2007

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 and its controlled entities (together the "Group") for the year to 30 June 2007.

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 2007 and the results of the Group's operations and cash flows for the year ended on that date.

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

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

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

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

John Palmer, CHAIRMAN

Roger France, DIRECTOR

28 August 2007

FINANCIAL STATEMENTS

GENERAL INFORMATION

* This document, in conjunction with the Air New Zealand Shareholder Annual Review 2007, constitutes the 2007 Annual Report to shareholders of Air New Zealand Limited.

STATEMENT OF FINANCIAL PERFORMANCE

FOR THE YEAR TO 30 JUNE 2007	NOTES	GROUP 2007 $M	GROUP 2006 $M	COMPANY 2007 $M	COMPANY 2006 $M
Operating Revenue					
Passenger revenue		**3,497**	3,088	**2,883**	2,537
Cargo		**396**	359	**392**	358
Contract services		**264**	237	**227**	224
Other revenue		**140**	121	**218**	161
	1 & 2	**4,297**	3,805	**3,720**	3,280
Operating Expenditure					
Labour		**(886)**	(863)	**(759)**	(746)
Fuel		**(1,108)**	(949)	**(1,004)**	(849)
Maintenance and overhaul		**(230)**	(218)	**(183)**	(170)
Aircraft operations		**(388)**	(352)	**(301)**	(278)
Passenger services		**(223)**	(222)	**(210)**	(208)
Sales and marketing		**(322)**	(311)	**(292)**	(282)
Other expenses		**(280)**	(201)	**(412)**	(105)
	2	**(3,437)**	(3,116)	**(3,161)**	(2,638)
Earnings Before Interest, Taxation, Depreciation Amortisation and Rental Expenses		**860**	689	**559**	642
Depreciation and amortisation	2	**(279)**	(261)	**(132)**	(121)
Rental and lease expenses	2	**(298)**	(280)	**(458)**	(389)
Earnings Before Interest and Taxation		**283**	148	**(31)**	132
Net interest	2	**(15)**	2	**50**	56
Operating Surplus Before Taxation and Unusual Items		**268**	150	**19**	188
Unusual items*		**(24)**	(44)	**(24)**	(44)
Operating Surplus Before Taxation		**244**	106	**(5)**	144
Taxation (expense)/credit	3	**(30)**	(10)	**14**	(7)
Net Surplus Attributable to Shareholders of Parent Company		**214**	96	**9**	137
Per Share Information:					
Basic earnings per share (cents)		**20.9**	9.6		
Diluted earnings per share (cents)		**20.5**	9.4		
Dividend per share (cents):					
Interim and final dividend (declared)		**8.0**	5.0		
Special dividend		**10.0**	–		
Net tangible assets per share (cents)		**166**	159		

* Unusual items for the year ended 30 June 2007 comprise business reorganisation costs (30 June 2006: ANZES reorganisation programme costs of $30 million, and business reorganisation costs of $14 million).

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

STATEMENT OF MOVEMENTS IN EQUITY

FOR THE YEAR TO 30 JUNE 2007	NOTES	GROUP 2007 $M	GROUP 2006 $M	COMPANY 2007 $M	COMPANY 2006 $M
Net surplus attributable to shareholders		**214**	96	**9**	137
Translation (loss)/gain in foreign currency translation reserve	17	**(3)**	4	**(22)**	14
Total Recognised Revenues and Expenses		**211**	100	**(13)**	151
Shares issued	16	**105**	3	**104**	3
Dividend on Ordinary Shares	14	**(162)**	(50)	**(162)**	(50)
Movements in Equity for the Year		**154**	53	**(71)**	104
Equity at the Beginning of the Year		**1,594**	1,541	**967**	863
Equity at the End of the Year		**1,748**	1,594	**896**	967

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

STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2007	NOTES	GROUP 2007 $M	GROUP 2006 $M	COMPANY 2007 $M	COMPANY 2006 $M
Current Assets					
Bank and short term deposits	4	**1,058**	1,150	**1,051**	1,144
Trade and other receivables		**568**	429	**530**	389
General stores	5	**119**	121	**106**	109
Income taxation		**37**	–	**–**	–
Other assets	6	**29**	21	**447**	302
Total Current Assets		**1,811**	1,721	**2,134**	1,944
Non-Current Assets					
Trade and other receivables		**14**	16	**–**	–
Property, plant and equipment	7	**2,888**	2,669	**1,021**	1,005
Investments	8	**47**	54	**190**	193
Other assets	6	**184**	325	**167**	308
Total Non-Current Assets		**3,133**	3,064	**1,378**	1,506
Total Assets		**4,944**	4,785	**3,512**	3,450
Current Liabilities					
Bank overdraft and short term borrowings	4	**1**	–	**1**	–
Trade and other payables		**400**	494	**344**	441
Transportation sales in advance		**628**	526	**601**	493
Borrowings	10	**66**	315	**–**	–
Finance lease liabilities	11	**49**	30	**20**	18
Provisions	12	**103**	102	**103**	102
Income taxation		**–**	14	**70**	185
Other liabilities	13	**124**	100	**910**	633
Total Current Liabilities		**1,371**	1,581	**2,049**	1,872
Non-Current Liabilities					
Trade and other payables		**26**	26	**16**	18
Convertible notes	9	**–**	98	**–**	98
Borrowings	10	**440**	537	**–**	–
Finance lease liabilities	11	**829**	478	**274**	293
Provisions	12	**79**	94	**79**	94
Other liabilities	13	**27**	13	**117**	104
Deferred taxation	15	**424**	364	**81**	4
Total Non-Current Liabilities		**1,825**	1,610	**567**	611
Total Liabilities		**3,196**	3,191	**2,616**	2,483
Net Assets		**1,748**	1,594	**896**	967
Equity					
Issued capital	16	**2,213**	2,108	**2,221**	2,117
Asset revaluation reserve		**9**	9	**12**	12
Revenue reserves	17	**(474)**	(523)	**(1,337)**	(1,162)
Total Equity		**1,748**	1,594	**896**	967

John Palmer, CHAIRMAN
For and on behalf of the Board, 28 August 2007

Roger France, DIRECTOR

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

STATEMENT OF CASH FLOWS

FOR THE YEAR TO 30 JUNE 2007	NOTES	GROUP 2007 $M	GROUP 2006 $M	COMPANY 2007 $M	COMPANY 2006 $M
Cash Flows from Operating Activities					
Cash provided from:					
Receipts from customers		**4,370**	3,856	**3,795**	3,335
Interest on:					
– Deposits		**84**	69	**84**	69
– Related party balances		**–**	–	**23**	25
		4,454	3,925	**3,902**	3,429
Cash applied to:					
Payments to suppliers and employees		**(3,757)**	(3,443)	**(3,606)**	(3,048)
Income tax paid		**(19)**	(61)	**(19)**	(18)
Interest on:					
– Finance lease liabilities		**(41)**	(14)	**–**	–
– Borrowings		**(41)**	(36)	**–**	–
– Other		**(12)**	(29)	**(11)**	(18)
– Related party balances		**–**	–	**(50)**	(32)
		(3,870)	(3,583)	**(3,686)**	(3,116)
		584	342	**216**	313
Rollover of foreign exchange contracts*		**(253)**	131	**(164)**	74
Net Cash Flow from Operating Activities	4	**331**	473	**52**	387
Cash Flows from Investing Activities					
Cash provided from:					
Disposal of property, plant and equipment		**64**	10	**10**	9
Finance lease receipts		**–**	1	**–**	1
		64	11	**10**	10
Cash applied to:					
Acquisition of property, plant and equipment		**(556)**	(764)	**(65)**	(537)
Secured deposit		**(15)**	(15)	**(15)**	(15)
Acquisition of investments		**(3)**	(4)	**(10)**	–
		(574)	(783)	**(90)**	(552)
Net Cash Flow from Investing Activities	4	**(510)**	(772)	**(80)**	(542)
Cash Flows from Financing Activities					
Cash provided from:					
Shares issued		**2**	1	**–**	1
Borrowings and finance lease liability drawdowns		**493**	589	**–**	375
Net increase in related party funding		**–**	–	**111**	–
		495	590	**111**	376
Cash applied to:					
Borrowings and finance lease liability payments		**(249)**	(163)	**(17)**	(64)
Dividend on Ordinary Shares	14	**(160)**	(48)	**(160)**	(48)
Net decrease in related party funding		**–**	–	**–**	(26)
		(409)	(211)	**(177)**	(138)
Net Cash Flow from Financing Activities	4	**86**	379	**(66)**	238
Net Movement in Cash Holding		**(93)**	80	**(94)**	83
Cash balance at beginning of year		**1,150**	1,070	**1,144**	1,061
Cash Balance at End of Year	4	**1,057**	1,150	**1,050**	1,144

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

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

STATEMENT OF ACCOUNTING POLICIES

Entities Reporting
The financial statements for the Company are for Air New Zealand Limited as a separate legal entity. The consolidated financial statements for the Group comprise Air New Zealand Limited, its subsidiaries and associates.

Statutory Base
The financial statements have been prepared in accordance with the Companies Act 1993 and the Financial Reporting Act 1993. The Company and the Group are issuers under the Financial Reporting Act 1993.

Measurement Basis
The financial statements have been prepared on the historical cost basis, with the exception of certain items as identified in specific accounting policies below. All amounts are expressed in New Zealand dollars unless otherwise stated.

Accounting Policies
The financial statements are prepared in accordance with New Zealand generally accepted accounting practice. The accounting policies that materially affect the measurement of the financial performance, financial position and cash flows are set out below:

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 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 Company, either directly or indirectly, holds a significant but not a controlling interest.

All material intercompany transactions, balances and unrealised surpluses and deficits on transactions between the Company and its subsidiaries are eliminated.

The results of subsidiaries or associates acquired or disposed of during the year are included in the Statement of Financial Performance from the date of acquisition or up to the date of disposal.

Goodwill
The excess of cost over the fair value of the net assets, of the subsidiary or associate, at the date of acquisition is recognised as goodwill and amortised to the Statement of Financial Performance over the period of expected benefit. This period has been assessed as no longer than 20 years from the date of acquisition. The carrying amount is reviewed annually by the directors and adjusted where it is considered necessary.

Revenue Recognition
Airline revenue
Passenger and cargo sales are credited to transportation sales in advance. Amounts are transferred to revenue in the Statement of Financial Performance when the actual carriage is performed.

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

Revenues associated with the sale of frequent flyer points to third parties, together with the associated costs, are deferred until the frequent flyer member has redeemed their points and completed their journey.

Investment revenue
Dividend revenue is recognised when the dividend is declared.

Interest revenue from investments and fixed deposits is recognised on an accruals basis.

Work in Progress
Contract work in progress is stated at cost plus the surplus 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 by the Group's contract operations.

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

General Stores
General stores are recognised at the lower of cost and recoverable value. Cost is determined using the weighted average method.

Accounts Receivable
Accounts receivable are carried at estimated recoverable value after providing against debts where collection is considered to be doubtful.

Property, Plant and Equipment
Recognition
Property, plant and equipment is initially recorded at cost. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to the location and working condition for intended use. Certain land and buildings were subsequently recorded at valuation. The directors elected to continue to account for these assets on the basis of the revalued amounts as at 30 June 1992, and accordingly this value represents their deemed cost.

Assets which are not in use and are held with the intention of resale are transferred from non-current assets to current assets, and are carried at the lower of depreciated cost and recoverable value.

Depreciation
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:

Jet aircraft	15–22 years
Other aircraft	18–22 years

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

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

Leased Assets

Finance leases

Assets acquired under finance leases are recognised in the Statement of Financial Position. Leased assets are recognised initially at the lower of the present value of the minimum lease payments and their fair value, and depreciated on the same basis as equivalent property, plant and equipment. A corresponding liability is also established and each lease payment allocated between the liability and the finance lease interest expense.

Operating leases

Leases under which all the risks and benefits of ownership are effectively retained by the lessor are classified as operating leases. Operating lease payments are recognised as an expense in the Statement of Financial Performance in the periods to which the amounts relate.

Investments

Investments in subsidiaries are carried at the lower of cost and recoverable value. Investments in associates are stated at the lower of recoverable value and cost at acquisition, together with the Group's share of post-acquisition increases or decreases in reserves. Other investments are carried at the lower of cost and recoverable value.

Impairment

The directors assess the carrying value of each asset class annually. Where the estimated recoverable value of the asset is less than its carrying amount, the asset is written down. The impairment loss (or any reversal thereof) is recognised in the Statement of Financial Performance.

Deferred Credits

Net credits arising from the sale and subsequent finance lease back of aircraft are amortised over the term of the respective leases. Net credits arising on a sale and subsequent operating lease back are recognised as a surplus in the year the transaction occurs.

Taxation

Taxation recognised in the Statement of Financial Performance for the year is based on the accounting result, adjusted for permanent differences between accounting and taxation rules.

The impact of all timing differences between accounting and taxable income is recognised as a deferred taxation liability or asset. The comprehensive basis is used for the calculation of deferred taxation under the liability method.

A deferred taxation asset, or the effect of losses carried forward that exceed the deferred taxation liability, is recognised in the financial statements only where there is virtual certainty that the benefit of the timing differences, or losses, will be utilised.

The impact of timing differences relating to movements in reserves are recognised within deferred taxation. These movements primarily relate to the translation of the United States Dollar denominated portion of jet aircraft. Deferred taxation in relation to this reserve will crystallise upon sale of the aircraft.

Convertible Instruments

The classification of convertible instruments is determined at the date of issue and is disclosed as debt or equity depending upon the specific terms and conditions.

Equity Options

All options are disclosed in Note 16, but only those issued for cash consideration are recognised within equity in the financial statements.

Statement of Cash Flows

The following definitions are used in the Statement of Cash Flows:

a) Operating activities include all transactions other than events which are investing or financing activities.

b) Investing activities relate to the acquisition, holding and disposal of property, plant and equipment and of investments.

c) Financing activities result in changes in the size and composition of the capital structure. This includes both equity and debt not falling within the definition of cash. Dividends paid in relation to the capital structure are included in financing activities.

d) Cash is considered to be cash on hand, demand deposits, and current accounts in banks, net of overdrafts and short term borrowings.

Financial Instruments

Recognised

Financial instruments carried on the Statement of Financial Position include cash and bank balances, investments, receivables, payables, borrowings, finance lease liabilities and finance lease receivables. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item.

Unrecognised

Interest rate instruments

Interest payments and receipts under interest rate swaps are recognised on an accruals basis in the Statement of Financial Performance.

The net differential to be paid or received on an interest rate swap agreement is recognised as a component of interest expense over the period of the agreement.

STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

Foreign exchange instruments

Forward exchange contracts entered into as hedges of foreign currency assets and liabilities are valued at exchange rates prevailing at balance date. Any unrealised gains or losses are offset against foreign exchange gains and losses on the related asset or liability.

Gains or losses on contracts which hedge specific anticipated short term foreign currency denominated transactions are recognised as a component of the related transaction in the period in which the transaction is completed. The Group is not involved in foreign exchange speculation.

Premiums paid on currency swaps are amortised over the year to maturity or period of benefit.

Fuel instruments

The Group enters into fuel option contracts to hedge a portion of its price risk related to aircraft fuel purchases.

Gains or losses on call/put options designated as hedges are recognised upon contract expiration. Gains or losses arising from fuel swaps are recognised at maturity dates. Premiums paid on fuel options are deferred until the period of benefit.

Other

Losses from financial guarantees are recognised if and when the Group becomes liable for the outstanding amounts.

Foreign Currencies

Transactions

Foreign currency transactions are translated to New Zealand Dollars at an exchange rate set by reference to market rates at the beginning of each month. Where specific short term forward currency contracts have been entered into, the transaction is translated at the rate contained in the contract. Exchange gains or losses on non specific short term forward currency contracts entered into in accordance with policy mandated by the Board of directors are recognised in the Statement of Financial Performance on settlement and are included within the item net foreign exchange (loss)/gain. At balance date, monies held and amounts receivable or payable in foreign currencies are converted at exchange rates ruling at balance date. Resulting exchange differences are accounted for in the Statement of Financial Performance and are included within the item net foreign exchange (loss)/gain.

Hedges

The residual value of the jet aircraft fleet, engines, simulators and progress payments (limited to the estimated residual value of the underlying asset) and certain investments in foreign operations which are denominated in United States Dollars are designated as a hedge of the related secured United States Dollar denominated borrowings and finance lease liabilities.

Exchange differences arising on the translation of these assets and liabilities are transferred to the foreign currency translation reserve. In the event that borrowings and finance lease liabilities exceed the assets designated as hedges, exchange differences arising on the translation of the excess borrowings and finance lease liabilities are transferred to the Statement of Financial Performance and are included within the item net foreign exchange (loss)/gain. The designated hedge is deemed to exist until disposal of the asset. Upon disposal, all exchange gains or losses related to the asset and the associated funding are transferred from the foreign currency translation reserve to retained earnings.

Foreign operations

Assets and liabilities of independent foreign operations are translated at exchange rates existing at balance date. Revenue and expenses of independent foreign operations are translated at rates of exchange approximating those ruling at the date of the transaction. Exchange differences arising on translation are transferred to the foreign currency translation reserve, together with the unrealised gains or losses on foreign currency monetary liabilities that are designated as hedges of these operations.

Reporting of integrated foreign operations is dealt with in accordance with the policy specified under “Transactions” above.

Earnings per Share

Basic earnings per share is based on the surplus/(deficit) attributable to the shareholders of the Company, adjusted for preference coupons, divided by the weighted average number of Ordinary Shares issued and fully paid during the year.

Diluted earnings per share is based on the surplus/(deficit) attributable to the shareholders of the Company divided by the weighted average number of Ordinary Shares issued and fully paid during the year, adjusted for the effects of all dilutive potential Ordinary Shares.

Comparatives

Where necessary, comparative information has been reclassified to achieve consistency in disclosure with the current year.

Changes in Accounting Policies

There have been no changes in accounting policies during the year.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR TO 30 JUNE 2007

1. SEGMENTAL INFORMATION

Industry Segment

Air New Zealand operates predominantly in one industry segment, its primary business being the transportation of passengers and cargo on scheduled airline services.

Geographical Segment

The Group's airline operations are scheduled services within, to or from New Zealand. An analysis of flight revenue by route area is provided below. The principal assets of the Group are located in New Zealand.

	GROUP 2007 $M	GROUP 2006 $M
Analysis of revenue by route area		
New Zealand	**1,117**	975
Australia and Pacific Islands	**1,015**	932
Asia and Europe	**655**	491
North America and Europe	**1,106**	1,049
Total flight revenue	**3,893**	3,447
Contract services and other revenue	**404**	358
Total operating revenue	**4,297**	3,805

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR TO 30 JUNE 2007

2. OPERATING SURPLUS BEFORE TAXATION AND UNUSUAL ITEMS

	GROUP 2007 $M	GROUP 2006 $M	COMPANY 2007 $M	COMPANY 2006 $M
Operating surplus before taxation and unusual items has been determined by (debiting)/crediting the following:				
Total operating revenue, including interest revenue	**4,381**	3,879	**3,826**	3,378
Audit fees paid to principal auditors	**(1)**	(1)	**(1)**	(1)
Directors' fees	**(1)**	(1)	**(1)**	(1)
Net foreign exchange (loss)/gain	**(46)**	55	**(173)**	134
Depreciation and amortisation				
Depreciation				
– Aircraft, engines and simulators	**(164)**	(164)	**(49)**	(38)
– Finance leased aircraft and engines	**(43)**	(18)	**(19)**	(11)
– Spares	**(11)**	(13)	**(9)**	(11)
– Plant, equipment, furniture and vehicles	**(54)**	(59)	**(51)**	(57)
– Buildings and leasehold improvements	**(7)**	(7)	**(6)**	(6)
Total depreciation	**(279)**	(261)	**(134)**	(123)
Amortisation of deferred credits	**–**	–	**2**	2
Total depreciation and amortisation	**(279)**	(261)	**(132)**	(121)
Gain/(loss) on disposal of property, plant and equipment	**5**	(2)	**3**	(1)
Impairment of other assets	**–**	–	**(3)**	–
Interest				
Interest revenue				
– Deposits	**84**	74	**83**	74
– Related party balances	**–**	–	**23**	24
Total interest revenue	**84**	74	**106**	98
Interest expense				
– Finance leases	**(53)**	(19)	**–**	–
– Borrowings	**(38)**	(40)	**–**	–
– Other	**(8)**	(13)	**(6)**	(10)
– Related party balances	**–**	–	**(50)**	(32)
Total interest expense	**(99)**	(72)	**(56)**	(42)
Net interest	**(15)**	2	**50**	56
Rental and lease expenses				
Buildings	**(38)**	(36)	**(34)**	(33)
Aircraft	**(260)**	(244)	**(424)**	(356)
Total rental and lease expenses	**(298)**	(280)	**(458)**	(389)
Bad debts				
Written off	**(1)**	(1)	**(1)**	(1)
Decrease in estimated doubtful debts	**2**	–	**2**	–
	1	(1)	**1**	(1)
Share of surplus of associates (Note 8)	**1**	1	**–**	–
Investment impairment (provision)/reversal	**–**	–	**(13)**	11

3. TAXATION EXPENSE

	GROUP 2007 $M	GROUP 2006 $M	COMPANY 2007 $M	COMPANY 2006 $M
Taxation expense has been calculated as follows:				
Operating surplus before taxation	**244**	106	**(5)**	144
Taxation on surplus for the year at 33 percent	**81**	35	**(2)**	48
Adjustments				
Permanent differences	**(2)**	(29)	**3**	(33)
Impact of corporate tax rate change	**(37)**	–	**(6)**	–
Other	**(12)**	4	**(9)**	(8)
Taxation expense	**30**	10	**(14)**	7
Comprising:				
Current taxation paid/payable	**(26)**	31	**(101)**	(22)
Deferred taxation (Note 15)	**56**	(21)	**87**	29
	30	10	**(14)**	7

The New Zealand corporate income tax rate will reduce to 30% from the commencement of the 2009 income year. The impact of the tax rate change included in the 2007 financial statements has been calculated based on the forecast deferred tax liability for Air New Zealand at 30 June 2008 (which will be subject to a number of variables including foreign exchange movements).

Imputation Credit Account

	GROUP 2007 $M	GROUP 2006 $M	COMPANY 2007 $M	COMPANY 2006 $M
Balance at the beginning of the year	**148**	117	**56**	60
Taxation payments	**19**	53	**19**	18
Credits attached to distributions made	**(77)**	(25)	**(77)**	(25)
Other	**2**	3	**6**	3
Balance at the end of the year	**92**	148	**4**	56

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR TO 30 JUNE 2007

4. NOTES TO THE STATEMENT OF CASH FLOWS

Composition of Closing Cash

Cash, as stated in the Statement of Cash Flows, is reconciled to the related balances in the Statement of Financial Position as follows:

	GROUP 2007 $M	GROUP 2006 $M	COMPANY 2007 $M	COMPANY 2006 $M
Cash balances	**55**	34	**47**	28
Other short term deposits and short term bills	**1,003**	1,116	**1,004**	1,116
Bank and short term deposits	**1,058**	1,150	**1,051**	1,144
Bank overdraft and short term borrowings	**(1)**	–	**(1)**	–
	1,057	1,150	**1,050**	1,144

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 Surplus Attributable to Shareholders to Operating Net Cash Flows:

	GROUP 2007 $M	GROUP 2006 $M	COMPANY 2007 $M	COMPANY 2006 $M
Operating Activities				
Net surplus attributable to shareholders	**214**	96	**9**	137
Plus/(less) non-cash items:				
Depreciation and amortisation	**279**	261	**132**	121
(Gain)/loss on disposal of property, plant and equipment	**(5)**	2	**(3)**	1
Share of surplus of associates	**(1)**	(1)	**–**	–
Foreign exchange (gains)/losses	**(89)**	57	**–**	–
Other non-cash items	**1**	7	**27**	(18)
	399	422	**165**	241
Movements in operating balances are as follows:				
Trade and other payables	**(94)**	88	**(99)**	71
Provisions	**(14)**	(2)	**(14)**	(2)
Taxation	**9**	(55)	**(38)**	35
Other liabilities	**38**	(8)	**290**	2
Transportation sales in advance	**102**	52	**108**	52
Trade and other receivables	**(137)**	(12)	**(141)**	9
Other assets	**133**	79	**(4)**	12
General stores	**2**	(17)	**3**	(15)
Deduct items reclassified as investing activities:				
Trade and other receivables and other assets	**(109)**	(75)	**(109)**	(43)
Dividends received from investments	**–**	4	**–**	–
Assets intended for resale	**2**	(3)	**–**	(3)
Deferred credits	**–**	–	**2**	2
Deduct items reclassified as financing activities:				
Related party funding	**–**	–	**(111)**	26
	(68)	51	**(113)**	146
Net cash flow from operating activities	**331**	473	**52**	387

4. NOTES TO THE STATEMENT OF CASH FLOWS (CONTINUED)

	GROUP 2007 $M	GROUP 2006 $M	COMPANY 2007 $M	COMPANY 2006 $M
Investing Activities				
Movements in investing balances are as follows:				
Property, plant and equipment	**(219)**	(657)	**(16)**	(485)
Trade and other receivables and other assets (relating to investing activities)	**109**	75	**109**	43
Investments and goodwill	**7**	(7)	**3**	(11)
Assets intended for resale	**(2)**	3	**–**	3
Deferred credits	**–**	–	**(2)**	(2)
	(105)	(586)	**94**	(452)
Plus/(less) non-cash items:				
Depreciation and amortisation	**(279)**	(261)	**(132)**	(121)
Foreign currency translation	**(131)**	80	**(31)**	21
Gain/(loss) on disposal of property, plant and equipment	**5**	(2)	**3**	(1)
Other non-cash items	**–**	(3)	**(14)**	11
	(405)	(186)	**(174)**	(90)
Net cash flow from investing activities	**(510)**	(772)	**(80)**	(542)
Financing Activities				
Movements in financing balances are as follows:				
Borrowings	**(346)**	173	**–**	–
Finance lease liabilities	**370**	393	**(17)**	311
Related party funding (relating to financing activities)	**–**	–	**111**	(26)
Issued capital	**105**	3	**104**	3
	129	569	**198**	288
Plus/(less) non-cash items:				
Foreign currency translation	**220**	(140)	**–**	–
Other non-cash items	**(103)**	(2)	**(104)**	(2)
	117	(142)	**(104)**	(2)
Plus/(less) cash items not reflected above:				
Dividends	**(160)**	(48)	**(160)**	(48)
	(160)	(48)	**(160)**	(48)
Net cash flow from financing activities	**86**	379	**(66)**	238

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

AS AT 30 JUNE 2007

5. GENERAL STORES

	GROUP 2007 $M	GROUP 2006 $M	COMPANY 2007 $M	COMPANY 2006 $M
Engineering expendables	**93**	93	**80**	82
Consumable stores	**26**	28	**26**	27
	119	121	**106**	109

6. OTHER ASSETS

	GROUP 2007 $M	GROUP 2006 $M	COMPANY 2007 $M	COMPANY 2006 $M
Current				
Contract work in progress	**27**	21	**15**	14
Assets intended for resale	**2**	–	**–**	–
Amounts owing from subsidiaries	**–**	–	**432**	288
	29	21	**447**	302
Non-current				
Capital work in progress	**33**	85	**27**	81
Progress payments on aircraft, engines and simulators	**19**	122	**15**	116
Security deposit	**120**	105	**120**	105
Other assets	**12**	13	**5**	6
	184	325	**167**	308

7. PROPERTY, PLANT AND EQUIPMENT

	GROUP 2007 $M	GROUP 2006 $M	COMPANY 2007 $M	COMPANY 2006 $M
Aircraft, engines and simulators				
Cost	**2,864**	2,832	**587**	506
Accumulated depreciation	**(1,453)**	(1,334)	**(251)**	(215)
Foreign currency translation	**164**	251	**2**	9
	1,575	1,749	**338**	300
Finance leased aircraft and engines				
Cost	**986**	551	**348**	351
Accumulated depreciation	**(72)**	(29)	**(30)**	(11)
Foreign currency translation	**(16)**	–	**(7)**	3
	898	522	**311**	343
Spares				
Cost	**255**	244	**213**	206
Accumulated depreciation	**(91)**	(84)	**(75)**	(69)
	164	160	**138**	137
Plant, equipment, furniture and vehicles				
Cost	**644**	598	**619**	577
Accumulated depreciation	**(490)**	(446)	**(476)**	(433)
	154	152	**143**	144
Buildings				
Buildings	**56**	55	**50**	49
Leasehold improvements	**148**	136	**142**	132
	204	191	**192**	181
Accumulated depreciation	**(107)**	(105)	**(101)**	(100)
	97	86	**91**	81
	2,888	2,669	**1,021**	1,005

The useful lives and residual values applied to property, plant and equipment are reviewed annually to ensure that they continue to be appropriate. As a result of this review the depreciation expense was decreased by $8 million for the year ended 30 June 2007 (in the year ended 30 June 2006 the depreciation expense was decreased by $8 million).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

AS AT 30 JUNE 2007

7. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Jet Aircraft Market Values

The market values of jet aircraft tend to fluctuate significantly from year to year. The directors have obtained independent valuations as at 30 June 2007 from The Aircraft Value Analysis Company and Airclaims Limited to ascertain indicative market values of each jet aircraft on a stand alone basis. The average of the valuations obtained is shown below:

	INDICATIVE VALUATION USD $M	INDICATIVE VALUATION NZD $M	BOOK VALUE* NZD $M	DIFFERENCE NZD $M
		@ 0.7698		
As at 30 June 2007	**1,064**	**1,382**	**1,773**	**(391)**
		@ 0.6050		
As at 30 June 2006	865	1,430	1,677	(247)

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

New Zealand generally accepted accounting practice requires carrying values to be written down to the higher of market value or value in use. 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 exceeds the book value of the aircraft, based on the directors' current assessment of the Group's future trading prospects. Accordingly, no provision has been made for the difference between book value and the indicative market valuation.

Other Valuations

Independent valuations of the Group's New Zealand land and buildings is $191 million (book value 30 June 2007: $64 million; 30 June 2006: $60 million). Valuations are carried out every three years with the last independent valuation being undertaken in June 2005. A desktop review carried out in the current year to incorporate land and buildings acquired since the last independent valuation determined that the market value was $204 million.

8. INVESTMENTS AND GOODWILL

	GROUP 2007 $M	GROUP 2006 $M	COMPANY 2007 $M	COMPANY 2006 $M
Investments in subsidiaries	**–**	–	**190**	193
Investments in associates	**47**	54	**–**	–
Total investments	**47**	54	**190**	193
Goodwill on consolidation	**–**	–	**–**	–
	47	54	**190**	193
Goodwill on consolidation				
Gross goodwill at the beginning of the year	**9**	9	**–**	–
Accumulated amortisation at the beginning of the year	**(9)**	(9)	**–**	–
Unamortised balance at the beginning of the year	**–**	–	**–**	–
Unamortised balance at the end of the year	**–**	–	**–**	–
Represented by:				
Gross goodwill	**9**	9	**–**	–
Accumulated amortisation	**(9)**	(9)	**–**	–
Total goodwill	**–**	–	**–**	–
Investments in associates				
Carrying value at the beginning of the year (including goodwill of $Nil (30 June 2006: $Nil))	**54**	47	**–**	–
Contributions made during the year	**3**	4	**–**	–
Share of surplus	**1**	1	**–**	–
Foreign currency translation	**(11)**	6	**–**	–
Distributions received	**–**	(4)	**–**	–
Carrying value at the end of the year	**47**	54	**–**	–
Included within the above carrying value is:				
Gross goodwill	**18**	18	**–**	–
Accumulated amortisation	**(18)**	(18)	**–**	–
Unamortised balance of goodwill	**–**	–	**–**	–

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

AS AT 30 JUNE 2007

8. INVESTMENTS AND GOODWILL (CONTINUED)

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
Blue Pacific Tours Co Limited	Travel wholesaling	Japan
Eagle Airways Limited	Aviation	New Zealand
Zeal 320 Limited	Aviation	New Zealand
Mount Cook Airline Limited	Aviation	New Zealand
Safe Air Limited	Engineering services	New Zealand
Tasman Aviation Enterprises (Queensland) Pty Limited	Engineering services	Australia
Tasman Aviation Enterprises (Richmond) Pty Limited	Engineering services	Australia

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

Associates

Significant associates comprise:

NAME	% OWNED	PRINCIPAL ACTIVITY	COUNTRY OF INCORPORATION
Christchurch Engine Centre (CEC)	49	Engineering services	New Zealand
Travel Software Solutions Pty Limited	50	Airline reservation systems	Australia

All associates have a balance date of 30 June, with the exception of the CEC which has a balance date of 31 December.

	GROUP 2007 $M	GROUP 2006 $M
Carrying amount		
Christchurch Engine Centre	**46**	53
Travel Software Solutions Pty Limited	**1**	1
	47	54
Results of associates		
Share of surplus	**1**	1
Taxation expense	**–**	–
Share of surplus of associates	**1**	1

9. CONVERTIBLE NOTES

Redeemable Convertible Notes

On 31 December 2002, 220,763,477 Redeemable Convertible Notes (Convertible Notes) were issued to Qantas Investments (NZ) Limited (a wholly owned subsidiary of Qantas) at an issue price of 44.5 cents per Convertible Note, as part of the agreement for a proposed alliance. On 14 February 2007, all of the convertible notes were converted into 44,152,695 new ordinary shares (at issue price $2.225) in Air New Zealand, equivalent to approximately 4.2% of reported capital at conversion date. The impact of the conversion was to increase issued capital by $98 million and reduce total non-current liabilities by an equivalent amount.

10. BORROWINGS

	GROUP 2007 $M	GROUP 2006 $M	COMPANY 2007 $M	COMPANY 2006 $M
Current secured borrowings*	**66**	315	**–**	–
Non-current secured borrowings	**440**	537	**–**	–
	506	852	**–**	–
Repayable as follows:				
Not later than 1 year*	**66**	315	**–**	–
Between 1 and 2 years	**102**	54	**–**	–
Between 2 and 5 years	**258**	322	**–**	–
Over 5 years	**80**	161	**–**	–
	506	852	**–**	–

* Includes for the year ended 30 June 2006 debt transferred from non-current borrowings following a decision to early repay during the 2007 financial year.

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

11. FINANCE LEASE LIABILITIES

	GROUP 2007 $M	GROUP 2006 $M	COMPANY 2007 $M	COMPANY 2006 $M
Current	**49**	30	**20**	18
Non-current	**829**	478	**274**	293
	878	508	**294**	311
Finance lease liabilities comprise:				
Related party	**–**	–	**294**	311
Other	**878**	508	**–**	–
	878	508	**294**	311
Repayable as follows:				
Not later than 1 year	**103**	61	**43**	41
Between 1 and 2 years	**103**	61	**42**	41
Between 2 and 5 years	**306**	181	**125**	123
Over 5 years	**765**	424	**226**	264
	1,277	727	**436**	469
Less future interest expense	**(399)**	(219)	**(142)**	(158)
Present value of future rentals shown	**878**	508	**294**	311
Fixed rate	**162**	64	**–**	–
Floating rate	**716**	444	**294**	311
	878	508	**294**	311

Finance lease liabilities are secured over aircraft.

Fixed interest rates ranged from 1.2 percent to 5.1 percent in 2007 (2.7 percent to 5.1 percent in 2006).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

AS AT 30 JUNE 2007

12. PROVISIONS

	GROUP 2007 $M	GROUP 2006 $M	COMPANY 2007 $M	COMPANY 2006 $M
Provisions				
Frequent flyer	**172**	179	**172**	179
Restructuring	**10**	17	**10**	17
	182	196	**182**	196
Represented by:				
Current	**103**	102	**103**	102
Non-current	**79**	94	**79**	94
	182	196	**182**	196
Frequent Flyer				
Balance at the beginning of the year	**179**	194	**179**	194
Airpoints sold or earned	**97**	98	**97**	98
Airpoints redeemed or expired	**(104)**	(113)	**(104)**	(113)
Balance at the end of the year	**172**	179	**172**	179
Represented by:				
Current	**93**	89	**93**	89
Non-current	**79**	90	**79**	90
	172	179	**172**	179

A provision is made for unredeemed frequent flyer points. As points are accrued by members the provision is increased using an appropriate value per point. When points are redeemed by members, the provision is released.

	GROUP 2007 $M	GROUP 2006 $M	COMPANY 2007 $M	COMPANY 2006 $M
Restructuring				
Balance at the beginning of the year	**17**	–	**17**	–
Amount raised	**10**	22	**10**	22
Amount utilised	**(17)**	(5)	**(17)**	(5)
Balance at the end of the year	**10**	17	**10**	17
Represented by:				
Current	**10**	13	**10**	13
Non-current	**–**	4	**–**	4
	10	17	**10**	17

A restructuring provision has been created where a detailed formal plan has been developed and a valid expectation exists. Costs relating to ongoing activities have not been provided for. The restructuring provision includes amounts related to business reorganisation (30 June 2006: ANZES reorganisation program and business reorganisation).

13. OTHER LIABILITIES

	GROUP 2007 $M	GROUP 2006 $M	COMPANY 2007 $M	COMPANY 2006 $M
Current				
Employee entitlements	**119**	97	**109**	87
Amounts owing to subsidiaries	**–**	–	**794**	539
Amounts owing to associates	**3**	3	**3**	3
Deferred credits with subsidiaries	**–**	–	**2**	4
Other liabilities	**2**	–	**2**	–
	124	100	**910**	633
Non-current				
Employee entitlements	**11**	10	**11**	10
Other liabilities	**16**	3	**13**	–
Amounts owing to subsidiaries	**–**	–	**93**	94
	27	13	**117**	104

14. DISTRIBUTIONS TO OWNERS

	GROUP 2007 $M	GROUP 2006 $M	COMPANY 2007 $M	COMPANY 2006 $M
Distributions recognised				
Interim dividend on Ordinary Shares	**32**	25	**32**	25
Special dividend on Ordinary Shares	**105**	–	**105**	–
Final dividend on Ordinary Shares	**25**	25	**25**	25
	162	50	**162**	50
Distributions paid				
Interim dividend on Ordinary Shares	**31**	24	**31**	24
Special dividend on Ordinary Shares	**107**	–	**107**	–
Final dividend on Ordinary Shares	**22**	24	**22**	24
	160	48	**160**	48

On 28 August 2007, the Board of directors declared a final dividend for the 2007 financial year of 5.0 cents per Ordinary Share, payable on 27 September 2007 to registered shareholders at 14 September 2007. The total dividend payable will be $53 million. Imputation credits will be attached and supplementary dividends paid to non-resident shareholders. This dividend has not been recognised in the June 2007 financial statements.

An interim dividend of 3.0 cents per Ordinary Share and a special dividend of 10.0 cents per Ordinary Share were paid on 26 March 2007. Imputation credits were attached and supplementary dividends paid to non-resident shareholders. Under the dividend reinvestment plan, interim dividends payable of $2 million were settled by the issue of 1,010,622 Ordinary Shares, at $1.9916 per Ordinary Share. The dividend reinvestment plan did not apply to the special dividend declared.

A final dividend for the 2006 financial year of 2.5 cents per Ordinary Share was paid on 21 September 2006. Imputation credits were attached and supplementary dividends paid to non-resident shareholders. Under the dividend reinvestment plan, dividends payable of $3 million were settled by the issue of 2,634,365 Ordinary Shares, at $1.1201 per Ordinary Share. A coupon of $1 million, equivalent to the dividend declared, was also paid on Convertible Notes and has been recognised as a component of interest expense.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

AS AT 30 JUNE 2007

15. DEFERRED TAXATION

	GROUP 2007 $M	GROUP 2006 $M	COMPANY 2007 $M	COMPANY 2006 $M
Balance at the beginning of the year	**364**	392	**4**	(28)
Taxation expense/(credit) on current year surplus (Note 3)	**56**	(21)	**87**	29
Current year foreign currency translation reserve	**4**	(7)	**(10)**	3
Balance payable at the end of the year	**424**	364	**81**	4

16. ISSUED CAPITAL

	GROUP 2007 $M	GROUP 2006 $M	COMPANY 2007 $M	COMPANY 2006 $M
Issued and Fully Paid in Capital				
Ordinary shares				
Balance at the beginning of the year	**2,108**	2,105	**2,117**	2,114
Shares issued	**105**	3	**104**	3
Balance at the end of the year	**2,213**	2,108	**2,221**	2,117
Represented by:				
Paid in capital	**2,213**	2,117	**2,221**	2,117
Treasury stock	**–**	(9)	**–**	–
	2,213	2,108	**2,221**	2,117

16. ISSUED CAPITAL (CONTINUED)

Share Issue Details and Rights

Ordinary Shares

At 30 June 2007, there were 1,051,682,560 fully paid Ordinary Shares on issue (30 June 2006: 1,003,477,828). 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 29 September 2006, 407,050 Ordinary Shares were issued to executives under the Mandatory Shareholding section of the Long Term Incentive Plan (2 November 2005: 1,005,047 Ordinary Shares). The issue price of $0.866 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 (2 November 2005: $0.90 per Ordinary Share).

During the year ended 30 June 2007, 3,644,987 Ordinary Shares were issued under the dividend reinvestment plan (30 June 2006: 1,987,976 Ordinary Shares). Further details are provided in Note 14.

On 14 February 2007, 220,763,477 Redeemable Convertible Notes were converted into 44,152,695 new Ordinary Shares. Further details are provided in Note 9.

During the year ended 30 June 2007, the Staff Share Scheme disposed of 775,500 unallocated ordinary shares in Air New Zealand. The shares amounted to $9 million of treasury stock. Proceeds of $1.7 million were received for the shares which was reflected as an increase in share capital for the Group.

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.

Options over Ordinary Shares

Share options are granted to a number of senior executives on attainment of predetermined performance objectives. At 30 June 2007, there are 13,563,672 options outstanding (30 June 2006: 8,590,718), which may convert to approximately 12.6 million Ordinary Shares (30 June 2006: 7.2 million Ordinary Shares).

	OPTIONS OUTSTANDING (NUMBER)			
	OPENING	ISSUED	LAPSED	CLOSING**
Long Term Incentive Plan	6,790,718	8,032,499	(2,459,545)	12,363,672
2001 Share Option Plan*	1,800,000	–	(600,000)	1,200,000

* The number of Ordinary Shares to be issued upon the exercise of any outstanding options which were granted by the Company prior to 23 August 2004 (date of the share consolidation) will be proportionately decreased in line with the Consolidation Ratio and the exercise price will be adjusted in inverse proportion to the Consolidation Ratio.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

AS AT 30 JUNE 2007

16. ISSUED CAPITAL (CONTINUED)

Long Term Incentive Plan (LTIP)

On 29 September 2006, 8,032,499 options with a fair value of $1.9 million were issued to executives under the LTIP. Total options outstanding under the LTIP are 12,363,672 (30 June 2006: 6,790,718). The total fair value of outstanding LTIP options (measured at grant date) that could be amortised over the vesting period of the options is $3.6 million (30 June 2006: $2.4 million). Had an amortisation policy been followed, the option cost for the year ended 30 June 2007, based upon the fair value at grant date, would be $1.0 million (30 June 2006: $0.4 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.

2001 Share Option Plan

On 31 March 2001, the Company established the Air New Zealand – Ansett Australia Executive Share Option Plan (the 2001 Share Option Plan). On 28 July 2004, the 2001 Share Option Plan name was changed from the Air New Zealand – Ansett Australia Executive Share Option Plan, to the 2001 Executive Share Option 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 if 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.

The exercise price, adjusted for the consolidation ratio and rights issue, is $5.69 per share.

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 2007 was 88 (30 June 2006: 747,398).

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.

17. REVENUE RESERVES

	GROUP 2007 $M	GROUP 2006 $M	COMPANY 2007 $M	COMPANY 2006 $M
Retained Deficit				
Balance at the beginning of the year	**(552)**	(599)	**(1,176)**	(1,264)
Net surplus	**214**	96	**9**	137
Dividend on Ordinary Shares	**(162)**	(50)	**(162)**	(50)
Transfers from foreign currency translation reserve	**(2)**	1	**–**	1
Balance at the end of the year	**(502)**	(552)	**(1,329)**	(1,176)
Foreign Currency Translation Reserve				
Borrowings and finance lease liabilities				
Balance at the beginning of the year	**(223)**	(142)	**–**	–
Translation gain/(loss)	**132**	(81)	**–**	–
	(91)	(223)	**–**	–
Aircraft related items including progress payments				
Balance at the beginning of the year	**260**	186	**21**	2
Translation (loss)/gain	**(120)**	75	**(32)**	20
Transfers to retained deficit	**3**	(1)	**–**	(1)
	143	260	**(11)**	21
Investments				
Balance at the beginning of the year	**17**	9	**–**	–
Translation (loss)/gain	**(12)**	8	**–**	–
	5	17	**–**	–
Taxation on reserve movements				
Balance at the beginning of the year	**(25)**	(27)	**(7)**	(1)
Taxation on reserve movements	**(3)**	2	**10**	(6)
Transfers to retained deficit	**(1)**	–	**–**	–
	(29)	(25)	**3**	(7)
Balance at the end of the year	**28**	29	**(8)**	14
Total revenue reserves	**(474)**	(523)	**(1,337)**	(1,162)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

AS AT 30 JUNE 2007

18. FINANCIAL INSTRUMENTS

The Group and Company are subject to credit, foreign currency, interest rate, and fuel price risks. The Group and Company manage these risks using various financial instruments, using a set of policies approved by the Board of directors. 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. The Group and Company incur credit risk from transactions with trade receivables and financial instruments in the normal course of business. The maximum exposure to credit risk is represented by the carrying value of all recognised financial assets and the fair value of unrecognised financial assets.

The Group and Company place cash, short term deposits and off balance sheet instruments with good credit quality counterparties. Limits are placed on the exposure to any one financial institution.

Credit evaluations are performed on all customers requiring direct credit. The Group and Company are not exposed to any concentrations of credit risk within receivables, other assets and derivatives. The Group and Company do 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.

Fair values

Methods and assumptions

The following methods and assumptions were used to estimate the fair value of each class of financial assets and liabilities:

Cash, short term deposits and bank overdrafts	The carrying amounts of these balances are equivalent to their fair value and therefore have been excluded from the table below.
Investments	Investments in associates are stated at the lower of recoverable value and cost at acquisition, together with the Group's share of post-acquisition increases or decreases in reserves. Other investments are carried at the lower of cost and recoverable value.
Borrowings and finance lease liabilities	The fair value of these balances is estimated based on current interest rates available to the Group for funding on similar terms and conditions. Denomination of book values is further disclosed in Note 19.
Finance lease receivables	The fair value of finance lease receivables is based on current interest rates on similar terms and conditions.
Convertible instruments classified as debt	The fair value of Convertible Notes is the same as the carrying value.
Swaps and foreign currency exchange contracts	The fair value of these amounts is estimated based on the quoted market rates used as input to the valuation models. The carrying value of the swaps represents the accrued interest on these instruments.
Financial market options	The fair value of options is estimated on valuations from counterparties with whom the Group holds the contracts. The carrying value of options represents the unamortised premium on these instruments.
Financial guarantees	It is not practical to estimate the fair value of the financial guarantees with an acceptable level of reliability. Other guarantees are disclosed in Note 23.
Other balances	The carrying amounts of other balances are equivalent to their fair value and therefore have been excluded from the table below.

18. FINANCIAL INSTRUMENTS (CONTINUED)

Fair value summary

The estimated fair value of the Group's and Company's financial assets and liabilities which differ from their carrying values are as follows:

	CARRYING VALUE 2007 $M	FAIR VALUE 2007 $M	CARRYING VALUE 2006 $M	FAIR VALUE 2006 $M
Group				
Recognised financial assets and liabilities:				
Borrowings	**(506)**	**(520)**	(852)	(874)
Finance lease liabilities	**(878)**	**(900)**	(508)	(513)
Unrecognised financial assets and liabilities:				
Foreign currency forward exchange contracts	**(3)**	**(133)**	18	98
Fuel options	**13**	**22**	15	54
Interest rate swaps	**–**	**1**	(1)	10
Company				
Recognised financial assets and liabilities:				
Finance lease liabilities	**(294)**	**(297)**	(311)	(316)
Unrecognised financial assets and liabilities:				
Foreign currency forward exchange contracts	**(3)**	**(133)**	18	98
Fuel options	**13**	**22**	15	54
Interest rate swaps	**–**	**1**	(1)	10

The Group and Company anticipate that borrowings and finance lease liabilities will be held to maturity, and accordingly settlement at the reported fair value of these financial instruments is unlikely.

Currency risk

Currency risk is the risk of loss to the Group and Company arising from adverse fluctuations in exchange rates.

The Group and Company have exposure to foreign exchange risk as a result of offshore funding activities and transactions denominated in foreign currencies, arising from normal trading activities. Where exposures are certain, such as foreign currency borrowings and capital commitments, it is the Group's policy to hedge these risks as they arise.

The Group and Company have a formal foreign exchange management policy (mandated 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 generally offset by a related loss or gain on the item being hedged.

Foreign currency forward exchange contracts have been entered into with various counterparties in accordance with dollar limits set by the Board of directors. The notional amount outstanding at balance date is $2,551 million (30 June 2006: $3,341 million). The contracts mature within 18 months (30 June 2006: 15 months).

Fuel Price Risk

The Group and Company have entered into fuel swap and option agreements to reduce the impact of price changes on fuel costs in accordance with policy mandated by the Board of directors. At 30 June 2007, the Group had hedged 4.5 million barrels (30 June 2006: 4.4 million barrels). The agreements mature within 11 months (30 June 2006: 12 months).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

AS AT 30 JUNE 2007

18. FINANCIAL INSTRUMENTS (CONTINUED)

Interest rate risk

Interest rate risk is the risk of loss to the Group and Company arising from adverse fluctuations in interest rates.

The Group and Company have exposure to interest rate risk as a result of the long-term borrowing activities which are used to fund ongoing activities. It is Group policy to ensure the interest rate exposure is maintained to minimise the impact of changes in interest rates on its floating rate long-term borrowings

The notional principal or contract amounts of interest rate contracts outstanding at 30 June 2007 is USD 345 million (30 June 2006: USD 345 million). The contracts mature within 20 months (30 June 2006: 32 months).

The interest rate re-pricing analysis below is based on the earlier of contractual re-pricing or maturity. Assets and liabilities that are interest rate insensitive have been excluded from this analysis.

	2007 EFFECTIVE INTEREST RATE %	2007 TOTAL $M	2007 WITHIN 1 YEAR $M	2006 EFFECTIVE INTEREST RATE %	2006 TOTAL $M	2006 WITHIN 1 YEAR $M
Group						
Financial assets						
Bank and short term deposits	**8.10**	**1,058**	**1,058**	7.50	1,150	1,150
Financial liabilities						
Bank overdraft and short term borrowings	**9.00**	**1**	**1**	8.25	–	–
Borrowings	**5.91**	**506**	**506**	5.78	852	852
Finance lease liabilities	**7.67**	**716**	**716**	7.12	444	444
		1,223	**1,223**		1,296	1,296
Off-balance sheet financial instruments						
Net interest rate contracts	**4.26**	**448**	**448**	4.26	570	570
Company						
Financial assets						
Bank and short term deposits	**8.10**	**1,051**	**1,051**	7.50	1,144	1,144
Financial liabilities						
Bank overdraft and short term borrowings	**9.00**	**1**	**1**	8.25	–	–
Finance lease liabilities	**7.99**	**294**	**294**	7.66	311	311
		295	**295**		311	311
Off-balance sheet financial instruments						
Net interest rate contracts	**4.26**	**448**	**448**	4.26	570	570

19. FOREIGN CURRENCIES

	GROUP 2007 $M	GROUP 2006 $M	COMPANY 2007 $M	COMPANY 2006 $M
Cash and balances comprise:				
Cash balances (Note 4)	**55**	34	**47**	28
Other short term deposits and short term bills (Note 4)	**1,003**	1,116	**1,004**	1,116
Bank overdraft and short term borrowings (Note 4)	**(1)**	–	**(1)**	–
	1,057	1,150	**1,050**	1,144
The above bank balances are denominated in the following currencies:				
Australian Dollars	**4**	1	**2**	1
New Zealand Dollars	**1,012**	1,128	**1,008**	1,123
United States Dollars	**–**	3	**–**	3
European Community Euro	**2**	4	**2**	4
Chinese Renminbi	**29**	5	**29**	5
Other currencies	**10**	9	**9**	8
	1,057	1,150	**1,050**	1,144
Aircraft related items comprise:				
Aircraft, engines and simulators (Note 7)	**1,575**	1,749	**338**	300
Finance leased aircraft and engines (Note 7)	**898**	522	**311**	343
Progress payments on aircraft, engines and simulators (Note 6)	**19**	122	**15**	116
	2,492	2,393	**664**	759
The above assets are denominated in the following currencies:				
New Zealand Dollars	**2,070**	1,826	**557**	606
United States Dollars	**422**	567	**107**	153
	2,492	2,393	**664**	759
Amounts owing under borrowing and finance lease agreements comprise:				
Borrowings (Note 10)	**506**	852	**–**	–
Finance lease liabilities (Note 11)	**878**	508	**294**	311
	1,384	1,360	**294**	311
The above borrowings and financial lease liabilities are denominated in the following currencies:				
New Zealand Dollars	**565**	311	**294**	311
United States Dollars	**819**	1,049	**–**	–
	1,384	1,360	**294**	311

Significant foreign exchange rates used at balance date for one New Zealand dollar are:

	2007	2006
Australian Dollar	**0.9096**	0.8186
Chinese Renminbi	**5.84**	5.01
European Community Euro	**0.5723**	0.4778
Japanese Yen	**94.81**	69.67
United Kingdom Pound	**0.3843**	0.3310
United States Dollar	**0.7698**	0.6050

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

AS AT 30 JUNE 2007

20. RELATED PARTIES

General

The Crown, the major shareholder of the Company, owns 76 percent of the issued capital of the Company (30 June 2006: 80 percent). The balance is owned by the public. The Group 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 8.

Subsidiaries and Associates

During the year there have been transactions between the Company, its subsidiaries and associates. The transactions during the year from the Company's perspective comprise:

	COMPANY 2007 $M	COMPANY 2006 $M
Operating revenue	**139**	99
Operating expenditure	**(411)**	(324)
Net interest expense	**(27)**	(8)

The Company has entered into finance and operating lease arrangements with its wholly owned subsidiaries, Air New Zealand Aircraft Holdings Limited and Zeal 320 Limited, relating to its aircraft.

Related party balances have no fixed settlement dates. 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 6 and 13.

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

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 2007, 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.

During the year ended 30 June 2007, the Trustees sold all of the remaining unallocated ordinary shares, with the exception of 88 shares (30 June 2006: unallocated ordinary shares held were 747,398). The remaining shares, which were fully paid and had full voting rights, represented 0.0 percent of the total Ordinary Shares on issue (30 June 2006: 0.1 percent).

Advances to the Schemes from the Company are at one percent interest and payable on demand. At 30 June 2007, there were no advances to the Schemes net of provisioning (30 June 2006: $1 million (net of provisioning)).

Executive Share Option Plans

Executive share option plans are detailed in Note 16.

Other Related Party Disclosures

Other balances and transactions with related parties are not considered material to the Company. No related party debts have been forgiven during the year.

21. CAPITAL COMMITMENTS

	GROUP 2007 $M	GROUP 2006 $M	COMPANY 2007 $M	COMPANY 2006 $M
Aircraft	**2,322**	1,302	**2,250**	1,146
Non-aircraft	**22**	43	**18**	40
	2,344	1,345	**2,268**	1,186

Commitments shown are for those asset purchases committed and contracted for.

The Group has entered into an agreement to purchase eight Boeing 787-9 (B787-9) aircraft and associated engines and spares. The Company also has options on a further eight aircraft. The Group has purchased the rights for an additional eight 787 aircraft. The B787-9 aircraft that are subject to firm commitments will be introduced over the period from December 2010 to September 2013.

On 22 September 2004, the Board of directors approved a plan to purchase seventeen Bombardier Q300 (Q300) aircraft and associated engines to replace the Group's SAAB 340 fleet. Approval was subsequently granted to convert an additional four purchase rights into firm orders, bringing the total order to 21 aircraft. As at 30 June 2007, the Group had taken delivery of sixteen aircraft. The remaining five aircraft will be delivered during the period July 2007 to September 2008. The Group also secured the right (but not the obligation) to purchase an additional six Q300 aircraft and up to thirteen Q400 aircraft.

On 3 August 2007, the Company confirmed the purchase of four Boeing 777-300ER aircraft, by converting existing purchase rights into firm orders. The Company has also converted an additional three purchase rights into options. The Boeing 777-300ER aircraft subject to firm orders will be introduced over the period from November 2010 to November 2011. The table includes the firm commitments in relation to these aircraft.

Non-aircraft commitments primarily include the Auckland Domestic Terminal, a joint development agreement with the Auckland International Airport Limited and other property related commitments.

22. OPERATING LEASE COMMITMENTS

	GROUP 2007 $M	GROUP 2006 $M	COMPANY 2007 $M	COMPANY 2006 $M
Aircraft leases payable				
Not later than 1 year	**226**	284	**110**	175
Between 1 and 2 years	**215**	220	**89**	37
Between 2 and 5 years	**301**	547	**145**	41
Over 5 years	**13**	48	**255**	37
	755	1,099	**599**	290
Property leases payable				
Not later than 1 year	**25**	37	**23**	34
Between 1 and 2 years	**21**	22	**19**	20
Between 2 and 5 years	**48**	43	**43**	40
Over 5 years	**71**	63	**68**	63
	165	165	**153**	157

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

New Zealand International Airlines Limited (NZIA), 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

AS AT 30 JUNE 2007

23. CONTINGENT LIABILITIES

	GROUP 2007 $M	GROUP 2006 $M	COMPANY 2007 $M	COMPANY 2006 $M
Uncalled capital of subsidiaries	**–**	–	**2**	2
Guarantee of subsidiary indebtedness	**–**	–	**1,384**	1,360
Letters of credit and performance bonds	**18**	19	**12**	14
	18	19	**1,398**	1,376

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 effects.

Air New Zealand has been named in three 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 allegations made in relation to the air cargo business are also the subject of investigations by regulators in a number of jurisdictions. In the event that a court determined that Air New Zealand had breached relevant laws, the Company would have potential liability for pecuniary penalties and to third parties for damages under the laws of the relevant jurisdictions. No other significant contingent liability claims are outstanding at balance date.

Under certain operating lease arrangements the Group has an obligation to return aircraft to specified operational conditions prior to redelivery.

The Group has a partnership agreement with the CEC in which it holds a 49 percent interest (Note 8). By the nature of the agreement, joint and several liability exists between the two parties. Total liabilities of the CEC are $36 million (30 June 2006: $65 million).

Where Air New Zealand 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 in NZ IFRS4 – Insurance Contracts), and accounts for them as such. 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.

24. IMPLEMENTATION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (NZ IFRS)

Air New Zealand Limited adopted NZ IFRS on 1 July 2007. The project to convert to NZ IFRS commenced in October 2003 and is now in the transition phase. The project is proceeding to plan. Conversion to NZ IFRS will conclude with the delivery of the first set of NZ IFRS compliant interim financial statements for the six months ending 31 December 2007 and the first set of NZ IFRS compliant annual financial statements for the year ending 30 June 2008.

This disclosure highlights the most significant changes in accounting policies expected to arise upon conversion to NZ IFRS together with the expected impacts on earnings for the year to 30 June 2007. It should be noted that further developments in NZ IFRS may result in changes to the accounting policy decisions made by directors to date and, consequently, the likely impacts outlined in the discussion below. The directors may, at any time until the completion of the Group’s first NZ IFRS compliant financial statements, revisit, and where considered necessary, revise the accounting policies applied in preparing the estimates below. The estimated adjustments detailed below may be materially different from the actual adjustments.

The table below provides a summary of the potential impacts on equity resulting from conversion to NZ IFRS. The summary should not be taken as an exhaustive list of all the differences between existing NZ GAAP and NZ IFRS. Only a complete set of financial statements and notes together with comparative balances can provide a true and fair presentation of Air New Zealand’s financial position, results of operations and cash flows in accordance with NZ IFRS.

24. IMPLEMENTATION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (NZ IFRS) (CONTINUED)

Summary of the impact

AS AT AND FOR THE YEAR TO 30 JUNE	2007 EARNINGS $M	2007 ASSETS $M	2007 LIABILITIES $M	2007 EQUITY* $M	2006 ASSETS $M	2006 LIABILITIES $M	2006 EQUITY $M
NZ GAAP as reported	**214**	**4,944**	**3,196**	**1,748**	4,785	3,191	1,594
Deemed cost exemption	**33**	**(154)**	**–**	**(154)**	(187)	–	(187)
Jet aircraft residual value hedge	**133**	**19**	**–**	**19**	(102)	–	(102)
Financial instruments	**(118)**	**22**	**253**	**(231)**	165	(37)	202
Maintenance	**(32)**	**(59)**	**127**	**(186)**	(24)	130	(154)
Customer loyalty programme	**9**	**–**	**50**	**(50)**	–	59	(59)
Defined benefit plans	**4**	**3**	**(1)**	**4**	1	1	–
Share based payments	**(1)**	**–**	**–**	**–**	–	–	–
Taxation	**(19)**	**–**	**(241)**	**241**	–	(153)	153
Restated under NZ IFRS	**223**	**4,775**	**3,384**	**1,391**	4,638	3,191	1,447

All adjustments are shown before taxation.

* The IFRS adjustments in this column are stated on a cumulative basis including the transitional adjustments as at 1 July 2006 and the movements for the year to 30 June 2007.

Deemed cost exemption

The Group has elected to apply the "fair value as deemed cost" exemption available under NZ IFRS 1 – First Time Adoption of New Zealand Equivalents to International Financial Reporting Standards to the older generation jet aircraft and significant building assets on transition to NZ IFRS. This exemption allows entities to measure an item of property, plant and equipment at fair value at transition date, and to use that fair value as its deemed cost from that point forward.

On transition, the carrying value of the Boeing 747-400, 767-300, 737-300 fleet types and buildings associated with the New Zealand Engineering operations will be decreased by a net amount of $187 million before tax. Opening equity will be reduced by the same amount.

The impact on earnings for the year to 30 June 2007 of applying the deemed cost exemption is a decrease in depreciation expense of $33 million.

Jet aircraft residual value hedge

Air New Zealand currently designates the USD denominated residual values of the jet aircraft fleet, engines, simulators and progress payments as a hedge of related USD denominated borrowings and finance lease liabilities. NZ IFRS does not permit such a hedge. Therefore this accounting treatment will be reversed on transition to NZ IFRS. The impact of this reversal is a reduction in equity (before tax) of $102 million upon transition.

The impact on operating surplus before taxation for the year to 30 June 2007 of not applying the jet aircraft residual value hedge is an increase of $133 million and relates primarily to foreign exchange gains on the USD borrowings and finance lease liabilities, previously hedged by the USD denominated jet aircraft residual values. Exchange gains and losses on these USD borrowings and finance lease liabilities will be recorded in the Statement of Financial Performance under NZ IFRS, but will be substantially offset by movements in the fair value of non hedge accounted foreign currency derivatives that will also be recognised in the Statement of Financial Performance and are included within the financial instruments impact shown above. In addition current year translation movements recorded within the NZ GAAP foreign currency translation reserve of $12 million are reversed under NZ IFRS.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

24. IMPLEMENTATION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (NZ IFRS) (CONTINUED)

Financial instruments

NZ IFRS requires the recognition of all derivatives at fair value through the Statement of Financial Performance, unless they are designated as part of a cash flow hedge. Under existing NZ GAAP, derivatives remain off balance sheet until the underlying hedged item is realised. The recognition of derivatives at fair value on transition increases net equity (before tax) by $202 million.

NZ IFRS requires strict criteria to be met in order to qualify for hedge accounting. Whilst Air New Zealand's general hedging strategies are permissible under NZ IFRS, certain changes have been made to enable these hedges to be designated as cash flow hedges. Risk management practices will continue to be 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 hedge effectiveness criteria from time to time and hedging gains or losses being recorded in current period earnings. In particular given the high volatility of fuel markets, the effectiveness test may not always be met and changes in the fair value of fuel hedging instruments would then need to be recognised in the Statement of Financial Performance and consequently, some earnings volatility may arise. The accounting treatment of options under NZ IFRS will also result in ineffectiveness being recognised through earnings. Only the intrinsic value is included in the hedge designation – all other components of the option value are marked to market through earnings.

The impact on operating surplus before taxation for the year to 30 June 2007, is a loss of $118 million. This includes the change in the fair value of non hedge accounted foreign exchange contracts (substantially offsetting the exchange impact on the reversal of the jet aircraft residual value hedge above), and interest rate swaps. The impact also includes any accounting ineffectiveness on qualifying cash flow hedges of which a $1 million loss related to fuel. The fuel portion included a $31 million loss in the six months to 31 December 2006 during which hedge accounting was not applied to fuel. Hedge accounting was applied to fuel derivatives with effect from 1 January 2007.

The remaining movement in equity represents the effective gains or losses on qualifying cash flow hedges which have been recognised in the cash flow hedge reserve.

Accounting for maintenance

Air New Zealand currently expenses all maintenance as incurred. The application of NZ IFRS in respect of accounting for aircraft and related maintenance costs results in the following changes:

- Engines will be accounted for as a separate component of aircraft and depreciated separately. The estimated useful life of engines will be revised on transition to NZ IFRS;
- The cost of major airframe inspections and engine overhauls will be capitalised and recognised in the carrying amount of the asset. The capitalised amount will then be depreciated over the period to the next expected inspection or overhaul. On transition to NZ IFRS, the appropriate carrying value of previously expensed maintenance will be reinstated on the Statement of Financial Position; and
- Where the Group has a commitment to maintain aircraft held under operating lease arrangements, provision is made during the lease term for the lease return obligations specified within those lease agreements. The provision is based on estimated future costs of major 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 overall net impact on equity of these adjustments on transition is a decrease of $154 million, before tax.

Future earnings will see a transfer from the maintenance and overhaul expense category to depreciation, and an increase in depreciation due to the revised useful life of engines. The provisioning for lease return costs will be recognised as maintenance and overhaul expense. The overall net impact on operating surplus before taxation for the year to 30 June 2007 is a decrease of $32 million.

Customer Loyalty Programme

IFRIC Interpretation 13 – Customer Loyalty Programmes (IFRIC 13) was issued in June 2007 and requires separate recognition of award credits granted as part of an initial sales transaction. Accordingly the consideration allocated to the Group's Frequent Flyer provision will need to be measured by reference to their fair value under this Interpretation.

The Group intends to adopt IFRIC 13 early, to avoid subsequent restatement in 2009 when the Interpretation becomes effective. The impact of adopting NZ IFRS on transition is to increase deferred revenue and decrease equity before tax by $59 million. The release to revenue in future years will be determined by the redemption profile of Airpoints. The impact on operating surplus before taxation for the year to 30 June 2007 is an increase of $9 million.

24. IMPLEMENTATION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (NZ IFRS) (CONTINUED)

Defined benefit plans

NZ IFRS requires actuarial valuations to use a different valuation methodology and a different discount rate to that currently employed. The Group will be applying the "corridor" approach whereby actuarial gains and losses will only be recognised to the extent that they exceed 10 percent of the greater of the scheme assets or liabilities. This excess will be spread over the remaining average service lives of the employees.

Recent debate in the international accounting arena has lead to a revision of the discount rate used to determine the present value of the defined benefit obligation on transition and going forward under NZ IFRS. The impact of the application of NZ IFRS to accounting for defined benefit schemes at transition is now zero.

The impact on operating surplus before taxation for the year to 30 June 2007 is an increase of $4 million before tax.

Taxation

NZ IFRS requires deferred taxation to be determined using a balance sheet method as opposed to the income statement method currently employed under existing NZ GAAP. Under the balance sheet approach, income tax on the profit or loss for the year comprises both current and deferred taxation. In brief, temporary differences are differences between the carrying value of assets and liabilities for financial reporting purposes as compared to their carrying value for tax purposes. Temporary differences may give rise to deferred tax assets or deferred tax liabilities. Applying NZ IFRS at transition date results in an overall decrease in the deferred tax liability and increase in net equity of $153 million.

The overall tax impact on net earnings for the year to 30 June 2007 is an increase in the tax expense of $19 million. The remaining movement in equity in respect of taxation represents the tax on movements in the cash flow hedge reserve for the year.

Share based payments

There is currently no guidance on how to account for share based payments under NZ GAAP. NZ IFRS 2 – Share-based Payment requires equity settled transactions, such as the issue of share options to employees, to be recognised at fair value in the financial statements over the vesting period.

This results in an adjustment to opening retained earnings and issued capital of $1 million on transition and a $1 million cost in earnings in the year to 30 June 2007, although there will be no net impact on equity.

Intangible assets

Air New Zealand does not currently recognise any intangible assets. NZ IAS 38 – Intangible Assets and related interpretations require computer software that is not an integral part of the related computer hardware to be treated as an intangible asset, provided certain criteria are met.

On conversion to NZ IFRS, an amount of $57 million will be reclassified from tangible to intangible fixed assets. There will be no net impact on equity or earnings for the year to 30 June 2007.

AUDIT REPORT

Deloitte.

TO THE READERS OF THE AIR NEW ZEALAND LIMITED AND GROUP FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

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 his behalf, for the year ended 30 June 2007.

Unqualified Opinion

In our opinion:

The financial statements of the Company and Group on pages 2 to 35:

- 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 2007; and
  - the results of its 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 28 August 2007, and is the date at which our opinion is expressed.

The basis of the 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 financial statements in accordance with generally accepted accounting practice in New Zealand. Those financial statements must give a true and fair view of the financial position of the Company and Group as at 30 June 2007. They must also give a true and fair view of the results of its operations and cash flows for the year ended on that date. This responsibility arises 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

This audit report relates to the financial statements of Air New Zealand Limited and Group for the year ended 30 June 2007 included on Air New Zealand Limited's website. The Board of directors is responsible for the maintenance and integrity of Air New Zealand Limited's website. We have not been engaged to report on the integrity of Air New Zealand Limited's 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 28 August 2007 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.

FIVE YEAR STATISTICAL REVIEW

HISTORICAL SUMMARY OF FINANCIAL PERFORMANCE

FOR THE YEAR TO 30 JUNE	2007 $M	2006 $M	2005 $M	2004 $M	2003 $M
Operating Revenue					
Passenger revenue	**3,497**	3,088	2,911	2,792	2,871
Cargo	**396**	359	297	286	296
Contract services	**264**	237	283	290	307
Other revenue	**140**	121	125	130	143
	4,297	3,805	3,616	3,498	3,617
Operating Expenditure					
Labour	**(886)**	(863)	(843)	(805)	(731)
Fuel	**(1,108)**	(949)	(626)	(482)	(516)
Maintenance and overhaul	**(230)**	(218)	(229)	(258)	(270)
Aircraft operations	**(388)**	(352)	(372)	(363)	(378)
Passenger services	**(223)**	(222)	(238)	(229)	(233)
Sales and marketing	**(322)**	(311)	(338)	(367)	(398)
Other expenses	**(280)**	(201)	(273)	(295)	(356)
	(3,437)	(3,116)	(2,919)	(2,799)	(2,882)
Earnings Before Interest, Taxation, Depreciation, Amortisation and Rental Expenses	**860**	689	697	699	735
Depreciation and amortisation	**(279)**	(261)	(250)	(236)	(237)
Rental and lease expenses	**(298)**	(280)	(235)	(228)	(265)
Earnings Before Interest and Taxation	**283**	148	212	235	233
Net interest	**(15)**	2	23	8	(13)
Operating Surplus Before Taxation and Unusual Items	**268**	150	235	243	220
Unusual items	**(24)**	(44)	(3)	(3)	4
Operating Surplus Before Taxation	**244**	106	232	240	224
Taxation expense	**(30)**	(10)	(52)	(74)	(58)
Net Surplus Attributable to Shareholders of Parent Company	**214**	96	180	166	166

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

HISTORICAL SUMMARY OF FINANCIAL POSITION

AS AT 30 JUNE	2007 $M	2006 $M	2005 $M	2004 $M	2003 $M
Current Assets					
Bank and short term deposits	**1,058**	1,150	1,071	1,022	773
Other current assets	**753**	571	561	578	598
Total Current Assets	**1,811**	1,721	1,632	1,600	1,371
Non-Current Assets					
Property, plant and equipment	**2,888**	2,669	2,012	2,062	2,199
Other non-current assets	**245**	395	448	156	130
Total Non-Current Assets	**3,133**	3,064	2,460	2,218	2,329
Total Assets	**4,944**	4,785	4,092	3,818	3,700
Current Liabilities					
Net debt[1]	**116**	345	84	99	102
Other current liabilities	**1,255**	1,236	1,136	1,021	1,035
Total Current Liabilities	**1,371**	1,581	1,220	1,120	1,137
Non-Current Liabilities					
Net debt[1]	**1,269**	1,113	809	885	981
Other non-current liabilities	**556**	497	522	598	550
Total Non-Current Liabilities	**1,825**	1,610	1,331	1,483	1,531
Total Liabilities	**3,196**	3,191	2,551	2,603	2,668
Net Assets	**1,748**	1,594	1,541	1,215	1,032
Total Equity	**1,748**	1,594	1,541	1,215	1,032

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	2007 $M	2006 $M	2005 $M	2004 $M	2003 $M
Cash flow from operating activities	**331**	473	437	467	523
Cash flow from investing activities	**(510)**	(772)	(532)	(171)	(217)
Cash flow from financing activities	**86**	379	145	(42)	(135)
(Decrease)/Increase in Cash Holding	**(93)**	80	50	254	171
Total Cash Held	**1,057**	1,150	1,070	1,020	766

FIVE YEAR STATISTICAL REVIEW (CONTINUED)

FINANCIAL RATIOS

		2007	2006	2005	2004	2003
Profitability						
EBIT/Revenue[1]	%	**6.6**	3.9	5.9	6.7	6.5
EBITDRA/Revenue[1]	%	**20.0**	18.1	19.3	20.0	20.3
Return on Total Gross Assets[2]	%	**18.7**	16.6	20.3	22.3	23.3
Return on Assets[3]	%	**5.7**	3.1	5.2	6.1	6.3
Return on Equity[4]	%	**12.2**	6.0	11.7	13.7	16.1
Basic Earnings Per Ordinary Share[6]	cps	**20.9**	9.6	21.4	24.4	25.5
Fixed Cover[7]	times	**2.7**	2.5	3.3	3.2	2.7
Passenger Revenue/RPK	c	**13.0**	12.1	11.4	11.7	12.4
Liquidity						
Operating Cash Flow Per Share[5,6]	cps	**32.4**	47.2	55.6	55.1	62.3
Balance Sheet						
Net gearing (excl. net capitalised aircraft operating leases)[8]	%	**10.6**	5.8	(20.2)	(11.6)	15.8
Net gearing (incl. net capitalised aircraft operating leases)[9]	%	**47.3**	51.9	42.3	48.8	59.1
Debt to Equity Ratio[10]	%	**182.8**	200.2	165.5	214.4	258.6
Net Tangible Assets Per Share[5,6]	$	**1.66**	1.59	1.54	1.42	1.23
Working Capital Ratio[11]	%	**56.9**	52.1	57.2	58.8	54.7
Shareholder Value						
Closing Share Price 30 June[6]	$	**2.64**	1.18	1.45	2.00	2.70
Weighted Average Number of Ordinary Shares[6]	m	**1,022**	1,001	786	591	584
Total Number of Ordinary Shares[6]	m	**1,052**	1,003	1,000	600	584
Total Number of Convertible Preference Shares	m	**–**	–	–	1,280	1,280
Market Capitalisation – Ordinary Shares	$m	**2,776**	1,183	1,450	1,199	1,577
Total Market Capitalisation[12]	$m	**2,776**	1,183	1,450	1,711	2,268
Total Shareholder Return	%	**123.7**	(18.6)	(27.5)	(25.9)	(15.6)

1. Excludes Unusual Items
2. EBITDRA/Total Gross Assets
3. EBIT/Total Assets
4. Net Income/Closing Shareholders Equity
5. Per-share measures based upon Ordinary Shares and Convertible Preference Shares
6. Comparatives have been adjusted for the share consolidation on 23 August 2004, by dividing or multiplying by the consolidation ratio of five as appropriate.
7. EBITDRA/(Rental and Lease Expenses and Net Interest)
8. Net Debt (excluding net capitalised aircraft operating leases)/Net Debt plus Equity (Convertible notes treated as Equity)
9. Net Debt (including net capitalised aircraft operating leases)/Net Debt plus Equity (Convertible notes treated as Equity)
10. Total Liabilities/Shareholders Equity
11. Current Assets/(Current Assets plus Current Liabilities)
12. Includes Ordinary Shares and Convertible Preference Shares. Convertible Preference Shares were divided by the consolidation ratio.

KEY OPERATING STATISTICS

FOR THE YEAR TO 30 JUNE		2007	2006	2005	2004	2003
Passengers Carried (000)						
New Zealand		**7,736**	7,356	7,180	6,732	5,821
International						
Australia and Pacific Islands		**2,995**	2,908	2,838	2,558	2,375
Asia and Europe		**734**	591	647	640	648
North America and Europe		**1,015**	1,037	1,025	979	965
Total		**4,744**	4,536	4,510	4,177	3,988
Total Group		**12,480**	11,892	11,690	10,909	9,809
Available Seat Kilometres (m)						
New Zealand		**4,639**	4,455	4,281	4,045	3,609
International						
Australia and Pacific Islands		**9,949**	10,185	9,845	8,537	7,858
Asia and Europe		**8,565**	6,856	7,398	7,454	7,605
North America and Europe		**11,960**	12,559	12,168	11,948	11,605
Total		**30,474**	29,600	29,411	27,939	27,068
Total Group		**35,113**	34,055	33,692	31,984	30,677
Revenue Passenger Kilometres (m)						
New Zealand		**3,493**	3,345	3,264	3,053	2,621
International						
Australia and Pacific Islands		**7,487**	7,219	7,037	6,286	5,886
Asia and Europe		**6,422**	5,049	5,468	5,356	5,400
North America and Europe		**9,472**	9,938	9,799	9,242	9,253
Total		**23,381**	22,206	22,304	20,884	20,539
Total Group		**26,874**	25,551	25,568	23,937	23,160
Passenger Load Factor (%)						
New Zealand		**75.3**	75.1	76.2	75.5	72.6
International						
Australia and Pacific Islands		**75.3**	70.9	71.5	73.6	74.9
Asia and Europe		**75.0**	73.6	73.9	71.9	71.0
North America and Europe		**79.2**	79.1	80.5	77.4	79.7
Total		**76.7**	75.0	75.8	74.7	75.9
Total Group		**76.5**	75.0	75.9	74.8	75.5
Available Tonne Kilometres (m)	Total	**1,490**	1,484	1,274	1,281	1,257
Revenue Tonne Kilometres (m)	Total	**808**	783	799	762	824
Cargo Load Factor (%)	Total	**54.3**	52.7	62.7	59.5	65.6
Group Employee Numbers	Total	**10,713**	10,233	10,829	10,394	10,165

New Zealand, Australia and Pacific Islands represent shorthaul operations. Asia, North America and Europe represent longhaul operations.

FIVE YEAR STATISTICAL REVIEW (CONTINUED)

HISTORICAL SUMMARY OF DEBT

AS AT 30 JUNE	2007 $M	2006 $M	2005 $M	2004 $M	2003 $M
Debt					
Convertible notes[1]	**–**	98	98	98	98
Secured borrowings	**506**	852	679	837	924
Finance lease liabilities	**878**	508	115	47	54
Bank overdraft and short term borrowings	**1**	–	1	2	7
	1,385	1,458	893	984	1,083
Bank and short term deposits	**1,058**	1,150	1,071	1,022	773
Interest bearing secured deposit (included within other assets)	**120**	105	90	–	–
Net Debt	**207**	203	(268)	(38)	310
Net aircraft operating lease commitments[2]	**1,362**	1,723	1,477	1,386	1,421
Net Debt (Including Off Balance Sheet)	**1,569**	1,926	1,209	1,348	1,731

1. Convertible Notes treated as Equity for gearing purposes.
2. Net aircraft operating lease commitments for the next twelve months, multiplied by a factor of seven.

CORPORATE GOVERNANCE AT AIR NEW ZEALAND

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

Ethical Standards

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

Guide to Business Conduct

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

Open Communication and Just Culture

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

Avoiding Conflicts of Interest

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

Trading in Air New Zealand Securities

Directors and employees of Air New Zealand are subject to limitations on their ability to buy or sell Air New Zealand shares in accordance with Air New Zealand's Securities Trading Policy, the NZSX and ASX Listing Rules and the Securities Markets Act 1988. This Policy will be updated to reflect pending 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 $20,415 in the financial year to 30 June 2007. 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 certain transactions and matters involving the directors are recorded.

Board Composition

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

Board Role and Responsibilities

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

Management Delegation

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

Chairman

Mr John Palmer has been Chairman of Air New Zealand since 2001. Mr 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.

CORPORATE GOVERNANCE AT AIR NEW ZEALAND (CONTINUED)

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 perform 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 has been provided above. Any divergence from the NZX Code and the ASX Recommendations is explained in the table below.

ASX Corporate Governance Council Best Practice Recommendations	NZX Corporate Governance Best Practice Code	Reason for not following
2.4 The Board should establish a nomination committee. **2.5** Provide the information indicated in Guide to reporting on Principle 2 (nomination of committee members and charter).	**2.2** Unless constrained by size, an Issuer should establish a nomination committee as recommended below in paragraph 3.10. **3.10–3.12** Composition, charter and review of nomination committee.	The Board believes that a nomination committee is not required for Air New Zealand, as the whole Board should be involved in the selection and appointment process of any new Board members.

DIRECTORS' PROFILES

John Palmer ONZM, B.AGR.SC, FNZID

Chairman, appointed 29 November 2001

Mr Palmer has considerable experience as a director and chairman of companies in the agricultural and finance sectors. Mr Palmer is Chairman of Solid Energy New Zealand Limited, serves as a director of AMP Life Limited and since 30 June 2007 has been appointed a director of AMP Limited. He is also a director of Rabobank Australia Limited. He has led the board through a successful period of rebuilding Air New Zealand.

Roger France BCOM, CA

Deputy Chairman, appointed 4 October 2001

Mr France is a director of Fonterra Co-operative Group 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. Mr France brings strong financial analysis and business strategy skills to the Board and to his role as Chairman of the Audit Committee.

Ken Douglas HON LLD, JP, ONZ

Appointed 27 February 2002

Mr Douglas is Deputy Chairman of New Zealand Post Limited. He is also a Co-Deputy Chair of Asia 2000 Foundation of New Zealand, a director of Healthcare of New Zealand Holdings Limited and the New Zealand Rugby Football Union. Mr Douglas was President of the New Zealand Council of Trade Unions for 12 years. He was awarded an honorary doctorate in law by Victoria University of Wellington. Mr Douglas brings vast workplace wisdom and experience to the Board.

Dr James (Jim) Charles 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 8 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 $1 billion) to shareholders. Dr Fox is also a director of Futuris Corp Limited and TTP Group (UK) Plc.

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

Appointed 27 February 2002

Mr Larsen is a director of a wide range of companies including Centreport Limited and 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 New Zealand Dairy Board for 9 years and Bay Milk Products for 10 years prior to that. 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. He is also an alumuni of the Insead Business School and is a Chartered Accountant.

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 Limited. Mr McDonald holds a Bachelor of Commerce degree from Auckland University, a Bachelor of Commerce and Administration (Honours) degree in Economics from the Victoria University of Wellington and is a graduate from the Advanced Management Programme at Harvard University Business School.

DIRECTORS' DISCLOSURES

Directors' Interests

The following are particulars of general disclosures of interest by Directors of Air New Zealand Limited holding office at 30 June 2007, pursuant to section 140(2) of the Companies Act 1993. Where applicable, the disclosures also include directorships of subsidiaries of the relevant companies.

John Palmer
AMP Limited – DIRECTOR
AMP Life Limited – DIRECTOR
Club Tentation NZ Limited – CHAIRMAN
J L Palmer Limited – DIRECTOR/SHAREHOLDER
Rabobank Australia Limited – DIRECTOR
Rabobank New Zealand Limited – DIRECTOR (APPOINTED FEB 2007)
Saxton Fruit Limited – DIRECTOR
Solid Energy New Zealand Limited – CHAIRMAN (APPOINTED NOV 2006)
World of WearableArt Limited – DIRECTOR

Roger France
Fonterra Co-operative Group Limited – DIRECTOR
National Research Centre for Growth & Development – MEMBER OF THE BOARD OF GOVERNANCE
Tappenden Holdings Limited – CHAIRMAN
Tappenden Management Limited – DIRECTOR
University of Auckland – COUNCIL MEMBER
Exotic Building Supplies Limited – DIRECTOR (RESIGNED DEC 2006)
Liggins Institute – DIRECTOR (RESIGNED DEC 2006)

Ken Douglas
Asia 2000 Foundation of New Zealand – CO-DEPUTY CHAIR
Cambo Enterprise Investments Limited – DIRECTOR
Capital & Coast District Health Board – DEPUTY CHAIRMAN
Healthcare of New Zealand Holdings Limited – DIRECTOR
New Zealand Post Limited – DEPUTY CHAIRMAN
New Zealand Rugby Football Union – DIRECTOR
Porirua City Council – COUNCILLOR
Porirua Licensing Trust – TRUSTEE
Ronald McDonald House – TRUSTEE
Wellington Regional Economic Development Trust – CHAIRMAN/TRUSTEE

Dr James Charles Fox
Futuris Corp Limited – DIRECTOR
TTP Group UK Plc – DIRECTOR
Vision Systems Limited & all its subsidiaries – DIRECTOR (RESIGNED DEC 2006)

Jane Freeman
Delegats Group Limited – DIRECTOR
Delegats Group Trustee Limited – DIRECTOR
Jane Freeman Consulting Limited – DIRECTOR/SHAREHOLDER
Pumpkin Patch Limited – DIRECTOR

Warren Larsen
Centreport Limited – DIRECTOR
Consortium Limited – CHAIRMAN
Foundation of Research, Science and Technology – DIRECTOR
Jenkin Timber Limited – DIRECTOR
Larsen Consultancy Services Limited – DIRECTOR/SHAREHOLDER
Landcorp Farming – DEPUTY CHAIRMAN
Massey University Foundation – CHAIRMAN
NZ Racing Board – CHAIRMAN (RESIGNED DEC 2006)

John McDonald
Air New Zealand Superannuation Scheme – TRUSTEE
Dairy Equity Limited – DIRECTOR (APPOINTED JUL 2006)
Fletcher Building Employee Educational Fund Limited – DIRECTOR/TRUSTEE
Fletcher Building Retirement Plan – DIRECTOR/TRUSTEE
Fletcher Building Share Schemes Limited – DIRECTOR
Horizon Energy Limited – DIRECTOR (APPOINTED JUN 2007)
HY-FI Securities Limited – DIRECTOR
Solid Energy New Zealand Limited – DIRECTOR (APPOINTED MAR 2007)
Tenon Employee Educational Fund Limited – DIRECTOR/TRUSTEE
Tenon Retirement Plan Nominees Limited – DIRECTOR/TRUSTEE

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 remuneration and other benefits from Air New Zealand Limited in the year to 30 June 2007[1]

NAME	FEES	COMMITTEE FEES	TOTAL REMUNERATION	VALUE OF TRAVEL ENTITLEMENT[4]
John Palmer (Chairman)	$195,000	–	$195,000	$726
Roger France (Deputy Chairman)	$113,000	–	$113,000	$28,457[5]
Sir Ron Carter[2]	$48,750	$7,500	$56,250	$3,538
Ken Douglas	$65,000	$7,500	$72,500	$5,939
Dr Jim Fox	$39,801	$4,592	$44,394	$18,767[5]
Jane Freeman[3]	$65,000	$10,144	$75,144	$12,101
Warren Larsen	$65,000	$16,875	$81,875	$11,565
John McDonald	$65,000	$15,000	$80,000	$12,593

1. No employee of the Group received or retains any remuneration or other benefits as a director of any subsidiary company.
2. Retired 31 March 2007.
3. GST exclusive.
4. Non-cash benefit up to $13,000 international travel per annum plus limited short-haul travel. Value equivalent to commercial fare at date of travel.
5. Includes accrued entitlement or entitlement used in advance.

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	SHARES SOLD	SHARES PURCHASED	DATE OF TRANSACTION	COST	NON-BENEFICIAL INTEREST
John Palmer	90,855		1,954[1]	21/09/06	$2,189	
			1,348[1]	26/03/07	$2,685	
Roger France	27,061[2]					88[3]
Sir Ron Carter[7]	5,304		114[1]	21/09/06	$128	
			78[1]	26/03/07	$155	
Ken Douglas	9,365		201[1]	21/09/06	$225	
			138[1]	26/03/07	$275	
Dr Jim Fox	36,500		36,500	28/11/06	$50,034	
Jane Freeman	4,666[4]					
Warren Larsen	12,060					
John McDonald	46,743[5]		1,004[1]	21/09/06	$1,125	197,305[6]
			693[1]	26/03/07	$1,380	

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 which sold 775,500 shares to 30 June 2007.
4. The shares are owned by the C and J Family Trust of which Ms Freeman is a trustee and beneficiary.
5. 1,324 shares are held by an Associated Person.
6. Mr McDonald is a trustee of the Air New Zealand Superannuation Scheme which sold 53,000 shares and acquired 85,421 shares to 30 June 2007.
7. Retired 31 March 2007.

SUBSIDIARY COMPANIES

The following people were directors of Air New Zealand's subsidiary companies in the financial year to 30 June 2007. 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/JHB/NJT[1]/MJF[2]
Air New Zealand Aircraft Holdings Limited	JHB/RSM/DWM
Air New Zealand Associated Companies Limited	JHB/NJT/RSM
Air New Zealand Associated Companies (Australia) Limited	JHB/NJT/RSM
Air New Zealand Consulting Limited	JHB[1]/RSM[1]/MJF[1]
Air New Zealand Express Limited	JHB/NJT/RSM
Air New Zealand Holidays Limited	DWM/JHB/NJT[1]/NG[1]
Air New Zealand International Limited	JHB/NJT/RSM
Air New Zealand Travel Business Limited	JHB/NJT/RSM
ANEX Holdings Limited	JHB/NJT/RSM
ANNZES Engines Christchurch Limited	CJS[2]/JHB/RSM
Ansett Australia & Air New Zealand Engineering Services Limited	CJS[2]/JHB/RSM
BPT (New Zealand) Limited	DWM/JHB/TT/PE[2]
C I Air Services Limited	JHB/NJT/TO
Eagle Air Maintenance Limited	DAR/DWM/JHB/NJT[1]/MJF[2]

New Zealand Companies	Directors
Eagle Airways Limited	DAR/DWM/JHB/NJT[1]/MJF[2]
Eagle Aviation Limited	JHB/NJT/RSM
Enzedair Tours Limited	JHB/NJT/RSM
Freedom Air Limited	JHB/SFJ/DWM
Jetaffair Holidays Limited	JHB/NJT/RSM
Lexington Securities Limited	JHB/NJT/RSM
Mount Cook Airline Limited	DWM/JHB/NJT[1]/MJF[2]/PJO[2]
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	JHB/JJR/MJF/TNH
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
Travelseekers International Limited	JHB/NJT/RSM
Zeal 320 Limited	JHB/SFJ/DWM/NJT[1]

Australian Companies	Directors
Air New Zealand (Australia) Pty Limited	ACP/JHB/JFH[1]/MRR[2]
Tasman Aviation Enterprises (NSW) Pty Limited	ACP/AMS/JHB/MJF/MRR[2]
Tasman Aviation Enterprises (Queensland) Pty Limited	ACP/AMS/JHB/MJF/MRR[2]
Tasman Aviation Enterprises (Richmond) Pty Limited	ACP/AMS/JHB/MJF/MRR[2]
Tasman Aviation Enterprises Pty Limited	AMS/JHB/MJF/MRR[2]
Tasman Aviation Enterprises (Services) Pty Limited	ACP/AMS/JHB/MJF/MRR[2]
ADP Pty Ltd	JHB/CWN/SWW

Non-Australasian Companies	Directors
Blue Pacific Tours Co Limited (Japan)	DWM/JHB/TT/CM[1]/PE[2]
Mount Cook Tours Limited (USA)	JHB/PW

Directors

ACP	Allen C Pascoe
AMS	Andrew M Sanderson
CJS	Craig J Sinclair
CWN	Chris W Nassenstein
CM	Chris Myers
DAR	Douglas A Roberts
DWM	David W Mackrell
HJBR	Hannah J Ringland
JGH	John G Hambleton
JHB	John H Blair
JJR	Jeremy J Remacha
JFH	John F Harrison
MJF	Michael J Flanagan
MRR	Michael Reed
NG	Nicola Garraway
NJT	Norman J Thompson
PE	Peter Elmsly
PJO	Peter J O'Regan
PW	Peter Walsh
RSM	Robert S McDonald
SFJ	Stephen F Jones
SWW	Steve W Watts
TNH	Trevor N Hughes
TO	Temu Okotai
TT	Tsutomu Terashima

1. Appointed during the financial year.
2. Resigned during the financial year.

EMPLOYEE REMUNERATION

	NZ MGMT & EXEC	AIRCREW	TECH STAFF & OTHER	OVERSEAS
100,000 – 110,000*	57	116	158	42
110,000 – 120,000*	59	54	100	25
120,000 – 130,000*	38	54	67	24
130,000 – 140,000*	28	73	41	15
140,000 – 150,000*	27	24	31	8
150,000 – 160,000*	9	26	13	14
160,000 – 170,000*	9	23	9	7
170,000 – 180,000*	15	34	4	5
180,000 – 190,000*	11	48	8	4
190,000 – 200,000*	4	66	4	2
200,000 – 210,000*	4	45	1	2
210,000 – 220,000	8	46	1	3
220,000 – 230,000*	3	41	3	1
230,000 – 240,000*	3	21		
240,000 – 250,000	4	8		
250,000 – 260,000		11		3
260,000 – 270,000	1	10		
270,000 – 280,000	3	14		
280,000 – 290,000		40		1
290,000 – 300,000		27		1
300,000 – 310,000		15		
310,000 – 320,000		5		
320,000 – 330,000	1	4		
330,000 – 340,000	1	7		
340,000 – 350,000		7		
350,000 – 360,000	1	2		2
360,000 – 370,000		3		
370,000 – 380,000		4		2
380,000 – 390,000	1	2		1
390,000 – 400,000		1		
400,000 – 410,000	1			
410,000 – 420,000	2	2		2
430,000 – 440,000		1		
440,000 – 450,000	1			
480,000 – 490,000				1
530,000 – 540,000	1			
560,000 – 570,000				1
590,000 – 600,000	1			
670,000 – 680,000*	1			
760,000 – 770,000	1			
770,000 – 780,000	1			
800,000 – 810,000*	2			
1,600,000 – 1,610,000	1			
Total	299	834	440	166

* A number of employees were made redundant during the period, resulting in redundancy and other termination payments exceeding their normal levels of remuneration.

Management incentive payments included within the above report relate to the 2006 financial year.

SHAREHOLDER STATISTICS

Top Twenty Shareholders – 6 August 2007

	NUMBER OF ORDINARY SHARES	% OF ORDINARY SHARES
Her Majesty the Queen in Right of New Zealand	804,191,058	76.47
National Nominees New Zealand Limited – NZCSD	41,728,651	3.97
HSBC Nominees (New Zealand) Limited – NZCSD	41,062,673	3.90
Accident Compensation Corporation – NZCSD	20,496,448	1.95
ANZ Nominees Limited – NZCSD	16,302,896	1.55
Citibank Nominees (New Zealand) Limited – NZCSD	15,470,980	1.47
HSBC Nominees (NZ) Limited – NZCSD	12,077,697	1.15
J P Morgan Nominees Australia Limited	11,543,244	1.10
National Nominees Limited	5,962,959	0.57
NZ Superannuation Fund Nominees Limited – NZCSD	5,706,335	0.54
HSBC Custody Nominees (Australia) Limited	3,726,729	0.35
Custody and Investment Nominees Limited – NZCSD	3,556,544	0.34
AMP Investments Strategic Equity Growth Fund – NZCSD	2,761,162	0.26
TEA Custodians Limited – NZCSD	1,934,200	0.18
Assure Nominees Limited – NZCSD	1,884,000	0.18
Kingfisher Nominees Pty Limited	1,742,225	0.17
ANZ Nominees Limited	1,446,492	0.14
AMP Life Limited – NZCSD	1,164,037	0.11
Custodial Services Limited	1,137,583	0.11
Public Trust – Australian Equity Nominee Pool – NZCSD	1,103,000	0.11
	994,998,913	**94.62**

NZCSD (New Zealand Central Securities Depository Limited) is a depository system which allows electronic trading of securities by its members.

Substantial Security Holders

The following information is provided in compliance with Section 26 of the Securities Amendment Act 1988 and is stated as at 6 August 2007. The total number of voting securities of Air New Zealand Limited at that date was 1,051,682,560.

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

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

Shareholder Statistics – 6 August 2007

	SHAREHOLDERS		SHARES	
SIZE OF SHAREHOLDING – ORDINARY SHARES	NUMBER	%	NUMBER	%
1 to 1,000	17,974	71.38	7,003,624	0.67
1,001 to 5,000	5,812	23.08	12,157,789	1.15
5,001 to 10,000	729	2.90	5,210,009	0.50
10,001 to 100,000	598	2.37	15,185,466	1.44
100,001 and over	69	0.27	1,012,125,672	96.24
	25,182	**100.00**	**1,051,682,560**	**100.00**

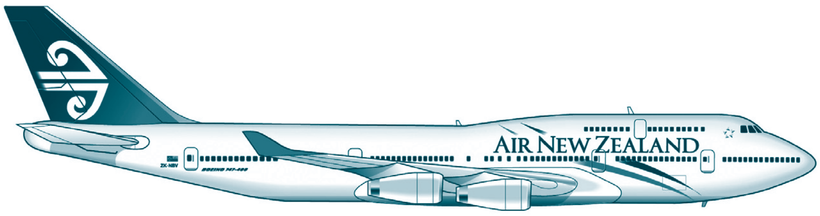
Current On-market Share Buy-backs

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

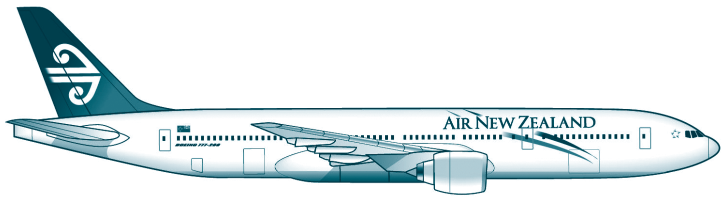
Non-marketable Parcels of Shares

As at 6 August 2007, 1,829 shareholders held Ordinary Shares of less than a marketable parcel (as defined by the NZSX Listing Rules).

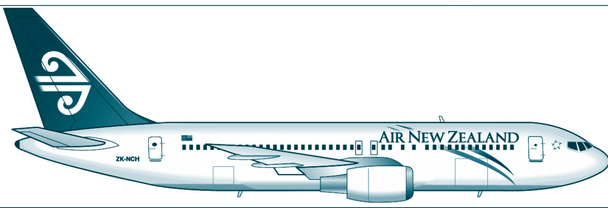
OPERATING FLEET STATISTICS AS AT 30 JUNE 2007



Boeing 747-400
Number: 8
Average Age: 13.2 years
Maximum Passengers: 379
Cruising Speed: 920 km/hr
Average Range: 11,850 km
Av. Daily Utilisation: 10.32hrs



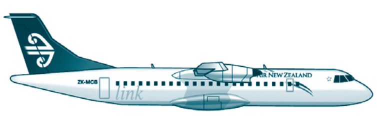
Boeing 777-200ER
Number: 8
Average Age: 1.2 years
Maximum Passengers: 313
Cruising Speed: 910 km/hr
Average Range: 11,950km
Av. Daily Utilisation: 14.75hrs



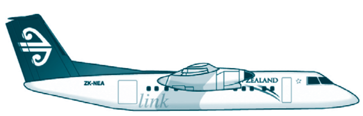
Boeing 767-300ER
Number: 6
Average Age: 10.9 years
Maximum Passengers: 234
Cruising Speed: 870 km/hr
Average Range: 9,640 km
Av. Daily Utilisation: 11.24hrs

Airbus A320-200
Number: 12
Average Age: 2.9 years
Maximum Passengers: 152
Cruising Speed: 850 km/hr
Average Range: 4,900 km
Av. Daily Utilisation: 10.97hrs

Boeing 737-300
Number: 14
Average Age: 9.5 years
Maximum Passengers: 136
Cruising Speed: 790 km/hr
Average Range: 3,520 km
Av. Daily Utilisation: 6.74hrs



ATR 72-500
Number: 11
Average Age: 6.5 years
Maximum Passengers: 68
Cruising Speed: 518 km/hr
Average Range: 850 km
Av. Daily Utilisation: 8.03hrs



Bombardier Q300
Number: 16
Average Age: 1.0 years
Maximum Passengers: 50
Cruising Speed: 520 km/hr
Average Range: 740 km
Av. Daily Utilisation: 7.33hrs

Saab 340A
Number: 3
Average Age: 19.3 years
Maximum Passengers: 33
Cruising Speed: 460 km/hr
Average Range: 465 km
Av. Daily Utilisation: 5.85hrs

Beech 1900D
Number: 17
Average Age: 5.4 years
Maximum Passengers: 19
Cruising Speed: 510 km/hr
Average Range: 530 km
Av. Daily Utilisation: 6.43hrs

GENERAL INFORMATION

Stock Exchange Listings

Air New Zealand's Ordinary Shares are listed on:

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

Place of Incorporation

New Zealand

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

Neither the New Zealand Stock Exchange nor the Australian Stock Exchange has taken any disciplinary action against the Company during the financial year ended 30 June 2007.

New Zealand 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 waiver from the NZSX Listing Rules was granted to the Company during the financial year ended 30 June 2007:
A waiver from NZSX Listing Rule 7.6 in respect of the requirement to obtain shareholder approval for redemption of the Convertible Notes which were issued by the Company to Qantas Investments (NZ) Ltd in December 2002.

On 25 October 2006, the Company adopted a new Constitution. On 27 September 2006, NZX Regulation confirmed that the waivers and rulings which had previously been granted by NZX Regulation in respect of the Company's previous Constitution in October 2004 continue in force in relation to the Company's new Constitution.

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 by the following: (capitalised terms are defined either in the Constitution or the Takeovers Code[2]):

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

The Takeovers Code

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

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

Corporations Act 2001 (Australia)

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

1. In 1989, the Crown issued a Notice that arises through its holding of special rights Convertible Share, the "Kiwi Share" and the power of the Kiwi Shareholder under the Constitution. Full details of the rights pertaining to these shares are set out in the Company's Constitution. The Kiwi Share does not confer any right on its holder to vote at a shareholders' meeting unless the Kiwi Share has been converted into an Ordinary Share by its holder. The Kiwi Share is not listed on any stock exchange.
2. The Takeovers Code approved by the Takeovers Code Approval Order 2000 (SR2000/210).

SHAREHOLDER DIRECTORY

Share Registrar

New Zealand
Computershare Investor Services Limited
Level 2, 159 Hurstmere Road, Takapuna
Private Bag 92119, Auckland 1142
New Zealand
Phone: (64 9) 488 8700
Fax: (64 9) 488 8787
Email: enquiry@computershare.co.nz

Australia
Computershare Investor Services Pty Limited
Level 3, 60 Carrington Street
GPO Box 7045, Sydney
NSW 1115, Australia
Phone: 1800 501 366 (freephone)
(61 2) 8234 5000 (overseas)
Fax: (61 2) 8234 5050

Investor Relations

Investor Relations Office
Private Bag 92007, Auckland 1010
New Zealand
Phone 0800 22 22 18 (freephone)
Phone: (64 9) 336 2287 (overseas)
Fax: (64 9) 336 2664
Email: investor@airnz.co.nz
Web site: www.airnzinvestor.com

Annual Meeting

Date: 28 September 2007
Time: 2.00 pm
Venue: Te Whaea National Dance & Drama Centre,
11 Hutchison Road, Newtown, Wellington.

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)
Deloitte House
8 Nelson Street
PO Box 33
Auckland, New Zealand

Registered Office

New Zealand
Air New Zealand Limited
Air New Zealand House
185 Fanshawe Street, Auckland
Postal: Private Bag 92007
Auckland 1010, New Zealand
Phone: (64 9) 336 2400
Fax: (64 9) 336 2401
AK/104799

Australia
Level 11, 151 Clarence Street
Sydney
Postal: GPO 3923, Sydney NSW 2001
Phone: (61 2) 8235 9999
Fax: (61 2) 8235 9946
ABN 70 000 312 685

Board of Directors

John Palmer, Chairman
Roger France, Deputy Chairman
Ken Douglas
Dr James (Jim) Fox
Jane Freeman
Warren Larsen
John McDonald

Chief Executive Officer

Rob Fyfe

Chief Financial Officer & GGM Corporate

Rob McDonald

General Counsel and Company Secretary

John Blair

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AIR NEW ZEALAND