AIR NEW ZEALAND

ANNUAL FINANCIAL RESULTS
2013

A STAR ALLIANCE MEMBER

Directors' Statement

The directors of Air New Zealand Limited are pleased to present to shareholders the Annual Report* and financial statements for Air New Zealand and its controlled entities (together the "Group") for the year to 30 June 2013.

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 2013 and the results of the Group's operations and cash flows for the year ended on that date.

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

The directors believe that proper accounting records have been kept which enable with reasonable accuracy, the determination of the financial position of the Group and facilitate compliance of the financial statements with the Financial Reporting Act 1993.

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

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

John Palmer
CHAIRMAN

Roger France
DIRECTOR

29 August 2013

Financial Statements

General Information

*This document, in conjunction with the Air New Zealand Annual Shareholder Review 2013, constitutes the 2013 Annual Report to shareholders of Air New Zealand Limited.

Statement of Financial Performance

For the year to 30 June 2013

	NOTES	GROUP 2013 $M	GROUP 2012 $M	COMPANY 2013 $M	COMPANY 2012 $M
Operating Revenue					
Passenger revenue		3,765	3,634	3,193	3,069
Cargo		301	298	296	293
Contract services		313	316	242	233
Other revenue		239	235	490	432
	1, 2	4,618	4,483	4,221	4,027
Operating Expenditure					
Labour		(1,069)	(1,050)	(914)	(898)
Fuel		(1,204)	(1,219)	(1,109)	(1,120)
Maintenance		(303)	(303)	(225)	(230)
Aircraft operations		(419)	(390)	(326)	(309)
Passenger services		(222)	(233)	(214)	(223)
Sales and marketing		(274)	(270)	(257)	(252)
Foreign exchange gains/(losses)		7	(68)	4	(70)
Other expenses		(236)	(235)	(213)	(84)
	3	(3,720)	(3,768)	(3,254)	(3,186)
Earnings Before Finance Costs, Depreciation, Amortisation, Rental Expenses and Taxation		898	715	967	841
Depreciation and amortisation		(411)	(348)	(277)	(231)
Rental and lease expenses	3	(177)	(209)	(258)	(289)
Earnings Before Finance Costs and Taxation		310	158	432	321
Finance income		37	31	40	36
Finance costs		(91)	(95)	(81)	(89)
Profit Before Taxation		256	94	391	268
Taxation (expense)/credit	4	(74)	(23)	(42)	19
Net Profit Attributable to Shareholders of Parent Company		182	71	349	287
Per Share Information:					
Basic earnings per share (cents)	5	16.6	6.5		
Diluted earnings per share (cents)	5	16.5	6.5		
Interim and final dividend declared per share (cents)	21	8.0	5.5		
Net tangible assets per share (cents)		158	148		

	NOTE	GROUP 2013 $M	GROUP 2012 $M
Supplementary Information			
Earnings before Taxation (per NZ IFRS above)		256	94
Reverse net (gains)/losses on derivatives that hedge exposures in other financial periods:			
Fuel derivatives		(2)	(11)
Foreign exchange derivatives		2	8
Normalised Earnings before Taxation	3	256	91
Normalised Earnings after Taxation		182	69
Per Share Information:			
Basic normalised earnings per share (cents)		16.6	6.3

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

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

Statement of Comprehensive Income

For the year to 30 June 2013

	NOTE	GROUP 2013 $M	GROUP 2012 $M	COMPANY 2013 $M	COMPANY 2012 $M
Net Profit for the Year		182	71	349	287
Other Comprehensive Income:					
Items that will not be reclassified to profit or loss:					
Changes in fair value of investment in quoted equity instruments	13	(6)	40	-	-
Total items that will not be reclassified to profit or loss		(6)	40	-	-
Items that may be reclassified subsequently to profit or loss:					
Changes in fair value of cash flow hedges		85	63	82	67
Transfers to net profit from cash flow hedge reserve		(5)	75	-	78
Transfers to asset carrying value from cash flow hedge reserve		(28)	10	(28)	10
Net translation (loss)/gain on investment in foreign operation		(8)	1	-	-
Taxation on above reserve movements		(15)	(42)	(16)	(44)
Total items that may be reclassified subsequently to profit or loss		29	107	38	111
Total Other Comprehensive Income for the Year, Net of Taxation		23	147	38	111
Total Comprehensive Income for the Year, Attributable to Shareholders of the Parent Company		205	218	387	398

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

Statement of Changes In Equity

For the year to 30 June 2013

	NOTES	GROUP 2013 $M	GROUP 2012 $M	COMPANY 2013 $M	COMPANY 2012 $M
Issued Capital					
Balance at the beginning of the year		2,282	2,269	2,290	2,277
Acquisition of treasury stock (share buyback)		(11)	-	(11)	-
Shares issued		1	8	1	8
Equity-settled share-based payments		5	5	5	5
Balance at the end of the year	23	2,277	2,282	2,285	2,290
Cash Flow Hedge Reserve					
Balance at the beginning of the year		86	(20)	81	(30)
Changes in fair value of cash flow hedges		85	63	82	67
Transfers to net profit ("Fuel")		(2)	14	(2)	14
Transfers to net profit ("Foreign exchange gains/(losses)")		(3)	61	2	64
Transfers to asset carrying value		(28)	10	(28)	10
Taxation on above reserve movements		(15)	(42)	(16)	(44)
Balance at the end of the year	19	123	86	119	81
Investment Revaluation Reserve					
Balance at the beginning of the year		(41)	(81)	-	-
Changes in fair value of investment in quoted equity instruments	13	(6)	40	-	-
Balance at the end of the year		(47)	(41)	-	-
Foreign Currency Translation Reserve					
Balance at the beginning of the year		(9)	(10)	-	-
Net translation (loss)/gain on investment in foreign operation		(8)	1	-	-
Balance at the end of the year		(17)	(9)	-	-
Retained Deficit					
Balance at the beginning of the year		(632)	(654)	(1,463)	(1,701)
Net profit for the year		182	71	349	287
Dividends on Ordinary Shares	21	(71)	(49)	(71)	(49)
Balance at the end of the year		(521)	(632)	(1,185)	(1,463)
Total Equity attributable to Shareholders of the Parent Company		1,815	1,686	1,219	908
Non-controlling Interests					
Balance at the beginning of the year		2	-	-	-
Acquired through business combinations		-	2	-	-
Disposed through business combinations		(1)	-	-	-
Total Equity attributable to Non-controlling Interest		1	2	-	-
Total Equity at the End of the Year		1,816	1,688	1,219	908
Total Equity					
Balance at the beginning of the year		1,688	1,504	908	546
Net profit for the year		182	71	349	287
Total other comprehensive income for the year, net of taxation		23	147	38	111
Transactions with owners:					
Acquisition of treasury stock (share buyback)	23	(11)	-	(11)	-
Shares issued	23	1	8	1	8
Equity-settled share-based payments	23	5	5	5	5
Dividends on Ordinary Shares	21	(71)	(49)	(71)	(49)
Acquired through business combinations		-	2	-	-
Disposed through business combinations		(1)	-	-	-
Transactions with owners		(77)	(34)	(76)	(36)
Balance at the End of the Year		1,816	1,688	1,219	908

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

Statement of Financial Position

As at 30 June 2013

	NOTES	GROUP 2013 $M	GROUP 2012 $M	COMPANY 2013 $M	COMPANY 2012 $M
Current Assets					
Bank and short term deposits	6	1,150	1,029	1,146	1,021
Trade and other receivables	7	350	374	302	335
Inventories	8	155	170	125	141
Derivative financial assets	19	98	40	98	41
Income taxation		-	20	2	49
Assets held for resale	9	7	9	4	8
Other assets	10	98	58	90	176
Total Current Assets		1,858	1,700	1,767	1,771
Non-Current Assets					
Trade and other receivables	7	49	48	12	7
Property, plant and equipment	11	2,935	3,092	1,782	1,968
Intangible assets	12	69	63	62	54
Investment in quoted equity instruments	13	261	203	-	-
Investments in other entities	14	46	60	368	408
Derivative financial assets	19	-	1	-	1
Other assets	10	394	292	731	525
Total Non-Current Assets		3,754	3,759	2,955	2,963
Total Assets		5,612	5,459	4,722	4,734
Current Liabilities					
Bank overdraft and short term borrowings	6	-	2	1	6
Trade and other payables		382	373	347	332
Revenue in advance	15	918	902	910	893
Interest-bearing liabilities	16	159	155	87	83
Derivative financial liabilities	19	13	14	8	15
Provisions	17	15	61	11	60
Income taxation		27	-	-	-
Other liabilities	20	196	176	661	862
Total Current Liabilities		1,710	1,683	2,025	2,251
Non-Current Liabilities					
Revenue in advance	15	140	135	140	134
Interest-bearing liabilities	16	1,470	1,537	921	1,039
Derivative financial liabilities	19	-	-	-	1
Provisions	17	145	94	144	94
Other liabilities	20	21	25	73	117
Deferred taxation	22	310	297	200	190
Total Non-Current Liabilities		2,086	2,088	1,478	1,575
Total Liabilities		3,796	3,771	3,503	3,826
Net Assets		1,816	1,688	1,219	908
Equity					
Issued capital	23	2,277	2,282	2,285	2,290
Reserves		(462)	(596)	(1,066)	(1,382)
Parent interests		1,815	1,686	1,219	908
Non-controlling interests		1	2	-	-
Total Equity		1,816	1,688	1,219	908

John Palmer
CHAIRMAN

Roger France
DIRECTOR

For and on behalf of the Board, 29 August 2013

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

Statement of Cash Flows

For the year to 30 June 2013

	NOTES	GROUP 2013 $M	GROUP 2012 $M	COMPANY 2013 $M	COMPANY 2012 $M
Cash Flows from Operating Activities					
Receipts from customers		4,657	4,515	4,021	3,826
Dividends received from subsidiaries		-	-	248	198
Payments to suppliers and employees		(3,841)	(3,997)	(3,419)	(3,543)
Income tax paid		(28)	(5)	(27)	(5)
Interest paid		(84)	(87)	(83)	(90)
Interest received		35	29	38	34
		739	455	778	420
Rollover of foreign exchange contracts*		11	17	11	17
Net Cash Flow from Operating Activities	6	750	472	789	437
Cash Flows from Investing Activities					
Disposal of property, plant and equipment, intangibles and assets held for resale		9	8	7	4
Acquisition of property, plant and equipment and intangibles		(382)	(610)	(209)	(553)
Acquisition of quoted equity instruments		(46)	(30)	-	-
Distribution from associates		15	-	-	-
Rollover of foreign exchange contracts*		(28)	-	(28)	-
Other assets		(44)	(13)	-	(13)
Interest-bearing assets		(4)	(10)	(4)	(10)
Acquisition of subsidiaries and joint ventures		-	1	-	-
Net Cash Flow from Investing Activities		(480)	(654)	(234)	(572)
Cash Flows from Financing Activities					
Shares issued		1	2	1	2
Interest-bearing liabilities drawdowns		114	574	-	574
Acquisition of treasury stock (share buyback)	23	(11)	-	(11)	-
Net decrease in related party funding		-	-	(232)	(152)
Interest-bearing liabilities payments		(149)	(165)	(81)	(63)
Rollover of foreign exchange contracts*		(30)	(19)	(30)	(19)
Dividend on Ordinary Shares	21	(72)	(43)	(72)	(43)
Net Cash Flow from Financing Activities		(147)	349	(425)	299
Increase in Cash and Cash Equivalents		123	167	130	164
Cash and cash equivalents at the beginning of the year		1,027	860	1,015	851
Cash and Cash Equivalents at End of the Year	6	1,150	1,027	1,145	1,015

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

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

Statement of Accounting Policies

For the year to 30 June 2013

ENTITIES REPORTING

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

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

STATUTORY BASE

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

BASIS OF PREPARATION

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

The financial statements were approved by the Board of Directors on 29 August 2013.

Basis of measurement

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

Use of accounting estimates and judgements

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

Areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed below:

(a) Revenue in advance

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

(b) Maintenance provisions

Where there is a commitment to maintain aircraft held under operating lease arrangements, a provision is made during the lease term for the lease return obligations specified within those lease agreements. The provision is based upon historical experience, manufacturers' advice and, where appropriate, contractual obligations in determining the present value of the estimated future costs of major airframe inspections and engine overhauls. Estimates are required to be made in respect of the timing and cost of maintenance. Further information is disclosed in the accounting policies under "Maintenance costs" and within Note 17 Provisions.

(c) Estimated impairment of non-financial assets

Non-financial assets (including property, plant and equipment, intangible assets, assets held for resale, and investments in other entities) are reviewed at each reporting date to determine whether there are any indicators that the carrying amount may not be recoverable. Goodwill is tested for impairment annually. Value in use models are prepared to support the carrying value of the assets and require estimates and assumptions to be applied to derive future cash flows. Further details are provided in the accounting policies under "Impairment" and Note 11 Property, Plant and Equipment, Note 12 Intangible Assets, Note 14 Investments in Other Entities and Note 28 Related Parties.

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

Estimates and judgements are applied by management to determine the expected useful life of aircraft related assets. The useful lives are determined based on the expected service potential of the asset and lease term. The residual value, at the expected date of disposal, is estimated by reference to external projected values. Further information is provided in the accounting policies under "Property, plant and equipment" and Note 11 Property, Plant and Equipment.

(e) Taxation

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

Judgements are also required about the application of income tax legislation. These judgements and assumptions are subject to risk and uncertainty, hence there is a possibility that changes in circumstances will alter expectations, which may impact the amount of deferred tax assets and deferred tax liabilities recognised in the Statement of Financial Position and the amount of other tax losses and temporary differences not yet recognised. In such circumstances, some or all of the carrying amounts of recognised deferred tax assets and liabilities may require adjustment, resulting in a corresponding credit or charge to the Statement of Financial Performance. Further information is provided in the accounting policies under "Taxation", Note 4 Taxation Expense and Note 22 Deferred Taxation.

(f) Contingent liabilities

Judgements and estimates are applied to determining the probability that an outflow of resources will be required to settle an obligation. These are made based on a review of the facts and circumstances surrounding the event and advice from both internal and external parties. Further information is disclosed within Note 26 Contingent Liabilities.

SIGNIFICANT ACCOUNTING POLICIES

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

Comparative information has been reclassified to achieve consistency in disclosure with the current period.

The amendments to NZ IAS 1 - Presentation of Financial Statements concerning the presentation of items of Other Comprehensive Income was adopted on 1 July 2012. The adoption has not had a significant impact on the financial statements presented. Separate presentation is now required of items which are subsequently reclassified to profit or loss from those that will not be reclassified.

Air New Zealand has elected to early adopt all other NZ IFRSs and Interpretations that had been issued by the New Zealand Accounting Standards Board as at 30 June 2013, except as noted below. The early adoption did not have a material impact on the financial statements.

Revised NZ IFRS 9 (2010) - Financial Instruments has not been adopted early. This standard adds requirements related to the classification and measurement of financial liabilities, and derecognition of financial assets and financial liabilities to NZ IFRS 9 (2009). This Standard is applicable for annual periods commencing on or after 1 January 2015. The impact of the application of this standard on the financial statements has not yet been quantified.

NZ IFRS 10 - Consolidated Financial Statements has not been adopted early. NZ IFRS 10 builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included in the consolidated financial statements of the parent company. The standard, which becomes effective for annual periods commencing on or after 1 January 2013, will not have any impact on the financial statements.

NZ IFRS 11 - Joint Arrangements has not been adopted early. NZ IFRS 11 focuses on the rights and obligations of joint arrangements as opposed to the legal form, and requires the equity method of accounting for joint ventures. The standard, which becomes effective for annual periods commencing on or after 1 January 2013, is not expected to have any material impact on the financial statements, although the 51% investment in ANZGT Field Services LLC will be reclassified from a subsidiary to a joint venture with effect from 1 July 2013. Net assets attributable to the Group of $1 million together with minority interests of $1 million will be de-consolidated and replaced with an equity accounted investment of $1 million.

NZ IFRS 12 - Disclosure of Interests in Other Entities has not been early adopted. NZ IFRS 12 sets out disclosure requirements for entities that have interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. The standard, which becomes effective for annual periods commencing on or after 1 January 2013, will not have a significant impact on the financial statements, other than additional disclosures relating to the primary statements of joint ventures or associates and a reconciliation from that information to the carrying amount of the Group's investment in those entities.

NZ IFRS 13 - Fair Value Measurement has not been adopted early. NZ IFRS 13 replaces the fair value measurement guidance contained in individual IFRSs with a single source of guidance. It defines fair value, establishes a framework for measuring fair value and sets out disclosure requirements. The standard, which becomes effective for annual periods commencing on or after 1 January 2013, will not have a significant impact on the financial statements.

The amendments to NZ IAS 19 - Employee Benefits have not been adopted early. The amendments removes the use of the corridor method previously permitted for recognising actuarial gains or losses, instead requiring immediate recognition as a remeasurement through other comprehensive income. Additional disclosures will also be required. The effective date is for periods commencing on or after 1 January 2013. If these amendments had been applied as at 30 June 2013, unrecognised actuarial losses of $19 million would have been recognised through other comprehensive income.

NZ IAS 27 (2011) - Separate Financial Statements has not been adopted early. NZ IAS 27 (2011) carries forward the existing accounting and disclosure requirements for separate financial statements with some minor clarifications. The amendments, which become effective for annual periods commencing on or after 1 January 2013, will not have any impact on the financial statements.

NZ IAS 28 (2011) - Investments in Associates and Joint Ventures has not been adopted early. NZ IAS 28 (2011) clarifies that an investment in an associate or joint venture that meets the criteria to be classified as held for sale is within the scope of NZ IFRS 5 - Non-Current Assets Held for Sale and Discontinued Operations. The amendments, which become effective for annual periods commencing on or after 1 January 2013, will not have any impact on the financial statements.

BASIS OF CONSOLIDATION

The consolidated financial statements include those of the Company and its subsidiaries, accounted for using the purchase method, and the results of its associates and joint ventures, accounted for using the equity method.

Subsidiaries are entities that are controlled either directly or indirectly, by the Company. Joint ventures are entities whose activities are jointly controlled by the Group and have been established by a contractual agreement. Associates are those entities in which the Group, either directly or indirectly, holds a significant but not a controlling interest.

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.

Investments in subsidiaries are recognised in the financial statements at their cost of acquisition less any provision for impairment.

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 sheet date are translated at the rate ruling at that date. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Foreign exchange gains or losses are recognised in the Statement of Financial Performance, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

Group companies

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

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

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

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

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

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

REVENUE RECOGNITION

Airline revenue

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

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

Contract revenue

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

Other revenue

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

Loyalty programmes

The fair value of revenues associated with the award of Airpoints Dollars to Airpoints members as part of the initial sales transaction is deferred, net of estimated expiry (non-redeemed Airpoints Dollars), until the Airpoints member has redeemed their points. The fair value of consideration received in respect of sales of Airpoints Dollars to third parties is deferred, net of estimated expiry, until such time as the Airpoints member has redeemed their points.

The estimate of expiry is based upon historical experience and is recognised in net passenger revenue at the time of the initial sales transaction.

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

Investment revenue

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

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

CASH FLOWS

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

BORROWING COSTS

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

LEASE PAYMENTS

Operating leases

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

Finance leases

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

MAINTENANCE COSTS

The cost of major engine overhauls for aircraft owned by the Group is capitalised and depreciated over the period to the next expected inspection or overhaul.

Where there is a commitment to maintain aircraft held under operating lease arrangements, a provision is made during the lease term for the lease return obligations specified within those lease agreements. The provision is based upon historical experience, manufacturers' advice and, where appropriate, contractual obligations in determining the present value of the estimated future costs of major airframe inspections and engine overhauls by making appropriate charges to the Statement of Financial Performance, calculated by reference to the number of hours or cycles operated during the year.

All other maintenance costs are expensed as incurred.

FINANCIAL INSTRUMENTS

Non-derivative financial instruments

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

Financial Assets

Cash and cash equivalents

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

Trade and other receivables

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

Interest-bearing assets

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

Non interest-bearing assets

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

Investment in quoted equity instruments

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

Amounts owing from subsidiaries, joint ventures and associates

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

Financial Liabilities

Interest-bearing liabilities

Borrowings and Bonds

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

Finance leases

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

Trade and other payables

Trade and other payables are stated at cost.

Amounts owing to subsidiaries, joint ventures and associates

Amounts owing to related parties are stated at cost.

DERIVATIVE FINANCIAL INSTRUMENTS

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

Statement of Accounting Policies (Continued)

For the year to 30 June 2013

Derivative financial instruments at fair value through profit or loss

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

Hedge accounted financial instruments

Where financial instruments qualify for hedge accounting in accordance with NZ IAS 39: Financial Instruments: Recognition and Measurement, recognition of any resultant gain or loss depends on the nature of the hedging relationship, as detailed below.

Cash flow hedges

Changes in the fair value of hedging instruments designated as cash flow hedges are recognised within Other Comprehensive Income and accumulated within equity to the extent that the hedges are deemed effective in accordance with NZ IAS 39: Financial Instruments: Recognition and Measurement. To the extent that the hedges are ineffective for accounting, changes in fair value are recognised in the Statement of Financial Performance.

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

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

Net investment hedge

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

Fair value estimation

The fair value of investments in quoted equity instruments is determined by reference to quoted market prices in an active market. This equates to "Level 1" of the fair value hierarchy defined within "Amendments to NZ IFRS 7: Financial Instruments: Disclosures". The fair value of derivative financial instruments is based on published market prices for similar assets or liabilities at balance date ("Level 2" of the fair value hierarchy). The fair value of 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.

PROPERTY, PLANT AND EQUIPMENT

Owned assets

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

Where significant parts of an item of property, plant and equipment have different useful lives, they are accounted for separately.

A portion of the cost of an acquired aircraft is attributed to its service potential (reflecting the maintenance condition of its engines) and is depreciated over the shorter of the period to the next major inspection event, overhaul, or the remaining life of the asset.

Leased assets

Leases under which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. All other leases are classified as operating leases.

Upon initial recognition, assets held under finance leases are measured at amounts equal to the lower of their fair value and the present value of the minimum lease payments at inception of the lease. A corresponding liability is also established.

Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Manufacturers' credits

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

DEPRECIATION

Aircraft

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

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

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

Non-aircraft

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

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

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

INTANGIBLE ASSETS

Goodwill

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

Computer software and licences

Computer software acquired, which is not an integral part of a related hardware item, is recognised as an intangible asset. The costs incurred internally in developing computer software are also recognised as intangible assets where the Group has a legal right to use the software and the ability to obtain future economic benefits from that software. Acquired software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software.

These assets have a finite life and are amortised on a straight-line basis over their estimated useful lives of three to six years.

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

Development costs

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

IMPAIRMENT

Impairment of financial assets at amortised cost

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

Impairment of non-financial assets

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

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

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

ASSETS HELD FOR RESALE

Non-current assets are classified as held for resale if their carrying amount will be recovered through a sale transaction rather than through continuing use. The sale must be highly probable and the asset available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

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

WORK IN PROGRESS

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

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

INVENTORIES

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

SHARE CAPITAL

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

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

TREASURY STOCK

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

RESERVES

Cash flow hedge reserve

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

Foreign currency translation reserve

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

Statement of Accounting Policies (Continued)

For the year to 30 June 2013

Investment revaluation reserve

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

FINANCIAL GUARANTEE CONTRACTS

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

TAXATION

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

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

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

EMPLOYEE BENEFITS

Pension obligations

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

Air New Zealand's net obligation in respect of defined benefit pension plans is calculated separately for each plan by an independent actuary, as being the present value of the future obligations to the members less the fair value of the plan's assets, adjusted for any unrecognised actuarial gains or losses and unrecognised past service costs. 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 a benefit to Air New Zealand, the value of the asset recognised cannot exceed in aggregate the value of any unrecognised net actuarial losses and past service cost, and the present value of any future refunds from the plan or reductions in future contributions to the plan.

Any actuarial gains or losses are amortised under the corridor method over the members' expected average remaining working lives.

Share based compensation

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

Termination costs

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

PROVISIONS

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

Notes to the Financial Statements

For the year to 30 June 2013

1. SEGMENTAL INFORMATION

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

Geographical

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

	GROUP 2013 $M	GROUP 2012 $M
Analysis of revenue by geographical region of original sale		
New Zealand	2,659	2,593
Australia and Pacific Islands	711	677
United Kingdom and Europe	306	363
Asia	366	363
North America	576	487
Total operating revenue	4,618	4,483

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

2. REVENUE AND OTHER INCOME

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

	GROUP 2013 $M	GROUP 2012 $M	COMPANY 2013 $M	COMPANY 2012 $M
Operating revenue	4,618	4,483	4,221	4,027
Finance income	37	31	40	36
Total operating revenue, including finance income	4,655	4,514	4,261	4,063
Share of the profit of associates	5	6	-	-
Dividend income from related parties	-	-	248	198

3. EXPENSES

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

	GROUP 2013 $M	GROUP 2012 $M	COMPANY 2013 $M	COMPANY 2012 $M
The following amounts have been debited/(credited) in profit before tax:				
(a) Gains, losses and impairment				
Loss on disposal of property, plant and equipment, intangibles and assets held for resale	7	6	5	3
Impairment on property, plant and equipment, intangibles and assets held for resale	7	5	1	7
Reversal of impairment on investments in subsidiaries	-	-	-	(129)
(b) Rental and lease expenses				
Aircraft	130	161	219	250
Buildings	47	48	39	39
Total rental and lease expenses	177	209	258	289
(c) Other costs				
Audit and review of financial statements*	1	1	1	1
Net foreign exchange (gain)/loss on working capital balances	(4)	8	(5)	8

*Other fees of $20k (30 June 2012: $63k) were paid for tax compliance work and other assurance services (relating to business process controls).

3. EXPENSES (CONTINUED)

	GROUP 2013 $M	GROUP 2012 $M	COMPANY 2013 $M	COMPANY 2012 $M
(d) Derivative financial instruments (refer also to Note 19)				
Accounting ineffectiveness on cash flow hedges	7	(12)	7	(12)
Components of derivatives excluded from hedge designations	22	24	22	24
Non-hedge accounted derivatives **	12	(21)	9	(21)
Transfers to net profit from cash flow hedge reserve	(5)	75	-	78
Total earnings impact of derivative financial instruments	36	66	38	69

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

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

"Normalised earnings", disclosed as supplementary information at the foot of the Statement of Financial Performance, shows earnings after excluding movements on derivatives that hedge exposures in other financial periods. The adjustments match derivative gains or losses with the underlying hedged transaction. Such movements comprise the time value on open derivatives and amounts required to be recognised as ineffective for accounting purposes (refer Note 19). The amounts recognised in the Statement of Financial Performance in relation to (gains)/losses on derivatives which hedge exposures in other financial periods are $2 million of gains for fuel derivatives (30 June 2012: gains of $11 million) and $2 million of losses on foreign exchange derivatives (30 June 2012: losses of $8 million).

4. TAXATION EXPENSE

	GROUP 2013 $M	GROUP 2012 $M	COMPANY 2013 $M	COMPANY 2012 $M
Current taxation expense				
Current year	(95)	4	(65)	34
Adjustment for prior periods	2	2	-	4
	(93)	6	(65)	38
Deferred taxation expense				
Origination/(reversal) of temporary differences	19	(42)	23	(32)
Unused tax loss	-	13	-	13
	19	(29)	23	(19)
Total taxation (expense)/credit recognised in earnings	(74)	(23)	(42)	19
Reconciliation of effective tax rate				
Profit before taxation	256	94	391	268
Taxation at 28%	(72)	(26)	(109)	(75)
Adjustments				
Non-deductible expenses	(6)	(4)	(3)	(3)
Non-taxable income	1	5	70	96
Over provided in prior periods	2	2	-	2
Other	1	-	-	(1)
Taxation (expense)/credit	(74)	(23)	(42)	19

The Group and Company have $41 million imputation credits as at 30 June 2013 (30 June 2012: Nil in Group and Company).

Notes to the Financial Statements (Continued)

For the year to 30 June 2013

5. EARNINGS PER SHARE

	GROUP 2013	GROUP 2012
Earnings per share attributable to equity holders of the Company		
Basic and diluted earnings per share (cents)	16.6	6.5
Diluted earnings per share (cents)	16.5	6.5
	$M	$M
Earnings for the purpose of basic and diluted earnings per share:		
Net Profit Attributable to Shareholders of the Parent Company	182	71
Weighted average number of shares (in millions of shares)		
Weighted average number of Ordinary Shares for basic earnings per share	1,096	1,096
Effect of dilutive ordinary shares:		
- Share options	8	3
Weighted average number of Ordinary Shares for diluted earnings per share	1,104	1,099

6. NOTES TO THE STATEMENT OF CASH FLOWS

Composition of closing cash and cash equivalents

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

	GROUP 2013 $M	GROUP 2012 $M	COMPANY 2013 $M	COMPANY 2012 $M
Cash balances	23	46	19	37
Other short term deposits and short term bills	1,127	983	1,127	984
Bank and short term deposits	1,150	1,029	1,146	1,021
Bank overdraft and short term borrowings	-	(2)	(1)	(6)
Total cash and cash equivalents	1,150	1,027	1,145	1,015

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

	GROUP 2013 $M	GROUP 2012 $M	COMPANY 2013 $M	COMPANY 2012 $M
Net profit attributable to shareholders	182	71	349	287
Plus/(less) non-cash items:				
Depreciation and amortisation	411	348	277	231
Loss on disposal of property, plant and equipment, intangible assets and assets held for resale	7	6	5	3
Impairment on property, plant and equipment, intangible assets and assets held for resale	7	5	1	7
Reversal of impairment on investments in subsidiaries	-	-	-	(129)
Share of profit of associates	(5)	(6)	-	-
Unrealised losses/(gains)on fuel derivatives	2	(6)	2	(6)
Loss/(gain) on equity derivative	3	(13)	(2)	(13)
Foreign exchange gains	(1)	(4)	(2)	(13)
Other non-cash items	13	13	8	6
	619	414	638	373
Net working capital movements:				
Assets	31	-	50	(10)
Revenue in advance	21	27	23	37
Deferred foreign exchange losses	11	17	11	17
Liabilities	68	14	67	20
	131	58	151	64
Net cash flow from operating activities	750	472	789	437

Notes to the Financial Statements (Continued)

For the year to 30 June 2013

7. TRADE AND OTHER RECEIVABLES

	GROUP 2013 $M	GROUP 2012 $M	COMPANY 2013 $M	COMPANY 2012 $M
Current				
Trade receivables	305	308	276	290
Other receivables	3	4	3	4
Less: allowance for doubtful debts	(2)	(2)	(1)	(2)
	306	310	278	292
Prepayments	44	64	24	43
	350	374	302	335
Non-current				
Prepayments	49	48	12	7
	49	48	12	7
Trade and other receivables is represented by:				
Current	277	281	258	268
Past due 1- 90 days	27	23	18	19
Past due greater than 90 days	4	8	3	7
Allowance for doubtful debts	(2)	(2)	(1)	(2)
	306	310	278	292

8. INVENTORIES

	GROUP 2013 $M	GROUP 2012 $M	COMPANY 2013 $M	COMPANY 2012 $M
Engineering expendables	132	142	108	118
Consumable stores	23	28	17	23
	155	170	125	141
Held at cost	134	150	104	120
Held at fair value less costs to sell	21	20	21	21
	155	170	125	141
Movement in the provision for inventory obsolescence				
Balance at the beginning of the year	(27)	(26)	(26)	(23)
Net increase in provision	(11)	(1)	(11)	(3)
Balance at the end of the year	(38)	(27)	(37)	(26)

Notes to the Financial Statements (Continued)

As at 30 June 2013

9. ASSETS HELD FOR RESALE

	GROUP 2013 $M	GROUP 2012 $M	COMPANY 2013 $M	COMPANY 2012 $M
Current				
Aircraft related assets	7	9	4	8
	7	9	4	8

10. OTHER ASSETS

	GROUP 2013 $M	GROUP 2012 $M	COMPANY 2013 $M	COMPANY 2012 $M
Current				
Contract work in progress	31	30	19	13
Amounts owing from subsidiaries	-	-	50	135
Amounts owing from joint ventures and associates	3	1	2	1
Non interest-bearing assets	44	13	-	13
Other assets (including defined pension assets)	20	14	19	14
	98	58	90	176
Non-current				
Capital work in progress	49	27	44	20
Amounts owing from subsidiaries	-	-	350	245
Progress payments on aircraft, engines and simulators	151	74	151	74
Interest-bearing assets	184	180	184	180
Other assets	10	11	2	6
	394	292	731	525

As at 30 June 2013 non interest-bearing assets include an equity derivative share purchase option held in Virgin Australia Holdings Limited which matures no later than December 2013 (30 June 2012: matured and exercised in September 2012).

Interest-bearing assets include registered transferable certificates of deposit (RTDs) that have been provided as security over credit card obligations incurred by Air New Zealand. The RTDs bear a three month fixed interest rate and mature in December 2018.

Notes to the Financial Statements (Continued)

As at 30 June 2013

11. PROPERTY, PLANT AND EQUIPMENT

	GROUP 2013 $M	GROUP 2012 $M	COMPANY 2013 $M	COMPANY 2012 $M
Property, plant and equipment comprises:				
Aircraft, spare engines and simulators	2,488	2,606	1,392	1,543
Spares	116	128	90	104
Plant and equipment	114	126	99	108
Land and buildings	217	232	201	213
	2,935	3,092	1,782	1,968
AIRCRAFT, SPARE ENGINES AND SIMULATORS				
Cost	3,822	3,328	2,112	1,608
Accumulated depreciation	(1,216)	(1,100)	(569)	(517)
Carrying value at the beginning of the year	2,606	2,228	1,543	1,091
Additions	220	665	51	622
Disposals	(6)	(6)	(1)	-
Depreciation	(319)	(270)	(194)	(162)
Impairment losses recognised during the year	(5)	-	(1)	-
Transfer to assets held for resale	(8)	(11)	(6)	(8)
Carrying value at the end of the year	2,488	2,606	1,392	1,543
Represented by:				
Cost	3,932	3,822	2,098	2,112
Accumulated depreciation	(1,439)	(1,216)	(706)	(569)
Provision for impairment	(5)	-	-	-
Carrying value at the end of the year	2,488	2,606	1,392	1,543
Aircraft, spare engines and simulators comprise:				
Finance leased aircraft and spare engines	1,765	1,769	1,235	1,322
Owned aircraft, spare engines and simulators	723	837	157	221
	2,488	2,606	1,392	1,543
SPARES				
Cost	264	265	219	222
Accumulated depreciation	(136)	(129)	(115)	(110)
Carrying value at the beginning of the year	128	136	104	112
Additions	13	14	7	10
Disposals	(5)	(6)	(4)	(4)
Depreciation	(19)	(15)	(16)	(13)
Transfer to assets held for resale	(1)	(1)	(1)	(1)
Carrying value at the end of the year	116	128	90	104
Represented by:				
Cost	263	264	214	219
Accumulated depreciation	(147)	(136)	(124)	(115)
Carrying value at the end of the year	116	128	90	104

Notes to the Financial Statements (Continued)

As at 30 June 2013

11. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	GROUP 2013 $M	GROUP 2012 $M	COMPANY 2013 $M	COMPANY 2012 $M
PLANT AND EQUIPMENT				
Cost	368	375	330	339
Accumulated depreciation	(242)	(253)	(222)	(235)
Carrying value at the beginning of the year	126	122	108	104
Additions	17	31	16	28
Acquisitions from business combinations	-	2	-	-
Disposals	(1)	(2)	-	(1)
Depreciation	(28)	(27)	(25)	(23)
Carrying value at the end of the year	114	126	99	108
Represented by:				
Cost	365	368	328	330
Accumulated depreciation	(251)	(242)	(229)	(222)
Carrying value at the end of the year	114	126	99	108
LAND AND BUILDINGS				
Cost	346	326	317	302
Accumulated depreciation	(114)	(98)	(104)	(90)
Carrying value at the beginning of the year	232	228	213	212
Additions	13	24	13	19
Disposals	(2)	-	(2)	-
Depreciation	(26)	(20)	(23)	(18)
Carrying value at the end of the year	217	232	201	213
Represented by:				
Cost	350	346	322	317
Accumulated depreciation	(133)	(114)	(121)	(104)
Carrying value at the end of the year	217	232	201	213
Land and buildings comprise:				
Leasehold properties	206	219	190	200
Freehold properties	11	13	11	13
	217	232	201	213

Aircraft and aircraft related assets of $1,916 million as at 30 June 2013 (30 June 2012: $1,923 million) are pledged as security over borrowings and finance lease obligations.

The useful lives and residual values applied to property, plant and equipment are reviewed annually to ensure that they continue to be appropriate. During the year ended 30 June 2013 the useful lives and residual values were reassessed for the Boeing 737-300, Boeing 767-300 and Boeing 747-400 fleets and depreciation expense was increased in the Group by $27 million and Company by $6 million.

The Boeing 747-400 aircraft were tested for impairment using a value in use discounted cash flow valuation. Key assumptions include exchange rates, revenues, jet fuel costs, residual value and forecasted operating usage. These assumptions have been based on historical data, current market information and forecasted usage. The cash flow projections are particularly sensitive to fluctuations in fuel prices, revenue, exchange rates and sales proceeds. The cash flow projections are discounted using a rate of 9.0 percent. The valuation resulted in an impairment of $5 million being recognised.

Other aircraft values (excluding the Boeing 747-400 aircraft) were tested for impairment using a value in use model. New Zealand generally accepted accounting practice requires book values to be written down to the higher of fair value less costs to sell or value in use. The indicative market valuations of aircraft were less than the book value. In the opinion of the directors, the recoverable value from continued use of the aircraft as part of a network and their ultimate sale proceeds exceeded the book value of the aircraft, based on the directors' current assessment of the Group's future trading prospects.

The aircraft carrying values were tested for impairment based on a value in use discounted cash flow valuation. Cash flow projections were prepared for 5 years using Board reviewed business plans. Key assumptions include exchange rates, jet fuel costs, passenger load factors and route yields. These assumptions have been based on historical data and current market information. The cash flow projections are particularly sensitive to fluctuations in fuel prices, exchange rates and economic demand and are extrapolated using an average growth rate of approximately 2.0 percent (30 June 2012: 2.0 percent). The cash flow projections are discounted using rates of 8.0 and 10.0 percent (30 June 2012: 8.0 and 10.0 percent). The valuations confirmed that there was no impairment to the aircraft assets required.

12. INTANGIBLE ASSETS

	GROUP 2013 $M	GROUP 2012 $M	COMPANY 2013 $M	COMPANY 2012 $M
Intangible assets comprise:				
Internally developed software	59	49	55	44
Externally purchased software	7	11	7	10
Development costs	2	2	-	-
Goodwill	1	1	-	-
	69	63	62	54
INTERNALLY DEVELOPED SOFTWARE				
Cost	150	134	143	127
Accumulated amortisation	(101)	(94)	(99)	(90)
Carrying value at the beginning of the year	49	40	44	37
Additions	26	21	26	18
Amortisation	(15)	(12)	(15)	(11)
Net foreign currency exchange differences	(1)	-	-	-
Carrying value at the end of the year	59	49	55	44
Represented by:				
Cost	174	150	167	143
Accumulated amortisation	(115)	(101)	(112)	(99)
Carrying value at the end of the year	59	49	55	44
EXTERNALLY PURCHASED SOFTWARE				
Cost	173	180	165	173
Accumulated amortisation	(160)	(165)	(155)	(161)
Provision for impairment	(2)	(2)	-	-
Carrying value at the beginning of the year	11	13	10	12
Additions	1	1	1	2
Acquisitions from business combinations	-	1	-	-
Disposals from business combinations	(1)	-	-	-
Amortisation	(4)	(4)	(4)	(4)
Carrying value at the end of the year	7	11	7	10
Represented by:				
Cost	166	173	161	165
Accumulated amortisation	(159)	(160)	(154)	(155)
Provision for impairment	-	(2)	-	-
Carrying value at the end of the year	7	11	7	10

Development costs arise from the Group's engineering activities and will be applied to external customer products and services. There were no additions in the year ended 30 June 2013 (30 June 2012: Nil).

Notes to the Financial Statements (Continued)

As at 30 June 2013

13. INVESTMENT IN QUOTED EQUITY INSTRUMENTS

	GROUP 2013 $M	GROUP 2012 $M	COMPANY 2013 $M	COMPANY 2012 $M
Investment in Virgin Australia Holdings Limited				
Balance at the beginning of the year	203	120	-	-
Acquisitions	62	43	-	-
Fair value changes recognised in other comprehensive income	(6)	40	-	-
Transaction costs	2	-	-	-
Balance at the end of the year	261	203	-	-

The investment is denominated in Australian Dollars. The investment is part of the Group's Australasian aviation market strategy. At 30 June 2013 the Group held a 19.99% direct equity interest in Virgin Australia (30 June 2012: 18.49%).

During the year ended 30 June 2013, the Group exercised an equity derivative to acquire a further 1.5% interest in Virgin Australia Holdings Limited (Virgin Australia) taking the direct equity holding to 19.99%. The cost of the acquisition excluding transaction costs (which was recognised within "Other assets" as at 30 June 2012) was A$10 million or 30 cents per share. In November 2012 and April 2013 upon the issue of additional share capital by Virgin Australia, the Group contemporaneously paid a further A$35 million (excluding transaction costs) or 48 cents per share to maintain a continuous ownership interest at 19.99%.

During the year ended 30 June 2013, Air New Zealand entered into an equity derivative representing an additional interest of 3% of shares in Virgin Australia. The derivative is a share purchase option which confers no ownership rights or carries any voting rights and has been recognised within current "Other assets" in the Statement of Financial Position. The conversion of the derivative to shares is subject to Foreign Investment Review Board (FIRB) and Australian Competition and Consumer Commission (ACCC) approval. Upon approval being received, Air New Zealand's direct equity interest in Virgin Australia will increase to 22.99% and Air New Zealand will continue to treat this investment as an investment in quoted equity instruments as opposed to an equity accounted associate. The directors consider that the Group does not have the ability to exercise significant influence over Virgin Australia due to the composition of other shareholdings and lack of representation on the Board.

14. INVESTMENTS IN OTHER ENTITIES

	GROUP 2013 $M	GROUP 2012 $M	COMPANY 2013 $M	COMPANY 2012 $M
Investments in subsidiaries	-	-	367	407
Investments in associates	45	59	-	-
Investments in other entities	1	1	1	1
	46	60	368	408

During the year ended 30 June 2012, the Company reversed $129 million of impairment losses in subsidiaries. Refer to Note 28 for further details.

SUBSIDIARIES

Significant subsidiaries comprise:

NAME	PRINCIPAL ACTIVITY	COUNTRY OF INCORPORATION
Air Nelson Limited	Aviation	New Zealand
Air New Zealand Aircraft Holdings Limited	Aircraft leasing and financing	New Zealand
Air New Zealand Associated Companies Limited	Investment	New Zealand
Air New Zealand Tasman Pacific Limited	Aviation crew resourcing	New Zealand
Altitude Aerospace Interiors Limited	Aviation design engineering	New Zealand
Eagle Airways Limited	Aviation	New Zealand
Mount Cook Airline Limited	Aviation	New Zealand
Safe Air Limited	Engineering services	New Zealand
TAE Gas Turbines Pty Limited	Engineering services	Australia
TAE Aviation Pty Limited	Aviation engineering	Australia
Valetport Limited	Car parking services	New Zealand

All subsidiary entities above have a balance date of 30 June and are 100 percent owned. Subsidiaries are accounted for using the cost method.

Notes to the Financial Statements (Continued)

As at 30 June 2013

14. INVESTMENTS IN OTHER ENTITIES (CONTINUED)

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

	ASSOCIATE GROUP 2013 $M	ASSOCIATE GROUP 2012 $M
Carrying amount		
Christchurch Engine Centre	45	59
	45	59

The carrying amount for joint ventures for the year ended 30 June 2013 was Nil (30 June 2012: Nil).

	ASSOCIATE GROUP 2013 $M	ASSOCIATE GROUP 2012 $M
Results of associates		
Share of profit before taxation	5	6
Share of profit after taxation of associates	5	6

	JOINT VENTURE GROUP 2013 $M	JOINT VENTURE GROUP 2012 $M	ASSOCIATE GROUP 2013 $M	ASSOCIATE GROUP 2012 $M
Summarised financial information of associates and joint ventures - 100%:				
Assets	12	10	139	151
Liabilities	10	9	47	39
Revenue	3	1	270	289
Expenses	2	1	260	277
Profit after taxation	1	-	10	12

15. REVENUE IN ADVANCE

	GROUP 2013 $M	GROUP 2012 $M	COMPANY 2013 $M	COMPANY 2012 $M
Current				
Transportation sales in advance	796	779	796	776
Loyalty programme	101	103	101	103
Other	21	20	13	14
	918	902	910	893
Non-current				
Loyalty programme	135	131	135	131
Other	5	4	5	3
	140	135	140	134

16. INTEREST-BEARING LIABILITIES

	GROUP 2013 $M	GROUP 2012 $M	COMPANY 2013 $M	COMPANY 2012 $M
Current				
Secured borrowings	15	14	-	-
Finance lease liabilities	144	141	87	83
	159	155	87	83
Non-current				
Secured borrowings	69	83	-	-
Unsecured bonds	150	150	150	150
Finance lease liabilities	1,251	1,304	771	889
	1,470	1,537	921	1,039
Interest rates:				
Fixed rate	756	762	500	559
Floating rate	873	930	508	563
At amortised cost	1,629	1,692	1,008	1,122
At fair value	1,560	1,605	970	1,053

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

Finance lease liabilities are secured over aircraft and are subject to both fixed and floating interest rates. Fixed interest rates ranged from 0.8 percent to 4.1 percent in 2013 (30 June 2012: 2.4 percent to 5.1 percent). Purchase options are available on expiry or, if applicable under the lease agreement, on early termination of the finance leases. The Company's finance lease liabilities are with related parties.

On 28 September 2011 Air New Zealand issued $150 million of unsecured, unsubordinated fixed rate bonds. The bonds have a maturity date of 15 November 2016 and an interest rate of 6.90% payable semi-annually.

	GROUP 2013 $M	GROUP 2012 $M	COMPANY 2013 $M	COMPANY 2012 $M
Finance lease liabilities				
Repayable as follows:				
Not later than 1 year	169	171	105	106
Later than 1 year and not later than 5 years	742	724	425	444
Later than 5 years	642	739	426	549
	1,553	1,634	956	1,099
Less future finance costs	(158)	(189)	(98)	(127)
Present value of future rentals	1,395	1,445	858	972
Repayable as follows:				
Not later than 1 year	144	141	87	83
Later than 1 year and not later than 5 years	663	629	374	375
Later than 5 years	588	675	397	514
	1,395	1,445	858	972

17. PROVISIONS

	GROUP 2013 $M	GROUP 2012 $M	COMPANY 2013 $M	COMPANY 2012 $M
Provisions				
Aircraft lease return costs	154	150	154	150
Restructuring	4	4	1	4
Other	2	1	-	-
	160	155	155	154
Represented by:				
Current	15	61	11	60
Non-current	145	94	144	94
	160	155	155	154
Aircraft lease return costs				
Balance at the beginning of the year	150	166	150	165
Amount provided	61	60	61	60
Amount utilised	(58)	(83)	(58)	(82)
Foreign exchange differences	1	7	1	7
Balance at the end of the year	154	150	154	150
Represented by:				
Current	10	56	10	56
Non-current	144	94	144	94
	154	150	154	150

Where a commitment exists to maintain aircraft held under operating lease arrangements, a provision is made during the lease term for the lease return obligations specified within those lease agreements. The provision is based on the present value of the estimated future costs of major airframe inspections and engine overhauls by making appropriate charges to the Statement of Financial Performance, calculated by reference to the number of hours or cycles operated during the year. The provision is expected to be utilised over the shorter of the period to the next inspection or overhaul or the end of the lease.

	GROUP 2013 $M	GROUP 2012 $M	COMPANY 2013 $M	COMPANY 2012 $M
Restructuring				
Balance at the beginning of the year	4	-	4	-
Amount provided	7	11	3	11
Amount utilised	(7)	(7)	(6)	(7)
Balance at the end of the year	4	4	1	4
Represented by:				
Current	4	4	1	4
	4	4	1	4

A restructuring provision is created where a detailed formal plan is developed and a valid expectation exists. Costs relating to ongoing activities are not provided for. Termination costs for the year ended 30 June 2013 were $7 million for the Group and $3 million for the Company (30 June 2012: $11 million for the Group and Company).

Other provisions include amounts relating to insurance and warranties. Insurance provisions are expected to be utilised within 12 months based on historical claim experience. Warranty provisions represent an estimate of potential liability for future rectification work in respect of past engineering services performed. There was $1 million of additions during the year ended 30 June 2013 (30 June 2012: Nil). Warranty provisions of $1 million are classified as non-current (30 June 2012: Nil).

18. FINANCIAL RISK MANAGEMENT

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

CREDIT RISK

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

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

Credit evaluations are performed on all customers requiring direct credit. Air New Zealand is not exposed to any concentrations of credit risk within receivables, other assets and derivatives. Air New Zealand does not require collateral or other security to support financial instruments with credit risk. A significant proportion of receivables are settled through the International Aviation Travel Association (IATA) clearing mechanism which undertakes its own credit review of members.

MARKET RISK

Foreign currency risk

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

Air New Zealand has exposure to foreign exchange risk as a result of transactions denominated in foreign currencies, arising from normal trading activities, foreign currency borrowings and foreign currency capital commitments and sales.

Air New Zealand has a formal foreign exchange management policy (approved by the Board of Directors) to enter into foreign exchange contracts to manage economic exposure to fluctuations in foreign exchange rates impacting operating cash flows, capital expenditure and foreign currency denominated liabilities. Any exposure to gains or losses on these contracts is offset by a related loss or gain on the item being hedged.

Foreign currency operating cash inflows are primarily denominated in Australian Dollars, European Community Euro, Japanese Yen, Chinese Renminbi, United Kingdom Pounds and United States Dollars. Foreign currency outflows are primarily denominated in United States Dollars. Excluding the Chinese Renminbi (which has a generally pegged exchange rate), the Group's treasury risk management policy is to hedge between 70% and 90% of forecast net operating cash flows for the first 6 months, with progressive reductions in percentages hedged over the next six to twelve months. In accordance with this policy, the underlying forecast revenue and expenditure transactions in respect of foreign currency cash flow hedges in place at reporting date, are expected to occur over the next 12 to 18 months. The parameters align the hedge terms for foreign currency and fuel price risk. Hedges of foreign currency capital transactions are only undertaken if there is a large volume of forecast capital transactions over a short period of time.

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

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

18. FINANCIAL RISK MANAGEMENT (CONTINUED)

With the exception of foreign currency denominated working capital balances, which together are immaterial to foreign currency fluctuations, Air New Zealand's exposure to foreign exchange risk arising on financial instruments outstanding at reporting date is summarised as follows:

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

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

GROUP
AS AT 30 JUNE 2012
ALL EXPRESSED IN NZ$M

	NZD	USD	AUD	EUR	JPY	GBP	OTHER	TOTAL
Foreign currency risk								
Non-derivative financial instruments								
Non interest-bearing assets	-	-	13	-	-	-	-	13
Interest-bearing assets	140	-	40	-	-	-	-	180
Investment in quoted equity instruments	-	-	203	-	-	-	-	203
Interest-bearing liabilities	(747)	(751)	-	-	(194)	-	-	(1,692)
Net financial position exposure before hedging activities	(607)	(751)	256	-	(194)	-	-	(1,296)
Foreign currency derivatives								
Notional principal (NZ$M)								
Cash flow hedges	(496)	1,125	(277)	(58)	(65)	(119)	(95)	15
Non-hedge accounted	(678)	727	(56)	3	-	6	3	5
	(1,781)	1,101	(77)	(55)	(259)	(113)	(92)	(1,276)
Cash flows in respect of foreign currency cash flow hedges are expected to occur as follows:								
Not later than 1 year	(457)	1,057	(265)	(55)	(63)	(113)	(90)	14
Later than 1 year and not later than 2 years	(39)	68	(12)	(3)	(2)	(6)	(5)	1
	(496)	1,125	(277)	(58)	(65)	(119)	(95)	15

Notes to the Financial Statements (Continued)

As at 30 June 2013

18. FINANCIAL RISK MANAGEMENT (CONTINUED)

	COMPANY AS AT 30 JUNE 2013 ALL EXPRESSED IN NZ$M							
	NZD	USD	AUD	EUR	JPY	GBP	OTHER	TOTAL
Foreign currency risk								
Non-derivative financial instruments								
Interest-bearing assets	145	-	39	-	-	-	-	184
Amounts owing from subsidiaries*	808	(357)	8	-	(59)	-	-	400
Interest-bearing liabilities	(496)	(362)	-	-	(150)	-	-	(1,008)
Net financial position exposure before hedging activities	457	(719)	47	-	(209)	-	-	(424)
Foreign currency derivatives								
Notional principal (NZ$M)								
Cash flow hedges	(538)	1,107	(241)	(48)	(57)	(78)	(88)	57
Non-hedge accounted	(652)	762	(81)	4	(4)	4	1	34
	(733)	1,150	(275)	(44)	(270)	(74)	(87)	(333)
Cash flows in respect of foreign currency cash flow hedges are expected to occur as follows:								
Not later than 1 year	(538)	1,107	(241)	(48)	(57)	(78)	(88)	57
	(538)	1,107	(241)	(48)	(57)	(78)	(88)	57

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

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

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

	COMPANY AS AT 30 JUNE 2012 ALL EXPRESSED IN NZ$M							
	NZD	USD	AUD	EUR	JPY	GBP	OTHER	TOTAL
Foreign currency risk								
Non-derivative financial instruments								
Non interest-bearing assets	-	-	13	-	-	-	-	13
Interest-bearing assets	140	-	40	-	-	-	-	180
Amounts owing from subsidiaries*	664	(294)	9	-	1	-	-	380
Interest-bearing liabilities	(539)	(389)	-	-	(194)	-	-	(1,122)
Net financial position exposure before hedging activities	265	(683)	62	-	(193)	-	-	(549)
Foreign currency derivatives								
Notional principal (NZ$M)								
Cash flow hedges	(503)	1,131	(277)	(58)	(65)	(119)	(95)	14
Non-hedge accounted	(678)	727	(56)	3	-	6	3	5
	(916)	1,175	(271)	(55)	(258)	(113)	(92)	(530)
Cash flows in respect of foreign currency cash flow hedges are expected to occur as follows:								
Not later than 1 year	(459)	1,058	(265)	(55)	(63)	(113)	(90)	13
Later than 1 year and not later than 2 years	(44)	73	(12)	(3)	(2)	(6)	(5)	1
	(503)	1,131	(277)	(58)	(65)	(119)	(95)	14

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

18. FINANCIAL RISK MANAGEMENT (CONTINUED)

SENSITIVITY ANALYSES

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

Foreign currency sensitivity on financial instruments

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

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

	GROUP AS AT 30 JUNE 2012 ALL EXPRESSED IN NZ$M					
	USD	AUD	EUR	JPY	GBP	OTHER
On profit before taxation						
5 cents appreciation	(5)	-	-	-	-	-
5 cents depreciation	6	-	-	-	-	-
On equity						
5 cents appreciation	(61)	5	3	15	7	6
5 cents depreciation	70	(5)	(4)	(18)	(8)	(6)

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

	COMPANY AS AT 30 JUNE 2012 ALL EXPRESSED IN NZ$M					
	USD	AUD	EUR	JPY	GBP	OTHER
On profit before taxation						
5 cents appreciation	(3)	-	-	-	-	-
5 cents depreciation	3	-	-	-	-	-
On equity						
5 cents appreciation	(68)	17	3	15	7	6
5 cents depreciation	77	(19)	(4)	(18)	(8)	(6)

18. FINANCIAL RISK MANAGEMENT (CONTINUED)

SIGNIFICANT FOREIGN EXCHANGE RATES USED AT BALANCE DATE FOR ONE NEW ZEALAND DOLLAR ARE:

	2013	2012
Australian Dollar	0.8400	0.7840
European Community Euro	0.5980	0.6330
Japanese Yen	76.80	62.60
United Kingdom Pound	0.5110	0.5080
United States Dollar	0.7800	0.7875

Fuel price risk

Air New Zealand has entered into fuel swap and option agreements to reduce the impact of price changes on fuel costs in accordance with policy approved by the Board of Directors. Uplift in the first three months is hedged between 50% and 80% with the volume falling to zero in the twelfth month. The intrinsic value component of these fuel derivatives is designated as a cash flow hedge. All other components are marked to market through earnings, as are any short-dated outright derivatives. As at 30 June 2013, the Group had hedged 3.6 million barrels (30 June 2012: 2.2 million barrels) with a fair value liability of $1 million (30 June 2012: $3 million asset). The contracts mature within 11 months (30 June 2012: 6 months).

Fuel price sensitivity on financial instruments

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

The sensitivity has been changed to USD20 from USD35 per barrel to reflect the comparative stabilisation of fuel markets relative to the prior year. As at 30 June 2012, there was no sensitivity impact on the cash flow hedge reserve as all fuel hedge relationships were ineffective as at that date.

	GROUP AND COMPANY			
Price movement per barrel:	2013 $M + USD 20	2013 $M - USD 20	2012 $M + USD 35	2012 $M - USD 35
On profit before taxation	33	(34)	32	(7)
On cash flow hedge reserve (within equity)	37	(31)	-	-

Interest rate risk

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

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

In the year to 30 June 2013, there were no interest rate derivatives in place, nor any impact on earnings (30 June 2012: Nil).

Interest rate sensitivity on financial instruments

Earnings are sensitive to changes in interest rates on the floating rate element of borrowings and finance lease obligations and the fair value of interest rate swaps. Their sensitivity to a reasonably possible change in interest rates with all other variables held constant, is set out below:

Interest rate change:	2013 $M +50 bp*	2013 $M -50 bp*	2012 $M +50 bp*	2012 $M -50 bp*
On profit before taxation				
Group	(4)	4	(5)	5
Company	(3)	3	(3)	3

* bp = basis points

The above assumes that the amount and mix of fixed and floating rate debt, including finance lease obligations, remains unchanged from that in place at reporting date, and that the change in interest rates is effective from the beginning of the year. In reality, the fixed/floating rate mix will fluctuate over the year and interest rates will change continually.

18. FINANCIAL RISK MANAGEMENT (CONTINUED)

Equity price risk

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

Air New Zealand has exposure to equity price risk arising on the equity investment and derivative held in Virgin Australia Holdings Limited. This investment is held for strategic rather than trading purposes. The Group does not hedge this risk.

Equity investment price risk sensitivity on financial instruments

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

Equity investment price change:	2013 $M + 25%	2013 $M - 25%	2012 $M + 25%	2012 $M - 25%
On profit before taxation				
Group	11	(11)	4	(4)
Company	-	-	4	(4)
On investment revaluation reserve (within equity)				
Group	65	(65)	51	(51)

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 event.

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

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

	GROUP AS AT 30 JUNE 2012					
	STATEMENT OF FINANCIAL POSITION $M	CONTRACTUAL CASH FLOWS $M	< 1 YEAR $M	1-2 YEARS $M	2-5 YEARS $M	5+ YEARS $M
Bank overdraft and short-term borrowings	2	2	2	-	-	-
Trade and other payables	373	373	373	-	-	-
Secured borrowings	97	104	16	16	55	17
Unsecured bonds	150	197	10	10	177	-
Finance lease obligations	1,445	1,634	171	162	563	738
Amounts owing to associates	6	6	6	-	-	-
Total non-derivative liabilities	2,073	2,316	578	188	795	755

18. FINANCIAL RISK MANAGEMENT (CONTINUED)

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

	COMPANY AS AT 30 JUNE 2012					
	STATEMENT OF FINANCIAL POSITION $M	CONTRACTUAL CASH FLOWS $M	< 1 YEAR $M	1-2 YEARS $M	2-5 YEARS $M	5+ YEARS $M
Bank overdraft and short-term borrowings	6	6	6	-	-	-
Trade and other payables	332	332	332	-	-	-
Unsecured bonds	150	197	10	10	177	-
Finance lease obligations	972	1,099	106	108	336	549
Amounts owing to subsidiaries	803	803	706	-	-	97
Amounts owing to associates	6	6	6	-	-	-
Total non-derivative liabilities	2,269	2,443	1,166	118	513	646

The following tables set out the contractual, undiscounted cash flows for derivative financial instruments:

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

	GROUP AS AT 30 JUNE 2012					
	STATEMENT OF FINANCIAL POSITION $M	CONTRACTUAL CASH FLOWS $M	< 1 YEAR $M	1-2 YEARS $M	2-5 YEARS $M	5+ YEARS $M
Foreign exchange derivatives:						
- Inflow		2,083	2,009	74	-	-
- Outflow		(2,064)	(1,995)	(69)	-	-
	20	19	14	5	-	-
Fuel derivatives	3	-	-	-	-	-
Equity derivatives	4	-	-	-	-	-
	27	19	14	5	-	-

18. FINANCIAL RISK MANAGEMENT (CONTINUED)

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

	COMPANY AS AT 30 JUNE 2012					
	STATEMENT OF FINANCIAL POSITION $M	CONTRACTUAL CASH FLOWS $M	< 1 YEAR $M	1-2 YEARS $M	2-5 YEARS $M	5+ YEARS $M
Foreign exchange derivatives:						
- Inflow		2,107	2,028	79	-	-
- Outflow		(2,091)	(2,016)	(75)	-	-
	19	16	12	4	-	-
Fuel derivatives	3	-	-	-	-	-
Equity derivatives	4	-	-	-	-	-
	26	16	12	4	-	-

Capital risk management

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

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

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

19. DERIVATIVE FINANCIAL INSTRUMENTS

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

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

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

	GROUP 2013 $M	GROUP 2012 $M	COMPANY 2013 $M	COMPANY 2012 $M
Current derivative financial assets	98	40	98	41
Term derivative financial assets	-	1	-	1
	98	41	98	42
Current derivative financial liabilities	(13)	(14)	(8)	(15)
Term derivative financial liabilities	-	-	-	(1)
	(13)	(14)	(8)	(16)
Net derivative financial instruments	85	27	90	26
Of which:				
Designated as cash flow hedges	56	22	55	21
Non-hedge accounted	29	5	35	5
Net derivative financial instruments	85	27	90	26

Derivatives designated as cash flow hedges

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

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

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

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

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

	GROUP 2013 $M	GROUP 2012 $M	COMPANY 2013 $M	COMPANY 2012 $M
Future foreign currency operating revenue and expenditure	116	29	112	28
Future foreign currency capital expenditure	59	87	59	87
Future foreign currency sales of non-financial assets	2	6	-	-
Future fuel expenditure	(3)	-	(3)	-
	174	122	168	115
Tax effect	(51)	(36)	(49)	(34)
Cash flow hedge reserve	123	86	119	81

19. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

Foreign currency hedges

The Group hedge accounts the foreign currency risk arising on future foreign currency operating revenue, operating expense and capital expenditure transactions.

Forward points are excluded from the hedge designation in respect of operating revenue and expenditure transactions and are marked to market through earnings. Forward point costs of $23 million in respect of these derivatives were marked to market through "Finance costs" in the year to 30 June 2013 (30 June 2012: $29 million of costs).

Accounting ineffectiveness arising in the year to 30 June 2013 on these cash flow hedges was nil on both operating and capital transactions (30 June 2012: Nil on both operating and capital transactions).

A proportion of United States Dollar denominated borrowings are designated as the hedging instrument in qualifying cash flow hedges of highly probable future foreign currency sales of non-financial assets. This reduces the level of derivative cover required to offset the foreign currency risk arising on foreign currency borrowings and lease obligations. No accounting ineffectiveness arises on these hedge relationships.

Fuel hedges

Where the Group uses crude oil options or collar options to hedge price risk in jet fuel, the intrinsic value component of these derivatives is designated as a cash flow hedge. All other components (mainly time value) are marked to market through earnings, with gains of $1 million recognised within "Fuel" in the year to 30 June 2013 (30 June 2012: $5 million gain).

Accounting ineffectiveness arising in the year to 30 June 2013 of $7 million loss was recognised within "Fuel" (30 June 2012: $12 million gain).

NON-HEDGE ACCOUNTED DERIVATIVES

Foreign currency derivatives

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

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

During the year to 30 June 2013, a gain of $8 million was recognised in respect of the above non-hedge accounted foreign currency derivatives (30 June 2012: $30 million gain), which was offset by exchange movements on the underlying exposures. Forward point costs of $17 million in respect of these derivatives were marked to market through "Finance costs" in the year to 30 June 2013 (30 June 2012: $19 million of costs).

Fuel derivatives

Short-dated fuel derivatives are not hedge accounted due to the short term nature of these instruments, and are marked to market through earnings. In the year to 30 June 2013, nil was recognised within "Fuel" (30 June 2012: Nil).

Equity swaps

During the year to 30 June 2013, Air New Zealand entered into an equity derivative representing an additional interest of 3% of shares in Virgin Australia Holdings Limited (Virgin Australia). The derivative is a share forward transaction which carries no voting rights. The prepaid amount has been recognised within current "Other assets" in the Statement of Financial Position. The derivative was marked to market during the year with a loss of $5 million having been recognised in "Other expenses" in the Statement of Financial Performance.

In the year ended 30 June 2012, Air New Zealand entered into equity derivatives whereby the Group was guaranteed a minimum additional exposure of 3.5% interest in Virgin Australia and up to a maximum additional exposure of 5% interest. Air New Zealand exercised the derivatives over the 3.5% interest during the year ended 30 June 2012, and the 1.5% interest during the year ended 30 June 2013. Derivative gains of $2 million were recognised during the year ended 30 June 2013 (30 June 2012: $10 million gain). The exercise of the derivatives in the year ended 30 June 2012 yielded a $13 million gain, which, together with unrealised gains recognised in respect of the remaining derivatives offset by option costs, lead to a net gain of $10 million. The gain/(loss) in respect of these equity derivatives is included in the "Non-hedge accounted derivatives" line in Note 3 and in "Other expenses" in the Statement of Financial Performance.

Notes to the Financial Statements (Continued)

As at 30 June 2013

20. OTHER LIABILITIES

	GROUP 2013 $M	GROUP 2012 $M	COMPANY 2013 $M	COMPANY 2012 $M
Current				
Employee entitlements	186	157	169	139
Amounts owing to subsidiaries	-	-	483	706
Amounts owing to associates	-	6	-	6
Other liabilities (including defined pension liabilities)	10	13	9	11
	196	176	661	862
Non-current				
Employee entitlements	13	14	13	13
Other liabilities	8	11	4	7
Amounts owing to subsidiaries	-	-	56	97
	21	25	73	117

21. DISTRIBUTIONS TO OWNERS

	GROUP 2013 $M	GROUP 2012 $M	COMPANY 2013 $M	COMPANY 2012 $M
Distributions recognised				
Final dividend on Ordinary Shares	38	27	38	27
Interim dividend on Ordinary Shares	33	22	33	22
	71	49	71	49
Distributions paid				
Final dividend on Ordinary Shares	38	24	38	24
Interim dividend on Ordinary Shares	34	19	34	19
	72	43	72	43

On 28 August 2013, the Board of Directors declared a final dividend for the 2013 financial year of 5.0 cents per Ordinary Share, payable on 23 September 2013 to registered shareholders at 13 September 2013. The total dividend payable will be $55 million. Imputation credits will be attached and supplementary dividends paid to non-resident shareholders. This dividend has not been recognised in the June 2013 financial statements.

An interim dividend of 3.0 cents per Ordinary Share was paid on 22 March 2013. Imputation credits were attached and supplementary dividends paid to non-resident shareholders.

A final dividend in respect of the 2012 financial year of 3.5 cents per Ordinary Share was paid on 26 September 2012. No imputation credits were attached.

The dividend reinvestment plan is currently suspended.

22. DEFERRED TAXATION

Deferred tax assets and liabilities are attributable to the following:

	NON-AIRCRAFT ASSETS $M	AIRCRAFT RELATED $M	PROVISIONS AND ACCRUALS $M	DERIVATIVE FINANCIAL INSTRUMENTS $M	UNUSED TAX LOSSES $M	TAX RATE CHANGE* $M	TOTAL $M
GROUP							
As at 1 July 2011	30	323	(81)	(26)	-	(15)	231
Amounts recognised in equity	-	-	-	37	-	-	37
Amounts recognised in earnings	(5)	23	9	-	(13)	15	29
As at 30 June 2012	25	346	(72)	11	(13)	-	297
Amounts recognised in equity	-	-	-	19	-	-	19
Reclassified to Income Taxation	-	-	-	-	13	-	13
Amounts recognised in earnings	(2)	(12)	(5)	-	-	-	(19)
As at 30 June 2013	23	334	(77)	30	-	-	310
COMPANY							
As at 1 July 2011	24	225	(79)	(29)	-	(8)	133
Amounts recognised in equity	-	-	-	38	-	-	38
Amounts recognised in earnings	(3)	19	8	-	(13)	8	19
As at 30 June 2012	21	244	(71)	9	(13)	-	190
Amounts recognised in equity	-	-	-	20	-	-	20
Reclassified to Income Taxation	-	-	-	-	13	-	13
Amounts recognised in earnings	-	(21)	(2)	-	-	-	(23)
As at 30 June 2013	21	223	(73)	29	-	-	200

* The New Zealand corporate income tax rate reduced from 30% to 28% at the commencement of the 2012 income year.

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

Unused tax losses of Nil (30 June 2012: $48 million) are available to carry forward against future taxable profits. Tax losses from the 2012 financial year have been reclassified to "Income Taxation" to reflect that they will be fully utilised in the current year.

23. ISSUED CAPITAL

	GROUP 2013 $M	GROUP 2012 $M	COMPANY 2013 $M	COMPANY 2012 $M
Authorised, Issued and Fully Paid in Capital				
Ordinary Shares				
Balance at the beginning of the year	2,282	2,269	2,290	2,277
Shares issued	1	8	1	8
Acquisition of treasury stock (share buyback)	(11)	-	(11)	-
Equity-settled share-based payments	5	5	5	5
Balance at the end of the year	2,277	2,282	2,285	2,290
Represented by:				
Paid in capital	2,273	2,267	2,281	2,275
Treasury stock	(11)	-	(11)	-
Equity-settled share-based payments	15	15	15	15
	2,277	2,282	2,285	2,290

23. ISSUED CAPITAL (CONTINUED)

	GROUP 2013	GROUP 2012	COMPANY 2013	COMPANY 2012
Number of Ordinary Shares on issue				
Balance at the beginning of the year	1,099,707,174	1,090,833,451	1,099,707,174	1,090,833,451
Mandatory shares issued under Long Term Incentive Plan	370,732	463,389	370,732	463,389
Dividend reinvestment plan	-	6,306,429	-	6,306,429
Exercise of Long Term Incentive Plan options	3,846,654	2,103,905	3,846,654	2,103,905
Balance at the end of the year	1,103,924,560	1,099,707,174	1,103,924,560	1,099,707,174

SHARE ISSUE DETAILS AND RIGHTS

Ordinary Shares

At 30 June 2013, there were 1,103,924,560 fully paid Ordinary Shares on issue (30 June 2012: 1,099,707,174). The amount of treasury stock held as at 30 June 2013 is 8,767,795 shares (30 June 2012: 93 shares).

On 21 September 2012, 370,732 Ordinary Shares were issued to executives under the Mandatory Shareholding section of the Long Term Incentive Plan (16 September 2011: 463,389 Ordinary Shares). The issue price of $0.84 per Ordinary Share represented a discounted price determined on the basis of an independent valuation, reflecting restrictions placed on the transfer of the shares under the terms of the Long Term Incentive Plan Rules (16 September 2011: $0.83 per Ordinary Share).

During the year ended 30 June 2013, there were no shares issued under the dividend reinvestment plan (30 June 2012: 6,306,429 Ordinary Shares).

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

EQUITY-SETTLED SHARE-BASED PAYMENTS

Options over Ordinary Shares

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

The total expense recognised in the year ended 30 June 2013 in respect of equity-settled share-based payment transactions was $5 million (30 June 2012: $5 million). The total outstanding options at 30 June 2013 is 97,413,817 (30 June 2012: 80,248,998).

	GROUP AND COMPANY				
	2013 LONG TERM INCENTIVE PLAN	2013 CEO OPTION PLAN*	2013 CFO OPTION PLAN	2012 LONG TERM INCENTIVE PLAN	2012 CEO OPTION PLAN*
Number of options outstanding					
Outstanding at the beginning of the year	60,679,081	19,569,917	-	42,791,447	12,861,842
Granted during the year	25,610,275	8,607,519	2,399,138	19,991,539	6,708,075
Exercised during the year	(16,412,875)	-	-	(2,103,905)	-
Lapsed during the year	(3,039,238)	-	-	-	-
Outstanding at the end of the year**	66,837,243	28,177,436	2,399,138	60,679,081	19,569,917
Number of options exercisable as at the end of the year	12,134,225	28,177,436	-	17,913,588	-
Weighted average exercise price for those options exercisable as at the end of the year ($)	1.06	1.10	-	0.91	-
Weighted average exercise price for those options exercised during the year ($)	0.98	-	-	0.75	-
Weighted average share price at the date of exercise ($)	1.31	-	-	1.08	-
Weighted average remaining period to contractual maturity (years)	2.97	1.22	4.23	2.69	2.21

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

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

23. ISSUED CAPITAL (CONTINUED)

Long Term Incentive Plan (LTIP)

On 21 September 2012, 21,610,275 options (issue 1) with a fair value of $4.0 million were issued to executives under the LTIP (16 September 2011: 19,991,539 options with a fair value of $3.8 million). On 21 December 2012 a further 4,000,000 options (issue 2) with a fair value of $1,112,000 were issued. Total options outstanding under the LTIP are 66,837,243 (30 June 2012: 60,679,081). The unamortised fair value of outstanding LTIP options (measured at grant date) is $5.0 million (30 June 2012: $4.2 million).

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

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

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

	GROUP AND COMPANY					
	ISSUE 1 2013	ISSUE 2 2013	2012	2011	2010	2009
Weighted average share price (cents)	112	146	111	129	124	114
Expected volatility of share price (%)	30	30	35	37	40	37
Expected volatility of performance benchmark index (%)	15	15	17	17	17	15
Correlation of volatility indices	0.20	0.25	0.45	0.45	0.50	0.45
Contractual life (years)	5.0	4.8	5.0	5.0	5.0	5.0
Risk free rate (%)	3.10	3.30	4.09	4.72	5.50	5.90
Expected dividend yield	4.9	3.8	5.0	5.4	5.2	7.5
Discount to reflect negotiability restrictions (%)	25	25	25	25	25	25

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

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

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

CFO Option Plan

On 21 September 2012, 2,399,138 options with a fair value of $0.4 million were issued to the Chief Financial Officer under the CFO Option Plan. The options were issued in two tranches, with 50 percent of the options being allocated to each tranche. Total options outstanding under the CFO Option Plan are 2,399,138. The unamortised fair value of outstanding CFO Option Plan options (measured at grant date) is $0.3 million.

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

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

23. ISSUED CAPITAL (CONTINUED)

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

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

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

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

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

CEO Option Plan

On 21 September 2012, 8,607,519 options with a fair value of $1.1 million were issued to the former Chief Executive Officer under the CEO Option Plan (16 September 2011: 6,708,075 options with a fair value of $1.1 million). Total options outstanding under the CEO Option Plan are 28,177,436 (30 June 2012: 19,569,917). As at 30 June 2013 the fair value of outstanding CEO options has been fully amortised (30 June 2012: the unamortised fair value of outstanding CEO Option Plan options (measured at grant date) was $0.5 million).

The options issued in the current year may be exercised at any time after the date of issue over a two year period (2012: one to three years after the date of issue) for the CEO Option Plan (subject to compliance with insider trading restrictions and the rules of the scheme).

Options issued in the current year were exercisable immediately. The exercise price was determined using a Black Scholes option pricing model based on the Company share price over the 10 business days from 4 to 17 September 2012 adjusted for expected distributions in September 2014. The exercise price in the prior year was set one year after issue, and was based on the Company share price at the issue date increased or decreased by the percentage movement in a specified index over the year and decreased by any distributions made by the Company over the same period.

The general principles underlying the Black Scholes option pricing model have been used to value these options. In the 2009 to 2012 years the option pricing model used a Monte Carlo simulation approach. A simplified approach has been applied in the 2013 year given the exercise price was fixed at issue date. The key inputs to this model for options granted in that year were as follows:

	GROUP AND COMPANY 2013	2012	2011	2010	2009
Weighted average share price (cents)	112	111	129	124	114
Expected volatility of share price (%)	25	30	37	40	37
Expected volatility of performance benchmark index (%)	-	17	17	17	15
Correlation of volatility indices	-	0.40	0.45	0.50	0.45
Contractual life (years)	2.0	3.0	4.0	5.0	6.0
Risk free rate (%)	2.60	3.54	4.46	5.50	5.90
Expected dividend yield	3.35	5.0	5.4	5.2	7.5
Discount to reflect negotiability restrictions (%)	5	12.5	20	25	25

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

The volatility and correlation estimates for the prior year were derived from measuring these parameters using historical data over the preceding one to three years. The risk free rate was based on the two year zero coupon bond yield (2012: three year zero coupon bond yield) implied from short to medium term yields for government bonds.

23. ISSUED CAPITAL (CONTINUED)

Application of treasury stock method

Share repurchase

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

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 2013 was 93 (30 June 2012: 93).

Kiwi Share

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

Voting rights

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

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

24. CAPITAL COMMITMENTS

	GROUP 2013 $M	GROUP 2012 $M	COMPANY 2013 $M	COMPANY 2012 $M
Aircraft and engines	2,080	2,324	2,049	2,272
Other property, plant and equipment and intangible assets	12	2	12	2
	2,092	2,326	2,061	2,274

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

The Group has a contractual commitment to acquire nine Airbus A320 aircraft and associated engines. The aircraft will be delivered between July 2013 and November 2015. Under the agreement the Group secured the right to purchase up to an additional eleven aircraft.

The Group has a contractual commitment to acquire four ATR72-600 aircraft. The aircraft subject to firm commitments are scheduled for delivery between November 2013 and January 2016.

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

Notes to the Financial Statements (Continued)

As at 30 June 2013

25. OPERATING LEASE COMMITMENTS

	GROUP 2013 $M	GROUP 2012 $M	COMPANY 2013 $M	COMPANY 2012 $M
Aircraft leases payable				
Not later than 1 year	135	139	51	42
Later than 1 year and not later than 5 years	586	467	194	142
Later than 5 years	123	164	110	54
	844	770	355	238
Property leases payable				
Not later than 1 year	35	35	32	31
Later than 1 year and not later than 5 years	105	96	98	90
Later than 5 years	93	87	90	84
	233	218	220	205

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

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

26. CONTINGENT LIABILITIES

	GROUP 2013 $M	GROUP 2012 $M	COMPANY 2013 $M	COMPANY 2012 $M
Uncalled capital of subsidiaries	-	-	12	12
Guarantee of subsidiary operating lease commitments	-	-	853	777
Guarantee of subsidiary indebtedness and performance	-	-	1,482	1,548
Letters of credit and performance bonds	51	26	46	20
	51	26	2,393	2,357

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

Air New Zealand is currently named in class actions. Two (one in Australia and the other in the United States) make allegations against more than 30 airlines, of anti competitive conduct in relation to pricing in the air cargo business. A class action in the United States alleges that Air New Zealand together with many other airlines conspired in respect of fares and surcharges on trans-Pacific routes. All class actions are being defended.

The allegations made in relation to the air cargo business are also the subject of proceedings by the Australian Competition and Consumer Commission. A defended hearing in the Federal Court concluded in May 2013 and a decision is awaited. In the event that the Court determined that Air New Zealand had breached Australian laws, the Company would have potential liability for pecuniary penalties. No other significant contingent liability claims are outstanding at balance date.

The Group has a partnership agreement with Pratt and Whitney in relation to the CEC in which it holds a 49 percent interest (Note 14). By the nature of the agreement, joint and several liability exists between the two parties. Total liabilities of the CEC are $47 million (30 June 2012: $39 million).

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

The Company guarantees aircraft end of lease obligations of Air New Zealand Aircraft Holdings Limited and New Zealand International Airlines Limited.

27. PENSION OBLIGATIONS

Defined benefit plans

The Group operates two defined benefit plans for qualifying employees in New Zealand and overseas. The New Zealand plan is now closed to new members. The plans provide a benefit on retirement or resignation based upon the employee's length of membership and final average salary. Each year an actuarial calculation is undertaken using the Projected Unit Credit Method to calculate the present value of the defined benefit obligation and the related current service cost. The most recent actuarial valuations were provided for 30 June 2013.

	GROUP AND COMPANY	
	2013 $M	2012 $M
Amounts recognised in the Statement of Financial Position:		
Present value of funded obligations	(132)	(130)
Fair value of plan assets	126	113
	(6)	(17)
Unrecognised actuarial losses	19	27
Included in the Statement of Financial Position	13	10
Expense recognised in the Statement of Financial Performance:		
Current service cost	(3)	(2)
Interest cost	(3)	(3)
Expected return on plan assets	5	6
Net actuarial losses recognised in year	(2)	-
Total included in "Labour"	(3)	1
Actual return on plan assets	14	2
Changes in the present value of the defined benefit obligation:		
Defined benefit obligation at the beginning of the year	(130)	(116)
Current service cost	(3)	(2)
Interest cost	(3)	(3)
Contributions by plan participants	(2)	(2)
Actuarial losses	(4)	(14)
Benefits paid	9	6
Settlements	-	1
Foreign exchange differences on overseas plans	1	-
Defined benefit obligation at the end of the year	(132)	(130)
Changes in the fair value of plan assets are as follows:		
Fair value of plan assets at the beginning of the year	113	110
Expected return on plan assets	5	6
Contributions by employer	5	5
Contributions by participants	2	2
Actuarial gains/(losses)	10	(3)
Benefits paid	(9)	(6)
Settlements	-	(1)
Fair value of plan assets at the end of the year	126	113

The Group expects to contribute approximately $8 million to its defined benefit plans in 2014.

Notes to the Financial Statements (Continued)

For the year to and as at 30 June 2013

27. PENSION OBLIGATIONS (CONTINUED)

	GROUP AND COMPANY 2013	2012
Major categories of plan assets:		
Fixed interest unit fund	55%	54%
Property unit fund	-	8%
New Zealand equity unit fund	7%	7%
Overseas equity unit fund	33%	25%
Commodities fund	3%	3%
Other assets	2%	3%
	100%	100%

None of the above relate to the Company's own financial instruments, nor property occupied by or other assets used by the Company.

Assumptions used

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

	GROUP AND COMPANY 2013	2012
Gross discount rate (year 1)	2.9%	2.2%
Gross discount rate (long term)	5.2%	5.2%
Expected return on plan assets	3.5%	3.9%
Future base salary increases	3.3%	3.3%

The expected rates of return on individual categories of plan assets are determined by independent actuaries with reference to relevant indices published by the New Zealand Stock Exchange. The overall expected rate of return is calculated by weighting the individual rates in accordance with the anticipated balance in the plan's investment portfolio.

Defined contribution plans

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

The Group contributes to the NPF Defined Benefit Plan Contributors retirement plan, to which other employers contribute in respect of their own employees. This has been accounted for as a defined contribution plan as insufficient information is available to allocate the plan across all participants on a meaningful basis. The Group is not a dominant participant in the plan, contributing approximately 13.1% of the plan's total annual contributions (30 June 2012: 11.3%). The information in respect of 2013 presented below is the same as that disclosed for 2012 as the actuarial valuation for the scheme was not available at the time of preparing these financial statements.

	GROUP AND COMPANY 2013 $M	2012 $M
Overall position of the plan in respect of all employers:		
Present value of defined benefit obligation	(239)	(239)
Fair value of plan assets	259	259
Past service surplus	20	20

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

Contributions of $40 million were made to Group defined contribution plans during the year (30 June 2012: $39 million). Contributions of $34 million were made to Company defined contribution plans during the year (30 June 2012: $33 million).

28. RELATED PARTIES

Crown

The Crown, the major shareholder of the Company, owns 73 percent of the issued capital of the Company (30 June 2012: 73 percent). The balance is owned by the public.

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

In December 2011, following a tender process, the Group was awarded a contract to supply air travel services to all New Zealand Government agencies, as sole preferred supplier for all domestic travel and a preferred supplier for international travel. The contract has been awarded initially for a five year term.

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

Key management personnel

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

	GROUP 2013 $M	GROUP 2012 $M	COMPANY 2013 $M	COMPANY 2012 $M
Short-term employee costs*	11	5	11	5
Directors' fees	1	1	1	1
Share-based payments	5	5	5	5
	17	11	17	11

* On 1 January 2013 following the appointment of a new Chief Executive Officer the senior executive team was reorganised resulting in an increase in the number of executives classified as key management personnel.

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.

Paul Bingham (Director), was also a Director of Christchurch & Canterbury Marketing Limited (trading as Christchurch & Canterbury Tourism) until 30 October 2012. During the year ended 30 June 2012 Christchurch & Canterbury Marketing entered into a joint promotional agreement with Air New Zealand to promote domestic travel to Christchurch as part of an earthquake recovery promotional initiative. Christchurch & Canterbury Marketing promoted Christchurch to the Visiting Friends and Relatives Market through a marketing campaign funded by itself. Air New Zealand contributed to the campaign by offering customers a special '$50 off' any domestic airfare to Christchurch and also promoted the offer through its own channels.

Staff share purchase schemes

The Air New Zealand A and B Staff Share Purchase Schemes were established by the Group in 1998. All full time and regular part-time employees were invited to participate in the Schemes with a share allotment date, being 12 August 1998. The shares were held by the Trustees during a three year restrictive period, which expired in September 2001. As at 30 June 2013, the Scheme held 93 unallocated Ordinary Shares (30 June 2012: 93 shares).

Executive share option plans

Executive share option plans are detailed in Note 23.

28. RELATED PARTIES (CONTINUED)

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

Subsidiaries

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

	COMPANY 2013 $M	COMPANY 2012 $M
Operating revenue (excluding dividend revenue)	89	76
Dividend revenue	248	198
Finance costs *	(27)	(28)
Operating expenditure	(253)	(132)
Included within Operating expenditure ("Other expenses") are the following amounts:		
Reversal of impairment of investment in subsidiaries	-	129

* Finance costs include finance income of $3 million (30 June 2012: $5 million) and finance costs of $30 million (30 June 2012: $33 million).

The Company has undertaken finance and operating lease arrangements with its wholly owned subsidiary, Air New Zealand Aircraft Holdings Limited, relating to its aircraft. Lease expense of $222 million was recognised by the Company during the year (30 June 2012: $237 million).

Related party balances have no fixed settlement dates and are unsecured. Non-current amounts owing to subsidiaries (as shown in Note 20) reflect deposits held in respect of capital investments. Certain balances are non interest-bearing and the remainder are subject to interest at current floating rates. For balances outstanding at year end refer to Notes 10 and 20. Provisions for doubtful debts of $106 million were held by the Company against outstanding balances from subsidiaries (30 June 2012: $106 million).

The Company has provided guarantees of financial indebtedness to Air New Zealand Aircraft Holdings Limited of $1,478 million (30 June 2012: $1,542 million).

As at 30 June 2013, the Company has guaranteed the obligations of Air New Zealand Aircraft Holdings Limited and New Zealand International Airlines Limited under aircraft operating lease arrangements amounting to $844 million (30 June 2012: $770 million), and property lease obligations of subsidiaries of $9 million (30 June 2012: $7 million).

The Company guarantees aircraft end of lease obligations of Air New Zealand Aircraft Holdings Limited and New Zealand International Airlines Limited.

During the year the investment in Air New Zealand Aircraft Holdings Limited, was assessed for impairment using a value in use model. The value in use model supported the carrying value as at 30 June 2013. In the year ended 30 June 2012 the model resulted in a reversal of an impairment loss of $114 million which had been provided for in prior years. The discount rate applied in the value in use model was 5.8 percent (30 June 2012: 6.3 percent) and the growth rate was 2.5 percent as at 30 June 2013 (30 June 2013: 2.5 percent).

On 26 February 2012, the Group disposed of a 65% interest in ADP Pty Limited.

On 31 October 2012, the Group disposed of its interest in VCubed Pty Limited for $1 million. VCubed Pty Limited held an investment in a wholly owned subsidiary, TXNZ Limited. The impact on the Group was a reduction in net assets of $1 million.

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

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

28. RELATED PARTIES (CONTINUED)

Associates

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

	COMPANY 2013 $M	COMPANY 2012 $M
Operating revenue	4	5
Operating expenditure	(12)	(16)

During the period the Group engaged the Christchurch Engine Centre (CEC) to provide maintenance services on certain V2500 engines. In addition the Group provides certain administration services to CEC. Amounts outstanding at the end of the year are disclosed within Note 20.

On 22 May 2013 the Christchurch Engine Centre paid a distribution of $15 million.

Joint venture

Pacific Leisure Group Limited was incorporated on 20 October 2011 and commenced trading as a joint venture on 25 November 2011. The company paid a dividend of $250k to Air New Zealand on 20 March 2013.

Other related party disclosures

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

Independent Auditor's Report

Deloitte.

TO THE SHAREHOLDERS OF AIR NEW ZEALAND LIMITED FOR THE YEAR ENDED 30 JUNE 2013

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

We have audited the financial statements of the Company and Group on pages 2 to 49, that comprise the Statement of Financial Position as at 30 June 2013, the Statement of Financial Performance, Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information.

Opinion

Financial statements

In our opinion the financial statements of the Company and Group on pages 2 to 49:

- comply with generally accepted accounting practice in New Zealand;
- comply with International Financial Reporting Standards; and
- give a true and fair view of the Company and Group's:
  - financial position as at 30 June 2013; and
  - financial performance and cash flows for the year ended on that date.

Other legal requirements

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

Our audit was completed on 29 August 2013. This is the date at which our opinion is expressed.

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

Basis of opinion

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

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

An audit involves carrying out procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including our assessment of risks of material misstatement of the financial statements whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the preparation of the Company and Group's financial statements that give a true and fair view of the matters to which they relate. We consider internal control in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Company and Group's internal control.

An audit also involves evaluating:

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

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

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

Independent Auditor's Report (Continued)

Deloitte.

Responsibilities of the Board of Directors

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

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

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

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

Responsibilities of the Auditor

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

Independence

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

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

Andrew Dick

DELOITTE

On behalf of the Auditor-General
Auckland, New Zealand

Historical Summary of Financial Performance

	2013 $M	2012 $M	2011 $M	2010 $M	2009 $M
Operating Revenue					
Passenger revenue	3,765	3,634	3,525	3,305	3,734
Cargo	301	298	278	255	374
Contract services	313	316	329	322	331
Other revenue	239	235	209	164	170
	4,618	4,483	4,341	4,046	4,609
Operating Expenditure					
Labour	(1,069)	(1,050)	(1,034)	(976)	(1,019)
Fuel	(1,204)	(1,219)	(1,084)	(939)	(1,687)
Maintenance	(303)	(303)	(311)	(326)	(327)
Aircraft operations	(419)	(390)	(381)	(369)	(423)
Passenger services	(222)	(233)	(242)	(240)	(275)
Sales and marketing	(274)	(270)	(274)	(261)	(295)
Foreign exchange gains/(losses)	7	(68)	(118)	6	366
Other expenses	(236)	(235)	(234)	(233)	(261)
	(3,720)	(3,768)	(3,678)	(3,338)	(3,921)
Earnings Before Finance Costs, Depreciation, Amortisation, Rental Expenses and Taxation	898	715	663	708	688
Depreciation and amortisation	(411)	(348)	(316)	(294)	(276)
Rental and lease expenses	(177)	(209)	(238)	(263)	(334)
Earnings Before Finance Costs and Taxation	310	158	109	151	78
Finance income	37	31	36	43	98
Finance costs	(91)	(95)	(72)	(71)	(169)
Profit Before Taxation	256	94	73	123	7
Taxation (expense)/credit	(74)	(23)	8	(41)	14
Net Profit Attributable to Shareholders of Parent Company	182	71	81	82	21
Normalised Earnings Before Taxation*	256	91	75	137	145
Normalised Earnings After Taxation*	182	69	82	92	118

Certain comparatives within the five year statistical review have been reclassified for comparative purposes, to ensure consistency with the current year.

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

Historical Summary of Financial Position

Five Year Statistical Review

As at 30 June 2013

	2013 $M	2012 $M	2011 $M	2010 $M	2009 $M
Current Assets					
Bank and short term deposits	1,150	1,029	860	1,067	1,573
Other current assets	708	671	615	621	702
Total Current Assets	1,858	1,700	1,475	1,688	2,275
Non-Current Assets					
Property, plant and equipment	2,935	3,092	2,714	2,230	2,337
Other non-current assets	819	667	713	679	433
Total Non-Current Assets	3,754	3,759	3,427	2,909	2,770
Total Assets	5,612	5,459	4,902	4,597	5,045
Current Liabilities					
Net debt[1]	159	157	152	175	172
Other current liabilities	1,551	1,526	1,664	1,432	1,587
Total Current Liabilities	1,710	1,683	1,816	1,607	1,759
Non-Current Liabilities					
Net debt[1]	1,470	1,537	1,103	900	1,107
Other non-current liabilities	616	551	479	524	574
Total Non-Current Liabilities	2,086	2,088	1,582	1,424	1,681
Total Liabilities	3,796	3,771	3,398	3,031	3,440
Net Assets	1,816	1,688	1,504	1,566	1,605
Total Equity	1,816	1,688	1,504	1,566	1,605

1. Net debt is comprised of bank overdraft, borrowings, bonds and finance lease liabilities.

Historical Summary of Cash Flows

For the year to 30 June

	2013 $M	2012 $M	2011 $M	2010 $M	2009 $M
Cash flow from operating activities	750	472	466	334	486
Cash flow from investing activities	(480)	(654)	(846)	(450)	(216)
Cash flow from financing activities	(147)	349	173	(390)	14
Increase/(decrease) in cash holding	123	167	(207)	(506)	284
Total cash and cash equivalents	1,150	1,027	860	1,067	1,573

Financial Ratios
Five Year Statistical Review

		2013	2012	2011	2010	2009
PROFITABILITY						
EBIT/Revenue	%	6.7	3.5	2.5	3.7	1.7
EBITDRA/Revenue	%	19.4	15.9	15.3	17.5	14.9
Return on Assets[1]	%	5.5	2.9	2.2	3.3	1.5
Return on Equity[2]	%	10.0	4.2	5.4	5.2	1.3
Basic Earnings Per Ordinary Share	cps	16.6	6.5	7.5	7.6	2.0
Fixed Cover[3]	times	3.9	2.6	2.4	2.4	1.7
Passenger Revenue/RPK	c	13.6	13.5	13.1	12.8	13.8
LIQUIDITY						
Operating Cash Flow Per Share[4]	cps	68.4	43.1	43.0	31.1	45.8
BALANCE SHEET						
Gearing (excl. net capitalised aircraft operating leases)[5]	%	10.9	21.7	14.4	(9.1)	(25.3)
Gearing (incl. net capitalised aircraft operating leases)[6]	%	39.1	46.1	46.7	47.3	45.0
Debt to Equity Ratio[7]	%	209.0	223.4	225.9	193.6	214.3
Net Tangible Assets Per Share[4]	$	1.58	1.48	1.33	1.41	1.47
Working Capital Ratio[8]	%	52.1	50.3	44.8	51.2	56.4
SHAREHOLDER VALUE						
Closing Share Price 30 June	$	1.49	0.86	1.12	1.07	0.90
Weighted Average Number of Ordinary Shares	m	1,096	1,096	1,084	1,073	1,061
Total Number of Ordinary Shares	m	1,104	1,100	1,091	1,077	1,065
Total Market Capitalisation	$m	1,639	946	1,222	1,152	959
Total Shareholder Return	%	72.7	(23.2)	4.7	18.9	(17.4)

1. EBIT/Total Assets
2. Net Profit After Tax/Total Equity
3. EBITDRA/(Rental and Lease Expenses and Net Finance Costs)
4. Per-share measures based upon Ordinary Shares
5. Net Debt (excluding capitalised operating leases)/Net Debt plus Equity
6. Net Debt (including capitalised operating leases)/Net Debt plus Equity
7. Total Liabilities/Total Equity
8. Current Assets/(Current Assets plus Current Liabilities)

Key Operating Statistics

Five Year Statistical Review

For the year to 30 June

	2013	2012	2011	2010	2009
PASSENGERS CARRIED (000)					
Domestic	8,694	8,500	8,530	8,018	7,815
International					
Australia and Pacific Islands	3,181	3,073	2,965	2,700	2,824
Asia and Europe	596	652	662	668	778
North America and Europe	940	897	946	938	951
Total	4,717	4,622	4,573	4,306	4,553
Total Group	13,411	13,122	13,103	12,324	12,368
AVAILABLE SEAT KILOMETRES (m)					
Domestic	5,108	4,969	4,904	4,724	4,783
International					
Australia and Pacific Islands	10,277	9,694	9,345	8,804	9,769
Asia and Europe	6,780	7,495	7,432	7,557	8,780
North America and Europe	11,002	10,460	10,672	10,493	10,984
Total	28,059	27,649	27,449	26,854	29,533
Total Group	33,167	32,618	32,353	31,578	34,316
REVENUE PASSENGER KILOMETRES (m)					
Domestic	4,218	4,050	4,021	3,733	3,586
International					
Australia and Pacific Islands	8,580	8,164	7,799	7,086	7,398
Asia and Europe	5,418	5,979	6,077	6,095	7,016
North America and Europe	9,517	8,820	9,099	8,915	9,112
Total	23,515	22,963	22,975	22,096	23,526
Total Group	27,733	27,013	26,996	25,829	27,112
PASSENGER LOAD FACTOR (%)					
Domestic	82.6	81.5	82.0	79.0	75.0
International					
Australia and Pacific Islands	83.5	84.2	83.5	80.5	75.7
Asia and Europe	79.9	79.8	81.8	80.7	79.9
North America and Europe	86.5	84.3	85.3	85.0	83.0
Total	83.8	83.1	83.7	82.3	79.7
Total Group	83.6	82.8	83.4	81.8	79.0
GROUP EMPLOYEE NUMBERS (Full Time Equivalents)	10,336	10,453	10,861	10,499	10,726

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

Certain comparatives within the key operating statistics have been reclassified for comparative purposes, to ensure consistency with the current year.

Historical Summary of Debt

Five Year Statistical Review

As at 30 June

	2013 $M	2012 $M	2011 $M	2010 $M	2009 $M
DEBT					
Secured borrowings	84	97	154	263	391
Unsecured bonds	150	150	-	-	-
Finance lease liabilities	1,395	1,445	1,101	812	888
Bank overdraft and short term borrowings	-	2	-	-	-
	1,629	1,694	1,255	1,075	1,279
Bank and short term deposits	1,150	1,029	860	1,067	1,573
Net open derivatives held in relation to interest-bearing liabilities[1]	28	4	(28)	1	(100)
Non interest-bearing deposit (included within Other assets)	44	13	-	-	-
Interest-bearing secured deposit (included within Other assets)	184	180	170	137	130
NET DEBT	223	468	253	(130)	(324)
Net aircraft operating lease commitments[2]	945	973	1,064	1,533	1,638
NET DEBT (INCLUDING OFF BALANCE SHEET)	1,168	1,441	1,317	1,403	1,314

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

Corporate Governance at Air New Zealand

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

ETHICAL STANDARDS

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

- **Guide to Business Conduct**
  This guide has been developed by the Group summarising the basic principles of legal and ethical conduct expected of everyone at Air New Zealand.
- **Open Communication and Just Culture**
  The Group has a policy on Open Communication and Just Culture to encourage open and honest communication by staff about any current or potential problem, complaint, suggestion, concern or question.
- **Avoiding Conflicts of Interest**
  To maintain integrity in decision making each director must advise the Board of any potential conflict of interest. If a significant conflict of interest exists the director concerned will have no involvement in the decision making process relating to that matter.
- **Trading in Air New Zealand Securities**
  Directors and employees of Air New Zealand are subject to limitations on their ability to buy or sell Air New Zealand shares in accordance with Air New Zealand's Securities Trading Policy, the NZSX and ASX Listing Rules and the Securities Markets Act 1988. This policy has been updated to reflect recent legislative changes.
- **Gifts, Entertainment and Inducements**
  Air New Zealand has a gifts, entertainment and inducements policy governing the acceptance and reporting of benefits given to staff by third parties.
- **Donations**
  The Air New Zealand Group has made donations totalling $152,000 in the financial year to 30 June 2013, including donations to Air New Zealand Environmental Trust and NZCE Trustees Limited. No donations were made to any political party. It is Air New Zealand's policy not to make donations, in cash or in kind, or to provide free of charge travel to political parties.
- **Interests Register**
  In accordance with the Companies Act 1993 and the Securities Markets (Disclosure of Relevant Interests by Directors and Officers) Regulations 2003, Air New Zealand maintains an interests register in which relevant transactions and matters involving the directors are recorded.

BOARD COMPOSITION

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

BOARD ROLE AND RESPONSIBILITIES

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

MANAGEMENT DELEGATION

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

Chairman

Mr John Palmer has been Chairman of Air New Zealand since 2001. Mr Tony Carter was appointed Deputy Chairman in 2012. The chairman's role includes managing the Board; ensuring the Board is well informed and effective; acting as the link between the Board and the Chief Executive Officer; and ensuring effective communication with shareholders.

Corporate Governance at Air New Zealand (Continued)

Director Independence

The Board's standards for determining the independence of a director including the requirements of the NZSX Listing Rules and the ASX Recommendations are set out in full in the Board's Charter. All seven of Air New Zealand's directors, including the Chairman, are independent directors under those criteria. Directors are required to inform the Board of all relevant information which may affect their independence.

BOARD COMMITTEES

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

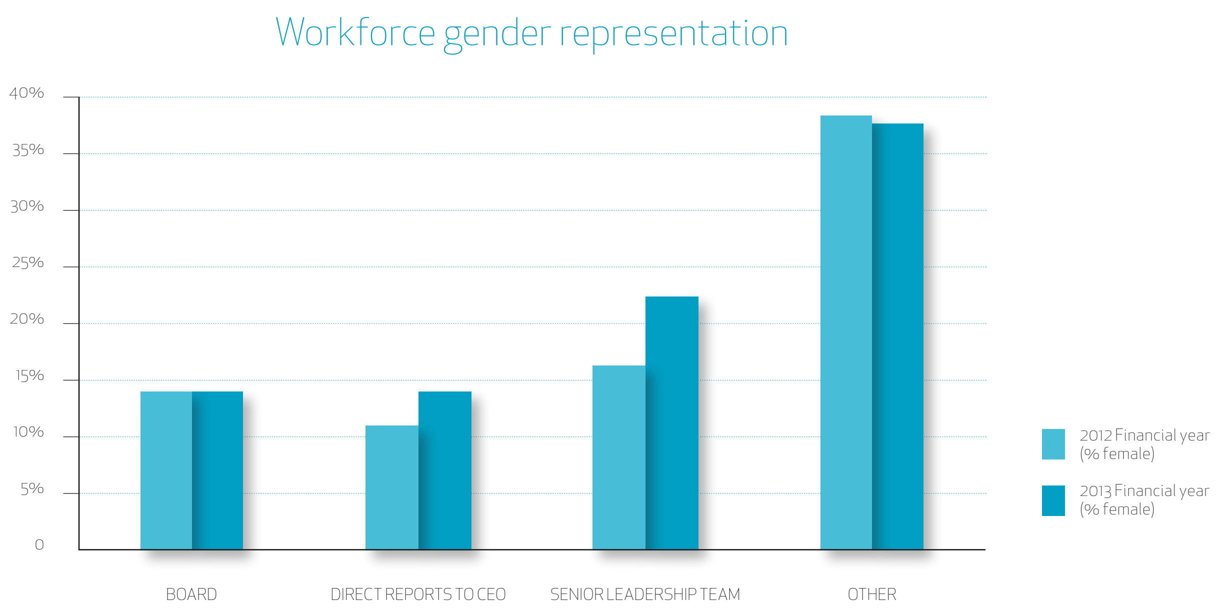
- The Audit Committee assists the Board in discharging its responsibilities in relation to the financial reporting, compliance and risk management practices of Air New Zealand.
- The People Remuneration and Diversity Committee monitors issues related to management structure, diversity, remuneration of the Chief Executive Officer and remuneration of senior executives.
- The Safety Committee ensures that, at all times, Air New Zealand has workable systems and processes in place to provide the best practicable safety, security and environmental performance.

DIVERSITY AND INCLUSION

Air New Zealand is resolutely focused on diversity across its business and is currently developing a new Diversity Policy which will include measurable objectives. The new policy will enable Air New Zealand to report its progress against specific diversity targets. While this policy is in development, Air New Zealand has set a number of diversity objectives which are focused on increasing the diversity representation across our organisation and in leadership positions to ensure our business is more reflective of both the populations in which we do business and our customer base.

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

Gender representation within the Air New Zealand workforce is set out in the graph below.



Good progress was made across our stated 2013 objectives:

- A diversity project delivery team, representative of our target groups, was set up and is actively prioritising, implementing, and monitoring key initiatives.
- Talent management and sourcing processes have been reviewed to ensure support is given to diversity and inclusion aims.
- A review was undertaken into our flexible working policy and practices. Awareness building of the arrangements on offer is planned for the 2014 financial year.
- New recruits to Air New Zealand are now being asked a range of diversity information enabling the building of a database of the diversity of our employees. 75% of the Senior Leadership Team also voluntarily submitted diversity profile information enabling a baseline data set to be created for this key group.
- Mentoring of Engineering graduates was undertaken by a member of the Diversity Project Delivery Team, the roll out of the Leaders' Toolkit training on "valuing differences" in Technical Operations was completed and a programme of open days were held at Auckland Airport and the Hub for low decile school students.

Corporate Governance at Air New Zealand
(Continued)

In addition to the stated 2013 objectives, a number of other activities were carried out:
- Some members of the Board and the Executive participated in diversity training.
- A cultural celebration calendar of events was initiated.
- A range of Employee Network Groups were set up including:
  - Pacific Island Network;
  - Maori Network ;
  - Womens' Network;
  - Sexual Orientation Network; and
  - Chinese Network

Looking to the 2014 financial year, a programme of work has been committed to, which includes continuing making progress on the initiatives commenced in the 2013 financial year and in addition:
- Embedding regular auditing of performance and reward processes for unconscious bias;
- Developing a High Potential Programme targeting a diverse group of employees;
- Rolling out a programme aimed at retaining talented women and in particular supporting them in returning to the workforce; and
- Further rollout and support of Employee Network Groups.

REPORTING AND DISCLOSURE

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

REMUNERATION AND PERFORMANCE EVALUATION

Executives

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

Non-executive Directors

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

Board Evaluation

The Board has included in its Charter a requirement to conduct an annual performance review of the Board as a whole after the financial year end. Individual director views and the views of members of the senior management team are sought on Board process, efficiency, and effectiveness, and are discussed by the Board as a whole. In conjunction with this process, those directors retiring annually by rotation who are standing for re-election have their performance evaluated by their fellow directors in a process co-ordinated by the Chairman, with individual feedback to each director as their evaluation is completed.

DIFFERENCES IN PRACTICE TO NZX CODE AND ASX RECOMMENDATIONS

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

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

Directors' Profiles

John Palmer ONZM, B.AGR.SC, FNZID
Chairman
Appointed 29 November 2001

Mr Palmer has considerable experience as a director and chairman of companies in the agricultural and finance sectors. Mr Palmer is Chairman of Rabobank NZ Limited and serves as a director of AMP Limited, AMP Life Limited and Rabobank Australia Limited. Since 2001 he has led the board through a successful period of rebuilding Air New Zealand, and was named as Company Chairman of the Year in 2007 and 2009.

Antony (Tony) Carter BE (HONS), M.E., M.PHIL
Deputy Chairman
Appointed 1 December 2010

Mr Carter is Chairman of Fisher & Paykel Healthcare Limited, a director of Fletcher Building Limited and ANZ Bank New Zealand Limited and Co-Chairman of the New Zealand Initiative.

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.

Paul Bingham BCOM
Appointed 1 July 2008

Mr Bingham is Managing Director of Black Cat Cruises Limited, an award winning cruise operator based at Banks Peninsula, near Christchurch and a director of Shuttlerock Limited. Prior to his current position, he had a number of senior marketing roles at Tourism Holdings Limited and Air New Zealand Limited. He was a winner of the PATA Young Tourism Professional Award in 2003 and under his leadership Black Cat Group has won numerous accolades, including the Supreme Award at the New Zealand Tourism Awards in 2003 and the SKAL International Eco-tourism Award in 2004.

Janice (Jan) Dawson BCOM, FCA
Appointed 1 April 2011

Ms Dawson is a director of AIG Insurance New Zealand Limited, Meridian Energy Limited, Westpac New Zealand Limited and Goodman Fielder Limited. She is Deputy Chair of Counties-Manukau District Health Board, a member of the University of Auckland Council, the Capital Investment Committee of the National Health Board and a Trustee of the National Maritime Museum. Ms Dawson has been President of Yachting New Zealand since 2007 and was appointed Chair of the Audit Committee of the International Sailing Federation in 2009.

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 Member of the Institute of Directors in New Zealand, a Fellow of FINSIA, 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.

Dr James (Jim) Fox BE, M.ENG.SCI, PHD.
Appointed 21 November 2006

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

Directors' Profiles (Continued)

Roger France BCOM, FCA
Appointed 1 October 2001

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

Robert (Rob) Jager BE (Hons), MBA
Appointed 1 April 2013

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

Mr Jager joined Shell in New Zealand in 1978 as an engineering cadet. He completed his Bachelor of Engineering degree in 1983 with 1st Class Honours and later gained an MBA with Distinction.

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

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

Directors' Interests

The following are particulars of general disclosures of interest by Directors of Air New Zealand Limited holding office at 30 June 2013, pursuant to section 140(2) of the Companies Act 1993. Where applicable, the disclosures also include directorships of subsidiaries of the relevant companies.

John Palmer

AMP Limited	Director
AMP Life Limited	Director
Rabobank Australia Limited	Director
Rabobank New Zealand Limited	Chairman
Solid Energy New Zealand Limited	Chairman – resigned 31 August 2012

Tony Carter

ANZ Bank New Zealand Limited	Director
Fisher & Paykel Healthcare Corporation Limited	Chairman
Fletcher Building Limited	Director
Foodstuffs Auckland Protection Trust	Trustee
Maurice Carter Charitable Trust	Trustee
The New Zealand Initiative Limited	Co-Chairman

Paul Bingham

Akaroa Harbour Cruises Limited	Director
Black Cat Group 2007 Limited	Managing Director
Christchurch & Canterbury Marketing Limited	Chairman – resigned 30 October 2012
Christchurch & Canterbury Convention Bureau Limited	Director – resigned 30 October 2012
Destination Christchurch & Canterbury NZ Trust	Trustee
Dolphin Experience Limited	Director
Lyttelton Harbour Cruises Limited	Director
Pajo Trust	Trustee
Shuttlerock Limited	Director – appointed 1 October 2012

Jan Dawson

AIG Insurance New Zealand Limited	Director
Counties Manukau District Health Board	Deputy Chair
Goodman Fielder Limited	Director – appointed 1 October 2012
Jan Dawson Limited	Director
Meridian Energy Limited	Director
National Health Board Capital Investment Committee	Member
University of Auckland	Council Member
Voyager New Zealand Maritime Museum	Trustee
Westpac New Zealand Limited	Director
Yachting New Zealand	President

Dr Jim Fox

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

Directors' Interests (Continued)

Roger France

Blue Star Group Holdings Limited	Director – resigned 1 August 2012
Dilworth Trust Board	Trustee – appointed 1 October 2012
Fisher & Paykel Healthcare Corporation Limited	Director
Orion Corporation Limited	Director – appointed 15 February 2013
Tappenden Management Limited	Director
The University of Auckland	Council Member
The University of Auckland Foundation	Trustee – appointed 15 March 2013

Rob Jager

Energy Finance NZ Limited	Director
Energy Finance NZ Limited (Netherlands Branch)	Director
Energy Holdings Offshore Limited	Director
Energy Infrastructure Limited	Director
Energy Petroleum Investments Limited	Director
Energy Petroleum Taranaki Limited	Director
Maui Development Limited	Director
Shell Energy Asia Limited	Director
Shell Energy Asia Limited (Malaysia Branch)	Director
Shell Exploration NZ Limited	Director
Shell GSB Limited	Director
Shell Investments NZ Limited	Director
Shell New Zealand (2011) Limited	Director
Shell (Petroleum Mining) Company Limited	Director
Southern Petroleum No Liability	Director
Taranaki Offshore Petroleum Company of New Zealand	Director

Indemnities and Insurance

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

Directors' Remuneration

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

Directors received the following fees and remuneration from Air New Zealand Limited in the year to 30 June 2013[1]:

NAME	DIRECTORS' FEES	COMMITTEE FEES	TOTAL REMUNERATION	VALUE OF TRAVEL ENTITLEMENT[2]
John Palmer (Chairman)	255,094	-	255,094	29,870
Tony Carter (Deputy Chairman)[3]	94,669	28,500	123,169	23,273
Paul Bingham	84,938	16,625	101,563	43,140
Jan Dawson	84,848	33,500	118,348	31,441
Jim Fox	84,713	40,375	125,088	35,108
Roger France	87,750	40,250	128,000	52,331
Rob Jager[4]	22,500	4,375	26,875	1,800
Warren Larsen[5]	84,825	33,250	118,075	43,422
Total	**799,337**	**196,875**	**996,212**	**260,385**

1. No employee of the Group received or retains any remuneration or other benefits as a director of any subsidiary company.
2. Includes value of travel benefits for related parties and benefits accrued in prior years availed in current year.
3. GST exclusive.
4. Appointed 1 April 2013.
5. Retired 30 June 2013.

Directors' Interests in Air New Zealand Securities

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

NAME		BENEFICIAL INTEREST AT 30 JUNE 2013	SHARES / BONDS SOLD	SHARES / BONDS PURCHASED	DATE OF TRANSACTION	COST	NON-BENEFICIAL INTEREST
John Palmer							
	Shares	259,216					
Tony Carter							
	Shares	97,189[1]					
	Bonds	30,000[1]					
Paul Bingham							
	Shares	5,000					
	Bonds	50,000					
Jan Dawson							
	Shares	20,000[2]					
	Bonds	50,000[2]					
Jim Fox							
	Shares	36,500					
Roger France							
	Shares	27,061[3]					93[4]
Rob Jager							
	Shares	0					

1. In custody by First NZ Capital for Loughborough Investments Ltd
2. The shares and bonds are owned by Janice Amelia Dawson and Jeremy Paul Austin Dillon as Trustees of the Kinross Trust
3. All shares are owned by the France Family Trusts of which Mr France is a discretionary beneficiary.
4. Mr France is a trustee of the Staff Share Purchase Scheme.

Subsidiary Companies

The following people were directors of Air New Zealand's subsidiary companies in the financial year to 30 June 2013. No director of any subsidiary received beneficially any director's fees or other benefits except as an employee.

NEW ZEALAND COMPANIES	DIRECTORS
ADP (New Zealand) Limited	JHB/MAS/BP
Air Nelson Limited	DWM/JGM/BP/GCK[2]
Air New Zealand Aircraft Holdings Limited	JHB/RSM/DWM
Air New Zealand Associated Companies Limited	JHB/NJT/RSM
Air New Zealand Associated Companies (Australia) Limited	JHB/NJT/RSM
Air New Zealand Consulting Limited (Amalgamated with Air New Zealand Associated Companies Limited 28 March 2013)	JHB/RSM
Air New Zealand Holidays Limited	DWM/LKL[2]/BP/DBS
Air New Zealand Express Limited	JHB/NJT/RSM
Air New Zealand International Limited	JHB/NJT/RSM
Air New Zealand Tasman Pacific Limited	DWM/BP/GRS[2]
Air New Zealand Travel Business Limited	JHB/NJT/RSM
Altitude Aerospace Interiors Limited	NJT/RSM/JCF/VCMS[2]/SFJ[1]
ANNZES Engines Christchurch Limited	JHB/RSM
Ansett Australia & Air New Zealand Engineering Services Limited	JHB/RSM
C.I. Air Services Limited	JHB/NJT/TT
Eagle Air Maintenance Limited	DWM/JGM/BP
Eagle Airways Limited	DWM/JGM/BP/CLH[2]
Eagle Aviation Limited	JHB/NJT/RSM
Freedom Air Limited	JHB/NJT/RSM
Mount Cook Airline Limited	DWM/JGM/BP/SW
National Airlines Company Limited	JHB/NJT/RSM
New Zealand International Airlines Limited	JHB/RSM/DWM
New Zealand Tourist Promotion Company Limited	JHB/NJT/RSM
Pacific Leisure Group Limited[3]	JGM/DBS[2]/AJB/DBF/DWM[1]
Safe Air Limited	TNH/CET/VCMS[2]
Tasman Empire Airways 1965 Limited	JHB/NJT/RSM
Tasman Express Limited	JHB/NJT/RSM
Teal Insurance Limited	JHB/RSM/HJBR
The Mount Cook Group Limited (Amalgamated with Air New Zealand Associated Companies Limited on 17 June 2013)	JHB/NJT/RSM
Tourism New Zealand Limited	JHB/NJT/RSM
TXNZ Limited – sold 31 October 2012	NJT[2]/SLW[2]/SFJ[2]/DBS[2]
ValetPort Limited	DWM/WJW[1]/VJ[1]/BP[2]/LKL[2]
Zeal 320 Limited	JHB/NJT/RSM

Subsidiary Companies (Continued)

AUSTRALIAN COMPANIES	DIRECTORS
Air New Zealand (Australia) Pty Limited	JHB/CPW[2]/LMG[1]
Masling Industries Pty Ltd	AMS/TNH/RSM/VCMS[2]
Safe Air Australia Pty Ltd	JHB/DLMK/VCMS[2]
TAE Aviation Pty Limited	AMS/TNH/RSM/VCMS[2]
TAE Gas Turbines Pty Ltd	AMS/TNH/RSM/VCMS[2]
TAE Pty Limited	AMS/TNH/RSM/VCMS[2]
VCubed Pty Ltd – sold 31 October 2012	DBS[2]/DWM[2]/SFJ[2]/SLW/SRC

NON-AUSTRALASIAN COMPANIES	DIRECTORS
Air New Zealand Travel Services Limited (Japan)	DWM/EJO/CML
ANZGT Field Services LLC (USA)	RI/TNH

DIRECTORS

AJB	Andrew J Burns	JHB	John H Blair
AMS	Andrew M Sanderson	LKL	Leeanne K Langridge
BP	Bruce Parton	LMG	Leanne M Geraghty
CET	Craig E Tolley	MAS	Mark A Siladi
CLH	Carrie L Hurihanganui	NJT	Norman J Thompson
CML	Christopher M Luxon	RI	Richard Ison
CPW	Cameron P Wallace	RSM	Robert S McDonald
DBF	Desmond B Fielding	SFJ	Stephen Jones
DBS	David B Simmons	SLW	Stephen L Wells
DLMK	Douglas L M Keesing	SRC	Shane R Crockett
DWM	David W Mackrell	SW	Sarah Williamson
EJO	Edward J Overy	TNH	Trevor N Hughes
GCK	Grant C Kerr	TT	Tamari'I Tutangata
GRS	Glen R Sowry	VCMS	Vanessa Stoddart
HJBR	Hannah J Ringland	VJ	Verity Jade
JCF	James C Fox	WJW	William J Whittaker
JGM	Jeffrey G McDowall		

1. Appointed during the financial year.
2. Resigned during the financial year.
3. The company is a joint venture.

Employee Remuneration

	Remuneration paid in FY13 including base for FY13, and incentive payments including options issued under the LTI scheme that relate to FY12 performance and paid in FY13	
	NZ MGMT & EXEC	AIRCREW, TECH STAFF, OVERSEAS & OTHERS
100,000-110,000	126	379
110,000-120,000	110	309
120,000-130,000	64	237
130,000-140,000	51	230
140,000-150,000	55	146
150,000-160,000	43	111
160,000-170,000	34	106
170,000-180,000	34	65
180,000-190,000	26	46
190,000-200,000	14	24
200,000-210,000	9	22
210,000-220,000	5	42
220,000-230,000	9	61
230,000-240,000	6	46
240,000-250,000	7	30
250,000-260,000	6	40
260,000-270,000	4	22
270,000-280,000	3	34
280,000-290,000	2	18
290,000-300,000	1	18
300,000-310,000	4	11
310,000-320,000		10
320,000-330,000	1	16
330,000-340,000		23
340,000-350,000	1	33
350,000-360,000	1	19
360,000-370,000		14
370,000-380,000		6
380,000-390,000		4
390,000-400,000	3	6
400,000-410,000	2	8
410,000-420,000	1	7
420,000-430,000		13
430,000-440,000	1	2
440,000-450,000		4
460,000-470,000		2
470,000-480,000	2	1
480,000-490,000		1
500,000-510,000	1	
510,000-520,000	1	
520,000-530,000	1	1
540,000-550,000	2	
580,000-590,000	1	
620,000-630,000	1	
800,000-810,000	1	1
850,000-860,000	1	
860,000-870,000	1	
910,000-920,000	1	
1,040,000-1,050,000	1	
1,120,000-1,130,000	1	
1,160,000-1,170,000	1	
1,520,000-1,530,000	1	
1,920,000-1,930,000	1	
7,680,000-7,690,000	1*	
Grand Total	**642**	**2,168**

Please refer to pages 69 and 70 for a more detailed breakdown of CEO remuneration.

***Former CEO Remuneration**

Included in this amount is the value of $5,104,800 assigned to options issued under the CEO Long Term Incentive Plan (CLTIP). These options have accumulated over a five year period and calculated as 80% of salary over each of the five financial years from 2008 to 2012 as follows:

- 2008 – $960,000
- 2009 – $960,000
- 2010 – $960,000
- 2011 – $1,080,000
- 2012 – $1,144,800

Each tranche of these options was reported in the year they were granted in the CEO Remuneration Disclosure. Options issued under this scheme did not vest unless the former CEO remained employed by Air New Zealand through to September 2012. In September last year the former CEO achieved this qualifying period. The options have therefore now been earned and accordingly all five tranches (financial years 2008 to 2012) have now been brought to account in this year's Employee Remuneration report. The balance of the 2013 financial year earnings comprises base salary, short term incentive, superannuation contributions and other Long Term Incentive Plan options. The former CEO left the Company on 31 December 2012 and received no termination payment on leaving Air New Zealand.

Employee Remuneration (Continued)

Remuneration Philosophy

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

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

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

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

FIXED BASE SALARY

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

ANNUAL PERFORMANCE INCENTIVE

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

The main factors for assessment for the 2013 financial year were:

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

At the beginning of each financial year the Board confirms a financial target for the Company for incentive payments which is set 10% above the average Normalised Earnings before Taxation achieved by the Company over the previous five year period.

LONG TERM INCENTIVE

The Air New Zealand Long Term Incentive Plan (LTIP) is designed to align the interests of the CEO and senior executives with those of our shareholders and to incentivise participants in the plan to enhance long term shareholder value.

There are two main elements to the plan:

Mandatory Shareholding

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

Options

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

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

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

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

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

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

Employee Remuneration (Continued)

CURRENT CEO REMUNERATION

Fixed Base Salary

The current CEO took office on 1 January 2013. For the six months to 30 June 2013 the CEO earned a base salary of $625,000.

Annual Performance Incentive

The annual value of the STI scheme for the CEO is set at 55% of base salary if all performance targets are achieved. If a performance rating below 90 is achieved, no STI is payable. Up to 110% of base salary is payable for outstanding performance.

For the six months ended 30 June 2013, the CEO earned a total STI payment to the value of $602,841. This payment will be made in the 2014 financial year.

Long Term Incentive

The CEO has access to the Air New Zealand Long Term Incentive Plan (LTIP).

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

Superannuation

The CEO is a member of Air New Zealand's group superannuation scheme, KoruSaver. As a member of the scheme the CEO is eligible to contribute and receive a matching Company contribution up to 4% of gross taxable earnings (including STI). For the six months ended 30 June 2013 the Company contribution was $25,000.

FORMER CEO REMUNERATION

Fixed Base Salary

For the six months until leaving on 31 December 2012, the former CEO earned a base salary of $715,500 (year ended June 2012: $1,431,000) paid in cash.

Annual Performance Incentive

The annual value of the STI scheme for the former CEO was set at 55% of base salary if all performance targets were achieved. If a performance rating below 90 was achieved, no STI was payable. Up to 110% of base salary was payable for outstanding performance.

For the six months until leaving on 31 December 2012, the former CEO earned a total STI payment to the value of $713,264 (year ended June 2012: $338,809). The portion relating to individual performance ($157,879) was paid during the financial year. The portion relating to the Company's performance ($555,385) will be made in the 2014 financial year.

Long Term Incentive

The former CEO had access to two long term incentives schemes:
- the Air New Zealand Long Term Incentive Plan (LTIP); and
- the CEO Long Term Incentive Plan (CLTIP).

LTIP

The former CEO earned 4,555,476 options under the LTIP for the 2012 financial year valued independently at $0.184 each, for a total value of $838,208 (which were issued in September 2012).

The former CEO also earned 1,419,777 options under the LTIP for the six months until leaving on 31 December 2012, valued independently at $0.278 each, for a total value of $394,698 (which were issued in December 2012).

CEO LONG TERM INCENTIVE PLAN (CLTIP)

The CLTIP for the former CEO was established as an incentive to retain the services of the former CEO over an extended period. There is no equivalent incentive plan in place for the current CEO.

The CLTIP provided that annual grants based on 80% of the CEO's fixed cash remuneration could, at the discretion of the Board, be made from the 2008 financial year until and including the 2012 financial year.

The exercise price and valuation methodology of the options under the CLTIP mirror the LTIP scheme. If Air New Zealand's share price does not outperform the index, no effective value will accrue to the former CEO.

Under the CLTIP, the former CEO received a grant of 8,607,519 options for the 2012 financial year valued at $0.133 each, for a total value of $1,144,800 (which were issued in September 2012).

Options issued under this scheme did not vest unless the former CEO remained employed by Air New Zealand through to September 2012. In September 2012 the former CEO achieved this qualifying period. The options have therefore now been earned and accordingly all five tranches (financial years 2008 to 2012) have been brought to account in this year's $100k disclosure report (page 68). The value assigned to the options is the independent valuation at each grant date (80% of the former CEO's fixed base salary) for a total cumulative value of $5,104,800. All options must be exercised within two years of the September 2012 vesting date, otherwise the options then lapse.

Superannuation

The former CEO was a member of Air New Zealand's group superannuation scheme, KoruSaver. As a member of the scheme the CEO was eligible to contribute and receive a matching Company contribution up to 4% of gross taxable earnings (including STI). For the 2013 financial year the Company contribution was $51,640 (2012 financial year $71,229).

Termination

The former CEO left the Company on 31 December 2012. He received no termination payment on leaving Air New Zealand.

Shareholder Statistics

Top Twenty Shareholders – 16 August 2013

	NUMBER OF ORDINARY SHARES	% OF ORDINARY SHARES
Her Majesty the Queen in right of New Zealand acting by and through her Minister of Finance	804,191,058	72.85
Citibank Nominees (NZ) Ltd	26,745,497	2.42
Cogent Nominees Limited	24,091,149	2.18
HSBC Nominees (New Zealand) Limited	21,719,230	1.97
JPMORGAN Chase Bank	20,120,071	1.82
HSBC Nominees (New Zealand) Limited	19,566,929	1.77
National Nominees New Zealand Limited	18,082,695	1.64
Accident Compensation Corporation	17,604,012	1.59
New Zealand Superannuation Fund Nominees Limited	11,768,305	1.07
Citicorp Nominees Pty Limited	10,054,057	0.91
HSBC Custody Nominees (Australia) Limited	9,621,659	0.87
Air New Zealand Limited*	8,767,702	0.79
Tea Custodians Limited	8,689,747	0.79
J P Morgan Nominees Australia Limited	7,132,950	0.65
National Nominees Limited	6,910,680	0.63
New Zealand Permanent Trustees Limited	3,600,000	0.33
BNP Paribas Noms Pty Ltd	2,028,566	0.18
Garth Barfoot	1,942,241	0.18
New Zealand Depository Nominee Limited	1,303,877	0.12
Kingfisher Nominees Pty Ltd	1,276,587	0.12
	1,025,217,012	92.88

*Treasury stock.

Substantial Security Holders

The following information is provided in compliance with Section 35F of the Securities Markets Act 1988 and records Substantial Security Holder notices received in the period up to 16 August 2013.
The total number of voting securities of Air New Zealand Limited at that date was 1,103,924,560.

SUBSTANTIAL SECURITY HOLDER	VOTING SECURITIES IN THE COMPANY IN WHICH A RELEVANT INTEREST IS HELD
Her Majesty the Queen in Right of New Zealand (the Crown)	817,711,164 ordinary shares

The Crown's holding includes Ordinary Shares held by Her Majesty the Queen in right of New Zealand acting by and through her Minister of Finance (804,191,058 Ordinary Shares) and New Zealand Superannuation Fund Nominees Limited (13,520,106 Ordinary Shares) as nominee for the New Zealand Superannuation Fund being property of Her Majesty the Queen in right of New Zealand and managed by the Guardians of New Zealand Superannuation.

In 1989, the Crown issued a Notice that arises through its holding of a 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.

Shareholder Statistics (Continued)

Shareholder Statistics – 16 August 2013

SIZE OF SHAREHOLDING	SHAREHOLDERS		SHARES	
ORDINARY SHARES	NUMBER	%	NUMBER	%
1 to 1000	15,717	65.32	6,174,508	0.56
1001 to 5000	6,037	25.09	13,646,772	1.24
5001 to 10000	1,137	4.73	8,405,677	0.76
10001 to 100000	1,082	4.49	26,888,920	2.43
100001 and Over	89	0.37	1,048,808,683	95.01
TOTAL	24,062	100.00	1,103,924,560	100.00

Current On-Market Share Buybacks

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

Non-Marketable Parcels of Shares

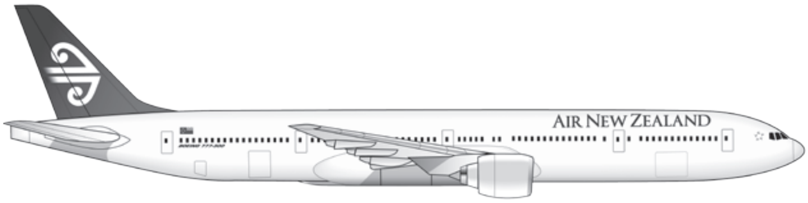
As at 16 August 2013, 3,944 shareholders held Ordinary Shares of less than a marketable parcel (as defined by the NZSX Listing Rules).

Operating Fleet Statistics

As at 30 June 2013

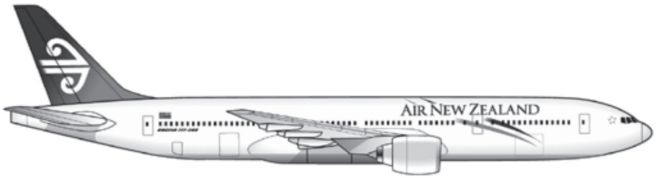
Boeing 747-400

Number: 2
Average Age: 18.4 years
Maximum Passengers: 379
Cruising Speed: 920 km/hr
Average Daily Utilisation: 8:30



Boeing 777-300ER

Number: 5
Average Age: 2.1 years
Maximum Passengers: 332
Cruising Speed: 910 km/hr
Average Daily Utilisation: 15:06

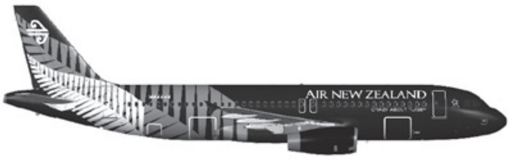


Boeing 777-200ER

Number: 8
Average Age: 7.2 years
Maximum Passengers: 304
Cruising Speed: 910 km/hr
Average Daily Utilisation: 12:59

Boeing 767-300ER

Number: 5
Average Age: 17.8 years
Maximum Passengers: 230
Cruising Speed: 870 km/hr
Average Daily Utilisation: 12:58



Airbus A320-200

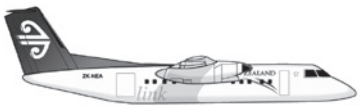
Number: 18
Average Age: 6.9 years
Maximum Passengers: 168 short haul or 171 domestic
Cruising Speed: 850 km/hr
Average Daily Utilisation: 9:52 short haul or 8:22 domestic

Boeing 737-300

Number: 11
Average Age: 15.1 years
Maximum Passengers:133
Cruising Speed: 790 km/hr
Average Daily Utilisation: 6:14

ATR 72-500 / 72-600

Number 72-500: 11 or 72-600: 3
Average Age 72-500: 12.5 years or 72-600: 0.5 years
Maximum Passengers: 68
Cruising Speed: 518 km/hr
Average Daily Utilisation: 7:17



Bombardier Q300

Number: 23
Average Age: 6.4 years
Maximum Passengers: 50
Cruising Speed: 520 km/hr
Average Daily Utilisation: 7:03

Beech 1900D

Number: 18
Average Age: 11.5 years
Maximum Passengers:19
Cruising Speed: 510 km/hr
Average Daily Utilisation: 6:14

General Information

Stock Exchange Listings

Air New Zealand's Ordinary Shares are listed on:

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

PLACE OF INCORPORATION

New Zealand

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

Neither the New Zealand Stock Exchange nor the Australian Stock Exchange has taken any disciplinary action against the Company during the financial year ended 30 June 2013.

NEW ZEALAND STOCK EXCHANGE

General:

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

The following waivers from the NZSX Listing Rules were granted to the Company or relied upon by the Company during the financial year ended 30 June 2013:

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

   The decision by NZXR of 3 December 2007 noted that an independent expert's opinion had confirmed that the approach suggested by PricewaterhouseCoopers would create economic neutrality for the option holders and all other Air New Zealand shareholders.

2. A waiver from NZSX Listing Rule 8.1.7 to allow Air New Zealand to amend the terms of the Long Term Incentive Plan and Chief Executive Officer Option Incentive Plan to provide that instead of purchasing / issuing a share for each option exercised, Air New Zealand would only purchase / issue a number of shares with a value (based on current market prices) equal to the delta between the aggregate of the market share price and the exercise price of the options exercised.

   The decision by NZXMS of 31 August 2012 noted that the amendment will not affect the economic position of either the participant or Air New Zealand and will reduce the dilutionary effect on shareholders of the exercise of options.

3. A waiver from NZSX Listing Rule 8.1.3 to allow Air New Zealand to issue options under the Executive Officer Option Incentive Plan to the Chief Executive Officer of Air New Zealand with an exercise price which may be less than 90% of the Average Market Price of Air New Zealand's ordinary shares at the date of issue of the shares.

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

AUSTRALIAN STOCK EXCHANGE

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

Limitations on the Acquisition of Securities

Constitution

The limitations on the acquisition of securities imposed by the Company's Constitution are summarised below (capitalised terms are defined either in the Constitution or the Takeovers Code[2]):

1. Under clause 3.3 of the Constitution any person that owns or operates an airline business and any of its Associated Persons may not hold or have an Interest in any Equity Security unless the prior written consent of the Kiwi Shareholder has been obtained.
2. Under clause 3.4 of the Constitution any non-New Zealand National must obtain the prior written consent of the Kiwi Shareholder to hold or have an interest in 10 percent or more of the total Voting Rights in the Company.
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.

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

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

General Information (Continued)

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).

Shareholder Directory

Share Registrar

New Zealand

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

Annual Meeting

Date: 27 September 2013
Time: 2.00 pm
Venue: Aviation Display Hall, Museum of Transport and Technology (MOTAT), 190 - 200 Meola Road, Western Springs, Auckland.

Current Credit Rating

Moody's rate Air New Zealand Baa3

Auditor

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Board of Directors

John Palmer, Chairman
Tony Carter, Deputy Chairman
Paul Bingham
Jan Dawson
Jim Fox
Roger France
Rob Jager

Chief Executive Officer

Christopher Luxon

Chief Financial Officer

Rob McDonald

General Counsel and Company Secretary

John Blair

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