

2010 ANNUAL FINANCIAL RESULTS



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 Limited and its subsidiaries and associates (together the "Group") for the year to 30 June 2010.

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 2010 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

26 August 2010



Roger France
DIRECTOR

FINANCIAL STATEMENTS

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* This document, in conjunction with the Air New Zealand Annual Shareholder Review 2010, constitutes the 2010 Annual Report to shareholders of Air New Zealand Limited.

AIR NEW ZEALAND

STATEMENT OF FINANCIAL PERFORMANCE

FOR THE YEAR TO 30 JUNE 2010

	NOTES	GROUP 2010 \$M	GROUP 2009 \$M	COMPANY 2010 \$M	COMPANY 2009 \$M
Operating Revenue					
Passenger revenue		3,305	3,734	2,776	3,191
Cargo		255	374	250	370
Contract services		322	331	241	256
Other revenue		164	170	172	182
	1 & 2	4,046	4,609	3,439	3,999
Operating Expenditure					
Labour		(976)	(1,019)	(822)	(878)
Fuel	3	(939)	(1,687)	(864)	(1,593)
Maintenance		(326)	(327)	(271)	(276)
Aircraft operations		(369)	(423)	(297)	(343)
Passenger services		(240)	(275)	(231)	(268)
Sales and marketing		(261)	(295)	(243)	(277)
Foreign exchange gains	3	6	366	4	358
Other expenses	2	(233)	(261)	(210)	(253)
	2	(3,338)	(3,921)	(2,934)	(3,530)
Earnings Before Finance Costs, Depreciation, Amortisation, Rental Expenses and Taxation					
		708	688	505	469
Depreciation and amortisation		(294)	(276)	(180)	(175)
Rental and lease expenses	2	(263)	(334)	(345)	(459)
Earnings Before Finance Costs and Taxation					
		151	78	(20)	(165)
Finance income	3	43	98	48	102
Finance costs	3	(71)	(169)	(58)	(142)
Profit Before Taxation					
		123	7	(30)	(205)
Taxation (expense)/credit	4	(41)	14	(15)	87
Net Profit Attributable to Shareholders of Parent Company					
		82	21	(45)	(118)
Per Share Information:					
Basic and diluted earnings per share (cents)	5	7.6	2.0		
Interim and final dividend declared per share (cents)	19	7.0	6.5		
Net tangible assets per share (cents)		141	147		

		GROUP 2010 \$M	GROUP 2009 \$M
Supplementary Information			
Earnings before Taxation (per NZ IFRS above)		123	7
Reverse net (gains)/losses on derivatives that hedge exposures in other financial periods:			
Fuel derivatives		8	130
Foreign exchange derivatives		6	9
Interest rate derivatives		-	(1)
Normalised Earnings before Taxation			
		137	145
Normalised Earnings after Taxation			
		92	118
Per Share Information:			
Basic normalised earnings per share (cents)		8.6	11.1

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.

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

AIR NEW ZEALAND

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR TO 30 JUNE 2010

	GROUP 2010 \$M	GROUP 2009 \$M	COMPANY 2010 \$M	COMPANY 2009 \$M
Net Profit for the Year	82	21	(45)	(118)
Other Comprehensive Income:				
Changes in fair value of cash flow hedges	(59)	117	(56)	117
Transfers to net profit from cash flow hedge reserve	(33)	(10)	(33)	(10)
Transfers to asset carrying value from cash flow hedge reserve	(1)	(17)	(1)	(17)
Net translation (loss)/gain on investment in foreign operation	(1)	1	-	-
Taxation on above reserve movements	28	(25)	27	(27)
Other Comprehensive Income for the Year, Net of Tax	(66)	66	(63)	63
Total Comprehensive Income for the Year Attributable to Shareholders of the Parent Company	16	87	(108)	(55)

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

AIR NEW ZEALAND

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR TO 30 JUNE 2010

	NOTES	GROUP 2010 \$M	GROUP 2009 \$M	COMPANY 2010 \$M	COMPANY 2009 \$M
Issued Capital					
Balance at the beginning of the year		2,237	2,227	2,245	2,235
Shares issued	21	12	7	12	7
Equity settled share-based payments	21	3	3	3	3
Balance at the end of the year		2,252	2,237	2,260	2,245
Cash Flow Hedge Reserve					
Balance at the beginning of the year		47	(16)	47	(16)
Changes in fair value of cash flow hedges		(59)	117	(56)	117
Transfers to net profit ("Fuel")		(34)	374	(34)	374
Transfers to net profit ("Foreign exchange gains")		1	(384)	1	(384)
Transfers to asset carrying value		(1)	(17)	(1)	(17)
Taxation on above reserve movements		28	(27)	27	(27)
Balance at the end of the year		(18)	47	(16)	47
Foreign Currency Translation Reserve					
Balance at the beginning of the year		(7)	(10)	-	-
Net translation (loss)/gain on investment in foreign operation		(1)	1	-	-
Taxation on above reserve movements		-	2	-	-
Balance at the end of the year		(8)	(7)	-	-
Retained Deficit					
Balance at the beginning of the year		(672)	(624)	(1,734)	(1,547)
Net profit/(loss) for the year		82	21	(45)	(118)
Dividends on Ordinary Shares	19	(70)	(69)	(70)	(69)
Balance at the end of the year		(660)	(672)	(1,849)	(1,734)
Total Equity at the End of the Year		1,566	1,605	395	558
Total Equity					
Balance at the beginning of the year		1,605	1,577	558	672
Shares issued	21	12	7	12	7
Equity settled share-based payments	21	3	3	3	3
Dividends on Ordinary Shares	19	(70)	(69)	(70)	(69)
Total comprehensive income for the year, net of tax		16	87	(108)	(55)
Balance at the End of the Year		1,566	1,605	395	558

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

AIR NEW ZEALAND

STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2010

	NOTES	GROUP 2010 \$M	GROUP 2009 \$M	COMPANY 2010 \$M	COMPANY 2009 \$M
Current Assets					
Bank and short term deposits	6	1,067	1,573	1,061	1,566
Trade and other receivables	7	322	362	274	311
Inventories	8	162	143	132	110
Derivative financial assets	17	62	143	63	143
Income taxation		16	7	70	60
Assets held for resale	9	8	3	2	-
Other assets	10	51	44	203	175
Total Current Assets		1,688	2,275	1,805	2,365
Non-Current Assets					
Trade and other receivables	7	38	34	28	23
Property, plant and equipment	11	2,230	2,337	975	1,054
Intangible assets	12	43	39	38	34
Investments	13	61	62	286	284
Derivative financial assets	17	10	-	11	-
Assets held for resale	9	4	7	-	-
Other assets	10	523	291	505	278
Total Non-Current Assets		2,909	2,770	1,843	1,673
Total Assets		4,597	5,045	3,648	4,038
Current Liabilities					
Trade and other payables		348	374	310	332
Revenue in advance	14	788	721	771	712
Interest-bearing liabilities	15	175	172	24	22
Derivative financial liabilities	17	62	282	62	282
Provisions	16	65	34	65	34
Other liabilities	18	169	176	1,315	1,329
Total Current Liabilities		1,607	1,759	2,547	2,711
Non-Current Liabilities					
Trade and other payables		4	-	4	-
Revenue in advance	14	114	114	114	114
Interest-bearing liabilities	15	900	1,107	206	230
Derivative financial liabilities	17	1	25	1	25
Provisions	16	137	164	137	162
Other liabilities	18	33	38	107	124
Deferred taxation	20	235	233	137	114
Total Non-Current Liabilities		1,424	1,681	706	769
Total Liabilities		3,031	3,440	3,253	3,480
Net Assets		1,566	1,605	395	558
Equity					
Issued capital	21	2,252	2,237	2,260	2,245
Reserves		(686)	(632)	(1,865)	(1,687)
Total Equity		1,566	1,605	395	558


John Palmer
CHAIRMAN

For and on behalf of the Board, 26 August 2010


Roger France
DIRECTOR

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

AIR NEW ZEALAND

STATEMENT OF CASH FLOWS

FOR THE YEAR TO 30 JUNE 2010

	NOTES	GROUP 2010 \$M	GROUP 2009 \$M	COMPANY 2010 \$M	COMPANY 2009 \$M
Cash Flows from Operating Activities					
Receipts from customers		4,135	4,595	3,501	3,985
Dividends received from subsidiaries		-	-	16	-
Payments to suppliers and employees		(3,627)	(4,122)	(3,275)	(3,800)
Income tax paid		(20)	(79)	(18)	(74)
Interest paid		(74)	(148)	(68)	(125)
Interest received		57	109	61	113
		471	355	217	99
Rollover of foreign exchange contracts*		(137)	131	(137)	131
Net Cash Flow from Operating Activities	6	334	486	80	230
Cash Flows from Investing Activities					
Disposal of property, plant and equipment and intangibles		15	104	12	39
Acquisition of property, plant and equipment and intangibles		(433)	(318)	(338)	(252)
Capital repayment and dividends received from associates	13	2	4	-	-
Rollover of foreign exchange contracts*		(27)	19	(27)	19
Other interest-bearing assets		(7)	-	(7)	-
Loans provided to associates	13	-	(4)	-	-
Acquisition of subsidiaries and associates		-	(21)	-	-
Net Cash Flow from Investing Activities		(450)	(216)	(360)	(194)
Cash Flows from Financing Activities					
Shares issued		5	-	5	-
Interest-bearing liabilities drawdowns		-	33	-	-
Net increase in related party funding		-	-	27	55
Interest-bearing liabilities payments		(160)	(237)	(22)	(21)
Rollover of foreign exchange contracts*		(170)	281	(170)	281
Dividend on Ordinary Shares	19	(65)	(63)	(65)	(63)
Net Cash Flow from Financing Activities		(390)	14	(225)	252
(Decrease)/Increase in Cash and Cash Equivalents		(506)	284	(505)	288
Cash and cash equivalents at the beginning of the year		1,573	1,289	1,566	1,278
Cash and Cash Equivalents at End of the Year	6	1,067	1,573	1,061	1,566

* 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.

AIR NEW ZEALAND

STATEMENT OF ACCOUNTING POLICIES

FOR THE YEAR TO 30 JUNE 2010

ENTITIES REPORTING

The financial statements presented are those of Air New Zealand Limited (the Company) and its subsidiaries 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 26 August 2010.

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 of maintenance. Further information is disclosed in the accounting policies under "Maintenance costs" and within Note 16 Provisions.
- (c) Estimated impairment of non-financial assets
Non-financial assets (including property, plant and equipment, intangible assets, amounts owing from related parties and investments) 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", Note 11 Property, Plant and Equipment, Note 12 Intangible Assets, Note 13 Investments and Note 26 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) Financial instruments
The Group uses financial instruments to manage its exposure to foreign exchange, fuel price and interest rate risks. The fair value of these instruments is estimated for recognition and disclosure purposes. The fair value of derivative financial instruments is estimated based on published market prices for similar assets or liabilities at balance date. 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. Further information is disclosed in the accounting policies under "Financial instruments" and within Note 17 Financial Instruments.

AIR NEW ZEALAND

STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

FOR THE YEAR TO 30 JUNE 2010

- (f) Recovery of deferred tax assets
Deferred tax assets are recognised for deductible temporary differences as management considers that it is probable that future taxable profits will be available to utilise those temporary differences. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits. Further information is provided in the accounting policies under "Taxation" and Note 20 Deferred Taxation.
- (g) 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 20 Deferred Taxation.
- (h) 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 24 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.

Air New Zealand has elected to early adopt all NZ IFRSs and Interpretations that had been issued by the New Zealand Financial Reporting Standards Board as at 30 June 2010, except as noted below. The early adoption did not have a material impact on the financial statements.

NZ IFRS 9: Financial Instruments has not been adopted early. This Standard is applicable for periods commencing on or after 1 January 2013. The adoption of NZ IFRS 9 as it currently stands is not expected to affect the recognition and measurement, and classification of amounts recognised in the Group's financial statements.

On 1 July 2009 the Group adopted the Amendments to NZ IAS 1: Presentation of Financial Statements (revised 2007). The amendments required terminology changes and changes in the format of the financial statements, including insertion of a Statement of Comprehensive Income.

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, accounted for using the equity method.

Subsidiaries are entities that are controlled either directly or indirectly, by the Company. Associates are those entities in which the Group, either directly or indirectly, holds a significant but not a controlling interest.

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 and its associates are eliminated to the extent of the Group's interest in the 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 income statement, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

AIR NEW ZEALAND

STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

FOR THE YEAR TO 30 JUNE 2010

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:

- (i) 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;
- (ii) income and expenses for each Statement of Financial Performance are translated at exchange rates approximating those ruling at transaction date; and
- (iii) all resulting exchange differences are recognised as a separate component of equity.

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 codeshare and alliance arrangements. Revenue under these arrangements is recognised when 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.

AIR NEW ZEALAND

STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

FOR THE YEAR TO 30 JUNE 2010

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, other interest-bearing assets, trade and other receivables (excluding prepayments), interest-bearing liabilities and trade and other payables. These are recognised initially at fair value plus any attributable transaction costs. Subsequent to initial recognition, non-derivative financial instruments are recognised as described below.

Loans and receivables:

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.

Financial liabilities at amortised cost:

Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost using the effective interest rate method, where appropriate. Borrowings 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.

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. Derivative financial instruments are recognised initially at fair value and transaction costs are expensed immediately. Subsequent to initial recognition, derivative financial instruments are recognised as described below:

Derivative financial instruments at fair value through profit or loss

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

AIR NEW ZEALAND

STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

FOR THE YEAR TO 30 JUNE 2010

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 directly in the cash flow hedge reserve 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 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 derivative financial instruments is based on published market prices for similar assets or liabilities at balance date. This equates to "Level 2" of the fair value hierarchy defined within "Amendments to NZ IFRS 7: Financial Instruments: Disclosures". 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 from manufacturers in connection with the acquisition of certain aircraft and engines. These credits are recorded as a reduction to the cost of the related aircraft and engines. When the aircraft are held under operating leases, the credits are deferred and deducted from the operating lease rentals on a straight-line basis over the period of the related lease as deferred credits.

AIR NEW ZEALAND

STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

FOR THE YEAR TO 30 JUNE 2010

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 - 22 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	3 - 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 is included in the carrying value of the investment in that associate. 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 five years.

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

IMPAIRMENT

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

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 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 sale 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 sale are measured at the lower of the asset's previous carrying amount and its fair value less costs to sell.

AIR NEW ZEALAND

STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

FOR THE YEAR TO 30 JUNE 2010

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.

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.

AIR NEW ZEALAND

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR TO 30 JUNE 2010

1. SEGMENTAL INFORMATION

Air New Zealand operates predominantly in one segment, its primary business being the transportation of passengers and cargo on 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 2010 \$M	GROUP 2009 \$M
Analysis of revenue by geographical region of original sale		
New Zealand	2,245	2,373
Australia and Pacific Islands	568	647
United Kingdom and Europe	389	533
Asia	393	498
North America	451	558
Total operating revenue	4,046	4,609

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

2. PROFIT BEFORE TAXATION

	GROUP 2010 \$M	GROUP 2009 \$M	COMPANY 2010 \$M	COMPANY 2009 \$M
Profit before taxation has been determined by (debiting)/crediting the following:				
Total operating revenue, including finance income	4,089	4,707	3,487	4,101
Share of the profit of associates	6	3	-	-
Audit of financial statements*	(1)	(1)	(1)	(1)
Termination costs	(5)	(6)	(2)	(6)
Net foreign exchange gain on working capital balances	3	27	4	18
Gain/(loss) on disposal of property, plant and equipment	1	(11)	1	(8)
Impairment losses on property, plant and equipment and intangible assets**	(3)	(81)	(1)	(14)
Discount on acquisition of subsidiaries	-	10	-	-
Dividend income from related parties	-	-	16	-
Donations***	(1)	(1)	(1)	(1)
Rental and lease expenses				
Aircraft	(216)	(286)	(304)	(417)
Buildings	(47)	(48)	(41)	(42)
Total rental and lease expenses	(263)	(334)	(345)	(459)

* Excluded from the fees above are fees for other audit related services of \$196k for the year ended 30 June 2010 (30 June 2009: \$196k) paid in respect of the half-year review. Other fees of \$39k (30 June 2009: \$45k) were paid for tax compliance work and other assurance services.

** Impairment losses in the year ended 30 June 2010 relate to the transfer of a Boeing 747-400 spare engine to Assets held for resale (\$1 million) and a software licence (\$2 million). Impairment losses on property, plant and equipment (recognised within "Other expenses") in the year ended 30 June 2009 relate to an Airbus A320 (\$45 million) which was lost in the Mediterranean sea, and one Boeing 747-400 aircraft (\$36 million). The Airbus A320 aircraft was being leased to and operated by XL Airways Germany GmbH and was insured by the lessee. Impairment of the Group's last remaining owned Boeing 747-400 Rolls Royce powered aircraft arose upon transfer of the airframe and two engines to an Assets held for resale category.

*** Donations include payments to the Air New Zealand Environmental Charitable Trust, Kids Restore New Zealand and Make-A-Wish Foundation.

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

AIR NEW ZEALAND

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR TO 30 JUNE 2010

3. DERIVATIVE FINANCIAL INSTRUMENTS

Air New Zealand is subject to credit, foreign currency, interest rate, and fuel price risks. These risks are managed using various financial instruments, based on policies approved regularly by the Board of Directors. Air New Zealand's objectives, policies and processes for managing these risks are described more fully in Note 17.

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 within equity, to the extent that they are effective. Any accounting ineffectiveness is recognised through earnings.

NZ IAS 39: Financial Instruments: Recognition and Measurement 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 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. 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. Such movements include amounts required to be recognised as ineffective for accounting purposes.

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. Furthermore, 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 earnings. 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 earnings.

FOREIGN CURRENCY DERIVATIVES

Non-hedge accounted derivatives

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

During the year to 30 June 2010, a loss of \$56 million was recognised in respect of the above non-hedge accounted foreign currency derivatives (30 June 2009: \$113 million gain), which was offset by exchange movements on the underlying exposures. Forward point costs of \$19 million in respect of these derivatives were marked to market through "Finance costs" in the year to 30 June 2010 (30 June 2009: \$39 million of costs).

Hedge accounted derivatives

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

Forward points are excluded from the hedge designation in respect of operating revenue and expenditure transactions and are marked to market through earnings. Forward point costs of \$21 million in respect of these derivatives were marked to market through "Finance costs" in the year to 30 June 2010 (30 June 2009: \$59 million of costs).

Accounting ineffectiveness arising in the year to 30 June 2010 on these cash flow hedges was nil on operating transactions and a gain of \$1 million on capital transactions (30 June 2009: \$1 million loss on operating transactions; \$19 million loss on capital transactions).

The significant decrease in fuel prices in the prior year to 30 June 2009 led to a revision of forecast fuel costs. This, together with a shift in forecast foreign currency revenues, required the de-designation of certain hedge relationships where the forecast transaction was no longer expected to occur. This included items which whilst no longer meeting the hedge accounting requirements of NZ IFRS continued to provide economic hedge relationships (and were therefore excluded from Normalised Earnings). NZ IFRS requires that the cumulative gains or losses on these hedging instruments that have been recognised in the cash flow hedge reserve over the period in which the hedges were effective, be transferred to earnings. This had no impact in the year to 30 June 2010. In the prior year to 30 June 2009, gains of \$163 million were transferred from the cash flow hedge reserve to "Foreign exchange gains" within the Statement of Financial Performance.

FUEL DERIVATIVES

Where the Group uses crude oil 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 are marked to market through earnings, as are any short-dated outright derivatives. In the year to 30 June 2010, losses of \$4 million relating to non-hedge accounted derivatives were recognised within "Fuel" (30 June 2009: \$76 million gain).

Accounting ineffectiveness arising in the year to 30 June 2010 of \$7 million (gain) was recognised within "Fuel" (30 June 2009: \$9 million loss).

INTEREST RATE DERIVATIVES

Interest rate derivatives are not hedge accounted. Changes in the fair value of these derivatives are recognised each period within "Finance costs". In the year to 30 June 2010, there were no interest rate derivatives outstanding nor any impact on earnings (30 June 2009: \$1 million gain).

AIR NEW ZEALAND
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
 FOR THE YEAR TO 30 JUNE 2010

4. TAXATION EXPENSE

	GROUP 2010 \$M	GROUP 2009 \$M	COMPANY 2010 \$M	COMPANY 2009 \$M
Current taxation expense				
Current year	(46)	(45)	2	70
Adjustment for prior periods	(6)	4	(8)	10
	(52)	(41)	(6)	80
Deferred taxation expense				
Origination and reversal of temporary differences	16	55	2	7
Impact of changes in depreciation on building assets **	(20)	-	(19)	-
Reduction in tax rate *	15	-	8	-
	11	55	(9)	7
Total taxation (expense)/credit recognised in earnings	(41)	14	(15)	87
Reconciliation of effective tax rate				
Profit before taxation	123	7	(30)	(205)
Taxation at income tax rate	(37)	(2)	9	62
Adjustments				
Non-deductible expenses	(1)	(1)	(1)	(1)
Non-taxable income	3	13	8	13
Impact of corporate tax rate change*	15	-	8	-
(Under)/over provided in prior periods	(2)	4	(18)	10
Changes in depreciation on building assets **	(20)	-	(19)	-
Other	1	-	(2)	3
Taxation (expense)/credit	(41)	14	(15)	87

* The New Zealand corporate income tax rate will reduce to 28% from the commencement of the 2012 income year. The impact of the tax rate change included in the 2010 financial statements has been calculated based on the forecast deferred tax liability for Air New Zealand at 30 June 2011 (which will be subject to a number of variables including foreign exchange movements).

** Tax deductions for depreciation on certain buildings with an estimated life of 50 years or more are not available from the start of the 2012 income year. This adjustment reflects expected future depreciation deductions that can no longer be claimed.

IMPUTATION CREDITS

	GROUP 2010 \$M	GROUP 2009 \$M	COMPANY 2010 \$M	COMPANY 2009 \$M
Balance at the beginning of the year	47	13	39	-
Taxation payments	16	74	16	74
Credits attached to distributions received	-	-	8	-
Credits attached to distributions paid	(30)	(32)	(30)	(32)
Other	-	(8)	-	(3)
Balance at the end of the year	33	47	33	39

AIR NEW ZEALAND
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
 FOR THE YEAR TO 30 JUNE 2010

5. EARNINGS PER SHARE

	GROUP 2010	GROUP 2009
Earnings per share attributable to equity holders of the Company		
Basic and diluted earnings per share (cents)	7.6	2.0
	\$M	\$M
Earnings attributable to equity holders of the Company		
Earnings for the purpose of basic and diluted earnings per share	82	21
Weighted average number of shares (in millions of shares)		
Weighted average number of ordinary shares for basic earnings per share	1,073	1,061
Effect of dilutive ordinary shares:		
- Share options	3	-
Weighted average number of ordinary shares for diluted earnings per share	1,076	1,061

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 2010 \$M	GROUP 2009 \$M	COMPANY 2010 \$M	COMPANY 2009 \$M
Cash balances	35	26	29	19
Other short term deposits and short term bills	1,032	1,547	1,032	1,547
Total cash and cash equivalents (comprising "Bank and short term deposits")	1,067	1,573	1,061	1,566

Receipts and payments in respect of funding to/from related parties have been combined to present a net cash flow in the Company. Given the large amounts involved and the short maturities of the deals, it is considered more appropriate to present these flows as net.

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

Net profit attributable to shareholders	82	21	(45)	(118)
Plus/(less) non-cash items:				
Depreciation and amortisation	294	276	180	175
(Gain)/loss on disposal of property, plant and equipment and intangibles	(1)	11	(1)	8
Impairment of property, plant and equipment and intangible assets	3	81	1	14
Share of surplus of associates	(6)	(3)	-	-
Unrealised losses on fuel derivatives	8	130	8	130
Foreign exchange (gain)/losses	(6)	36	(6)	34
Discount on acquisition of subsidiaries	-	(10)	-	-
Other non-cash items	11	8	1	6
	385	550	138	249
Net working capital movements:				
Assets	5	83	(19)	157
Revenue in advance	67	(96)	59	(98)
Deferred foreign exchange (gains)/losses	(137)	131	(137)	131
Liabilities	14	(182)	39	(209)
	(51)	(64)	(58)	(19)
Net cash flow from operating activities	334	486	80	230

AIR NEW ZEALAND

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

AS AT 30 JUNE 2010

7. TRADE AND OTHER RECEIVABLES

	GROUP 2010 \$M	GROUP 2009 \$M	COMPANY 2010 \$M	COMPANY 2009 \$M
Current				
Trade receivables	272	286	244	260
Other receivables	3	12	3	12
Less: allowance for doubtful debts	(3)	(3)	(2)	(2)
	272	295	245	270
Prepayments	50	67	29	41
	322	362	274	311
Non-current				
Prepayments	38	34	28	23
	38	34	28	23
Trade and other receivables is represented by:				
Current	250	265	229	246
Past due 1- 90 days	22	30	16	24
Past due greater than 90 days	3	3	2	2
Allowance for doubtful debts	(3)	(3)	(2)	(2)
	272	295	245	270
The Group does not typically re-negotiate the terms of trade receivables. If a renegotiation does take place, the outstanding balance is included in the above analysis based on original payment terms.				
Movement in the allowance for doubtful debts				
Balance at the beginning of the year	(3)	(3)	(2)	(3)
Increase in doubtful debts	(1)	(2)	(1)	(1)
Amounts utilised	1	2	1	2
Balance at the end of the year	(3)	(3)	(2)	(2)

AIR NEW ZEALAND
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
AS AT 30 JUNE 2010

8. INVENTORIES

	GROUP 2010 \$M	GROUP 2009 \$M	COMPANY 2010 \$M	COMPANY 2009 \$M
Engineering expendables	145	122	115	89
Consumable stores	17	21	17	21
	162	143	132	110
Held at cost	144	119	114	88
Held at fair value less costs to sell	18	24	18	22
	162	143	132	110
Movement in the provision for inventory obsolescence				
Balance at the beginning of the year	(24)	(20)	(22)	(17)
Increase in provision	(4)	(7)	(3)	(7)
Decrease in provision	4	1	4	-
Amounts utilised	1	2	1	2
Balance at the end of the year	(23)	(24)	(20)	(22)

9. ASSETS HELD FOR RESALE

	GROUP 2010 \$M	GROUP 2009 \$M	COMPANY 2010 \$M	COMPANY 2009 \$M
Current				
Property, plant and equipment	8	3	2	-
	8	3	2	-
Non-current				
Property, plant and equipment	4	7	-	-
	4	7	-	-

In anticipation of the exit of the Boeing 747-400 fleet, two engines and spares are being marketed for sale. During the 2009 financial year, the Group reduced capacity on certain long haul routes, resulting in one Boeing 747-400 aircraft being componentised which is being disposed as parts. It is expected that proceeds for parts will be received over a two year period. The carrying value of the assets as at 30 June 2010 reflects the lower of their previous carrying value at the date of transfer or external market assessments of the fair value, less costs to sell.

10. OTHER ASSETS

	GROUP 2010 \$M	GROUP 2009 \$M	COMPANY 2010 \$M	COMPANY 2009 \$M
Current				
Contract work in progress	45	40	28	22
Amounts owing from subsidiaries	-	-	169	149
Amounts owing from associates	3	1	3	1
Other assets (including defined benefit assets)	3	3	3	3
	51	44	203	175
Non-current				
Capital work in progress	64	39	52	37
Progress payments on aircraft, engines and simulators	308	110	308	104
Other interest-bearing assets	137	130	137	130
Other assets	14	12	8	7
	523	291	505	278

Other non-current interest-bearing assets include registered transferable certificates of deposit (RTDs) that provide security over credit card obligations accepted on behalf of Air New Zealand. The RTD's bear floating rate interest, and mature after seven years.

AIR NEW ZEALAND

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

AS AT 30 JUNE 2010

11. PROPERTY, PLANT AND EQUIPMENT

	GROUP 2010 \$M	GROUP 2009 \$M	COMPANY 2010 \$M	COMPANY 2009 \$M
Property, plant and equipment comprises:				
Aircraft, spare engines and simulators	1,759	1,828	555	600
Spares	133	149	109	123
Plant and equipment	111	124	94	105
Land and buildings	227	236	217	226
	2,230	2,337	975	1,054
AIRCRAFT, SPARE ENGINES AND SIMULATORS				
Cost	2,631	2,735	1,023	1,012
Accumulated depreciation	(803)	(699)	(423)	(382)
Carrying value at the beginning of the year	1,828	2,036	600	630
Additions	161	182	78	129
Addition from business acquisition	-	3	-	-
Disposals	(6)	(102)	(6)	(39)
Depreciation	(220)	(198)	(116)	(106)
Impairment losses recognised during the year*	(1)	(81)	(1)	(14)
Transfer to assets held for resale	(3)	(12)	-	-
Carrying value at end of the year	1,759	1,828	555	600
Represented by:				
Cost	2,740	2,631	1,053	1,023
Accumulated depreciation	(981)	(803)	(498)	(423)
Carrying value at end of the year	1,759	1,828	555	600
Aircraft, spare engines and simulators comprise:				
Finance leased aircraft	774	835	256	276
Owned aircraft, spare engines and simulators	985	993	299	324
	1,759	1,828	555	600
SPARES				
Cost	260	261	219	217
Accumulated depreciation	(111)	(103)	(96)	(84)
Carrying value at the beginning of the year	149	158	123	133
Additions	8	18	7	12
Disposals	(5)	(9)	(5)	(8)
Depreciation	(18)	(18)	(15)	(14)
Transfer to assets held for resale	(1)	-	(1)	-
Carrying value at end of the year	133	149	109	123
Represented by:				
Cost	256	260	215	219
Accumulated depreciation	(123)	(111)	(106)	(96)
Carrying value at end of the year	133	149	109	123

* On 28 November 2008 an Airbus A320, on lease to XL Airways Germany GmbH, was lost in the Mediterranean sea. The aircraft was insured by the lessee. Insurance proceeds of US\$43 million (representing the replacement cost of the Airbus A320 aircraft) were received by the Group and were recognised as a credit within "Other expenses" during the year ended 30 June 2009.

AIR NEW ZEALAND
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
AS AT 30 JUNE 2010

11. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	GROUP 2010 \$M	GROUP 2009 \$M	COMPANY 2010 \$M	COMPANY 2009 \$M
PLANT AND EQUIPMENT				
Cost	411	379	379	360
Accumulated depreciation	(287)	(273)	(274)	(261)
Carrying value at the beginning of the year	124	106	105	99
Additions	13	38	11	30
Addition from business acquisition	-	8	-	-
Disposals	(1)	(1)	(1)	-
Depreciation	(25)	(27)	(21)	(24)
Carrying value at end of the year	111	124	94	105
Represented by:				
Cost	378	411	346	379
Accumulated depreciation	(267)	(287)	(252)	(274)
Carrying value at end of the year	111	124	94	105
LAND AND BUILDINGS				
Cost	312	301	295	287
Accumulated depreciation	(76)	(67)	(69)	(61)
Carrying value at the beginning of the year	236	234	226	226
Additions	6	14	5	13
Addition from business acquisition	-	3	-	-
Depreciation	(15)	(15)	(14)	(13)
Carrying value at end of the year	227	236	217	226
Represented by:				
Cost	315	312	298	295
Accumulated depreciation	(88)	(76)	(81)	(69)
Carrying value at end of the year	227	236	217	226
Land and buildings comprise:				
Leasehold properties	212	220	203	211
Freehold properties	15	16	14	15
	227	236	217	226

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 2009 the useful lives and residual values of the Boeing 767-300 fleet were reassessed and depreciation expense was increased by \$7 million.

Aircraft and aircraft related assets of \$1,161 million as at 30 June 2010 (30 June 2009: \$1,413 million) are pledged as security over borrowings and finance lease obligations.

AIR NEW ZEALAND

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

AS AT 30 JUNE 2010

11. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

AIRCRAFT MARKET VALUES

The market values of aircraft tend to fluctuate from year to year. The directors have obtained independent valuations as at 30 June 2010 from The Aircraft Value Analysis Company and Ascend Worldwide Limited to ascertain indicative market values of each aircraft on a stand alone basis. The valuations assume that the aircraft are in the equivalent of half life condition with respect to the airframe and engines. For aircraft which have been recently purchased the maintenance status is assumed to be better than half life. The valuations are determined by reference to relevant market conditions, the specification of each aircraft and the issues affecting specific aircraft types. The average of the valuations obtained is shown below:

	INDICATIVE VALUATION USD \$M	INDICATIVE VALUATION NZD \$M	BOOK VALUE* NZD \$M	DIFFERENCE NZD \$M
As at 30 June 2010	1,023	@ 0.6915 1,479	1,534	(55)
As at 30 June 2009	1,066	@ 0.6500 1,641	1,548	93

* Book Value excludes simulators, spare engines and operating leased aircraft improvements.

Where the market value is lower than book value, 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. As at 30 June 2010 the indicative market valuations 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 as at 30 June 2010 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. The cash flow projections are discounted using rates of 8.0 and 10.0 percent. The valuation confirmed that there was no impairment to the aircraft assets required for the year ended 30 June 2010.

AIR NEW ZEALAND
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
AS AT 30 JUNE 2010

12. INTANGIBLE ASSETS

	GROUP 2010 \$M	GROUP 2009 \$M	COMPANY 2010 \$M	COMPANY 2009 \$M
Intangible assets comprise:				
Internally developed software	30	22	27	20
Externally purchased software	12	16	11	14
Goodwill	1	1	-	-
	43	39	38	34
INTERNALLY DEVELOPED SOFTWARE				
Cost	117	110	113	107
Accumulated amortisation	(95)	(88)	(93)	(87)
Carrying value at the beginning of the year	22	22	20	20
Additions	17	10	15	10
Amortisation	(9)	(10)	(8)	(10)
Carrying value at end of the year	30	22	27	20
Represented by:				
Cost	125	117	120	113
Accumulated amortisation	(95)	(95)	(93)	(93)
Carrying value at end of the year	30	22	27	20
EXTERNALLY PURCHASED SOFTWARE				
Cost	194	191	189	187
Accumulated amortisation	(178)	(174)	(175)	(172)
Carrying value at the beginning of the year	16	17	14	15
Additions	5	7	3	7
Amortisation	(7)	(8)	(6)	(8)
Impairment losses recognised during the year	(2)	-	-	-
Carrying value at end of the year	12	16	11	14
Represented by:				
Cost	186	194	180	189
Accumulated amortisation	(172)	(178)	(169)	(175)
Provision for impairment	(2)	-	-	-
Carrying value at end of the year	12	16	11	14

Goodwill was assessed for impairment as at 30 June 2010 using a value in use model. No impairment provision is considered to be required. The discount rate applied in the value in use model as at 30 June 2010 was 10.0% (30 June 2009: 10.0%).

AIR NEW ZEALAND
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
AS AT 30 JUNE 2010

13. INVESTMENTS

	GROUP 2010 \$M	GROUP 2009 \$M	COMPANY 2010 \$M	COMPANY 2009 \$M
Investments in subsidiaries	-	-	286	284
Investments in associates	61	62	-	-
	61	62	286	284
Investments in associates				
Carrying value at the beginning of the year (including goodwill of Nil (30 June 2009: Nil))	62	49	-	-
Capital repayment	(2)	-	-	-
Contributions made during the year	-	4	-	-
Loans provided during the year	-	4	-	-
Share of surplus	6	3	-	-
Foreign currency translation (loss)/gain	(3)	6	-	-
Impairment (recognised within "Other expenses")	(2)	-	-	-
Distributions received	-	(4)	-	-
Carrying value at the end of the year (including goodwill of Nil)	61	62	-	-

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 Holidays Limited	Hotel reservations and events marketing	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
Zeal 320 Limited	Aviation	New Zealand

On 22 June 2010 Tasman Aviation Enterprises (Richmond) Pty Limited was deregistered.

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

AIR NEW ZEALAND

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

AS AT 30 JUNE 2010

13. INVESTMENTS (CONTINUED)

ASSOCIATES

Significant associates comprise:

NAME	% OWNED	PRINCIPAL ACTIVITY	COUNTRY OF INCORPORATION
Christchurch Engine Centre (CEC)	49	Engineering services	New Zealand
VCubed Pty Limited	26	Online booking exchange	Australia

VCubed Pty Limited has a balance date of 30 June and CEC has a balance date of 31 December.

	GROUP 2010 \$M	GROUP 2009 \$M
Carrying amount		
Christchurch Engine Centre	57	53
Travel Software Solutions Pty Limited*	-	2
VCubed Pty Limited	4	7
	61	62

*The investment in Travel Software Solutions Pty Limited was sold on 30 June 2010.

	GROUP 2010 \$M	GROUP 2009 \$M
Summarised financial information of associates - 100%:		
Assets	180	198
Liabilities	70	69
Revenue	251	192
Profit after taxation	11	4
Results of associates		
Share of profit before taxation	6	3
Taxation expense	-	-
Share of profit after taxation of associates	6	3

AIR NEW ZEALAND

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

AS AT 30 JUNE 2010

14. REVENUE IN ADVANCE

	GROUP 2010 \$M	GROUP 2009 \$M	COMPANY 2010 \$M	COMPANY 2009 \$M
Current				
Transportation sales in advance	676	622	667	614
Loyalty programme	104	98	104	98
Other	8	1	-	-
	788	721	771	712
Non-current				
Loyalty programme	114	114	114	114
	114	114	114	114

15. INTEREST-BEARING LIABILITIES

	GROUP 2010 \$M	GROUP 2009 \$M	COMPANY 2010 \$M	COMPANY 2009 \$M
Current				
Secured borrowings	111	111	-	-
Finance lease liabilities	64	61	24	22
	175	172	24	22
Non-current				
Secured borrowings	152	280	-	-
Finance lease liabilities	748	827	206	230
	900	1,107	206	230
Interest rates:				
Fixed rate	216	223	-	-
Floating rate	859	1,056	230	252
	1,075	1,279	230	252

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 2.5 percent to 5.1 percent in 2010 (2009: 2.5 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.

	GROUP 2010 \$M	GROUP 2009 \$M	COMPANY 2010 \$M	COMPANY 2009 \$M
Finance lease liabilities				
Repayable as follows:				
Not later than 1 year	80	82	31	30
Later than 1 year and not later than 5 years	391	366	132	129
Later than 5 years	469	612	96	131
	940	1,060	259	290
Less future finance costs	(128)	(172)	(29)	(38)
Present value of future rentals	812	888	230	252
Repayable as follows:				
Not later than 1 year	64	61	24	22
Later than 1 year and not later than 5 years	340	301	114	107
Later than 5 years	408	526	92	123
	812	888	230	252

AIR NEW ZEALAND

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

AS AT 30 JUNE 2010

16. PROVISIONS

	GROUP 2010 \$M	GROUP 2009 \$M	COMPANY 2010 \$M	COMPANY 2009 \$M
Provisions				
Aircraft lease return costs	202	198	202	196
	202	198	202	196
Represented by:				
Current	65	34	65	34
Non-current	137	164	137	162
	202	198	202	196
Aircraft lease return costs				
Balance at the beginning of the year	198	143	196	142
Amount provided	64	60	63	59
Amount utilised	(47)	(31)	(45)	(31)
Foreign exchange differences	(13)	26	(12)	26
Balance at the end of the year	202	198	202	196

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.

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. Restructuring provisions include amounts related to business reorganisation. Provisions of \$4 million in the Group and \$2 million in the Company were provided and utilised during the year ended 30 June 2010 (30 June 2009: Group and Company of \$6 million).

17. FINANCIAL INSTRUMENTS

	GROUP 2010 \$M	GROUP 2009 \$M	COMPANY 2010 \$M	COMPANY 2009 \$M
Current derivative financial assets	62	143	63	143
Term derivative financial assets	10	-	11	-
	72	143	74	143
Current derivative financial liabilities	(62)	(282)	(62)	(282)
Term derivative financial liabilities	(1)	(25)	(1)	(25)
	(63)	(307)	(63)	(307)

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

CREDIT RISK

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

Air New Zealand places cash, short term deposits and derivative financial instruments with good credit quality counterparties, having a minimum Standard and Poors credit rating of A. 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.

AIR NEW ZEALAND

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

AS AT 30 JUNE 2010

17. FINANCIAL INSTRUMENTS (CONTINUED)

MARKET RISK

Foreign currency risk

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

Air New Zealand has exposure to foreign exchange risk as a result of transactions denominated in foreign currencies, arising from normal trading activities, foreign currency borrowings and foreign currency capital commitments 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 and asset values. 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, United Kingdom Pounds and United States Dollars. Foreign currency outflows are primarily denominated in United States Dollars. The Group's treasury risk management policy is to hedge between 75% and 95% of forecast net operating cash flows for the first 6 months, with progressive reductions in percentages hedged in subsequent months out to 2 years. 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 24 months. Where exposures are certain, such as foreign currency borrowings and capital commitments and sales, it is the Group's policy to elect to hedge these risks as they arise, within Board approved parameters. The hedge accounted capital transactions will affect earnings as the underlying hedged asset is depreciated over the useful economic life of that asset.

During the year, a proportion of United States Dollar denominated borrowings was 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 remained 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 changes reduced the level of derivative cover required to offset the foreign exchange exposure on the remaining unhedged United States borrowings and finance lease obligations.

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.

Air New Zealand's exposure to foreign exchange risk on financial instruments outstanding at reporting date is summarised as follows:

In NZ\$M	GROUP							TOTAL
	NZD	USD	AUD	EUR	JPY	GBP	OTHER	
Foreign currency risk								
Non-derivative financial instruments								
Cash and cash equivalents	1,009	6	38	1	3	3	7	1,067
Other interest-bearing assets	115	-	22	-	-	-	-	137
Trade and other receivables (excluding prepayments)	131	66	27	10	5	16	17	272
Amounts owing from associates	3	-	-	-	-	-	-	3
Trade and other payables	(144)	(108)	(55)	(4)	(6)	(21)	(14)	(352)
Interest-bearing liabilities	(453)	(622)	-	-	-	-	-	(1,075)
Amounts owing to associates	-	(13)	-	-	-	-	-	(13)
Net financial position exposure before hedging activities	661	(671)	32	7	2	(2)	10	39
Foreign currency derivatives								
Notional principal (NZ\$M)								
Cash flow hedges	(1,050)	1,932	(339)	(85)	(143)	(164)	(150)	1
Non-hedge accounted	(561)	621	(60)	(1)	-	2	-	1
Balance*	(950)	1,882	(367)	(79)	(141)	(164)	(140)	41
Cash flows in respect of foreign currency cash flow hedges are expected to occur as follows:								
Not later than 1 year	(759)	1,553	(296)	(82)	(138)	(154)	(132)	(8)
Later than 1 year and not later than 2 years	(291)	379	(43)	(3)	(5)	(10)	(18)	9
	(1,050)	1,932	(339)	(85)	(143)	(164)	(150)	1

* The balance represents hedges of highly probable forecast foreign currency operating and capital expenditure transactions.

AIR NEW ZEALAND
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
AS AT 30 JUNE 2010

17. FINANCIAL INSTRUMENTS (CONTINUED)

In NZ\$M	GROUP							TOTAL
	NZD	USD	AUD	EUR	JPY	GBP	OTHER	
	AS AT 30 JUNE 2009							
Foreign currency risk								
Non-derivative financial instruments								
Cash and cash equivalents	1,544	10	4	2	4	2	7	1,573
Other interest-bearing assets	130	-	-	-	-	-	-	130
Trade and other receivables (excluding prepayments)	167	47	30	7	4	25	15	295
Amounts owing from associates	1	-	-	-	-	-	-	1
Trade and other payables	(159)	(118)	(54)	(4)	(6)	(20)	(13)	(374)
Interest-bearing liabilities	(494)	(785)	-	-	-	-	-	(1,279)
Amounts owing to associates	-	-	(1)	-	-	-	-	(1)
Net financial position exposure before hedging activities	1,189	(846)	(21)	5	2	7	9	345
Foreign currency derivatives								
Notional principal (NZ\$M)								
Cash flow hedges	(1,177)	2,030	(317)	(115)	(150)	(229)	(121)	(79)
Non-hedge accounted	(1,000)	913	(39)	2	(9)	(9)	-	(142)
Balance*	(988)	2,097	(377)	(108)	(157)	(231)	(112)	124
Cash flows in respect of foreign currency cash flow hedges were expected to occur as follows:								
Not later than 1 year	(1,022)	1,833	(297)	(105)	(140)	(210)	(110)	(51)
Later than 1 year and not later than 2 years	(155)	197	(20)	(10)	(10)	(19)	(11)	(28)
	(1,177)	2,030	(317)	(115)	(150)	(229)	(121)	(79)

* The balance represents hedges of highly probable forecast foreign currency operating and capital expenditure transactions.

In NZ\$M	COMPANY							TOTAL
	NZD	USD	AUD	EUR	JPY	GBP	OTHER	
	AS AT 30 JUNE 2010							
Foreign currency risk								
Non-derivative financial instruments								
Cash and cash equivalents	1,009	5	35	1	1	3	7	1,061
Other interest-bearing assets	115	-	22	-	-	-	-	137
Trade and other receivables (excluding prepayments)	123	58	16	10	5	16	17	245
Amounts owing from subsidiaries***	763	(622)	26	-	2	-	-	169
Amounts owing from associates	3	-	-	-	-	-	-	3
Trade and other payables	(122)	(98)	(50)	(4)	(5)	(21)	(14)	(314)
Interest-bearing liabilities	(230)	-	-	-	-	-	-	(230)
Amounts owing to subsidiaries	(1,216)	(2)	(28)	-	-	-	-	(1,246)
Amounts owing to associates	-	(13)	-	-	-	-	-	(13)
Net financial position exposure before hedging activities	445	(672)	21	7	3	(2)	10	(188)
Foreign currency derivatives								
Notional principal (NZ\$M)								
Cash flow hedges	(1,065)	1,947	(339)	(85)	(143)	(164)	(150)	1
Non-hedge accounted	(561)	621	(60)	(1)	-	2	-	1
Balance**	(1,181)	1,896	(378)	(79)	(140)	(164)	(140)	(186)
Cash flows in respect of foreign currency cash flow hedges are expected to occur as follows:								
Not later than 1 year	(769)	1,563	(296)	(82)	(138)	(154)	(132)	(8)
Later than 1 year and not later than 2 years	(296)	384	(43)	(3)	(5)	(10)	(18)	9
	(1,065)	1,947	(339)	(85)	(143)	(164)	(150)	1

** The balance represents hedges of highly probable forecast foreign currency operating and capital expenditure transactions.

*** A set-off arrangement is in place between a United States dollar denominated intercompany payable and a New Zealand dollar denominated intercompany receivable from a wholly owned subsidiary.

AIR NEW ZEALAND
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
AS AT 30 JUNE 2010

17. FINANCIAL INSTRUMENTS (CONTINUED)

In NZ\$M	COMPANY							TOTAL
	NZD	USD	AUD	EUR	JPY	GBP	OTHER	
Foreign currency risk								
Non-derivative financial instruments								
Cash and cash equivalents	1,542	10	2	1	2	2	7	1,566
Other interest-bearing assets	130	-	-	-	-	-	-	130
Trade and other receivables (excluding prepayments)	157	44	19	7	3	25	15	270
Amounts owing from subsidiaries	127	-	21	-	1	-	-	149
Amounts owing from associates	1	-	-	-	-	-	-	1
Trade and other payables	(135)	(105)	(49)	(4)	(6)	(20)	(13)	(332)
Interest-bearing liabilities	(252)	-	-	-	-	-	-	(252)
Amounts owing to subsidiaries***	(454)	(787)	(20)	-	-	-	-	(1,261)
Amounts owing to associates	-	-	(1)	-	-	-	-	(1)
Net financial position exposure before hedging activities	1,116	(838)	(28)	4	-	7	9	270
Foreign currency derivatives								
Notional principal (NZ\$M)								
Cash flow hedges	(1,177)	2,030	(317)	(115)	(150)	(229)	(121)	(79)
Non-hedge accounted	(1,000)	913	(39)	2	(9)	(9)	-	(142)
Balance**	(1,061)	2,105	(384)	(109)	(159)	(231)	(112)	49
Cash flows in respect of foreign currency cash flow hedges were expected to occur as follows:								
Not later than 1 year	(1,022)	1,833	(297)	(105)	(140)	(210)	(110)	(51)
Later than 1 year and not later than 2 years	(155)	197	(20)	(10)	(10)	(19)	(11)	(28)
	(1,177)	2,030	(317)	(115)	(150)	(229)	(121)	(79)

** The balance represents hedges of highly probable forecast foreign currency operating and capital expenditure transactions.

*** A set-off arrangement is in place between a United States dollar denominated intercompany payable and a New Zealand dollar denominated intercompany receivable from a wholly owned subsidiary.

AIR NEW ZEALAND

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

AS AT 30 JUNE 2010

17. FINANCIAL INSTRUMENTS (CONTINUED)

Foreign currency sensitivity on financial instruments

The following table demonstrates the sensitivity of Air New Zealand's 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.

In NZ\$M	GROUP AS AT 30 JUNE 2010					
	USD	AUD	EUR	JPY	GBP	OTHER
On profit before taxation						
5 cents appreciation	(8)	2	-	-	-	(1)
5 cents depreciation	9	(2)	-	-	-	1
On cash flow hedge reserve (within equity)						
5 cents appreciation	(121)	23	6	10	11	10
5 cents depreciation	140	(27)	(7)	(11)	(13)	(12)

In NZ\$M	GROUP AS AT 30 JUNE 2009					
	USD	AUD	EUR	JPY	GBP	OTHER
On profit before taxation						
5 cents appreciation	(10)	4	-	1	-	(1)
5 cents depreciation	12	(4)	-	(1)	-	1
On cash flow hedge reserve (within equity)						
5 cents appreciation	(95)	23	8	11	16	9
5 cents depreciation	111	(26)	(9)	(12)	(19)	(10)

In NZ\$M	COMPANY AS AT 30 JUNE 2010					
	USD	AUD	EUR	JPY	GBP	OTHER
On profit before taxation						
5 cents appreciation	2	2	-	-	-	(1)
5 cents depreciation	(3)	(2)	-	-	-	1
On cash flow hedge reserve (within equity)						
5 cents appreciation	(132)	23	6	10	11	10
5 cents depreciation	153	(26)	(7)	(11)	(13)	(12)

In NZ\$M	COMPANY AS AT 30 JUNE 2009					
	USD	AUD	EUR	JPY	GBP	OTHER
On profit before taxation						
5 cents appreciation	(11)	4	-	1	-	(1)
5 cents depreciation	12	(5)	-	(1)	-	1
On cash flow hedge reserve (within equity)						
5 cents appreciation	(95)	23	8	11	16	9
5 cents depreciation	111	(26)	(9)	(12)	(19)	(10)

AIR NEW ZEALAND

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

AS AT 30 JUNE 2010

17. FINANCIAL INSTRUMENTS (CONTINUED)

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

	2010	2009
Australian Dollar	0.8150	0.8050
European Community Euro	0.5675	0.4620
Japanese Yen	61.30	62.40
United Kingdom Pound	0.4590	0.3930
United States Dollar	0.6915	0.6500

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. Between 75% to 95% of estimated fuel costs for the first 6 months are hedged, with progressive reductions in percentages hedged in subsequent months out to 1 year. 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 2010, the Group had hedged 4.8 million barrels (30 June 2009: 3.5 million barrels) with a fair value of \$8 million (30 June 2009: \$58 million). The agreements mature within 1 year (30 June 2009: 1 year).

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 price movement per barrel applied as at 30 June 2010 reflects a less volatile fuel market than that of the prior year.

	GROUP AND COMPANY			
	2010 \$M + USD 20	2010 \$M - USD 20	2009 \$M + USD 25	2009 \$M - USD 25
Price movement per barrel:				
On profit before taxation	2	(13)	(9)	(20)
On cash flow hedge reserve (within equity)	97	(83)	111	(40)

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.

Interest rate derivatives are not hedge accounted. Changes in the fair value of these derivatives are recognised each period within "Finance costs". In the year to 30 June 2010, there were no interest rate derivatives outstanding nor any impact on earnings (30 June 2009: \$1 million gain).

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:

	2010 \$M +50 bp*	2010 \$M -50 bp*	2009 \$M +50 bp*	2009 \$M -50 bp*
	Interest rate change:			
On profit before taxation				
Group	(4)	4	(5)	5
Company	(1)	1	(1)	1

* 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.

AIR NEW ZEALAND

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

AS AT 30 JUNE 2010

17. FINANCIAL INSTRUMENTS (CONTINUED)

Sensitivity analyses

The sensitivity analyses shown above 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 above 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.

LIQUIDITY RISK

Air New Zealand holds significant cash reserves to enable it to meet its liabilities as they fall due and to protect operations from unanticipated external factors or events.

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

	GROUP AS AT 30 JUNE 2010					
	BALANCE SHEET \$M	CONTRACTUAL CASH FLOWS \$M	< 1 YEAR \$M	1-2 YEARS \$M	2-5 YEARS \$M	5+ YEARS \$M
Trade and other payables	352	352	352	-	-	-
Secured borrowings	263	270	114	71	46	39
Finance lease obligations	812	940	80	83	308	469
Amounts owing to associates	13	13	13	-	-	-
Total non-derivative liabilities	1,440	1,575	559	154	354	508

	GROUP AS AT 30 JUNE 2009					
	BALANCE SHEET \$M	CONTRACTUAL CASH FLOWS \$M	< 1 YEAR \$M	1-2 YEARS \$M	2-5 YEARS \$M	5+ YEARS \$M
Trade and other payables	374	374	374	-	-	-
Secured borrowings	391	412	117	123	111	61
Finance lease obligations	888	1,060	82	84	282	612
Amounts owing to associates	1	1	1	-	-	-
Total non-derivative liabilities	1,654	1,847	574	207	393	673

AIR NEW ZEALAND

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

AS AT 30 JUNE 2010

17. FINANCIAL INSTRUMENTS (CONTINUED)

	COMPANY AS AT 30 JUNE 2010					
	BALANCE SHEET \$M	CONTRACTUAL CASH FLOWS \$M	< 1 YEAR \$M	1-2 YEARS \$M	2-5 YEARS \$M	5+ YEARS \$M
Trade and other payables	314	314	314	-	-	-
Finance lease obligations	230	259	31	31	101	96
Amounts owing to subsidiaries	1,246	1,246	1,163	-	-	83
Amounts owing to associates	13	13	13	-	-	-
Total non-derivative liabilities	1,803	1,832	1,521	31	101	179

	COMPANY AS AT 30 JUNE 2009					
	BALANCE SHEET \$M	CONTRACTUAL CASH FLOWS \$M	< 1 YEAR \$M	1-2 YEARS \$M	2-5 YEARS \$M	5+ YEARS \$M
Trade and other payables	332	332	332	-	-	-
Finance lease obligations	252	290	30	28	101	131
Amounts owing to subsidiaries	1,261	1,261	1,166	-	-	95
Amounts owing to associates	1	1	1	-	-	-
Total non-derivative liabilities	1,846	1,884	1,529	28	101	226

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

	GROUP AS AT 30 JUNE 2010					
	BALANCE SHEET \$M	CONTRACTUAL CASH FLOWS \$M	< 1 YEAR \$M	1-2 YEARS \$M	2-5 YEARS \$M	5+ YEARS \$M
Foreign exchange derivatives:						
- Inflow		2,699	2,303	396	-	-
- Outflow		(2,720)	(2,320)	(400)	-	-
	2	(21)	(17)	(4)	-	-
Fuel derivatives	7	1	1	-	-	-
	9	(20)	(16)	(4)	-	-

	COMPANY AS AT 30 JUNE 2010					
	BALANCE SHEET \$M	CONTRACTUAL CASH FLOWS \$M	< 1 YEAR \$M	1-2 YEARS \$M	2-5 YEARS \$M	5+ YEARS \$M
Foreign exchange derivatives:						
- Inflow		2,737	2,317	420	-	-
- Outflow		(2,758)	(2,334)	(424)	-	-
	4	(21)	(17)	(4)	-	-
Fuel derivatives	7	1	1	-	-	-
	11	(20)	(16)	(4)	-	-

AIR NEW ZEALAND

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

AS AT 30 JUNE 2010

17. FINANCIAL INSTRUMENTS (CONTINUED)

	GROUP AND COMPANY AS AT 30 JUNE 2009					
	BALANCE SHEET \$M	CONTRACTUAL CASH FLOWS \$M	< 1 YEAR \$M	1-2 YEARS \$M	2-5 YEARS \$M	5+ YEARS \$M
Foreign exchange derivatives:						
- Inflow		3,034	2,837	197	-	-
- Outflow		(3,272)	(3,047)	(225)	-	-
	(221)	(238)	(210)	(28)	-	-
Fuel derivatives	57	46	46	-	-	-
	(164)	(192)	(164)	(28)	-	-

The accounting classification of each category of financial instruments, and their carrying amounts, are set out below:

	GROUP AS AT 30 JUNE 2010					
	LOANS AND RECEIVABLES \$M	NON-HEDGE ACCOUNTED* \$M	AMORTISED COST \$M	HEDGE ACCOUNTED \$M	CARRYING AMOUNT \$M	FAIR VALUE \$M
Classification and fair values						
Assets						
Bank and short term deposits	1,067	-	-	-	1,067	1,067
Other interest-bearing assets	137	-	-	-	137	137
Trade and other receivables (excluding prepayments)	272	-	-	-	272	272
Derivative financial assets	-	10	-	62	72	72
Amounts owing from associates	3	-	-	-	3	3
Total financial assets	1,479	10	-	62	1,551	1,551
Liabilities						
Trade and other payables	-	-	352	-	352	352
Interest-bearing liabilities	-	-	1,075	-	1,075	1,096
Derivative financial liabilities	-	5	-	58	63	63
Amounts owing to associates	-	-	13	-	13	13
Total financial liabilities	-	5	1,440	58	1,503	1,524

* Classified as held for trading in accordance with NZ IFRS 7.

AIR NEW ZEALAND

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

AS AT 30 JUNE 2010

17. FINANCIAL INSTRUMENTS (CONTINUED)

GROUP AS AT 30 JUNE 2009						
	LOANS AND RECEIVABLES \$M	NON-HEDGE ACCOUNTED* \$M	AMORTISED COST \$M	HEDGE ACCOUNTED \$M	CARRYING AMOUNT \$M	FAIR VALUE \$M
Classification and fair values						
Assets						
Bank and short term deposits	1,573	-	-	-	1,573	1,573
Other interest-bearing assets	130	-	-	-	130	130
Trade and other receivables (excluding prepayments)	295	-	-	-	295	295
Derivative financial assets	-	17	-	126	143	143
Amounts owing from associates	1	-	-	-	1	1
Total financial assets	1,999	17	-	126	2,142	2,142
Liabilities						
Trade and other payables	-	-	374	-	374	374
Interest-bearing liabilities	-	-	1,279	-	1,279	1,306
Derivative financial liabilities	-	163	-	144	307	307
Amounts owing to associates	-	-	1	-	1	1
Total financial liabilities	-	163	1,654	144	1,961	1,988

* Classified as held for trading in accordance with NZ IFRS 7.

COMPANY AS AT 30 JUNE 2010						
	LOANS AND RECEIVABLES \$M	NON-HEDGE ACCOUNTED* \$M	AMORTISED COST \$M	HEDGE ACCOUNTED \$M	CARRYING AMOUNT \$M	FAIR VALUE \$M
Classification and fair values						
Assets						
Bank and short term deposits	1,061	-	-	-	1,061	1,061
Other interest-bearing assets	137	-	-	-	137	137
Trade and other receivables (excluding prepayments)	245	-	-	-	245	245
Derivative financial assets	-	11	-	63	74	74
Amounts owing from subsidiaries	169	-	-	-	169	169
Amounts owing from associates	3	-	-	-	3	3
Total financial assets	1,615	11	-	63	1,689	1,689
Liabilities						
Trade and other payables	-	-	314	-	314	314
Interest-bearing liabilities	-	-	230	-	230	232
Derivative financial liabilities	-	6	-	57	63	63
Amounts owing to subsidiaries	-	-	1,246	-	1,246	1,246
Amounts owing to associates	-	-	13	-	13	13
Total financial liabilities	-	6	1,803	57	1,866	1,868

* Classified as held for trading in accordance with NZ IFRS 7.

AIR NEW ZEALAND

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

AS AT 30 JUNE 2010

17. FINANCIAL INSTRUMENTS (CONTINUED)

	COMPANY AS AT 30 JUNE 2009					
	LOANS AND RECEIVABLES \$M	NON-HEDGE ACCOUNTED* \$M	AMORTISED COST \$M	HEDGE ACCOUNTED \$M	CARRYING AMOUNT \$M	FAIR VALUE \$M
Classification and fair values						
Assets						
Bank and short term deposits	1,566	-	-	-	1,566	1,566
Other interest-bearing assets	130	-	-	-	130	130
Trade and other receivables (excluding prepayments)	270	-	-	-	270	270
Derivative financial assets	-	17	-	126	143	143
Amounts owing from subsidiaries	149	-	-	-	149	149
Amounts owing from associates	1	-	-	-	1	1
Total financial assets	2,116	17	-	126	2,259	2,259
Liabilities						
Trade and other payables	-	-	332	-	332	332
Interest-bearing liabilities	-	-	252	-	252	254
Derivative financial liabilities	-	163	-	144	307	307
Amounts owing to subsidiaries	-	-	1,261	-	1,261	1,261
Amounts owing to associates	-	-	1	-	1	1
Total financial liabilities	-	163	1,846	144	2,153	2,155

* Classified as held for trading in accordance with NZ IFRS 7.

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 and finance lease obligations (including net open derivatives on these instruments) less cash and cash equivalents and other interest-bearing assets. Capital comprises all components of equity. These ratios and their calculation are disclosed in the Five Year Statistical Review.

AIR NEW ZEALAND
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
AS AT 30 JUNE 2010

18. OTHER LIABILITIES

	GROUP 2010 \$M	GROUP 2009 \$M	COMPANY 2010 \$M	COMPANY 2009 \$M
Current				
Employee entitlements	139	160	123	146
Amounts owing to subsidiaries	-	-	1,163	1,166
Amounts owing to associates	13	1	13	1
Deferred credits with subsidiaries	-	-	1	1
Other liabilities (including defined benefit liabilities)	17	15	15	15
	169	176	1,315	1,329
Non-current				
Employee entitlements	12	12	11	12
Other liabilities	21	26	13	17
Amounts owing to subsidiaries	-	-	83	95
	33	38	107	124

19. DISTRIBUTIONS TO OWNERS

	GROUP 2010 \$M	GROUP 2009 \$M	COMPANY 2010 \$M	COMPANY 2009 \$M
Distributions recognised				
Final dividend on Ordinary Shares	37	37	37	37
Interim dividend on Ordinary Shares	33	32	33	32
	70	69	70	69
Distributions paid				
Final dividend on Ordinary Shares	34	34	34	34
Interim dividend on Ordinary Shares	31	29	31	29
	65	63	65	63

On 25 August 2010, the Board of Directors declared a final dividend for the 2010 financial year of 4.0 cents per Ordinary Share, payable on 21 September 2010 to registered shareholders at 10 September 2010. The total dividend payable will be \$43 million. Imputation credits will be attached and supplementary dividends paid to non-resident shareholders. This dividend has not been recognised in the June 2010 financial statements.

An interim dividend of 3.0 cents per Ordinary Share was paid on 26 March 2010. Imputation credits were attached and supplementary dividends paid to non-resident shareholders. Under the dividend reinvestment plan, interim dividends payable of \$3 million were settled by the issue of 2,141,257 Ordinary Shares, at \$1.2929 per Ordinary Share.

A final dividend in respect of the 2009 financial year of 3.5 cents per Ordinary Share was paid on 18 September 2009. Imputation credits were attached and supplementary dividends paid to non-resident shareholders. Under the dividend reinvestment plan, dividends payable of \$4 million were settled by the issue of 3,722,263 Ordinary Shares, at \$1.2089 per Ordinary Share.

A dividend reinvestment plan (the Plan) has been established which offers eligible shareholders the opportunity to increase their investment in the Company by applying dividends received on some or all of their existing Ordinary Shares to the acquisition of additional Ordinary Shares. All shareholders with registered addresses in New Zealand and Australia are entitled to participate in the Plan. The subscription price of Ordinary Shares issued under the Plan will be at a discount of 1.5 percent of the volume weighted average sale price of the Ordinary Shares on the NZSX and ASX over the first five trading days on which the Shares trade ex-entitlement on the NZSX. For participation in the Plan to be effective in relation to the Final dividend which is proposed to be paid on 21 September 2010, a properly completed participation form must already be held, or will need to be received, by Link Market Services Limited (the Company's share registrar) prior to 5.00 pm (NZ time) on 10 September 2010.

AIR NEW ZEALAND

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

AS AT 30 JUNE 2010

20. DEFERRED TAXATION

Deferred tax assets and liabilities are attributable to the following:

	NON-AIRCRAFT ASSETS \$M	AIRCRAFT RELATED \$M	FOREIGN CURRENCY DEBT \$M	PROVISIONS AND ACCRUALS \$M	DERIVATIVE FINANCIAL INSTRUMENTS \$M	TAX RATE CHANGE* \$M	TOTAL \$M
GROUP							
As at 1 July 2008	7	351	55	(80)	(4)	(30)	299
Amounts recognised in equity	-	-	-	-	(15)	-	(15)
Amounts recognised in earnings	(4)	(42)	(55)	7	9	30	(55)
Amount recognised on acquisition of subsidiaries	4	-	-	-	-	-	4
As at 30 June 2009	7	309	-	(73)	(10)	-	233
Amounts recognised in equity	-	-	-	-	13	-	13
Amounts recognised in earnings	20	(8)	-	(8)	-	(15)	(11)
As at 30 June 2010	27	301	-	(81)	3	(15)	235
COMPANY							
As at 1 July 2008	6	229	-	(81)	(4)	(14)	136
Amounts recognised in equity	-	-	-	-	(15)	-	(15)
Amounts recognised in earnings	(3)	(35)	-	8	9	14	(7)
As at 30 June 2009	3	194	-	(73)	(10)	-	114
Amounts recognised in equity	-	-	-	-	14	-	14
Amounts recognised in earnings	20	4	-	(7)	-	(8)	9
As at 30 June 2010	23	198	-	(80)	4	(8)	137

* The New Zealand corporate income tax rate reduced from 33% to 30% from the commencement of the 2009 income year. The tax rate change (1 July 2008) opening balance has been allocated to each category based on their closing balance at 30 June 2008. The New Zealand corporate tax rate will further reduce to 28% from 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.

21. ISSUED CAPITAL

	GROUP 2010 \$M	GROUP 2009 \$M	COMPANY 2010 \$M	COMPANY 2009 \$M
Issued and Fully Paid in Capital				
Ordinary shares				
Balance at the beginning of the year	2,237	2,227	2,245	2,235
Shares issued	12	7	12	7
Equity-settled share-based payments	3	3	3	3
Balance at the end of the year	2,252	2,237	2,260	2,245
Represented by:				
Paid in capital	2,244	2,230	2,252	2,238
Equity-settled share-based payments	8	7	8	7
	2,252	2,237	2,260	2,245
	GROUP 2010	GROUP 2009	COMPANY 2010	COMPANY 2009
Number of Ordinary shares on issue				
Balance at the beginning of the year	1,065,242,681	1,057,224,822	1,065,242,681	1,057,224,822
Mandatory shares issued under Long Term Incentive Plan	336,299	376,671	336,299	376,671
Dividend reinvestment plan	5,863,520	7,641,188	5,863,520	7,641,188
Exercise of Long Term Incentive Plan options	5,304,802	-	5,304,802	-
Balance at the end of the year	1,076,747,302	1,065,242,681	1,076,747,302	1,065,242,681

AIR NEW ZEALAND

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

AS AT 30 JUNE 2010

21. ISSUED CAPITAL (CONTINUED)

SHARE ISSUE DETAILS AND RIGHTS

Ordinary Shares

At 30 June 2010, there were 1,076,747,302 fully paid Ordinary Shares on issue (30 June 2009: 1,065,242,681). At close of business on 23 August 2004, every five existing Ordinary Shares consolidated into one Ordinary Share (the Consolidation Ratio). Fractional entitlements to Ordinary Shares arising as a result of the consolidation were rounded to the nearest whole dollar.

On 18 September 2009, 336,299 Ordinary Shares were issued to executives under the Mandatory Shareholding section of the Long Term Incentive Plan (19 September 2008: 376,671 Ordinary Shares). The issue price of \$0.932 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 (19 September 2008: \$0.851 per Ordinary Share).

During the year ended 30 June 2010, 5,863,520 Ordinary Shares were issued under the dividend reinvestment plan (30 June 2009: 7,641,188 Ordinary Shares). Further details are provided in Note 19.

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. At 30 June 2010, the outstanding options may convert to approximately 49.5 million Ordinary Shares (30 June 2009: 40.7 million Ordinary Shares).

The total expense recognised in the year ended 30 June 2010 in respect of equity-settled share-based transactions was \$3 million (30 June 2009: \$3 million).

	GROUP AND COMPANY				
	2010 LONG TERM INCENTIVE PLAN	2010 CEO OPTION PLAN	2009 LONG TERM INCENTIVE PLAN	2009 CEO OPTION PLAN	2009 2001 SHARE OPTION PLAN*
Number of options outstanding					
Outstanding at the beginning of the year	35,815,153	4,923,077	20,160,094	-	650,000
Granted during the year	11,923,525	3,870,968	16,095,955	4,923,077	-
Exercised during the year	(5,304,802)	-	-	-	-
Expired during the year	(1,711,407)	-	(440,896)	-	(650,000)
Outstanding at end of the year**	40,722,469	8,794,045	35,815,153	4,923,077	-
Number of options exercisable as at the end of the year	6,558,704	-	6,279,622	-	-
Weighted average exercise price for those options exercisable as at the end of the year (\$)	0.68	-	1.24	-	-
Weighted average exercise price for those options exercised during the year (\$)	0.82	-	-	-	-
Weighted average share price at the date of exercise (\$)	1.20	-	-	-	-
Weighted average remaining period to contractual maturity (years)	2.91	4.22	3.66	5.22	-

* The number of Ordinary Shares which would have been issued upon the exercise of any outstanding options under the 2001 Share Option Plan, which were granted prior to 23 August 2004 (date of the share consolidation), would be proportionately decreased in line with the Consolidation Ratio and the exercise price would have been adjusted in inverse proportion to the Consolidation Ratio.

**The People Development and Remuneration 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.

AIR NEW ZEALAND

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

AS AT 30 JUNE 2010

21. ISSUED CAPITAL (CONTINUED)

Long Term Incentive Plan (LTIP)

On 18 September 2009, 11,923,525 options with a fair value of \$3.0 million were issued to executives under the LTIP (19 September 2008: 16,095,955 options with a fair value of \$3.1 million). Total options outstanding under the LTIP are 40,722,469 (30 June 2009: 35,815,153). The unamortised fair value of outstanding LTIP options (measured at grant date) is \$3.6 million (30 June 2009: \$3.5 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 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 Dow Jones 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	
	2010	2009
Weighted average share price (cents)	124	114
Expected volatility of share price (%)	40	37
Expected volatility of performance benchmark index (%)	17	15
Correlation of volatility indices	0.50	0.45
Contractual life (years)	5.0	5.0
Risk free rate (%)	5.50	5.90
Expected dividend yield	5.2	7.5
Discount to reflect negotiability restrictions (%)	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 bond coupon 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.

CEO Option Plan

On 18 September 2009, 3,870,968 options with a fair value of \$1.0 million were issued to the Chief Executive Officer under the CEO Option Plan (30 June 2009: 4,923,077 options with a fair value of \$1.0 million). Total options outstanding under the CEO Option Plan are 8,794,045 (30 June 2009: 4,923,077). The unamortised fair value of outstanding CEO Option Plan options (measured at grant date) is \$1.2 million (30 June 2009: \$0.8 million).

The options may be exercised at any time between three to five years after the date of issue (2009: four and six years after the date of issue) for the CEO 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 three years after issue (2009: 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 three years (2009: four 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 Dow Jones World Airline Total Return Index in 50:50 proportions.

AIR NEW ZEALAND
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
AS AT 30 JUNE 2010

21. 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	
	2010	2009
Weighted average share price (cents)	124	114
Expected volatility of share price (%)	40	37
Expected volatility of performance benchmark index (%)	17	15
Correlation of volatility indices	0.50	0.45
Contractual life (years)	5.0	6.0
Risk free rate (%)	5.50	5.90
Expected dividend yield	5.2	7.5
Discount to reflect negotiability restrictions (%)	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 (2009: four to six years). The risk-free rate was based on the five year zero bond coupon yield (2009: six year zero bond coupon 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.

2001 Share Option Plan

The Company established the 2001 Executive Share Option Plan on 31 March 2001. Under the Plan the options vest in three tranches: 25 percent on the first anniversary of the issue date, 25 percent on the second anniversary of the issue date, and 50 percent on the third anniversary of the issue date. Options lapse when they were not exercised by the fifth anniversary of their vesting date, or on the anniversary of exit if the participants leave the Group in certain specified circumstances. All options had lapsed by 30 June 2009.

Application of treasury stock method

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 2010 was 93 (30 June 2009: 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 dividend and equal distribution rights on wind up.

AIR NEW ZEALAND
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
AS AT 30 JUNE 2010

22. CAPITAL COMMITMENTS

	GROUP 2010 \$M	GROUP 2009 \$M	COMPANY 2010 \$M	COMPANY 2009 \$M
Aircraft and engines	3,062	3,070	3,056	2,986
Other property, plant and equipment	9	3	8	3
Intangible assets	1	-	1	-
	3,072	3,073	3,065	2,989

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

On 2 November 2009, Air New Zealand announced the acquisition of fourteen Airbus A320 aircraft and associated engines. Air New Zealand subsequently substituted the rights to four of these aircraft to an operating lessor. The remaining ten aircraft will be delivered between June 2013 and September 2016. Under the agreement the Group secured the right to purchase up to an additional eleven aircraft.

The Group has entered into firm commitments to purchase five Boeing 777-300ER aircraft and two spare engines. The five aircraft will be delivered between November 2010 to January 2012 and the spare engines in November 2010 and November 2011.

The Group has entered into firm commitments to purchase eight Boeing 787-9 (B787-9) aircraft and associated engines and spares. The B787-9 aircraft that are subject to firm commitments were originally scheduled for delivery between the period December 2010 to September 2013. On 25 February 2009, Air New Zealand agreed to revised delivery dates. The Group received notification from Boeing on 9 October 2009 that these aircraft will be further delayed with deliveries likely to be in the last quarter of 2013 through to the third quarter of 2016. The capital commitments in the above table reflect the revised delivery schedule.

The Group also has the right (but no obligation) to purchase three Q400 aircraft.

23. OPERATING LEASE COMMITMENTS

	GROUP 2010 \$M	GROUP 2009 \$M	COMPANY 2010 \$M	COMPANY 2009 \$M
Aircraft leases payable				
Not later than 1 year	219	234	120	126
Later than 1 year and not later than 5 years	681	275	216	295
Later than 5 years	525	5	140	173
	1,425	514	476	594
Property leases payable				
Not later than 1 year	46	39	42	35
Later than 1 year and not later than 5 years	110	110	101	102
Later than 5 years	81	88	76	85
	237	237	219	222

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

New Zealand International Airlines Limited, a wholly owned subsidiary, has the option to purchase two Boeing 737-300 aircraft which are currently under an operating lease arrangement. The options may be exercised at certain predetermined dates, lapsing in September 2011 and July 2012. The directors expect that the options will not be exercised.

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

AIR NEW ZEALAND

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

AS AT 30 JUNE 2010

24. CONTINGENT LIABILITIES

	GROUP 2010 \$M	GROUP 2009 \$M	COMPANY 2010 \$M	COMPANY 2009 \$M
Uncalled capital of subsidiaries	-	-	12	2
Guarantee of subsidiary indebtedness and performance	-	-	1,090	1,279
Letters of credit and performance bonds	49	37	40	29
	49	37	1,142	1,310

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 has been named in five class actions. One, in Australia, claims travel agents commission on fuel surcharges and 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. The other two class actions (in the United States and in Canada) allege 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 investigations or proceedings by regulators in New Zealand, Australia, the United States and the European Union. A formal Statement of Objections was issued by the European Commission in 2007 to 25 airlines including Air New Zealand. Air New Zealand has responded to this Statement of Objections. On 15 December 2008 the New Zealand Commerce Commission filed proceedings against 13 airlines including Air New Zealand alleging breaches of the Commerce Act 1986. On 17 May 2010 the Australian Competition and Consumer Commission filed proceedings alleging breaches of the (Australian) Trade Practices Act 1974.

Air New Zealand is defending these proceedings. In the event that a court determined, or it was agreed with a regulator, that Air New Zealand had breached relevant laws, the Company would have potential liability for pecuniary penalties and to third party damages under the laws of the relevant jurisdictions. 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 13). By the nature of the agreement, joint and several liability exists between the two parties. Total liabilities of the CEC are \$70 million (30 June 2009: \$68 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.

AIR NEW ZEALAND
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
AS AT 30 JUNE 2010

25. RETIREMENT BENEFIT 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 valuation of the New Zealand plan was provided for 30 June 2010, and for the overseas plan for 31 March 2010.

	GROUP AND COMPANY	
	2010 \$M	2009 \$M
Amounts recognised in the Statement of Financial Position:		
Present value of funded obligations	(112)	(104)
Fair value of plan assets	100	82
	(12)	(22)
Unrecognised actuarial losses	11	21
Included in Statement of Financial Position	(1)	(1)
Expense recognised in the Statement of Financial Performance:		
Current service cost	(3)	(2)
Interest cost	(6)	(6)
Expected return on plan assets	5	5
Net actuarial losses recognised in the year	(2)	-
Total included in "Labour"	(6)	(3)
Actual return on plan assets	11	(12)
Changes in the present value of the defined benefit obligation:		
Defined benefit obligation at the beginning of the year	(104)	(95)
Current service cost	(3)	(2)
Interest cost	(6)	(6)
Contributions by plan participants	(3)	(2)
Actuarial gains/(losses)	1	(2)
Benefits paid	3	4
Foreign exchange differences on overseas plans	-	(1)
Defined benefit obligation at the end of the year	(112)	(104)
Changes in the fair value of plan assets are as follows:		
Fair value of plan assets at the beginning of the year	82	94
Expected return on plan assets	5	5
Contributions by employer	7	2
Contributions by participants	3	2
Actuarial gains/(losses)	6	(17)
Benefits paid	(3)	(4)
Fair value of plan assets at the end of the year	100	82

The Group expects to contribute approximately \$7 million to its defined benefit plans in 2011.

AIR NEW ZEALAND
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
AS AT 30 JUNE 2010

25. RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

	GROUP AND COMPANY	
	2010 \$M	2009 \$M
Major categories of plan assets:		
Fixed interest unit fund	54%	56%
Property unit fund	8%	6%
New Zealand equity unit fund	6%	6%
Overseas equity unit fund	25%	22%
Commodities fund	3%	2%
Other assets	4%	8%
	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 to develop the net periodic pension cost and the actuarial present value of projected benefit obligations for the Group's plans:

	GROUP AND COMPANY	
	2010	2009
Gross discount rate (year 1)	3.1%	4.3%
Gross discount rate (long term)	5.0%	4.3%
Expected return on plan assets	5.0%	4.5%
Future base salary increases	2.5%	2.5%

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 9.5% of the plan's total annual contributions. The information in respect of 2010 presented below is the same as that disclosed for 2009 as the actuarial valuation for the scheme was not available at the time of preparing these financial statements.

	GROUP AND COMPANY	
	2010 \$M	2009 \$M
Overall position of the plan in respect of all employers:		
Present value of defined benefit obligation	(271)	(271)
Fair value of plan assets	286	286
Past service surplus	15	15

The past service deficit 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 \$38 million were made to Group defined contribution plans during the year (30 June 2009: \$33 million). Contributions of \$31 million were made to Company defined contribution plans during the year (30 June 2009: \$28 million).

AIR NEW ZEALAND

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

AS AT 30 JUNE 2010

26. RELATED PARTIES

Crown

The Crown, the major shareholder of the Company, owns 75 percent of the issued capital of the Company (30 June 2009: 75 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. These are not considered to be related party transactions.

All members of the Group are considered to be related parties of the Company. This includes the subsidiaries and associates identified in Note 13.

Key management personnel

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

	GROUP 2010 \$M	GROUP 2009 \$M	COMPANY 2010 \$M	COMPANY 2009 \$M
Short-term employee costs	5	7	5	7
Directors' fees	1	1	1	1
Share-based payments	3	3	3	3
	9	11	9	11

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.

A related party to Jane Freeman (Director), Chris Hunter (Husband), is CEO of Hawkins Construction Limited. During the year Air New Zealand paid to Hawkins Construction Limited and Hawkins Interiors \$2 million (30 June 2009: \$9 million) for construction related services. At balance date there were no amounts outstanding (30 June 2009: Nil). All transactions between Air New Zealand, Hawkins Construction Limited and Hawkins Interiors are conducted on standard commercial terms.

Staff Share Purchase Schemes

The Air New Zealand A and B Staff Share Purchase Schemes were established by the Group in 1998. All full time and regular part-time employees were invited to participate in the Schemes and purchase a maximum of 2,000 Ordinary Shares each. The price of the shares was \$1.60, being the lower of the offer price and a price 10 percent below the weighted average sale price for the shares at the date of allotment, being 12 August 1998. Adjusted for a consolidation ratio (based on the share consolidation which occurred in August 2004), the price of the shares equates to \$8.00. The shares were held by the Trustees during a three year restrictive period, which expired in September 2001. Allocated shares carry normal Voting Rights and participate in dividends. Voting Rights were exercised by the Trustees on behalf of the employees during the restrictive period, after which time the rights were transferred to the employees. At 30 June 2010, Mr R France (Director), Mr J Blair (General Counsel and Company Secretary) and Mr R McDonald (Chief Financial Officer) were the Trustees of the Schemes and were appointed by the Company's Board of Directors.

As at 30 June 2010, the Scheme held 93 unallocated ordinary shares (30 June 2009: 93 shares).

Executive share option plans

Executive share option plans are detailed in Note 21.

Transactions between the Company and its subsidiary or associated companies

Subsidiaries

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

	COMPANY 2010 \$M	COMPANY 2009 \$M
Operating revenue (excluding dividend revenue)	61	83
Dividend revenue	16	-
Finance costs*	(12)	(37)
Operating expenditure	(306)	(378)
Included within Operating expenditure ("Other expenses") are the following amounts:		
Reversal of impairment of investment in subsidiaries	2	3

* Finance costs include finance income of \$6 million (30 June 2009: \$5 million) and finance costs of \$18 million (30 June 2009: \$42 million).

AIR NEW ZEALAND

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

AS AT 30 JUNE 2010

26. RELATED PARTIES (CONTINUED)

The Company has undertaken finance and operating lease arrangements with its wholly owned subsidiaries, Air New Zealand Aircraft Holdings Limited and Zeal 320 Limited, relating to its aircraft. Lease expense of \$286 million was recognised by the Company during the year (30 June 2009: \$358 million).

Related party balances have no fixed settlement dates and are unsecured. Non-current amounts owing to subsidiaries (as shown in Note 18) 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 18. Provisions for doubtful debts of \$106 million were held by the Company against outstanding balances from subsidiaries (30 June 2009: \$106 million). During the year ended 30 June 2009, the Company forgave a related party debenture and loan of \$632 million from Air New Zealand Australia Pty Limited. The amounts had been fully provided for in prior years.

The Company has provided guarantees of financial indebtedness to Air New Zealand Aircraft Holdings Limited of \$1,075 million (30 June 2009: \$1,279 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 Holidays Limited
 Air New Zealand Limited
 Eagle Airways Limited
 Zeal 320 Limited
 Mount Cook Airlines Limited
 Safe Air Limited

Associates

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

	GROUP 2010 \$M	GROUP 2009 \$M	COMPANY 2010 \$M	COMPANY 2009 \$M
Operating revenue	5	3	-	-
Operating expenditure	(14)	(1)	-	-
Included within Operating expenditure ("Other expenses") are the following amounts:				
Provision for impairment in investment	2	-	-	-
Reversal of provision for impairment in investment	(1)	-	-	-

During the year 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 18.

During the year ended 30 June 2009 the Group received dividends of \$4 million from the Christchurch Engine Centre.

On 30 June 2010 the investment in Travel Software Solutions Pty Limited was sold for \$2. Prior to disposal, share capital of \$2 million was repaid.

During the year ended 30 June 2010, an impairment provision of \$2 million was recognised against the investment in VCubed Pty Limited (30 June 2009: Nil). The impairment was calculated using a value in use model with a discount rate of 30% being applied.

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. Other than those amounts disclosed above there have been no other related party debts have been forgiven during the year.

TO THE SHAREHOLDERS OF AIR NEW ZEALAND LIMITED FOR THE YEAR ENDED 30 JUNE 2010

The Auditor-General is the auditor of Air New Zealand Limited (the Company) and Group. The Auditor-General has appointed me, Andrew Burgess, using the staff and resources of Deloitte, to carry out the audit of the financial statements of the Company and Group, on her behalf, for the year ended 30 June 2010.

Unqualified Opinion

In our opinion:

The financial statements of the Company and Group on pages 2 to 48:

- comply with generally accepted accounting practice in New Zealand; and
- give a true and fair view of:
 - the Company and Group's financial position as at 30 June 2010; and
 - the results of the Company and Group's operations and cash flows for the year ended on that date.

Based on our examination the Company and Group kept proper accounting records.

The audit was completed on 26 August 2010, and 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 the Auditor, and explain our independence.

Basis of Opinion

We carried out the audit in accordance with the Auditor-General's Auditing Standards, which incorporate the New Zealand Auditing Standards.

We planned and performed the audit to obtain all the information and explanations we considered necessary in order to obtain reasonable assurance that the financial statements did not have material misstatements whether caused by fraud or error.

Material misstatements are differences or omissions of amounts and disclosures that would affect a reader's 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.

The audit involved performing procedures to test the information presented in the financial statements. We assessed the results of those procedures in forming our opinion.

Audit procedures generally include:

- determining whether significant financial and management controls are working and can be relied on to produce complete and accurate data;
- verifying samples of transactions and account balances;
- performing analyses to identify anomalies in the reported data;
- reviewing significant estimates and judgements made by the Board of Directors;
- confirming year-end balances;
- determining whether accounting policies are appropriate and consistently applied; and
- determining whether all financial statement disclosures are adequate.

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements.

We evaluated the overall adequacy of the presentation of information in the financial statements. We obtained all the information and explanations we required to support our opinion above.

Responsibilities of the Board of Directors and the Auditor

The Board of Directors is responsible for preparing the financial statements in accordance with generally accepted accounting practice in New Zealand. The financial statements must give a true and fair view of the financial position of the Company and Group as at 30 June 2010 and the results of the Company and Group's operations and cash flows for the year ended on that date. The Board of Directors' responsibilities arise from the Financial Reporting Act 1993.

We are responsible for expressing an independent opinion on the financial statements and reporting that opinion to you. This 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 Institute of Chartered Accountants of New Zealand.

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.



A Burgess

DELOITTE

On behalf of the Auditor-General
Auckland, New Zealand

Matters Relating to the Electronic Presentation of the Audited Financial Statements

This audit report relates to the financial statements of Air New Zealand Limited (the Company) and Group for the year ended 30 June 2010 included on Air New Zealand Limited's website. The Company's Board of Directors is responsible for the maintenance and integrity of the Air New Zealand Limited website. We have not been engaged to report on the integrity of the Air New Zealand Limited website. We accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website. The audit report refers only to the financial statements named above. It does not provide an opinion on any other information which may have been hyperlinked to/from these financial statements. If readers of this report are concerned with the inherent risks arising from electronic data communication they should refer to the published hard copy of the audited financial statements and related audit report dated 26 August 2010 to confirm the information included in the audited financial statements presented on this website.

Legislation in New Zealand governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

AIR NEW ZEALAND

HISTORICAL SUMMARY OF FINANCIAL PERFORMANCE

FIVE YEAR STATISTICAL REVIEW

For the year to 30 June

	2010 \$M	2009 \$M	2008 \$M	2007 \$M	2006 \$M
Operating Revenue					
Passenger revenue	3,305	3,734	3,808	3,479	3,088
Cargo	255	374	416	396	359
Contract services	322	331	287	264	237
Other revenue	164	170	156	140	121
	4,046	4,609	4,667	4,279	3,805
Operating Expenditure					
Labour	(976)	(1,019)	(966)	(883)	(863)
Fuel	(939)	(1,687)	(1,122)	(1,109)	(949)
Maintenance	(326)	(327)	(247)	(214)	(218)
Aircraft operations	(369)	(423)	(412)	(388)	(352)
Passenger services	(240)	(275)	(254)	(223)	(222)
Sales and marketing	(261)	(295)	(330)	(295)	(311)
Foreign exchange gains/(losses)	6	366	(128)	(23)	55
Other expenses	(233)	(261)	(261)	(234)	(256)
	(3,338)	(3,921)	(3,720)	(3,369)	(3,116)
Earnings Before Finance Costs, Depreciation, Amortisation, Rental Expenses and Taxation	708	688	947	910	689
Depreciation and amortisation	(294)	(276)	(318)	(322)	(261)
Rental and lease expenses	(263)	(334)	(270)	(298)	(280)
Earnings Before Finance Costs and Taxation	151	78	359	290	148
Finance income	43	98	117	92	74
Finance costs	(71)	(169)	(172)	(116)	(72)
Earnings before Taxation and Unusual Items	123	7	304	266	150
Unusual items	-	-	-	3	(44)
Profit Before Taxation	123	7	304	269	106
Taxation (expense)/credit	(41)	14	(86)	(48)	(10)
Net Profit Attributable to Shareholders of Parent Company	82	21	218	221	96
Normalised Earnings Before Unusual Items and Taxation*	137	145	197	259	150
Normalised Earnings After Taxation*	92	118	146	228	96

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

The Group adopted NZ IFRS on 1 July 2007. Only information from 2007 onwards is compliant with NZ IFRS. In accordance with exemptions available under NZ IFRS 1, all previous information is compliant with previous GAAP.

* 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.

AIR NEW ZEALAND

HISTORICAL SUMMARY OF FINANCIAL POSITION

FIVE YEAR STATISTICAL REVIEW

As at 30 June

	2010 \$M	2009 \$M	2008 \$M	2007 \$M	2006 \$M
Current Assets					
Bank and short term deposits	1,067	1,573	1,289	1,058	1,150
Other current assets	621	702	823	672	571
Total Current Assets	1,688	2,275	2,112	1,730	1,721
Non-Current Assets					
Property, plant and equipment	2,230	2,337	2,534	2,636	2,669
Other non-current assets	679	433	377	300	395
Total Non-Current Assets	2,909	2,770	2,911	2,936	3,064
Total Assets	4,597	5,045	5,023	4,666	4,785
Current Liabilities					
Net debt ¹	175	172	158	116	345
Other current liabilities	1,432	1,587	1,549	1,460	1,236
Total Current Liabilities	1,607	1,759	1,707	1,576	1,581
Non-Current Liabilities					
Net debt ¹	900	1,107	1,167	1,269	1,113
Other non-current liabilities	524	574	572	433	497
Total Non-Current Liabilities	1,424	1,681	1,739	1,702	1,610
Total Liabilities	3,031	3,440	3,446	3,278	3,191
Net Assets	1,566	1,605	1,577	1,388	1,594
Total Equity	1,566	1,605	1,577	1,388	1,594

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

HISTORICAL SUMMARY OF CASH FLOWS

For the year to 30 June

	2010 \$M	2009 \$M	2008 \$M	2007 \$M	2006 \$M
Cash flow from operating activities	334	486	743	455	473
Cash flow from investing activities	(450)	(216)	(290)	(572)	(772)
Cash flow from financing activities	(390)	14	(221)	24	379
(Decrease)/increase in cash holding	(506)	284	232	(93)	80
Total cash and cash equivalents	1,067	1,573	1,289	1,057	1,150

The Group adopted NZ IFRS on 1 July 2007. Only information from 2007 onwards is compliant with NZ IFRS. In accordance with exemptions available under NZ IFRS 1, all previous information is compliant with previous GAAP.

AIR NEW ZEALAND

FINANCIAL RATIOS

FIVE YEAR STATISTICAL REVIEW

		2010	2009	2008	2007	2006
PROFITABILITY						
EBIT/Revenue ¹	%	3.7	1.7	7.7	6.8	3.9
EBITDRA/Revenue ¹	%	17.5	14.9	20.3	21.3	18.1
Return on Assets ²	%	3.3	1.5	7.1	6.2	3.1
Return on Equity ³	%	5.2	1.3	13.8	15.9	6.0
Basic Earnings Per Ordinary Share	cps	7.6	2.0	20.7	21.6	9.6
Fixed Cover ⁵	times	2.4	1.7	2.9	2.8	2.5
Passenger Revenue/RPK	c	12.8	13.8	13.0	12.9	12.1
LIQUIDITY						
Operating Cash Flow Per Share ⁴	cps	31.1	45.8	70.5	44.5	47.2
BALANCE SHEET						
Gearing (excl. net capitalised aircraft operating leases) ⁶	%	(9.1)	(25.3)	(7.2)	15.5	5.8
Gearing (incl. net capitalised aircraft operating leases) ⁷	%	47.3	45.0	45.3	53.8	51.9
Debt to Equity Ratio ⁸	%	193.6	214.3	218.5	236.2	200.2
Net Tangible Assets Per Share ⁴	\$	1.41	1.47	1.45	1.28	1.59
Working Capital Ratio ⁹	%	51.2	56.4	55.3	52.3	52.1
SHAREHOLDER VALUE						
Closing Share Price 30 June	\$	1.07	0.90	1.09	2.64	1.18
Weighted Average Number of Ordinary Shares	m	1,073	1,061	1,055	1,022	1,001
Total Number of Ordinary Shares	m	1,077	1,065	1,057	1,052	1,003
Total Market Capitalisation	\$m	1,152	959	1,152	2,776	1,183
Total Shareholder Return	%	18.9	(17.4)	(58.7)	123.7	(18.6)

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

The Group adopted NZ IFRS on 1 July 2007. Only information from 2007 onwards is compliant with NZ IFRS. In accordance with exemptions available under NZ IFRS 1, all previous information is compliant with previous GAAP.

AIR NEW ZEALAND KEY OPERATING STATISTICS

FIVE YEAR STATISTICAL REVIEW

For the year to 30 June

	2010	2009	2008	2007	2006
PASSENGERS CARRIED (000)					
Domestic	8,018	7,815	8,206	7,736	7,356
International					
Australia and Pacific Islands	2,656	2,781	3,005	2,995	2,908
Asia and Europe	668	778	865	734	591
North America and Europe	982	994	1,100	1,015	1,037
Total	4,306	4,553	4,970	4,744	4,536
Total Group	12,324	12,368	13,176	12,480	11,892
AVAILABLE SEAT KILOMETRES (m)					
Domestic	4,724	4,783	4,987	4,639	4,455
International					
Australia and Pacific Islands	8,424	9,383	9,761	9,949	10,185
Asia and Europe	7,557	8,780	9,748	8,565	6,856
North America and Europe	10,873	11,370	12,495	11,960	12,559
Total	26,854	29,533	32,004	30,474	29,600
Total Group	31,578	34,316	36,991	35,113	34,055
REVENUE PASSENGER KILOMETRES (m)					
Domestic	3,733	3,586	3,722	3,493	3,345
International					
Australia and Pacific Islands	6,776	7,094	7,612	7,487	7,219
Asia and Europe	6,095	7,016	7,711	6,422	5,049
North America and Europe	9,225	9,416	10,304	9,472	9,938
Total	22,096	23,526	25,627	23,381	22,206
Total Group	25,829	27,112	29,349	26,874	25,551
PASSENGER LOAD FACTOR (%)					
Domestic	79.0	75.0	74.6	75.3	75.1
International					
Australia and Pacific Islands	80.4	75.6	78.0	75.3	70.9
Asia and Europe	80.6	79.9	79.1	75.0	73.6
North America and Europe	84.8	82.8	82.5	79.2	79.1
Total	82.3	79.7	80.1	76.7	75.0
Total Group	81.8	79.0	79.3	76.5	75.0
GROUP EMPLOYEE NUMBERS (Full Time Equivalents)	10,499	10,726	11,111	10,713	10,233

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

AIR NEW ZEALAND

HISTORICAL SUMMARY OF DEBT

FIVE YEAR STATISTICAL REVIEW

As at 30 June

	2010 \$M	2009 \$M	2008 \$M	2007 \$M	2006 \$M
DEBT					
Convertible notes	-	-	-	-	98
Secured borrowings	263	391	445	506	852
Finance lease liabilities	812	888	880	878	508
Bank overdraft and short term borrowings	-	-	-	1	-
	1,075	1,279	1,325	1,385	1,458
Bank and short term deposits	1,067	1,573	1,289	1,058	1,150
Net open derivatives held in relation to interest-bearing liabilities ²	1	(100)	12	(48)	-
Interest bearing secured deposit (included within Other assets)	137	130	130	120	105
NET DEBT	(130)	(324)	(106)	255	203
Net aircraft operating lease commitments ¹	1,533	1,638	1,413	1,362	1,723
NET DEBT (INCLUDING OFF BALANCE SHEET)	1,403	1,314	1,307	1,617	1,926

1. Net aircraft operating lease commitments for the next twelve months, multiplied by a factor of seven.

2. Unrealised gains/losses on open debt derivatives

Only information from 2007 onwards is compliant with NZ IFRS. In accordance with exemptions available under NZ IFRS 1, all previous information is compliant with previous GAAP.

AIR NEW ZEALAND

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:

- **Standards of Business Conduct**

A guide to business conduct has been developed by the Group summarising the basic principles of legal and ethical conduct expected of everyone at Air New Zealand. This is supported by online compliance training.

- **Reporting and Just Culture**

The Group has a policy on Reporting 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 \$685,942 in the financial year to 30 June 2010, including donations to Kids Restore New Zealand, Air New Zealand Environmental Trust, Make-a-Wish Foundation, Leukemia & Blood Foundation and the Kids and Koru Care Southern Charitable Trust. No donations were made to any political party. It is Air New Zealand's policy not to make donations, in cash or in kind, or to provide free of charge travel to political parties.

- **Interests Register**

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

BOARD COMPOSITION

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

AIR NEW ZEALAND

CORPORATE GOVERNANCE AT AIR NEW ZEALAND

(CONTINUED)

Chairman

Mr John Palmer has been Chairman of Air New Zealand since 2001. Mr Roger France was appointed Deputy Chairman in 2002. 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.

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 Development and Remuneration 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 Development and Remuneration Committee monitors issues related to the management structure and remuneration of the Chief Executive Officer and other senior executives.
- The Safety Committee ensures that, at all times, Air New Zealand has workable systems and processes in place to provide the best practicable safety, security and environmental performance.

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.

AIR NEW ZEALAND
CORPORATE GOVERNANCE AT AIR NEW ZEALAND
(CONTINUED)

ASX CORPORATE GOVERNANCE COUNCIL BEST PRACTICE RECOMMENDATIONS	NZX CORPORATE GOVERNANCE BEST PRACTICE CODE	REASON FOR NOT FOLLOWING
<p>2.4 The board should establish a nomination committee.</p>	<p>2.2 Unless constrained by size, an Issuer should establish a nomination committee as recommended below in paragraph 3.10.</p> <p>3.10 – 3.12 Composition, charter and review of nomination committee</p>	<p>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</p>

AIR NEW ZEALAND 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 Solid Energy New Zealand Limited and serves as a director of AMP Limited, AMP Life Limited, Rabobank Australia Limited and Rabobank New Zealand 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.

Roger France BCOM, CA

Deputy Chairman, appointed 1 October 2001

Mr France is the Chancellor of the University of Auckland, a Director of Fisher & Paykel Healthcare Corporation Limited and Chairman of Tappenden Holdings Limited. 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. As well as his role as Deputy Chairman, Mr France brings strong financial analysis and business strategy skills to the Board and to his role as Chairman of the Audit Committee.

Paul Bingham

Appointed 1 July 2008

Mr Bingham is Managing Director of Black Cat Group 2007 Limited, an award winning cruise operator based at Banks Peninsula, near Christchurch. He is Chair of Christchurch and Canterbury Marketing Limited and was a board member of Tourism New Zealand until recently. 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.

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 and BIOTA Holdings Limited.

Jane Freeman BCOM

Appointed 27 February 2002

Ms Freeman is prominent in the field of customer driven technology. She has held senior marketing and management positions at Telecom's esolutions, BankDirect, Clear Communications Limited and ASB Bank Limited. Ms Freeman is currently a director of Pumpkin Patch Limited and Delegats Group Limited.

Warren Larsen CNZM, BBS, CA, CMA, M.AG.SC (HONS), FNZIM, AF INST. D, DSC (HON)

Appointed 27 February 2002

Mr Larsen is a director of a wide range of companies including Chairman of Centreport Limited and Deputy Chairman of Landcorp Farming, and maintains an active interest in aviation matters. Mr Larsen brings significant international business and marketing experience to the Board. He was formerly Chief Executive Officer of the New Zealand Dairy Board for nine years and Bay Milk Products for 10 years prior to that. Mr Larsen is Chairman of the Safety Committee. He is a graduate of Massey University where he qualified as a Master of Agricultural Science (First Class Honours) and a Bachelor of Business Studies. Mr Larsen holds professional accounting qualifications and is an alumni of the Insead Business School.

John McDonald BCA (HONS), BCOM, CA, CMA

Appointed 27 February 2002

Mr McDonald has had a notable career spanning 30 years in senior finance, management and board positions at Fletcher Challenge Limited. He has considerable international experience in management and in corporate governance best practice. He is a director of a number of companies including Solid Energy New Zealand Limited, Dairy Equity Limited and Horizon Energy Distribution Limited. Mr McDonald is a graduate from the Advanced Management Programme at Harvard University Business School.

AIR NEW ZEALAND DIRECTORS' INTERESTS

The following are particulars of general disclosures of interest by Directors of Air New Zealand Limited holding office at 30 June 2010, 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 Life Limited	Director
AMP Limited	Director
Rabobank Australia Limited	Director
Rabobank New Zealand Limited	Director
Solid Energy New Zealand Limited	Chairman

Roger France

Blue Star Group Holdings Limited	Director
Blue Star Group Limited	Director
Fisher & Paykel Healthcare Corporation Limited	Director
Tappenden Holdings Limited	Chairman
Tappenden Management Limited	Director
University of Auckland	Chancellor

Paul Bingham

Akaroa Harbour Cruises Limited	Director
Black Cat Group 2007 Limited	Managing Director
Black Cat Trust	Trustee
Christchurch & Canterbury Convention Bureau Limited	Director
Christchurch & Canterbury Marketing Limited	Chairman
Dolphin Experience Limited	Director
Lyttelton Harbour Cruises Limited	Director
Pajo Trust	Trustee
Tourism New Zealand	Director – term expired 16 January 2010

Dr Jim Fox

BIOTA Holdings Limited	Chairman
Elders Limited	Deputy Chairman – retired 18 December 2009
iSoft Group Limited	Director - resigned 16 June 2010
Monash University	Member of Council - appointed 8 September 2009
Multiple Sclerosis Research Australia Limited	Director
TTP Group (UK) Plc	Director

Jane Freeman

Delegats Group Limited	Director
Delegats Group Trustee Limited	Director
Jane Freeman Consulting Limited	Director / Shareholder
Pumpkin Patch Limited	Director
Sky City Entertainment Limited	Director - resigned 8 March 2010

AIR NEW ZEALAND DIRECTORS' INTERESTS (CONTINUED)

Warren Larsen

Centreport Limited	Chairman
Foundation of Research, Science and Technology	Director
Jenkin Timber Limited	Director
Landcorp Farming Limited	Deputy Chairman
Larsen Consultancy Services Limited	Director / Shareholder
Massey University Foundation	Chairman – retired 31 March 2010

John McDonald

Air New Zealand Superannuation Scheme	Trustee
Dairy Equity Limited	Director
Fletcher Building Employee Educational Fund Limited	Director / Trustee
Fletcher Building Retirement Plan	Director / Trustee
Fletcher Building Share Schemes Limited	Director
Halo Fund No1 Limited	Chairman / Director
Horizon Energy Distribution Limited	Director
Pohutukawa Private Equity Limited I and II	Chairman / Director
Solid Energy New Zealand Limited	Director
Tenon Employee Educational Fund Limited	Director / Trustee

AIR NEW ZEALAND 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 2010¹:

NAME	DIRECTORS FEES	COMMITTEE FEES	TOTAL REMUNERATION	VALUE OF TRAVEL ENTITLEMENT ³
John Palmer (Chairman)	242,000	-	242,000	6,453
Roger France (Deputy Chairman)	93,000	44,750	137,750	33,306
Paul Bingham	80,000	16,500	96,500	31,541
Jane Freeman ²	80,000	18,750	98,750	7,114
Jim Fox	95,000	25,500	120,500	26,139
Warren Larsen	80,000	32,000	112,000	36,287
John McDonald	80,000	27,500	107,500	19,565
Total	750,000	165,000	915,000	160,405

1. No employee of the Group received or retains any remuneration or other benefits as a director of any subsidiary company.

2. GST exclusive.

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

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 30/06/10	SHARES SOLD	SHARES PURCHASED	DATE OF TRANSACTION	COST	NON-BENEFICIAL INTEREST
John Palmer	167,791		4,555 ¹	22/9/09	\$5,507	
			3,712 ¹	26/3/10	\$4,800	
Roger France ²	27,061 ²					
Roger France ³						93 ³
Paul Bingham	5,000					
Dr Jim Fox	36,500					
Jane Freeman	4,666 ⁴					
Warren Larsen	14,038		381 ¹	22/9/09	\$461	
			310 ¹	26/3/10	\$402	
John McDonald ⁵	55,677 ⁵		1,468 ¹	22/9/09	\$1,775	
			1,197 ¹	26/3/10	\$1,548	
			42 ¹	22/9/09	\$51	
			34 ¹	26/3/10	\$45	

1. Pursuant to the terms of the Dividend Reinvestment Plan.

2. All shares are owned by the France Family Trusts of which Mr France is a discretionary beneficiary.

3. Mr France is a trustee of the Staff Share Purchase Scheme.

4. The shares are owned by the C and J Family Trust of which Ms Freeman is a trustee and beneficiary.

5. 1,574 shares held by an associated person.

AIR NEW ZEALAND SUBSIDIARY COMPANIES

The following people were directors of Air New Zealand's subsidiary companies in the financial year to 30 June 2010. No director of any subsidiary received beneficially any director's fees or other benefits except as an employee.

NEW ZEALAND COMPANIES	DIRECTORS
Air Nelson Limited	DWM/JGH ² /JGM/BP/GCK ¹
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	JHB/RSM/MJF
Air New Zealand Express Limited	JHB/NJT/RSM
Air New Zealand Holidays Limited	DWM/NJT/LKL ¹ /SW ² /BP
Air New Zealand International Limited	JHB/NJT/RSM
Air New Zealand Travel Business Limited	JHB/NJT/RSM
Altitude Aerospace Interiors Limited	NJT/RSM/JCF/VMS ¹ /CWN ²
ANEX Holdings Limited	JHB/NJT/RSM
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/GCK ² /JGM/BP/CLH ¹
Eagle Aviation Limited	JHB/NJT/RSM
Freedom Air Limited	JHB/NJT/RSM
Jetaffair Holidays Limited	JHB/NJT/RSM
Lexington Securities Limited	JHB/NJT/RSM
Mount Cook Airline Limited	DWM/JGM/BP/SW ¹
National Airlines Company Limited	JHB/NJT/RSM
New Zealand International Airlines Limited	JHB/RSM/DWM
New Zealand Tourist Promotion Company Limited	JHB/NJT/RSM
Safe Air Limited	MJF/TNH/CET
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	JHB/NJT/RSM
Tourism New Zealand Limited	JHB/NJT/RSM
TXNZ Limited	JHB/NJT/SLW/SFJ ¹
ValetPort Limited	DWM/BP/WJW
Zeal 320 Limited	DWM/BP/GRS

AIR NEW ZEALAND SUBSIDIARY COMPANIES (CONTINUED)

AUSTRALIAN COMPANIES

ADP Pty Limited	JHB/BP/TNH/SWW/MS
Air New Zealand (Australia) Pty Limited	JHB/JFH
Masling Industries Pty Limited	AMS/TNH/NJT/RSM
Safe Air Australia Pty Limited	JHB/DLMK ¹
TAE Aviation Pty Limited	AMS/TNH/NJT/RSM
TAE Gas Turbines Pty Limited	AMS/TNH/NJT/RSM
TAE Pty Limited	AMS/TNH/NJT/RSM

DIRECTORS

NON-AUSTRALASIAN COMPANIES

Air New Zealand Travel Services Limited	DWM/ESAS ¹ /EJO ¹ /JHB ² /CM ²
Mount Cook Tours Limited (USA)	JHB/PW

DIRECTORS

DIRECTORS

AMS	Andrew M Sanderson		
BP	Bruce Parton	MJF	Michael J Flanagan
CET	Craig E Tolley	MS	Mark Siladi
CLH	Carrie L Hurihanganui	NJT	Norman J Thompson
CM	Chris Myers	PW	Peter Walsh
CWN	Chris W Nassenstein	RSM	Robert S McDonald
DLMK	Douglas L M Keesing	SFJ	Stephen F Jones
DWM	David W Mackrell	SLW	Stephen L Wells
EJO	Edward J Overy	SWW	Steve W Watts
ESAS	Ed S A Sims	SW	Sarah Williamson
GRS	Glen R Sowry	TNH	Trevor N Hughes
GCK	Grant C Kerr	TT	Teremoana Taio
HJBR	Hannah J B Ringland	VMS	Vanessa M Stoddart
JCF	James C Fox	WJW	William J Whittaker
JFH	John F Harrison		
JGH	John G Hambleton		
JGM	Jeffrey G McDowall		
JHB	John H Blair		
LKL	Leeanne K Langridge		

1. Appointed during the financial year.

2. Resigned during the financial year.

AIR NEW ZEALAND EMPLOYEE REMUNERATION

	REMUNERATION EARNED IN FY10 INCLUDING BASE, INCENTIVE PAYMENTS AND OPTIONS ISSUED UNDER THE LTI PLAN RELATING TO FY10 PERFORMANCE	REMUNERATION EARNED IN FY09 INCLUDING BASE, INCENTIVE PAYMENTS AND OPTIONS ISSUED UNDER THE LTI PLAN RELATING TO FY09 PERFORMANCE	REMUNERATION PAID IN FY10 INCLUDING BASE FOR FY10, BUT INCENTIVE PAYMENTS INCLUDING OPTIONS ISSUED UNDER THE LTI PLAN THAT RELATE TO FY09 PERFORMANCE BUT PAID IN FY10	
	NZ MGMT & EXEC	NZ MGMT & EXEC	NZ MGMT & EXEC	AIRCREW, TECH STAFF, OVERSEAS & OTHERS
100,000-110,000	118	120	110	417
110,000-120,000	74	106	117	286
120,000-130,000	59	61	62	189
130,000-140,000	67	44	50	139
140,000-150,000	40	48	53	122
150,000-160,000	32	29	39	102
160,000-170,000	29	16	25	70
170,000-180,000	21	34	21	25
180,000-190,000	13	23	27	33
190,000-200,000	11	15	15	65
200,000-210,000	7	8	15	39
210,000-220,000	8	6	9	54
220,000-230,000	4	10	6	31
230,000-240,000	9	8	5	35
240,000-250,000	2	7	9	35
250,000-260,000	1	5	5	24
260,000-270,000	2	4	3	26
270,000-280,000	4	3	4	24
280,000-290,000	3	6	3	31
290,000-300,000	1	2	4	32
300,000-310,000	1	2	3	28
310,000-320,000		1		14
320,000-330,000		3	5	12
330,000-340,000	2		1	20
340,000-350,000		2	2	12
350,000-360,000		1	1	12
360,000-370,000	2			4
370,000-380,000	2			5
380,000-390,000	1	2		5
390,000-400,000		1	1	1
400,000-410,000	4	1		4
410,000-420,000			1	2
420,000-430,000	1	1	1	2
440,000-450,000		2	2	1
450,000-460,000		1	2	1
460,000-470,000	1	2	2	3
470,000-480,000	1	1	1	
480,000-490,000	1	1	1	2
510,000-520,000	1	1	1	
520,000-530,000	1			
530,000-540,000			1	
550,000-560,000	1	1		
560,000-570,000			1	
580,000-590,000		1		
590,000-600,000		1	1	1
600,000-610,000		1		
630,000-640,000			1	
640,000-650,000			1	
650,000-660,000	1			
680,000-690,000		1		
730,000-740,000				
740,000-750,000			1	
790,000-800,000	1			
900,000-910,000	1	1		
910,000-920,000			1	1
940,000-950,000	1			
950,000-960,000	1			
1,030,000-1,040,000		1		
1,060,000-1,070,000		1	1	
1,070,000-1,080,000			1	
1,140,000-1,150,000		1		
1,150,000-1,160,000		1	1	
1,170,000-1,180,000			1	
2,570,000-2,580,000	1			
3,300,000-3,310,000		1		
3,370,000-3,380,000			1	
Total	530	588	618	1,909

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 inspiring people, and our capability development agenda – to nurture 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 incentives.

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. However these fixed base salaries for the CEO and executive team have been frozen, with the last adjustment being in July 2007. The Board lifted the freeze in February 2010 and the first adjustments in salary will be considered for the 2011 financial year.

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 70% on company financial performance and 30% on individual performance against specific targets. For all other employees the weighting is 50% company performance and 50% individual performance.

The main factors in determining the individual targets are:

- 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 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 CEO or executives' after-tax annual performance incentive payment 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 Performance Development and Remuneration Sub-Committee (PDRC) of the Board of Directors but, in the normal course of events, is expected to equate to a value of 2½ times the STI earned on individual targets for the CEO, or 1½ times the STI earned on individual targets for all other scheme participants (the factor for the CEO being higher to reflect the lower proportion of STI based on individual performance (30% versus 50%)). 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.

AIR NEW ZEALAND EMPLOYEE REMUNERATION (CONTINUED)

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

The index comprises the Total Shareholder Return (TSR) for the NZSX All Gross Index and the TSR for the Dow Jones 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 are exercisable 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 PDRC have been met.

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

CEO REMUNERATION

Fixed Base Salary

Over the course of the 2010 financial year, the CEO, Rob Fyfe, earned a base salary of \$1,200,000 (2009 financial year: \$1,200,000) paid in cash. This has remained fixed since July 2007.

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 2010 financial year, Rob Fyfe earned a total STI payment to the value of \$438,398 (2009 financial year: \$1,240,800).

This payment will be made in the 2011 financial year.

Long Term Incentive

Rob Fyfe has 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 mandatory shareholding commitment for the CEO is 66% of his fixed cash amount. For the 2010 financial year the value is \$792,000. This holding value must be maintained to enable the CEO to exercise any options. Rob Fyfe owns or has a beneficial interest in 1,160,221 shares of which 766,350 are held as part of the mandatory shareholding.

Rob Fyfe earned 3,193,548 options under the LTIP for the 2009 financial year valued independently at \$0.248 each, for a total value of \$792,000 (which were issued in September 2009).

CLTIP

The CEO Long Term Incentive Plan is solely an option based scheme and has a five year time horizon. It was established as a further incentive to retain the services of the current CEO for an extended period.

The CEO option scheme commenced in the 2008 financial year and the issue of options will cease in the 2012 financial year.

Each year, at the absolute discretion of the Board, options can be issued to the CEO based on 80% of the CEO's fixed cash remuneration.

Options issued under this scheme are not earned nor do they vest unless the CEO remains employed by Air New Zealand through to September 2012. If this condition is met the options may be exercised within two years after this date.

The exercise price and valuation methodology of the options under the CLTIP mirror the LTIP scheme. So unless Air New Zealand's share price outperforms the index, no value will accrue to the CEO.

Under the CLTIP, Rob Fyfe received a grant of 3,870,968 options for the 2009 financial year valued at \$0.248 each, for a total value of \$960,000 (which were issued in September 2009).

AIR NEW ZEALAND SHAREHOLDER STATISTICS

Top Twenty Shareholders – 27 July 2010

	NUMBER OF ORDINARY SHARES	% OF ORDINARY SHARES
Her Majesty The Queen In Right Of New Zealand	804,191,058	74.69%
HSBC Nominees (New Zealand) Limited	32,304,365	3.00%
National Nominees New Zealand Limited	31,081,740	2.89%
Accident Compensation Corporation	27,150,481	2.52%
Citibank Nominees (NZ) Limited	19,439,455	1.81%
HSBC Custody Nominees (Australia) Limited	18,323,493	1.70%
HSBC Nominees (New Zealand) Limited	17,044,711	1.58%
National Nominees Limited	12,644,376	1.17%
J P Morgan Nominees Australia Limited	12,481,594	1.16%
New Zealand Superannuation Fund Nominees Limited	10,078,802	0.94%
AMP Investments Strategic Equity Growth Trust Fund	7,023,627	0.65%
TEA Custodians Limited	4,041,293	0.38%
NZGT Nominees Limited	2,981,368	0.28%
ANZ Nominees Limited	2,734,979	0.25%
Citicorp Nominees Pty Limited	1,567,548	0.15%
Custody and Investment Nominees Limited	1,269,747	0.12%
Andrew James Shannon	1,035,000	0.10%
Custodial Services Limited	1,005,008	0.09%
Robert Ian Fyfe	910,029	0.08%
Garth Barfoot	895,156	0.08%
TOTAL	1,008,203,830	93.64%

Substantial Security Holders

The following information is provided in compliance with Section 26 of the Securities Amendment Act 1988 and is stated as at 27 July 2010. The total number of voting securities of Air New Zealand Limited at that date was 1,076,747,302.

SUBSTANTIAL SECURITY HOLDER	VOTING SECURITIES IN THE COMPANY IN WHICH A RELEVANT INTEREST IS HELD
Her Majesty the Queen in Right of New Zealand	804,191,058

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

AIR NEW ZEALAND SHAREHOLDER STATISTICS (CONTINUED)

Shareholder Spread - 27 July 2010

SIZE OF SHAREHOLDING ORDINARY SHARES	SHAREHOLDERS		SHARES	
	NUMBER	%	NUMBER	%
1 to 1,000	16,915	66.59%	6,706,497	0.62%
1,001 to 5,000	6,401	25.20%	14,283,658	1.33%
5,001 to 10,000	1,067	4.20%	7,903,902	0.73%
10,001 to 100,000	945	3.72%	24,495,055	2.28%
100,001 and over	74	0.29%	1,023,358,190	95.04%
TOTAL	25,402	100%	1,076,747,302	100%

Current On-Market Share Buybacks

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

Non-Marketable Parcels of Shares

As at 27 July 2010, 4,122 shareholders held Ordinary Shares of less than a marketable parcel (as defined by the NZSX Listing Rules).

AIR NEW ZEALAND OPERATING FLEET STATISTICS

AS AT 30 JUNE 2010



Boeing 747-400

Number: 7
Average Age: 15.5 years
Maximum Passengers: 379
Cruising Speed: 920 km/hr
Average Range: 11,850 km
Av. Daily Utilisation: 9:48 hrs



Boeing 777-200ER

Number: 8
Average Age: 4.2 years
Maximum Passengers: 304
Cruising Speed: 910 km/hr
Average Range: 11,950 km
Av. Daily Utilisation: 14:24 hrs



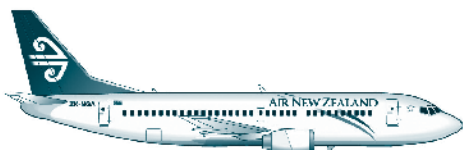
Boeing 767-300ER

Number: 5
Average Age: 14.8 years
Maximum Passengers: 223
Cruising Speed: 870 km/hr
Average Range: 9,640 km
Av. Daily Utilisation: 12:00 hrs



Airbus A320-200

Number: 12
Average Age: 5.9 years
Maximum Passengers: 152
Cruising Speed: 850 km/hr
Average Range: 4,900 km
Av. Daily Utilisation: 10:32 hrs



Boeing 737-300

Number: 15
Average Age: 12.5 years
Maximum Passengers: 133
Cruising Speed: 790 km/hr
Average Range: 3,520 km
Av. Daily Utilisation: 7:25 hrs



ATR 72-500

Number: 11
Average Age: 9.5 years
Maximum Passengers: 68
Cruising Speed: 518 km/hr
Average Range: 850 km
Av. Daily Utilisation: 7:06 hrs



Bombardier Q300

Number: 23
Average Age: 3.4 years
Maximum Passengers: 50
Cruising Speed: 520 km/hr
Average Range: 770 km
Av. Daily Utilisation: 6:46 hrs



Beech 1900D

Number: 18
Average Age: 8.5 years
Maximum Passengers: 19
Cruising Speed: 510 km/hr
Average Range: 530 km
Av. Daily Utilisation: 6:05 hrs

AIR NEW ZEALAND

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 Share¹ 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 2010.

NEW ZEALAND STOCK EXCHANGE

General:

An ongoing waiver granted to all companies dual listed on the NZSX 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 2010:

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 8.1.3 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.

3. A waiver from NZSX Listing Rule 9.1.1 and 10.5.5(f) on July 23 2009 to allow Air New Zealand exemption from seeking shareholder approval for a transaction to acquire up to 14 narrow body A320 aircraft having a total market value of up to US\$750 million, which amounts to an acquisition (either through purchase or lease) of assets with a relatively high value when measured against Air New Zealand's Average Market Capitalisation.

AUSTRALIAN STOCK EXCHANGE

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

Limitations on the Acquisition of Securities

Constitution

The limitations on the acquisition of securities imposed by the Company's Constitution are summarised below: (capitalised terms are defined either in the Constitution or the Takeovers Code²):

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

¹ 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 those 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).

AIR NEW ZEALAND GENERAL INFORMATION (CONTINUED)

THE TAKEOVERS CODE

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

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

CORPORATIONS ACT 2001 (AUSTRALIA)

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

AIR NEW ZEALAND SHAREHOLDER DIRECTORY

Share Registrar

Link Market Services Limited
Level 16, Brookfields House
19 Victoria Street West, Auckland 1010
PO Box 91976, Auckland 1142
New Zealand
Investor Enquiries
Phone: (64 9) 375 5998
Fax: (649) 375 5990
Email: imsenquiries@linkmarketservices.com

Australia

Link Market Services Limited
Level 12, 680 George Street
Sydney, Australia
Locked Bag A14, Sydney South NSW 1235
Investor Enquires
Phone: (61 2) 8280 7111
Fax: (61 2) 9287 0303

Investor Relations

Investor Relations Office
Private Bag 92007, Auckland 1010
New Zealand
Phone: (64 9) 336 2287
Fax: (64 9) 336 2664
Email: investor@airnz.co.nz
Web site: www.airnzinvestor.com

Annual Meeting

Date: 24 September 2010
Time: 2.00 pm
Venue: The Events Centre, Auckland Museum, Auckland.
Entry via the Atrium Entrance at the South end.
The Notice of Annual Meeting is enclosed with this Annual Report.

Current Credit Rating

Moodys rate Air New Zealand Ba1

Auditor

Deloitte (on behalf of the Auditor-General)
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80 Queen Street, Auckland Central
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ABN 70 000 312 685

Board of Directors

John Palmer, Chairman
Roger France, Deputy Chairman
Paul Bingham
James (Jim) Fox
Jane Freeman
Warren Larsen
John McDonald

Chief Executive Officer

Rob Fyfe

Chief Financial Officer

Rob McDonald

General Counsel and Company Secretary

John Blair

