285	(126)	(3)	(5)	164
Amounts recognised in Other Comprehensive Income	-	-	-	6	(1)	5
Amounts recognised in earnings	2	17	5	-	-	24
As at 30 June 2017	15	302	(121)	3	(6)	193
Amounts recognised in Other Comprehensive Income	-	-	-	21	-	21
Reclassification*	-	(68)	68	-	-	-
Amounts recognised in earnings	-	91	3	-	-	94
As at 30 June 2018	15	325	(50)	24	(6)	308

* Reclassification relates to a change in taxation legislation in relation to engine maintenance.

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

There are no unused tax losses available to carry forward against future taxable profits (30 June 2017: Nil).

4. Earnings per Share



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

	2018 \$M	2017 \$M
Earnings for the purpose of basic and diluted earnings per share:		
Net profit attributable to shareholders	390	382
Weighted average number of shares (in millions of shares)		
Weighted average number of Ordinary Shares for basic earnings per share	1,123	1,123
Effect of dilutive ordinary shares:		
- Performance rights and share options	11	17
Weighted average number of Ordinary Shares for diluted earnings per share	1,134	1,140
Basic earnings per share	34.7	34.0
Diluted earnings per share	34.4	33.5



NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

As at 30 June 2018

5. Cash and Cash Equivalents



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

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

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

	2018 \$M	2017 \$M
Cash balances	61	33
Other short-term deposits and short-term bills	1,282	1,336
Total cash and cash equivalents	1,343	1,369
Reconciliation of Net Profit Attributable to Shareholders to Net Cash Flows from Operating Activities:		
Net profit attributable to shareholders	390	382
Plus/(less) non-cash items:		
Depreciation and amortisation	525	493
Loss/(gain) on disposal of property, plant and equipment, intangibles and assets held for resale	4	(3)
Impairment on property, plant and equipment, intangibles and assets held for resale	3	8
Share of earnings of associates	(33)	(26)
Changes in fair value of investments in quoted equity instruments	-	(23)
Movement on fuel derivatives	8	(5)
Foreign exchange losses/(gains)	2	(5)
Other non-cash items	13	12
	912	833
Net working capital movements:		
Assets	(185)	(52)
Revenue in advance	146	89
Liabilities	158	34
	119	71
Net cash flow from operating activities	1,031	904

6. Trade and Other Receivables



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

	2018 \$M	2017 \$M
Current		
Trade and other receivables	424	295
Prepayments	152	91
	576	386
Non-current		
Other receivables	-	2
Prepayments	77	118
	77	120

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

As at 30 June 2018

7. 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.

	2018 \$M	2017 \$M
Engineering expendables	59	70
Consumable stores	16	16
	75	86
Held at cost	63	68
Held initially at cost	68	74
Less provision for inventory obsolescence	(56)	(56)
Held at net realisable value	12	18
	75	86

8. Other Assets

**Amounts owing from related parties**

Amounts owing from related parties are recognised at cost less any provision for impairment.

Contract work in progress

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

Interest-bearing assets

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

Assets held for resale

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

	2018 \$M	2017 \$M
Current		
Amounts owing from associates	1	1
Contract work in progress	45	10
Interest-bearing assets	7	-
Assets held for resale	1	11
Other assets	14	5
	68	27
Non-current		
Interest-bearing assets	175	164
Assets held for resale	1	1
Other assets	15	10
	191	175

In the prior year the Group entered into sale and purchase agreements for six Beech 1900D aircraft which were disposed by the end of the 2018 financial year. An impairment loss of \$2 million was recognised in relation to these aircraft for the year ended 30 June 2018 (30 June 2017: \$8 million). Spares related to exited fleets are being marketed for sale and it is expected that proceeds will be received over the next three years. The carrying value of the assets held for resale reflects the lower of their previous carrying value at the date of transfer or external market assessments of the fair value, less costs to sell.

Current interest-bearing assets include registered transferable certificates of deposit (RTDs). Non-current Interest-bearing assets include floating rate medium term notes (MTN) that mature in September 2020 and floating rate Certificates of Deposit with no fixed maturity date. The RTDs and MTNs have been provided as security over credit card obligations incurred by Air New Zealand. These are subject to potential offsetting under master netting arrangements.



NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

As at 30 June 2018

9. Property, Plant and Equipment



Owned assets

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

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

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

Finance leased assets

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

Manufacturing credits

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

Depreciation

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

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

	AIRFRAMES, ENGINES AND SIMULATORS \$M	SPARES \$M	PLANT AND EQUIPMENT \$M	LAND AND BUILDINGS \$M	CAPITAL WORK IN PROGRESS \$M	TOTAL \$M
2018						
Carrying value as at 1 July 2017	4,244	83	132	219	67	4,745
Additions	487	14	7	5	241	754
Disposals	(24)	(10)	-	-	-	(34)
Depreciation	(410)	(7)	(32)	(37)	-	(486)
Transfers	195	-	33	14	(242)	-
Transfer to assets held for resale	-	(1)	-	-	-	(1)
Foreign exchange differences (refer Note 22)	57	-	-	-	-	57
Carrying value as at 30 June 2018	4,549	79	140	201	66	5,035
Represented by:						
Cost	6,606	147	448	455	66	7,722
Accumulated depreciation	(2,057)	(68)	(308)	(236)	-	(2,669)
Provision for impairment	-	-	-	(18)	-	(18)
Carrying value as at 30 June 2018	4,549	79	140	201	66	5,035

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

As at 30 June 2018

9. Property, Plant and Equipment (continued)

	AIRFRAMES, ENGINES AND SIMULATORS \$M	SPARES \$M	PLANT AND EQUIPMENT \$M	LAND AND BUILDINGS \$M	CAPITAL WORK IN PROGRESS \$M	TOTAL \$M
2017						
Cost	5,789	200	404	409	61	6,863
Accumulated depreciation	(1,802)	(103)	(275)	(180)	-	(2,360)
Provision for impairment	-	-	-	(18)	-	(18)
Carrying value as at 1 July 2016	3,987	97	129	211	61	4,485
Additions	578	13	3	4	201	799
Disposals	(30)	(17)	(1)	-	-	(48)
Depreciation	(390)	(9)	(31)	(31)	-	(461)
Transfers	128	-	32	35	(195)	-
Transfer to assets held for resale	(9)	(1)	-	-	-	(10)
Foreign exchange differences (refer Note 22)	(20)	-	-	-	-	(20)
Carrying value as at 30 June 2017	4,244	83	132	219	67	4,745
Represented by:						
Cost	6,076	166	420	442	67	7,171
Accumulated depreciation	(1,832)	(83)	(288)	(205)	-	(2,408)
Provision for impairment	-	-	-	(18)	-	(18)
Carrying value as at 30 June 2017	4,244	83	132	219	67	4,745

	2018 \$M	2017 \$M
Airframes, engines and simulators comprise:		
Finance leased airframes and engines	1,413	1,614
Owned airframes, engines and simulators	2,871	2,300
Progress payments	265	330
	4,549	4,244
Land and buildings comprise:		
Leasehold properties	188	204
Freehold properties	13	15
	201	219

Certain aircraft and aircraft related assets with a carrying value of \$3,373 million as at 30 June 2018 (30 June 2017: \$3,213 million) are pledged as security over secured borrowings and finance lease obligations.

**Impairment**

Air New Zealand Gas Turbines (ANZGT) provides overhaul services to aero derivative engines that are applied to energy production and marine industries. Over recent years a down turn in the market has resulted in a decline in activity and profitability of the business. Impairment provisions of \$18 million have been recognised against the land and building assets of the business in previous years. During the year ended 30 June 2018 the assets were assessed for impairment based on a value in use discounted cash flow valuation. Cash flow projections were sourced from the 2019 financial year plan and extrapolated into the future using a 2% growth rate and adjusted for any one-off transactions. Key assumptions include exchange rates, customer demand, market supply and terminal values. These assumptions have been based on historical data and current market information. The cash flow projections are particularly sensitive to fluctuations in exchange rates and economic demand. The cash flow projections are discounted using a 9% discount rate. The impaired carrying value was found to be appropriate as at 30 June 2018 and 30 June 2017.

Residual values

Estimates and judgements are applied by management to determine the expected useful life of aircraft related assets. The useful lives are determined based on the expected service potential of the asset and lease term. The residual value, at the expected date of disposal, is estimated by reference to external projected values and are influenced by external changes to economic conditions, demand, competition and new technology. Residual values are denominated in United States dollars and are therefore sensitive to exchange fluctuations as well as movements in projected values. Residual values and useful lives are reviewed each year to ensure they remain appropriate. During the year ended 30 June 2018 the residual values of the aircraft were reassessed and depreciation expense was reduced by \$6 million (30 June 2017: increased by \$4 million).



NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

As at 30 June 2018

10. Intangible Assets



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

	INTERNALLY DEVELOPED SOFTWARE \$M	EXTERNALLY PURCHASED SOFTWARE \$M	CAPITAL WORK IN PROGRESS \$M	OTHER \$M	TOTAL \$M
2018					
Carrying value as at 1 July 2017	119	4	25	1	149
Additions	-	-	60	-	60
Acquisitions from business combinations	-	-	-	1	1
Amortisation	(37)	(2)	-	-	(39)
Impairment	-	-	-	(1)	(1)
Transfers	69	-	(69)	-	-
Carrying value as at 30 June 2018	151	2	16	1	170
Represented by:					
Cost	391	152	16	2	561
Accumulated depreciation	(240)	(150)	-	-	(390)
Provision for impairment	-	-	-	(1)	(1)
Carrying value as at 30 June 2018	151	2	16	1	170
2017					
Cost	273	158	27	1	459
Accumulated depreciation	(179)	(153)	-	-	(332)
Carrying value as at 1 July 2016	94	5	27	1	127
Additions	-	-	54	-	54
Amortisation	(30)	(2)	-	-	(32)
Transfers	55	1	(56)	-	-
Carrying value as at 30 June 2017	119	4	25	1	149
Represented by:					
Cost	326	158	25	1	510
Accumulated depreciation	(207)	(154)	-	-	(361)
Carrying value as at 30 June 2017	119	4	25	1	149

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

As at 30 June 2018

11. Investment in Other Entities



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

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

	2018 \$M	2017 \$M
Investments in associates	117	92
Investments in joint ventures	-	2
Investments in other entities	1	1
	118	95

Subsidiaries

Significant subsidiaries comprise:

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

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

Associates and Joint Ventures

Significant associates and joint ventures comprise:

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

Prior to 29 September 2017, the Group accounted for the investment in 11Ants Analytics Group Limited as a joint venture. On this date the Group acquired the remaining 50% interest for \$85k and accounted for the entity as a wholly owned subsidiary.



NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year to and as at 30 June 2018

11. Investment in Other Entities (continued)

Summary financial information of associates

	2018 \$M	2017 \$M
Assets and liabilities of associates are as follows:		
Current assets	353	268
Non-current assets	44	40
Current liabilities	(132)	(97)
Non-current liabilities	(26)	(24)
Net identifiable assets	239	187
Group share of net identifiable assets	117	92
Carrying value of investment in associates	117	92
Results of associates		
Revenue	935	687
Earnings after taxation	68	54
Total comprehensive income	68	54
Group share of net earnings after taxation	33	26
Group share of total comprehensive income	33	26

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

As at 30 June 2018

12. Revenue in Advance



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

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

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

	2018 \$M	2017 \$M
Current		
Transportation sales in advance	1,137	1,021
Loyalty programme	163	136
Other	22	20
	1,322	1,177
Non-current		
Loyalty programme	180	180
Other	5	4
	185	184

13. Interest-Bearing Liabilities



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

	2018 \$M	2017 \$M
Current		
Secured borrowings	165	132
Finance lease liabilities	266	185
	431	317
Non-current		
Secured borrowings	1,398	1,111
Unsecured bonds	50	50
Finance lease liabilities	855	1,036
	2,303	2,197
Interest rates basis:		
Fixed rate	711	720
Floating rate	2,023	1,794
At amortised cost	2,734	2,514
At fair value	2,709	2,458

Non-cash movements in interest-bearing liabilities during the year ended 30 June 2018 included foreign exchange losses of \$197 million (30 June 2017: gains of \$87 million) and capitalised interest of \$5 million (30 June 2017: \$7 million).

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

Secured borrowings are secured over aircraft and are subject to both fixed and floating interest rates. Fixed interest rates were 1.0 percent (30 June 2017: 1.0 percent).

The unsecured, unsubordinated fixed rate bonds have a maturity date of 28 October 2022 and an interest rate of 4.25% payable semi-annually.



NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

As at 30 June 2018

13. Interest-Bearing Liabilities (continued)

Finance lease liabilities



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

	2018 \$M	2017 \$M
Repayable as follows:		
Not later than 1 year	291	206
Later than 1 year and not later than 5 years	657	711
Later than 5 years	278	411
	1,226	1,328
Less future finance costs	(105)	(107)
Present value of future rentals	1,121	1,221
Repayable as follows:		
Not later than 1 year	266	185
Later than 1 year and not later than 5 years	596	650
Later than 5 years	259	386
	1,121	1,221

Finance lease liabilities are secured over aircraft and are subject to both fixed and floating interest rates. Fixed interest rates ranged from 0.7 percent to 3.4 percent (30 June 2017: 0.7 percent to 3.4 percent). Purchase options are available on expiry or, if applicable under the lease agreement, on early termination of the finance leases.

14. Provisions



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

	AIRCRAFT LEASE RETURN COSTS \$M	RESTRUCTURING \$M	OTHER \$M	TOTAL \$M
Balance as at 1 July 2017	266	2	2	270
Amount provided	86	2	4	92
Amount utilised and released	(97)	(3)	(4)	(104)
Foreign exchange differences	10	-	-	10
Balance as at 30 June 2018	265	1	2	268
Represented by:				
Current	114	1	2	117
Non-current	151	-	-	151
Balance as at 30 June 2018	265	1	2	268

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

As at 30 June 2018

14. Provisions (continued)

Nature and purpose of provisions



Aircraft lease return costs

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

Restructuring

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

Other

Other provisions include insurance and warranty provisions. Insurance provisions are expected to be utilised within 12 months and 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.

15. Other Liabilities



Employee entitlements

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

Defined pension

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

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

	2018 \$M	2017 \$M
Current		
Employee entitlements	236	234
Amounts owing to associates	22	23
Other liabilities (including defined benefit liabilities)	5	4
	263	261
Non-current		
Employee entitlements	12	14
Other liabilities	15	9
	27	23

The Group operates two defined benefit plans for qualifying employees in New Zealand and overseas. A net liability was recognised of \$1 million (30 June 2017: nil) in respect of the New Zealand plan and nil in respect of the overseas plan (30 June 2017: net liability of \$1 million). 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 current service cost recognised through earnings was \$2 million (30 June 2017: \$2 million).



NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

As at 30 June 2018

16. Distributions to Owners

	2018 \$M	2017 \$M
Distributions recognised		
Final dividend on Ordinary Shares	124	112
Special dividend on Ordinary Shares	-	281
Interim dividend on Ordinary Shares	124	112
	248	505
Distributions paid		
Final dividend on Ordinary Shares	130	118
Special dividend on Ordinary Shares	-	294
Interim dividend on Ordinary Shares	130	118
	260	530

On 22 August 2018, the Board of Directors declared a final dividend for the 2018 financial year of 11.0 cents per Ordinary Share, payable on 19 September 2018 to registered shareholders at 7 September 2018. The total dividend payable will be \$124 million. Imputation credits will be attached and supplementary dividends paid to non-resident shareholders. The dividend has not been recognised in the June 2018 financial statements.

A 2018 interim dividend of 11.0 cents per Ordinary Share was paid on 16 March 2018 (2017 interim dividend: 10.0 cents per Ordinary Share paid on 17 March 2017). Imputation credits were attached and supplementary dividends paid to non-resident shareholders.

A final dividend in respect of the 2017 financial year of 11.0 cents per Ordinary Share was paid on 18 September 2017 (2016 financial year 10.0 cents per Ordinary Share final dividend and 25.0 cents per Ordinary Share special dividend was paid on 19 September 2016). Imputation credits were attached and supplementary dividends paid to non-resident shareholders.

The dividend reinvestment plan is currently suspended.

17. Share Capital



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

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

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

	2018 \$M	2017 \$M
Share capital comprises:		
Authorised, issued and fully paid in capital	2,216	2,228
Equity-settled share-based payments	10	10
	2,226	2,238
Balance at the beginning of the year	2,238	2,252
Equity settlements of long-term incentive obligations*	(17)	(19)
Equity-settled share-based payments	5	5
Balance at the end of the year	2,226	2,238

* During the year ended 30 June 2018 the Group funded the purchase on-market of 4,932,709 shares (30 June 2017: 8,297,311). The shares were used to settle obligations under employee share-based compensation plans.

	2018	2017
Number of Ordinary Shares authorised, fully paid and on issue		
Balance at the beginning of the year	1,122,844,227	1,122,844,227
Balance at the end of the year**	1,122,844,227	1,122,844,227

** Includes treasury stock of 34,183 shares (30 June 2017: 34,183 shares).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

As at 30 June 2018

17. Share Capital (continued)

Kiwi Share

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

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

Voting rights

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

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

Application of treasury stock method

Share repurchase

The Group utilises treasury stock acquired under a buy-back programme to fulfil obligations under employee share-based compensation plans. No treasury stock was utilised in the 2018 financial year (30 June 2017: Nil). Total treasury stock held as at 30 June 2018 is 34,090 shares (30 June 2017: 34,090 shares).

Staff Share Scheme

Unallocated shares of the Air New Zealand Staff Share Schemes are accounted for under the Treasury Stock method, and deducted from Ordinary Share capital on consolidation. The number of unallocated shares as at 30 June 2018 was 93 (30 June 2017: 93).

Equity-Settled Share-Based Payments



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

Share rights and options over ordinary shares

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

The total expense recognised in the year ended 30 June 2018 in respect of equity-settled share-based payment transactions was \$5 million (30 June 2017: \$5 million).

	PERFORMANCE SHARE RIGHTS 2018	LONG-TERM INCENTIVE PLAN 2018	CEO RESTRICTED SHARE RIGHTS 2018	PERFORMANCE SHARE RIGHTS 2017	LONG-TERM INCENTIVE PLAN 2017	CEO RESTRICTED SHARE RIGHTS 2017	CFO OPTION PLAN* 2017
Number outstanding							
Outstanding at beginning of the year	13,807,858	900,764	659,715	9,269,896	19,741,146	292,398	1,256,281
Granted during year	3,096,055	-	216,954	5,961,948	-	367,317	-
Exercised during year	(4,257,053)	(485,029)	(365,861)	-	(18,840,382)	-	(1,256,281)
Forfeited during year	(410,479)	-	-	(1,423,986)	-	-	-
Outstanding at the end of the year**	12,236,381	415,735	510,808	13,807,858	900,764	659,715	-
Exercisable as at end of the year	-	415,735	-	-	900,764	-	-
Weighted average exercise price:							
- exercisable as at the end of the year (\$)	-	1.23	-	-	1.23	-	-
- exercised during the year (\$)	-	1.23	-	-	1.28	-	1.18
Weighted average:							
- Share price at the date options exercised (\$)	-	3.41	-	-	2.18	-	2.13
- Remaining period of options to contractual maturity (years)	-	0.2	-	-	1.2	-	-
Fair value of rights granted in year (\$M)	5.3	-	0.7	5.4	-	0.6	-
Unamortised grant date fair value (\$M)	6.1	-	0.5	5.8	-	0.5	-

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

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



NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

As at 30 June 2018

17. Share Capital (continued)

Key inputs and assumptions

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

Performance share rights	WEIGHTED AVERAGE SHARE PRICE (CENTS)	EXPECTED VOLATILITY OF SHARE PRICE (%)	EXPECTED VOLATILITY OF PERFORMANCE BENCHMARK INDEX (%)	CORRELATION OF VOLATILITY INDICES	CONTRACTUAL LIFE (YEARS)	RISK FREE RATE (%)	EXPECTED DIVIDEND YIELD (%)
2018	348	30	13	0.53	3.5	2.02	5.8
2017	200	30	15	0.53	3.5	1.95	9.0
2016	239	28	13	0.40	3.5	2.53	7.1
2015	205	26	14	0.34	3.5	4.00	5.3

CEO Restricted Share Rights Plan	WEIGHTED AVERAGE SHARE PRICE (CENTS)	EQUITY BETA	MARKET RISK PREMIUM (%)	COST OF EQUITY (%)	CONTRACTUAL LIFE (YEARS)	RISK FREE RATE (%)	EXPECTED DIVIDEND YIELD (%)
2018 Tranche 1	348	1.10	7.50	9.6	1.3	1.84	5.9
2018 Tranche 2	348	1.10	7.50	9.6	2.3	1.94	5.4
2017 Tranche 1	194	1.30	7.50	11.1	1.3	1.90	6.7
2017 Tranche 2	194	1.30	7.50	11.1	2.3	1.90	7.2
2016	239	1.25	7.50	11.1	2.3	2.50	6.3

Options	WEIGHTED AVERAGE SHARE PRICE (CENTS)	EXPECTED VOLATILITY OF SHARE PRICE (%)	EXPECTED VOLATILITY OF PERFORMANCE BENCHMARK INDEX (%)	CORRELATION OF VOLATILITY INDICES	CONTRACTUAL LIFE (YEARS)	RISK FREE RATE (%)	EXPECTED DIVIDEND YIELD (%)	DISCOUNT TO REFLECT NEGOTIABILITY RESTRICTIONS (%)
Long-Term Incentive Plan¹								
2014	139	27	15	0.25	5.0	4.40	5.8	25
2013(1)	112	30	15	0.20	5.0	3.10	4.9	25
CFO Option Plan²								
2013 Tranche 2	112	30	20	0.20	6.0	3.30	4.9	25

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

As at 30 June 2018

17. Share Capital (continued)

SHARE RIGHTS SCHEMES

(a) Performance Share Rights

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

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

(b) CEO Restricted Share Rights Plan

The Group has undertaken a stock settled share rights scheme. Restricted share rights for a specified value are granted at no cost to the holder. For each restricted share right that vests, one share will be issued. The number granted is determined by an independent valuation of the fair value at the date of issue. Vesting of restricted share rights is subject to the holder remaining an employee. The restricted share rights vest between 31 December 2018 and 31 December 2019 and if they have not vested on a specified date they will lapse.

OPTIONS

The Group previously undertook a stock settled share appreciation rights scheme whereby shares are issued equating to the delta between the market price and the exercise price. The exercise price has been modelled as a stochastic variable, using the volatility, correlation, dividend yield and risk free rate assumptions provided.

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

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

(a) Long-Term Incentive Plan (LTIP)

The options may be exercised at any time between three and five years after the date of issue (subject to compliance with insider trading restrictions and the rules of the scheme). The exercise price was set three years after issue, and was based on Air New Zealand's share price at the issue date increased or decreased by the percentage movement in a specified index over the three years, and decreased by any distributions made over the same period. The specified index comprised the total shareholder return for the NZX All Gross Index and the Bloomberg World Airline Total Return Index (adjusted for dividends) in 50:50 proportions.

(b) CFO Option Plan

The Group undertook a stock settled share appreciation rights scheme approach whereby shares are issued equating to the delta between the market price and the exercise price. The options were exercisable at any time between four to six years after the date of issue for the CFO Option Plan (subject to compliance with insider trading restrictions and the rules of the scheme). All options under the plan have been exercised. The exercise price was set four years after issue, and was based on Air New Zealand's share price at the issue date increased or decreased by the percentage movement in a specified index over the vesting period, and decreased by any distributions made over the same period. The specified index comprised the total shareholder return for the NZX All Gross Index and the Bloomberg World Airline Total Return Index (adjusted for dividends) in 50:50 proportions.



NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year to and as at 30 June 2018

18. Reserves

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

	2018 \$M	2017 \$M
Cash flow hedge reserve	70	22
Costs of hedging reserve	(4)	(13)
Hedge reserves	66	9
Foreign currency translation reserve	(13)	(16)
General reserves	(103)	(245)
Total Reserves	(50)	(252)

The nature and purpose of reserves is set out below:

HEDGE RESERVES

Cash flow hedge reserve

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

Costs of hedging reserve

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

Foreign currency translation reserve

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

General reserves

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

19. 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.

	2018 \$M	2017 \$M
Rental and lease expenses recognised in earnings		
Aircraft	170	178
Property	57	52
	227	230
Future operating lease commitments		
Aircraft leases payable*		
Not later than 1 year**	194	160
Later than 1 year and not later than 5 years	489	433
Later than 5 years	224	192
	907	785
Property leases payable		
Not later than 1 year	50	43
Later than 1 year and not later than 5 years	144	109
Later than 5 years	100	70
	294	222

* Includes lease commitments for five Airbus A320/321 NEO aircraft due to be delivered in the 2019 and 2020 financial years and two Boeing 787-9 aircraft due to be delivered in the 2019 and 2020 financial years.

** Aircraft leases payable less than 1 year includes \$18 million of commitments for short-term leases which provide cover for Boeing 787-9 engine issues.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

As at 30 June 2018

20. Capital Commitments



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

	2018 \$M	2017 \$M
Aircraft and engines	1,526	1,637
Other property, plant and equipment and intangible assets	4	10
	1,530	1,647

Commitments as at reporting date include one Boeing 787-9 aircraft (delivery in the 2019 financial year), eleven Airbus A321 NEOs and four Airbus A320 NEOs (delivery from 2019 to 2024 financial years) and ten ATR72-600s (delivery from 2019 to 2020 financial years). In August 2018 the Group agreed to convert two Airbus A320 NEOs to A321 NEOs and also convert two purchase rights to A321 NEO firm orders which are reflected in the above table.

21. Contingent Liabilities



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

	2018 \$M	2017 \$M
Letters of credit and performance bonds	32	32

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.

Allegations of anti-competitive conduct in the air cargo business in Hong Kong and Singapore were the subject of proceedings by the Australian Competition and Consumer Commission (ACCC). Following two appeals of an initial judgment finding in favour of Air New Zealand, the High Court released its judgment on 14 June 2017 finding in favour of the ACCC. The level of penalty was referred to the Federal Court for determination, which on 27 June 2018 approved an in principle settlement agreed between the ACCC and Air New Zealand of a A\$15m penalty and A\$2m contribution to the ACCC's costs. This amount was paid by Air New Zealand on 23 July 2018. The amount was fully provided for within the financial statements.

No other significant contingent liability claims are outstanding at balance date.

The Group has a partnership agreement with Pratt and Whitney in relation to the Christchurch Engine Centre (CEC) (Note 11). By the nature of the agreement, joint and several liability exists between the two parties. Total liabilities of the CEC are \$158 million (30 June 2017: \$121 million).

22. Financial Risk Management

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

CREDIT RISK

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

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

Credit evaluations are performed on all customers requiring direct credit. Air New Zealand is not exposed to any concentrations of credit risk within receivables, other assets and derivatives. Air New Zealand does not require collateral or other security to support financial instruments with credit risk. A significant proportion of receivables are settled through the International Air Transport Association (IATA) clearing mechanism which undertakes its own credit review of members. Over 91% of trade and other receivables are current, with less than 1% falling due after more than 90 days.



NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

As at 30 June 2018

22. Financial Risk Management (continued)

MARKET RISK

Foreign Currency Risk

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

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

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

Forecast operating transactions

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

Japanese Yen and Euro denominated interest-bearing liabilities are designated as the hedging instrument in qualifying cash flow hedges of highly probable forecast Japanese Yen and Euro revenues, respectively.

Balance sheet exposures

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

As at 30 June 2018

22. Financial Risk Management (continued)**Foreign currency exposure of items recognised at reporting date, before hedging**

	NZD \$M	USD \$M	AUD \$M	EUR \$M	JPY \$M	TOTAL \$M
As at 30 June 2018						
Investments in other entities	-	118	-	-	-	118
Interest-bearing assets	147	-	35	-	-	182
Interest-bearing liabilities	(173)	(1,608)	-	(163)	(790)	(2,734)
Provisions	(59)	(209)	-	-	-	(268)
	(85)	(1,699)	35	(163)	(790)	(2,702)
As at 30 June 2017						
Investments in other entities	2	93	-	-	-	95
Interest-bearing assets	130	-	34	-	-	164
Interest-bearing liabilities	(248)	(1,625)	-	(167)	(474)	(2,514)
Provisions	(55)	(215)	-	-	-	(270)
	(171)	(1,747)	34	(167)	(474)	(2,525)

Hedging foreign currency risk**Derivative financial instruments**

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

Hedge accounted financial instruments

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

Cash flow hedges

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

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

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

Fair value hedges

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

Net investment hedge

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



NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

As at 30 June 2018

22. Financial Risk Management (continued)

Impact of hedging foreign currency risk

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

CASH FLOW HEDGES OF FOREIGN CURRENCY RISK

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

The following foreign currency derivatives were recognised within 'Derivative financial instruments' on the Statement of Financial Position as at reporting date and were designated as the hedging instrument in qualifying cash flow hedges of highly probable forecast operating revenue and expenditure transactions. All derivatives mature within 12 months (30 June 2017: 12 months).

	2018 NZ\$M	2017 NZ\$M
Hedging instruments used		
Derivative financial instruments		
NZD	(385)	(399)
USD	1,127	847
AUD	(287)	(193)
EUR	(65)	(44)
JPY	(68)	(49)
CNH	(61)	(43)
GBP	(106)	(64)
Other	(102)	(73)
Hedge accounted foreign currency derivatives	53	(18)

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

	< 1 YEAR NZ\$M	1-2 YEARS NZ\$M	2-5 YEARS NZ\$M	5+ YEARS NZ\$M	TOTAL NZ\$M
Interest-bearing liabilities					
As at 30 June 2018					
EUR	(6)	(6)	(20)	(20)	(52)
JPY	(48)	(52)	(158)	(256)	(514)
As at 30 June 2017					
EUR	(6)	(6)	(18)	(24)	(54)
JPY	(43)	(41)	(133)	(257)	(474)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

As at 30 June 2018

22. Financial Risk Management (continued)

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

	2018 \$M	2017 \$M
Recognised in Statement of Changes in Equity		
Hedge reserves		
Balance at the beginning of the year	17	(30)
Change in fair value*	1	57
Transfers to foreign exchange losses	11	9
Taxation on reserve movements	(3)	(19)
Balance at the end of the year	26	17
Represented by:		
Forecast operating revenue/expense	38	26
Tax effect	(12)	(9)
Balance at the end of the year	26	17

* The change in fair value of the hedging instrument is that used for the purpose of assessing hedge effectiveness. No ineffectiveness arose on cash flow hedges of foreign currency transactions during the year (30 June 2017: Nil). Forward points excluded from the hedge designation of \$1 million were recognised in 'Finance costs' during the year (30 June 2017: \$6 million).

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

	2018	2017
USD	0.7148	0.7163
AUD	0.9217	0.9480
EUR	0.5937	0.6548
JPY	78.25	78.80
CNH	4.60	4.89
GBP	0.5241	0.5678

NET INVESTMENT HEDGE

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

	2018 NZ\$M	2017 NZ\$M
Hedged amount of United States Dollar investment	99	77
Hedged by: United States Dollar interest-bearing liabilities	(99)	(77)

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

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

** Translation gains/losses are those used for the purpose of assessing hedge effectiveness. No ineffectiveness arose on net investment hedges during the year (30 June 2017: Nil).

FAIR VALUE HEDGES

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



NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

As at 30 June 2018

22. Financial Risk Management (continued)

	2018 NZ\$M	2017 NZ\$M
Underlying United States Dollar aircraft fair values	721	732
Hedged by: United States Dollar interest-bearing liabilities	(721)	(732)
The effective portion of changes in the fair value of both the hedged item and the hedging instrument are offset within 'Foreign exchange losses' within the Statement of Financial Performance, as set out below:		
Changes in fair value*** on hedged item	57	(20)
Changes in fair value*** on hedging instrument	(57)	20
	-	-

*** The change in fair value is that used for the purpose of assessing hedge effectiveness. No ineffectiveness arose on fair value hedges during the year (30 June 2017: Nil).

HEDGED, BUT NOT HEDGE ACCOUNTED

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

		2018 NZ\$M	2017 NZ\$M
Interest-bearing liabilities	USD	(788)	(816)
Interest-bearing liabilities	JPY	(276)	-
Interest-bearing liabilities	EUR	(111)	(113)
Provisions	USD	(209)	(215)
Interest-bearing assets	AUD	35	34

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

Hedging instruments			
Derivative financial instruments			
NZD		(1,232)	(1,136)
USD		917	997
AUD		(20)	(24)
EUR		111	115
JPY		272	-
Other		7	6
Not hedge accounted foreign currency derivatives		55	(42)

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

Foreign currency gains/(losses) on:		
Interest-bearing liabilities	(88)	8
Provisions	(10)	5
Interest-bearing assets	1	-
Derivative financial instruments	98	(13)
	1	-

Forward points on non-hedge accounted foreign currency derivatives of \$12 million were recognised in 'Finance costs' during the year (30 June 2017: \$17 million).

Sensitivity analysis

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

As at 30 June 2018

22. Financial Risk Management (continued)

Foreign currency sensitivity on financial instruments

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

Appreciation/depreciation (US cents):	2018 NZ\$M +5c	2018 NZ\$M -5c	2017 NZ\$M +5c	2017 NZ\$M -5c
Impact on profit before taxation:				
USD	55	(63)	49	(56)
AUD	(1)	1	(1)	1

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

Impact on equity:				
USD	(85)	99	(57)	65
AUD	20	(23)	12	(14)
EUR	8	(9)	6	(7)
JPY	40	(47)	34	(39)
CNH	4	(5)	3	(3)
GBP	8	(9)	4	(5)
Other	7	(8)	5	(5)

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

	2018	2017
Significant foreign exchange rates used at balance date for one New Zealand Dollar are:		
USD	0.6750	0.7300
AUD	0.9180	0.9510
CNY	4.48	4.96
EUR	0.5840	0.6380
JPY	74.60	81.80
GBP	0.5160	0.5620

FUEL PRICE RISK

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

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



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

Some components of hedge accounted derivatives are excluded from the designated risk. Cash flow hedges in respect of fuel derivatives include only the intrinsic value of fuel options. Time value on fuel options is excluded from the hedge designation and is marked to market through Other Comprehensive Income and accumulated within a separate component of equity (the 'Costs of Hedging Reserve' within 'Hedge Reserves'), until such time as the related hedge accounted cash flows affect profit or loss. At this stage the cumulative amount is reclassified to profit or loss within 'Fuel'.

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



NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

As at 30 June 2018

22. Financial Risk Management (continued)

Impact of hedging fuel price risk

	2018 Brent USD	2017 Brent USD
Weighted average strike prices of fuel derivatives		
Weighted average collar ceiling (adjusted for call spreads)	70	51
Weighted average collar floor	55	44
Swap strike price	N/A	49
Barrels hedged (millions of barrels)	5.3	6.6

CASH FLOW HEDGES OF FUEL PRICE RISK

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

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

Statement of Financial Position	2018 \$M	2017 \$M
Derivative financial assets	77	14

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

Hedge reserves

Balance at the beginning of the year	(8)	25
Change in fair value*	155	4
Transfers to fuel	(103)	(42)
Changes in cost of hedging reserve	12	(8)
Taxation on reserve movements	(18)	13
Balance at the end of the year	38	(8)

* The change in fair value recognised in the cash flow hedge reserve excludes ineffectiveness which is recognised through earnings. No ineffectiveness arose on cash flow hedges of fuel price risk during the year (30 June 2017: Nil)

Fuel price sensitivity on financial instruments

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

Price movement per barrel:	2018 \$M	2018 \$M	2017 \$M	2017 \$M
	+USD 20	-USD 20	+USD 20	-USD 20
Impact on cash flow hedge reserve (within equity)	126	(85)	147	(136)

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

As at 30 June 2018

22. Financial Risk Management (continued)**INTEREST RATE RISK**

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

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

Impact of hedging interest rate risk

	2018	2017
Interest rate derivatives		
Volume (USD M)	150	150
Weighted average contract rate (%)	1.7	1.7
Weighted average contract maturities (years)	1.4	2.4

CASH FLOW HEDGES OF INTEREST RATE RISK

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

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

	2018 \$M	2017 \$M
Statement of Financial Position		
Derivative financial liabilities	3	-
The effective portion of changes in the fair value of interest rate hedging instruments which were deferred to the cash flow hedge reserve (within hedge reserves) during the year are set out below, together with transfers to earnings, when the underlying hedged item occurred.		
Hedge reserves		
Balance at the beginning of the year	-	(4)
Change in fair value*	3	4
Transfers to finance costs	-	1
Taxation on reserve movements	(1)	(1)
Balance at the end of the year	2	-

*The change in fair value recognised in the cash flow hedge reserve is the effective portion. No ineffectiveness arose on cash flow hedges of interest rates during the year (30 June 2017: 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 over the page. This analysis assumes that the amount and mix of fixed and floating rate debt, including finance lease obligations, remains unchanged from that in place at reporting date, and that the change in interest rates is effective from the beginning of the year. In reality, the fixed/floating rate mix will fluctuate over the year and interest rates will change continually.

Interest rate change:	2018 \$M +50 bp*	2018 \$M -50 bp*	2017 \$M +50 bp*	2017 \$M -50 bp*
Impact on profit before taxation	(10)	10	(9)	9
Impact on cash flow hedge reserve (within equity)	(1)	1	(1)	1

*bp = basis points

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



NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

As at 30 June 2018

22. Financial Risk Management (continued)

Liquidity risk

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

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

	STATEMENT OF FINANCIAL POSITION \$M	CONTRACTUAL CASH FLOWS \$M	< 1 YEAR \$M	1-2 YEARS \$M	2-5 YEARS \$M	5+ YEARS \$M
As at 30 June 2018						
Trade and other payables	562	562	562	-	-	-
Secured borrowings	1,563	1,720	196	169	554	801
Unsecured bonds	50	60	2	2	56	-
Finance lease obligations	1,121	1,226	291	168	489	278
Amounts owing to associates	22	22	22	-	-	-
Total non-derivative financial liabilities	3,318	3,590	1,073	339	1,099	1,079
Foreign exchange derivatives						
– Inflow		2,635	2,635	-	-	-
– Outflow		(2,527)	(2,527)	-	-	-
	108	108	108	-	-	-
Fuel derivatives	77	64	64	-	-	-
Interest rate derivatives	3	5	2	2	1	-
Total derivative financial instruments	188	177	174	2	1	-

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

FAIR VALUE ESTIMATION



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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

As at 30 June 2018

22. Financial Risk Management (continued)**Capital risk management**

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

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

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

23. Offsetting Financial Assets and Financial Liabilities

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

Amounts subject to potential offset

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

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

	STATEMENT OF FINANCIAL POSITION 2018 \$M	AMOUNTS NOT OFFSET 2018 \$M	NET AMOUNTS IF OFFSET 2018 \$M	STATEMENT OF FINANCIAL POSITION 2017 \$M	AMOUNTS NOT OFFSET 2017 \$M	NET AMOUNTS IF OFFSET 2017 \$M
Financial assets						
Bank and short-term deposits	1,343	-	1,343	1,369	(41)	1,328
Derivative financial assets	189	(1)	188	19	(6)	13
Financial liabilities						
Derivative financial liabilities	(1)	1	-	(65)	47	(18)

Letters of credit and performance bonds are also subject to master netting arrangements. The amounts are disclosed in Note 21 Contingent Liabilities.



NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year to and as at 30 June 2018

24. Related Parties

Crown

The Crown, the major shareholder of the Company, owns 52 percent of the issued capital of the Company (30 June 2017: 52 percent). The balance is owned by the public.

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

Key management personnel

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

	2018 \$M	2017 \$M
Short-term employee costs	16	16
Directors' fees	1	1
Share-based payments	3	3
	20	20

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

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

Shares held by the Staff Share Purchase scheme and Executive share option and performance rights plans are detailed in Note 17.

Bank set-off arrangements

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

- Air Nelson Limited
- Air New Zealand Limited
- Air New Zealand Regional Maintenance Limited
- Mount Cook Airlines Limited

Associated companies

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

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

	2018 \$M	2017 \$M
During the year, there have been transactions between Air New Zealand and its associated companies as follows:		
Operating revenue	4	3
Operating expenditure	(65)	(57)
Balances outstanding at the end of the year are unsecured and on normal trading terms:		
Amounts owing from associates	1	1
Amounts owing to associates	22	23

During the year CEC paid total distributions to the Group of \$16 million (30 June 2017: \$8 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.

TO THE SHAREHOLDERS OF AIR NEW ZEALAND LIMITED

Report on the Audit of the Group Financial Statements

Auditor-General

The Auditor-General is the auditor of Air New Zealand Limited and its subsidiaries (the Group). The Auditor-General has appointed me, Peter Gulliver, using the staff and resources of Deloitte Limited, to carry out the audit of the consolidated financial statements of the Group on his behalf.

Opinion

We have audited the consolidated financial statements of the Group on pages 2 to 39, that comprise the Statement of Financial Position as at 30 June 2018, the Statement of Financial Performance, Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information.

In our opinion the consolidated financial statements present fairly, in all material respects the financial position of the Group as at 30 June 2018, and its financial performance and its cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

Our audit was completed on 23 August 2018. This is the date at which our opinion is expressed.

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

Basis for opinion

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

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

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

Audit materiality

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

We determined materiality for the consolidated financial statements as a whole to be \$30m which was determined with reference to a number of factors and taking into account the cyclical nature of the airline industry. \$30m represents 6% of profit before tax, 1% of total equity and 1% of operating revenue.

Key audit matters

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

Key audit matter

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

Revenue recognition

The Group's revenue primarily consists of passenger revenue which totalled \$4,679 million in the year to 30 June 2018.

Passenger revenue is complex due to the various fare rules that may apply to a transaction, and as tickets are typically sold prior to the day of flight. Complex IT systems and processes are required to correctly record these sales as transportation sales in advance and then as revenue when flights occur.

We have included revenue recognition as a key audit matter due to the significance of revenue to the consolidated financial statements and the substantial dependence on complex IT systems.

In performing our procedures we:

- evaluated the systems, processes and controls in place over passenger revenue in advance and key account reconciliation processes;
- tested the IT environment in which passenger sales occur and interfaces with other relevant systems;
- assessed the quality of information produced by these systems and tested the accuracy and completeness of reports generated by these systems and used to recognise or defer passenger revenue; and
- performed an analysis of passenger revenue and passenger revenue in advance and created expectations of revenue based on our knowledge of the Group, the industry and key performance measures, including airline capacity and revenue per available seat kilometre. We have compared this to the Group's revenue and obtained appropriate explanations for significant differences.

We are satisfied revenue has been appropriately recognised.

Aircraft lease return costs

Certain aircraft under operating leases are required to be returned to the lessor at the expiry of the lease term in a specified condition. The Group estimates the cost of returning the aircraft to the specified condition and has made provision for this in the current period of \$265 million as explained further in note 14.

This is a key audit matter due to the size of the balance and the level of judgement required by the Group in determining the estimate.

The provision is calculated taking into account a number of variables and assumptions including the number of future hours or cycles expected to be operated, the expected cost of maintenance and the lifespan of life-limited parts. It is based on the Group's historical experience, manufacturers' advice and contractual obligations in determining the present value of the estimated future costs of major airframe inspections and engine overhauls required under the lease conditions.

In performing our procedures we:

- assessed the terms and conditions of new or updated lease agreements to understand the return conditions and ensuring that the calculation had been updated for changes in contractual terms;
- assessed the key assumptions and challenged the Group as to their reasonableness by reviewing internal and external source documentation such as operating cycle history, supplier costs for various components, consumables and labour, maintenance plans and market data such as exchange rates;
- challenged changes in assumptions from prior periods and reviewed the history of provisions made against actual costs incurred on the return of aircraft under lease agreements and when an overhaul occurs; and
- tested the arithmetical accuracy of the calculation and evaluated the sensitivity of the calculation to changes in the key variables and assumptions.

We found the assumptions and resulting estimates to be reasonable.

Aircraft – residual values and useful lives

Group aircraft and related assets total \$4,549 million at 30 June 2018 as outlined in note 9.

The useful lives and residual values of aircraft may be influenced by external changes to economic conditions, demand, competition and new technology. The Group considers these changes when reassessing the useful lives and residual values of aircraft to determine the appropriate depreciation rates. Residual values are denominated in US\$ and are sensitive to exchange rate fluctuations as well as projected values.

This is a key audit matter due to the level of judgement required by the Group in determining fleet lives and residual values which impacts carrying values and the depreciation charge.

In performing our procedures we:

- challenged the Group's assumptions underpinning the calculation of residual values by making a comparison to external information such as third party sales prices, industry data and period end exchange rates;
- updated our assessment of the historical accuracy of assumptions around residual values when aircraft are disposed of;
- evaluated the controls in place over the calculation of depreciation, in particular around the initial input of, or changes to, residual values and useful life information; and
- undertook analytical procedures to test the depreciation calculation.

We consider the Group's assessment of the residual values and useful lives of aircraft for use in calculating depreciation to be reasonable.

Responsibilities of the Board of Directors for the consolidated financial statements

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

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

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

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole, are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

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

We did not evaluate the security and controls over the electronic publication of the consolidated financial statements.

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

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

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

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

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

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

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

Other information

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

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

Independence

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

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



Peter Gulliver
for Deloitte Limited

On behalf of the Auditor-General
Auckland, New Zealand

HISTORICAL SUMMARY OF FINANCIAL PERFORMANCE

Five Year Statistical Review

For the year to 30 June

	2018 \$M	2017 \$M	2016 \$M	2015 \$M	2014 \$M
Operating Revenue					
Passenger revenue	4,679	4,376	4,481	4,113	3,851
Cargo	370	335	349	317	287
Contract services	193	164	172	258	277
Other revenue	243	234	229	237	237
	5,485	5,109	5,231	4,925	4,652
Operating Expenditure					
Labour	(1,294)	(1,261)	(1,225)	(1,193)	(1,151)
Fuel	(987)	(827)	(846)	(1,089)	(1,120)
Maintenance	(352)	(321)	(350)	(320)	(285)
Aircraft operations	(611)	(556)	(531)	(466)	(424)
Passenger services	(295)	(266)	(246)	(220)	(212)
Sales and marketing	(357)	(352)	(348)	(303)	(280)
Foreign exchange (losses)/gains	(19)	(6)	112	79	45
Other expenses	(278)	(252)	(398)	(252)	(222)
	(4,193)	(3,841)	(3,832)	(3,764)	(3,649)
Operating Earnings (excluding items below)	1,292	1,268	1,399	1,161	1,003
Depreciation and amortisation	(525)	(493)	(465)	(402)	(436)
Rental and lease expenses	(227)	(230)	(244)	(211)	(174)
Earnings Before Finance Costs, Associates and Taxation	540	545	690	548	393
Finance income	40	43	53	56	44
Finance costs	(73)	(87)	(100)	(108)	(90)
Share of earnings of associates (net of taxation)	33	26	20	(22)	11
Earnings Before Taxation	540	527	663	474	358
Taxation expense	(150)	(145)	(200)	(147)	(95)
Net Profit Attributable to Shareholders of Parent Company	390	382	463	327	263

Certain comparatives within the five year statistical review have been reclassified for comparative purposes, to ensure consistency with the current year. Comparatives previously held within 'Other significant items' of \$3 million and \$143 million have been reclassified to 'Other expenses' for the 2017 and 2016 financial years respectively. The Group adopted NZ IFRS 9 (2010) - Financial Instruments and NZ IFRS 9 (2013) - Hedge Accounting and amendments to NZ IFRS 9, NZ IFRS 7 and NZ IAS 39 on 1 July 2014. Comparatives have been restated for the 2014 financial year in respect of the adopted standards.



HISTORICAL SUMMARY OF FINANCIAL POSITION

Five Year Statistical Review

As at 30 June

	2018 \$M	2017 \$M	2016 \$M	2015 \$M	2014 \$M
Current Assets					
Bank and short-term deposits	1,343	1,369	1,594	1,321	1,234
Other current assets	910	518	745	661	593
Total Current Assets	2,253	1,887	2,339	1,982	1,827
Non-Current Assets					
Property, plant and equipment	5,035	4,745	4,485	4,061	3,279
Other non-current assets	558	539	427	732	744
Total Non-Current Assets	5,593	5,284	4,912	4,793	4,023
Total Assets	7,846	7,171	7,251	6,775	5,850
Current Liabilities					
Debt ¹	431	317	464	253	190
Other current liabilities	2,265	2,088	2,007	1,875	1,682
Total Current Liabilities	2,696	2,405	2,471	2,128	1,872
Non-Current Liabilities					
Debt ¹	2,303	2,197	2,103	2,069	1,543
Other non-current liabilities	671	583	569	613	563
Total Non-Current Liabilities	2,974	2,780	2,672	2,682	2,106
Total Liabilities	5,670	5,185	5,143	4,810	3,978
Net Assets	2,176	1,986	2,108	1,965	1,872
Total Equity	2,176	1,986	2,108	1,965	1,872

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

HISTORICAL SUMMARY OF CASH FLOWS

Five Year Statistical Review

For the year to 30 June

	2018 \$M	2017 \$M	2016 \$M	2015 \$M	2014 \$M
Cash flow from operating activities	1,031	904	1,074	1,100	730
Cash flow from investing activities	(778)	(616)	(797)	(1,066)	(727)
Cash flow from financing activities	(279)	(513)	(4)	53	81
(Decrease)/increase in cash holding	(26)	(225)	273	87	84
Total cash and cash equivalents	1,343	1,369	1,594	1,321	1,234

Certain comparatives within the five year statistical review have been reclassified for comparative purposes, to ensure consistency with the current year. The Group adopted NZ IFRS 9 (2010) - Financial Instruments and NZ IFRS 9 (2013) - Hedge Accounting and amendments to NZ IFRS 9, NZ IFRS 7 and NZ IAS 39 on 1 July 2014. Comparatives have been restated for the 2014 financial year in respect of the adopted standards.

KEY FINANCIAL METRICS

Five Year Statistical Review

		2018	2017	2016	2015	2014
Profitability and Capital Management						
EBIT ¹ /Operating Revenue	%	9.8	10.6	15.9	11.1	8.4
EBITDRA ² /Operating Revenue	%	23.6	24.8	29.5	23.6	21.6
Passenger Revenue per Revenue Passenger Kilometre (Yield)	cents	12.8	12.6	13.5	13.7	13.7
Passenger Revenue per Available Seat Kilometre (RASK)	cents	10.6	10.4	11.3	11.6	11.5
Cost per Available Seat Kilometre (CASK) ³	cents	9.5	9.1	9.3	10.6	10.9
Return on Invested Capital Pre-tax (ROIC) ⁴	%	14.5	15.3	18.8	15.6	14.3
Liquidity ratio ⁵	%	24.5	26.8	33.1	26.8	26.5
Gearing (incl. net capitalised aircraft operating leases) ⁶	%	52.4	51.8	48.6	52.4	42.9
Shareholder Value						
Basic Earnings per Share ⁷	cps	34.7	34.0	41.3	29.2	23.9
Operating Cash Flow per Share ⁷	cps	91.8	80.5	95.6	98.1	65.5
Ordinary Dividends Declared per Share ⁷	cps	22.0	21.0	20.0	16.0	10.0
Special Dividends Declared per Share ⁷	cps	-	-	25.0	-	10.0
Net Tangible Assets per Share ⁷	\$	1.79	1.64	1.76	1.66	1.60
Closing Share Price 30 June	\$	3.18	3.26	2.10	2.55	2.08
Weighted Average Number of Ordinary Shares	m	1,123	1,123	1,122	1,118	1,101
Total Number of Ordinary Shares	m	1,123	1,123	1,123	1,122	1,114
Total Market Capitalisation	\$m	3,565	3,660	2,352	2,861	2,318
Total Shareholder Returns ⁸	%	26.7	41.5	20.0	25.6	24.0

- Earnings before interest and taxation (EBIT) excluding share of earnings of associates (net of taxation) and other significant items (refer footnote under Historical Summary of Financial Performance)
- EBITDRA excludes share of earnings of associates (net of taxation) and other significant items (refer footnote under Historical Summary of Financial Performance)
- Operating expenditure (excluding other significant items) per ASK (refer footnote under Historical Summary of Financial Performance)
- (EBIT plus interest component of aircraft operating leases)/average capital employed (Net Debt plus Equity) over the period
- (Bank and short-term deposits and interest-bearing assets (excluding restricted cash))/Operating Revenue
- Net Debt (including capitalised aircraft operating leases)/(Net Debt plus Equity)
- Per-share measures based upon Ordinary Shares
- Return over five years including the change in share price and dividends received (assuming dividends are reinvested in shares on ex dividend date)

Certain comparatives within the five year statistical review have been reclassified for comparative purposes, to ensure consistency with the current year. The Group adopted NZ IFRS 9 (2010) - Financial Instruments and NZ IFRS 9 (2013) - Hedge Accounting and amendments to NZ IFRS 9, NZ IFRS 7 and NZ IAS 39 on 1 July 2014. Comparatives have been restated for the 2014 financial year in respect of the adopted standards.

HISTORICAL SUMMARY OF DEBT

Five Year Statistical Review

As at 30 June

	2018	2017	2016	2015	2014
	\$M	\$M	\$M	\$M	\$M
Debt					
Secured borrowings	1,563	1,243	930	512	213
Unsecured bonds	50	50	150	150	150
Finance lease liabilities	1,121	1,221	1,487	1,660	1,370
	2,734	2,514	2,567	2,322	1,733
Bank and short-term deposits	1,343	1,369	1,594	1,321	1,234
Net open derivatives held in relation to interest-bearing liabilities ¹	42	(32)	(17)	24	(10)
Interest-bearing assets (included within Other assets)	182	164	288	141	125
Net Debt	1,167	1,013	702	836	384
Net aircraft operating lease commitments ²	1,232	1,120	1,288	1,323	1,022
Net Debt (including off Balance Sheet)	2,399	2,133	1,990	2,159	1,406

- Unrealised gains/losses on open debt derivatives
- Net aircraft operating lease commitments for the next twelve months, multiplied by a factor of seven (excluding short-term leases in 2018, which provide cover for Boeing 787-9 engine issues)



KEY OPERATING STATISTICS

Five Year Statistical Review

For the year to 30 June

	2018	2017	2016	2015	2014
Passengers Carried (000)					
Domestic	11,089	10,379	9,725	9,246	8,920
International					
Australia and Pacific Islands	3,798	3,561	3,507	3,388	3,277
Asia	837	814	791	642	517
America and Europe	1,242	1,198	1,138	1,021	1,005
Total	5,877	5,573	5,436	5,051	4,799
Total Group	16,966	15,952	15,161	14,297	13,719
Available Seat Kilometres (M)					
Domestic	6,905	6,597	6,065	5,592	5,385
International					
Australia and Pacific Islands	12,963	12,039	11,438	10,888	10,622
Asia	9,169	8,918	8,349	7,022	5,656
America and Europe	15,237	14,615	13,832	12,099	11,733
Total	37,369	35,572	33,619	30,009	28,011
Total Group	44,274	42,169	39,684	35,601	33,396
Revenue Passenger Kilometres (M)					
Domestic	5,719	5,311	4,887	4,561	4,370
International					
Australia and Pacific Islands	10,584	9,784	9,532	9,184	8,858
Asia	7,467	7,270	7,070	5,784	4,630
America and Europe	12,892	12,449	11,734	10,405	10,220
Total	30,943	29,503	28,336	25,373	23,708
Total Group	36,662	34,814	33,223	29,934	28,078
Passenger Load Factor (%)					
Domestic	82.8	80.5	80.6	81.6	81.1
International					
Australia and Pacific Islands	81.6	81.3	83.3	84.4	83.4
Asia	81.4	81.5	84.7	82.4	81.9
America and Europe	84.6	85.2	84.8	86.0	87.1
Total	83.4	83.8	84.3	84.6	84.7
Total Group	82.8	82.6	83.7	84.1	84.1
GROUP EMPLOYEE NUMBERS (Full Time Equivalents)	11,074	10,890	10,527	10,196	10,546

New Zealand, Australia and Pacific Islands represent short-haul operations. Asia, America and Europe represent long-haul operations.

CORPORATE GOVERNANCE STATEMENT

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

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

This Corporate Governance Statement follows the structure of the NZX Corporate Governance Code and addresses its Recommendations. The Board considers its governance practices to be consistent with the Code's Principles.

This Corporate Governance Statement was approved by the Board on 22 August 2018 and is current as at that date.

Code of Ethical Behaviour

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

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

Code of Conduct

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

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

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

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

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

Related Documents

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

In addition to the high-level guidance in the Code of Conduct, specific policies provide a further layer of management, particularly in more technical areas. For example, Air New Zealand has a Securities Trading Policy, which identifies behaviours that are illegal, unacceptable or risky in relation to dealings in Air New Zealand's securities by directors, employees or their associated persons. Without taking away ultimate responsibility of the individuals for their trading activities, the policy provides a framework that reduces the potential for insider trading. Training is provided to staff on the policy, and no policy breaches have been identified during the 2018 reporting period.

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

Initiatives and metrics on a range of sustainability matters relating to social, environmental and economic factors are reported in Air New Zealand's Sustainability Report.



CORPORATE GOVERNANCE STATEMENT (CONTINUED)

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

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

Board Composition and Performance

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

Responsibilities of the Board

The Board has responsibility for taking appropriate steps to protect and enhance the value of the assets of Air New Zealand in the best interests of the Company and its shareholders.

The Board has adopted a formal Board Charter detailing its authority, responsibilities, membership and operation which is published on Air New Zealand's website.

Management Delegation

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

Chairman

Tony Carter has been Chairman of Air New Zealand since 27 September 2013. Jan Dawson was appointed Deputy Chairman on 27 September 2013. The Chairman's role includes ensuring the Board is well informed and effective, acting as the link between the Board and the Chief Executive Officer and ensuring effective communication with shareholders.

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

Tony Carter will be resigning as Chairman after the 2019 Annual Shareholder Meeting. Dame Therese Walsh has been elected by the Board to succeed him.

Company Secretary

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

Director Independence

The Board has identified criteria in its Charter, against which it evaluates the independence of directors. These are designed to ensure directors are not unduly influenced in their decisions and activities by any personal, family or business interests.

All directors have been determined to be Independent Directors under these criteria, and for the purposes of the NZX Listing Rules. Directors are required to inform the Board of all relevant information which may affect their independence and the Board reconfirms the independence status of its members annually.

Board Cadence

7	physical Board meetings
4	teleconference meetings
15	committee meetings
1	offshore market visit
1	regional visit
4	strategy/deep dive sessions
1	evaluation exercise

Recent Focus Areas

- Sustainability/Carbon Pricing
- Airport Pricing/Regulation
- Megatrends
- Strategic Alliances and Routes
- Future fleet
- Long-haul products/cabin experience
- Digital vision
- Fuel price/continuity of supply
- Boeing 787 Engine
- Risk Management Framework

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

Board Structure, Skills and Composition

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

The skills and experience represented on the Board are summarised in the diagram below:

Executive Leadership		Financial		Tourism	
Engineering/Safety		Digital/Technology		Governance	
International Business		Government & Stakeholder		Customer Experience	

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

Strategic Competencies

The Board has reviewed and restated the competencies and attributes it considers appropriate to support the Company's strategic direction, and assessed the extent to which these exist across the current membership. The Board evaluation process, undertaken with an external consultant, assisted in this exercise. The competencies form an important part of the criteria used in the review and development of existing directors, and in the recruitment of new directors. As the Company itself develops, the specific strategic competencies will change and be addressed as the Board refreshes itself, and some gap between the identified strategic competencies and a snapshot of current capability is usually to be expected.

The Board works to ensure these competencies are adequately addressed in its membership, and notes it is generally not necessary or practical for every director to individually demonstrate these: competency depth may be as relevant as breadth.

The specific qualifications, skills and experience of current directors are separately discussed in the biographies of each director.

Diversity and Inclusion

The Board is committed to a culture that values diversity and inclusion throughout the Group. It recognises the importance of fostering a diverse workforce which leads to better innovation, stronger customer connections and better business outcomes.

Air New Zealand is making strides in delivering the diversity and inclusion objectives defined in the Diversity & Inclusion Strategy to 2020.

The four strategic Diversity & Inclusion objectives are:

- Attract and recruit diverse talent
- Develop our diverse workforce
- Create a culture where everybody thrives
- Future-proof (retention and transition)

Attract and recruit diverse talent

In the 2018 financial year the talent attraction and selection processes were refined to attract diverse talent and ensure they were more inclusive by:

- No longer asking candidates for current salary to minimise bias and risk of inheriting the gender pay gap from other organisations, as well as no longer sharing historical salary data with hiring managers
- Ensuring at least one female on every Senior Leadership Team role shortlist
- Encouraging gender balanced interview panels
- A guide for recruiters and managers to create a fair, consistent and inclusive recruitment process

Air New Zealand continued to be a principal sponsor of Champions for Change: "TupuToa Māori and Pasifika Corporate Pathways Programme" (an internship programme to promote and encourage young Māori and Pasifika into corporate careers). The intake of interns from the previous financial year was tripled, welcoming 10 interns into corporate roles within Air New Zealand.

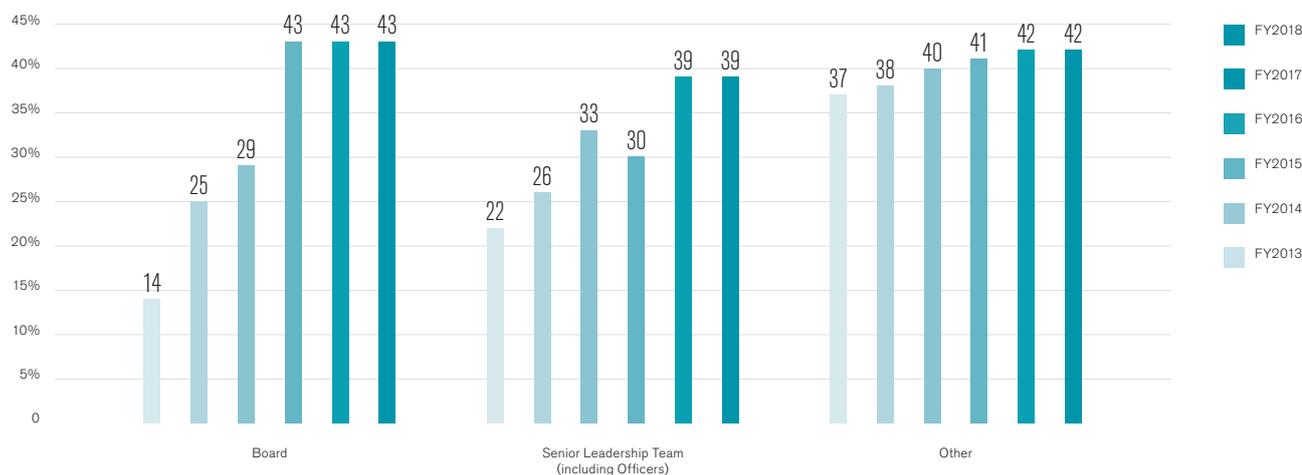


CORPORATE GOVERNANCE STATEMENT (CONTINUED)

Develop our diverse workforce

The focus continues to be on gender equality and gaining greater female representation on the Senior Leadership Team level, and within groups such as Pilots, Engineering and Maintenance and Digital. The previous 40% target has been increased to 50% representation of women in the Senior Leadership Team by 2020. As illustrated in the graph below, as of 30 June 2018, the SLT female representation is 39%, which demonstrates a sustained result throughout the year.

Workforce Gender Representation (% female)



Developing women is an area that has had significant gains in the 2018 financial year, and in August 2017 Air New Zealand won the Diversity Works NZ Empowerment Award recognising our work in developing and empowering women. Since the start of the Women in Leadership programme in 2014, 34 women have completed this development initiative. In the 2018 financial year, 7 of the 15 SLT appointments were women, with 67% of all internal promotions being female.

Additionally, we have sustained 43% female representation on the Board for three consecutive years.

AS AT 30 JUNE	2013	2014	2015	2016	2017	2018
No. of Board (female:male)	1:6	2:6	2:5	3:4	3:4	3:4
No. of Executive Team (female:male)	1:7	1:7	1:7	1:8	1:9	1:9*
No. of Senior Leadership Team (female:male)	15:52	18:51	26:54	24:57	34:53	34:53
No. of Other (female:male)	4,075:6,912	4,299:6,979	4,433:6,742	4,656:6,635	4,879:6,810	4,913:6,838

* Announced changes to the Executive Team since 30 June 2018 will result in a female:male ratio of 2:8 by the end of September 2018.

There has also been significant progress with the cultural fluency initiatives and advancing the Māori employee strategy. This has included Māori and Pasifika appointments to SLT, and embedding inclusivity and cultural fluency as a key part of all leadership touchpoints through the following initiatives:

- Weaving Māori cultural competency through leadership programmes
- Providing coaching on cultural protocols and Te Reo for senior leaders
- Running a deep immersion residential Māori fluency wananga for key leaders in partnership with Department of Conservation at Te Papa Atawhai
- Setting the expectation that cultural fluency in our brand and the Koru is a core capability for all Air New Zealanders through our induction programme

We will continue to focus on cultural initiatives and collect ethnicity data to create a baseline and identify where we have underrepresented groups such as Māori, Pasifika and Asian.

Definitions:

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

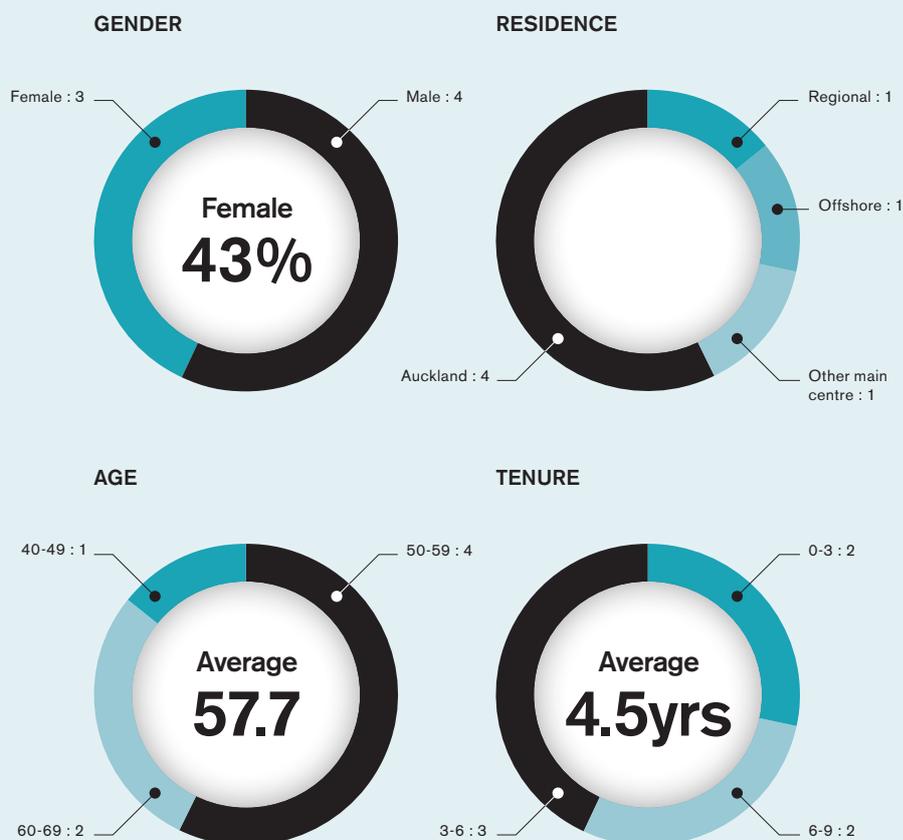
Senior Leadership Team (SLT): Executive Team, direct reports to the Executive Team and other selected senior managers.

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

Diversity on the Board

The Board's ability to contribute is enhanced by the diversity of its members. This diversity may be demonstrated through a number of criteria, such as those discussed or depicted below. The range of experience of directors, recorded in the biographies on pages 61-62, is another important source of diversity.

Achieving gender balance has been a strong diversity focus, but the Board is also interested in other dimensions of its diversity including structural factors of tenure and age. The size of the Board is a constraining factor in formulating meaningful numeric targets for Board diversity, but the Board is diligent in recognising and encouraging an expansive approach to diversity in its own membership as well as in the wider Company, and in the ongoing consideration of measures or targets.

**Create a culture where everybody thrives**

Air New Zealand has a wide range of employees from diverse backgrounds. The employee networks play a pivotal role in creating an inclusive culture. The Company supports five employee networks: Women's Network, Young Professionals (Yopro), Māori and Pasifika (Manu), Pride (LGBTQI) and the Kiwi Asia (KASIA) employee network launched in March 2018. Alongside these networks, to address the under representation of women in male dominated teams, we have supported groups such as Women Inspiring the Next Generation of Female Pilots (WINGS), Women in Engineering and Maintenance and Women in Digital.

In the 2018 financial year, the networks hosted 39 employee network events attended by over 2,000 people.

Air New Zealand is committed to ensuring that our leaders and key decision makers have the tools to mitigate the effects of unconscious knowledge and bias and we are putting programmes in place for 2019.

The impact of diversity and inclusion activity is measured through an engagement survey. There has been an increase against all three Diversity & Inclusion questions in the 2018 financial year.

- Overall perceptions increased by 14 percentage points. 80% say Air New Zealand is open to and accepts differences – up 22%.
- 77% of people say their direct manager has an inclusive leadership style and values diverse cultures, backgrounds and ideas of employees – up 9%.
- 76% of people say that Air New Zealand values and makes the most of their unique differences – up 11%.

Future-proof (retention and transition)

Air New Zealand is looking ahead at the future of work, and we are committed to creating an empowering and engaging environment for a multi-generational workforce.

We are investing in a comprehensive needs analysis and investigation process to gain a deeper understanding of the needs of the ageing workforce. We will develop a detailed strategy in the 2019 financial year.

Board Evaluation

The Board Charter provides for regular performance reviews of the Board as a whole and its Committees. Individual director views and the views of some members of the Executive Team are sought on Board process, efficiency, and effectiveness, and are discussed by the Board as a whole. In conjunction with this process, those directors retiring annually by rotation who are standing for re-election have their performance evaluated by their fellow directors in a process co-ordinated by the Chairman, (or by the Deputy Chairman to review the Chairman) with individual feedback to each director as their evaluation is completed. This performance evaluation process has been applied in respect of the 2018 financial year.



CORPORATE GOVERNANCE STATEMENT (CONTINUED)

Director Appointments and Induction

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

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

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

Each Non-Executive Director receives a letter formalising their appointment. That letter outlines the key terms and conditions of their appointment and is required to be countersigned confirming agreement.

The Board introduces new directors to Senior Executives and the business through specifically tailored induction programmes. The programme includes one-on-one meetings with members of the Executive Team together with visits to key operational business areas.

Director Development

All directors are regularly updated on current industry and company issues by presentations and briefings from Senior Executives. The Board expects all directors to undertake continuous education so that they can effectively perform their duties and progress on this forms part of the Board evaluation process.

Training highlights in the past year include a study tour to China, and participation in the New Zealand Institute of Directors' Leadership Conference.

Board Committees

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

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

Current standing committees are outlined below.

Committee	Composition and Roles	Members
Audit	3-7 non-executive directors. A majority, including the Chairman, must be independent. A majority of the members should be financially literate and at least 1 member must have an accounting or financial background. The Chair may not be the Chairman of the Board. Advises and assists the Board in discharging its responsibilities with respect to financial reporting, compliance and risk management practices of Air New Zealand.	Jan Dawson (Chair) Tony Carter Jonathan Mason Dame Therese Walsh
People Remuneration and Diversity ("PRDC")	2-7 non-executive directors. A majority, including the Chairman, must be independent. Advises and assists the Board in discharging its responsibilities with respect to oversight of the People Strategy of Air New Zealand.	Jonathan Mason (Chair) Tony Carter Jan Dawson Sir John Key
Health, Safety and Security ("HSSC")	At least 3 non-executive directors. A majority, including the Chairman, must be independent. Advises and assists the Board in discharging its responsibilities with respect to health, safety and security matters arising out of activities within and by Air New Zealand.	Rob Jager (Chair) Tony Carter Linda Jenkinson
Funding	3-4 directors. The Chairman of the Board will be the Chairman. Advises and assists the Board in discharging its responsibilities with respect to funding transactions and associated matters.	Tony Carter (Chair) Jan Dawson Rob Jager

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

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

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

The table below reports attendance of members at Board and Board Committee meetings during the 2018 reporting period.

Board/Committee Meetings 1 July 2017 – 30 June 2018

	Board		Audit Committee		People Remuneration and Diversity Committee		Health, Safety and Security Committee	
	Meetings ¹	Attended	Meetings ¹	Attended	Meetings ¹	Attended	Meetings ¹	Attended
Tony Carter	11	11	4	4	7	7	4	4
Jan Dawson	11	11	4	4	7	7		
Paul Bingham ²	3	3					1	1
Rob Jager	11	11					4	4
Linda Jenkinson	11	11					4	4
Sir John Key ³	9	9						
Jonathan Mason	11	11	4	4	7	7		
Dame Therese Walsh	11	11	4	3				

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

2. Paul Bingham resigned from the Board on 28 September 2017.

3. The Rt Hon Sir John Key was appointed to the Board on 1 September 2017, and to the People Remuneration and Diversity Committee on 28 June 2018.

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

Reporting and Disclosure

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

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

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

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

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

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

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

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

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

Remuneration

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

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



CORPORATE GOVERNANCE STATEMENT (CONTINUED)

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

The Board has determined the following allocation of the pool.

	Position	Fees (Per Annum)	
		To 30 June 2018	From 1 July 2018
Board of Directors	Chairman ¹	\$270,000	\$270,000
	Deputy Chairman	\$111,000	\$114,000
	Member	\$97,500	\$100,000
Audit Committee	Chair	\$40,000	\$40,000
	Member	\$20,000	\$20,000
Health Safety and Security Committee	Chair	\$40,000	\$40,000
	Member	\$20,000	\$20,000
People Remuneration and Diversity Committee	Chair	\$20,000	\$20,000
	Member	\$10,000	\$10,000

1. The Chairman receives no additional committee fees.

The Board approved an increase in base director fees for the Deputy Chairman of \$3,000 per annum and directors of \$2,500 per annum, with effect from 1 July 2018. This is accommodated within the shareholder-approved pool for director remuneration.

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

Remuneration of directors in the reporting period is tabulated below.

	Board Fees	Audit Committee	HSSC	PRDC	Total Fees	Value of Travel Entitlement ¹
Tony Carter (Chairman) ²	\$270,000	-	-	-	\$270,000	\$56,082
Jan Dawson (Deputy Chairman)	\$111,000	\$40,000 (Chair)	-	\$10,000	\$161,000	\$28,414
Paul Bingham ³	\$24,375	-	\$5,000	-	\$29,375	\$22,620
Rob Jager	\$97,500	-	\$40,000 (Chair)	-	\$137,500	\$40,500
Linda Jenkinson	\$97,500	-	\$20,000	-	\$117,500	\$50,746
Sir John Key ⁴	\$81,250	-	-	-	\$81,250	\$64,545
Jonathan Mason	\$97,500	\$20,000	-	\$20,000 (Chair)	\$137,500	\$67,732
Dame Therese Walsh	\$97,500	\$20,000	-	-	\$117,500	\$49,190
Total	\$876,625	\$80,000	\$65,000	\$30,000	\$1,051,625	\$379,829

Amounts stated as GST exclusive where applicable.

1. Includes value of travel benefits for related parties and benefits accrued in prior years utilised in current year.

2. No committee fees are paid to the Chairman.

3. Paul Bingham resigned from the Board on 28 September 2017.

4. The Rt Hon Sir John Key was appointed to the Board on 1 September 2017, and to the People Remuneration and Diversity Committee on 28 June 2018.

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

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

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

Risk Management

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

Risk to Air New Zealand is any threat, lost opportunity or circumstance that could compromise safety and security of our customers and staff, or affect the financial stability of the Group or the strength of our Brand. The Board recognises that risk is inherent in our business environment. Risks need to be systematically identified and managed to meet legal, regulatory and governance obligations, while still allowing the Company to operate sustainably as a commercial airline.

Risk management is an important part of our corporate governance. The Board, supported by the Audit Committee has overall responsibility for oversight of risk and for maintaining a robust risk management and internal controls system. Under its Charter, the Board is responsible for ensuring that effective risk management and compliance systems are in place to protect the Company's assets and that the Company does not operate beyond its risk appetite.

The Board ensures that it as a whole, and each director individually, receives appropriate information on key risks and the management of these. To achieve this, the Board receives a Group Risk Profile representing the most significant organisational risks as identified by management on a six-monthly basis in accordance with the Group Risk Management Policy. The reports enable the Board to gain assurance that it has undertaken a robust assessment of key risks facing the Company and to form an overall assessment of the effectiveness of Air New Zealand's system of internal controls for managing risk.

The Board's Health, Safety and Security Committee provides oversight of Air New Zealand's health, safety and security risk management framework including processes, policies and performance, and monitoring the effectiveness of internal control assurance. This process includes site visits to observe treatment of operational and safety risks, as well as presentations on risk management practices and targeted deep dives to obtain assurance that risks receive the right focus from management.

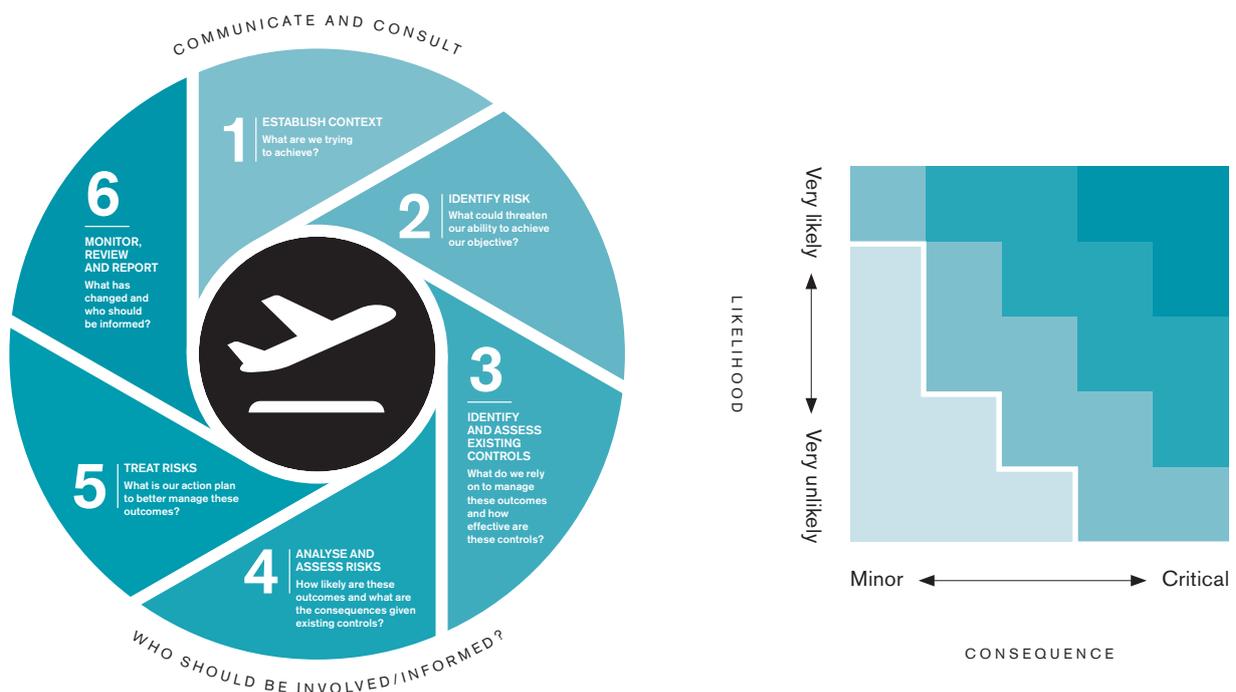
The Executive Team, under the leadership of the Chief Executive Officer, implements the strategy, culture, people, processes and structures that encompass the Enterprise Risk Management Framework.

Enterprise Risk Management Framework

In the 2018 financial year, the Board, led by the Audit Committee, has worked with management to develop and implement a comprehensive Enterprise Risk Management Framework (ERMF) designed to provide a consistent approach to risk identification, management and reporting.

The scope of the ERMF includes a consideration of Strategic, Operational, Financial and Legal/Regulatory risks, both short-term and long-term, across all critical business functions across the Air New Zealand Group. It is built on a set of interdependent elements including principles, organisational design, governance, and process, methodology and tools.

As the Framework becomes more embedded, it will provide better information on risks and enhance the management of these.





CORPORATE GOVERNANCE STATEMENT (CONTINUED)

Enterprise Risk Management Process

This includes a simple, seven-step risk management process, aligned to the ISO 31000 standard, that is progressively being embedded in the business.

Individual risks are assessed and prioritised against a risk matrix of likelihood and consequence. Particular attention is paid to any Medium, High or Very High risks, with mitigation measures generally required to reduce these risks to an acceptable level.

A taxonomy of risk types is maintained to assist in the identification of risks, and facilitate a comprehensive consistent approach.

Risks identified at a business unit level are rolled up to divisional and group levels, with ownership clearly assigned to senior managers.

Accountability – Three Lines of Defence

Air New Zealand's risk management structure aims to align with the Three Lines of Defence model, involving the Executive, Audit Committee and Board oversight of risk management and assurance. Each Line has a set of core accountabilities:

Third Line: Independent Assurance

Internal Audit is a key component of our assurance framework, underpinning the risk management programme by providing an independent appraisal of the adequacy and effectiveness of internal controls.

- Independent challenge, verification and review of business management of risk; and
- Identify opportunities for improved business performance.

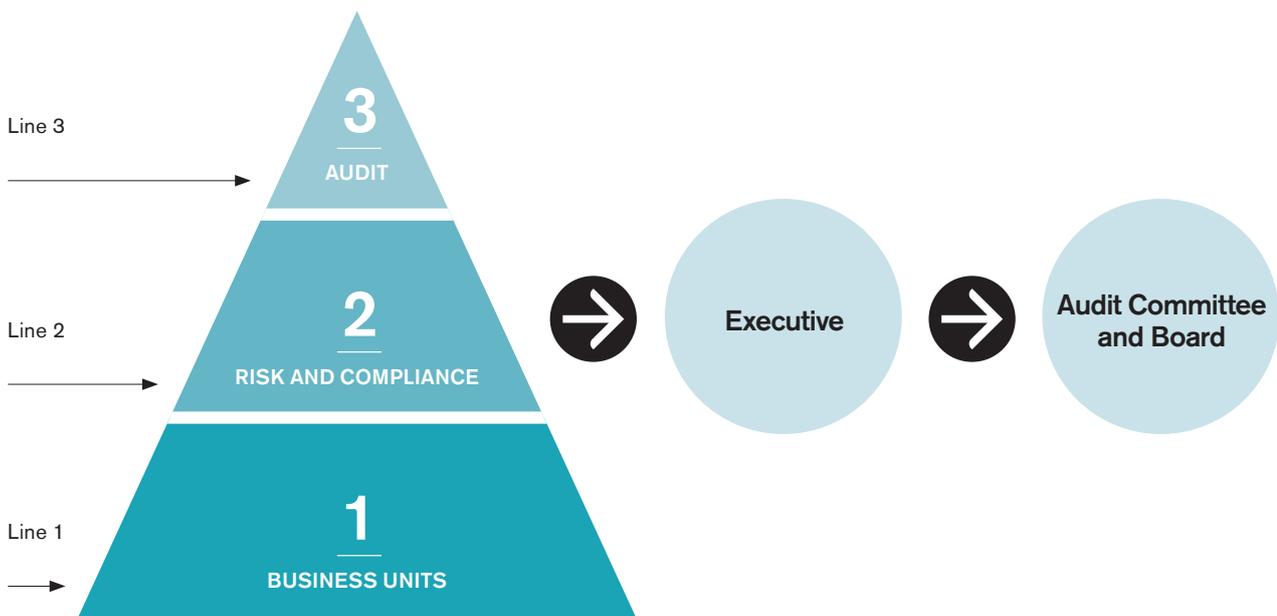
Second Line: Risk Management Governance

- Develop, maintain and oversee implementation of the ERMF, including Risk Management Policy and supporting tools;
- Provide regular aggregated risk information to the Audit Committee; and
- Provide support, training and advice to the business to promote risk awareness and culture and facilitate risk management activities.

First Line: Risk Ownership

Risk management is primarily a line management responsibility since risk is inextricably linked with operational activity and the achievement of business objectives.

- Identify, own, monitor and manage risks within their areas of operation; and
- Comply with risk management policies.



CORPORATE GOVERNANCE STATEMENT (CONTINUED)

Risk Themes

The initial benefit for the Board from the refreshed ERMF has been the capture of individual risks into Risk Themes. Risk Themes recognise common or systemic threads between risks identified to drive more collaborative analysis and action by business areas that are most impacted. Examples of these Risk Themes are given below.

Risk Theme	Representative Risks	Insights
<p>Operational Safety & Integrity: Operational Safety of flight implications associated with aircraft operation.</p>	<ul style="list-style-type: none"> • Malicious intent • Safety culture • Fragile infrastructure • Supply chain failures • Geopolitical uncertainty • Operational safety incident 	Ongoing attention is needed in key areas of emerging safety risk, such as drones in controlled airspace and carriage of lithium batteries. This may require appropriate engagement with regulators to ensure that such threats to safety are addressed.
<p>People Safety & Wellbeing: Risks that have implications on the safety and wellbeing of staff, contractors and customers.</p>	<ul style="list-style-type: none"> • Ageing workforce • Safety culture • Fragile infrastructure • Stress and fatigue 	Our people are essential to our success and the strength of our brand. The impact of significant and ongoing events, such as the Boeing 787 engine issues, the regional schedule changes and the growing frequency and severity of weather-related disrupts, overlaid against the significant pace of business change, place significant pressure on our workforce requiring focus to be maintained on people safety and wellbeing.
<p>Constrained Growth: Growth pressures that may impact achievement of the strategic objective related to profitable growth and returns to shareholders, which may include factors within the macro-environment in which the airline operates.</p>	<ul style="list-style-type: none"> • Changing demographics • Economic volatility • Regulatory change • Skilled labour shortage • Competitive pressures 	Growth without strategic investment in resource and infrastructure, requires careful management to ensure that the customer experience, brand health, and staff engagement are not adversely impacted. Focus is required on advancing all three aspects of the commercial/customer/culture model that is key to our success in advancing from "good to great".
<p>Business Resilience: Threats to our ability to quickly adapt to disruptions while continuing to maintain business operations and safeguarding people, assets and overall brand equity.</p>	<ul style="list-style-type: none"> • Climate change • Supply chain failures • Fragile infrastructure • Natural disasters 	Effectively anticipating the unexpected is key to ensuring that our business is prepared for adverse events, and to improving the quality of business continuity planning with greater focus on end-to-end processes and cross-functional scenarios.
<p>Digital Challenges/Disruption: Disruption to our business in an environment of rapid automation and increasing digital activity as our pace of technological innovation and adoption increases. It includes challenges relating to ageing technology infrastructure.</p>	<ul style="list-style-type: none"> • Digital constraints • Fragile infrastructure • Regulatory change 	Reliance on an ageing digital infrastructure has the potential to have an impact on realising growth aspirations and delivering on customer experience goals. A balance is required between allocating scarce resources to the maintenance of ageing systems, many of which remain operationally critical, and investing in innovative new technology.
<p>Degradation of Customer Experience: Threats to our ability to embed and deliver an unparalleled value proposition and superior customer experience.</p>	<ul style="list-style-type: none"> • Operational delivery capability • Workforce constraints • Digital transformation • Supply chain failure 	Management of the delivery of an outstanding customer experience on a consistent basis, and across the entire end-to-end customer interaction, is critical to brand strength and reputation. There is ongoing potential, including through effective collaboration, to enhance the long-term health of the brand and improve the consistency of the customer experience.



CORPORATE GOVERNANCE STATEMENT (CONTINUED)

The other Risk Themes are:

Information Governance: Risks to our ability to balance the use and security of corporate and personal information while achieving compliance, operational transparency and cost control.

Delivering Sustainability: Risks that can jeopardise our commitment to help supercharge New Zealand's success socially, environmentally and economically in accordance with our Sustainability Framework and aspirations.

Fleet Risk: Long-term complexities and uncertainties pertaining to our fleet choices which relate to optimising financial and operational outcomes.

Organisational Culture: Factors that impede our ability to embed a high performance, high engagement corporate culture, in particular those relating to organisational model, lack of cross-functional alignment/collaboration and non-conformance to standard operating procedures.

People Risk: Human resource constraints such as labour shortage, training limitations, ageing workforce and industrial relations that hinder our ability to compete, innovate or grow.

Regulatory Landscape: Risks to our ability to meet the demands of a complex and dynamic regulatory landscape both domestically and globally.

Business Partner Dependency: Risk of interruptions in the availability of products and services, which could adversely affect our operational performance.

Ethical Misconduct: Cultural factors that threaten our ability to safeguard our brand equity.

Climate Change

To some extent, climate related risks are considered and captured within one or more of the risk themes. However it is explicitly recognised that the Company has specific exposures in this area as an emerging risk; as a contributor due to the nature of its operations, and as both a user of goods and services, and reliant on customers, that may be impacted by the effects of climate change.

Examples of the types of impact on our business include the effect of rising sea levels on airport infrastructure and access; the effect of rising temperature on efficiency and operations, including congestion and scheduling impacts; changes to the jet stream characteristics affecting flight times, range and comfort; increased costs of fuel, and regulatory measures; and extreme weather events creating more frequent disruptions to travel.

Air New Zealand notes the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) for disclosing clear, comparable and consistent information about the risks and opportunities presented by climate change. Work is underway to identify, measure and model the significant climate-related effects on the Company at a more detailed level, as well as at a more general sector level where additional guidance on relevant reporting metrics is anticipated. The Board will continue to monitor these developments and incorporate appropriate additional reporting metrics into its future public reports.

Auditors

"The Board should ensure the quality and independence of the external audit process."

External Audit

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

The Audit Committee liaises with the Auditor-General on the appointment and re-appointment of the external auditors, to ensure the independence of the external auditor is maintained, and to approve the performance of any non-audit services in accordance with the Audit Independence Policy.

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

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

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

Internal Audit

Internal Auditing is an independent and objective assurance and consulting activity that is guided by a philosophy of adding value to improve the operations of Air New Zealand. The Company's Head of Internal Audit reports functionally to the Audit Committee and administratively to the Chief Financial Officer. The internal auditors' responsibilities are defined by the Audit Committee as part of their oversight role, and the Head of Internal Audit has unfettered access to the Audit Committee or its Chair.

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

Shareholder Rights and Relations

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

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

Air New Zealand's shareholder relations programme is designed to ensure effective, two-way communication between shareholders and Air New Zealand. Relevant information is provided to the investment community as quickly and efficiently as possible as part of Air New Zealand's compliance with continuous disclosure.

In addition to providing disclosures to the market, Air New Zealand engages with shareholders in a number of ways, including:

- **Investor Centre Website**

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

- **Electronic Communications**

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

- **Hybrid Annual Shareholder Meetings**

Beginning in 2016, Air New Zealand has offered shareholders the ability to attend the Annual Shareholders' Meeting in either a physical or digital capacity. For shareholders who are unable to travel, the online option of participating in the Annual Shareholders' Meeting allows all shareholders the ability to engage with the Board of Directors and Executive. In 2017, Air New Zealand had more than 140 online participants who asked 15 questions using the virtual tool. Resolutions at shareholder meetings are usually by way of a poll, where each shareholder has one vote per share. Air New Zealand encourages shareholders to ask questions in advance of the meeting, to encourage further engagement with the Company and provide management with a view of the concerns of the Company's shareholders.

- **Investor Day Briefings**

On a periodic basis, Air New Zealand holds investor briefings to provide an update on the Company's strategy and financial framework, as well as provide shareholders with an in-depth discussion on a particular topic. To ensure all shareholders and prospective investors have the opportunity to view the content of Investor Day briefing, Air New Zealand also provides webcast access and transcripts of the event on the Air New Zealand website.

- **Webcasting Interim and Annual Results Presentations**

Air New Zealand webcasts its earnings announcements on a semi-annual basis over its website to provide investors with timely information pertaining to the business, strategy and financial performance. A replay of the webcast and transcript of the event are made available on the Air New Zealand website.

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

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

Differences in Practice to NZX Code

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



DIRECTORS' PROFILES

The following directors held office as at 30 June 2018:

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

Chairman

Independent Non-Executive Director – Appointed 1 December 2010

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

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

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

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

Janice (Jan) Dawson CNZM, BCom, FCA

Deputy Chairman

Independent Non-Executive Director – Appointed 1 April 2011

Ms Dawson is Chairman of Westpac New Zealand Limited and a director of AIG Insurance New Zealand Limited, Beca Group Limited, Fulbright New Zealand, Meridian Energy Limited and World Sailing. Ms Dawson is Pro-Chancellor and a member of the University of Auckland Council and the Capital Investment Committee of the National Health Board.

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.

Robert (Rob) Jager ONZM, BE (Hons), MBA

Independent Non-Executive Director – Appointed 1 April 2013

Mr Jager is Chairman of the Shell Companies in New Zealand and VPNZ and General Manager of Shell Taranaki Limited.

Mr Jager's career in Shell spans more than 40 years, both in New Zealand and overseas, and in roles ranging from engineering, governance to project and general management. He joined Shell in New Zealand in 1978 as an engineering cadet, completing his Bachelor of Engineering degree with 1st Class Honours and later gaining an MBA with Distinction. He has held his current roles in New Zealand since October 2005.

Mr Jager is well known for his health and safety leadership in New Zealand and chairs the New Zealand Business Leaders' Health and Safety Forum. He was recognised for his commitment to safety nationally when he chaired an independent Government taskforce on workplace health and safety in 2012.

Mr Jager is a director and past chair of the Petroleum Exploration and Production Association of New Zealand (PEPANZ), and an advisor to a major conservation project working towards the ecological restoration of New Zealand's iconic Mount Taranaki. In addition, he is on the board of Sustainable Seas which is responsible for approving large scale research and business planning as part of the National Science Challenge.

In 2013, Mr Jager received the Energy Executive of the Year Award at the New Zealand Deloitte Energy Excellence Awards for his "standout performance in the New Zealand energy sector". He was elected a fellow of the Institute of Professional Engineers in 2015 for his contribution to the advancement of engineering practice and leadership in the profession, and recognised with a Safeguard Life-time Achievement Award in 2017. Mr Jager was appointed an Officer of New Zealand Order of Merit (ONZM) in 2018 for his services to Business and Health and Safety.

DIRECTORS' PROFILES (CONTINUED)

Linda Jenkinson MBA, BBS

Independent Non-Executive Director – Appointed 1 June 2014

Ms Jenkinson is a proven global entrepreneur who has started three multi-national companies, one of which listed on the NASDAQ. Most recently she was the co-founder of John Paul, a global concierge services and digital solutions company that services some of the world's leading customer facing businesses.

Ms Jenkinson is currently a director of Guild Group Holdings and the Eclipz Group (ECX) in Australia, a director of Harbour Asset Management and the director and secretary of the Massey Foundation in New Zealand and the United States.

Previously Ms Jenkinson was a partner at A.T. Kearney in their Global Financial Services Practice and was a leader in A.T. Kearney Global Sourcing Practice. Ms Jenkinson holds a Master of Business Administration from The Wharton School, University of Pennsylvania and a Bachelor of Business Studies from Massey University.

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

Rt Hon Sir John Key GNZM, AC

Independent Non-Executive Director – Appointed 1 September 2017

Sir John was Prime Minister of New Zealand from 2008 to 2016. He successfully led the country through the aftermath of the global financial crisis and a series of devastating earthquakes in New Zealand's second-biggest city, Christchurch. Among his portfolios, Sir John was Minister for Tourism. In this role he promoted New Zealand offshore and oversaw substantial growth in New Zealand's tourism industry. He retains a strong interest in the best that our country has to offer both local and international tourists.

Sir John is well respected in international affairs. He chaired the International Democrat Union between November 2014 and February 2018 and chaired the United Nations Security Council in 2016. Sir John, who was knighted in the 2017 Queen's Birthday Honours, has also been appointed an Honorary Companion of the Order of Australia.

Sir John's current business activities include a role advising a \$200 billion United States corporation on its investments in China as well as an advisory role with a New York fund manager.

Sir John worked in investment banking for 20 years primarily for Bankers Trust in New Zealand and Merrill Lynch in Singapore, London and Sydney. His positions included heading Merrill Lynch's global foreign exchange business along with responsibility for European derivative trading and E. Commerce. He was a member of the Foreign Exchange Committee of the Federal Reserve Bank of New York (1999-2001).

Jonathan Mason BA, MA, MBA

Independent Non-Executive Director – Appointed 1 March 2014

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

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

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

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

Dame Therese Walsh DNZM, BCA, FCA

Independent Non-Executive Director – Appointed 1 May 2016

Chairman-elect

Dame Therese is currently Chairman of TVNZ Limited, a director of ASB Bank Limited and Contact Energy Limited, a Trustee of Wellington Regional Stadium and Pro Chancellor at Victoria University.

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

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

Dame Therese will succeed Mr Carter as Chairman of Air New Zealand following the 2019 Annual Shareholder Meeting.

Changes to Board Membership

The Rt Hon Sir John Key was appointed to the Board on 1 September 2017, as an Independent, Non-Executive Director. Mr Paul Bingham retired from the Board at the conclusion of the 2017 Annual Shareholders' Meeting on 28 September 2017.



INTERESTS REGISTER

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

Directors have made general disclosures of interests in accordance with s140(2) of the Companies Act. Current interests, and those which ceased during the year, are tabulated below. New disclosures advised since 1 July 2017 are italicised.

Tony Carter	ANZ Bank New Zealand Limited Blues LLP Capital Training Limited Fisher & Paykel Healthcare Corporation Limited Fletcher Building Limited <i>Fonterra Independent Director Selection Panel</i> Foodstuffs Auckland Protection Trust Maurice Carter Charitable Trust	Director Chairman Advisory Board Member Chairman Director <i>Member</i> Trustee Trustee
Jan Dawson	AIG Insurance New Zealand Limited Beca Group Limited Fulbright New Zealand Jan Dawson Limited Meridian Energy Limited National Health Board Capital Investment Committee New Zealand Maritime Museum – resignation advised 24 April 2018 University of Auckland Council Westpac New Zealand Limited World Sailing	Director Director Director Director Director Member Trustee Pro Chancellor Chairman Director
Rob Jager	Maui Development Limited Petroleum Exploration & Production Associate New Zealand (PEPANZ) Shell Energy Asia Limited Shell Exploration NZ Limited Shell Investments NZ Limited Shell New Zealand (2011) Limited Sustainable Seas National Science Challenge	Director Director Chairman Chairman Chairman Chairman Director
Linda Jenkinson	<i>Eclix Group Limited</i> Guild Group Holdings Limited Guild Insurance Limited Guild Superannuation Services Limited Guild Trustee Services Limited <i>Harbour Asset Management Limited</i> John Paul Inc – resignation advised 23 May 2018 Les Concierges (Australia) – resignation advised 23 May 2018 Les Concierges (Canada) Les Concierges (US) Massey University Foundation Massey University US Foundation Te Auaha Limited	<i>Director</i> Director Director Director Director <i>Director</i> Officer Director Director Director Trustee Director and Secretary Director
Sir John Key	<i>ANZ Banking New Zealand Limited</i> <i>Australia & New Zealand Banking Group Limited (Australia)</i> <i>BP International Advisory Board</i> <i>Caxton (Hedge Fund)</i> <i>Comcast Corporation</i> <i>Handa Foundation</i> <i>Thirty Eight JK Limited</i>	<i>Chairman</i> <i>Director</i> <i>Member</i> <i>Consultant/Advisory Board Member</i> <i>Consultant</i> <i>Consultant</i> <i>Director</i>
Jonathan Mason	Beloit College (USA) Board of Trustees New Zealand Assets Management Limited University of Auckland Endowment Fund Vector Limited Westpac New Zealand Limited Zespri Group Limited	Trustee Director Trustee Director Director Director

INTERESTS REGISTER (CONTINUED)

Dame Therese Walsh	<i>Antarctica NZ</i> ASB Bank Limited DPMC Strategic Risk and Resilience Panel – resignation advised 23 November 2017 <i>Freeview Television Limited – ceased 29 March 2018</i> MBIE Major Events Investment Panel <i>NZOOM Limited – ceased 29 March 2018</i> NZX Limited – ceased 13 April 2018 <i>On Being Bold Limited</i> Television New Zealand Limited <i>Therese Walsh Consulting Limited</i> <i>TVNZ International Limited – ceased 29 March 2018</i> <i>TVNZ Investments Limited – ceased 29 March 2018</i> Victoria University Wellington Homeless Women's Trust Wellington Regional Stadium Trust	<i>Director</i> Director Member <i>Director</i> Member <i>Director</i> Director <i>Director</i> Chairman <i>Director</i> <i>Director</i> <i>Director</i> Pro-Chancellor Ambassador Trustee
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There have been no interest register entries in respect of use of company information by directors.

DIRECTORS' INTERESTS IN AIR NEW ZEALAND SECURITIES

Directors had relevant interests in shares as at 30 June 2018 as below:

	Interest	Shares
Tony Carter	Beneficial ¹	207,189 ²
Jan Dawson	Beneficial	20,000
Rob Jager	Beneficial	24,500
Linda Jenkinson	Beneficial	22,000
Sir John Key	Beneficial	20,000
Jonathan Mason	Beneficial	29,000
Dame Therese Walsh	Beneficial	45,000

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

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

There was no trading activity in shares of the Company by directors during the year. Sir John Key disclosed an interest in 20,000 shares held at the date of his appointment as a 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 expenses of defending legal proceedings and the cost of damages incurred. Specifically excluded are proven criminal liability and fines and penalties other than those pecuniary penalties which are legally insurable. In accordance with commercial practice, the insurance contract prohibits further disclosure of the terms of the policy. All directors who voted in favour of authorising the insurance certified that in their opinion, the cost of the insurance is fair to the Company.



EMPLOYEE REMUNERATION

	Remuneration paid in FY18 including base for FY18, and incentive payments including performance rights issued under the LTI scheme that relate to FY17 performance and paid in FY18	
	New Zealand management	Aircrew, engineering, overseas and others
100,000 - 110,000	160	497
110,000 - 120,000	161	357
120,000 - 130,000	157	297
130,000 - 140,000	140	225
140,000 - 150,000	88	202
150,000 - 160,000	59	206
160,000 - 170,000	41	176
170,000 - 180,000	62	153
180,000 - 190,000	55	113
190,000 - 200,000	38	65
200,000 - 210,000	26	69
210,000 - 220,000	34	58
220,000 - 230,000	32	52
230,000 - 240,000	19	31
240,000 - 250,000	13	22
250,000 - 260,000	10	44
260,000 - 270,000	5	72
270,000 - 280,000	9	45
280,000 - 290,000	9	31
290,000 - 300,000	4	37
300,000 - 310,000	4	29
310,000 - 320,000	4	16
320,000 - 330,000	1	9
330,000 - 340,000	3	24
340,000 - 350,000	2	23
350,000 - 360,000	2	20
360,000 - 370,000	2	16
370,000 - 380,000	2	7
380,000 - 390,000	2	8
390,000 - 400,000	2	9
400,000 - 410,000	3	13
410,000 - 420,000	1	15
420,000 - 430,000	3	17
430,000 - 440,000	2	32
440,000 - 450,000	2	13
450,000 - 460,000	4	6
460,000 - 470,000	1	4
470,000 - 480,000	3	6
480,000 - 490,000	1	8
490,000 - 500,000	1	7
500,000 - 510,000	-	5
510,000 - 520,000	1	3
520,000 - 530,000	-	2
530,000 - 540,000	1	2
540,000 - 550,000	-	1
550,000 - 560,000	2	1
600,000 - 610,000	2	-
620,000 - 630,000	1	-
630,000 - 640,000	1	-
640,000 - 650,000	2	-
730,000 - 740,000	1	-
740,000 - 750,000	1	-
780,000 - 790,000	-	1
790,000 - 800,000	1	1
810,000 - 820,000	1	-
840,000 - 850,000	1	-
850,000 - 860,000	1	-
890,000 - 900,000	-	1
970,000 - 980,000	1	-
1,220,000 - 1,230,000	1	-
1,230,000 - 1,240,000	1	-
1,290,000 - 1,300,000	1	-
1,420,000 - 1,430,000	1	-
1,620,000 - 1,630,000	1	-
1,800,000 - 1,810,000	1	-
1,980,000 - 1,990,000	1	-
2,800,000 - 2,810,000	1	-
4,780,000 - 4,790,000	1	-
Total	1,193	3,051

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 the Company's capability development agenda – to develop future leaders and provide succession pipelines into key roles. The key objectives of the strategy are attracting high performing individuals, providing rich developmental opportunities and recognising achievement through targeted performance and reward initiatives.

Air New Zealand's remuneration strategy is underpinned by a pay for performance philosophy and uses annual performance incentives to create opportunities for everyone to achieve market competitive remuneration levels and in the case of superior performance, total remuneration in excess of market.

Executive remuneration

The CEO and Executive remuneration packages are made up of three components:

- Fixed Remuneration;
- Annual performance incentive; and
- Long term incentive.

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

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

Fixed remuneration

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

Short-term performance incentives

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 is set at 55% of annual fixed salary at target (Achieving) performance and the weighting is based 60% on Company financial performance and 40% on individual performance against specific targets. For all other employees the weighting is 50% Company financial performance and 50% individual performance. Participation in the plan is by annual invitation at the discretion of the company.

Company Component

At the start of the 2018 financial year the Board confirmed a financial target for the Company for incentive payments which was set 10% above the average Earnings before Taxation achieved by the Company over the previous five year period.

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

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

Individual Component

The main factors for the assessment of individual performance for the 2018 financial year were:

Performance Description	Performance Measures
Business performance	<ul style="list-style-type: none"> • Delivery of business plan • Brand profile and trust
Strategy development and delivery	<ul style="list-style-type: none"> • Progress against key strategic initiatives and plan as set by the Board • Key external relationships
Leadership	<ul style="list-style-type: none"> • Customer experience • Health and safety performance
People and culture	<ul style="list-style-type: none"> • Employee engagement • Compliance with regulatory environment

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

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



EMPLOYEE REMUNERATION (CONTINUED)

Long-term performance incentives

Air New Zealand's long-term incentive plan arrangements are designed to align the interests of the CEO and Executives with those of our shareholders and to incentivise participants in the plan to enhance long term shareholder value. In the 2018 financial year the plan available to Executives was the Air New Zealand Long-Term Incentive Performance Rights Plan (LTIP). Participation in any year is by annual invitation at the discretion of the Board.

In addition, the CEO has access to the Air New Zealand CEO Restricted Share Rights Plan (CRSRP). The CRSRP was established as a further incentive in recognition of the commercial importance of retaining the services of the CEO for an extended period.

Long-Term Incentive Plan (LTIP)

There are two main elements to the LTIP:

Performance Rights

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

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

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

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

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

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

Mandatory Shareholding

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

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

CEO Restricted Share Rights Plan (CRSRP)

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

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

Chief Executive Officer Remuneration

CEO Target Remuneration Summary

Financial Year	Salary \$	Benefits ¹ \$	STI ² \$	LTIP ³ \$	CRSRP ⁴ \$	Summary \$
18	1,550,000	166,171	852,500	852,500	755,000	4,176,171
17	1,510,000	147,930	830,500	830,500	735,000	4,053,930

Based on remuneration components outlined earlier, CEO target remuneration is as follows:

- Benefits include superannuation (KoruSaver scheme) and travel. 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). The CEO and eligible beneficiaries are entitled to a number of trips for personal purposes at no cost to the individual.
- STI target entitlement is 55% of Salary.
- The Long-Term Incentive Plan remains at risk. In three years' time, if the Air New Zealand share price has outperformed the performance hurdle, a proportion of the performance rights will convert to shares. The performance hurdle comprises of an index made up of the NZSX All Gross Index and the Bloomberg World Airline Total Return Index in equal proportions. Should Air New Zealand's share price not perform better than a comparison index the granted share rights will lapse.

EMPLOYEE REMUNERATION (CONTINUED)

4. The CEO will receive restricted share rights conditional upon reaching service milestones. Share rights are issued annually with each issue being split into two tranches with different vesting dates. For FY18, 40% of rights granted will vest during December 2018 and the balance of 60% in December 2019. Share rights will only vest if the CEO remains employed by the company on the relevant vesting date.

CEO Realised Remuneration 2018 Financial Year

Salary ¹ \$	Benefits ² \$	STI ³ \$	Rights Vested	
			LTIP ⁴ #	CRSRP ⁵ #
1,550,000	166,171	1,274,726	749,027	365,861

Comments to the table:

- Salary includes all cash paid to, or received by, the CEO in respect of the financial period.
- Benefits include superannuation (KoruSaver scheme) and travel. 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). The CEO and eligible beneficiaries are entitled to a number of trips for personal purposes at no cost to the individual.
- STI in the reporting period reflects the cash value of amounts received where entitlement is determined by the achievement of performance measures, both Company and Individual, that relate to the current period and is not the result of an award made in a previous period.
- LTIP includes the number of shares issued to the CEO on conversion of the Performance Share Rights, where the Air New Zealand share price has outperformed the performance hurdle. The performance hurdle comprises of an index made up of the NZSX All Gross Index and the Bloomberg World Airline Total Return Index in equal proportions.
- CRSRP includes the number of restricted shares rights that have been converted to shares as a result of the achievement of service milestones.

CEO Share Rights Granted 2018 Financial Year

Share Rights Granted	
LTIP ¹ #	CRSRP ² #
494,203	216,954

Comments to the table:

- LTIP includes the number of Performance Share Rights granted in September 2017 (FY18) based on an above target achievement of over 120%. The Long-Term Incentive Plan remains at risk. In three years' time, if the Air New Zealand share price has outperformed the performance hurdle, a proportion of the performance rights will convert to shares. The performance hurdle comprises of an index made up of the NZSX All Gross Index and the Bloomberg World Airline Total Return Index in equal proportions. Should Air New Zealand's share price not perform better than a comparison index the granted share rights will lapse.
- CRSRP includes the number of restricted shares rights granted in September 2017 that will vest in December 2018 and December 2019 respectively, based on the achievement of service milestones. The share rights are issued annually with each issue being split into two tranches with different vesting dates. For FY18, 40% of rights granted will vest during December 2018 and the balance of 60% in December 2019. Share rights will only vest if the CEO remains employed by the company on the relevant vesting date.

CEO Pay for Performance Calculation

Scheme	Description	Performance measures	Percentage/ Rating achieved
STI	STI is set at 55% of fixed remuneration and is based on a combination of Company performance and Individual performance measures.	60% on Company financial performance (earnings before taxation). The Company must achieve at least 50% above the financial target before any STI for company performance is payable, and the maximum contribution of 200% is achieved when the Company achieves 150% or more of the financial target.	116%
		40% on individual performance.	200%
LTIP	Award of share rights under the Long-Term Incentive Performance Rights Plan is set at 55% of fixed remuneration.	Performance rights vest based on an index made of the NZSX All Gross Index and the Bloomberg World Airline Total Return Index in equal proportions.	100%
CRSRP	Award of shares under the CEO Restricted Share Rights Plan is set at 50% of the preceding year's fixed remuneration, dependent on the CEO achieving a performance rating of 'Achieving' or above with respect to all the individual objectives set for that financial year.	Restricted rights vest upon the CEO achieving service milestones.	100%



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 2018. Those who resigned during the year are signified by (R). These companies are New Zealand incorporated companies except where otherwise indicated. No director of any subsidiary received beneficially any director's fees or other benefits except as an employee.

11Ants Analytics Group Limited	Glen Bond Mark Street Marc Allsop (R) Joshua Chandler (R) Jeffrey McDowall (R) Richard Peake (R) Hamish Rumbold (R) Paul Smitton (R)	Ansett Australia & Air New Zealand Engineering Services Limited	Karen Clayton Jeffrey McDowall Rob McDonald (R)
ADP (New Zealand) Limited	Karen Clayton Sarah Williamson Brian Wilson	Eagle Airways Limited	Glen Bond Karen Clayton Michael Williams Jeffrey McDowall (R)
Air Nelson Limited	Glen Bond Kelvin Duff John Whittaker Michael Williams Carrie Hurihanganui (R) Jeffrey McDowall (R) Bruce Parton (R)	Mount Cook Airline Limited	Glen Bond Kelvin Duff John Whittaker Michael Williams Carrie Hurihanganui (R) Jeffrey McDowall (R) Bruce Parton (R)
Air New Zealand Aircraft Holdings Limited	Karen Clayton Stephan Deschamps Jeffrey McDowall Rob McDonald (R)	TEAL Insurance Limited	Michelle Redington Hannah Ringland Rob McDonald (R)
Air New Zealand Associated Companies Limited	Karen Clayton Stephan Deschamps Jeffrey McDowall Rob McDonald (R)	Air New Zealand (Australia) Pty Limited (incorporated in Australia)	Karen Clayton Kathryn Robertson
Air New Zealand Associated Companies (Australia) Limited	Karen Clayton Jeffrey McDowall Rob McDonald (R)	ANZGT Field Services LLC (Joint Venture, incorporated in Del., USA)	Greg Bobrow Trevor Hughes Adam McMillan Todd Witwer
Air New Zealand Express Limited	Karen Clayton Jeffrey McDowall Rob McDonald (R)		
Air New Zealand Regional Maintenance Limited	Adam McMillan Bruce Parton Shehan Sinnaduray Craig Tolley (R)		
Air New Zealand Travel Business Limited	Karen Clayton Jeffrey McDowall Rob McDonald (R)		
ANNZES Engines Christchurch Limited	Karen Clayton Jeffrey McDowall Rob McDonald (R)		

OTHER DISCLOSURES

Donations

The Air New Zealand Group has made donations totalling \$114,405 in the financial year to 30 June 2018. No donations were made to any political party. It is Air New Zealand's policy not to make donations, in cash or in kind, or to provide free of charge travel to political parties.

Substantial product holders

The following information is provided in compliance with Section 293 of the Financial Markets Conduct Act 2013 and is stated as at 30 June 2018. The total number of listed Ordinary shares of Air New Zealand Limited at that date was 1,122,844,227.

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

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

*Relevant interests held as follows:

As reported in its most recent Substantial Security Holder notice dated 6 July 2015, held by Her Majesty the Queen in Right of New Zealand acting by and through her Minister of Finance (582,854,593 Ordinary shares) and New Zealand Superannuation Fund (6,032,689 Ordinary shares) being property of Her Majesty the Queen in Right of New Zealand and managed by the Guardians of New Zealand Superannuation.



SECURITIES STATISTICS

Top Twenty Shareholders – as at 1 August 2018

Investor Name	Number of Ordinary Shares	% of Ordinary Shares
Her Majesty The Queen In Right Of New Zealand acting by and through her Minister of Finance	582,854,593	51.91
HSBC Nominees (New Zealand) Limited	109,597,018	9.76
JPMORGAN Chase Bank	90,030,384	8.02
HSBC Nominees (New Zealand) Limited	80,294,200	7.15
Citibank Nominees (NZ) Ltd	51,642,288	4.60
Accident Compensation Corporation	20,790,938	1.85
Citicorp Nominees Pty Limited	10,493,832	0.93
National Nominees New Zealand Limited	7,331,603	0.65
New Zealand Superannuation Fund Nominees Limited	6,915,167	0.62
HSBC Custody Nominees (Australia) Limited	5,656,470	0.50
TEA Custodians Limited	5,571,703	0.50
New Zealand Depository Nominee Limited	5,191,863	0.46
Cogent Nominees Limited	5,031,322	0.45
BNP Paribas Nominees NZ Limited	4,896,343	0.44
Premier Nominees Limited	4,328,858	0.39
Christopher Luxon	3,896,966	0.35
BNP Paribas Nominees NZ Limited	3,570,622	0.32
J P Morgan Nominees Australia Limited	3,206,005	0.29
Garth Barfoot	2,250,000	0.20
FNZ Custodians Limited	2,131,936	0.19
Total	1,005,682,111	89.58

Shareholder Statistics – as at 1 August 2018

Size of Holding	Investors	% Investors	Shares	% Issued
1-1,000	14,668	57.11	5,960,066	0.53
1,001-5,000	7,360	28.65	18,207,377	1.62
5,001-10,000	1,943	7.57	14,818,112	1.32
10,001-100,000	1,596	6.21	40,142,934	3.58
100,001 and Over	118	0.46	1,043,715,738	92.95
Total	25,685	100.00	1,122,844,227	100.00

Bondholder Statistics – as at 1 August 2018

Size of Holding	Holders	% Holders	Bonds	% Issued
1-1,000	-	-	-	-
1,001-5,000	43	6.96	215,000	0.43
5,001-10,000	148	23.95	1,453,000	2.91
10,001-100,000	398	64.40	13,293,000	26.58
100,001 and Over	29	4.69	35,039,000	70.08
Total	618	100.00	50,000,000	100.00

Current on-market share buybacks

There is no current share buyback in the market.

OPERATING FLEET STATISTICS

As at 30 June 2018*

Boeing 777-300ER

Number: 7
 Average Age: 6.2 years
 Maximum Passengers: 342
 Cruising Speed: 910 km/hr
 Average Daily Utilisation: 14:52



Boeing 777-200ER

Number: 8
 Average Age: 12.2 years
 Maximum Passengers: 312
 Cruising Speed: 910 km/hr
 Average Daily Utilisation: 13:11



Boeing 787-9 Dreamliner

Number: 11
 Average Age: 2.4 years
 Maximum Passengers: 302 or 275
 Cruising Speed: 910 km/hr
 Average Daily Utilisation: 13:30



Airbus A320-200

Number: 30
 Average Age: 13.9 years short-haul, or
 4.4 years domestic
 Maximum Passengers: 168 short-haul, or
 171 domestic
 Cruising Speed: 850 km/hr
 Average Daily Utilisation: 9:28 short-haul, or
 8:12 domestic



ATR 72-500 / ATR 72-600

Number: 27
 Average Age: 17.2 years ATR 72-500, or
 2.7 years ATR 72-600
 Maximum Passengers: 68
 Cruising Speed: 518 km/hr
 Average Daily Utilisation: 5:49 ATR 72-500, or
 6:52 ATR 72-600



Bombardier Q300

Number: 23
 Average Age: 11.4 years
 Maximum Passengers: 50
 Cruising Speed: 520 km/hr
 Average Daily Utilisation: 6:26



*The fleet statistics do not include short-term leased capacity to cover Boeing 787-9 engine issues.



GENERAL INFORMATION

Stock exchange listings

Air New Zealand's Ordinary Shares have been listed on the NZX Main Board (ticker code AIR) since 24 October 1989. It also has bonds listed on the NZX Debt Market (ticker code AIRO20).

Air New Zealand's Ordinary Shares are listed on ASX (ticker code AIZ) as a Foreign Exempt Listing. The Foreign Exempt Listing means that Air New Zealand is expected to comply primarily with the Listing Rules of the NZX Main Board (being the rules of its home exchange) and is exempt from complying with most of ASX's Listing Rules.

Neither NZX nor ASX has taken any disciplinary action against the Company during the financial year ended 30 June 2018. In particular there was no exercise of powers by NZX under NZX Listing Rule 5.4.2, (relating to powers to cancel, suspend or censure an issuer) with respect to Air New Zealand during the reporting period.

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

Place of incorporation

New Zealand

In New Zealand, the Company's Ordinary Shares are listed with a "non-standard" (NS) designation. This is due to particular provisions of the Company's Constitution, including the rights attaching to the Kiwi Share¹ held by the Crown and requirements regulating ownership and transfer of Ordinary Shares.

New Zealand Exchange

Waivers:

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

The following waivers from the NZX Main Board Listing Rules were granted to the Company or relied upon by the Company during the financial year ended 30 June 2018:

1. A waiver from NZX Listing Rule 8.1.7(b) to enable the issue of Long-Term Incentive Scheme Options to be adjusted following a capital restructure such as a rights issue, in accordance with an approach suggested by PricewaterhouseCoopers.
The decision by NZXR of 3 December 2007 noted that an independent expert's opinion had confirmed that the approach suggested by PricewaterhouseCoopers would create economic neutrality for the option holders and all other Air New Zealand shareholders.
2. A waiver from NZX Listing Rule 8.1.7 to allow Air New Zealand to amend the terms of the Long-Term Incentive Plan and Chief Executive Officer Option Incentive Plan to provide that instead of purchasing/issuing a share for each option exercised, Air New Zealand would only purchase/issue a number of shares with a value (based on current market prices) equal to the delta between the aggregate of the market share price and the exercise price of the options exercised.
The decision by NZXMS of 31 August 2012 noted that the amendment will not affect the economic position of either the participant or Air New Zealand and will reduce the dilutionary effect on shareholders of the exercise of options.
3. Air New Zealand and the Crown (acting through the Ministry of Business, Innovation and Employment) have agreed terms under which Air New Zealand will provide government agencies with discounted fares. This agreement is likely to be a "Material Transaction" under the rule 9.2.2(e) of the NZX Listing Rules. Given the Crown is a 51.91% shareholder of Air New Zealand, Air New Zealand sought (and was provided with) a waiver to enter into the transaction without the requirement to obtain shareholder approval. This waiver was granted subject to two independent directors of the board certifying that: (i) the agreement has been negotiated on arm's length commercial terms; (ii) entry into the agreement is in the best interests of all shareholders (other than the Crown); and (iii) the Crown, as the majority shareholder in Air New Zealand, has not influenced the board of directors of Air New Zealand, to enter into the agreement. Two independent directors must confirm those same matters listed above, in any extension or renewal of the agreement.

Compliance with Listing Rules:

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

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

GENERAL INFORMATION (CONTINUED)

Australian Stock Exchange

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

Limitations on the Acquisition of Securities

Constitution

The limitations on the acquisition of securities imposed by the Company's Constitution are summarised below (capitalised terms are defined either in the Constitution or the Takeovers Code²):

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

The Takeovers Code

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

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

Corporations Act 2001 (Australia)

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

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



SHAREHOLDER DIRECTORY

New Zealand

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

Investor Enquiries:

Phone: (64 9) 375 5998
Fax: (64 9) 375 5990
Email: enquiries@linkmarketservices.co.nz

Australia

Link Market Services Limited
Level 12, 680 George Street
Sydney 2000, Australia
Locked Bag A14, Sydney South
NSW 1235, Australia

Investor Enquiries:

Phone: (61) 1300 554 474
Fax: (61 2) 9287 0303

Investor Relations

Investor Relations Office
Private Bag 92007, Auckland 1142
New Zealand
Phone: 0800 22 22 18 (New Zealand)
(64 9) 336 2607 (Overseas)
Fax: (64 9) 336 2664
Email: investor@airnz.co.nz
Website: airnzinvestor.com

Annual Meeting

Date: 26 September 2018
Time: 2:00 pm
Venue: The Piano
156 Armagh Street
Christchurch

Current Credit Rating

Moody's rate Air New Zealand Baa2

Auditor

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

Registered Office

New Zealand

Air New Zealand Limited
Air New Zealand House
185 Fanshawe Street
Auckland 1010
Postal: Private Bag 92007
Auckland 1142, New Zealand
Phone: (64 9) 336 2400
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NZBN 9429040402543

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Level 12
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Sydney
Postal: GPO 3923, Sydney
NSW 2000, Australia
Phone: (61 2) 8235 9999
Fax: (61 2) 8235 9946
ABN 70 000 312 685

Board of Directors

Tony Carter – Chairman
Jan Dawson – Deputy Chairman
Rob Jager
Linda Jenkinson
Sir John Key
Jonathan Mason
Dame Therese Walsh

Chief Executive Officer

Christopher Luxon

Chief Financial Officer

Jeff McDowall

General Counsel and Company Secretary

Karen Clayton

Name of Listed Issuer:

AIR NEW ZEALAND LIMITED

Results for announcement to the market

Reporting Period 12 months to 30 June 2018
Previous Reporting Period 12 months to 30 June 2017

	Amount \$NZ'm	Percentage change
Revenue from ordinary activities (including finance income)	5,525	7%
Profit from ordinary activities after tax attributable to security holders	390	2%
Net profit attributable to security holders	390	2%

Dividends (NZ cents)	Amount per security	Imputed amount per security
Interim dividend	11.0	4.28
Final dividend*	11.0	4.28

* The final dividend was declared on 22 August 2018

Details of final dividend	
Record Date for Final Dividend	7-Sep-18
Payment Date for Final Dividend	19-Sep-18

Comments:

Air New Zealand Limited
Preliminary Full Year Results
23 August 2018

CONTENTS

NZX Appendix 1, pursuant to NZX Listing Rule 10.3.2

NZX Appendix 7

PRELIMINARY FULL YEAR REPORT ANNOUNCEMENT
AIR NEW ZEALAND LIMITED
Full Year Ended 30 June 2018 (referred to in this report as the "current full year")

1.1 Details of the reporting period and the previous reporting period

The reporting period is for the year ended 30 June 2018 with the comparative period being for the year ended 30 June 2017.

1.2 Information prescribed by NZX

Refer to Results for announcement to the market.

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

(a) A Statement of Financial Performance

Refer to the Financial Statements.

(b) A Statement of Financial Position

Refer to the Financial Statements.

(c) A Statement of Cash Flows

Refer to the Financial Statements.

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

On 22 August 2018, the Board of Directors declared a final dividend for the 2018 financial year of 11.0 cents per Ordinary Share, payable on 19 September 2018 to registered shareholders at 7 September 2018. The total dividend payable will be \$124 million. Imputation credits will be attached and supplementary dividends paid to non-resident shareholders. The dividend has not been recognised in the June 2018 financial statements.

An interim dividend of 11.0 cents per Ordinary Share was paid on 16 March 2018. Imputation credits were attached and supplementary dividends paid to non-resident shareholders.

A final dividend in respect of the 2017 financial year of 11.0 cents per Ordinary Share was paid on 18 September 2017. Imputation credits were attached and supplementary dividends paid to non-resident shareholders.

	\$NZ'm*	NZ Cents Per Share
Distributions recognised		
Final dividend for 2017 financial year on Ordinary Shares	124	11.0
Interim dividend for 2018 financial year on Ordinary Shares	124	11.0
Distributions paid		
Final dividend for 2017 financial year on Ordinary Shares	130	11.0
Interim dividend for 2018 financial year on Ordinary Shares	130	11.0

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

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

The dividend reinvestment plan is currently suspended.

(f) A Statement of Movements in Equity

Refer to the Financial Statements.

PRELIMINARY FULL YEAR REPORT ANNOUNCEMENT**AIR NEW ZEALAND LIMITED**

Full Year Ended 30 June 2018 (referred to in this report as the "current full year")

(g) Net tangible assets per security with the comparative figure for the previous corresponding period

(NZ Cents Per Share)	Current Year	Previous Year
Ordinary Shares	179	164

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

Entity Name	Date of control
11Ants Analytics Group Limited	29-Sep-17

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

Name	% Held Current Year	% Held Previous Year	Contribution to Net Profit Current Year \$NZ'm	Contribution to Net Profit Previous Year \$NZ'm
Associate				
Christchurch Engine Centre (CEC)*	49%	49%	33	26

* CEC is operated in partnership with Pratt and Whitney.

Name	% Held Current Year	% Held Previous Year
Joint Venture		
ANZGT Field Services LLC	51%	51%
11Ants Analytics Group Limited*	N/A	50%

* The Group gained control of 11Ants Analytics Group Limited on 29 September 2017 and accounted for the entity as a wholly owned subsidiary from that date.

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

	Measurement	Current Year	Previous Year	% Change
Passengers Carried	000	16,966	15,952	6.4%
Revenue Passenger Kilometres	m	36,662	34,814	5.3%
Available Seat Kilometres	m	44,274	42,169	5.0%
Passenger Load Factor	%	82.8	82.6	0.2% pts

PRELIMINARY FULL YEAR REPORT ANNOUNCEMENT

AIR NEW ZEALAND LIMITED

Full Year Ended 30 June 2018 (referred to in this report as the "current full year")

(k) Commentary on the results

	Measurement	Current Year	Previous Year
(i) Basic earnings per share	NZ cents per share	34.7	34.0
Diluted earnings per share	NZ cents per share	34.4	33.5
(ii) Returns to shareholders (see also section (d) above)			
Final dividend on Ordinary Shares*	\$NZ'm	124	112
Special dividend on Ordinary Shares*	\$NZ'm	-	281
Interim dividend on Ordinary Shares	\$NZ'm	124	112

* Reflects the final dividends for the 2016 and 2017 financial years and the special dividend for the 2016 financial year. Details on the final dividend for the 2018 financial year is provided in the first paragraph of section (d) above.

(iii) Significant features of operating performance:

Refer to the media release.

(iv) Segmental results:

Industry segment

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

Geographical segment

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

	Current Year \$NZ'm	Previous Year \$NZ'm
Analysis of revenue by geographical region of original sale		
New Zealand	3,267	3,041
Australia and Pacific Islands	695	621
United Kingdom and Europe	274	278
Asia	476	440
America	773	729
Total operating revenue	5,485	5,109

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

(v) Discussion of trends in performance:

Refer to the media release.

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

Refer to the media release.

(l) Audit of financial statements

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

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

Refer to the media release.

PRELIMINARY FULL YEAR REPORT ANNOUNCEMENT
AIR NEW ZEALAND LIMITED
Full Year Ended 30 June 2018 (referred to in this report as the "current full year")

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

Nil

3.1 Basis of preparation

This report is compiled in accordance with New Zealand Generally Accepted Accounting Practice ("NZ GAAP"). NZ GAAP consists of New Zealand equivalents to International Financial Reporting Standards ("NZ IFRS") and other applicable financial reporting standards as appropriate to profit-oriented entities.

3.2 Accounting policies

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

3.3 Changes in accounting policies

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

3.4 Audit Report

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

3.5 Additional information

Not applicable.

This full year report was approved by the Board of Directors on 23 August 2018.



Tony Carter
Chairman

Notice of event affecting securities

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

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

Full name of Issuer

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

Contact phone number Contact fax number Date

Nature of event
Tick as appropriate

Bonus Issue If ticked, state whether: Taxable / Non Taxable Conversion Interest Rights Issue Renounceable

Rights Issue non-renounceable Capital change Call Dividend If ticked, state whether: Interim Full Year Special DRP Applies

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

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

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

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

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

Conversion, Maturity, Call Payable or Exercise Date Treatment of Fractions

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

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

In dollars and cents

Amount per security (does not include any excluded income) Source of Payment

Excluded income per security (only applicable to listed PIEs)

Currency Supplementary dividend details - NZSX Listing Rule 7.12.7

Total monies **Date Payable**

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

In the case of a taxable bonus issue state strike price Resident Withholding Tax Imputation Credit (Give details)

Foreign Withholding Tax FDP Credits (Give details)

Timing

(Refer Appendix 8 in the NZSX Listing Rules)

Record Date 5pm

For calculation of entitlements -

Application Date

Also, Call Payable, Dividend / Interest Payable, Exercise Date, Conversion Date.

Notice Date

Entitlement letters, call notices, conversion notices mailed

Allotment Date

For the issue of new securities. Must be within 5 business days of application closing date.

OFFICE USE ONLY

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

Security Code:

Security Code:

