Corporate Governance

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 of Air New Zealand. This Corporate Governance Statement was approved by the Board on 25 August 2016. 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:

- **Code of Conduct**
  This guide has been developed by the Group summarising the basic principles of legal and ethical conduct expected of everyone at Air New Zealand. The Code of Conduct can be found at: http://www.airnewzealand.co.nz/corporate-governance-policies.

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

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

- **Continuous Disclosure and Trading in 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 Financial Markets Conduct Act 2013. This policy has been updated to reflect recent legislative changes. Air New Zealand has a policy on Continuous Disclosure requirements available at: http://www.airnewzealand.co.nz/corporate-governance-policies.

- **Gifts, Entertainment and Inducements**
  Air New Zealand has a gifts, entertainment and inducements policy governing the acceptance and reporting of benefits offered or given to staff by third parties.

- **Donations**
  The Air New Zealand Group has made donations totalling $58,944 in the financial year to 30 June 2016, including donations primarily to the Air New Zealand Environmental Trust. No donations were made to any political party. It is Air New Zealand's policy not to make donations, in cash or in kind, or to provide free of charge travel to political parties.

- **Interests Register**
  In accordance with the Financial Markets Conduct Act 2013, Air New Zealand maintains an interests register in which relevant transactions and matters involving the directors and senior managers 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 ordinarily resident in New Zealand.

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 the Chief Executive Officer in turn, sub-delegates authority to the Chief Financial Officer, the Executive management team and senior management. These delegated authorisation levels are subject to Board approval, internal and external audit.

Chairman

Mr Tony Carter has been an independent non-executive director since 1 December 2010 and Chairman of Air New Zealand since 27 September 2013. Ms Jan Dawson was appointed Deputy Chairman on 27 September 2013. The chairman's role includes 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 at http://www.airnewzealand.co.nz/board. All directors, including the Chairman, are independent directors under those criteria. Directors are required to inform the Board of all relevant information which may affect their independence and at least annually, to reconfirm their independence.
Corporate Governance (continued)

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

Board committees
The Board has delegated certain of its responsibilities to the Health, Safety and Security Committee, the Audit Committee, the People Remuneration and Diversity Committee and the Funding Committee.

Health, Safety and Security Committee
The purpose of the Health, Safety and Security Committee is to ensure that at all times, the Company has effective systems and processes in operation to ensure and assure the best practicable operational and occupational health, safety and security of its staff, contractors and customers associated with and potentially affected by its business undertakings.

• The Chairman of the Health, Safety and Security Committee is an independent non-executive director. Information on the current independent Non-Executive Directors and the Committee Charter can be found at: http://www.airnewzealand.co.nz/board-committees.
• The Health, Safety and Security Committee ensures and assures that, at all times, Air New Zealand has workable and effective systems and processes in place to provide the best practicable health, safety and security of those associated with and potentially impacted by its business undertakings.

Audit Committee
• The Chairman of the Audit Committee is an independent non-executive director who is not the Chairman of the Board. The Committee currently has four independent Non-Executive Directors. The Audit Committee assists the Board in discharging its responsibilities in relation to the financial reporting, compliance and risk management practices of Air New Zealand. The Audit Committee is responsible for oversight of risk management and formally reviews the key risks facing the entity and the risk management framework every six months with the last review completed in May 2016.
• The Audit Committee liaises with the Auditor General on the appointment and re-appointment of the external auditors, to ensure the independence of the external auditor is maintained, and to approve the performance of any non-audit services in accordance with the Audit Independence Policy. Further details including the Audit Charter and members of the Audit Committee are available at: http://www.airnewzealand.co.nz/board-committees.
• The Company's Head of Internal Audit reports functionally to the Audit Committee and administratively to the General Manager Governance, Risk and Compliance. The internal auditors' responsibilities are defined by the Audit Committee as part of their oversight role. Internal Auditing is an independent and objective assurance and consulting activity that is guided by a philosophy of adding value to improve the operations of Air New Zealand.

People Remuneration and Diversity Committee
• The Chairman of the People Remuneration and Diversity Committee is an independent non-executive director. Information on the current Non-Executive Directors and the Committee Charter can be found at: http://www.airnewzealand.co.nz/board-committees.
• The People Remuneration and Diversity Committee monitors issues related to management structure, diversity and remuneration of the Chief Executive Officer and other Senior Executives*.

Funding Committee
• The Funding Committee was established in November 2015 to review and advise the Board in relation to an annual debt plan and to deal on an ad hoc basis with delegated administrative approvals of transactions within the scope of the debt plan. The Committee consists of three members who meet as required in person or by electronic communication to ensure efficient processing of authorised transactions. No Committee fees are paid in respect of this Committee. The Committee Charter can be found at: http://www.airnewzealand.co.nz/board-committees.

Board and Committee meetings held 1 July 2015 – 30 June 2016.

<table>
<thead>
<tr>
<th></th>
<th>Board</th>
<th>Audit Committee</th>
<th>People Remuneration and Diversity Committee</th>
<th>Health, Safety and Security Committee</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Meetings Held</td>
<td>Attended</td>
<td>Meetings Held</td>
<td>Attended</td>
</tr>
<tr>
<td>Tony Carter</td>
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<tr>
<td>Jan Dawson</td>
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<tr>
<td>Paul Bingham</td>
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<td>Roger France²</td>
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<td>Linda Jenkinson</td>
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<td>Jonathan Mason</td>
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<tr>
<td>Therese Walsh³</td>
<td>15</td>
<td>3</td>
<td>5</td>
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</table>

1. These columns indicate the number of meetings held during the period 1 July 2015 – 30 June 2016.
2. Resigned as a director on 8 October 2015.
3. Appointed 1 May 2016.

*Definitions:
Executive Team: Chief Executive Officer and direct reports. The members of the Executive Team are defined as Officers of the Company.
Senior Leadership Team (SLT): Direct reports to Executive Team and other selected senior managers.
Senior Executives: Executive Team and Senior Leadership Team.
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.

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

Remuneration and performance evaluation

Executives

Each Senior Executive receives a letter formalising their appointment and that letter outlines the key terms and conditions of their appointment. Air New Zealand’s performance management system applies to the Senior Executive 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 Senior Executives’ achievement of Air New Zealand’s goals is appropriately recognised and rewarded. The last performance evaluation for Senior Executives was undertaken during June 2016 (in respect of the 2016 financial year).

Non-Executive Directors

Air New Zealand’s independent Non-Executive Directors do not participate in any executive remuneration scheme or employee share schemes; nor do they receive options, bonus payments or any incentive-based remuneration. Directors are entitled to be reimbursed by Air New Zealand for reasonable travelling, accommodation and other expenses they may incur whilst travelling to or from meetings of the directors or committees. Further details on remuneration of independent Non-Executive Directors are available on page 57.

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 some members of the Executive Team are sought on Board process, efficiency, and effectiveness, and are discussed by the Board as a whole. In conjunction with this process, those directors retiring annually by rotation who are standing for re-election have their performance evaluated by their fellow directors in a process co-ordinated by the Chairman, (or by the Deputy Chairman to review the Chairman) with individual feedback to each director as their evaluation is completed. This Performance evaluation process has been applied in respect of the 2016 financial year.

Appointment, Induction and Training

Each independent Non-Executive Director receives a letter formalising their appointment. That letter outlines the key terms and conditions of their appointment and is required to be countersigned confirming agreement. All appropriate checks are completed prior to appointment of new directors.

When appointing new directors, the Board aims to ensure that an appropriate balance of skills, experience and diversity is represented on the Board. The Board introduces new directors to Senior Executives and the business through specifically tailored induction programmes. The programme includes one-on-one meetings with members of the Executive Team together with visits to key operational business areas. All directors are regularly updated on current industry and company issues by presentations and briefings from Senior Executives. The Board expects all directors to undertake continuous education so that they can effectively perform their duties and progress on this forms part of the Board evaluation process.

The Non-Executive Directors’ qualifications, skills and experience are summarised in the table below.

<table>
<thead>
<tr>
<th>Qualifications</th>
<th>Tony Carter</th>
<th>Jan Dawson</th>
<th>Paul Bingham</th>
<th>Rob Jager</th>
<th>Linda Jenkinson</th>
<th>Jonathan Mason</th>
<th>Therese Walsh</th>
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<td>Tourism</td>
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<tr>
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</table>
Diversity and Inclusion

Air New Zealand continues to make strong progress delivering to diversity and inclusion objectives. Our focus continues on gender representation, in particular, to increase the number of females in leadership positions. We are also increasing focus on our cultural diversity to ensure our employee population is reflective of our diverse customer base. Furthermore, as an international airline we believe an open and inclusive culture will deliver superior business results in existing markets and enable success in new markets.

As such, there are four strategic areas as we continue to progress on our diversity and inclusion objectives.

1. Creating an inclusive and collaborative culture;
2. Growing inclusive leadership capability;
3. Building a diverse workforce; and

Creating an Inclusive and Collaborative Culture

We have continued to increase cultural awareness through celebration of cultural events including, Diwali, Chinese New Year, Pasifika festival, Auckland Pride Parade, Matariki and Maori Language week.

In order to effectively monitor our progress in achieving a collaborative culture we ensure that we are collecting and reporting on up to date data. We capture diversity data through the following:

- At the recruitment stage through our employee information system where employees can also add additional diversity related information.
- In our employee engagement survey where we have included additional diversity questions.
- In our talent management system where employees can identify the networks they are part of.

In the 2017 financial year we will seek to establish some key metrics and a diversity dashboard to better understand our opportunities and areas of priority for future diversity and inclusion initiatives.

Growing Inclusive Leadership Capability

In 2015 we introduced an unconscious bias module into our Recruitment Excellence module. We also provided unconscious bias training to our senior leaders and incorporated unconscious bias elements into our foundational leadership programme. In addition, we introduced an unconscious bias assessment tool. As we look to build inclusive leadership capability across the organisation we will continue to review the effectiveness of our unconscious bias training.

We offer personalised coaching on Te Reo and cultural protocols for Executive members and senior leaders and in August 2016, we are offering cultural fluency training for key leaders. This is a joint Department of Conservation/Air New Zealand participation on Te Papa Atawhai, a three day Wananga.

Building a Diverse Workforce

We are maintaining a strong focus on gender diversity across all of our business units. As illustrated in the graph below, we have seen an increase in female representation year on year from 2013 across many levels of the organisation. Our key area of focus continues to be women in senior leadership roles, with a target to achieve 40% women on the Senior Leadership Team (SLT) by 2020 and milestone targets were set to achieve 30% constitution by 2016. As of 30 June 2016, the SLT is at the target level of 30% female.

In the 2015 financial year we launched our internal Women in Leadership programme, a professional development programme for our talent population, aimed at building a solid pipeline of women ready to move into senior leadership roles. We are also partnering with external organisations to sponsor places on development programmes for women. Specifically, AMP's: Women in Leadership Pathway programme, The Leadership Academy: Perspectives on Women in Leadership and Global Women: Breakthrough Leaders programme.

Our women’s network continues to thrive. We offer regular networking events, newsletters, access to resources and a comprehensive calendar of other events aimed at connecting women across the airline, providing education and development opportunities as well as sharing information, ideas and inspiration. We have also partnered with Professionelle to provide mentoring to our women who are in the early stages of their career to develop our emerging female leaders.
Finally, we are going to implement software which removes gender or cultural bias in an applicant's curriculum vitae as part of the recruitment process, removing factors which could result in bias, such as ethnic names.

In addition to a continued focus on gender we have increased our focus on cultural diversity, particularly in support of the markets we operate in and to embrace our unique cultural heritage and ensure we reflect the diversity of New Zealand within our employee population. We have a wide range of active employee networks including: Young Professionals, Maori and Pacific Island (Manu) and Pride networks. The overarching purpose for all of our networks is:

- To promote a sense of community and belonging across different employee groups.
- Increase visibility and awareness of our diverse workforce.
- Advancement of knowledge and capability.
- Connect with other corporate networks and the communities we serve, to share knowledge and learn from each other, contributing to the development of wider New Zealand.

As we continue to increase our focus on cultural diversity we will look to introduce the following in the 2017 financial year:

- Grow Maori cultural fluency across relevant roles and business units
- Celebrations and initiatives supporting Maori language and culture; including Maori language and culture champions and Te Kete Tikanga Maori mobile app.

Growing Diverse Talent Pools

Although we continue to apply a gender focus to our internal talent identification process to ensure we have a diverse pipeline of senior leaders, additional focus on cultural diversity and leaders from minority populations is planned for the 2017 financial year. Key initiatives include:

- Principal sponsor of Champions for Change: 'Tupu Toa – Maori and Pasifika Corporate Pathways Programme' an internship programme to promote and encourage young Maori and Pasifika into corporate careers.
- Introduction of targets for Maori and Pasifika into leadership positions across the business.
- Identification of emerging talent from minority populations. We will partner with external organisations to provide targeted and specific development programmes for emerging leaders from minority populations.
- Greater focus on building Asian talent pipelines, this includes identifying talent, offering appropriate and specific development opportunities and tracking the progress of these initiatives.

The full Air New Zealand Diversity and Inclusion Policy can be found at: [http://www.airnewzealand.co.nz/corporate-governance-policies](http://www.airnewzealand.co.nz/corporate-governance-policies).

Differences in corporate governance 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 has been provided in the prior pages. Any divergence from the NZX Code and the ASX Recommendations is explained in the table below.

<table>
<thead>
<tr>
<th>ASX Corporate Governance Principles and Recommendations</th>
<th>NZX Corporate Governance Best Practice Code</th>
<th>Reason for not following</th>
</tr>
</thead>
<tbody>
<tr>
<td>2.1 The board should establish a nomination committee.</td>
<td>2.2 Unless constrained by size, an issuer should establish a nomination committee as recommended in paragraph 3.10.</td>
<td>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.</td>
</tr>
</tbody>
</table>