

AIR NEW ZEALAND

CORPORATE GOVERNANCE AT AIR NEW ZEALAND

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

ETHICAL STANDARDS

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

- **Guide to Business Conduct**

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

- **Open Communication and Just Culture**

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

- **Avoiding Conflicts of Interest**

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

- **Trading in Air New Zealand Securities**

Directors and employees of Air New Zealand are subject to limitations on their ability to buy or sell Air New Zealand shares in accordance with Air New Zealand's Securities Trading Policy, the NZSX and ASX Listing Rules and the Securities Markets Act 1988. This Policy has been updated to reflect recent legislative changes.

- **Gifts, Entertainment and Inducements**

Air New Zealand has a gifts, entertainment and inducements policy governing the acceptance and reporting of benefits given to staff by third parties.

- **Donations**

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. The Air New Zealand Group has made donations totalling \$213 in the financial year to 30 June 2008. This figure does not take into account Air New Zealand's significant contribution to charities, community and environmental groups in the form of both sponsorship and provision of travel. Air New Zealand has relationships with, amongst others, organisations such as Koru Care, Make-A-Wish Foundation, the Sir Peter Blake Trust and New Zealand National Parks & Conservation Foundation. The Company has also established the Air New Zealand Inspiring New Zealanders scholarship programme and recently, the Air New Zealand Environmental Charitable Trust. Through the donation of products and services, the Company was instrumental in raising over \$410,000 for the Starship Foundation, StarJam and Make-A-Wish Foundation with the Air New Zealand Kids @ Christmas Charity Auction late last year. Numerous other local community groups and charities benefited from donated flights and other services during the year.

- **Interests Register**

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

BOARD COMPOSITION

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

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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 eight of Air New Zealand's directors, including the Chairman, are independent directors under those criteria. Directors are required to inform the Board of all relevant information which may affect their independence.

BOARD COMMITTEES

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

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

REPORTING AND DISCLOSURE

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

REMUNERATION AND PERFORMANCE EVALUATION

Executives

Air New Zealand's performance management system applies to the executive management group. The focus is on establishing goals, measures and targets linked directly to the business plan and to the leadership behaviors 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.

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DIFFERENCES IN PRACTICE TO NZX CODE AND ASX RECOMMENDATIONS

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

ASX CORPORATE GOVERNANCE COUNCIL BEST PRACTICE RECOMMENDATIONS	NZX CORPORATE GOVERNANCE BEST PRACTICE CODE	REASON FOR NOT FOLLOWING
<p>2.4 The board should establish a nomination committee.</p> <p>2.5 Provide the information indicated in Guide to reporting on Principle 2 (nomination of committee members and charter).</p>	<p>2.2 Unless constrained by size, an Issuer should establish a nomination committee as recommended below in paragraph 3.10.</p> <p>3.10 - 3.12 Composition, charter and review of nomination committee.</p>	<p>The Board believes that a nomination committee is not required for Air New Zealand, as its whole Board should be (and is) involved in the selection and appointment process of any new Board members.</p>