

Media Release

Media release
26 August 2021

Air New Zealand announces 2021 financial result as it continues to navigate Covid-19 impacts

Financial results summary

- Operating revenue of \$2.5 billion, down 48 percent on the prior year
- Cargo revenue up 71 percent on the prior year, supported by the New Zealand and Australian Government's IAFCA, MIAC and IFAM schemes (the airfreight support schemes)¹
- Loss before other significant items and taxation of \$440 million²
- Loss before taxation of \$411 million
- Domestic capacity rebounded strongly as the year progressed, reaching 93 percent of pre-Covid for the three months ending July, driven by strong leisure demand and the return of corporate customers
- Latest domestic nationwide lockdown expected to negatively impact financial operating performance
- Liquidity of \$1.3 billion as at 24 August 2021, comprised of \$183 million cash and \$1.15 billion of undrawn funds on the Government standby loan facility (the Facility)
- Dividends remain suspended
- Planned capital raise deferred to first quarter of calendar year 2022

Air New Zealand has announced a loss before other significant items and taxation of \$440 million for the 2021 financial year – its first full 12-month period of operation with Covid-19 related international travel restrictions. Using the same metric, the company reported an \$87 million loss for the 2020 financial year.

Statutory losses before taxation, which include a \$29 million gain from other significant items, were \$411 million, compared to a loss of \$628 million last year.

The financial result benefited from approximately \$450 million of Government assistance including airfreight support schemes as well as further subsidies and initiatives that are not expected to be repeated to the same extent in the 2022 financial year.

Ongoing border restrictions saw operating revenue decline 48 percent to \$2.5 billion as international flying was significantly reduced, with capacity down 55 percent on the prior year, although cargo flying revenue grew by 71 percent compared to the prior year thanks to airfreight support schemes. The airline's domestic business performed strongly, led by strong leisure demand as well as corporate customers flying at close to pre-Covid levels.

Chairman Dame Therese Walsh says the 2021 financial result reflected the reality of a year in which the airline was unable to fly two-thirds of its passenger network.

"In a severely constrained environment, Air New Zealand maintained cost discipline, focusing on delivering with excellence in the areas in its control. The return of a strong domestic business and growth in the cargo services that underpin our key export markets was a reminder of the airline's crucial role in New Zealand's infrastructure," says Dame Therese.

"Air New Zealanders showed agility during constantly changing operating conditions, managing reopenings, pauses and then closures while generating new revenue from additional cargo routes and increasing domestic and regional passenger capacity to match an increased demand for domestic leisure travel."

¹ In March 2020 the New Zealand Government established the International Airfreight Capacity (IAFC) scheme to support aviation carries to continue to provide capacity on key international airfreight routes. Following the success of this scheme, the Government introduced the Maintaining International Air Connectivity (MIAC) scheme to support air services through to the end of October 2021, with the potential for an extension to March 2022. The Australian Government introduced the International Freight Assistance Mechanism (IFAM) in April 2020 to keep global airlinks open to Australia and awarded the contract to Air New Zealand in August 2020. It has subsequently been extended to September 2021.

² Losses before other significant items and taxation represent Earnings stated in compliance with NZ IFRS (Statutory Earnings) after excluding items which due to their size or nature warrant separate disclosure to assist with understanding the underlying financial performance of the Group. Losses before other significant items and taxation is reported within the Group's audited annual financial statements. A summary of Other Significant Items is provided at the end of this release.

Dame Therese paid tribute to the continued commitment and sacrifice of the Air New Zealand team.

“To keep New Zealand connected to key markets, help Kiwis continue travelling and manage continued disruption to passengers’ travel plans, Air New Zealanders have again proven their aroha for customers. From our airport employees and flight crew who are among the most frequently tested groups in the country, to all our other operations and corporate teams across the network who have worked tirelessly behind the scenes to keep our customers and cargo moving, their efforts have been extraordinary.”

“These efforts, after 18 months of reduced pay and forfeited incentives, were recognised earlier this year when we announced eligible employees would each be provided with a \$1,000 award of shares or cash. With significant uncertainty ahead, including the current lockdown, this was important recognition of the people who give so much to our business.”

Chief Executive Officer Greg Foran said the 2021 financial year was one in which the airline played the hand it was dealt, kept planes flying every day and took some important steps in the delivery of its refreshed strategy, Kia Mau.

“Our people developed new capabilities and dexterity, adapting quickly when conditions changed. Although the return of long-haul travel seems some time away, the changes the team made this year will serve us well when it returns,” he says.

“We have reimagined our domestic business, increasing the choice of flight times and introducing greater price differentiation for peak and off-peak flying. This allows us to offer more lower priced fares, which will unlock new demand for domestic tourism.”

“We capped fares to ensure travel isn’t out of reach when it’s needed most, reintroduced the popular Fast Bag service with new features, and improved our unaccompanied minors service to make travel easier for our most valuable cargo and safer for our people.”

“We had fun with our customers, trialing new inflight food and beverage options, made changes – while retaining the much-loved cookie – and will showcase great New Zealand products in the year ahead.”

Mr Foran says the airline also took meaningful steps towards its goal of net zero emissions by 2050.

“With almost daily reminders of the impact of climate change, we are supporting the development and deployment of electric, hybrid and hydrogen aircraft for domestic use, and engaging and collaborating with others in the private sector and the Government to make sustainable aviation fuel (SAF) supply a reality in New Zealand.”

“We also made some exciting enhancements to our Airpoints™ loyalty programme, adding more store partners, improving access to upgrades and increasing the ability to share benefits among family and friends.”

“Strategic digital investments towards our goal of being ‘the world’s leading digital airline’ included equipping our turboprop aircrew with devices to replace paper-based systems, introducing a new supply chain management system and improving self-serve options for customers to use credits and manage bookings.”

Mr Foran also acknowledged the ongoing uncertainty in the airline’s operational and financial performance, including following the latest Covid-19 cases in New Zealand and subsequent lockdown.

“More than ever, this is a time to look after our people who continue to deliver those essential services, keeping cargo moving and getting Kiwis back home.”

Capital raise and liquidity

As announced on 13 August 2021, Air New Zealand received a letter from the Minister of Finance outlining his view that the current environment is not sufficiently certain and stable to enable the Crown to provide a firm pre-commitment to support a planned equity raise at this time. In this context, the airline has, in consultation with the Crown, decided to further defer its planned capital raise from 30 September 2021 until the first available window in the first quarter of calendar year 2022.

Given the critical role that the airline has in New Zealand’s economy and society, the Crown has again confirmed its longstanding commitment to maintaining a majority shareholding in Air New Zealand. Subject to

Cabinet being satisfied with the terms of the airline's proposed capital raise at the relevant time, the Crown has again confirmed that it will participate in an equity capital raise by purchasing the number of new shares necessary to maintain a majority shareholding.

On completion of the recapitalisation, Air New Zealand expects to repay all amounts drawn under the Facility. The Crown has confirmed to the airline that it shares this expectation.

Until the capital raise is completed, the airline has access to sufficient liquidity under the Facility, with \$1.15 billion in remaining funds that allow it to continue operating and investing activities. Air New Zealand has drawn \$350 million on the Facility as at 25 August 2021 and expects to draw down further in the coming months.

The airline's operating cashflow for the 2021 financial year benefited from the one-off deferral of around \$254 million in Fringe Benefit Tax (FBT) and PAYE payments, which will start to be repaid in the 2022 calendar year. An additional \$60 million of FBT and PAYE is expected to be deferred in the first quarter of the 2022 financial year and repaid before 31 March 2022.

Dividend update

The Board continues to focus on preserving Air New Zealand's liquidity, and given the ongoing uncertainty and continuing financial pressures on the airline, has determined it will not declare a final dividend for the 2021 financial year.

Air New Zealand's Board does not expect to consider payment of dividends before the airline's earnings and gearing substantially recover, and in the context of a supportive macroeconomic environment.

Outlook for 2022

Given uncertainty surrounding the current national lockdown, ongoing international travel restrictions and uncertainty regarding the level of demand as these restrictions lift, Air New Zealand has suspended 2022 earnings guidance.

Summary financial results

	Jun 2021 \$M	Jun 2020 \$M	Movement %
Operating revenue	2,517	4,836	(48.0%)
Loss before other significant items and taxation	(440)	(87)	(405.7%)
Other significant items	29	(541)	105.4%
Loss before taxation	(411)	(628)	34.6%
Net loss after taxation	(289)	(454)	36.3%
Operating cash flow	323	230	40.4%
Gearing	71.0%	69.2%	(1.8 pts)

Other significant items

Other significant items, representing a gain of \$29 million in the 2021 financial year, were made up of \$143 million of foreign exchange gains on uncovered debt and a gain of \$21 million related to the sale of Heathrow landing slots partially offset by aircraft impairment and lease modification costs of \$78 million, reorganisation costs of \$39 million and the de-designation of hedges as a result of forecast transactions no longer expected to occur of \$18 million.

Ends

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2021 ANNUAL FINANCIAL RESULTS

NZX: **AIR** | ASX: **AIZ** | US OTC: **ANZFY**

A STAR ALLIANCE MEMBER 



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Non-GAAP financial information

The following non-GAAP measures are not audited: CASK, Gearing, Net Debt, Gross Debt, EBITDA and RASK. Amounts used within the calculations are derived from the audited Group financial statements and Five-Year Statistical Review contained in the 2021 Annual Financial Results. The non-GAAP measures are used by management and the Board of Directors to assess the underlying financial performance of the Group in order to make decisions around the allocation of resources.

Refer to slide 37 for a glossary of the key terms used in this presentation.



Business Update

Greg Foran Chief Executive Officer

2021 Overview

Moving towards revive mode despite continued Covid-19 disruption; Domestic and Cargo continue to be the backbone of our recovery

- Reporting a **loss before other significant items and taxation of \$440 million**, statutory **loss before taxation of \$411 million** and a statutory loss after taxation of **\$289 million**
- Reflected **strong, resilient** demand for **domestic travel**, averaged **93% of pre-Covid levels** over the past three months, underpinning our operational schedule; bolstered by the return of corporate demand in recent months
 - The current New Zealand lockdown expected to adversely impact this demand over the coming months, but too early to assess
- **Cargo revenue up 71%** driven by ~50 flights per week under the MIAC¹ scheme
- Opening of travel bubbles in 2H2021 provided positive momentum, with new bookings driving improved operating cash flow; recent outbreaks across parts of Australia have interrupted the recovery
- Short-term liquidity of **~\$1.3 billion** as at 24 August 2021, including \$1.15 billion of undrawn funds on the Crown Standby Loan Facility
- Planned capital raise deferred to first quarter of calendar year 2022; the New Zealand Government has again confirmed its intention to participate subject to Cabinet approval

¹ MIAC refers to the Government's Maintaining International Air Connectivity scheme, which supports the cost of flying for all airlines awarded flights under the scheme. The airline flies ~50 flights per week to 16 ports with the trans-Tasman bubble suspended, and ~30 flights per week to 12 ports when the trans-Tasman bubble is open.



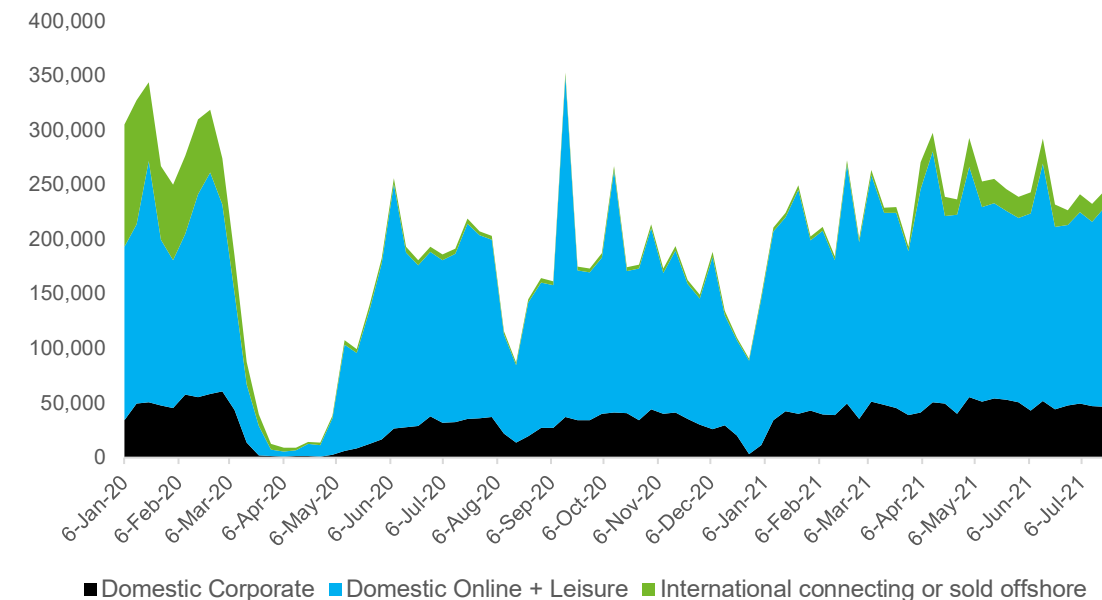


Domestic network performance was resilient in 2021

Domestic demand was driven by strong leisure travel and good recovery of corporate demand

- Domestic capacity had reached ~93% of pre-Covid levels, with domestic leisure travel reaching ~130%¹
 - Prior to latest nationwide lockdown, Domestic performance had been resilient, highlighting our strength as crucial transport infrastructure in New Zealand
- Corporate demand showed good signs of recovery
 - More than 90% of pre-Covid levels since April 2021
- Focus on further enhancing our Domestic proposition
 - Following removal of current domestic travel restrictions, expecting to add additional seats to generate increased demand across the network
 - Includes relaunching new domestic schedule to give customers more choice on timing and price

Domestic passenger bookings per day



¹ As at the three months ended July 2021.

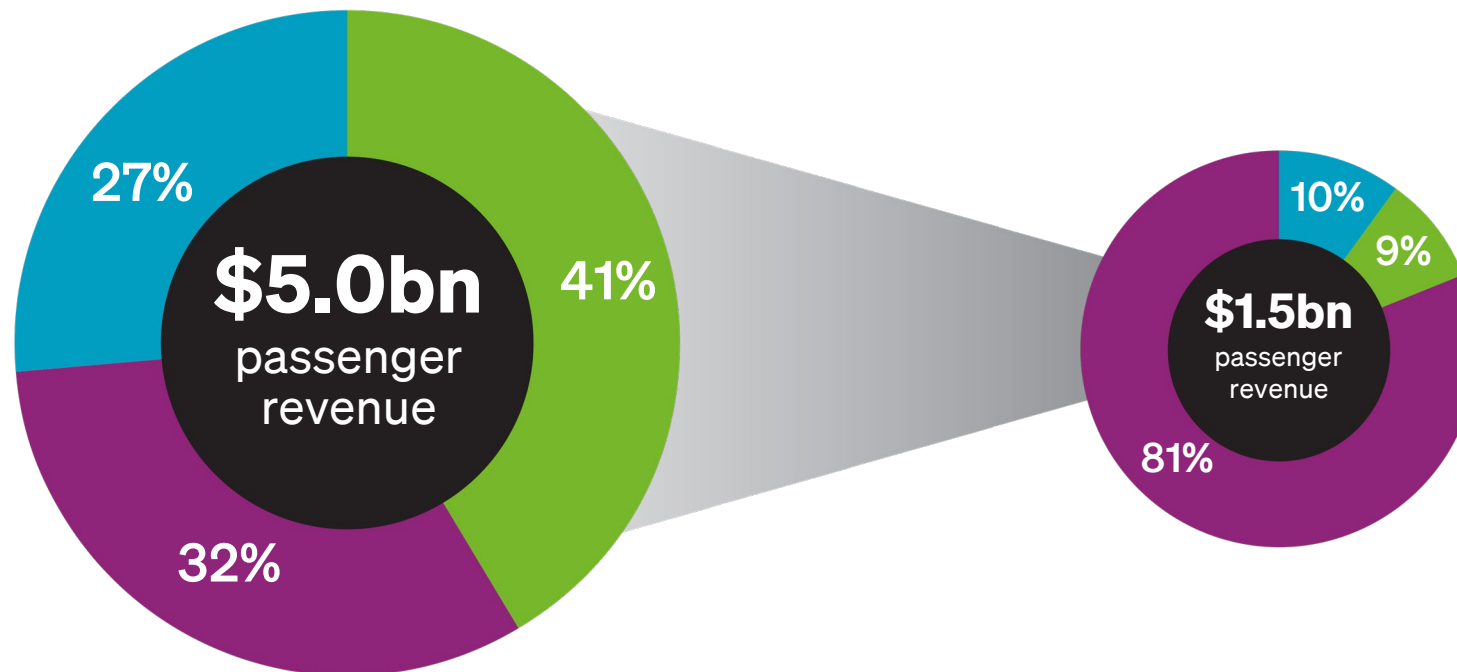


2021 represents the first full-year impact of Covid-19

Despite the strong Domestic performance, passenger revenue for 2021 was only ~30% of pre-Covid levels due to ongoing border restrictions and limited international long-haul flying

2019 passenger revenue segmentation¹

2021 passenger revenue segmentation¹



Passenger numbers

	2019	2021
Domestic	11.5M	8.2M
Tasman / Pacific Islands	4.0M	386K
International long-haul	2.2M	72K

- Domestic
- Tasman / Pacific Islands
- International long-haul

¹ Passenger revenue for each segment divided by total passenger revenue.



Cargo Overview

Cargo performance, supported by New Zealand and Australian cargo schemes, continues to provide a vital service to New Zealand exporters and import crucial goods



- Essential service supporting New Zealand's global trade links
- Cargo revenue of \$769 million **increased 71%** including FX
- Growth primarily due to the extension of Government supported flights, contributing \$333 million to cargo revenue in 2021
 - Maintaining International Air Connectivity (MIAC) scheme announced in March 2021, following the success of the International Airfreight Capacity (IAFC) scheme
 - Current phase of the scheme awarded in April 2021, providing further supported flights until October 2021
 - ~50 flights per week to 16 ports with the trans-Tasman bubble suspended, and ~30 flights per week to 12 ports when the trans-Tasman is open
 - Does not include flights to Australia or Rarotonga when travel bubble is in operation
 - International Freight Assistance Mechanism (IFAM) contract awarded in August 2020 by Australian Government – extended to September 2021



The airline is operationally ready

Proven operational agility to support our customers with changing travel requirements, while maintaining structural cost reductions made across our business



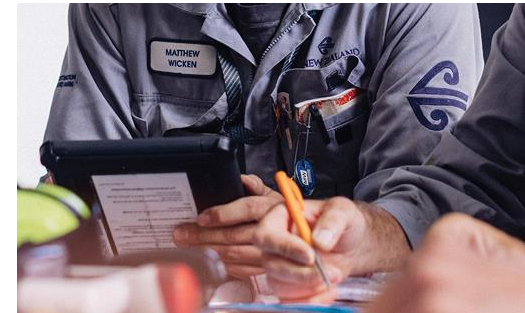
People

Ensuring pilots, cabin crew and airport teams are trained and ready to be brought back in line with demand



Infrastructure

Ensuring fleet and airport infrastructure is serviced and equipped for action



Network planning

Prepared to deploy capacity with well planned and optimised new international network schedules and routes



Government engagement

Continually monitoring Government travel guidance locally and internationally and engaging with relevant stakeholders on border requirements



Key investment highlights

Air New Zealand is a world-class airline, with a strong customer proposition and modern fleet underpinned by digital innovation, driving improvements in customer experience and profitability through its refreshed strategy, Kia Mau



Unparalleled brand and service culture

Celebrating more than 80 years of service, ranking #1 for corporate reputation in New Zealand for the past seven consecutive years¹



Domestic network strength

New Zealand's leading domestic carrier, maintaining significant domestic passenger market share over the past 10 years



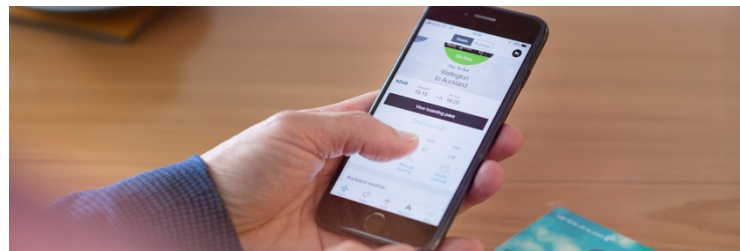
Focused international strategy

Strategy expected to support a return to profitable international operations once demand returns



Modern, fuel-efficient fleet

Modern, fuel-efficient fleet expected to drive improved operating cost outcomes



Scalable Airpoints™ loyalty programme

Provides a scalable, asset-light source of cash flows while driving customer engagement and retention



Serious about sustainability

Committed to taking action on decarbonisation, reducing waste and plastic, and championing sustainable tourism

¹ Colmar Brunton 2021 Corporate Reputation Index.



FINANCIAL RESULTS

Richard Thomson Chief Financial Officer



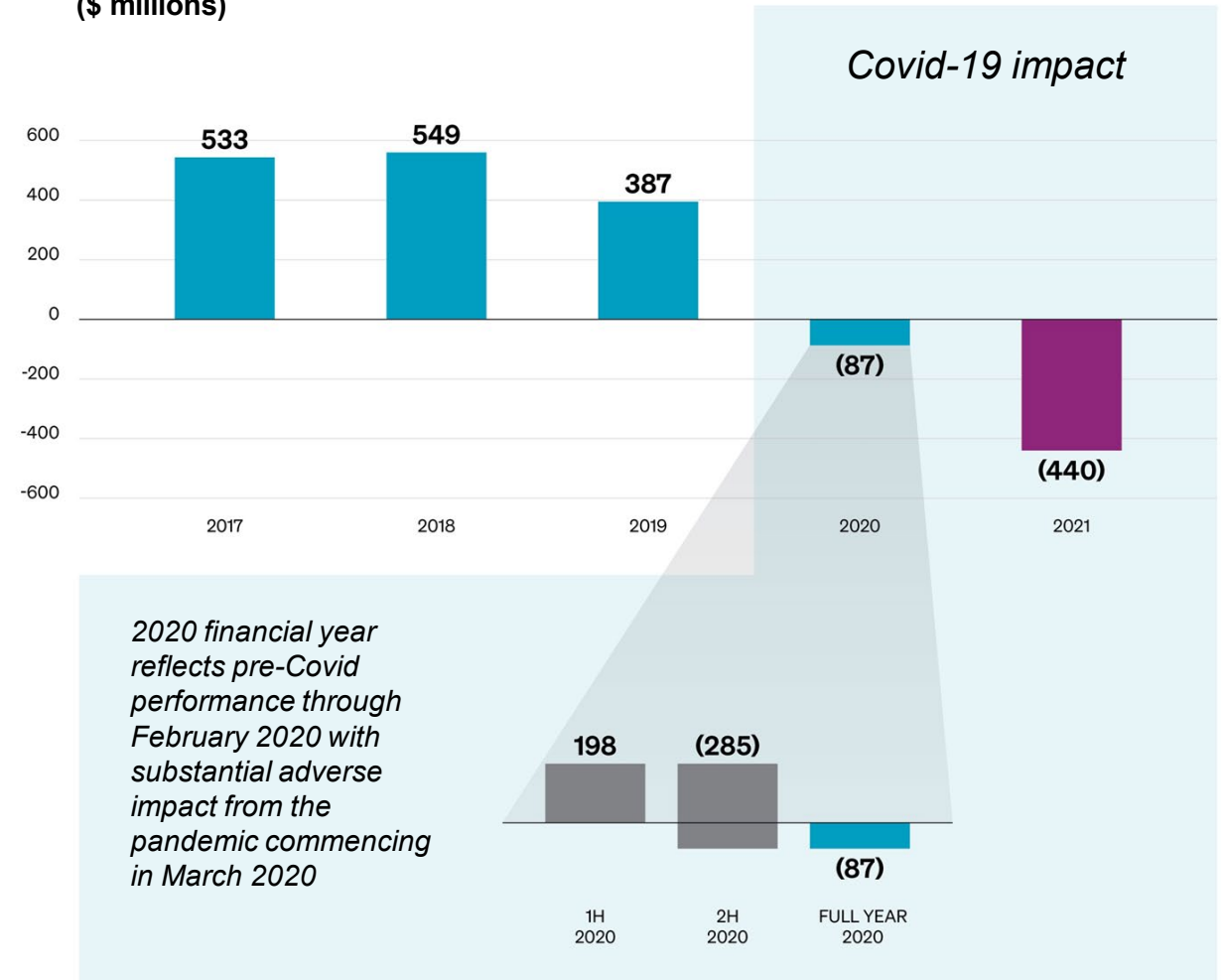
2021 financial summary

- Operating revenue **\$2.5 billion**, down 48%
- Loss before other significant items and taxation¹ **\$440 million**
- Loss before taxation **\$411 million**
- Net loss after taxation **\$289 million**
- Short-term cash of **\$266 million**²
- Gearing at **71.0%**
- Dividend suspended until further notice

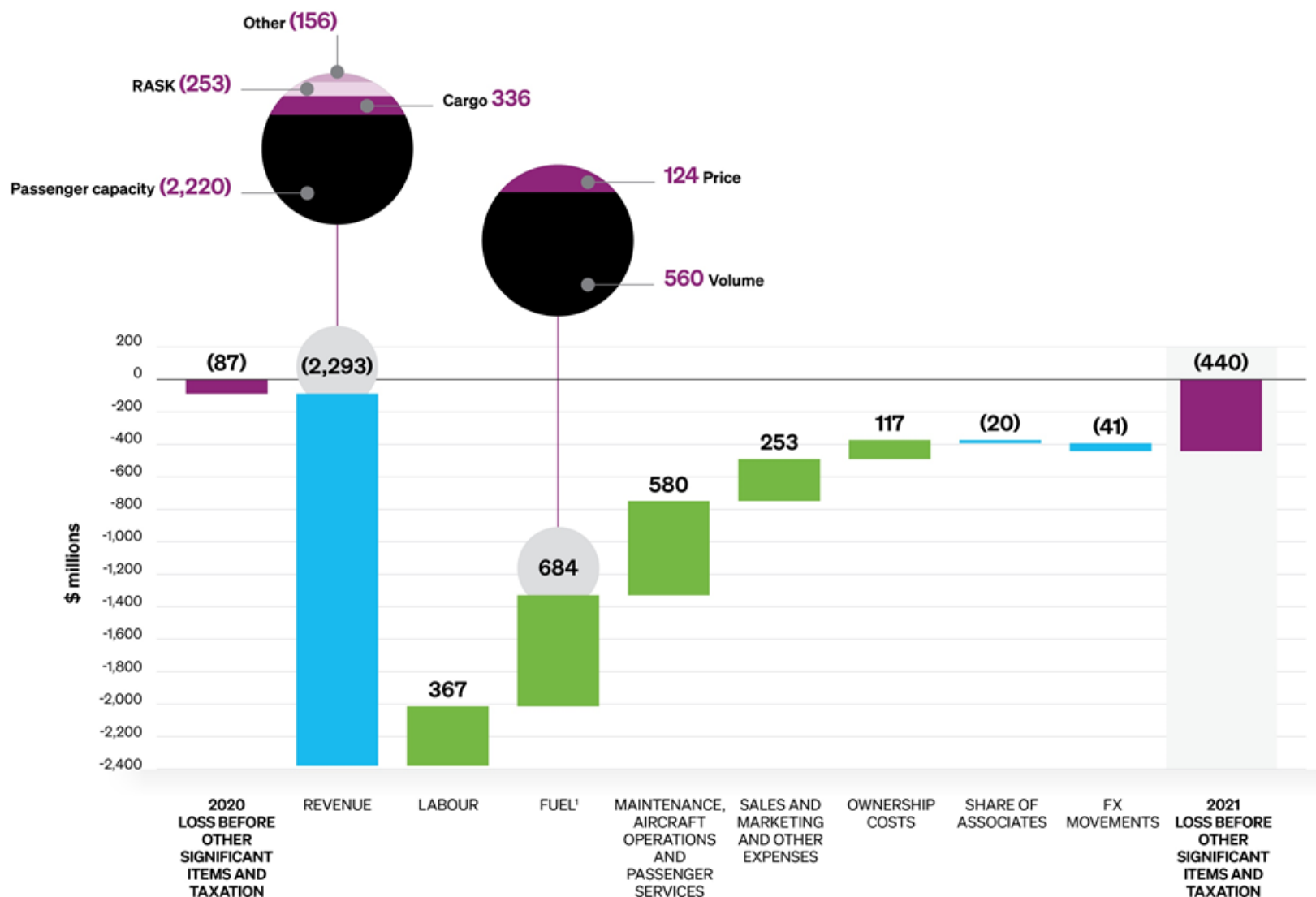
¹ Refer to slide 16 for further details on Other Significant Items of \$29 million.

² As at 30 June 2021, not including remaining undrawn funds from the Crown Standby Loan Facility. Please refer to slide 4 for details on liquidity as at 24 August 2021.

Earnings/Loss before other significant items and taxation
(\$ millions)



Profitability waterfall



¹ For further details on fuel cost movement, refer to slide 34.

Additional commentary

- Labour cost decreased 31% due to reduced international flying, lower headcount and reductions in discretionary spend
- Aircraft operations, maintenance and passenger services costs decreased 46% reflecting fewer departures and the resulting reduction in landing, meal and lounge costs as well as reduced maintenance activity required on our own fleet due to less flying and third-party work
- Ownership costs decreased 12% due to reduced depreciation on impaired Boeing 777s and reduced utilisation of capitalised engine maintenance partially offset by increased funding costs and new aircraft deliveries
- Several one-off tailwinds including Government wage subsidies and other aviation support measures provided significant cost benefits in 2021, although are not expected to repeat in 2022 (refer to next slide)



2021 result reflects benefit of support programmes

A series of government support programmes contributed to the 2021 result, although are not expected to repeat at a similar level in the 2022 financial year

Impact to the Profit & Loss		
Support programme	Amount (\$m)	P&L line item
Airfreight schemes	333	Cargo revenue ¹
Wage subsidies	56	Labour cost ¹
Air navigation subsidies	40	Aircraft operations
Passenger levy relief	18	Passenger services
Biosecurity border processing levy	1	Other expenses

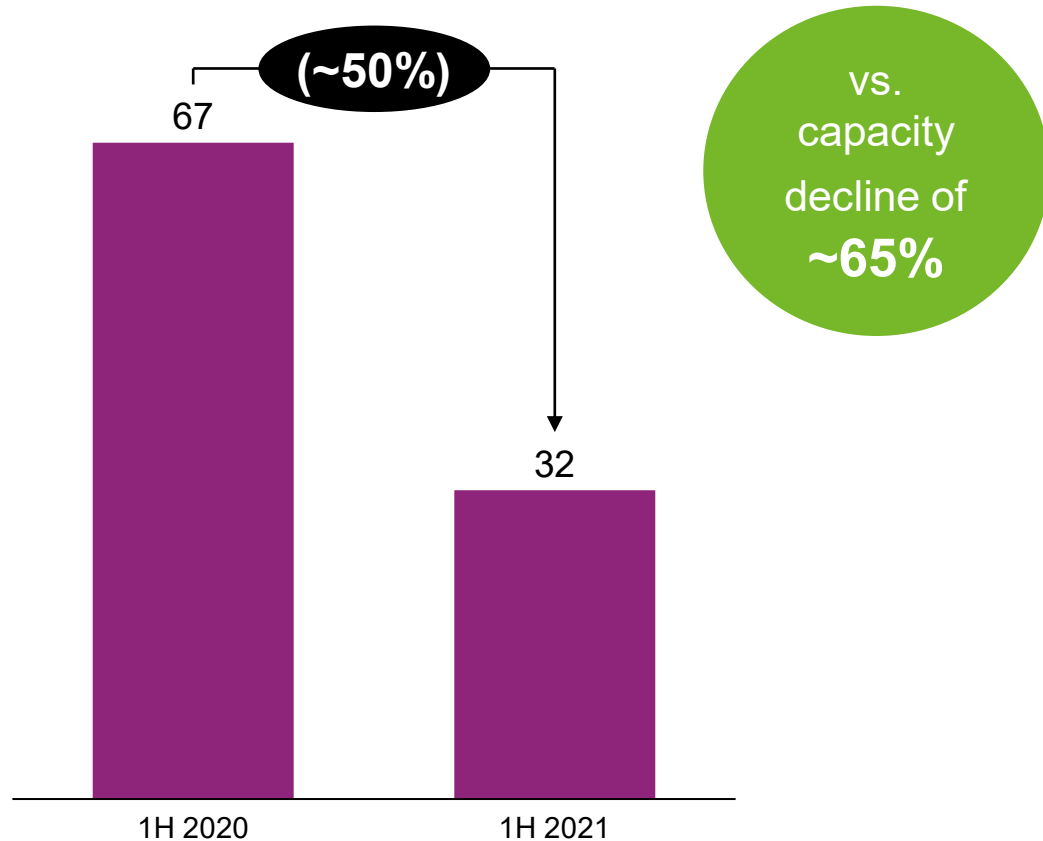
¹ These are ongoing benefits that are expected to continue into the 2022 financial year, albeit to a lesser extent than 2021 levels.



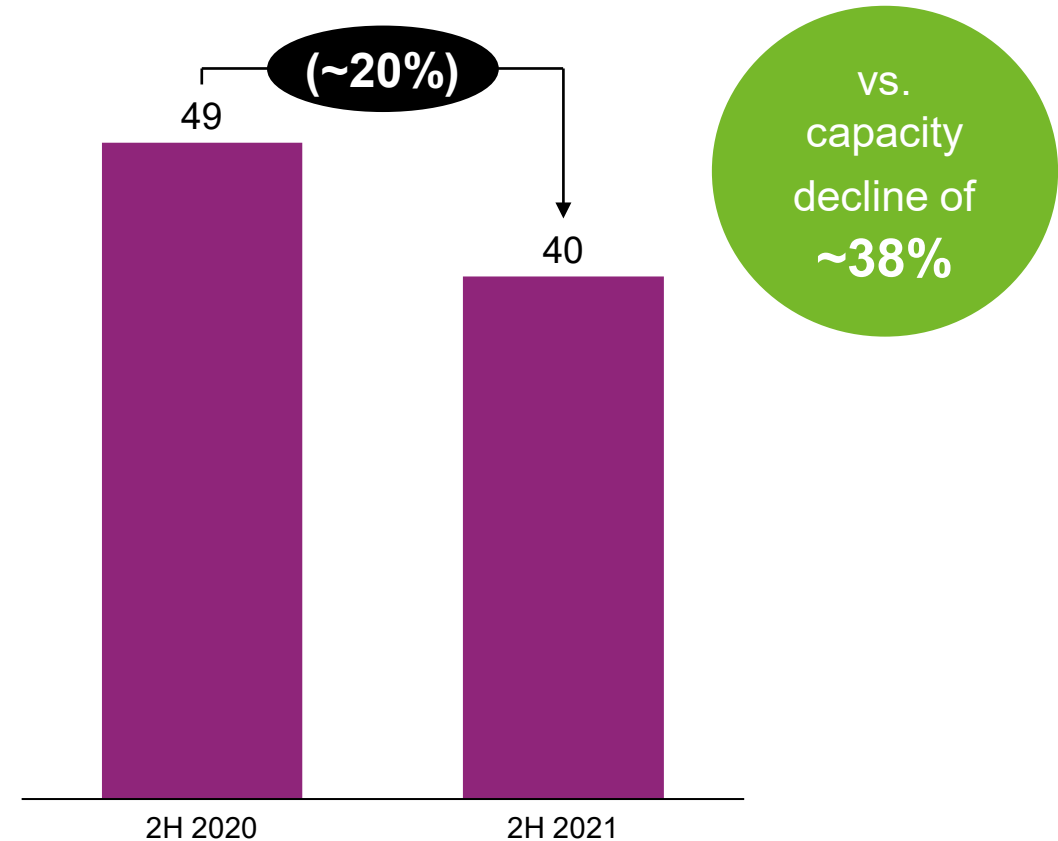
Continued cost discipline

Operating costs in 2H 2021 reflect continued cost discipline, partially offset by lower levels of subsidy support and costs associated with the travel bubbles to Australia and the Cook Islands

1H average weekly operating costs (ex fuel)
(\$ millions)



2H average weekly operating costs (ex fuel)
(\$ millions)

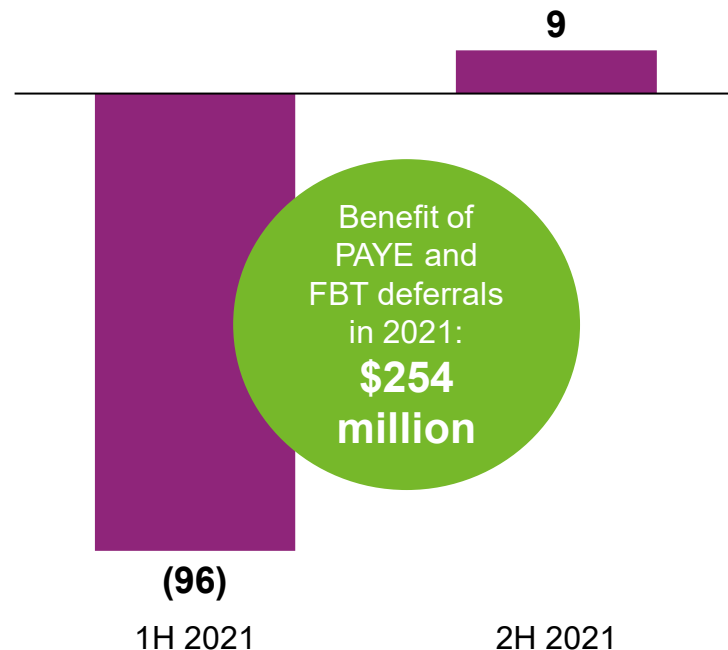




Cash burn¹ overview

2H 2021 cash burn benefited from operating cash flows related to the trans-Tasman and Cook Islands travel bubbles, reduced levels of refunds and redundancies as well as other cost deferrals

Average monthly cash burn
(\$ millions)



Improvement in 2H 2021 average cash burn compared to 1H 2021 driven by:

- Continued strong performance of Domestic and Cargo
- Commencement of travel bubbles with Australia and the Cook Islands
- Reduced level of refunds and redundancies compared to the 1H
- Fuel hedging gains compared to losses in 1H
- Further negotiations related to aircraft delivery deferrals

1H 2022 cash burn expected to face headwinds driving higher cash burn than 2H 2021, including:

- Reduced bookings related to the suspension of the trans-Tasman travel bubble and the recent domestic lockdown
- Commencement of regular PAYE and FBT payments of ~\$20 million per month from October 2021
- Delivery of aircraft that had been previously deferred

¹ Cash burn is defined as the aggregate of operating, investing and financing cashflow prior to drawings under the Crown Standby Loan Facility, over a specified period of time.



Other significant items

Other significant items of \$29 million were recognised in 2021¹

Other Significant Items impact for the 2021 Financial Year

FX gains on uncovered foreign currency debt	\$143 million	Non-cash
Gain on sale from landing slots	\$21 million ²	Non-cash
FX amounts transferred from the cash flow hedge reserve where the forecast transaction is no longer expected to occur	(\$18 million)	Non-cash
Reorganisation costs	(\$39 million) ³	Partial non-cash
Aircraft impairment and lease modifications	(\$78 million)	Non-cash
Total Other Significant Items	\$29 million	

Non-cash
\$55 million

Cash
(\$26 million)⁴

¹ Please refer to slide 28 for more information.

² Gain on sale related to the sale of Heathrow landing slots (arising from the exit of the London-Los Angeles route); The gain on sale was recognised upon formal transfer of each of the slots to the purchaser with \$42 million in proceeds received in December 2019.

³ Total redundancies paid in 2021 financial year were \$118 million.

⁴ Refers to cash paid in the 2021 financial year.



Hedging update

Air New Zealand's fuel hedging policy and approach remains unchanged

- Continue to hedge our expected fuel exposure, with ~60% of 2022 volumes hedged
 - Hedging in 2021 was focused on Domestic and Cargo flying volumes only
 - Similar approach being taken for 2022 financial year to ensure hedge effectiveness
- As previously disclosed, the Board has granted temporary exemption to certain aspects of the airline's Treasury Policy
 - Exemptions relate primarily to required hedging levels while Covid-19 drives uncertainty

Fuel hedge position (as at 17 August 2021)			
Period	Hedged volume (in barrels)	Hedges as % of estimated volumes	Net compensation from hedging ¹
1H 2022	~1.6 million	~80%	~\$22 million
2H 2022	~900 thousand	~40%	~\$5 million

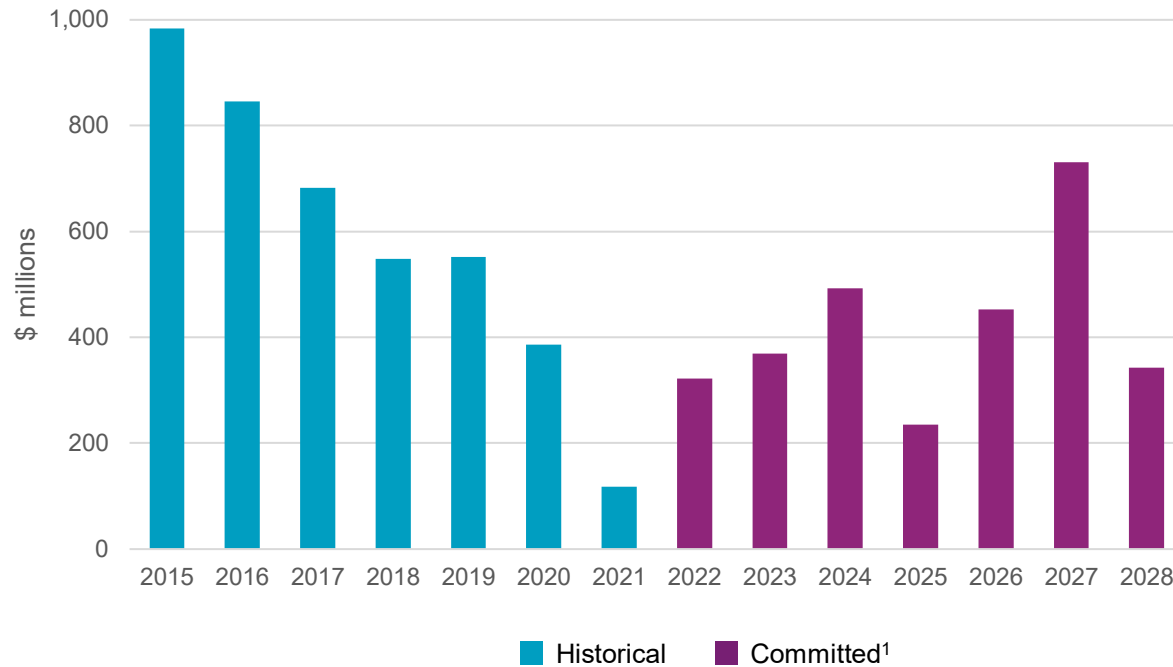
¹ Net compensation from fuel hedges represents the unrealised gains and losses on fuel hedges.



Fleet investment update

Degree of flexibility maintained over aircraft and non-aircraft capital expenditure; aircraft capital expenditure expected to reduce materially once contracted Boeing 787s order received

Actual and committed aircraft capital expenditure¹
















¹ Includes progress payments on aircraft and aircraft improvements (e.g. refurbishment); excludes assumed interiors retrofit capital expenditure for the existing 14 Boeing 787 fleet.

- Contracted Boeing 787 order initially intended to replace the Boeing 777-200 fleet but will now replace the Boeing 777-300 fleet, given permanent retirement of 8 Boeing 777-200 aircraft in 2020
- Committed aircraft capital expenditure profile reflects deferral of two Boeing 787 from 2023 to 2024 and 2024 to 2026, and assumes all contractual slide rights are executed
- Committed aircraft capital expenditure profile also reflects deferral of two A321neo domestic aircraft from 2024 to 2027
- No committed aircraft capital expenditure currently beyond 2028
 - Given the young age of fleet compared to global peers, Management has the optionality to allow fleet age to grow
- Interiors retrofit programme for existing 14 Boeing 787 fleet is anticipated beyond 2023, but timing and quantum have not been confirmed



Fleet simplification strategy

Air New Zealand has simplified its fleet and continues to focus on this strategy to drive superior operating cost and capital expenditure outcomes

	2011 (8 aircraft types)	2021 (5 aircraft types)	2027 (4 aircraft types) ¹
Wide-body	<div>747 (5)</div> <div>767 (5)</div> <div>777 (11)</div> <div> 777-300</div> <div> 777-200</div>	<div>787 (14)</div> <div>777 (7)</div> <div> 787-9</div> <div> 777-300</div>	<div>787 (20)</div> <div> 787-9</div> <div> 787-10</div>
Narrow-body	<div>A320 (14)</div> <div>737 (15)</div>	<div>A320 (31)</div> <div> A320</div> <div> A321</div>	<div>A320 (33)</div> <div> A320</div> <div> A321</div>
Turboprop	<div>ATR72 (11)</div> <div>Q300 (23)</div> <div>B1900D (18)</div> <div> ATR72-500</div>	<div>ATR72 (28)</div> <div>Q300 (23)</div> <div> ATR72-600</div>	<div>ATR72 (29)</div> <div>Q300 (23)</div> <div> ATR72-600</div>

¹ Note – represents the fleet at the end of the 2027 financial year.



OUTLOOK

Greg Foran Chief Executive Officer

AIR NEW ZEALAND 2021 ANNUAL RESULT | 20



OUTLOOK

Greg Foran Chief Executive Officer

AIR NEW ZEALAND 2021 ANNUAL RESULT | 20



Positioning for recovery

Air New Zealand is actively shaping its business to prepare for when international demand returns



Short-term



Medium-term



Long-term

- Ensure **wellbeing of our people**
- **Continued customer obsession**, with new and enhanced product offerings
- Retain **cost discipline**
- **Enhance Domestic proposition** to drive further demand
- Support recovery of the economy via **cargo**
- **Complete capital raise** in early 2022 calendar year
- Continue to **advocate for action on decarbonisation** and implement changes in the business to support targets

- Build back a **network of profitable international flying**
- **Preserve and protect** competitive advantages
- Leverage strong domestic brand presence and customer loyalty to **stimulate travel on Tasman and Pacific Island** routes
- **Prioritise our people** and our **customers**
- Invest in **digital solutions** to put greater control and flexibility in the customers hands
- **Ancillary revenue opportunities**

- Achieve **sustainable level of earnings** through the cycle
- **More efficient airline**, focused on optimal network
- Enhance the customer travel experience through **innovations across our digital infrastructure**
- Invest in cargo to **better serve customers** and **support long-haul international flying**
- Right-sized **cost base**
- Continue to pursue **sustainable aviation fuel (SAF)** and **zero emissions aircraft technologies** to meet our **decarbonisation** targets
- **Expand and leverage loyalty** programme



2022 Outlook

Given uncertainty surrounding the current national lockdown, ongoing international travel restrictions and uncertainty regarding the level of demand as these restrictions lift, Air New Zealand has suspended 2022 earnings guidance



THANK YOU



SUPPLEMENTARY INFORMATION

Air New Zealand at a glance¹

82

Years in operation

Pacific Rim

Focused international network

18 million

Passengers carried annually²

3.6 million

Airpoints™ loyalty scheme members

20

Domestic destinations

#1

Corporate reputation in New Zealand for seven consecutive years³

16

Years of consecutive profitability before 2020

Baa2 (stable)

Investment grade credit rating from Moody's since 2016⁴

6.7 years

Average fleet age on a seat weighted basis



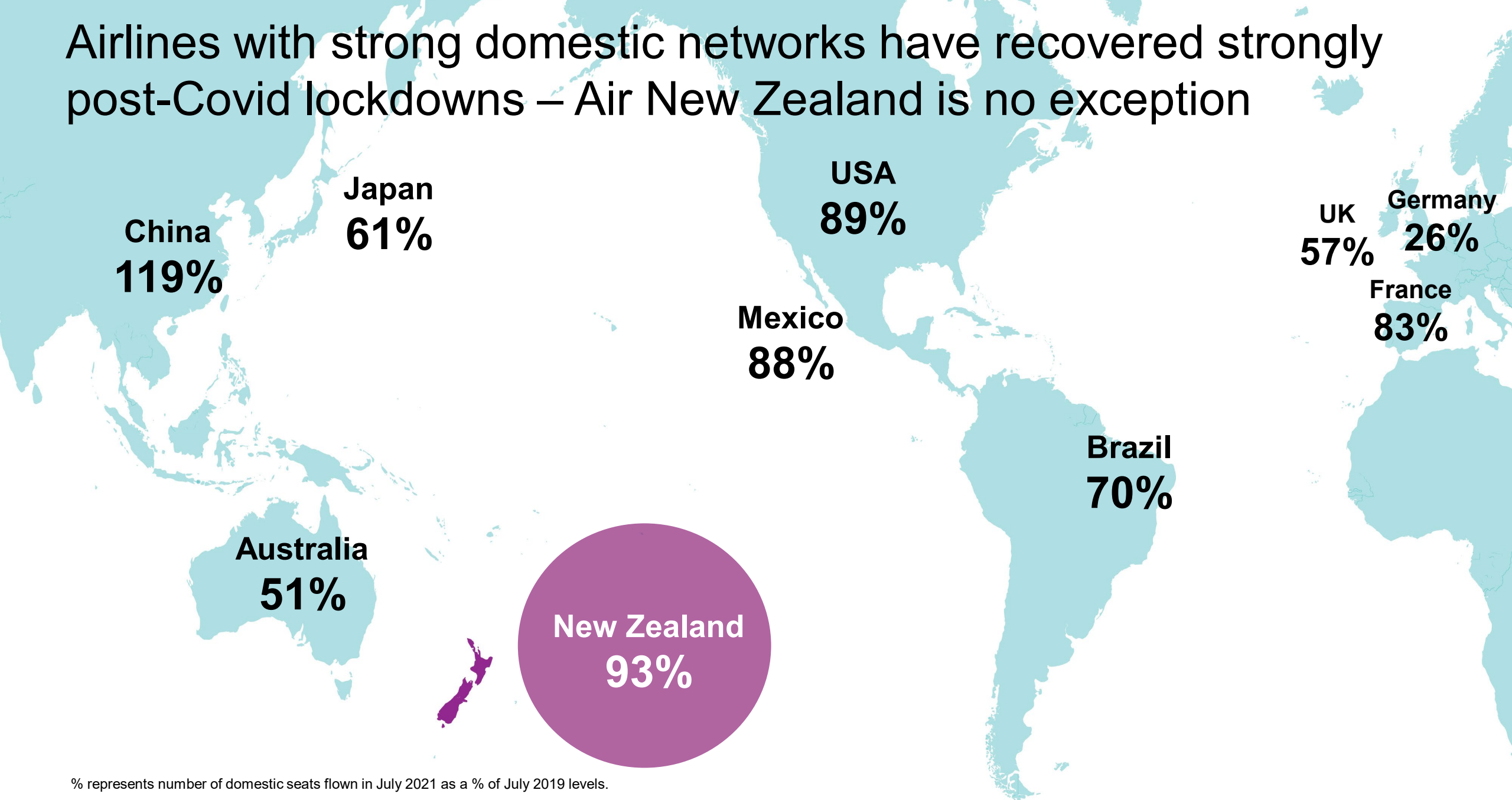
¹ Information as at 30 June 2021 unless otherwise stated.

² Information for 12 months ending 30 June 2019.

³ Colmar Brunton Corporate Reputation Index 2021.

⁴ As at 26 August 2021.

Airlines with strong domestic networks have recovered strongly post-Covid lockdowns – Air New Zealand is no exception



% represents number of domestic seats flown in July 2021 as a % of July 2019 levels.



Liquidity and gearing position

\$ millions	30 June 2021	30 June 2020
Gross debt	(3,308)	(3,701)
Cash, restricted deposits and net open derivatives	603	735
Net debt	(2,705)	(2,966)
Gross debt/EBITDA	8.0	4.4
Net debt/EBITDA	6.5	3.6
Gearing	71.0%	69.2%
Total liquidity	1,416	1,338
Liquidity (% of 2019 revenue)	24.5%	23.1%
Moody's rating	Baa2 (investment grade)	Baa2 (investment grade)



Loss before other significant items and taxation¹

	Jun 2021 \$M	Jun 2020 \$M
Loss before taxation (per NZ IFRS)	(411)	(628)
Add back other significant items:		
De-designation of hedges	18	105
Aircraft impairment and lease modifications	78	338
Reorganisation costs	39	140
Disestablishment of fair value aircraft hedges	-	46
Gain on sale of airport slots	(21)	(21)
FX gains on uncovered foreign currency debt	(143)	(67)
Loss before other significant items and taxation	(440)	(87)

¹ Loss before other significant items and taxation represent Earnings stated in compliance with NZ IFRS (Statutory Earnings) after excluding items which due to their size or nature warrant separate disclosure to assist with understanding the underlying financial performance of the Group. Loss before other significant items and taxation is reported within the Group's audited annual financial statements. Further details are contained within Note 3 of the Group's 2021 annual financial statements.



Financial overview

	Jun 2021 \$M	Jun 2020 \$M	Movement \$M	Movement %
Operating revenue	2,517	4,836	(2,319)	(48.0%)
Loss before other significant items and taxation	(440)	(87)	(353)	(405.7%)
Loss before taxation	(411)	(628)	217	34.6%
Net loss after taxation	(289)	(454)	165	36.3%
Operating cash flow	323	230	93	40.4%
Cash position	266	438	(172)	(39.3%)
Gearing	71.0%	69.2%	-	(1.8 pts)



Group performance metrics

	Jun 2021	Jun 2020	Movement ¹
Passengers carried ('000s)	8,649	13,525	(36.1%)
Available seat kilometres (ASKs, millions) – passenger flights	10,304	36,335	(71.6%)
Available seat kilometres (ASKs, millions) – passenger and cargo-only flights	17,410	38,486	(54.8%)
Revenue passenger kilometres (RPKs, millions)	5,908	29,568	(80.0%)
Load factor	57.3%	81.4%	(24.1 pts)
Passenger revenue per ASKs as reported (RASK, cents)	14.3	10.8	31.5%
Passenger revenue per ASKs, excluding FX (RASK, cents)	14.3	10.8	31.7%

¹ Calculation based on numbers before rounding.

Domestic



	Jun 2021	Jun 2020	Movement ¹
Passengers carried ('000s)	8,191	8,821	(7.1%)
Available seat kilometres (ASKs, millions) – passenger flights	5,480	5,619	(2.5%)
Revenue passenger kilometres (RPKs, millions)	4,244	4,552	(6.8%)
Load factor	77.4%	81.0%	(3.6 pts)
Passenger revenue per ASKs as reported (RASK, cents)	21.7	23.6	(7.8%)
Passenger revenue per ASKs, excluding FX (RASK, cents)	21.7	23.6	(7.8%)

¹ Calculation based on numbers before rounding.



Tasman & Pacific Islands¹

	Jun 2021	Jun 2020	Movement ²
Passengers carried ('000s)	386	3,002	(87.1%)
Available seat kilometres (ASKs, millions) – passenger flights	2,214	10,367	(78.6%)
Revenue passenger kilometres (RPKs, millions)	964	8,265	(88.3%)
Load factor	43.5%	79.7%	(36.2 pts)
Passenger revenue per ASKs as reported (RASK, cents)	6.4	9.4	(32.0%)
Passenger revenue per ASKs, excluding FX (RASK, cents)	6.4	9.4	(32.4%)

¹ Pacific Islands including Bali and Hawaii.

² Calculation based on numbers before rounding.



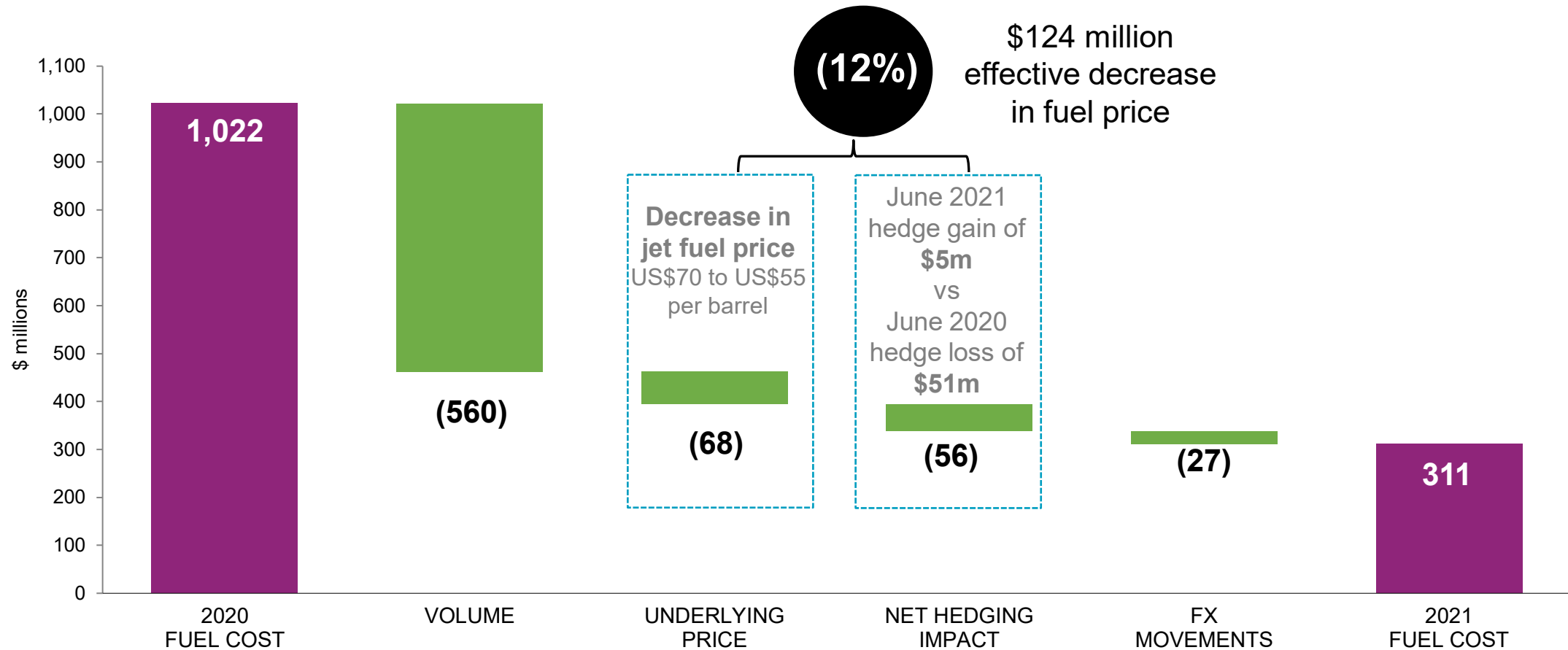
International

	Jun 2021	Jun 2020	Movement ¹
Passengers carried ('000s)	72	1,702	(95.8%)
Available seat kilometres (ASKs, millions) – passenger flights	2,610	20,349	(87.2%)
Revenue passenger kilometres (RPKs, millions)	700	16,751	(95.8%)
Load factor	26.8%	82.3%	(55.5 pts)
Passenger revenue per ASKs as reported (RASK, cents)	5.3	8.1	(34.8%)
Passenger revenue per ASKs, excluding FX (RASK, cents)	5.3	8.1	(33.7%)

¹ Calculation based on numbers before rounding.



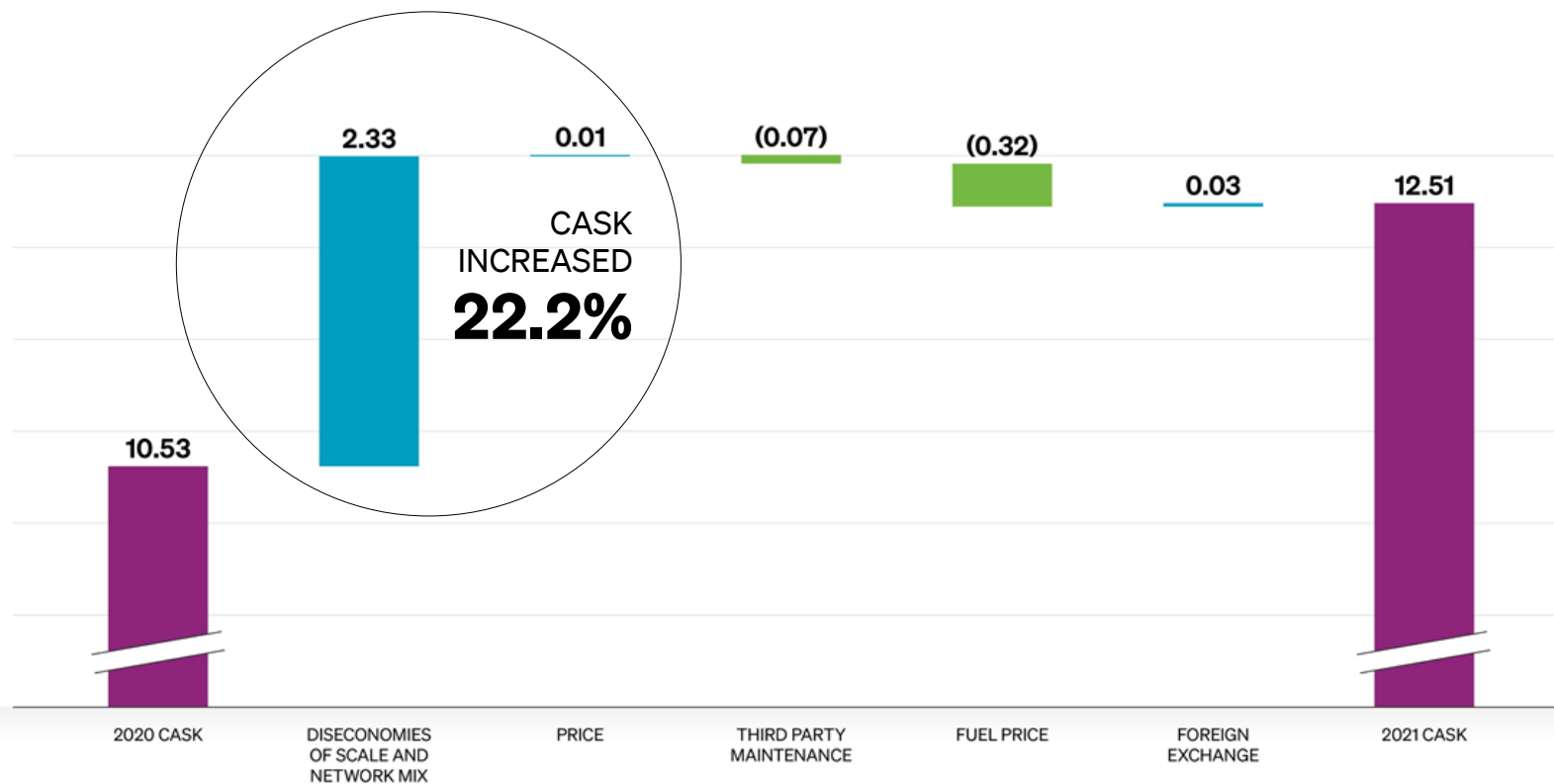
Fuel cost movement





CASK movement

- CASK¹ increased **22.2%**, reported CASK increased 18.8%



¹ Excluding fuel price movement, foreign exchange and third-party maintenance.

² Total RASK refers to Operating Revenue per available seat kilometre.

Commentary

- CASK increased due to:
 - Diseconomies of scale and the change in mix of network flying towards short-haul due to Covid-19 schedule changes and border closures
 - A moderate level of cost being held to ensure operational readiness for when borders start to reopen
- Total RASK² increased 15% reflecting the change in network mix towards shorter sector flights

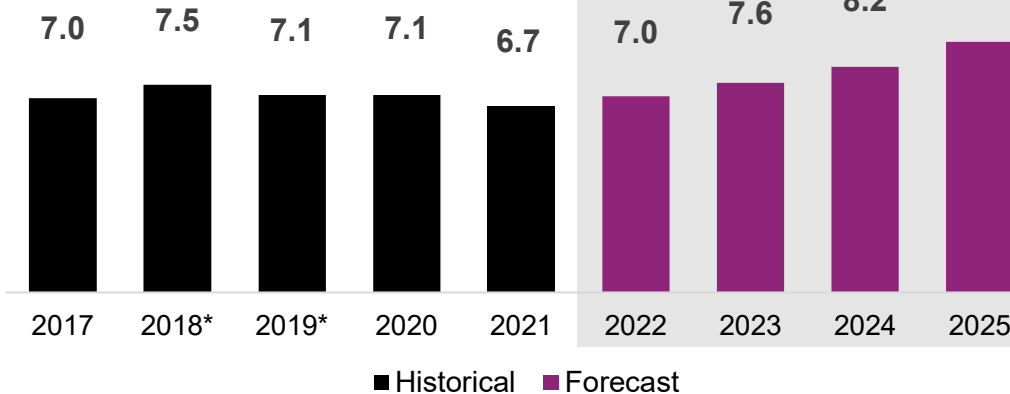


Fleet delivery and age update

Aircraft delivery schedule (as at 30 June 2021)

		Number in existing fleet	Number on order	Delivery Dates (financial year)			
				2022	2023	2024	2025
Owned fleet on order	Boeing 787	14	2***	-	-	2	-
	Airbus A320/A321neos	11	7**	3	3	1	-
	ATR72-600	28	1	1	-	-	-

Aircraft fleet age in years (seat weighted)¹



	2021	2022	2023	2024	2025
Boeing 777-300ER	7	6	6	6	5
Boeing 787-9/787-10	14	14	14	16	16
Airbus A320	20	17	15	13	13
Airbus A320/A321neo	11	14	17	18	18
ATR72-600	28	29	29	29	29
Bombardier Q300	23	23	23	23	23
Total Fleet	103	103	104	105	104

¹ From 2021 onwards, excludes the Boeing 777-200ER fleet and one leased Boeing 777-300ER that are not expected to be returned to service.

* Excludes short-term leases which provide cover for the global Rolls-Royce engine issues.

** Does not reflect two A321neos planned for delivery in 2027 financial year for which deferral rights have been assumed.

*** Does not reflect six Boeing 787s planned for delivery from 2026 financial year for which slide rights have been assumed.



Glossary of key terms

Available Seat Kilometres (ASKs)	Number of seats operated multiplied by the distance flown (capacity)
Cost/ASK (CASK)	Operating expenses divided by the total ASK for the period
Gearing	$\text{Net Debt} / (\text{Net Debt} + \text{Equity})$
Earnings before interest, tax, depreciation and amortisation (EBITDA)	Operating earnings (before depreciation and amortisation, net finance costs, associate earnings, other significant items and taxation) plus finance income and cash dividends received from associates less foreign exchange gains/losses
Gross Debt	Interest-bearing liabilities and lease liabilities
Net Debt	Interest-bearing liabilities, lease liabilities less bank and short-term deposits, net open derivatives held in relation to interest-bearing liabilities and lease liabilities, and interest-bearing assets
Cash, restricted deposits and net open derivatives	Bank and short-term deposits, interest-bearing assets and net open derivatives held in relation to interest-bearing liabilities and lease liabilities
Passenger Load Factor	RPKs as a percentage of ASKs
Passenger Revenue/ASK (RASK)	Passenger revenue for the period divided by the total ASK on passenger flights for the period
Revenue Passenger Kilometres (RPKs)	Number of revenue passengers carried multiplied by the distance flown (demand)

The following non-GAAP measures are not audited: CASK, Gearing, Net Debt, Gross Debt, EBITDA and RASK. Amounts used within the calculations are derived from the audited Group financial statements and Five Year Statistical Review contained in the 2021 Annual Financial Results. The non-GAAP measures are used by management and the Board of Directors to assess the underlying financial performance of the Group in order to make decisions around the allocation of resources.

Find more information about Air New Zealand

Resources

Investor website: www.airnewzealand.co.nz/investor-centre

Monthly traffic updates: www.airnewzealand.co.nz/monthly-operating-data

Corporate governance: www.airnewzealand.co.nz/corporate-governance

Sustainability: <https://www.airnewzealand.co.nz/sustainability>

Contact information

Email: investor@airnz.co.nz

Share registrar: enquiries@linkmarketservices.com



AIR NEW ZEALAND 

A STAR ALLIANCE MEMBER 

AIR NEW ZEALAND 

2021 **ANNUAL SHAREHOLDER REVIEW**

ZK-NEM

A STAR ALLIANCE MEMBER 

LETTER FROM THE CHAIRMAN

Tēnā koutou katoa



Dame Therese Walsh – Chairman

The result for the 2021 financial year continues to reflect the broad sweeping impacts of Covid-19 on our airline, and on the aviation and tourism industries more generally.

It also reflects the tireless efforts, skill and sheer determination of our people, the Executive team and other key stakeholders across our supply chain to keep our customers connected and travelling safely.

Teams from all areas of the business have responded quickly to ever-changing operational conditions, introducing new cargo routes to create further revenue opportunities, increasing capacity on our domestic network to near pre-Covid levels to match heightened demand for leisure travel here in New Zealand, and implementing the necessary protocols to launch our first short-haul international travel bubbles.

These milestones have been hugely important for Air New Zealand, providing us with small

but much needed steps towards some form of normalcy, although the complexity caused by Covid-19 and its multiple variants continues to create challenges, volatility and uncertainty. In the last three months alone, our people have dealt with a great deal of complexity and uncertainty as we worked to respond to changing border conditions on the Tasman due to a surge of community transmission of Covid-19 in Australia, and at home another strict nationwide lockdown this month reminds us how there is no easy fix. Our people and customers have been patient and supportive throughout this difficult time, and on behalf of the Board, I want to thank everyone for their continued support of our airline.



LETTER FROM THE CHAIRMAN (CONTINUED)

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Our people navigating through Covid-19	12	Financial Summary	21
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Covid-19 has challenged so much of what we as Kiwis hold dear to our hearts – the ability to connect with our friends, whānau and colleagues in person, and travelling to explore new cultures, food and different ways of life. I am personally very proud of how Air New Zealand is navigating its way through Covid-19, providing a strong domestic schedule and doing everything we can to keep Aotearoa connected to the world. We have again demonstrated Air New Zealand is a crucial part of New Zealand's infrastructure, not only by continuing to connect New Zealanders to each other while borders remain closed, but also by keeping vital cargo moving within New Zealand and around the globe. While there is no shying away from the fact we still have a tough and uncertain road ahead, I am confident Air New Zealand will continue to play a key role in New Zealand's recovery from Covid-19.

Capital raise and liquidity

As announced on 13 August 2021, the Company received a letter from the Minister of Finance outlining his view that the current environment is not sufficiently certain and stable to enable the Crown to provide a firm pre-commitment to support a planned capital raise at this time.

In this context, the Company has, in consultation with the Crown, decided to further defer its planned capital raise from 30 September 2021 until the first available window in the first quarter of calendar year 2022.

Given the critical role the airline has in New Zealand's economy and society, the Crown has again confirmed its longstanding commitment to maintaining a

majority shareholding in Air New Zealand. Subject to Cabinet being satisfied with the terms of the Company's proposed capital raise at the relevant time, the Crown has confirmed it will participate in a capital raise by purchasing the number of new shares necessary to maintain a majority shareholding.

On completion of the recapitalisation, the Company expects to repay all amounts drawn under the Crown Standby Loan Facility. The Crown has confirmed to the Company that it shares this expectation.

Until the recapitalisation is completed, Air New Zealand has access to sufficient liquidity under the Crown Standby Loan Facility to allow the Company to continue operating and investing in our world-class airline.

Gearing and dividend expectations

We ended the 2021 financial year with gearing of 71 percent, an elevated level from Air New Zealand's stated target gearing range of 45 percent



Domestic capacity increased to cater to the outstanding support for regional travel

LETTER FROM THE CHAIRMAN (CONTINUED)



Deborah – Direct Sales Contact Centre Consultant

to 55 percent as a result of the losses incurred since Covid-19. Despite the impact to our balance sheet, the airline maintained an investment grade credit rating.

The Board continues to focus on preserving Air New Zealand's liquidity, and given the ongoing uncertainty and continuing financial pressures on the airline, has determined it will not declare a final dividend for the 2021 financial year.

Air New Zealand's Board does not expect to consider payment of dividends before the airline's earnings and gearing substantially recover, and in the context of a supportive macroeconomic environment.

Performance update

Air New Zealand has delivered a loss before other significant items and taxation¹ of \$440 million – a statutory loss before taxation of \$411 million and a statutory loss after taxation of \$289 million for the 2021 financial year.

Despite the ongoing challenges of the past 12 months, the Domestic network has formed the backbone of our recovery and was a major contributor to operating revenues of \$2.5 billion. Prior to the latest national lockdown this August, domestic capacity had been tracking in excess of 90 percent of pre-Covid levels and has underpinned our operational schedule for more than a year and a half. It has been particularly pleasing to see that domestic leisure travel had reached higher levels than pre-Covid times, at 130 percent in the three months to the end of July 2021, with Kiwis continuing to explore the wonderful sights New Zealand has to offer. In the past three months we have also seen corporate customers return to the skies in high volumes, at around 90 percent of 2019 levels. This is a huge milestone for the airline given there was a view taken by many

that this much valued customer segment may not return to pre-Covid levels of travel.

The other major contributor to revenue this year was our Cargo business, delivering \$769 million, an increase of 71 percent on the prior year. The significant increase in cargo revenue reflects a further year of keeping New Zealand exporters connected to their international trade partners with the assistance of airfreight support schemes introduced by both the New Zealand and Australian Governments contributing \$333 million as a one-off tailwind for the 2021 financial year.

The opening of the trans-Tasman bubble in April this year was another significant milestone and contributed to revenue across April, May and through June. After more than one year of international passenger travel being restricted to repatriation flights, people were thrilled at the prospect of having this key part of our short-haul network operating again. We saw strong immediate bookings of around 90 percent of pre-Covid levels in the first week and were able to bring back more than 220 cabin crew and pilots to support these routes. However, the resurgence of community transmission of Covid-19 in Australia, and the suspension of the trans-Tasman bubble shows how truly volatile the situation is, and that we must remain agile and vigilant in our response to the evolving situation.

The airline has maintained a strong focus on cost discipline throughout the year. Operating costs are down 46 percent on the prior year on 55 percent less capacity. This is an encouraging result in the context of additional spend incurred with the opening of two travel bubbles and the holding costs associated with ensuring operational readiness when international borders reopen. The airline saw an increase in cost per available seat kilometre



LETTER FROM THE CHAIRMAN (CONTINUED)

(CASK) of 22 percent², although this is a reflection of the mix of flying towards domestic, which has shorter sector distances and smaller aircraft leading to reduced economies of scale.

I am proud of what we have achieved in this volatile environment.

We couldn't have done it without our people

I admire our people for the passion and perseverance they have shown over the past 18 months. Without their commitment to keeping customers flying, and their ability to flex and adapt to the ever-changing circumstances we continue to face, we wouldn't be in the position we are now.

The Board has been out in the business, engaging with people across the airline to hear how Covid-19 has impacted them, both personally and professionally, and to see the great work being done behind the scenes as we move through the survive phase. I'm so impressed with the resilience they have shown, particularly when they farewelled colleagues, picked up extra tasks and dealt with new challenges on a daily basis.

I was excited to see we have maintained our position of having the best corporate reputation in New Zealand – it is phenomenal to receive this recognition in the midst of these challenging times. I couldn't be prouder that the extraordinary work of our people, who have kept Kiwis connected with each other and goods moving around the globe, is being appropriately acknowledged.

I would like to thank Greg and his Executive team who have kept the business stable and steady through these unpredictable times. Greg's leadership and dedication to our people has kept everyone informed and moving together in the right direction. It was a tough time to step into the airline industry, and Greg has shown how resilience, determination and strong leadership can make the best of a difficult situation.

Thank you also to the Board members who have provided clear guidance and backing for the Executive and supported decisions such as bringing back some remuneration and benefits for Air New Zealanders to acknowledge their exceptional efforts, including the NZ\$1,000 award of shares or cash. I am proud to work with this amazing team as we continue to steer the business through these uncharted waters.

Moving towards the revive phase

As we move into financial year 2022, it is clear there is still a significant degree of uncertainty ahead. What does give me great hope is the resiliency of Kiwis taking to the sky on our domestic network barring interruption from various lockdown events in New Zealand. We have increased domestic capacity across the board and seen strong support for travel to the regions. We have been able to unlock new demand and provide lower fares to make the regions more accessible. The success of this approach, along with marketing campaigns in partnership with Tourism New Zealand highlights Kiwis continued love for all things travel.

The Government's plan to have the majority of Kiwis vaccinated by the end of the year will be crucial, and as more people both in New Zealand and across the globe get vaccinated, we hope to see a different form of normality resume. We are pleased at the rate of vaccination among Air New Zealanders with 84 percent of our frontline employees now having had at least one vaccine and 81 percent fully vaccinated. A huge thank you to everyone who has been vaccinated – this is an important line of defence to keep ourselves, our customers and community safe, and will be essential for getting borders opened up.

The New Zealand Government recently unveiled its plan for how it sees New Zealand's borders reopening to the world. We are supportive of the steps being taken to reopen the border safely, including a phased approach given there isn't a one-size-fits-all solution.

What is clear is vaccines and other innovations like digital health passports will play an extremely important role in enabling borders to reopen.



Nathan showing the Board how to load a cargo hold in Auckland

2. Excluding fuel price movement, foreign exchange and third-party maintenance

LETTER FROM THE CHAIRMAN (CONTINUED)

I am proud to say Air New Zealand has not rested on its laurels waiting for borders to open. We have focused on building significant muscle and agility in every facet of our operations and have progressed key elements of our refreshed strategy, Kia Mau, to set the airline up for success over the long-term. We believe that by prioritising our people and customers, taking action on sustainability and delivering digital excellence we will be in the best possible position for the future.

Outlook

Given uncertainty surrounding the current national lockdown, ongoing international travel restrictions and uncertainty regarding the level of demand as these restrictions lift, Air New Zealand has suspended 2022 earnings guidance.

In closing

While the latest outbreak of Covid-19 in New Zealand has been disappointing, I am confident there is still strong demand for air travel in the future, and Air New Zealand's role in providing that critical linkage for our country will remain.

I want to take a moment to thank our shareholders, customers, suppliers and other key stakeholders for their support and engagement as we work together.

Ngā mihi nui



Dame Therese Walsh

Chairman

26 August 2021

Board Director changes

I'm thrilled to announce the appointment of Alison Gerry, Claudia Batten and Paul Goulter as directors on the Air New Zealand Board as we bid farewell to Jan Dawson, Rob Jager and Linda Jenkinson.

Alison has an incredibly strong background in governance, capital management, audit and risk from her time as a director of Spark, TVNZ, Kiwibank and her current directorships with ANZ Bank New Zealand, Sharesies, Infratil and Suncorp New Zealand. She will be taking over as Chair of the Audit and Risk Committee and I look forward to her leadership in this space.

Claudia brings a wealth of digital expertise, having co-founded Victor and Spoils, the world's first advertising agency built on crowd-sourcing principles and one of the founders of gaming advertising network Massive Corporation. She is the current digital advisor to the Westpac New Zealand Board, is the Chair of Serko and a director at Vista Group. She has won many awards for her work supporting the New Zealand technology sector

and I know we will tap into her vast experience as we look to become the world's leading digital airline.

Paul has worked closely with unions both in New Zealand and Australia over the past 40 years, including time as Secretary of the New Zealand Council for Trade Unions and as General Secretary of Finsec. He is currently National Secretary for New Zealand's largest education union, NZEI Te Riu Roa, and a director of the Co-operative Bank. We welcome his extensive knowledge in this space to support the airline in the continued journey to build trusted and inclusive relationships with our people and the unions.

I'm excited about welcoming all three to the Board and seeing the new perspectives they bring to support our objectives of prioritising people and creating digital solutions that empower

customers, and how the Board can support the airline through the next phase – navigating through and beyond Covid-19.

I want to take this opportunity to thank Rob and Linda, our long-serving directors who are retiring this year. We have appreciated their insights and guidance which have helped shape the airline over the years and supported us through the significant impact of Covid-19 over the past 18 months.

Finally, a special thanks to Jan, our Deputy Chairman, who agreed to continue in her position, providing consistency to our Board while we navigated our way through this unprecedented time for the airline. Her wisdom, experience and advice were invaluable. I want to wish her all the best for the future.



LETTER FROM THE CHIEF EXECUTIVE OFFICER

Tēnā koutou e ōku rangatira



Greg Foran – Chief Executive Officer

The international impact of the continuing pandemic meant the last financial year was one in which Air New Zealand effectively operated at a third of its normal passenger capacity, but with a level of energy that far exceeded that.

Playing the hand we were dealt, we have kept our planes flying every single day, maintained cost discipline and developed new capabilities and dexterity while taking some important steps in the delivery of our refreshed strategy, Kia Mau.

Time has not been wasted. We are focused on building back better for when the borders reopen, encouraged by our dedicated team of Air New Zealanders, our loyal customers and our strong domestic business.

Although the timing of a return to international travel remains highly uncertain, and indeed, even the most recent nationwide lockdown demonstrates the complexity we must continue to navigate, the path forward to the future is clear.

Our people and customers

In a year in which we saw markets open and close, and while we continue to face uncertainty around travel, we are humbled and inspired by the unwavering commitment of our people and the support of our customers.

I am acutely aware of the many sacrifices Air New Zealanders continue to make as they work to deliver our purpose – connecting New Zealanders with each other and New Zealand with the world. From the employees who took pay cuts through the year, to the teams who have worked twice as hard to deliver essential export services; from the cabin crew and pilots undergoing regular Covid-19 tests

LETTER FROM THE CHIEF EXECUTIVE OFFICER (CONTINUED)



and quarantine to support customers returning home, to our domestic employees who continue to help customers adapt to the challenges of travelling during a pandemic – thank you.

Air New Zealanders continue to do extraordinary things in extraordinary times, and we share some of their stories in this shareholder report. It was hugely important to the Board and Executive to recognise that sacrifice via a \$1,000 award of shares or cash to our people. We also supported 1,200 employees who struggled to manage day-to-day finances due to the pandemic with grants from the Āwhina Trust, which is funded by Board and Executive salary sacrifices and donations from other Air New Zealanders.

Our ability to adapt to change is now becoming a muscle, with an increasingly fluid response to short notice changes that impact where and when we can fly, shutting down fast in one area while moving rapidly to open new routes for cargo.

Our team's no-fuss ability to respond quickly when conditions change is not only one of this year's biggest achievements but inspires great confidence for the future return of competitive air travel.

We are also grateful for the ongoing aroha from our customers, whose support has seen our domestic business rebound strongly following various lockdowns, and whose trust and engagement with our people has allowed us to test and introduce new features to improve our service.



LETTER FROM THE CHIEF EXECUTIVE OFFICER (CONTINUED)

This is embodied in our promise of manaaki – to take care further than any other airline – and it is coming to life despite constant change.

Being named New Zealand's top company for corporate reputation for the seventh year running felt very special given the impact the pandemic had on so many customers' travel plans.

We do not take this for granted.

Making the most of the opportunity

I have learned over time that building a chain of trust is critical with all stakeholders. Trust allows us to move forward with pace, and that is critical for us to reach full potential.

The airline has used this period to deliver many improvements for our customers. This is a process of delivering on the brilliant basics that matter – making travel simpler, easier and hassle free for customers. Our aim is to focus each day on doing 100 things one percent better. Many of these are already playing out across the airline.

We have revisited our domestic business, reimagining our customer proposition. We had fun with our customers during inflight trials of new food and beverage offerings, learning about Kiwis' changing tastes and preferences, and most importantly discovering our customers love to have their say on the features of our service as they fly with us. We look forward to offering you something new as we serve you in the years ahead and showcase a range of New Zealand products.

Recently we made changes to give customers more choice of flight times and access to even more low fares. We hope this will help more Kiwis see their own country, while supporting the many businesses that play a part in the tourism sector.

Fares have been capped to ensure demand does not mean travel is out of reach at times when it's needed most, and we have reintroduced the popular Fast Bag service with reimagined features.

We improved our unaccompanied minors service to make travel easier for our most valuable cargo and safer for our people.

Our compassionate fare scheme has been simplified to provide customers with flexibility to change or credit their bookings.

All of these changes were made for our customers during a period when, domestically, it was business as usual – or busier.

Until the most recent nationwide lockdown this August, we had seen domestic leisure demand at nearly 130 percent of pre-Covid levels over the three months to 31 July 2021 when compared to the equivalent period in 2019. July 2021 was our busiest holiday period yet, when more than 550,000 passengers flew with us domestically.

It has also been encouraging to see corporate customers starting to return to the skies, averaging 90 percent of pre-Covid levels in the past three months compared with the same period in 2019. We know Kiwis continue to value connecting with each other.



87%

Customer Satisfaction



92%

Domestic On Time
Performance (OTP)



71%

Increase in non-flight
Airpoints™ redeemed

LETTER FROM THE CHIEF EXECUTIVE OFFICER (CONTINUED)

We are grateful for the support from the Government's Maintaining International Air Connectivity (MIAC) scheme at a time when we are still flying just a fraction of the international passenger network we operated prior to Covid-19.

Cargo revenue increased 71 percent compared to the prior year due to continued strong demand for New Zealand products and domestic consumption.

The airline is currently flying an average of 51 cargo flights¹ each week to 16 ports, including Australia, Hong Kong, Shanghai and Los Angeles. We also mobilised quickly to fly to new destinations like Guangzhou and returned to destinations like Taipei for the first time since we closed our borders.

I am proud that, despite the challenges, we continue to connect New Zealanders and New Zealand.

We also continue to confront and drive sustainability and climate action, taking meaningful steps and engaging closely with the Government to set a pathway to achieving net zero emissions by 2050. Electric, hybrid, and hydrogen aircraft are coming, and Aotearoa is uniquely placed to adopt these technologies on our domestic network given our highly connected regional network and high proportion of renewable energy.

Sustainable aviation fuel (SAF) remains critical as the only current option for decarbonising long-haul flights out to 2050, and we continue to advocate for

new policy measures to support the supply of SAF in Aotearoa and look forward to making real progress with policy makers in the year ahead.

All of our activity has been underpinned by a new brand campaign that has really hit the mark and a relaunch of the values that continue to be a hallmark of the Air New Zealand team – Welcome as a Friend, Can Do, Share your Aotearoa and Be Yourself.

What lies ahead

Loyalty programmes are key assets for airlines globally and we believe this will be a source of future growth for Air New Zealand. We are redesigning our programme, refocusing and enhancing Airpoints™ to increase engagement with customers, having completed a full review of our offering to understand what matters to our 3.6 million plus Airpoints™ members.

We are looking to expand our partnerships to introduce new, improved benefits such as better upgrades, greater personalised service and increased ability to share benefits among family and friends. Many new partners will give you more options to spend your points and there are several exciting initiatives to unfold this year.

In time, we will become 'the world's leading digital airline' and are taking the first steps toward a truly competitive advantage in digital. A new supply chain system has been installed across

Left to right: Greg Foran – Chief Executive Officer, Captain David Morgan – Chief Operational Integrity & Safety Officer, Leanne Geraghty – Chief Customer & Sales Officer, Richard Thomson – Chief Financial Officer, Carrie Hurihanganui – Chief Operating Officer, Mat Bolland – Chief Corporate Affairs Officer, Nikhil Ravishankar – Chief Digital Officer, Nikki Dines – Chief People Officer





LETTER FROM THE CHIEF EXECUTIVE OFFICER (CONTINUED)

the business, we added digital capability for our turboprop pilots and cabin crew, and converted legacy systems in Engineering & Maintenance. We deployed a world-leading revenue management system for our domestic fleet, while improving self-credit options for customers.

We have a full plate for this year as we complete work on a new crewing system, develop data and analytics capabilities and commence in earnest on our new loyalty platform, among others.

These are complemented by ongoing, seemingly small but impactful changes to the way we present our service, such as simplifying our products and offering real flexibility for fares and refunds. We are already trialing a new subscription product, reviewing our Seats to Suit offer and rolling out a host of other initiatives from pets to bicycles to reduced excess baggage fees.

Our work on building an exceptional domestic business will position us well when we re-open our long-haul business in the future. We are as excited as our customers about seeing this part of Air New Zealand grow again.

When reflecting on the last year, I recognise it has actually been a long 18 months since the impact of Covid-19 first hit the company. We are full of optimism about our business and what we can do for customers in the years ahead.

Our plan is in place. And I am incredibly excited about the new Air New Zealand we are building.

We fly for you, and more than ever, we thank you for flying Air New Zealand.

Ngā mihi

Greg Foran
Chief Executive Officer

26 August 2021

Executive changes

Earlier this year we welcomed Richard Thomson and Mat Bolland to the Executive team – Richard into the role of Chief Financial Officer and Mat as our Chief Corporate Affairs Officer.



Left to right: Richard Thomson – Chief Financial Officer, Mat Bolland – Chief Corporate Affairs Officer, Nikhil Ravishankar – Chief Digital Officer

Richard is no stranger to Air New Zealand, having previously spent 13 years with the airline in senior roles including General Manager Networks and General Manager Corporate Finance, before taking a role as Chief Financial Officer at Metlifecare. We are delighted to have him back on the team and his insights and deep aviation experience will help us drive the airline's recovery plan and navigate us through and out of Covid-19.

The newly created role of Chief Corporate Affairs Officer brings our government relations, regional, cultural and regulatory affairs, and communications functions together to strengthen key stakeholder relationships which have never been more important. Mat has a wealth of experience in this space with more than 20 years corporate affairs experience, most recently in telecommunications at 2degrees and in energy and water during periods of crisis and significant industry change.

Later on this year we look forward to welcoming Nikhil Ravishankar as our Chief Digital Officer. Nikhil is a digital expert who has led a number of technology transformations, including in his current role as Chief Digital Officer at Vector New Zealand, as Managing Director at Accenture New Zealand and as Head of Technology Strategy at Telecom NZ. With digital being a key enabler of our Kia Mau strategy, I know Nikhil's proven track record for delivering results will be essential in helping us achieve our goal of being the world's leading digital airline.

OUR PEOPLE NAVIGATING THROUGH COVID-19

Our people from around the business share their stories on how Covid-19 has impacted their day-to-day lives.

Pictured: Sunyong – Cleaner

Christina — Cleaner at Auckland International Airport

Cleaning taken to another level

“Over my 12 years with the airline, I have seen a number of changes – but nothing could have prepared us for Covid-19. It was certainly an eye-opener when New Zealand’s borders closed.

Internationally the workload has decreased but the standard for cleaning has been significantly heightened. We wear high levels of personal protective equipment (PPE) and make sure everything is sanitised to the strictest levels to keep ourselves, crew and customers safe.

The biggest challenge for me personally has been the risks that Covid-19 brings as a frontline worker. Testing every fortnight and following stringent PPE requirements has become second nature. I take these responsibilities seriously because I understand how important it is to do my bit to keep my family and our communities safe.

I was worried about job security with the talk of possible redundancies. I realised I either had to wait it out or be proactive

and find another job – I chose to do both and started working at a local supermarket. The airline provided a lot of support for people which was great, and I’m one of the lucky ones who still has a role.

I feel safer now we are vaccinated, and it is good to see everyone doing their bit to make the country safer from Covid-19.”

Liesl — Domestic Scheduling Manager

Keeping our network fine-tuned

“As a Networks team we are responsible for setting the network schedule and making sure everything is in place to deliver it. Covid-19 has really changed the way we work and kept us on our toes.

We were frantic through the first lockdown with our schedule changing on a daily if not hourly basis. We had to react quickly to Government announcements because we knew our customers, were anxious to get back to loved ones and wanted certainty about what flights would be available.

There were numerous complications to factor into our schedule planning, such as making sure there were enough flights during Alert Level 4 to move cargo, medical personnel and critical equipment around the country, while at the same time ensuring we weren’t flying empty planes. We had

to manage the competing priorities of our stakeholders to design the best schedule possible.

As a team we still work reactively with travel bubbles opening and closing regularly, making it hard to predict demand. Our schedule sells up to 350 days out and we used to have a pretty accurate schedule published up to eight months out. Now we’re lucky to be able to publish an accurate schedule two months out based on the constantly changing circumstances.

One positive through lockdown was maintaining good team connection and getting to know each other better with the crossover of work and personal lives. We have maintained this strong team bond and have a better empathy for each other’s wellbeing.”

Pictured: Liesl – Domestic Scheduling Manager



OUR PEOPLE NAVIGATING THROUGH COVID-19 (CONTINUED)



Pictured: Alison – Team Leader Contact Centre

Marlene — Customer Services Consultant Supporting customers through turbulent times

"The first few months of Covid-19 were hectic to say the least, and it was a struggle to find a good work-life balance, especially when your workstation is set up in your bedroom. As a team we dealt with more than 300,000 refund and credit calls from June to September 2020, and completely changed the way we had to work. We needed to learn a new system and design online training for credits – much harder than face-to-face training. The system is fantastic though as it supports our customers better and has taken some of the pressure off the team.

Because we were so busy, it was a great opportunity to empower team members to do more and upskill faster, and it was great watching their confidence grow. The team was super

supportive of each other, and we made sure wellbeing was a priority. We appreciated the airline looking after us by keeping us safe at home and not exposed to the virus.

Even now, many of our team work flexibly from home and we really appreciate the fact that management have allowed us to ingrain greater flexibility into our lives. It means I can spend more time with my children before and after school which I really value. I would say that my work-life balance has improved significantly – even with changing travel restrictions and increased call volumes, we have the right systems and processes in place to deal with these more effectively, so it is easier to scale up when conditions change."

Sheryl — Deputy Services Manager Helping Kiwis return home

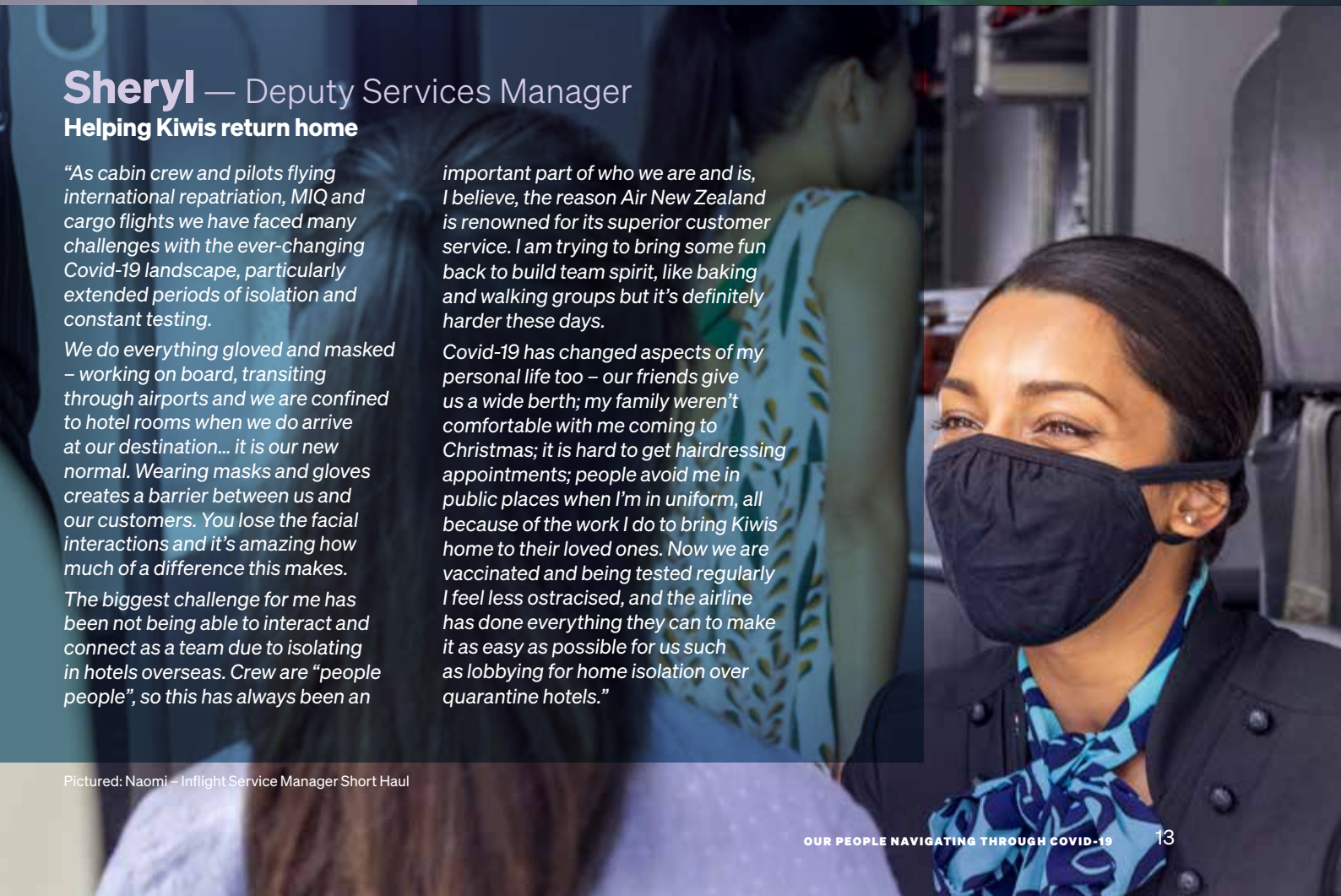
"As cabin crew and pilots flying international repatriation, MIQ and cargo flights we have faced many challenges with the ever-changing Covid-19 landscape, particularly extended periods of isolation and constant testing.

We do everything gloved and masked – working on board, transiting through airports and we are confined to hotel rooms when we do arrive at our destination... it is our new normal. Wearing masks and gloves creates a barrier between us and our customers. You lose the facial interactions and it's amazing how much of a difference this makes.

The biggest challenge for me has been not being able to interact and connect as a team due to isolating in hotels overseas. Crew are "people people", so this has always been an

important part of who we are and is, I believe, the reason Air New Zealand is renowned for its superior customer service. I am trying to bring some fun back to build team spirit, like baking and walking groups but it's definitely harder these days.

Covid-19 has changed aspects of my personal life too – our friends give us a wide berth; my family weren't comfortable with me coming to Christmas; it is hard to get hairdressing appointments; people avoid me in public places when I'm in uniform, all because of the work I do to bring Kiwis home to their loved ones. Now we are vaccinated and being tested regularly I feel less ostracised, and the airline has done everything they can to make it as easy as possible for us such as lobbying for home isolation over quarantine hotels."



Pictured: Naomi – Inflight Service Manager Short Haul

KEY INVESTMENT HIGHLIGHTS

Air New Zealand is a world-class airline, with a strong customer proposition and modern fleet underpinned by digital innovation, driving improvements in customer experience and profitability through its refreshed strategy, Kia Mau.

Celebrating more than 80 years' service,

Air New Zealand has a place of pride in the hearts of Kiwis – and never has that been clearer than through Covid-19. The airline is renowned for offering excellent service with a down-to-earth, caring Kiwi approach that has won the team awards across the decades and kept New Zealanders loyal. It is often said by customers that being welcomed onboard is like coming home.

The airline's Kia Mau strategy is focused on continuing to deliver this service excellence over the short, medium and long-term. It is focused on prioritising its people and investing in products, services and digital tools to further enhance the outstanding service culture it has, ensuring customers continue to feel cared for while they travel with Air New Zealand.

Unparalleled brand and service culture



The Air New Zealand fleet age is 6.7 years old, which is one of the youngest global fleets. This is due to the years spent investing in best-in-class aircraft technology across its different fleets. The fleet not only provides the airline with greater operational performance and better efficiencies, it also provides customers with a fantastic onboard experience.

With the new Airbus A320 and A321neos flying the Domestic, trans-Tasman and Pacific Islands routes, and the Boeing 787s

currently on all international flights, fuel efficiency based on the number of flights flying is at an all-time low.

The phasing of the fleet investment programme has changed and reduced overall in line with the airline's more focused international network strategy. In addition, Air New Zealand is keeping a close eye on the future of travel and is actively working with key partners on opportunities for sustainable aircraft and the role sustainable aviation fuels can play.

Modern, fuel-efficient fleet



Air New Zealand's cornerstone is its domestic network and it has demonstrated resilience despite Covid-19. As New Zealand's leading domestic carrier with over 80 percent market share for more than 10 years, the airline is taking an innovative approach to how it is driving demand and incentivising Kiwis to travel, particularly while the borders remain closed.

Recent changes to the domestic schedule have given customers more choice as to when they fly.

This will enable the airline to offer even more lower fares and unlock new demand which will in turn generate additional domestic tourism. New and exciting products and services are in store over the next year for customers across areas including onboard food, fare flexibility, Airpoints™ loyalty programme and more.

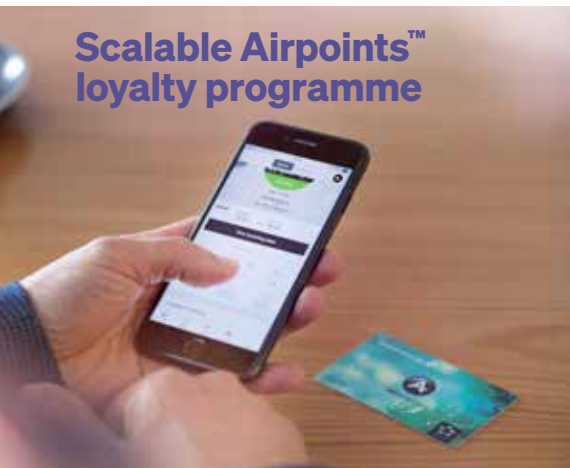
Domestic network strength





KEY INVESTMENT HIGHLIGHTS (CONTINUED)

Scalable Airpoints™ loyalty programme



Air New Zealand values its 3.6 million Airpoints™ loyalty members and wants to enhance the programme to drive even stronger customer engagement. The opportunity lies in offering people more of what they want from their loyalty programme.

The airline has undertaken a full review of its programme to understand what its members care about so efforts can be focused on the right areas. Expanding partnerships to introduce new, improved benefits for members

such as improved upgrades, greater personalised service and a greater ability to share benefits among family and friends will help keep the programme relevant and fresh, which in turn will drive stronger loyalty and retention.

Focused international strategy



Understanding the opportunities for international travel in a post-Covid world and being able to respond quickly and offer premium customers choice will be key to return to profitable international operations once demand builds back.

The advantage lies in preserving and protecting competitive advantages, leveraging the airline's strong domestic presence and customer loyalty to stimulate travel, and offering the optimal network based on the fleet available and where people want to fly, all

supported by its strategic alliance partnerships.

Cargo has always been a key component of the airline's international strategy, and its critical role for the airline during Covid-19 further solidifies Air New Zealand's importance to the New Zealand economy. The airline has a robust, future-proofed strategy to maximise the potential of its cargo business and support the recovery of the economy.

Taking action on sustainability and decarbonisation



Air New Zealand is committed to taking action on decarbonisation, waste reduction and sustainable tourism – with an ambition to lead the aviation industry globally in sustainability and climate action.

The airline is committed to achieving net zero emissions by 2050. Its decarbonisation strategy focuses on reducing gross carbon emissions, including improvements to operational efficiency, ongoing fleet renewal, planning for zero emissions aircraft, and advocacy to accelerate

the availability and commercial viability of sustainable aviation fuel. Reducing waste and reliance on single-use plastic and championing sustainable tourism continue to be key areas of focus as well.

FINANCIAL COMMENTARY



Due to the full year impact of Covid-19 restrictions on international travel to and from New Zealand, Air New Zealand reported a loss before other significant items and taxation of \$440 million¹ for the year ended 30 June 2021.

Manpreet – Flight Attendant

1. Loss before other significant items and taxation represent Earnings stated in compliance with NZ IFRS (Statutory Earnings) after excluding items which due to their size or nature warrant separate disclosure to assist with understanding the underlying financial performance of the Group. Loss before other significant items and taxation is reported within the Group financial statements which are audited by the external auditors. Further details are contained within Note 3 of the Group financial statements.



FINANCIAL COMMENTARY (CONTINUED)

Including the impact of other significant items, statutory losses before taxation were \$411 million. The results for the 2021 financial year reflect the first full 12-month period of closed international borders.

Revenue

Operating revenue for the period declined by \$2.3 billion to \$2.5 billion, a decrease of 48 percent as Covid-19 related border closures and travel restrictions resulted in substantially reduced international passenger flying. There was a nominal impact from foreign exchange.

Passenger revenue declined by 63 percent to \$1.5 billion, reflecting the continued impact of limited international travel and inbound tourists due to Covid-19. Capacity (Available Seat Kilometres, ASK) reduced by 72 percent excluding cargo only flights. Including cargo only flights, capacity reduced 55 percent compared to the same period last year.

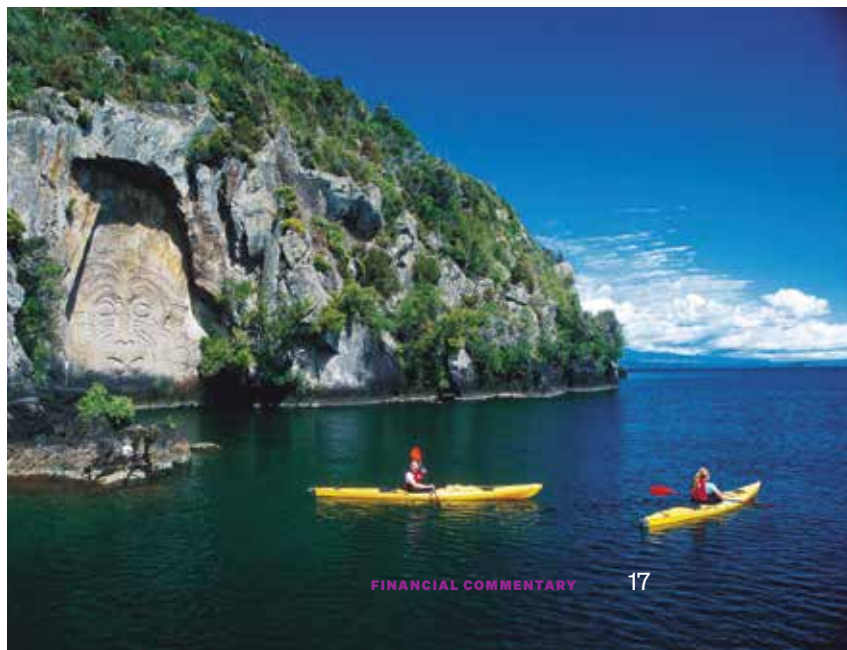
Demand (Revenue Passenger Kilometres, RPK) decreased more than capacity for the period, resulting in a load factor of 57.3 percent, a decline of 24.1 percentage points on the prior year. Revenue per Available Seat Kilometre (RASK) improved 32 percent (excluding FX) driven by a change in the mix of flying; while total ASKs were down substantially, Domestic ASKs made up a higher proportion of total ASKs, increasing RASK. Domestic RASK (and Costs per ASK (CASK)) is higher than International RASK due to the shorter distances flown and smaller aircraft (with fewer seats) used.

International long-haul capacity declined 87 percent with only 927 international passenger flights operating compared to 8,222 flights pre-Covid (excluding Cargo only flights). Demand on international long-haul routes declined 96 percent, with load factors decreasing 55.5 percentage points to 27 percent. International long-haul RASK reduced by 35 percent due to the reduction in load factors partially offset by higher yields. Excluding the impact of foreign exchange, long-haul RASK declined 34 percent.


International short-haul capacity declined 79 percent as a result of limited flying across the Tasman and to the Pacific Islands. An increased schedule was operated on the Tasman from mid-April 2021

following the opening of the two-way, quarantine free travel bubble between Australia and New Zealand. However, demand was impacted by numerous lockdowns and the suspension of the travel bubble due to local Covid-19 transmission in various states in Australia. In May 2021, a two-way travel bubble between the Cook Islands and New Zealand was also established which led to increased passenger flights for the remainder of the financial year. Overall, demand on international short-haul routes declined 88 percent, with load factors decreasing to 43.5 percent, a reduction of 36 percentage points on the prior year. International short-haul RASK was down 32 percent, as the reduction in load factors was partially offset by higher yields. International short-haul RASK was nominally impacted by foreign exchange.

Domestic capacity decreased 2.5 percent versus the prior financial year as high levels of leisure demand and growing business traffic mostly offset the lack of international tourists connecting on to the domestic network. Demand declined by 6.8 percent resulting in load factors decreasing by 3.6 percentage points to 77 percent. Domestic RASK declined 7.8 percent which was more than the reduction in load factors due to the change in mix of leisure and business passengers. Domestic RASK was not impacted by foreign exchange.



FINANCIAL COMMENTARY (CONTINUED)



Left to right; Mathew and Tim – Trainees (Level 3)
Paul – Second in charge
Georgia – Trainee (Level 3)

Cargo revenue was \$769 million, an increase of 71 percent on the prior year. Excluding the impact of foreign exchange, cargo revenue increased by 75 percent, reflecting the operation of scheduled flights under the New Zealand and Australian Government's air freight schemes (the International Airfreight Capacity scheme, the Maintaining International Air Connectivity scheme and the International Freight Assistance Mechanism) which provided \$312 million of additional support on international flights to allow for the movement of imports and exports to and from New Zealand and into Australia, and the continuation of cargo-only charters.

Contract services and other revenue were \$278 million, a decrease of 38 percent from the prior year, driven primarily by reduced maintenance activity on contracts for third-parties, reduced lounge revenue and fewer international repatriation charter flights. There was a nominal impact from foreign exchange.

Expenses

Operating expenditure declined by \$1.9 billion or 46 percent, to \$2.2 billion with variable costs declining substantially as a result of Covid-19 related capacity reductions. CASK increased 19 percent, including foreign exchange, fuel and maintenance for third-party contracts. Excluding these items, CASK increased 22 percent. The movement was predominantly a result of a shift in the mix of flying towards domestic, which has shorter sector distances and smaller aircraft and reduced economies of scale given the smaller network flown due to Covid-19 related border and travel restrictions. These diseconomies include holding costs that the airline has continued to incur in order to ensure operational readiness when borders reopen and passenger demand returns. The adverse movements were partially offset by fuel price declines and a reduction in maintenance costs associated with reduced third-party work.

Labour costs were \$830 million, reducing by \$367 million or 31 percent compared to the prior year. Foreign exchange had a nominal impact on labour costs in the period. A 55 percent decline in total network activity due to Covid-19 and an average 33 percent reduction in headcount during the year were the largest drivers of lower labour costs. In addition to this, there was also a significant reduction in discretionary labour spend, including travel and entertainment costs, as part of ongoing cost discipline measures. Government wage subsidies received in the current year were \$56 million, lower than the prior year by \$19 million.

Fuel costs were \$311 million, declining by \$711 million or 70 percent. Excluding the impact of foreign exchange, fuel costs reduced by 67 percent. The decline in fuel cost was mostly driven by a 58 percent reduction in volumes consumed reflecting lower network capacity, which accounted for \$560 million of the savings. The average fuel price, net of hedging gains fell \$124 million, or 12 percent, as global demand for Singapore Jet Fuel declined substantially due to Covid-19.

Aircraft operations, passenger services and maintenance costs were \$688 million, representing a \$586 million or 46 percent year-on-year decline. This was driven by the reduction in the number of departures and passenger volumes and the resulting decrease in landing, meal, lounge and crew trip costs as well as other variable operating costs. The reduction in net costs also incorporated an additional \$35 million of support received under the Government's aviation support package compared to the same period last year.

Sales and marketing and other expenses declined by \$257 million or 45 percent reflecting lower commission, promotional and customer activity due to a reduction in services.



FINANCIAL COMMENTARY (CONTINUED)

Ownership costs decreased by \$112 million or 12 percent, driven by a reduction in depreciation due to the impairment of the Boeing 777-200ER fleet and one Boeing 777-300ER leased aircraft, the exit of the ATR72-500 aircraft in the prior year and reduced utilisation of capitalised engine maintenance, partially offset by increased funding costs and new aircraft deliveries.

The impact of foreign exchange rate changes on the revenue and cost base in the period resulted in a favourable foreign exchange movement of \$6 million. After taking into account a \$47 million unfavourable movement in hedging, overall foreign exchange had a net \$41 million negative impact on the Group result for the period.

Share of Earnings of Associates

Share of earnings of associates decreased by \$20 million to \$19 million, reflecting a reduction in engine volumes serviced by the Christchurch Engine Centre as a result of Covid-19.

Other Significant Items

The \$29 million gain on Other Significant Items included net foreign exchange gains on uncovered debt of \$143 million and a gain on sale from landing slots of \$21 million. These gains were partially offset by aircraft impairment and lease modifications costs of \$78 million, reorganisation costs of \$39 million and the de-designation of hedges as a result of forecast transactions no longer expected to occur of \$18 million.

Cash and Financial Position

Cash on hand at 30 June 2021 was \$266 million, a decrease of \$172 million since 30 June 2020 and includes \$350 million in drawings on the \$1.5 billion Crown Standby Facility (the Facility).

The airline has undertaken significant work to reassess its longer-term capital structure and funding needs and intends to complete an equity capital raise in the first quarter of calendar year 2022.

Operating cash flows were \$323 million, an increase of 40 percent on the prior year reflecting an improvement on cash earnings and favourable working capital movements, as well as the deferral of significant payments (such as PAYE and FBT) as the airline made use of all available opportunities to conserve liquidity while international borders remain closed.

Net gearing increased 1.8 percentage points to 71.0 percent compared to 30 June 2020, driven by net losses after taxation, capital expenditure and redundancy payments, offset by foreign exchange movements.

The Directors have not declared a final dividend for the 2021 financial year due to the continued impact of Covid-19 on the business, and the conditions of the Facility with the New Zealand Government.



Left to right: Steve – Q300 Captain
Mason – Boeing 787 Second Officer

CHANGE IN PROFITABILITY

The key changes in profitability, after isolating the impact of foreign exchange movements, are set out in the table below*:

June 2020 loss before taxation	-\$628m	
Passenger capacity	-\$2,220m	<ul style="list-style-type: none"> - Capacity decreased by 72 percent (excluding cargo-only flights) due to Covid-19 border closures and travel restrictions. Including cargo-only flights capacity reduced by 55 percent - The Domestic network operated at 97 percent capacity compared to the prior year reflecting strong demand for leisure travel and growth in corporate traffic offset by a lack of international tourists and changes in domestic alert levels during the year - International short-haul capacity declined 79 percent due to border restrictions. Two-way quarantine free travel was established with Australia in April 2021 and the Cook Islands in May 2021. The Tasman was impacted by numerous lockdowns and suspensions resulting in cancellations and reduction in services - International long-haul capacity decreased by 87 percent due to the suspension of services as a result of the global pandemic with a small number of passenger services operating primarily on routes supported by government international airfreight schemes
Passenger RASK	-\$253m	<ul style="list-style-type: none"> - Domestic Revenue per Available Seat Kilometre (RASK) declined by 8 percent excluding FX and loads declined 3.6 percentage points to 77.4 percent - International short-haul RASK declined by 32 percent excluding FX and loads declined 36.2 percentage points to 43.5 percent - International long-haul RASK declined by 34 percent excluding FX and loads decreased 55.5 percentage points to 26.8 percent. Limited passenger services, primarily for essential travel and repatriations, supplemented cargo services - Overall Group RASK improved by 32 percent excluding FX as a result of a change in mix of network flying in the current year towards shorter sectors. Loads decreased by 24.1 percentage points to 57.3 percent
Cargo revenue	\$336m	<ul style="list-style-type: none"> - Cargo revenue improved due to the award of cargo-only scheduled flights by the New Zealand Government under the International Airfreight Capacity and Maintaining International Air Connectivity schemes as well as the Australian Austrade International Freight Assistance Mechanism
Contract services and other revenue	-\$156m	<ul style="list-style-type: none"> - Reduced maintenance work for third-parties, lounge revenue, charter revenue for international repatriations and customer activity due to Covid-19
Labour	\$367m	<ul style="list-style-type: none"> - Reduced labour costs due to an average 33 percent reduction in staffing levels resulting from Covid-19 capacity reductions and other cost savings initiatives
Fuel	\$684m	<ul style="list-style-type: none"> - The average fuel price declined 12 percent compared to the prior year (net of hedging) resulting in a reduction in costs of \$124 million. Consumption decreased by 58 percent (\$560 million) due to the reduction in scheduled flights arising from international border closures and travel restrictions
Maintenance	\$185m	<ul style="list-style-type: none"> - Decrease in maintenance due to reduction in flying as well as for third-parties
Aircraft operations and passenger services	\$395m	<ul style="list-style-type: none"> - Reduced schedule activity due to the Covid-19 pandemic and receipt of aviation relief package support
Sales and marketing and other expenses	\$253m	<ul style="list-style-type: none"> - Reduced commissions, promotional and customer activity due to the reduction in services arising from Covid-19
Ownership costs	\$117m	<ul style="list-style-type: none"> - Decrease in depreciation reflecting impairment of grounded widebody aircraft and fleet exits as well as reduced utilisation of capitalised engine maintenance partially offset by new aircraft deliveries
Net impact of foreign exchange movements	-\$41m	<ul style="list-style-type: none"> - Net unfavourable impact of foreign exchange hedging losses and the impact of currency movements on revenue and costs
Share of earnings of associates	-\$20m	<ul style="list-style-type: none"> - Decrease in earnings from Christchurch Engine Centre driven by a reduction in engine volumes being performed due to Covid-19
Other significant items	\$570m	<ul style="list-style-type: none"> - Reduced aircraft impairment, lower reorganisation costs, higher foreign exchange gains on uncovered debt, reduced losses on de-designation of hedges as a result of forecast transactions no longer being expected to occur and foreign exchange losses on disestablishment of fair value hedges not repeated in the 2021 financial year
June 2021 loss before taxation	-\$411m	



FINANCIAL SUMMARY

Financial Performance

	12 MONTHS TO 30 JUNE 2021 \$M	12 MONTHS TO 30 JUNE 2020 \$M
Operating Revenue		
Passenger revenue	1,470	3,942
Cargo	769	449
Contract services and other revenue	278	445
	2,517	4,836
Operating Expenditure		
Labour	(830)	(1,197)
Fuel	(311)	(1,022)
Maintenance	(254)	(441)
Aircraft operations	(350)	(575)
Passenger services	(84)	(258)
Sales and marketing	(73)	(253)
Foreign exchange (losses)/gains	(29)	18
Other expenses	(247)	(324)
	(2,178)	(4,052)
Operating Earnings (excluding items below)	339	784
Depreciation and amortisation	(716)	(841)
Net finance costs	(82)	(69)
Share of earnings of associates (net of taxation)	19	39
Loss Before Other Significant Items and Taxation	(440)	(87)
Other significant items	29	(541)
Loss Before Taxation	(411)	(628)
Taxation credit	122	174
Net Loss Attributable to Shareholders of Parent Company	(289)	(454)
Net tangible assets per share (cents)	82	101

Cash Flows

	12 MONTHS TO 30 JUNE 2021 \$M	12 MONTHS TO 30 JUNE 2020 \$M
Cash inflows from operating activities	2,517	4,740
Cash outflows from operating activities	(2,194)	(4,510)
Net cash flow from operating activities	323	230
Net cash flow from investing activities	(182)	(542)
Net cash flow from financing activities	(313)	(305)
Decrease in cash and cash equivalents	(172)	(617)
Cash and cash equivalents at the beginning of the year	438	1,055
Cash and Cash Equivalents at the End of the Year	266	438

FINANCIAL POSITION

Financial Position		
AS AT	30 JUNE 2021 \$M	30 JUNE 2020 \$M
Bank and short-term deposits	266	438
Trade and other receivables	252	305
Inventories	92	106
Derivative financial assets	79	38
Income taxation	-	3
Other assets	137	119
Total Current Assets	826	1,009
Trade and other receivables	92	142
Property, plant and equipment	3,128	3,336
Right of use assets	1,989	2,357
Intangible assets	179	186
Investments in other entities	138	162
Other assets	342	351
Total Non-Current Assets	5,868	6,534
Total Assets	6,694	7,543
Trade and other payables	524	322
Revenue in advance	689	828
Interest-bearing liabilities	524	160
Lease liabilities	383	353
Derivative financial liabilities	11	116
Provisions	58	104
Other liabilities	164	219
Total Current Liabilities	2,353	2,102
Revenue in advance	503	491
Interest-bearing liabilities	1,023	1,303
Lease liabilities	1,378	1,885
Provisions	241	295
Other liabilities	30	32
Deferred taxation	61	117
Total Non-Current Liabilities	3,236	4,123
Total Liabilities	5,589	6,225
Net Assets	1,105	1,318
Share capital	2,213	2,209
Reserves	(1,108)	(891)
Total Equity	1,105	1,318

The summary financial information has been derived from, and should be read in conjunction with, the Air New Zealand Group Annual Financial Statements (the 'Annual Financial Statements'). The Annual Financial Statements, dated 26 August 2021, are available at: airnzinvestor.com. The summary financial information cannot be expected to provide as complete an understanding as provided by the Annual Financial Statements. The accounting policies used in these financial statements are attached in the notes to the Annual Financial Statements.

Share Registrar	Annual Financial Statements	Investor Relations Office
LINK MARKET SERVICES LIMITED Level 30, PwC Tower 15 Customs Street West, Auckland 1010 PO Box 91976, Auckland 1142, New Zealand Email: enquiries@linkmarketservices.com Website: linkmarketservices.com New Zealand Phone: (64 9) 375 5998 New Zealand Fax: (64 9) 375 5990 Australia Phone: (61) 1300 554 474	The Annual Financial Statements are available by visiting our website airnzinvestor.com OR you may elect to have a copy sent to you by contacting Investor Relations. ELECTRONIC SHAREHOLDER COMMUNICATION If you would like to receive all investor communications electronically, including interim and annual shareholder reviews, please visit the Link Market Services website linkmarketservices.com or contact them directly (details to the left).	Private Bag 92007, Auckland 1142, New Zealand Phone: 0800 22 22 18 (New Zealand) Phone: (64 9) 336 2607 (Overseas) Fax: (64 9) 336 2664 Email: investor@airnz.co.nz Website: airnzinvestor.com



David – Sustainability Consultant
Eden – Executive Assistant

AIR NEW ZEALAND 

***You fly for a hug
We fly for you***

A STAR ALLIANCE MEMBER 

2021
**ANNUAL
FINANCIAL
RESULTS**

ZK-NEM



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 2021.

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 2021 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 in accordance with the requirements of the Financial Markets Conduct Act 2013.

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:

Dame Therese Walsh
Chairman

26 August 2021

Jan Dawson
Deputy Chairman

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* This document, in conjunction with the Air New Zealand Annual Shareholder Review 2021, constitutes the 2021 Annual Report to shareholders of Air New Zealand Limited.

STATEMENT OF FINANCIAL PERFORMANCE

FOR THE YEAR TO 30 JUNE 2021

	NOTES	2021 \$M	2020 \$M
Operating Revenue			
Passenger revenue		1,470	3,942
Cargo		769	449
Contract services		161	216
Other revenue		117	229
	1	2,517	4,836
Operating Expenditure			
Labour		(830)	(1,197)
Fuel		(311)	(1,022)
Maintenance		(254)	(441)
Aircraft operations		(350)	(575)
Passenger services		(84)	(258)
Sales and marketing		(73)	(253)
Foreign exchange (losses)/gains		(29)	18
Other expenses		(247)	(324)
	2	(2,178)	(4,052)
Operating Earnings (excluding items below)		339	784
Depreciation and amortisation		(716)	(841)
Loss Before Finance Costs, Associates, Other Significant Items and Taxation		(377)	(57)
Finance income		8	34
Finance costs		(90)	(103)
Share of earnings of associates (net of taxation)	13	19	39
Loss Before Other Significant Items and Taxation		(440)	(87)
Other significant items	3	29	(541)
Loss Before Taxation		(411)	(628)
Taxation credit	4	122	174
Net Loss Attributable to Shareholders of Parent Company		(289)	(454)
Per Share Information:			
Basic and diluted earnings per share (cents)	5	(25.7)	(40.4)
Net tangible assets per share (cents)		82	101



STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR TO 30 JUNE 2021

	NOTE	2021 \$M	2020 \$M
Net Loss for the Year		(289)	(454)
Other Comprehensive Income:			
Items that will not be reclassified to profit or loss:			
Actuarial gains on defined benefit plans		6	6
Taxation on above reserve movements	4	(2)	(2)
Total items that will not be reclassified to profit or loss		4	4
Items that may be reclassified subsequently to profit or loss:			
Changes in fair value of cash flow hedges		64	(249)
Transfers to net loss from cash flow hedge reserve		35	112
Net translation loss on investment in foreign operations		(3)	-
Changes in cost of hedging reserve		4	9
Taxation on above reserve movements		(32)	37
Total items that may be reclassified subsequently to profit or loss		68	(91)
Total Other Comprehensive Income/(Loss) for the Year, Net of Taxation		72	(87)
Total Comprehensive Loss for the Year, Attributable to Shareholders of the Parent Company		(217)	(541)

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR TO 30 JUNE 2021

	NOTES	SHARE CAPITAL \$M	HEDGE RESERVES \$M	FOREIGN CURRENCY TRANSLATION RESERVE \$M	GENERAL RESERVES \$M	TOTAL EQUITY \$M
Balance as at 1 July 2020		2,209	(123)	(11)	(757)	1,318
Net loss for the year		-	-	-	(289)	(289)
Other comprehensive income for the year		-	74	(6)	4	72
Total Comprehensive Loss for the Year		-	74	(6)	(285)	(217)
Transactions with Owners:						
Equity-settled share-based payments (net of taxation)	4, 20	4	-	-	-	4
Total Transactions with Owners		4	-	-	-	4
Balance as at 30 June 2021		2,213	(49)	(17)	(1,042)	1,105

	NOTES	SHARE CAPITAL \$M	HEDGE RESERVES \$M	FOREIGN CURRENCY TRANSLATION RESERVE \$M	GENERAL RESERVES \$M	TOTAL EQUITY \$M
Balance as at 1 July 2019		2,219	(31)	(12)	(184)	1,992
Net loss for the year		-	-	-	(454)	(454)
Other comprehensive loss for the year		-	(92)	1	4	(87)
Total Comprehensive Loss for the Year		-	(92)	1	(450)	(541)
Transactions with Owners:						
Equity-settled share-based payments (net of taxation)	4, 20	5	-	-	-	5
Equity settlements of long-term incentive obligations	20	(15)	-	-	-	(15)
Dividends on Ordinary Shares	19	-	-	-	(123)	(123)
Total Transactions with Owners		(10)	-	-	(123)	(133)
Balance as at 30 June 2020		2,209	(123)	(11)	(757)	1,318



STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2021

	NOTES	2021 \$M	2020 \$M
Current Assets			
Bank and short-term deposits	6	266	438
Trade and other receivables	7	252	305
Inventories	8	92	106
Derivative financial assets	24	79	38
Income taxation		-	3
Other assets	9	137	119
Total Current Assets		826	1,009
Non-Current Assets			
Trade and other receivables	7	92	142
Property, plant and equipment	10	3,128	3,336
Right of use assets	11	1,989	2,357
Intangible assets	12	179	186
Investments in other entities	13	138	162
Other assets	9	342	351
Total Non-Current Assets		5,868	6,534
Total Assets		6,694	7,543
Current Liabilities			
Trade and other payables		524	322
Revenue in advance	14	689	828
Interest-bearing liabilities	15	524	160
Lease liabilities	16	383	353
Derivative financial liabilities	24	11	116
Provisions	17	58	104
Other liabilities	18	164	219
Total Current Liabilities		2,353	2,102
Non-Current Liabilities			
Revenue in advance	14	503	491
Interest-bearing liabilities	15	1,023	1,303
Lease liabilities	16	1,378	1,885
Provisions	17	241	295
Other liabilities	18	30	32
Deferred taxation	4	61	117
Total Non-Current Liabilities		3,236	4,123
Total Liabilities		5,589	6,225
Net Assets		1,105	1,318
Equity			
Share capital	20	2,213	2,209
Reserves	21	(1,108)	(891)
Total Equity		1,105	1,318

Dame Therese Walsh
Chairman

For and on behalf of the Board, 26 August 2021

Jan Dawson
Deputy Chairman

STATEMENT OF CASH FLOWS

FOR THE YEAR TO 30 JUNE 2021

	NOTES	2021 \$M	2020 \$M
Cash Flows from Operating Activities			
Receipts from customers		2,471	4,660
Payments to suppliers and employees		(2,111)	(4,418)
Income tax refunded		35	40
Interest paid		(83)	(92)
Interest received		11	40
Net Cash Flow from Operating Activities	6	323	230
Cash Flows from Investing Activities			
Disposal of property, plant and equipment, intangibles and assets held for resale		10	67
Proceeds from sale of slots		-	42
Distribution from associates	26	38	35
Acquisition of property, plant and equipment, right of use assets and intangibles		(231)	(615)
Interest-bearing asset receipts/(payments)		9	(66)
Investment in associate	26	(8)	(5)
Net Cash Flow from Investing Activities		(182)	(542)
Cash Flows from Financing Activities			
Interest-bearing liabilities drawdowns		380	45
Lease liabilities drawdowns	16	-	225
Rollover of foreign exchange contracts*		(184)	74
Equity settlements of long-term incentive obligations	20	-	(15)
Interest-bearing liabilities payments		(178)	(154)
Lease liabilities payments	16	(331)	(350)
Dividends on Ordinary Shares	19	-	(130)
Net Cash Flow from Financing Activities		(313)	(305)
Decrease in Cash and Cash Equivalents		(172)	(617)
Cash and cash equivalents at the beginning of the year		438	1,055
Cash and Cash Equivalents at the End of the Year	6	266	438

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



STATEMENT OF ACCOUNTING POLICIES

FOR THE YEAR TO 30 JUNE 2021

Reporting entity

The financial statements presented are those of the consolidated Air New Zealand Group (the Group), including Air New Zealand Limited and its subsidiaries, joint ventures and associates.

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

Statutory base

The parent company, Air New Zealand Limited, is a profit-oriented entity, domiciled in New Zealand, registered under the Companies Act 1993 and listed on the New Zealand and Australian Stock Exchanges. Air New Zealand Limited is a FMC Reporting Entity under the Financial Markets Conduct Act 2013 and the Financial Reporting Act 2013.

Basis of preparation

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

The financial statements were approved by the Board of Directors on 26 August 2021.

Impact of Covid-19

The Group has significantly reduced its network as demand declined following border closures and international travel restrictions arising from the Covid-19 pandemic. In response to the impact, the Group took a number of immediate actions including a reduction in flight capacity, labour reductions, capital expenditure deferrals, cost reductions and modifications to various vendor and supplier agreements. In addition, the Group was awarded grants for providing international airfreight services, applied for and received wage subsidies and a grant under an aviation support package which provided temporary relief from passenger based government charges and airways related fees.

The Group responded quickly to preserve liquidity, cancelled the 2020 interim dividend distribution and all non-essential spend and deferred capital expenditure. The Group applied for Covid-19 related tax relief by electing to carry back the 2020 financial year income tax loss and was granted a deferral of FBT and PAYE for the period 1 July 2020 to 30 September 2021. The FBT and PAYE liabilities arising during this period will be settled during January 2022 to March 2022.

A standby Government loan facility was secured to support the future business operations. The facility has a drawdown limit of \$1.5 billion and a term through to 27 September 2023. As at 30 June 2021, the Group had drawn down \$350 million of the facility (30 June 2020: Nil).

Capital structure

Given the severity of the impact of Covid-19 on the business, the Board is well advanced in considering the future capital structure of the Group and intends to complete a fully underwritten equity raise in the first quarter of the 2022 calendar year. In conjunction, the Board is considering further debt funding, which will be reviewed in the context of the Group's targeted gearing and debt coverage ratios.

The Group's capital structure is managed in the light of economic conditions, future capital expenditure profiles and the risk characteristics of the underlying assets. The Group monitors capital on the basis of gearing and debt coverage ratios. The gearing ratios are calculated as net debt over net debt plus equity. The Group targets a minimum liquidity level, ensuring long-term commitments are managed with respect to forecast available cash inflow and managing maturity profiles.

Forecast liquidity

Detailed cash flow projections have been developed (refer Note 10) which incorporate the Board's and management's current view of the anticipated recovery timeframe from the Covid-19 pandemic and includes an assumption around a planned equity raise and additional debt financing. Given the uncertainty in predicting the timeframes over which travel restrictions may be lifted and border reopenings may occur, the potential for future waves of the pandemic and the severity of the economic impact, the Group is not able to provide certainty that there may not be more severe downsides than those already considered. While such severe scenarios are not considered likely, in the event a more material adverse scenario occurs, the Group would consider a number of other actions that could be taken.

As a result of the critical role the Group has in New Zealand's economy and society, the Crown has confirmed its longstanding commitment to maintaining a majority shareholding in Air New Zealand. Subject to Cabinet being satisfied with the terms of Air New Zealand's proposed equity capital raise, it would participate in the planned equity capital raise in order to maintain a majority shareholding.

Given the standby Government loan facility, the intention to complete an equity capital raise in the first quarter of the 2022 calendar year, the continued support from the Crown regarding those plans and the accessibility of additional debt funding, the Board has a reasonable expectation that the Group has sufficient liquidity to continue to operate for the foreseeable future. Therefore, the adoption of the going concern basis for the financial statements is considered appropriate.

Basis of measurement

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

STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

FOR THE YEAR TO 30 JUNE 2021

Use of accounting estimates and judgements

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

Areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed within the specific accounting policy or note as shown below:

Area of estimate or judgement	Note
Forecasted liquidity	Statement of accounting policies
Revenue in advance	Note 1 Revenue recognition and segmental information Note 14 Revenue in advance
Aircraft lease return provisions	Note 17 Provisions
Estimated impairment of non-financial assets	'Impairment' accounting policy Note 10 Property, plant and equipment Note 11 Right of use assets
Residual values and useful lives of aircraft related assets	Note 10 Property, plant and equipment Note 11 Right of use assets
Reassessment of probability of forecast hedged cash flows	Note 24 Financial risk management

Significant estimates are designated by an **e** symbol in the notes to the financial statements.

Significant accounting policies

Accounting policies are disclosed within each of the applicable notes to the financial statements and are designated by a **Ⓜ** symbol.

The principal accounting policies applied in the preparation of these financial statements have been consistently applied to all periods presented, except as detailed below.

The following NZ IFRSs and Interpretations, which have been issued but are not yet effective, have been identified as those that may impact Air New Zealand in the period of their initial application, and have not yet been adopted by the Group:

NZ IFRS 17 - Insurance Contracts has not been adopted early. It provides consistent principles for all aspects of accounting for insurance contracts. This standard, which becomes effective for annual periods commencing on or after 1 January 2023, will not have a significant impact on the financial statements.

Interest Rate Benchmark Reform - Phase 2 (Amendments to NZ IFRS 9, NZ IAS 39, NZ IFRS 7, NZ IFRS 4 and NZ IFRS 16) has not been adopted early. The amendments provide temporary relief from accounting for changes in the basis for determining contractual cash flows as a result of the IBOR reform and from applying specific NZ IFRS 9 hedge accounting requirements to hedge relationships directly affected by IBOR reform. The Group has initiated a plan to manage the transition to alternative interest rate benchmarks. The amendments, which become effective for annual periods commencing on or after 1 January 2021, are not expected to have a significant impact on the financial statements.

In April 2021, the International Financial Reporting Interpretations Committee ("IFRIC") issued an agenda decision on Configuration or Customisation Costs in a Cloud Computing Arrangement (IAS 38). This Interpretation clarifies the accounting treatment in respect of costs of configuring or customising a supplier's application software in a Software as a Service ("SaaS") arrangement. Whilst such costs may be able to continue to be capitalised in limited circumstances, in many cases the costs will now need to be recognised as an operating expense. Interpretations issued by IFRIC are required to be implemented within a reasonable timeframe from the date of their issuance. The Group has commenced a project to identify any such costs, but is not yet able to quantify the impact. It is expected that the Group will first apply the Interpretation, retrospectively, in the interim financial statements for the six months ending 31 December 2021.

The significant accounting policies which are pervasive throughout the financial statements are set out below. Other significant accounting policies which are specific to certain transactions or balances are set out within the particular note to which they relate.

Basis of consolidation

The consolidated financial statements include those of Air New Zealand Limited and its subsidiaries, accounted for using the acquisition method, and the results of its associates and joint ventures, accounted for using the equity method.

All material intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated on consolidation. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Unrealised gains on transactions between the Group, joint ventures and its associates are eliminated to the extent of the Group's interest in the joint ventures and associates.

Where a business combination is achieved in stages, previously held equity interests in the acquiree are remeasured to fair value at the acquisition date and any corresponding gain or loss is recognised in the Statement of Financial Performance.



STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

FOR THE YEAR TO 30 JUNE 2021

Foreign currency translation

Functional currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency").

Transactions and balances

Foreign currency transactions are converted into the relevant functional currency using exchange rates approximating those at transaction date. Monetary assets and liabilities denominated in foreign currencies at balance date are translated at the exchange rate at that date. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Foreign exchange gains or losses are recognised in the Statement of Financial Performance, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

Group companies

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

- (a) assets and liabilities are translated at the closing rate at the reporting date;
- (b) income and expenses are translated at exchange rates approximating those at transaction date; and
- (c) all resulting exchange differences are recognised as a separate component of equity and in Other Comprehensive Income (within Foreign Currency Translation Reserve).

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

Impairment

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

The carrying value of financial assets is assessed at each reporting date to determine whether there is any objective evidence of impairment. Where necessary, the Group recognises provisions for expected credit losses based on 12-month or lifetime losses, depending whether there has been a significant increase in credit risk since initial recognition. The Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information, based on the Group's historical experience and informed credit assessment, including forward-looking information.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR TO 30 JUNE 2021

1. Revenue Recognition and Segmental Information



Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when payment is made. Revenue is measured at the fair value of the consideration received or receivable. Specific accounting policies are as follows:

Passenger and cargo revenue

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

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

Where one or more sectors are operated by another carrier the amount of the consideration received from the customer less any amount payable to the other carrier is recognised in revenue on a net basis unless the Group has primary responsibility for providing the service. Where the Group has primary responsibility for providing the service the amounts are recognised gross within revenue and expenses.

Government grants which provide financial support to maintain certain transportation services are recognised within revenue in the Statement of Financial Performance when the service is provided and the grant conditions are satisfied.

Loyalty programmes

Revenues associated with the award of Airpoints Dollars to Airpoints members as part of the initial sales transaction is determined by reference to the relative standalone selling prices. These revenues as well as consideration received in respect of sales of Airpoints Dollars to third parties is deferred to revenue in advance (net of estimated expiry) until such time as the Airpoints member has redeemed their points. The estimate of expiry is based upon historical experience, assessments of changes in customer behaviour and availability of redemption opportunities (such as international air operating capacity) and is recognised in net passenger revenue in proportion to the pattern of rights exercised by the customer.

Contract services revenue

Where contract related services are performed over a contractually agreed period, and the amount of revenue and related costs can be reliably measured, revenue is recognised based on the proportion of contract costs for work performed to date relative to the estimated total costs. Other contract related revenue is recognised as services are performed.

Other revenue

Other revenue includes lounge revenue, Koru membership subscriptions, commissions and fees and is recognised at the time the service is provided.

Finance income

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

Cargo revenue – Government grants and assistance

	2021 \$M	2020 \$M
Cargo government grants and assistance:		
- New Zealand	321	21
- Other regions	12	-
Total cargo grants and assistance	333	21

The Group was awarded a grant to supply international airfreight services to the New Zealand Government through the Ministry of Transport as part of its efforts to ensure the supply of critical imports and maintain economic benefits of high value New Zealand exports during the Covid-19 pandemic. The arrangement was for a period from 30 April 2020 through to 31 October 2021. The awards were negotiated on an arm's length basis using standard commercial terms. During the year ended 30 June 2021 an amount of \$321 million was recognised in the Statement of Financial Performance within Cargo revenue (30 June 2020: \$21 million). Conditions attached to the grant which has been recognised in the Statement of Financial Performance have been satisfied as at balance date.

The Group was awarded from August 2020 contracts to provide international freight services on certain ports from Australia to the United States under the Australian Government International Freight Assistance Mechanism (IFAM). IFAM was intended to restore critical supply chains due to the impact of the global pandemic. During the year the Group recognised Cargo revenue in relation to IFAM of \$12 million (30 June 2020: Nil).



NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR TO 30 JUNE 2021

1. Revenue Recognition and Segmental Information (continued)

Segmental information

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

	2021 \$M	2020 \$M
Analysis of revenue by geographical region of original sale		
New Zealand	2,033	2,894
Australia and Pacific Islands	153	532
United Kingdom and Europe	13	233
Asia	150	446
America	168	731
Total operating revenue	2,517	4,836

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

2. Expenses

Additional information in respect of expenses included within the Statement of Financial Performance is as follows:

	2021 \$M	2020 \$M
Superannuation expense	41	56
Audit and review of financial statements*	1	1

* In addition to fees paid for the audit and review of the financial statements of \$1,225k (30 June 2020: \$1,170k), other fees were paid for assurance engagements including the student fee protection audit of \$5k (30 June 2020: \$5k) and the US Passenger Facility Charge audit of \$22k (30 June 2020: \$22k). Non-assurance fees were paid for tax compliance work undertaken for the Corporate Taxpayers Group of \$17k (30 June 2020: \$17k). The prior financial year also included assurance fees for a Singapore branch audit file review of \$4k and a Greenhouse Gas inventory review of \$20k and non-assurance fees for sustainability reporting of \$15k.

Government grants and subsidies



Government grants and subsidies which compensate the Group for expenses incurred are recognised in the Statement of Financial Performance on a systematic basis over the period in which the related costs are recognised when they become unconditional. Grants and subsidies are reported on a net basis in the same line as the related expense.

	2021 \$M	2020 \$M
Government grants and subsidies recognised in the Statement of Financial Performance include:		
Wage subsidies (recognised within 'Labour')		
- New Zealand	52	75
- Other regions	4	-
Total wage subsidies	56	75
Aviation support grant (recognised within 'Passenger services')	18	6
Aviation support grant (recognised within 'Aircraft operations')	40	17
Aviation support grant (recognised within 'Other expenses')	1	4
Total aviation support grant	59	27

Given the significant impact that Covid-19 has had on the New Zealand economy the New Zealand Government through the Ministry of Social Development provided wage subsidies for periods where there were alert level restrictions and businesses could demonstrate a decline in revenues as a result of the pandemic. Additional subsidies were received from other governments related to offshore offices including Australia, the United States of America, Singapore and the Cook Islands. The wage subsidies were recognised within Labour expenses as an offset to the underlying labour cost. Conditions attached to the government subsidies which have been recognised in the Statement of Financial Performance have been satisfied.

The New Zealand Government through the Ministry of Transport provided an aviation support package as a result of the impact of Covid-19 which included financial support to airlines to pay passenger-based government charges and Airways related fees. The package covered the period from 1 March 2020 through to 31 December 2020. All conditions associated with the government assistance have been satisfied.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR TO 30 JUNE 2021

3. Other Significant Items



Other significant items are items of revenue or expenditure which due to their size and nature warrant separate disclosure to assist with the understanding of the underlying financial performance of the Group.

	2021 \$M	2020 \$M
Foreign exchange gains on uncovered interest-bearing liabilities and lease liabilities	143	67
Amounts transferred from the cash flow hedge reserve where the forecast transaction is no longer expected to occur:		
- fuel	-	(122)
- foreign exchange	(18)	17
Foreign exchange losses on debt and leases, no longer offset by foreign exchange gains on the hedged item, following disestablishment of fair value hedges	-	(46)
Aircraft impairment and lease modifications	(78)	(338)
Reorganisation costs	(39)	(140)
Gain on sale of landing slots	21	21
	29	(541)

Foreign exchange gains on uncovered interest-bearing liabilities and lease liabilities

Group policy is to manage foreign currency exposures arising from foreign currency denominated liabilities. Due to a significant decline in forecast foreign currency revenue as a result of Covid-19, the Group was required to de-designate revenue hedges in the prior year which resulted in certain foreign currency debt and lease obligations becoming unhedged. Foreign currency translation gains/losses arising on these obligations are now recognised in the Statement of Financial Performance. Further details are set out in Note 24.

Amounts transferred from the cash flow hedge reserve where the forecast transaction is no longer expected to occur

Group policy is to manage risk exposures on foreign currency risk arising in respect of forecast operating cash flows and price risk arising in respect of forecast fuel transactions. As a result of Covid-19 there was a substantial decline in customer demand due to border closures and domestic travel restrictions. The airline significantly reduced operating capacity, affecting revenues, operating expenditure and fuel consumption. Where the forecast hedged transaction was no longer expected to occur, the associated accumulated gains or losses were transferred from the cash flow hedge reserve to the Statement of Financial Performance.

In the 2020 financial year, a significant number of fuel hedges were closed out and hedges of both fuel price and of foreign currency operating revenue and expenditure transactions were de-designated. A number of fuel trades de-designated from hedge relationships remained open as at 30 June 2020. The change in the fair value of these trades from the date of de-designation to 30 June 2020 was recognised in earnings within 'Fuel' and was largely offset by the transfer of premiums from the costs of hedging reserve in respect of hedge relationships that had been de-designated.

Foreign exchange losses on debt and leases, no longer offset by foreign exchange gains on the hedged item following disestablishment of fair value hedges

In September 2019, the International Financial Reporting Interpretations Committee ("IFRIC") published an agenda decision in respect of a "Fair Value Hedge of Foreign Currency Risk on Non-Financial Assets". The interpretation issued by IFRIC of the principles of IFRS 9 - Financial Instruments no longer permitted certain fair value hedges of underlying United States Dollar aircraft values which were previously undertaken by the Group. The interpretation was applied retrospectively in the prior year financial statements.

As a result of the reversal of the fair value hedges, \$46 million of foreign currency losses arising on translation of the previously designated debt, was no longer offset by foreign currency gains arising on the hedged item for the year ended 30 June 2020. In September 2019 the debt was subsequently re-designated in new hedge relationships in accordance with the Group's financial risk management policies.

Aircraft impairment and lease modifications

As a result of Covid-19 the Group significantly reduced its network capacity following border closures and international travel restrictions. Due to the severe impact that the pandemic had on global demand for international air travel, the Boeing 777-200ER fleet and one Boeing 777-300ER leased aircraft were grounded for an indefinite period into the future (30 June 2020: Boeing 777-200ER fleet). The aircraft and other associated assets were assessed for impairment to determine the recoverable amount based on the fair value less costs to sell. Market values were determined based on asset condition and estimates of market demand. Impairment expenses of \$58 million (30 June 2020: \$338 million) and losses arising on lease modifications of \$5 million (30 June 2020: Nil) were recognised in respect of these aircraft for the year ended 30 June 2021. Further details are set out in Notes 10 and 11.

The Group exited from service the ATR72-500 fleet in February 2020 following a scheduled fleet replacement. The aircraft were classified as assets held for resale and were carried at the lower of their previous book value at the date of transfer or fair value less costs to sell. An impairment expense of \$15 million was recognised during the year ended 30 June 2021 (30 June 2020: Nil).

Reorganisation costs

Due to the unprecedented impact of Covid-19 on the airline a reorganisation programme was undertaken to realign the cost base. This resulted in a reduction in employee numbers since April 2020 of over 4,000 staff.

In March 2019, Air New Zealand announced a two-year cost reduction programme. Reorganisation costs, comprising of redundancy and other related costs, were recognised during the year ending 30 June 2020 in relation to the programme. In addition, following the announcement in October 2019 of the withdrawal of services on the London-Los Angeles route, a provision for redundancy costs was recognised in the comparative period in respect of the London based cabin crew, ground staff and sales staff.

Gain on sale of landing slots

The Group entered into an agreement to dispose of its London Heathrow slots following the announced withdrawal from the London-Los Angeles route. Proceeds from the sale of \$42 million were received in December 2019. The gain on sale was recognised upon formal transfer of each of the slots to the purchaser.



NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR TO AND AS AT 30 JUNE 2021

4. Taxation



Current and deferred taxation are calculated on the basis of tax rates enacted or substantively enacted at reporting date, and are recognised in the income statement except when the tax relates to items charged or credited to other comprehensive income, in which case the tax is also recognised in other comprehensive income.

Deferred income taxation is recognised in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

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



Judgements are required about the application of income tax legislation. These judgements and assumptions are subject to risk and uncertainty. There is therefore a possibility that changes in circumstances will alter expectations, which may impact the amount of current and deferred tax assets and liabilities recognised in the Statement of Financial Position and the amount of other tax losses and temporary differences not yet recognised. In such circumstances, some or all of the carrying amounts of recognised tax assets and liabilities may require adjustment, resulting in a corresponding credit or charge to the Statement of Financial Performance.

	2021 \$M	2020 \$M
Current taxation credit		
Current year	33	57
	33	57
Deferred taxation credit		
Origination of temporary differences	(25)	56
Unused tax losses	114	61
	89	117
Total taxation credit recognised in earnings	122	174
Reconciliation of effective tax rate		
Loss before taxation	(411)	(628)
Taxation at 28%	115	176
Adjustments		
Non-deductible expenses	(1)	(7)
Non-taxable income	6	6
Equity settlements	(1)	(1)
Over provided in prior periods	-	1
Reinstatement of tax depreciation on buildings	3	3
Foreign tax paid	-	(4)
Taxation credit	122	174

The Group has \$39 million of imputation credits as at 30 June 2021 (30 June 2020: \$79 million).

Deferred taxation

Deferred tax assets and liabilities are attributable to the following:

	NON-AIRCRAFT ASSETS \$M	AIRCRAFT RELATED \$M	PROVISIONS AND ACCRUALS \$M	FINANCIAL INSTRUMENTS \$M	PENSION OBLIGATIONS \$M	EQUITY SETTLEMENTS \$M	UNUSED TAX LOSSES \$M	TOTAL \$M
As at 1 July 2019	14	336	(63)	(14)	(3)	(4)	-	266
Amounts recognised in Other Comprehensive Income	-	-	-	(37)	2	-	-	(35)
Amounts recognised in equity	-	-	-	-	-	3	-	3
Amounts recognised in earnings	(7)	(47)	(3)	-	-	1	(61)	(117)
As at 30 June 2020	7	289	(66)	(51)	(1)	-	(61)	117
Amounts recognised in Other Comprehensive Income	-	-	-	31	2	-	-	33
Amounts recognised in earnings	(8)	29	7	-	(1)	(2)	(114)	(89)
As at 30 June 2021	(1)	318	(59)	(20)	-	(2)	(175)	61

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR TO AND AS AT 30 JUNE 2021

5. Earnings Per Share



Basic earnings per share is calculated by dividing the profit/(loss) attributable to shareholders of the company by the weighted average number of ordinary shares on issue during the year, excluding shares held as treasury stock. Diluted earnings per share assumes conversion of all dilutive potential ordinary shares in determining the denominator.

	2021 \$M	2020 \$M
Earnings for the purpose of basic and diluted earnings per share:		
Net loss attributable to shareholders	(289)	(454)
Weighted average number of shares (in millions of shares)		
Weighted average number of Ordinary Shares for basic and diluted earnings per share	1,123	1,123
Basic and diluted earnings per share	(25.7)	(40.4)

6. Cash and Cash Equivalents



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

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

Cash and cash equivalents, as stated in the Statement of Cash Flows, are reconciled to the Bank and short-term deposits balance in the Statement of Financial Position as follows:

	2021 \$M	2020 \$M
Cash balances	44	130
Other short-term deposits and short-term bills	222	308
Total cash and cash equivalents	266	438
Reconciliation of Net Loss Attributable to Shareholders to Net Cash Flows from Operating Activities:		
Net loss attributable to shareholders	(289)	(454)
Plus/(less) non-cash items:		
Depreciation and amortisation	716	841
Loss on disposal of property, plant and equipment, intangibles and assets held for resale	12	-
Impairment expense on property, plant and equipment, right of use assets and assets held for resale	73	335
Share of earnings of associates	(19)	(39)
Movement on fuel derivatives	(21)	4
Foreign exchange losses on debt, no longer offset by foreign exchange gains on the hedged item	-	46
Foreign exchange gains on uncovered interest-bearing liabilities and lease liabilities	(143)	(67)
Amounts transferred from the cash flow hedge reserve where the forecast transaction is no longer expected to occur	18	40
Foreign exchange losses	3	2
Other non-cash items	6	12
	356	720
Net working capital movements:		
Assets	98	67
Revenue in advance	(127)	(253)
Liabilities	(4)	(304)
	(33)	(490)
Net cash flow from operating activities	323	230



NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

AS AT 30 JUNE 2021

7. Trade and Other Receivables



Trade and other receivables are recognised at cost less any provision for lifetime expected credit losses. Bad debts are written-off when they are considered to have become uncollectable.

	2021 \$M	2020 \$M
Current		
Trade and other receivables	192	260
Prepayments	60	45
	252	305
Non-current		
Other receivables	39	78
Prepayments	53	64
	92	142

Expected credit loss provisions of \$4 million were recognised as at 30 June 2021 (30 June 2020: \$7 million).

8. Inventories



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

	2021 \$M	2020 \$M
Engineering expendables	73	82
Consumable stores	19	24
	92	106
Held at cost	78	90
Held initially at cost	74	77
Less provision for inventory obsolescence	(60)	(61)
Held at net realisable value	14	16
	92	106

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

AS AT 30 JUNE 2021

9. Other Assets



Amounts owing from related parties

Amounts owing from related parties are recognised at cost less any provision for expected credit losses.

Contract work in progress

Contract work in progress is stated at cost plus the profit recognised to date, using the cost input 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. Amounts are invoiced as work progresses in accordance with contractual terms, either at periodic intervals or upon achievement of contractual milestones.

Interest-bearing assets

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

Defined pension

Air New Zealand's net obligation in respect of defined benefit pension plans is calculated by an independent actuary, by estimating the amount of future benefit that employees have earned in the current and prior periods, discounting that amount and deducting the fair value of the plan's assets. The discount rate reflects the yield on government bonds that have maturity dates approximating the terms of Air New Zealand's obligations.

When the calculation results in an asset, the value of the asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions from the plan.

Assets held for resale

Non-current assets are classified as held for resale if their carrying amount will be recovered through a sale transaction rather than through continuing use. The sale must be highly probable and the asset available for immediate sale in its present condition. Non-current assets held for resale are measured at the lower of the asset's previous carrying amount and its fair value less costs to sell.

	2021 \$M	2020 \$M
Current		
Contract work in progress	74	76
Assets held for resale	48	34
Other assets (including defined benefit assets)	15	9
	137	119
Non-current		
Interest-bearing assets	324	334
Other assets	18	17
	342	351

The carrying value of the assets held for resale reflects the lower of their previous carrying value at the date of transfer or external market assessments of the fair value, less costs to sell. Four Boeing 777-200ER aircraft, three spare engines and other associated assets were not expected to return to service in the Air New Zealand fleet and are being marketed for sale. Five ATR72-500 aircraft were removed from service in February 2020 following a fleet replacement programme (30 June 2020: six aircraft). The ATR72-500 and Boeing 777-200ER aircraft are expected to be disposed within the next 12 months. One ATR simulator was disposed in July 2021. Spares related to exited fleets are being marketed for sale and it is expected that proceeds will be received over the next three years.

The Group operates two defined benefit plans for qualifying employees in New Zealand and overseas. A net asset was recognised of \$1 million (30 June 2020: net liability of \$5 million reported within Other liabilities). The New Zealand plan is now closed to new members and the overseas plan was closed on 1 July 2021 with the scheme assets transferred to a defined contribution scheme. The plans provide a benefit on retirement or resignation based upon the employee's length of membership and final average salary. Each year an actuarial calculation is undertaken using the Projected Unit Credit Method to calculate the present value of the defined benefit obligation and the related current service cost. The current service cost recognised through earnings was \$1 million (30 June 2020: \$2 million).

Interest-bearing assets include fixed rate Term Deposits and floating rate Certificate of Deposits that have been provided as security over credit card obligations incurred by Air New Zealand and standby letters of credit and other financial guarantees issued to third parties. Certain deposits are subject to offsetting under a security deed and remain in force until specifically released by the secured party. For other deposits, a minimum notification period of twelve months is required to be given prior to the security deposits being released. These deposits are subject to potential offsetting under master netting arrangements. In addition, the Group holds Euro fixed rate deposits that mature between September 2030 and September 2031 held as part of aircraft financing arrangements. Fixed interest rates in the year to 30 June 2021 were between 0.01% and 3.60% per annum (30 June 2020: 0.14% to 3.60% per annum). The fair value of interest-bearing assets as at 30 June 2021 was \$361 million (30 June 2020: \$364 million).



NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

AS AT 30 JUNE 2021

10. Property, Plant and Equipment



Owned assets

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

Where significant parts of an item of property, plant and equipment have different useful lives, they are accounted for separately. A portion of the cost of an acquired aircraft is attributed to its service potential (reflecting the maintenance condition of its engines) and is depreciated over the shorter of the period to the next major inspection event, overhaul, or the remaining life of the asset. The cost of major engine overhauls for aircraft owned by the Group is capitalised and depreciated over the period to the next expected inspection or overhaul.

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

Manufacturing credits

Where the Group receives credits and other contributions from manufacturers in connection with the acquisition of certain aircraft and engines, these are either recorded as a reduction to the cost of the related aircraft and engines, or offset against the associated operating expense, according to the reason for which they were received.

Depreciation

Depreciation is calculated to write down the cost of assets on a straight line basis to an estimated residual value over their economic lives as follows:

Airframes	18 years
Engines	6 – 15 years
Engine overhauls	period to next overhaul
Aircraft specific plant and equipment (including simulators and spares)	10 – 25 years
Buildings	50 – 100 years
Non-aircraft specific leasehold improvements, plant, equipment, furniture and vehicles	2 - 10 years

	AIRFRAMES, ENGINES AND SIMULATORS \$M	SPARES \$M	PLANT AND EQUIPMENT \$M	LAND AND BUILDINGS \$M	CAPITAL WORK IN PROGRESS \$M	TOTAL \$M
2021						
Carrying value as at 1 July 2020	2,824	79	144	213	76	3,336
Additions	92	12	2	20	55	181
Disposals	(2)	(5)	-	(1)	-	(8)
Depreciation	(236)	(9)	(33)	(37)	-	(315)
Impairment expense	(16)	-	-	-	-	(16)
Transfers of capital work in progress	23	-	17	15	(55)	-
Transfers to right of use assets	(20)	-	-	-	-	(20)
Transfer to assets held for resale	(26)	(4)	-	-	-	(30)
Carrying value as at 30 June 2021	2,639	73	130	210	76	3,128
Represented by:						
Cost	3,939	143	497	531	76	5,186
Accumulated depreciation	(1,295)	(70)	(367)	(309)	-	(2,041)
Provision for impairment	(5)	-	-	(12)	-	(17)
Carrying value as at 30 June 2021	2,639	73	130	210	76	3,128

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

AS AT 30 JUNE 2021

10. Property, Plant and Equipment (continued)

	AIRFRAMES, ENGINES AND SIMULATORS \$M	SPARES \$M	PLANT AND EQUIPMENT \$M	LAND AND BUILDINGS \$M	CAPITAL WORK IN PROGRESS \$M	TOTAL \$M
2020						
Cost	4,937	156	464	470	104	6,131
Accumulated depreciation	(1,617)	(74)	(323)	(268)	-	(2,282)
Provision for impairment	-	-	-	(14)	-	(14)
Carrying value as at 1 July 2019	3,320	82	141	188	104	3,835
Additions	220	10	2	1	177	410
Disposals	(51)	(4)	(1)	-	-	(56)
Depreciation	(333)	(9)	(32)	(34)	-	(408)
Impairment (expense)/reversal	(287)	-	-	2	(3)	(288)
Transfers of capital work in progress	112	-	34	56	(202)	-
Transfers to right of use assets	(123)	-	-	-	-	(123)
Transfer to assets held for resale	(34)	-	-	-	-	(34)
Carrying value as at 30 June 2020	2,824	79	144	213	76	3,336
Represented by:						
Cost	4,772	157	492	513	79	6,013
Accumulated depreciation	(1,661)	(78)	(348)	(288)	-	(2,375)
Provision for impairment	(287)	-	-	(12)	(3)	(302)
Carrying value as at 30 June 2020	2,824	79	144	213	76	3,336

	2021 \$M	2020 \$M
Airframes, engines and simulators comprise:		
Owned airframes, engines and simulators	2,405	2,637
Progress payments	234	187
	2,639	2,824
Land and buildings comprise:		
Leasehold properties	196	198
Freehold properties	14	15
	210	213

Certain aircraft and aircraft related assets with a carrying value of \$2,166 million as at 30 June 2021 are pledged as specific security over secured borrowings (30 June 2020: \$1,741 million). All other assets are pledged as general security under a loan facility provided by the New Zealand Government.

**Impairment**

Assets are required to be carried at no more than their recoverable amount either through use or sale of the asset. Due to the rapid deterioration of worldwide travel, and the uncertainty surrounding the expected recovery period of global demand as a result of the Covid-19 pandemic, the Group has undertaken impairment testing to ensure the carrying value of assets are appropriate.

Fleet

Given the severity of the Covid-19 pandemic on long-haul travel the Group has grounded its Boeing 777 fleets. The Boeing 777-200ER fleet as well as one leased Boeing 777-300ER aircraft are not expected to return to service in the Air New Zealand fleet and therefore the assets were tested for impairment separately from the rest of the Group's assets based on an assessment of their fair value less costs to sell. The market values were obtained from an external valuer which equated to level 2 on the fair value hierarchy. Key inputs into the external valuations include economic factors, the age and manufacture type of the aircraft and engines, the maintenance condition of the aircraft and list prices of manufacturers. As at 30 June 2021 an impairment expense of \$16 million was recognised in the Statement of Financial Performance in relation to these aircraft and engines (30 June 2020: \$287 million against aircraft and engines and \$3 million against associated assets). As at 30 June 2021 the aircraft and engines were transferred to assets held for resale. An impairment provision of \$5 million was held against aircraft interiors on leased aircraft as at 30 June 2021 (30 June 2020: \$287 million against aircraft and engines and a further \$3 million against associated assets).

The carrying value of all other assets (including Boeing 777-300ER aircraft expected to return to service in the Air New Zealand fleet) were tested for impairment as part of the airline network cash generating unit, using a value in use discounted cash flow model. Cash flow projections were developed for a 10 year period, on the basis of detailed shorter-term forecasts which incorporate recovery towards pre-Covid-19 capacity, followed by extrapolation at a growth rate of 1.75% per annum from the 2026 financial year (30 June 2020: 1.5% per annum).



NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

AS AT 30 JUNE 2021

10. Property, Plant and Equipment (continued)

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Cash flow projections used in the discounted cash flow models reflect the Board's and management's current view of the anticipated timing and recovery from the impact of the pandemic. The projections incorporated key inputs and assumptions including the recovery of passenger demand for domestic and international travel, which is predominantly driven by the removal of border restrictions. The uncertain nature of the timing of border reopenings requires a judgement of management and the Board and has been assumed to progressively commence from the 2022 financial year, with Short-haul international markets assumed to open ahead of Long-haul international markets. Cash flow projections also included the Group's expectations for expected fleet usage, network operations and investment profile. Capital investments during the projected period reflect actions the Group has taken to delay or reduce investments in the near-term periods to improve cash flow.

Pre-Covid-19, the Group had for five years consistently reported pre-tax ROIC which exceeded its weighted average cost of capital, indicating, along with other factors including aircraft market values, that the Group's cash generating unit was not impaired prior to the pandemic.

In assessing the cash flow projections, the Board has considered a number of sensitivities. The factors driving the largest sensitivities within the overall model were terminal values and discount rates, and within the detailed projection period to the 2026 financial year were RASK, timing of border openings and fuel price. Consideration has been given to historical performance and the previous Board approved 5 year plans, particularly when assessing the reasonableness of cash flows towards the end of the projected period and terminal year growth assumptions.

The majority of the enterprise value within the value in use model is derived from the terminal value as opposed to short-term detailed cashflow projections to the 2026 financial year. As a consequence sensitivities to the timing of border openings are not expected to result in impairment, given the short-term nature of the potential volatility in cash flows compared to the expectation that performance will recover to pre-Covid-19 levels over the projection period of 2026 and beyond. Potential short-term variances in the Group's cashflow projections, while impacting the measurement of the recoverable amount, does not materially impact the headroom identified.

The cash flow projections are discounted using a pre-tax rate of 10.7% (30 June 2020: 10.5%) which reflected a market estimate of the weighted average cost of capital for the Group with sensitivities performed within the range of 9.5% to 11.9% (30 June 2020: 9.3% to 12.5%). This pre-tax weighted average cost of capital equated to a post tax rate of 8.75% (30 June 2020: 8.25%).

The discounted cash flows from the cash generating unit confirmed that there was no impairment to the remaining aircraft as, in the opinion of the directors, the recoverable value from value in use exceeded the book value of the aircraft, based on the Director's current assessment of the Group's future operations.

Land and buildings

Air New Zealand Gas Turbines (ANZGT) provides overhaul services to aero derivative engines that are applied to energy production and marine industries. In prior years a down turn in the market resulted in a decline in activity and profitability of the business. Impairment provisions of \$12 million were recognised against the land and building assets of the business in previous years. During the year ended 30 June 2021 the assets were assessed for impairment based on a value in use discounted cash flow valuation. Cash flow projections were sourced from the 2022 financial year plan and extrapolated into the future using a 2% growth rate and adjusted for any one-off transactions and expected market conditions. Key assumptions include exchange rates, customer demand, market supply and terminal values. These assumptions have been based on historical data and current market information. The cash flow projections are particularly sensitive to fluctuations in exchange rates and economic demand. The cash flow projections are discounted using a 9% discount rate (30 June 2020: 9%). As at 30 June 2021 the discounted cashflow valuation supported the carrying value of the assets. An impairment provision reversal of \$2 million was recognised in the 30 June 2020 financial year.

Residual values

Estimates and judgements are applied by management to determine the expected useful life of aircraft related assets. The useful lives are determined based on the expected service potential of the asset and lease term. The residual value, at the expected date of disposal, is estimated by reference to external projected values and are influenced by external changes to economic conditions, demand, competition and new technology. Residual values are denominated in United States dollars and are therefore sensitive to exchange fluctuations as well as movements in projected values. Residual values and useful lives are reviewed each year to ensure they remain appropriate. During the year ended 30 June 2021 the residual values of the aircraft were reassessed and depreciation expense was increased by \$9 million (30 June 2020: decreased by \$3 million).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

AS AT 30 JUNE 2021

11. Right of Use Assets



Right of use assets are initially measured at cost, which comprises the initial amount of the lease liability, adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred, less any lease incentives received and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located.

The right of use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Group by the end of the lease term or the cost of the right of use asset reflects that the Group is likely to exercise a purchase option. In that case, the right of use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property, plant and equipment. In addition, the right of use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

	AIRFRAME AND ENGINES WITH PURCHASE OPTION* \$M	AIRFRAME AND ENGINES WITH NO PURCHASE OPTION \$M	LAND AND BUILDINGS \$M	TOTAL \$M
2021				
Carrying value as at 1 July 2020	1,425	625	307	2,357
Additions	7	30	15	52
Disposals	-	(42)	(4)	(46)
Depreciation	(168)	(134)	(50)	(352)
Impairment expense	-	(42)	-	(42)
Transfers from property, plant and equipment	20	-	-	20
Carrying value as at 30 June 2021	1,284	437	268	1,989
Represented by:				
Cost	2,283	821	361	3,465
Accumulated depreciation	(999)	(295)	(93)	(1,387)
Provision for impairment	-	(89)	-	(89)
Carrying value as at 30 June 2021	1,284	437	268	1,989
2020				
Cost	1,998	554	322	2,874
Accumulated depreciation	(700)	-	-	(700)
Carrying value as at 1 July 2019	1,298	554	322	2,174
Additions	163	297	36	496
Disposals	-	(1)	(1)	(2)
Depreciation	(159)	(177)	(50)	(386)
Impairment expense	-	(48)	-	(48)
Transfers from property, plant and equipment	123	-	-	123
Carrying value as at 30 June 2020	1,425	625	307	2,357
Represented by:				
Cost	2,263	843	356	3,462
Accumulated depreciation	(838)	(170)	(49)	(1,057)
Provision for impairment	-	(48)	-	(48)
Carrying value as at 30 June 2020	1,425	625	307	2,357

* Airframes and engines where a purchase option is assessed as reasonably certain to be exercised.

Certain aircraft and aircraft related assets with a carrying value of \$1,243 million as at 30 June 2021 (30 June 2020: \$1,396 million) are pledged as security over lease liabilities.



NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

AS AT 30 JUNE 2021

11. Right of Use Assets (continued)



Impairment

As detailed in Note 10, the severity of the impact of the Covid-19 pandemic resulted in the grounding of the Boeing 777-200ER fleet and one Boeing 777-300ER aircraft. Five of the aircraft are leased aircraft which have been moved to long-term storage for an indefinite period of time (30 June 2020: four aircraft). As it is unlikely that the aircraft will be required for use prior to the lease return date, the right of use assets have been fully impaired resulting in a provision for impairment of \$89 million being recognised (30 June 2020: \$48 million). Impairment expense of \$42 million was recognised in the Statement of Financial Performance in relation to these aircraft in the 2021 financial year (30 June 2020: \$48 million).

All other right of use assets (including Boeing 777-300ER aircraft expected to return to service in the Air New Zealand fleet) were assessed for impairment as part of the wider airline network cash generating unit. The discounted cash flow model confirmed that there was no impairment to the remaining right of use assets as, in the opinion of the directors, the recoverable value from continued use of the aircraft as part of a network exceeded the carrying value of the right of use assets, based on the directors' current assessment of the Group's future trading prospects.

Residual values

Estimates and judgements are applied by management to determine the expected useful life of aircraft related assets. The useful lives are determined based on the expected service potential of the asset and lease term. The residual value, at the expected date of disposal, is estimated by reference to external projected values and are influenced by external changes to economic conditions, demand, competition and new technology. Residual values are denominated in United States dollars and are therefore sensitive to exchange fluctuations as well as movements in projected values. Residual values and useful lives are reviewed each year to ensure they remain appropriate. During the year ended 30 June 2021 the residual values of the aircraft were reassessed and depreciation expense was increased by \$7 million (30 June 2020: increased by \$11 million).

12. Intangible Assets



Computer software acquired, which is not an integral part of a related hardware item, is recognised as an intangible asset. The costs incurred internally in developing computer software are also recognised as intangible assets where the Group has a legal right to use the software and the ability to obtain future economic benefits from that software. Acquired software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These assets have a finite life and are amortised on a straight-line basis over their estimated useful lives of three to ten years.

	INTERNALLY DEVELOPED SOFTWARE \$M	EXTERNALLY PURCHASED SOFTWARE \$M	CAPITAL WORK IN PROGRESS \$M	OTHER \$M	TOTAL \$M
2021					
Carrying value as at 1 July 2020	153	3	29	1	186
Additions	-	-	43	-	43
Disposals	(1)	-	-	-	(1)
Amortisation	(48)	(1)	-	-	(49)
Transfers of capital work in progress	37	-	(37)	-	-
Carrying value as at 30 June 2021	141	2	35	1	179
Represented by:					
Cost	511	153	35	1	700
Accumulated depreciation	(370)	(151)	-	-	(521)
Carrying value as at 30 June 2021	141	2	35	1	179
2020					
Cost	442	153	19	2	616
Accumulated depreciation	(279)	(150)	-	-	(429)
Provision for impairment	-	-	-	(1)	(1)
Carrying value as at 1 July 2019	163	3	19	1	186
Additions	-	-	48	-	48
Disposals	(1)	-	-	-	(1)
Amortisation	(46)	(1)	-	-	(47)
Transfers of capital work in progress	37	1	(38)	-	-
Carrying value as at 30 June 2020	153	3	29	1	186
Represented by:					
Cost	476	154	29	1	660
Accumulated depreciation	(323)	(151)	-	-	(474)
Carrying value as at 30 June 2020	153	3	29	1	186

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR TO AND AS AT 30 JUNE 2021

13. Investments in Other Entities



Investments in associates and joint ventures are accounted for using the equity method and are measured in the Statement of Financial Position at cost plus post-acquisition changes in the Group's share of net assets, less dividends. Goodwill relating to associates and joint ventures is included in the carrying amount of the investment.

If the carrying amount of the equity accounted investment exceeds its recoverable amount, it is written down to the latter. When the Group's share of accumulated losses in an associate or joint venture equals or exceeds its carrying value, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate or joint venture.

	2021 \$M	2020 \$M
Investments in associates	137	161
Investments in other entities	1	1
	138	162

Subsidiaries

Significant subsidiaries comprise:

NAME	PRINCIPAL ACTIVITY	COUNTRY OF INCORPORATION
Air Nelson Limited	Aviation services	New Zealand
Air New Zealand Aircraft Holdings Limited	Aircraft leasing and financing	New Zealand
Air New Zealand Associated Companies Limited	Investment	New Zealand
Air New Zealand Regional Maintenance Limited	Engineering services	New Zealand
Mount Cook Airline Limited	Aviation services	New Zealand
TEAL Insurance Limited	Captive insurer	New Zealand

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

On 19 November 2019 and 10 December 2019 the Q300 and ATR aircraft operations previously undertaken by Air Nelson Limited and Mount Cook Airline Limited were transferred to Air New Zealand Limited's air operating certificate. Since this date the companies have continued to provide labour services to the parent company.

Associates and Joint Ventures

Significant associates and joint ventures comprise:

NAME	RELATIONSHIP	% OWNED	PRINCIPAL ACTIVITY	COUNTRY OF INCORPORATION	BALANCE DATE
Christchurch Engine Centre (CEC)	Associate	49	Engineering services	New Zealand	31 December
Drylandcarbon One Limited Partnership*	Associate	21	Carbon credit generation	New Zealand	30 June

* The Group has committed to investing capital of up to \$25 million in Drylandcarbon One Limited Partnership. As at 30 June 2021 \$13 million had been invested (30 June 2020: \$5 million).

Summary financial information of associates

	CEC 2021 \$M	DRYLAND 2021 \$M	TOTAL 2021 \$M	CEC 2020 \$M	DRYLAND 2020 \$M	TOTAL 2020 \$M
Assets and liabilities of associates are as follows:						
Current assets	306	13	319	336	3	339
Non-current assets	48	49	97	55	19	74
Current liabilities	(75)	(2)	(77)	(44)	(1)	(45)
Non-current liabilities	(25)	-	(25)	(26)	-	(26)
Net identifiable assets	254	60	314	321	21	342
Group share of net identifiable assets	125	12	137	157	4	161
Carrying value of investment in associates	125	12	137	157	4	161

Results of associates						
Revenue	611	-	611	1,188	-	1,188
Earnings after taxation	40	(2)	38	80	(2)	78
Total comprehensive income	40	(2)	38	80	(2)	78
Group share of net earnings after taxation	19	-	19	39	-	39
Group share of total comprehensive income	19	-	19	39	-	39



NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

AS AT 30 JUNE 2021

14. Revenue in Advance



Transportation sales in advance (including held in credit balances) includes consideration received in respect of passenger and cargo sales for which the actual carriage has not yet been performed. It also includes amounts due for sectors operated by other carriers for which the Group collects consideration from the customer and makes payments to the other carrier based on industry agreements at the time the carriage is performed.

Loyalty programme revenue in advance includes revenues associated with both the award of Airpoints Dollars to Airpoints members as part of the initial sales transaction and with sales of Airpoints Dollars to third parties, net of estimated expiry (non-redeemed Airpoints Dollars), in respect of which the Airpoints member has not yet redeemed their points.

Other revenue in advance includes membership subscriptions and contract related services revenue which relate to future periods.



Transportation sales in advance

As a result of the impact that Covid-19 has had on international border closures and domestic travel restrictions the Group's airline operating schedule was severely impacted resulting in a significant number of flight reschedules and cancellations. Passenger ticket sales which are no longer assigned to a specific scheduled service are held in credit and are available to be assigned to a specific flight. The carriage will be performed within 12 months of assignment. Estimates have been applied to the expected availment profile of the credits in determining the term allocation of the liability. Key judgements included assumptions around international border openings, forecasted operating capacity and revenue per available seat kilometre.

Loyalty Programme

Loyalty balances have historically typically been redeemed within two years. As a result of the impact of Covid-19 on redemption opportunities judgements have been required as to the expected utilisation period. Key assumptions have included forecasted operating capacity, international border reopenings and changes in customer behaviour (including the mix of air and non-air redemptions). For the year ended 30 June 2021 it is expected that loyalty balances will be redeemed within two to three years (30 June 2020: two to three years).

	2021 \$M	2020 \$M
Current		
Transportation sales in advance	494	726
Loyalty programme	175	77
Other	20	25
	689	828
Non-current		
Transportation sales in advance	279	133
Loyalty programme	221	351
Other	3	7
	503	491

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

AS AT 30 JUNE 2021

15. Interest-Bearing Liabilities



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

Borrowings and bonds are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for more than 12 months after the balance date.

	2021 \$M	2020 \$M
Current		
Secured borrowings	174	160
Secured borrowings - New Zealand Government	350	-
	524	160
Non-current		
Secured borrowings	973	1,253
Unsecured bonds	50	50
	1,023	1,303
Interest rates basis:		
Fixed rate	144	157
Floating rate	1,403	1,306
At amortised cost	1,547	1,463
At fair value:	1,534	1,432

Non-cash movements in interest-bearing liabilities during the year ended 30 June 2021 included foreign exchange gains of \$118 million (30 June 2020: losses of \$63 million).

The fair value of interest-bearing liabilities for disclosure purposes is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest for similar liabilities at reporting date.

Secured borrowings with third parties are secured over aircraft and are subject to both fixed and floating interest rates. Fixed interest rates were 1.0% per annum (30 June 2020: 1.0% per annum).

Secured borrowings with the New Zealand Government are secured against specific aircraft assets and a general security interest held against other assets of the Group. The facility was subject to interest rates between 3.8% to 7.3% per annum (30 June 2020: Nil) (refer Note 26).

The unsecured, unsubordinated fixed rate bonds have a maturity date of 28 October 2022 and an interest rate of 4.25% per annum payable semi-annually.



NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

AS AT 30 JUNE 2021

16. Lease Liabilities



At inception of the contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the Group has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from the use of the asset throughout the term.

The Group recognises a right of use asset and a lease liability at the lease commencement date. Details regarding right of use assets are set out in Note 11.

At commencement or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of its relative standalone prices.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses the incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rates as at the commencement date; and
- the exercise price under a purchase option that the Group is reasonably certain to exercise, lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest rate method. The liability is remeasured when there is a change in future lease payments arising from a change in an index or a rate and if the Group revises its assessment as to whether it will exercise a purchase, extension or termination option. A corresponding adjustment is made to the carrying amount of the right of use asset, or is recognised in the Statement of Financial Performance if the carrying amount of the right of use asset has been reduced to zero.

Leases are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for more than 12 months after the balance date.

The Group adopted the requirements of Covid-19-Related Rent Concessions with effect from 1 July 2019 which allows lessees not to assess whether particular Covid-related rent concessions are lease modifications. During the year, amounts of \$3 million (30 June 2020: \$1 million) were recognised within "Other revenue" with respect to Covid-19 related rent concessions.

Short-term leases

The Group has elected not to recognise right of use assets and lease liabilities for short-term leases. The Group recognises the lease payments associated with the leases as an expense (recognised within Other expenses in the Statement of Financial Performance) on a straight-line basis over the lease term.

Variable lease payments not included in the measurement of the lease liability

Variable lease payments which do not depend on an index or a rate are excluded from the measurement of the lease liability and recognised as an expense in the period in which the event or condition that triggers those payments occurs. These typically arise from the Group's property leases where utilities and other outgoings are calculated based on usage.

Sale and leaseback arrangements

Where the transfer of an asset meets the conditions for a sale, the right of use asset arising from the leaseback is measured at the proportion of the previous carrying amount that relates to the right of use retained by the Group. The Group only recognises the proportion of any gain or loss that relates to the rights transferred to the buyer-lessor. Any below market terms are accounted for as a prepayment of lease payments and any above market terms are accounted for as additional financing provided by the buyer-lessor.

Leasing activities

The Group leases mainly aircraft, spare engines, airport lounges, offices and hangars, other office buildings and storage space. Aircraft leases are typically for 12 to 14 years with a series of early termination options. Rent is either fixed or reset periodically based on an index or rate. Property leases are typically 3 to 5 years, with a number of renewal options, together with a small number of longer term strategic leases. Rent may increase on the basis of annual fixed percentage increases, CPI movements, rent negotiations or market reviews. Extension and termination options are used to maximise operational flexibility.



Determination of lease term

The lease term is the non-cancellable period of a lease, together with periods covered by an option (available to the lessee only) to extend or terminate the lease if the lessee is reasonably certain to exercise/not to exercise that option. In determining the lease term, the Group considers all facts and circumstances that create an economic incentive to exercise/not exercise an option. This may include the existence of large penalties for early termination, the incurrence of significant maintenance costs in meeting early return obligations or consideration as to whether leasehold improvements still carry significant value. Such assessment is reviewed if a significant event or change in circumstances occurs which affects this assessment and is within the control of the Group. Certain property leases, for which there is no readily identifiable alternative property available, include an additional renewal period where one is available under the lease contract.

Determination of incremental borrowing rate

The Group determines the incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the term and currency of the lease and the type of asset being leased.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

AS AT 30 JUNE 2021

16. Lease Liabilities (continued)

Sale and leasebacks

During the prior year, four owned Airbus A320 aircraft were sold and leased back, with a gain of \$3 million being recognised in the Statement of Financial Performance. Lease terms under this arrangement ranged from 15 to 26 months at fair market rentals with a weighted average discount rate of 2.4%. Cash outflows during the year as a result of this transaction were \$10 million (30 June 2020: \$5 million).

Such transactions are considered on an aircraft by aircraft basis as fleets near exit. This transaction was in preparation for the exit of the aircraft in the 2021 and 2022 financial years and provided certainty to the Group of the residual proceeds. No such transactions were entered into in the current year.

Movements in lease liabilities during the year, are presented below.

	AIRFRAME AND ENGINE LEASES WITH PURCHASE OPTION* \$M	AIRFRAME AND ENGINE LEASES WITH NO PURCHASE OPTION \$M	BUILDING LEASES WITH NO PURCHASE PURCHASE OPTION \$M	TOTAL \$M
2021				
Carrying value as at 1 July 2020	1,223	694	321	2,238
Additions	-	29	13	42
Interest cost	-	12	11	23
Capitalised interest	7	-	-	7
Repayments**	(146)	(150)	(58)	(354)
Terminations	-	(36)	(4)	(40)
Foreign currency movements	(95)	(58)	(2)	(155)
Carrying value as at 30 June 2021	989	491	281	1,761
Represented by:				
Current	205	138	40	383
Non-current	784	353	241	1,378
Carrying value as at 30 June 2021	989	491	281	1,761
2020				
Carrying value as at 1 July 2019	1,088	535	327	1,950
Additions	225	300	37	562
Interest cost	-	17	12	29
Capitalised interest	6	-	-	6
Repayments**	(147)	(177)	(55)	(379)
Terminations	-	(1)	(1)	(2)
Foreign currency movements	51	20	1	72
Carrying value as at 30 June 2020	1,223	694	321	2,238
Represented by:				
Current	155	154	44	353
Non-current	1,068	540	277	1,885
Carrying value as at 30 June 2020	1,223	694	321	2,238

	2021 \$M	2020 \$M
Interest rates basis:		
Fixed rate	1,161	1,469
Floating rate	600	769
At amortised cost	1,761	2,238

* Airframes and engines where a purchase option is assessed as reasonably certain to be exercised.

** The principal amount of \$331 million (30 June 2020: \$350 million) is presented in the Statement of Cash Flows within 'Financing Activities', and interest payments of \$23 million (30 June 2020: \$29 million) are presented in 'Operating Activities'.

Lease liabilities with purchase options which are reasonably certain of being exercised are secured over aircraft and are subject to both fixed and floating interest rates. Fixed interest rates ranged from 0.5% to 3.6% per annum (30 June 2020: 0.5% to 3.6% per annum). The weighted average discount rates used for leases which have no purchase option, or one which is not likely to be exercised, is 2.8% per annum (30 June 2020: 2.7% per annum).

	2021 \$M	2020 \$M
Amounts recognised in earnings (within 'Other expenses')		
Expenses relating to short-term leases	3	4
Expenses relating to variable lease payments, not included in the measurement of lease liabilities	4	4
	7	8



NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

AS AT 30 JUNE 2021

17. Provisions



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

	AIRCRAFT LEASE RETURN COSTS \$M	RESTRUCTURING \$M	OTHER \$M	TOTAL \$M
Balance as at 1 July 2020	303	94	2	399
Amount provided	34	39	8	81
Amount utilised and released	(41)	(118)	(1)	(160)
Foreign exchange movement	(21)	-	-	(21)
Balance as at 30 June 2021	275	15	9	299
Represented by:				
Current	43	11	4	58
Non-current	232	4	5	241
Balance as at 30 June 2021	275	15	9	299

Nature and purpose of provisions



Aircraft lease return costs

Where a commitment exists to maintain aircraft held under lease arrangements, a provision is made during the lease term for the lease return obligations specified within those lease agreements. The provision is calculated taking into account a number of variables and assumptions including the number of future hours or cycles expected to be operated, the expected cost of maintenance and the lifespan of limited life parts. It is based upon historical experience, manufacturers' advice and, where appropriate, contractual obligations in determining the present value of the estimated future costs of major airframe inspections and engine overhauls by making appropriate charges to the Statement of Financial Performance, calculated by reference to the number of hours or cycles operated during the year. The provision is expected to be utilised at the next inspection or overhaul.

Restructuring

Restructuring provisions are recognised when the Group is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to terminate employment before the normal retirement date. Costs relating to ongoing activities are not provided for.

Other

Other provisions include insurance provisions and make good provisions. Insurance provisions are expected to be utilised within 12 months and are based on historical claim experience. Make good provisions are based on cost estimates provided by third party suppliers and are expected to be utilised within two years.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

AS AT 30 JUNE 2021

18. Other Liabilities

**Employee entitlements**

Liabilities in respect of employee entitlements are recognised in exchange for services rendered during the accounting period, but which have not yet been compensated as at reporting date. These include annual leave, long service leave, retirement leave and accrued compensation.

	2021 \$M	2020 \$M
Current		
Employee entitlements	153	165
Amounts owing to associates	1	12
Other liabilities (including defined benefit liabilities)	10	42
	164	219
Non-current		
Employee entitlements	13	12
Other liabilities	17	20
	30	32

19. Distributions to Owners

	2021 \$M	2020 \$M
Distributions recognised		
Final dividend on Ordinary Shares	-	123
	-	123
Distributions paid		
Final dividend on Ordinary Shares	-	130
	-	130

A final dividend in respect of the 2019 financial year of 11.0 cents per Ordinary Share was paid on 18 September 2019. Imputation credits were attached and supplementary dividends paid to non-resident shareholders.



NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

AS AT 30 JUNE 2021

20. Share Capital



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

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

Where the Group funds the on-market purchase of shares to settle obligations under long-term incentive plans the total cost of the purchase (including transaction costs) is deducted from Share Capital.

	2021 \$M	2020 \$M
Share Capital comprises:		
Authorised, issued and fully paid in capital	2,197	2,197
Equity-settled share-based payments (net of taxation)	16	12
	2,213	2,209
Balance at the beginning of the year	2,209	2,219
Equity settlements of long-term incentive obligations*	-	(15)
Equity-settled share-based payments	4	4
Taxation on share capital reserve	-	1
Balance at the end of the year	2,213	2,209

* During the year ended 30 June 2020 the Group funded the purchase on-market of 5,456,593 shares. The shares were used to settle obligations under employee share-based compensation plans.

	2021	2020
Number of Ordinary Shares authorised, fully paid and on issue		
Balance at the beginning of the year	1,122,844,227	1,122,844,227
Balance at the end of the year**	1,122,844,227	1,122,844,227

** Includes treasury stock of 34,183 shares (30 June 2020: 34,183 shares).

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.

Non-New Zealand nationals are restricted from holding or having an interest in 10% 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.

Voting rights

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

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

Application of treasury stock method

Share repurchase

The Group utilises treasury stock acquired under a buy-back programme to fulfil obligations under employee share-based compensation plans. No treasury stock was utilised in the 2021 financial year (30 June 2020: Nil). Total treasury stock held as at 30 June 2021 is 34,090 shares (30 June 2020: 34,090 shares).

Staff Share Scheme

Unallocated shares of the Air New Zealand Staff Share Schemes are accounted for under the Treasury Stock method, and deducted from Ordinary Share capital on consolidation. The number of unallocated shares as at 30 June 2021 was 93 (30 June 2020: 93).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

AS AT 30 JUNE 2021

20. Share Capital (continued)

Share-Based Payments



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

Performance share rights and restricted share rights over ordinary shares

Performance share rights have been offered to a number of senior executives on attainment of predetermined performance objectives. CEO restricted share rights were offered to the former CEO subject to remaining in employment over the vesting period.

The total expense recognised in the year ended 30 June 2021 in respect of equity-settled share-based payment transactions was \$4 million (30 June 2020: \$4 million).

	PERFORMANCE SHARE RIGHTS 2021	PERFORMANCE SHARE RIGHTS 2020	CEO RESTRICTED SHARE RIGHTS* 2020
Number outstanding			
Outstanding at beginning of the year	9,898,958	11,871,481	275,758
Granted during year	5,839,208	5,040,420	-
Exercised during year	-	(5,180,835)	(275,758)
Forfeited during year	(3,760,550)	(1,832,108)	-
Outstanding at the end of the year	11,977,616	9,898,958	-
Fair value of rights granted in year (\$M)	4.9	6.4	-
Unamortised grant date fair value (\$M)	5.7	6.2	-

* The CEO Restricted Share Rights were part of the former Chief Executive Officer's total remuneration.

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

Key inputs and assumptions

The general principles underlying the Black Scholes and Marrabe pricing models have been used to value these rights and options using a Monte Carlo simulation approach, with the exception of the CEO Restricted Share Rights Plan for which a simplified approach was applied given the exercise price was fixed at issue date. The key inputs for rights and options granted in the relevant year were as follows:

Performance share rights	WEIGHTED AVERAGE SHARE PRICE (CENTS)	EXPECTED VOLATILITY OF SHARE PRICE (%)	EXPECTED VOLATILITY OF PERFORMANCE BENCHMARK INDEX (%)	CORRELATION OF VOLATILITY INDICES	CONTRACTUAL LIFE (YEARS)	RISK FREE RATE (%)	EXPECTED DIVIDEND YIELD (%)
2021	135	40	16	0.55	3.5	0.31	0.0
2020	280	23	12	0.34	3.5	0.84	7.7
2019	319	25	11	0.51	3.5	1.70	6.6
2018	348	30	13	0.53	3.5	2.02	5.8
2017	200	30	15	0.53	3.5	1.95	9.0

CEO Restricted Share Rights Plan	WEIGHTED AVERAGE SHARE PRICE (CENTS)	EQUITY BETA	MARKET RISK PREMIUM (%)	COST OF EQUITY (%)	CONTRACTUAL LIFE (YEARS)	RISK FREE RATE (%)	EXPECTED DIVIDEND YIELD (%)
2019 Tranche 1	322	1.05	7.50	9.1	1.3	1.64	4.5
2018 Tranche 2	348	1.10	7.50	9.6	2.3	1.94	5.4



NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

AS AT 30 JUNE 2021

20. Share Capital (continued)

SHARE RIGHTS SCHEMES

(a) Performance Share Rights

The Group has undertaken a stock settled share rights scheme. Performance share rights for a specified value are granted at no cost to the holder. For each performance share right that vests, one share will be issued. The number granted is determined by an independent valuation of the fair value at the date of issue. Vesting of performance share rights is subject to the holder remaining an employee and vesting conditions relating to the Air New Zealand share price being achieved. If vesting is not achieved on the third anniversary of the issue date, 50% of performance rights will lapse. For the remaining 50%, there will be a further 6 month opportunity for the performance rights to vest. If they have not vested at the end of this period they will lapse.

In order to vest, the Air New Zealand share price adjusted for distributions made over the period must outperform a comparison index over a period of three years (or up to a maximum of three and a half years) after the issue date. The index is made up of 50:50 of the NZX All Gross Index and the Bloomberg World Airline Total Return Index (adjusted for dividends).

(b) CEO Restricted Share Rights Plan

The Group undertook a stock settled share rights scheme as part of the former Chief Executive Officer's total remuneration. Restricted share rights for a specified value were granted at no cost to the holder. One share was issued for each restricted share right that vested. The number granted was determined by an independent valuation of the fair value at the date of issue. Vesting of restricted share rights was subject to the holder remaining an employee. The outstanding restricted share rights at the beginning of the prior financial year vested on 31 December 2019.

21. Reserves

The Group's reserves, together with the equity accounted share of associates' reserves as at the reporting date, are set out below:

	2021 \$M	2020 \$M
Cash flow hedge reserve	(49)	(120)
Costs of hedging reserve	-	(3)
Hedge reserves	(49)	(123)
Foreign currency translation reserve	(17)	(11)
General reserves	(1,042)	(757)
Total Reserves	(1,108)	(891)

The nature and purpose of reserves is set out below:

HEDGE RESERVES

Cash flow hedge reserve

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

Costs of hedging reserve

The costs of hedging reserve contains the cumulative net change in the fair value of time value on fuel options which are excluded from hedge designations of fuel price risk.

Foreign currency translation reserve

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

General reserves

General reserves include the retained deficit net of dividends recognised, remeasurements in respect of the net defined benefit assets or liabilities and the Group's share of equity accounted associates' reserves.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

AS AT 30 JUNE 2021

22. Commitments



Capital commitments shown are for those asset purchases authorised and contracted for as at reporting date but not provided for in the financial statements, converted at the year end exchange rate. Where lease arrangements have not yet commenced, lease commitments are disclosed below.

	2021 \$M	2020 \$M
Capital commitments:		
Aircraft and engines	2,568	2,907
Other property, plant and equipment and intangible assets	21	21
	2,589	2,928

In September 2020 and August 2021 the Group exercised its substitution rights to convert two firm orders of Boeing 787-10 aircraft to Boeing 787-9 aircraft. In June 2021 the Group agreed to defer the delivery of one aircraft from the 2023 financial year to the 2024 financial year, and in August 2021 to defer one aircraft from the 2024 financial year to the 2026 financial year.

In October 2020 the Group agreed to defer the delivery of one ATR72-600 aircraft from May 2021 to September 2021. In February 2021 two Airbus A320 NEO aircraft deliveries were deferred from July 2021 and August 2021 to August 2021 and October 2021.

Capital commitments as at reporting date include eight Boeing 787 aircraft (planned delivery from 2024 to 2028 financial years), seven Airbus A321 NEOs and two Airbus A320 NEOs (delivery from 2022 to 2024 financial years) and one ATR72-600 (delivery in the 2022 financial year).

23. Contingent Liabilities



Contingent liabilities are subject to uncertainty or cannot be reliably measured and are not provided for. Disclosures as to the nature of any contingent liabilities are set out below. Judgements and estimates are applied to determine the probability that an outflow of resources will be required to settle an obligation. These are made based on a review of the facts and circumstances surrounding the event and advice from both internal and external parties.

	2021 \$M	2020 \$M
Letters of credit	22	34

All significant legal disputes involving probable loss that can be reliably estimated have been provided for in the financial statements.

No other significant contingent liability claims are outstanding at balance date.

The Group has a partnership agreement with Pratt and Whitney in relation to the Christchurch Engine Centre (CEC) (Note 13). By the nature of the agreement, joint and several liability exists between the two parties. Total liabilities of the CEC are \$100 million (30 June 2020: \$70 million).



NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

AS AT 30 JUNE 2021

24. Financial Risk Management

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

CREDIT RISK

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

The Group places cash, short-term deposits and derivative financial instruments with good credit quality counterparties, having a minimum Standard and Poors' credit rating of A- or minimum Moodys' credit rating of A3. Limits are placed on the exposure to any one financial institution.

Credit evaluations are performed on all customers requiring direct credit. The Group is not exposed to any concentrations of credit risk within receivables, other assets and derivatives. This remains unchanged despite the current economic environment. The Group does not require collateral or other security to support financial instruments with credit risk. A significant proportion of receivables are settled through the International Air Transport Association (IATA) clearing mechanism which undertakes its own credit review of members. Over 93% of trade and other receivables are current, with less than 1.1% falling due after more than 90 days.

MARKET RISK

FOREIGN CURRENCY RISK

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

The Group has exposure to foreign exchange risk as a result of transactions denominated in foreign currencies, arising from normal trading activities, foreign currency borrowings and foreign currency capital commitments, purchases and sales. The documented risk management approach (as approved by the Board of Directors) is to manage both forecast foreign currency operating revenues and expenditure and foreign currency denominated balance sheet items. Hedges of foreign currency capital transactions are only undertaken if there is a large volume of forecast capital transactions over a short period of time.

The Group enters into foreign exchange contracts to manage the economic exposure arising due to fluctuations in foreign exchange rates affecting both highly probable forecast operating cash flows and foreign currency denominated liabilities. Any exposure to gains or losses on these contracts is offset by a related loss or gain on the item being hedged.

Forecast operating transactions

Foreign currency operating cash inflows are primarily denominated in Australian Dollars, European Community Euro, Japanese Yen, Chinese Renminbi, United Kingdom Pounds and United States Dollars. Foreign currency operating cash outflows are primarily denominated in United States Dollars. The Group's treasury risk management policy is to hedge between 35% and 90% (30 June 2020: 35% to 90%) of forecast net operating cash flows for the first 6 months, with progressive reductions in percentages hedged over the next 6 to 12 months. Forward points are excluded from the hedge designation in respect of operating revenue and expenditure transactions and are marked to market through earnings. The underlying forecast revenue and expenditure transactions in respect of foreign currency cash flow hedges in place at reporting date, are expected to occur over the next 12 months.

Balance sheet exposures

Japanese Yen, Euro and United States Dollar denominated debt and lease liabilities were previously designated as the hedging instrument in qualifying cash flow hedges of highly probable forecast Japanese Yen, Euro and United States Dollar revenues, respectively. The significant decrease in forecast revenues as a result of the impact of Covid-19 on global travel resulted in the de-designation of these hedges during the prior year. Where the forecast transactions are no longer expected to occur, the related cumulative gains or losses were transferred from the cash flow hedge reserve to earnings. The remaining cumulative gains or losses will be transferred to earnings as the underlying forecast transactions occur. Since March 2020, the debt and lease liabilities previously designated in these hedge relationships have remained largely unhedged with foreign currency gains or losses arising on those instruments being recognised in earnings.

The Group has investments in foreign operations, whose net assets are exposed to foreign currency translation risk. Currency exposure arising on the net assets of certain Group foreign operations is managed primarily through borrowings denominated in the relevant foreign currencies. A further proportion of United States Dollar denominated interest-bearing liabilities remains unhedged to provide an offset to foreign currency movements within depreciation expense, resulting from revisions made to aircraft residual values during the year.

Where changes in the fair value of a derivative provide an offset to the underlying hedged item as it impacts earnings, hedge accounting is not applied. Foreign currency translation gains or losses on lease return provisions and certain non-hedge accounted United States Dollar, Japanese Yen and Euro denominated interest-bearing liabilities are recognised in the Statement of Financial Performance within 'Foreign exchange (losses)/gains'. Marked to market gains or losses on non-hedge accounted foreign currency derivatives provide an offset to these foreign exchange movements, and are also recognised within 'Foreign exchange (losses)/gains'.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

AS AT 30 JUNE 2021

24. Financial Risk Management (continued)

With the exception of foreign currency denominated working capital balances, which together are immaterial to foreign currency fluctuations, the Group's exposure to foreign exchange risk arising on items recognised in the Statement of Financial Position at reporting date, and the extent to which that exposure has been managed is summarised below.

Foreign currency exposure of items recognised at reporting date, before hedging

	NZD \$M	USD \$M	AUD \$M	EUR \$M	JPY \$M	OTHER \$M	TOTAL \$M
As at 30 June 2021							
Investments in other entities	13	125	-	-	-	-	138
Interest-bearing assets	126	24	35	139	-	-	324
Lease liabilities	(279)	(877)	(18)	(175)	(411)	(1)	(1,761)
Interest-bearing liabilities	(400)	(592)	-	(141)	(414)	-	(1,547)
Provisions	(46)	(253)	-	-	-	-	(299)
	(586)	(1,573)	17	(177)	(825)	(1)	(3,145)
Hedged by: Derivatives	-	672	(17)	87	388	-	1,130
Unhedged*	(586)	(901)	-	(90)	(437)	(1)	(2,015)
As at 30 June 2020							
Investments in other entities	4	158	-	-	-	-	162
Interest-bearing assets	135	26	35	138	-	-	334
Lease liabilities	(327)	(1,208)	(23)	(180)	(497)	(3)	(2,238)
Interest-bearing liabilities	(50)	(747)	-	(170)	(496)	-	(1,463)
Provisions	(136)	(263)	-	-	-	-	(399)
	(374)	(2,034)	12	(212)	(993)	(3)	(3,604)
Hedged by: Derivatives	-	959	(11)	86	416	-	1,450
Unhedged*	(374)	(1,075)	1	(126)	(577)	(3)	(2,154)

* Unhedged balances largely represent debt and lease instruments previously designated as the hedging instrument in cash flow hedges of forecast foreign currency revenues, which were de-designated as a result of the impact of Covid-19 and significant reduction in forecast revenues.

Hedging foreign currency risk



Derivative financial instruments

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

Hedge accounted financial instruments

Where financial instruments qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the hedging relationship, as follows:

Cash flow hedges

Changes in the fair value of hedging instruments designated as cash flow hedges are recognised within Other Comprehensive Income and accumulated within equity to the extent that the hedges are deemed effective in accordance with NZ IFRS 9 - Financial Instruments. To the extent that the hedges are ineffective for accounting, changes in fair value are recognised in the Statement of Financial Performance.

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

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

Net investment hedge

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



NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

AS AT 30 JUNE 2021

24. Financial Risk Management (continued)

Impact of hedging foreign currency risk

The impact of the foreign currency hedging strategies (both hedge accounted and non-hedge accounted) on the financial statements during the year is set out below, by type of hedge.

CASH FLOW HEDGES OF FOREIGN CURRENCY RISK

Forecast operating revenue and expenditure transactions are not recognised in the financial statements until the transactions occur. The amounts designated as the hedged item in qualifying cash flow hedges mirror the amounts designated as hedging instruments as set out below. All hedges are of spot foreign exchange risk.

The following foreign currency derivatives were recognised within 'Derivative financial instruments' on the Statement of Financial Position as at reporting date. Where forecast operating revenue and expenditure transactions are considered highly probable, the derivatives are designated as the hedging instrument in qualifying cash flow hedges of such forecast transactions. Where hedge relationships have been de-designated, the change in the fair value of the derivatives affected is recognised in earnings through 'Foreign exchange (losses)/gains'. All derivatives mature within 12 months (30 June 2020: 12 months).

	2021 NZ\$M	2020 NZ\$M
Hedging instruments used		
Derivative financial instruments		
NZD	(107)	(173)
USD	233	408
AUD	(73)	(106)
EUR	(2)	(19)
JPY	(7)	(15)
CNH	(23)	(19)
GBP	(5)	(34)
Other	(16)	(34)
Hedge accounted foreign currency derivatives	-	8

The effective portion of changes in the fair value of foreign currency hedging instruments which were deferred to the cash flow hedge reserve (within hedge reserves) during the year are set out below, together with transfers to either earnings or the asset carrying value (as appropriate) when the underlying hedged item occurs, or upon de-designation of the hedge where the underlying forecast transaction is no longer expected to occur.

	2021 \$M	2020 \$M
Recognised in Statement of Changes in Equity		
Hedge reserves		
Balance at the beginning of the year	(97)	(14)
Change in fair value*	(23)	(64)
Transfers to foreign exchange (losses)/gains	23	(32)
Transfers to foreign exchange gains on de-designation	18	(19)
Taxation on reserve movements	(5)	32
Balance at the end of the year	(84)	(97)
Represented by:		
Forecast operating revenue/expense	(115)	(133)
Tax effect	31	36
Balance at the end of the year	(84)	(97)

* The change in fair value of the hedging instrument is that used for the purpose of assessing hedge effectiveness.

No ineffectiveness arose on cash flow hedges of foreign currency transactions during the year (30 June 2020: Nil). Forward points excluded from the hedge designation were nil during the year (30 June 2020: \$8 million gains recognised in 'Finance income').

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

AS AT 30 JUNE 2021

24. Financial Risk Management (continued)

The weighted average contract rates of hedge accounted foreign currency derivatives outstanding as at reporting date are set out below:

	2021	2020
USD	0.6997	0.6430
AUD	0.9247	0.9504
EUR	0.5907	0.5818
JPY	75.74	68.57
CNH	4.60	4.57
GBP	0.5157	0.5049

NET INVESTMENT HEDGE

Investments designated in a net investment hedge are included within 'Investments in other entities' on the Statement of Financial Position. The hedging instrument is included within 'Interest-bearing liabilities'.

	2021 NZ\$M	2020 NZ\$M
Hedged amount of United States Dollar investment	113	131
Hedged by: United States Dollar interest-bearing liabilities	(113)	(131)

The effective portion of changes in fair value of both the hedged item and the hedging instrument are recognised in the foreign currency translation reserve, as set out below.

Foreign currency translation reserve		
Balance at the beginning of the year	(11)	(12)
Translation gains on hedged investment**	(10)	5
Translation losses on hedging instrument**	10	(5)
Translation gains on unhedged investments	(3)	-
Taxation on reserve movements	(3)	1
Balance at the end of the year	(17)	(11)

** Translation gains/losses are those used for the purpose of assessing hedge effectiveness. No ineffectiveness arose on net investment hedges during the year (30 June 2020: Nil).

HEDGED, BUT NOT HEDGE ACCOUNTED

Where changes in the fair value of a derivative provide an offset to the underlying hedged item as it impacts earnings, hedge accounting is not applied. The following foreign currency derivatives were recognised within 'Derivative financial instruments' on the Statement of Financial Position as at reporting date.

	2021 \$M	2020 \$M
Hedging instruments		
Derivative financial instruments		
NZD	(1,135)	(1,502)
USD	687	959
AUD	(15)	(11)
EUR	87	98
JPY	389	419
Not hedge accounted foreign currency derivatives	13	(37)

The changes in fair value of hedged items and hedging instruments during the year offset within 'Foreign exchange (losses)/gains' within the Statement of Financial Performance, as set out below. In addition, foreign exchange gains of \$143 million (30 June 2020: \$67 million) were recognised in respect of debt and lease instruments which have remained unhedged since being de-designated from cash flow hedges of forecast foreign currency revenues.

Foreign currency gains/(losses) on:		
Lease liabilities	17	(4)
Interest-bearing liabilities	83	(47)
Provisions	21	(7)
Interest-bearing assets	-	1
Derivative financial instruments	(123)	56
	(2)	(1)

Forward points on non-hedge accounted foreign currency derivatives of \$3 million were recognised in 'Finance costs' during the year (30 June 2020: \$7 million).



NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

AS AT 30 JUNE 2021

24. Financial Risk Management (continued)

Sensitivity analysis

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

Foreign currency sensitivity on financial instruments

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

Appreciation/depreciation (US cents):	2021 NZ\$M +5c	2021 NZ\$M -5c	2020 NZ\$M +5c	2020 NZ\$M -5c
Impact on loss before taxation:				
USD	60	(69)	77	(89)
AUD	-	-	-	(1)
EUR	6	(7)	(1)	2
JPY	29	(34)	42	(49)

The above reflects the foreign exchange sensitivity on unhedged debt following de-designations of hedge relationships in the prior year.

Impact on equity:				
USD	(20)	23	(25)	29
AUD	5	(6)	7	(8)
EUR	-	-	1	(1)
JPY	-	(1)	-	(1)
CNH	2	(2)	1	(1)
GBP	-	-	2	(2)
Other	1	(1)	2	(3)

The above would be deferred within equity and then offset by the foreign currency impact of the hedged item when it occurs.

	2021	2020
Significant foreign exchange rates used at balance date for one New Zealand Dollar are:		
USD	0.6990	0.6420
AUD	0.9310	0.9360
CNY	4.52	4.55
EUR	0.5870	0.5710
JPY	77.30	69.10
GBP	0.5050	0.5220

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

AS AT 30 JUNE 2021

24. Financial Risk Management (continued)

FUEL PRICE RISK

Fuel price risk is the risk of loss to the Group arising from adverse fluctuations in fuel prices.

The Group enters into fuel swap and option agreements to reduce the impact of price changes on fuel costs in accordance with the policy approved by the Board of Directors. Uplift in the first six months is hedged between 35% and 90% (30 June 2020: first six months is hedged between 35% to 90%) with progressive reductions in percentages hedged over the next 6 to 12 months.



The price risk of jet fuel purchases includes a crude oil price risk component, despite crude oil not being specified in any contractual arrangement. Based on an evaluation of the market structure and refining process, this risk component is separately identifiable and reliably measurable even though it is not contractually specified. The relationship of the crude oil component to jet fuel as a whole varies in line with the published crude oil and jet fuel price indices. Crude oil hedging instruments are designated as a hedge of the price risk in the crude oil component of highly probable jet fuel purchases. There is a 1:1 hedging ratio of the hedging instrument to the crude oil component identified as the hedged item.

Some components of hedge accounted derivatives are excluded from the designated risk. Cash flow hedges in respect of fuel derivatives include only the intrinsic value of fuel options. Time value on fuel options is excluded from the hedge designation and is marked to market through Other Comprehensive Income and accumulated within a separate component of equity (the 'Costs of Hedging Reserve' within 'Hedge Reserves') until such time as the related hedge accounted cash flows affect profit or loss. At this stage the cumulative amount is reclassified to profit or loss within 'Fuel'.

Ineffectiveness is only expected to arise where the index of the hedging instrument differs to that of the underlying hedged item.

Impact of hedging fuel price risk

Weighted average strike prices of fuel derivatives	2021 USD	2020 USD
Weighted average collar ceiling (Brent)	61	57
Weighted average collar floor (Brent)	50	50
Weighted average bought calls (Brent)	-	52
Weighted average sold calls (Brent)	-	58
Weighted average Brent swap strike	48	53
Weighted average Jet swap strike	58	44
Weighted average Jet-Brent crack spread price	3	15
Barrels hedged (millions of barrels)	2.1	2.7

CASH FLOW HEDGES OF FUEL PRICE RISK

Forecast fuel purchase transactions are not recognised in the financial statements until the transactions occur. The number of barrels hedged is set out in the previous table. All fuel derivative contracts mature within 12 months of reporting date.

Fuel derivatives were recognised within 'Derivative financial instruments' on the Statement of Financial Position as at reporting date and were designated as the hedging instrument in qualifying cash flow hedges.

Statement of Financial Position	2021 \$M	2020 \$M
Derivative financial assets/(liabilities)	55	(48)

The effective portion of changes in the fair value of fuel hedging instruments which were deferred to the cash flow hedge reserve (within hedge reserves) during the year are set out below, together with transfers to earnings, when the underlying hedged item occurs, or upon de-designation of the hedge where the underlying forecast transaction is no longer expected to occur. Forecast fuel consumption decreased significantly in the prior year as a result of Covid-19 and the impact on global travel. A significant number of fuel hedges were closed out and de-designated as a result and accumulated net losses were transferred to earnings where the underlying hedged transaction was no longer expected to occur. No fuel hedges were de-designated in the current year.

Hedge reserves

Balance at the beginning of the year	(24)	(16)
Change in fair value*	87	(184)
Transfers to fuel	(8)	41
Transfers to fuel on de-designation	-	122
Changes in cost of hedging reserve	4	9
Taxation on reserve movements	(23)	4
Balance at the end of the year	36	(24)

* The change in fair value recognised in the cash flow hedge reserve excludes ineffectiveness which is recognised through earnings. No ineffectiveness arose on cash flow hedges of fuel price risk during the year (30 June 2020: Nil).



NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

AS AT 30 JUNE 2021

24. Financial Risk Management (continued)

Fuel price sensitivity on financial instruments

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

Price movement per barrel:	2021 \$M +USD 20	2021 \$M -USD 20	2020 \$M +USD 15	2020 \$M -USD 15
Impact on loss before taxation	-	-	24	(26)
Impact on cash flow hedge reserve (within equity)	51	(45)	27	(27)

Amounts affecting the cash flow hedge reserve would be deferred within equity and then offset by the fuel price impact of the hedged item when it occurs. The impact on earnings in the prior year is due to trades that remained open as at 30 June 2020 but had been previously de-designated as a direct result of the impact of Covid-19.

INTEREST RATE RISK

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

The Group has exposure to interest rate risk as a result of the long-term borrowing activities which are used to fund ongoing activities. It is the Group's policy to ensure the interest rate exposure is maintained to minimise the impact of changes in interest rates on its net floating rate long-term borrowings. The Group's policy is to fix between 70% to 90% (30 June 2020: 70% to 90%) of its exposure to interest rates, including fixed interest leases, in the next 12 months. Interest rate swaps are used to achieve an appropriate mix of fixed and floating rate exposure if the volume of fixed rate loans or fixed rate leases is insufficient.

Impact of hedging interest rate risk

	2021	2020
Interest rate derivatives		
Volume (USD M)	35	160
Weighted average contract rate (%)	1.6	2.6
Weighted average contract maturities (years)	0.4	0.6

CASH FLOW HEDGES OF INTEREST RATE RISK

The impact of changes in floating interest rates is recognised in the financial statements when the transactions occur. The volume of the floating rate debt and lease liabilities hedged, together with contract rates and maturities are set out above.

Interest rate derivatives were recognised within 'Derivative financial instruments' on the Statement of Financial Position as at reporting date and were designated as the hedging instrument in qualifying cash flow hedges. Losses of \$1 million remained in the cash flow hedge reserve at 30 June 2021 (30 June 2020: losses of \$2 million).

Interest rate sensitivity on financial instruments

Earnings are sensitive to changes in interest rates on the floating rate element of borrowings and lease obligations and the fair value of interest rate swaps. Their sensitivity to a reasonably possible change in interest rates with all other variables held constant, is set out below. This analysis assumes that the amount and mix of fixed and floating rate debt, including lease obligations, remains unchanged from that in place at reporting date, and that the change in interest rates is effective from the beginning of the year. In reality, the fixed/floating rate mix will fluctuate over the year and interest rates will change continually.

Interest rate change:	2021 \$M +25 bp*	2021 \$M -25 bp*	2020 \$M +25 bp*	2020 \$M -25 bp*
Impact on loss before taxation	(5)	5	(5)	5
Impact on cash flow hedge reserve (within equity)	-	-	(1)	1

*bp = basis points

The impact on equity as shown above would be offset by the hedged floating interest rate exposure as it occurs.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

AS AT 30 JUNE 2021

24. Financial Risk Management (continued)

LIQUIDITY RISK

Liquidity risk is the risk that the Group will be unable to meet its obligations as they fall due. The Group manages the risk by targeting a minimum liquidity level, ensuring long-term commitments are managed with respect to forecast available cash inflow and managing maturity profiles. The Group holds significant cash reserves and has available a Government standby loan facility to enable it to meet its liabilities as they fall due and to sustain operations in the event of unanticipated external factors or events.

Liquidity risk management has become a primary focus as a result of the impact of the Covid-19 pandemic. With the rapid depletion of cash reserves, various measures have been undertaken to reduce cash outflows (refer Statement of Accounting Policies). Cash flows are being actively monitored in conjunction with regular revisions to revenue and expenditure forecasts. Given the loan facility from the New Zealand Government and the announced intention for the completion of an equity capital raise in the first quarter of the 2022 calendar year combined with the continued support from the Crown regarding such plans and the consideration of additional debt funding, the Board has a reasonable expectation that the Group has sufficient liquidity.

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

	STATEMENT OF FINANCIAL POSITION \$M	CONTRACTUAL CASH FLOWS \$M	< 1 YEAR \$M	1-2 YEARS \$M	2-5 YEARS \$M	5+ YEARS \$M
As at 30 June 2021						
Trade and other payables	524	524	524	-	-	-
Secured borrowings	1,497	1,538	541	183	531	283
Unsecured bonds	50	53	2	51	-	-
Lease liabilities*	1,761	2,025	406	351	563	705
Amounts owing to associates	1	1	1	-	-	-
Total non-derivative financial liabilities	3,833	4,141	1,474	585	1,094	988
Foreign exchange derivatives						
– Inflow		1,539	1,539	-	-	-
– Outflow		(1,527)	(1,527)	-	-	-
Fuel derivatives	13	12	12	-	-	-
	55	53	53	-	-	-
Total derivative financial instruments	68	65	65	-	-	-

* Lease liabilities recognised within 5+ years include \$160 million related to five properties with lease terms ranging between 10-19 years.

	STATEMENT OF FINANCIAL POSITION \$M	CONTRACTUAL CASH FLOWS \$M	< 1 YEAR \$M	1-2 YEARS \$M	2-5 YEARS \$M	5+ YEARS \$M
As at 30 June 2020						
Trade and other payables	322	322	322	-	-	-
Secured borrowings	1,413	1,476	175	203	576	522
Unsecured bonds	50	55	2	2	51	-
Lease liabilities**	2,238	2,565	388	447	863	867
Amounts owing to associates	12	12	12	-	-	-
Total non-derivative financial liabilities	4,035	4,430	899	652	1,490	1,389
Foreign exchange derivatives						
– Inflow		2,252	2,252	-	-	-
– Outflow		(2,281)	(2,281)	-	-	-
Fuel derivatives	(29)	(29)	(29)	-	-	-
Interest rate derivatives	(48)	(48)	(48)	-	-	-
	(1)	(2)	(1)	(1)	-	-
Total derivative financial instruments	(78)	(79)	(78)	(1)	-	-

** Lease liabilities recognised within 5+ years include \$160 million related to six properties with lease terms ranging between 10-19 years.



NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

AS AT 30 JUNE 2021

24. Financial Risk Management (continued)

FAIR VALUE ESTIMATION



Financial instruments for which fair value is recognised or disclosed are categorised within the fair value hierarchy as described below. Financial instruments are either carried at fair value or amounts approximating fair value, with the exception of interest-bearing liabilities, for which the fair value is disclosed in Note 15 Interest-bearing liabilities. This equates to "Level 2" of the fair value hierarchy defined within NZ IFRS 13 - Fair Value Measurement. The fair value of derivative financial instruments is based on published market prices for similar assets or liabilities or market observable inputs to valuation at balance date ("Level 2" of the fair value hierarchy). The fair value of foreign currency forward contracts is determined using forward exchange rates at reporting date. The fair value of fuel swap and option agreements is determined using forward fuel prices at reporting date. The fair value of interest rate swaps is determined using forward interest rates as at reporting date.

Capital risk management

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

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

The Group monitors capital on the basis of gearing and debt coverage ratios. The gearing ratios are calculated as net debt over net debt plus equity. Net debt is calculated as total borrowings, bonds and lease obligations (including net open derivatives on these instruments) less cash and cash equivalents and interest-bearing assets. Capital comprises all components of equity. The debt coverage ratios are calculated as gross debt over earnings before interest, taxation, depreciation and amortisation (adjusted for non-cash items). Gross debt is calculated as total borrowings, bonds and lease obligations. The gearing ratio and the calculation is disclosed in the Five Year Statistical Review.

25. Offsetting Financial Assets and Financial Liabilities



Financial assets and financial liabilities are offset and the net amount reported in the Statement of Financial Position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

Amounts subject to potential offset

For financial instruments subject to enforceable master netting arrangements, each agreement allows the parties to elect net settlement of the relevant financial assets and liabilities. In the absence of such election, settlement occurs on a gross basis, however each party will have the option to settle on a net basis in the event of default of the other party.

The following table shows the gross amounts of financial assets and financial liabilities which are subject to enforceable master netting arrangements and similar agreements, as recognised in the Statement of Financial Position. It also shows the potential net amounts if offset were to occur.

	STATEMENT OF FINANCIAL POSITION 2021 \$M	AMOUNTS NOT OFFSET 2021 \$M	NET AMOUNTS IF OFFSET 2021 \$M	STATEMENT OF FINANCIAL POSITION 2020 \$M	AMOUNTS NOT OFFSET 2020 \$M	NET AMOUNTS IF OFFSET 2020 \$M
Financial assets						
Bank and short-term deposits	266	-	266	438	(13)	425
Derivative financial assets	79	(9)	70	38	(34)	4
Financial liabilities						
Derivative financial liabilities	(11)	9	(2)	(116)	46	(70)

Letters of credit and security deposits held within 'Interest-bearing assets' are also subject to master netting arrangements. The amounts are disclosed in Note 9 Other Assets and Note 23 Contingent Liabilities.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR TO AND AS AT 30 JUNE 2021

26. Related Parties

Crown

The Crown, the major shareholder of the Company, owns 52% of the issued capital of the Company (30 June 2020: 52%).

Crown standby loan facility

On 27 May 2020, the Group entered into a debt funding agreement with the New Zealand Government to support the airline as it manages the unprecedented impact of the Covid-19 outbreak on its business. Under the terms of the agreement the Government provided a standby loan facility (the Loan Facility) of up to \$900 million for a period through to 27 May 2022. On 10 May 2021 a Deed of Amendment and Restatement was entered into which increased the Loan Facility to \$1.5 billion for a period through to 27 September 2023. The Loan Facility will ensure the Group has sufficient liquidity through the period until completion of the proposed equity capital raise which is expected to be completed in the first quarter of the 2022 calendar year. All amounts outstanding under the Loan Facility will be repaid from the proceeds of the proposed equity capital raise.

The Loan Facility was negotiated on an arms' length basis, with each party having been independently advised. Under the arrangement, the Group undertook various representations and operational, informational and other undertakings. The arrangement was subject to typical events of default. The Loan Facility is secured against specific aircraft assets and a general security interest was provided against other assets of the Group (subject to certain exemptions).

The amended Loan Facility is structured in two tranches – a tranche of \$1 billion with an effective interest rate in the order of 3.5% per annum and a second tranche of \$500 million with an effective interest rate expected to be 5.0% per annum. The effective interest rate on the first tranche will increase by 1.5% per annum from the first date of drawing the second tranche. Prior to entering into the Deed of Amendment and Restatement the drawn amount had an effective interest rate of between 7% to 8% per annum. As at 30 June 2021, the Group had drawn down \$350 million of the Loan Facility (30 June 2020: Nil).

Under the Loan Facility, the Group is required to pay a commitment fee on the committed Loan Facility limit. For the year ended 30 June 2021, the Group recognised commitment fees of \$18 million (30 June 2020: \$5 million) and interest costs of \$10 million (30 June 2020: Nil) within the Statement of Financial Performance.

Transactions with Crown entities

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

During the period the Group has entered into agreements with the Crown in relation to repatriation flights to provide support to the government in its response to Covid-19. In addition the Company undertook domestic charters to support quarantine activity as part of border restriction requirements. The transactions were negotiated on an arm's length basis.

Between April 2020 and November 2020 the Group provided travel management services as part of the Covid-19 border restrictions to the New Zealand Government. Under the arrangement the Company acted as a booking agent for managed isolation and quarantine accommodation facilities.

Details of government grants and subsidies received in respect of international airfreight capacity, an aviation support package and wage subsidies are outlined in Notes 1 and 2.

In the prior year the New Zealand Government introduced legislation to lessen the impact of Covid-19 on businesses by allowing for the deferral of the payment of taxes without the imposition of penalties or interest. The Group was granted a deferral of FBT and PAYE for the period 1 July 2020 to 30 September 2021. The FBT and PAYE liabilities arising during this period will be settled during January 2022 to March 2022. As at 30 June 2021 the Company had deferred FBT and PAYE of \$254 million (30 June 2020: Nil).

Key management personnel

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

	2021 \$M	2020 \$M
Short-term employee costs	11	14
Directors' fees	1	1
Share-based payments	1	2
	13	17

Certain key management personnel (including directors) have relevant interests in a number of companies (including non-executive directorships) to which Air New Zealand provides aircraft related services in the normal course of business, on standard commercial terms.

Staff share purchase schemes and Executive share option and performance rights plans

Shares held by the Staff Share Purchase scheme and Executive share option and performance rights plans are detailed in Note 20.

Bank set-off arrangements

The Group has a set-off arrangement on certain Bank of New Zealand balances, allowing the offset of overdraft amounts against in-fund amounts. The following entities are included in the set-off arrangement:

- Air Nelson Limited
- Air New Zealand Limited
- Air New Zealand Regional Maintenance Limited
- Mount Cook Airline Limited



NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR TO AND AS AT 30 JUNE 2021

26. Related Parties (continued)

Associated companies

Transactions between the Group and associated companies are conducted on normal terms and conditions.

The Christchurch Engine Centre (CEC) provides maintenance services to the Group on certain V2500 engines. The Group receives revenue for contract and administration services performed for the CEC.

Capital contributions to Drylandcarbon One Limited Partnership of \$8 million were made during the year ended 30 June 2021 (30 June 2020: \$5 million).

	2021 \$M	2020 \$M
During the year, there have been transactions between Air New Zealand and its associated companies as follows:		
Operating revenue	1	1
Operating expenditure	(3)	(28)
Balances outstanding at the end of the year are unsecured and on normal trading terms:		
Amounts owing to associates	1	12

During the year CEC paid total distributions to the Group of \$38 million (30 June 2020: \$35 million).

Other related party disclosures

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

INDEPENDENT AUDITOR'S REPORT



To the Shareholders of Air New Zealand Limited

Auditor-General

The Auditor-General is the auditor of Air New Zealand Limited and its subsidiaries (the Group). The Auditor-General has appointed me, Peter Gulliver, using the staff and resources of Deloitte Limited, to carry out the audit of the consolidated financial statements of the Group on his behalf.

Opinion

We have audited the consolidated financial statements of the Group on pages 2 to 43, that comprise the Statement of Financial Position as at 30 June 2021, the Statement of Financial Performance, Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information.

In our opinion the consolidated financial statements present fairly, in all material respects the financial position of the Group as at 30 June 2021, and its financial performance and its cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

Our audit was completed on 26 August 2021. This is the date at which our opinion is expressed.

The basis for our opinion is explained below. In addition, we outline the responsibilities of the Board of Directors and our responsibilities relating to the consolidated financial statements, we comment on other information, and we explain our independence.

Basis for opinion

We conducted our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the Professional and Ethical Standards and the International Standards on Auditing (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board. Our responsibilities under those standards are further described in the *Responsibilities of the auditor for the audit of the consolidated financial statements* section of our report.

We have fulfilled our responsibilities in accordance with the Auditor-General's Auditing Standards.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Audit materiality

We consider materiality primarily in terms of the magnitude of misstatement in the consolidated financial statements of the Group that in our judgement would make it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced (the 'quantitative' materiality). In addition, we also assess whether other matters that come to our attention during the audit would in our judgement change or influence the decisions of such a person (the 'qualitative' materiality). We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

We determined materiality for the consolidated financial statements as a whole to be \$19 million which was determined with reference to a number of factors and taking into account the cyclical nature of the airline industry and the impact of Covid-19 on the Group. \$19 million represents 4.6% of net loss before tax, 1.7% of total equity and 0.75% of operating revenue.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements for the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)



Key audit matter

How our audit addressed the key audit matter and the results of our work

The impact of Covid-19 on forecast liquidity

The financial statements have been prepared on a going concern basis as discussed in the Statement of Accounting Policies and Note 10.

The Covid-19 pandemic began to impact the Group's operations in the second half of the 2020 financial year and this impact has continued into the 2021 financial year. As a result of Government imposed travel restrictions and lockdowns in New Zealand and other key jurisdictions throughout the network, financial performance and cash flow continues to be negatively impacted.

As at 30 June 2021, the net assets of the Group are \$1,105 million (2020: \$1,318 million) and the Group has cash and cash equivalents balances of \$266 million (2020: \$438 million) and a standby facility from the Crown for \$1,500 million (2020: \$900 million). This facility, details of which are set out in note 26, has been drawn down by \$350 million as at 30 June 2021 (2020: nil).

The Group has prepared an operating plan and forecast to respond to the economic environment caused by Covid-19. The forecast supports the preparation of the financial statements on a going concern basis and demonstrates the Group's ability to meet its anticipated commitments for a period of at least twelve months from the date of the approval of these financial statements. The availability of undrawn amounts under the existing Crown loan facility, planned completion of an equity raise in the first quarter of the 2022 calendar year and the continued support from the Crown regarding such plans support this assumption.

Forecasts were prepared for the 5 year period to June 2026 using key inputs and assumptions including:

- revenue growth over the forecast period driven by re-establishing capacity on the domestic, short-haul and long-haul networks and a gradual re-opening of international borders;
- fuel, variable operating costs and overheads;
- committed financing costs and capital expenditure; and
- the use of the proceeds from the Crown standby facility to provide appropriate liquidity until the capital raise is completed.

In broad terms the forecast applies the Group's balanced view of what is "most likely" to happen. Key assumptions focus on the timing of international borders re-opening, network capacity and revenue metrics such as revenue per available seat kilometre.

Sensitivities on key assumptions have also been modelled by the Group.

The forecasts used in the liquidity assessment are considered to be a key audit matter due to the high level of judgement and estimation uncertainty, extent of auditor attention and the importance to the financial statements taken as a whole.

In assessing the appropriateness of the forecasts used in the liquidity assessment, we performed the following procedures:

- obtained an understanding of the Group's strategy and business plan and the controls and processes in place for preparing and approving the forecast;
- checked the mechanical accuracy of the forecast model;
- challenged key assumptions within the forecasts by considering historical outturns, changes in assumptions from previous forecasts, our understanding of the business and other relevant external information;
- performed a retrospective review of the 2021 financial year forecast to assess the Group's historical accuracy in preparing forecasts;
- performed sensitivity analysis over key assumptions in the forecast model. The key assumptions for which this work was performed included:
 - forecast revenue growth (flexing border re-opening time frames, route capacity and revenue per available seat kilometre),
 - jet fuel price, and
 - impact of foreign exchange.
- assessed the terms of the Crown standby loan facility agreement;
- assessed the work performed in preparation for the capital raise, and evidence of the Crown's commitment to participate when it is launched; and
- evaluated the appropriateness of disclosures in the financial statements.

We found the Group has appropriately considered the impacts of current and future cash flows on the going concern assumption, and disclosures made appropriately describe actions undertaken to support the conclusion that the financial statements have been prepared on a going concern basis.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)



Key audit matter

How our audit addressed the key audit matter and the results of our work

Impairment of assets and assessment of the residual values of aircraft

Group aircraft and related assets, including right of use assets, total \$4,360 million at 30 June 2021 (2020: \$4,874 million) as outlined in Notes 10 and 11. The Group has recognised an impairment charge of \$73 million and losses arising on lease modifications of \$5 million (refer to Notes 3, 10 and 11).

The Covid-19 global pandemic has impacted the global economy and the aviation sector in particular. This in turn has significantly impacted the fair value of the Group's aircraft and resulted in certain indicators of impairment. In response, the Group has undertaken a formal impairment test by assessing the recoverable amount of the cash generating unit and comparing this to the carrying value of relevant assets. In addition, an assessment of individual aircraft for impairment was undertaken where their value is to be realised by means other than future use as part of the fleet.

The recoverable amount of the business is highly dependent on the expected future cash flows to be generated by the business or in certain cases, the individual aircraft. The Group uses a 10-year discounted cash flow model to determine the recoverable value of the business as a whole. Individual aircraft are separately assessed for impairment by comparing their fair value, as determined by a third-party valuation expert, to their carrying value.

In addition the useful lives and residual values of aircraft may be influenced by changes to economic conditions, demand, competition and new technology. The Group considers these changes when reassessing the useful lives and residual values of aircraft to determine the appropriate depreciation rates.

This is a key audit matter due to the significance of aircraft and related assets to the financial statements, the indicators of impairment that have arisen as a result of Covid-19, and the level of estimates involved in determining the recoverable amounts.

In assessing the appropriateness of the residual values of aircraft and the impairment of aircraft and related assets we performed the following procedures:

- considered the Group's assessment of its cash-generating unit and the basis for assessing certain aircraft for impairment on an individual basis;
- gained an understanding of the Group's impairment assessment and held discussions with management to understand the basis of determining key assumptions used in the impairment model;
- evaluated the Group's assumptions in the value in use model against the assumptions used in the Group going concern model for consistency, where appropriate;
- confirmed the competency and independence of the third party valuation expert, and discussed with them their approach and assumptions made in determining the relevant aircraft values;
- tested relevant aircraft values to external market valuations to compare the carrying value to current market value;
- engaged our internal valuation specialists to assist in evaluating the assumptions used in the Group's discounted cash flow model, specifically the discount rate and terminal growth rates used;
- performed sensitivity analysis over key assumptions in the Group's impairment model;
- challenged the Group's assumptions underpinning the calculation of residual values by making a comparison to external information such as industry data and period end exchange rates; and
- evaluated the controls in place over the calculation of depreciation, in particular around the initial input of, or changes to, residual values and useful life information.

We consider the Group's assessment of the residual values and useful lives of aircraft to be reasonable. We also consider the assumptions and estimates applied in the value in use model and the determination of fair value less costs to sell for certain individual aircraft to be appropriate.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)



Key audit matter

How our audit addressed the key audit matter and the results of our work

Revenue recognition

The Group's revenue consists of passenger revenue which totalled \$1,470 million (2020: \$3,942 million).

Passenger revenue is complex due to the various fare rules that may apply to a transaction, and as tickets are typically sold prior to the day of flight. Complex IT systems and processes are required to correctly record these sales as transportation sales in advance and then as revenue when flights occur.

We have included revenue recognition as a key audit matter due to the magnitude of revenue in relation to the financial statements and the substantial dependence on complex IT systems.

In performing our procedures we:

- evaluated the systems, processes and controls in place over passenger revenue in advance and key account reconciliation processes;
- tested the IT environment in which passenger sales occur and interfaces with other relevant systems;
- assessed the quality of information produced by these systems and tested the accuracy and completeness of reports generated by these systems and used to recognise or defer passenger revenue; and
- performed an analysis of passenger revenue and passenger revenue in advance and created expectations of revenue based on our knowledge of the Group, the industry and key performance measures, including airline capacity and revenue per available seat kilometre. We have compared this to the Group's revenue and obtained appropriate evidence for significant differences.

We are satisfied revenue has been appropriately recognised.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)



Responsibilities of the Board of Directors for the consolidated financial statements

The Board of Directors is responsible on behalf of the Group for preparing consolidated financial statements that are fairly presented in accordance with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

The Board of Directors is responsible on behalf of the Group for such internal control as it determines is necessary to enable it to prepare consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Board of Directors is responsible on behalf of the Group for assessing the Group's ability to continue as a going concern.

The Board of Directors is also responsible for disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

The Board of Director's responsibilities arise from the *Financial Markets Conduct Act 2013*.

Responsibilities of the auditor for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole, are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit carried out in accordance with the Auditor-General's Auditing Standards will always detect a material misstatement when it exists. Misstatements are differences or omissions of amounts or disclosures, and can arise from fraud or error. Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of shareholders taken on the basis of these consolidated financial statements.

We did not evaluate the security and controls over the electronic publication of the consolidated financial statements.

As part of an audit in accordance with the Auditor-General's Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. Also:

- We identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- We obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- We conclude on the appropriateness of the use of the going concern basis of accounting by the Board of Directors and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- We evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- We obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Deloitte.

**Responsibilities of the auditor
for the audit of the consolidated
financial statements
(continued)**

We communicate with the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Our responsibility arises from section 15 of the *Public Audit Act 2001*.

Other information

The Board of Directors is responsible on behalf of the Group for all other information. The other information includes the Annual Shareholder Review and the information included with the consolidated financial statements and audit report in the Annual Financial Results. Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of audit opinion or assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information. In doing so, we consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on our work, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Independence

We are independent of the Group in accordance with the independence requirements of the Auditor-General's Auditing Standards which incorporate the independence requirements of Professional and Ethical Standard 1: International Code of Ethics for Assurance Practitioners issued by the New Zealand Auditing and Assurance Standards Board and we have fulfilled our other ethical responsibilities in accordance with these requirements.

In addition to the audit we have carried out engagements in the areas of review of the interim financial statements, assurance services relating to greenhouse gas emissions inventory, passenger facility charges and compliance with student fee protection rules. In addition we provide non-assurance services relating to tax compliance for the Corporate Taxpayers Group. These services are compatible with those independence requirements. In addition to these engagements, principals and employees of our firm deal with the Group on normal terms within the ordinary course of trading activities of the Group. These engagements and trading activities have not impaired our independence as auditor of the Group. Other than the audit and these engagements and trading activities, we have no relationship with, or interests in the Group.



Peter Gulliver
for Deloitte Limited

On behalf of the Auditor-General
Auckland, New Zealand

HISTORICAL SUMMARY OF FINANCIAL PERFORMANCE

FIVE YEAR STATISTICAL REVIEW
FOR THE YEAR TO 30 JUNE

	2021 \$M	2020 \$M	2019 \$M	2018 \$M	2017 \$M
Operating Revenue					
Passenger revenue	1,470	3,942	4,960	4,696	4,376
Cargo	769	449	390	387	335
Contract services	161	216	197	193	164
Other revenue	117	229	238	219	234
	2,517	4,836	5,785	5,495	5,109
Operating Expenditure					
Labour	(830)	(1,197)	(1,351)	(1,294)	(1,261)
Fuel	(311)	(1,022)	(1,271)	(987)	(827)
Maintenance	(254)	(441)	(399)	(352)	(321)
Aircraft operations	(350)	(575)	(678)	(634)	(556)
Passenger services	(84)	(258)	(319)	(295)	(266)
Sales and marketing	(73)	(253)	(350)	(344)	(352)
Foreign exchange (losses)/gains	(29)	18	53	(19)	(6)
Other expenses	(247)	(324)	(290)	(278)	(255)
	(2,178)	(4,052)	(4,605)	(4,203)	(3,844)
Operating Earnings (excluding items below)	339	784	1,180	1,292	1,265
Depreciation and amortisation	(716)	(841)	(554)	(516)	(484)
Rental and lease expenses	-	-	(245)	(227)	(230)
(Loss)/Earnings Before Finance Costs, Associates, Other Significant Items and Taxation	(377)	(57)	381	549	551
Finance income	8	34	48	40	43
Finance costs	(90)	(103)	(79)	(73)	(87)
Share of earnings of associates (net of taxation)	19	39	37	33	26
(Loss)/Earnings Before Other Significant Items and Taxation	(440)	(87)	387	549	533
Other significant items	29	(541)	(5)	(57)	23
(Loss)/Earnings Before Taxation	(411)	(628)	382	492	556
Taxation credit/(expense)	122	174	(106)	(137)	(153)
Net (Loss)/Profit Attributable to Shareholders of Parent Company	(289)	(454)	276	355	403

Certain comparatives within the five year statistical review have been reclassified for comparative purposes, to ensure consistency with the current year. The Group adopted NZ IFRS 16 - Leases on 1 July 2019. In accordance with the transitional provisions of NZ IFRS 16, comparatives were not restated. NZ IFRS 15 - Revenue from Contracts with Customers was adopted on 1 July 2018 with comparatives being restated for the 2018 financial year.

HISTORICAL SUMMARY OF FINANCIAL POSITION

FIVE YEAR STATISTICAL REVIEW
AS AT 30 JUNE

	2021 \$M	2020 \$M	2019 \$M	2018 \$M	2017 \$M
Current Assets					
Bank and short-term deposits	266	438	1,055	1,343	1,369
Other current assets	560	571	749	910	518
Total Current Assets	826	1,009	1,804	2,253	1,887
Non-Current Assets					
Property, plant and equipment	3,128	3,336	5,133	4,892	4,650
Other non-current assets	2,740	3,198	684	558	539
Total Non-Current Assets	5,868	6,534	5,817	5,450	5,189
Total Assets	6,694	7,543	7,621	7,703	7,076
Current Liabilities					
Debt ¹	907	513	307	431	317
Other current liabilities	1,446	1,589	2,359	2,265	2,088
Total Current Liabilities	2,353	2,102	2,666	2,696	2,405
Non-Current Liabilities					
Debt ¹	2,401	3,188	2,290	2,303	2,197
Other non-current liabilities	835	935	673	631	556
Total Non-Current Liabilities	3,236	4,123	2,963	2,934	2,753
Total Liabilities	5,589	6,225	5,629	5,630	5,158
Net Assets	1,105	1,318	1,992	2,073	1,918
Total Equity	1,105	1,318	1,992	2,073	1,918

1. Debt is comprised of secured borrowings, bonds, finance lease liabilities and lease liabilities.

HISTORICAL SUMMARY OF CASH FLOWS

FIVE YEAR STATISTICAL REVIEW
FOR THE YEAR TO 30 JUNE

	2021 \$M	2020 \$M	2019 \$M	2018 \$M	2017 \$M
Cash flow from operating activities	323	230	986	1,031	904
Cash flow from investing activities	(182)	(542)	(883)	(778)	(616)
Cash flow from financing activities	(313)	(305)	(391)	(279)	(513)
Decrease in cash holding	(172)	(617)	(288)	(26)	(225)
Total cash and cash equivalents	266	438	1,055	1,343	1,369

KEY FINANCIAL METRICS

FIVE YEAR STATISTICAL REVIEW

		2021	2020	2019	2018	2017
Profitability and Capital Management						
EBIT ¹ /Operating Revenue	%	(15.0)	(1.2)	6.6	10.0	10.8
EBITDRA ² /Operating Revenue	%	13.5	16.2	20.4	23.5	24.8
Passenger Revenue per Revenue Passenger Kilometre (Yield)	cents	24.9	13.3	12.9	12.8	12.6
Passenger Revenue per Available Seat Kilometre (RASK) ³	cents	14.3	10.8	10.8	10.6	10.4
Cost per Available Seat Kilometre (CASK) ⁴	cents	12.5	11.2	10.0	9.5	9.1
Return on Invested Capital Pre-tax (ROIC) ⁵	%	(8.1)	(13.3)	10.6	13.7	16.4
Liquidity ratio ⁶	%	10.6	9.1	18.2	26.8	33.1
Gearing (incl. net capitalised aircraft operating leases) ⁷	%	71.0	69.2	55.8	53.6	52.7
Shareholder Value						
Basic Earnings per Share ⁸	cps	(25.7)	(40.4)	24.6	31.6	35.9
Operating Cash Flow per Share ⁸	cps	28.8	20.5	87.8	91.8	80.5
Ordinary Dividends Declared per Share ⁸	cps	-	-	22.0	22.0	21.0
Net Tangible Assets per Share ⁸	\$	0.82	1.01	1.61	1.69	1.58
Closing Share Price 30 June	\$	1.55	1.32	2.65	3.18	3.26
Weighted Average Number of Ordinary Shares	m	1,123	1,123	1,123	1,123	1,123
Total Number of Ordinary Shares	m	1,123	1,123	1,123	1,123	1,123
Total Market Capitalisation	\$m	1,740	1,482	2,976	3,565	3,660
Total Shareholder Returns ⁹	%	0.7	(5.3)	14.0	26.7	41.5

1. (Loss)/Earnings before interest and taxation (EBIT) excluding share of earnings of associates (net of taxation) and other significant items (refer footnote under Historical Summary of Financial Performance)
2. EBITDRA excludes share of earnings of associates (net of taxation) and other significant items (refer footnote under Historical Summary of Financial Performance)
3. Passenger revenue per passenger flight Available Seat Kilometre
4. Operating expenditure (excluding other significant items) per ASK (refer footnote under Historical Summary of Financial Performance)
5. (EBIT plus interest component of aircraft operating leases)/average capital employed (Net Debt plus Equity) over the period
6. (Bank and short-term deposits and interest-bearing assets (excluding restricted cash))/Operating Revenue
7. Net Debt (including capitalised aircraft operating leases)/(Net Debt plus Equity)
8. Per-share measures based upon Ordinary Shares
9. Return over five years including the change in share price and dividends received (assuming dividends are reinvested in shares on ex dividend date).

Certain comparatives within the five year statistical review have been reclassified for comparative purposes, to ensure consistency with the current year. The Group adopted NZ IFRS 16 - Leases on 1 July 2019. In accordance with the transitional provisions of NZ IFRS 16, comparatives were not restated. NZ IFRS 15 - Revenue from Contracts with Customers was adopted on 1 July 2018 with comparatives being restated for the 2018 financial year.



KEY OPERATING STATISTICS

FIVE YEAR STATISTICAL REVIEW
FOR THE YEAR TO 30 JUNE

	2021	2020	2019	2018	2017
Passengers Carried (000)					
Domestic	8,191	8,821	11,513	11,089	10,379
International					
Australia and Pacific Islands	386	3,002	4,044	3,798	3,561
Asia	32	734	914	837	814
America and Europe	40	968	1,267	1,242	1,198
Total	458	4,704	6,225	5,877	5,573
Total Group	8,649	13,525	17,738	16,966	15,952
Available Seat Kilometres (M)					
Domestic	5,480	5,619	7,104	6,905	6,597
International					
Australia and Pacific Islands	2,214	10,367	13,640	12,963	12,039
Asia	1,572	8,117	9,699	9,169	8,918
America and Europe	1,038	12,232	15,586	15,237	14,615
Total	4,824	30,716	38,925	37,369	35,572
Total passenger flights	10,304	36,335	46,029	44,274	42,169
Cargo-only flights	7,106	2,151	-	-	-
Total Group	17,410	38,486	46,029	44,274	42,169
Revenue Passenger Kilometres (M)					
Domestic	4,244	4,552	5,957	5,719	5,311
International					
Australia and Pacific Islands	964	8,265	11,195	10,584	9,784
Asia	292	6,526	8,140	7,467	7,270
America and Europe	408	10,225	13,281	12,892	12,449
Total	1,664	25,016	32,616	30,943	29,503
Total Group	5,908	29,568	38,573	36,662	34,814
Passenger Load Factor (%)					
Domestic	77.4	81.0	83.9	82.8	80.5
International					
Australia and Pacific Islands	43.5	79.7	82.1	81.6	81.3
Asia	18.6	80.4	83.9	81.4	81.5
America and Europe	39.3	83.6	85.2	84.6	85.2
Total	36.5	81.4	83.8	83.4	83.8
Total Group	57.3	81.4	83.8	82.8	82.6
GROUP EMPLOYEE NUMBERS (Full Time Equivalents)	7,840	9,988	11,793	11,074	10,890

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

HISTORICAL SUMMARY OF DEBT

FIVE YEAR STATISTICAL REVIEW
AS AT 30 JUNE

	2021 \$M	2020 \$M	2019 \$M	2018 \$M	2017 \$M
Debt					
Secured borrowings	1,497	1,413	1,459	1,563	1,243
Unsecured bonds	50	50	50	50	50
Finance lease liabilities	-	-	1,088	1,121	1,221
Lease liabilities	1,761	2,238	-	-	-
	3,308	3,701	2,597	2,734	2,514
Bank and short-term deposits	266	438	1,055	1,343	1,369
Net open derivatives held in relation to interest-bearing liabilities and lease liabilities ¹	13	(37)	7	42	(32)
Interest-bearing assets (included within Other assets)	324	334	264	182	164
Net Debt	2,705	2,966	1,271	1,167	1,013
Net aircraft operating lease commitments ²	-	-	1,246	1,232	1,120
Net Debt (including off Balance Sheet)	2,705	2,966	2,517	2,399	2,133

1. Unrealised gains/losses on open debt derivatives

2. Net aircraft operating lease commitments for the next twelve months, multiplied by a factor of seven (excluding short-term leases in 2018 and 2019, which provide cover for Boeing 787-9 engine issues).

The Group adopted NZ IFRS 16 - Leases on 1 July 2019. In accordance with the transitional provisions of NZ IFRS 16, comparatives have not been restated.



CORPORATE GOVERNANCE STATEMENT

The Board considers its governance practices to be consistent with the Principles of the NZX Corporate Governance Code.

This Corporate Governance Statement was approved by the Board on 25 August 2021 and is current as at that date.

Code of Ethical Behaviour

Air New Zealand has a published Code of Conduct and Ethics ("the Code"), as a statement of our guiding principles of ethical and legal conduct. The Code applies to everyone working at or for Air New Zealand – directors, executives, employees, contractors and agents.

Mechanisms are provided for the safe reporting of breaches of the Code or of other policies or laws, and the consequences of non-compliance are made explicit.

The Code is supplemented by a number of other documents, including the Board Charter and specific policies on key matters. As a whole, these documents address all matters in recommendation 1.1 of the NZX Corporate Governance Code.

Air New Zealand also has a Securities Trading Policy, which identifies behaviours that are illegal, unacceptable or risky in relation to dealings in Air New Zealand's securities by directors, employees or their associated persons. This policy provides a framework that reduces the potential for insider trading. No material policy breaches have been reported during the 2021 reporting period.

Air New Zealand makes these documents, and other significant governance documents, available on its website.

Board Composition and Performance

The Board has a formal Board Charter detailing its authority, responsibilities, membership and operation, which is published on Air New Zealand's website.

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 Company's strategy and for managing the operations of Air New Zealand.

Dame Therese Walsh has been Chairman of Air New Zealand since 25 September 2019. The Board Charter makes explicit that the Chairman and the Chief Executive Officer roles are separate.

The General Counsel & Company Secretary is secretary to the Board and accountable directly to the Board, through the Chairman, on all matters to do with the proper functioning of the Board.

The Board has specific criteria in its Charter, against which it evaluates the independence of directors in line with the NZX Listing Rules. These are designed to ensure directors are not unduly influenced in their decisions and activities by any personal, family or business interests.

All directors have been determined to be Independent Directors under these criteria, and for the purposes of the NZX Listing Rules. Directors are required to inform the Board of all relevant information which may affect their independence such that the Board continually considers the independence of its members.

The skills and experience represented on the Board are summarised in the diagram below:

Executive Leadership		Tourism	
Engineering/Safety		Digital/Technology	
International Business		Government & Stakeholder	
Financial		Governance	
Customer Experience			

Details of each director's experience, independence, and interests are published on the Air New Zealand website.

Diversity and Inclusion

The Company's Equality, Diversity and Inclusion Policy recognises the value of a diverse workforce, proudly representative of Aotearoa New Zealand, as well as the creation of an inclusive environment where Air New Zealanders can be themselves and thrive.

Diversity is considered across a range of factors including gender, ethnicity, disability, age and sexual identity. There is a focus on recruitment practices that promote the retention and attraction of diverse talent, and a broad range of employee initiatives to reflect the diversity we have in the airline. The 10 Employee Networks play a key role in supporting Air New Zealanders and in the success of the Diversity & Inclusion strategy.

Despite a challenging environment, the Company's performance in respect of the policy has remained positive. With a target of 50% women on the Airline Leadership Team (ALT – including the Executive), the Company achieved 52.4% as at 30 June 2021. This target will be maintained and there will be a continued focus on building the numbers of women at all levels of leadership to ensure a strong and diverse talent pipeline.

Board Cadence

- 20** Board meetings
- 24** Committee meetings
- 7** Strategy/deep dive sessions
- 6** Circular resolutions

Recent Focus Areas

- Covid-19
- Funding
- Sustainability
- Future Strategy and Routes
- Cargo
- Brand Strategy
- Customer Loyalty
- Digital initiatives

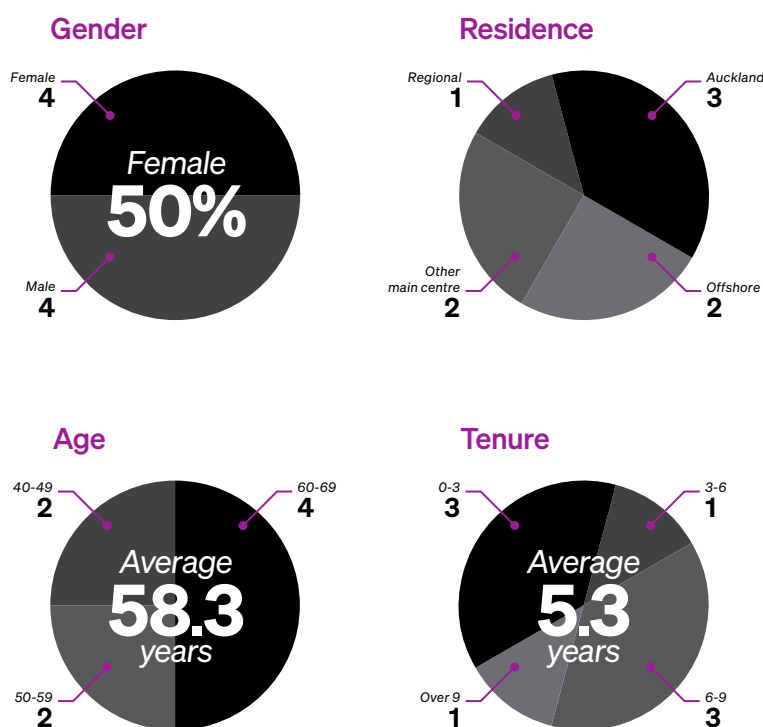
CORPORATE GOVERNANCE STATEMENT (CONTINUED)

Air New Zealand also has a target of 20% of the Company's people leadership roles being held by Māori and Pasifika employees by 2022. As at 30 June 2021 achievement towards this target was approximately 16% based on available data. The Mangō Pare leadership development programme continues to support growth in this space, with a cohort of 16 people completing the training in the 2021 financial year, following two cohorts in the 2020 financial year, and two more cohorts planned in the 2022 financial year.

*AS AT 30 JUNE	2020	2021
Directors (female:male)	4:4	4:4
Executive Team (female:male)*	2:6	3:4

* The Executive Team comprises the Chief Executive Officer and the direct reports to the Chief Executive Officer, and corresponds to "Officers" as defined in the Listing Rules.

Diversity is equally important on the Board. Aspects of diversity on the Board are charted below.



The Board Charter provides for regular performance reviews of the Board as a whole and its Committees.

The Board as a whole considers the requirement for additional or replacement directors. In so doing, it has regard to the skills, experience and diversity already on the Board, and the skills that are necessary or desirable for the Board to fulfil its governance role and contribute to the long-term strategic direction of the Company. The Board engages consultants to assist in the identification, recruitment and appointment of suitable candidates.

When appointing new directors, the Board ensures that the Constitutional requirements in respect of directors will continue to be satisfied. At all times there must be between five and eight directors, with at least three resident in New Zealand. The majority of directors must be New Zealand citizens and at least two must be independent. The NZX Corporate Governance Code's recommendation that a majority of the Board should be Independent Directors is also met.

Each Non-Executive Director receives a letter formalising their appointment. That letter outlines the key terms and conditions of their appointment and is required to be countersigned confirming agreement.

The Board expects all directors to undertake continuous education so that they can effectively perform their duties and progress on this forms part of the Board evaluation process.



CORPORATE GOVERNANCE STATEMENT (CONTINUED)

Board Committees

Board committees are set up where these can assist in the efficient performance of the Board's functions, and the achievement of appropriate governance outcomes. All committees operate under written Charters, which define the role, authority and operations of the committee. Committee Charters are available on the Air New Zealand website. Current standing committees are outlined below.

Committee	Composition and Roles	Members
Audit and Risk ("ARC")	3-7 non-executive directors. A majority, including the Chairman, must be independent. A majority of the members should be financially literate and at least 1 member must have an accounting or financial background. The Chair may not be the Chairman of the Board. Advises and assists the Board in discharging its responsibilities with respect to financial reporting, compliance and risk management practices of Air New Zealand.	Jan Dawson (Chair) Laurissa Cooney Jonathan Mason Dame Therese Walsh
People Remuneration and Diversity ("PRDC")	2-7 non-executive directors. A majority, including the Chairman, must be independent. Advises and assists the Board in discharging its responsibilities with respect to oversight of the People strategy of Air New Zealand.	Jonathan Mason (Chair) Dean Bracewell Jan Dawson Dame Therese Walsh
Health, Safety and Security ("HSSC")	At least 3 non-executive directors. A majority, including the Chairman, must be independent. Advises and assists the Board in discharging its responsibilities with respect to health, safety and security matters arising out of activities within and by Air New Zealand.	Rob Jager (Chair) Larry De Shon Linda Jenkinson Dame Therese Walsh
Funding	3-4 directors. The Chairman of the Board will be the Chairman. Advises and assists the Board in discharging its responsibilities with respect to funding transactions and associated matters.	Dame Therese Walsh (Chair) Jan Dawson Rob Jager

The Board also has a special purpose committee to assist in management of Covid-19 issues. No fees were paid to members of this committee.

As noted above, the Board as a whole considers the requirement for additional or replacement directors, and has not established a nomination committee or similar for this purpose.

The table below reports attendance of members at Board and Board Committee meetings during the 2021 reporting period.

Board/Committee Meetings 1 July 2020 – 30 June 2021

	Board	Audit and Risk Committee	People Remuneration and Diversity Committee	Health, Safety and Security Committee	Covid-19 Committee
	Attendance ¹	Attendance ¹	Attendance ¹	Attendance ¹	Attendance ¹
Dame Therese Walsh	20/20	5/5	4/4	4/4	11/11
Dean Bracewell	19/20		4/4		
Laurissa Cooney	20/20	5/5			
Jan Dawson	20/20	5/5	4/4		10/11
Larry De Shon	20/20			4/4	
Rob Jager	20/20			4/4	
Linda Jenkinson	19/20			4/4	
Jonathan Mason	20/20	5/5	4/4		11/11

1. The attendance is the number of meetings attended / number of meetings for which the director was a member.

The Funding Committee generally satisfies its responsibilities through electronic communication and written resolution, to ensure efficient processing of funding and related transactions. No physical meetings of this Committee were held in the year, and no additional fees are paid in respect of this Committee.

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

Reporting and Disclosure

The Board is committed to timely, accurate and meaningful reporting of financial and non-financial information. In addition to statutory disclosures, the Company provides ongoing updates of its operations, as well as presentations to the investment community. This material is made publicly available through releases to the NZX and ASX, in accordance with the Listing Rules.

Air New Zealand has a Continuous Disclosure Policy, available on the Air New Zealand website and are managed by the General Counsel. The purpose of this policy is to:

- Ensure that Air New Zealand complies with its continuous disclosure obligations;
- Ensure timely, accurate and complete information is provided to all shareholders and market participants; and
- Outline mandatory requirements and responsibilities in relation to the identification, reporting, review and disclosure of Material Information relevant to Air New Zealand.

This policy establishes a Disclosure Committee to facilitate the provision of timely and appropriate market disclosure.

Remuneration

In accordance with the Constitution, shareholder approval is sought for any increase in the pool available to pay directors' fees. Approval was last sought in 2015, when the pool limit was set at \$1,100,000 per annum. This approval was based on 7 directors; with a Board comprising 8 directors the pool limit is \$1,232,333 per annum consistent with NZX Listing Rule 2.11.3.

Where the pool permits, the Board may amend the actual fees paid to reflect market conditions or other relevant factors. The Board has determined the following allocation of the pool.

	Position	Fees (Per Annum)
Board of Directors	Chairman ¹	\$270,000
	Deputy Chairman	\$114,000
	Member	\$100,000
Audit and Risk Committee	Chair	\$40,000
	Member	\$20,000
Health, Safety and Security Committee	Chair	\$40,000
	Member	\$20,000
People Remuneration and Diversity Committee	Chair	\$20,000
	Member	\$10,000

1. The Chairman receives no additional committee fees.

Directors took a voluntary 15% reduction in fees effective for the full reporting period.

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



CORPORATE GOVERNANCE STATEMENT (CONTINUED)

Remuneration and benefits of directors and former directors in the reporting period are tabulated below.

	Board Fees	ARC	HSSC	PRDC	Total Fees	Value of Utilised Travel Entitlement ^{1,2}
Dame Therese Walsh (Chairman)	\$229,500	-	-	-	\$229,500	\$15,249
Jan Dawson (Deputy Chairman)	\$96,900	\$34,000 (Chair)	-	\$8,500	\$139,400	\$6,132
Dean Bracewell	\$85,000	-	-	\$8,500	\$93,500	-
Laurissa Cooney	\$85,000	\$17,000	-	-	\$102,000	\$16,636
Larry De Shon	\$85,000	-	\$17,000	-	\$102,000	-
Rob Jager	\$85,000	-	\$34,000 (Chair)	-	\$119,000	\$3,160
Linda Jenkinson	\$85,000	-	\$17,000	-	\$102,000	\$35,518
Jonathan Mason	\$85,000	\$17,000	-	\$17,000 (Chair)	\$119,000	\$10,517
Total	\$836,400	\$68,000	\$68,000	\$34,000	\$1,006,400	\$87,212

Amounts stated as FBT and GST exclusive where applicable.

1. Includes value of travel benefits for related parties and benefits accrued in prior years utilised in current year.
2. The value of the travel entitlements received by former directors during the 2021 financial year were as follows: Tony Carter (\$10,445), Paul Bingham (\$29,645), Roger France (\$5,640), John Palmer (\$6,828), Warren Larsen (\$2,488), Jane Freeman (\$12,802).

In addition to the director remuneration provisions above, Air New Zealand's employee remuneration policy is discussed in the remuneration report.

The remuneration of the Chief Executive Officer is disclosed in the remuneration report.

Risk Management

Air New Zealand operates in a complex environment that is not devoid of risk. Risks inherent within our business environment need to be systematically identified and managed to meet legal, regulatory and governance obligations, while still allowing the Company to operate sustainably as a commercial airline. We achieve this by embedding risk management into our organisational processes and culture through our Enterprise Risk Management Framework ("ERMF") as well as through Risk working Groups, Risk Champion Networks and regulatory compliance processes under applicable legislation.

Risk Governance and reporting

The Board of Directors, supported by the Audit and Risk Committee, has overall responsibility for ensuring the effective implementation of risk management systems in line with the Risk Management Policy, and that the Company does not operate beyond its risk appetite.

The Board ensures that it receives appropriate information on key risks and the management of these. A Group Risk Profile representing the most significant strategic risks facing the Company as identified by management is presented to the Audit and Risk Committee and the Board annually. This is supplemented with quarterly updates on changes to the Group Risk Profile, which reflect any new or emerging strategic risks requiring prioritisation. The reports enable the Board to gain assurance that a robust assessment has been undertaken of the key risks facing the Company, and the effectiveness of Air New Zealand's system of internal controls for managing them.

The Board's Health, Safety and Security Committee provides oversight of Air New Zealand's health, safety and security risk management including processes, policies and performance, and monitoring the effectiveness of internal control assurance. The Committee's oversight process includes site visits and other experiential learning sessions to observe and understand operational and safety risks, as well as presentations on risk management practices and targeted deep dives on specific areas of risk, to obtain assurance that risks receive the appropriate focus from management.

Further monitoring of the effectiveness of Air New Zealand's Safety Management Systems (SMS) across our operations, including people safety and air worthiness risks, and associated regulatory compliance is undertaken by a cross-functional executive management committee, the Group Safety Review Board (GSRB), that meets quarterly.

The Executive Team, under the leadership of the Chief Executive Officer, implements the process, methodology and structure that encompass the ERMF. The ERMF promotes risk conversations amongst the Executive Team, and a risk operating rhythm providing a regular cadence for the review and monitoring of risks across the business.

Enterprise Risk Management Framework

The Board, led by the Audit and Risk Committee, has worked with management to develop and implement an ERMF which provides a consistent approach to risk identification, management and reporting. The ERMF and risk management process is built on the commonly accepted ISO31000:2018 standard for risk management which has been implemented company-wide.

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

The scope of the ERMF includes a consideration of Strategic, Operational, Financial and Legal/Regulatory risks, both short-term and long-term, across all critical business functions of the Air New Zealand Group. A taxonomy of risk types is maintained to assist in the identification of risks and facilitate their consistent categorisation to drive meaningful analysis.

Key risks are identified at business unit, divisional and group levels, with ownership for the management of these formally assigned to senior managers. All key risks are assessed and prioritised against a risk matrix of likelihood and consequence.

Risk information is captured in a centralised database.

ERM focus for the 2022 financial year

Air New Zealand has been operating in an unusually volatile environment since the outbreak of the Covid-19 pandemic which has become the most significant crisis the aviation industry has ever faced. The continually evolving situation has not only created a bespoke risk footprint for the Company, but also highlighted opportunities to build value and organisational resilience.

A Company-wide deep dive review was undertaken in the 2020 financial year and presented to the Board. This focussed on understanding the holistic impacts of the pandemic and lessons learned as Air New Zealand has moved through the crisis and focussed on recovery.

The focus in the 2021 financial year was on strengthening the cohesion between the company's bottom-up and top-down processes for the review of risks, including embedding a more regular quarterly cadence for the review of risks.

The top-down approach involved the Executive's and Audit and Risk Committee's participation in the strategic risk identification process. It also led to the introduction of an additional layer of Divisional risks owned by each Executive. The approach considered the internal and external environment, and the company's Kia Mau strategy, in identifying the most consequential risks to the Company.

Over the 2022 financial year, continuing initiatives to improve the maturity of risk management activity will address a formal risk appetite, lifting risk management capability across our business and build on the functionality in the new digital platform to provide management with enhanced risk management visibility and capability.

Accountability – Three Lines of Defence

Air New Zealand's risk management structure aims to align with the Three Lines of Defence model, involving the Executive, Audit and Risk Committee and Board oversight of risk management and assurance. Each Line has a set of core accountabilities:



Strategic Risks

The Board and management have identified, assessed and prioritised a number of strategic risks facing the business based on their relative importance and criticality to the Company.

Air New Zealand has been operating in a constantly evolving and unpredictable environment since the Covid-19 pandemic outbreak. The risks identified recognise the impact of Covid-19 on the operations of Air New Zealand, as well as its second order effects on commercial and operational performance and on the Company's ability to deliver its Kia Mau strategy.

'Another Pandemic' has been identified as an emerging risk whose potential for harm or loss is not fully known. The Company's assessment of pandemic risk and its interconnectedness with key strategic risks is a continued focus as the Company considers lessons learned through Covid-19, and its ongoing direct and indirect impacts on our business environment.

The top risks that have been identified in the Group Risk Profile are outlined below. These are not ranked. In addition, a set of "Below the Line" strategic risks have been identified for active monitoring.



CORPORATE GOVERNANCE STATEMENT (CONTINUED)

Strategic Risk Area ¹	Description	Mitigation
Cybersecurity	A cyber-attack could result in lost integrity or access to information, loss of control systems or a significant data privacy breach causing widespread business disruption, reputational damage and/or liabilities.	Cybersecurity programme delivered by a dedicated Cybersecurity function, complemented by appropriate cybersecurity measures and insurance.
Macro-economic uncertainty	Heightened economic, geopolitical or market uncertainty (including as a consequence of the pandemic) could impair long-term planning around travel demand recovery adversely affecting revenue optimisation and growth.	Regular market monitoring through a range of economic and market indicators to facilitate forecasting of and planning for underlying demand, revenue and capacity.
Industrial relations	Inability to achieve desired outcomes with unions on employment agreements or in respect of the transformation agenda could lead to a deterioration in union relationships and present a heightened risk of industrial unrest.	Dedicated HR team with effective union relationship management, supported by communication and issue resolution processes.
Climate change	Physical and transitional impacts of climate change, including consumer activism and government regulation could drive increased cost of operations and reduced long run demand, and adversely impact social licence to operate and future revenue.	Implementation of a decarbonisation strategy focused on future use of SAF, continued efficiency improvements and future zero emissions aircraft; continuous improvement of operational procedures and investment in modern operational technologies.
Operational safety and integrity	A significant compliance breach, failure of the aviation safety system or catastrophic aircraft accident could result in a suspension or revocation of Air New Zealand's Air Operator's Certificate.	Airline Safety Management System supplemented with rigorous training and competency requirements for flight and cabin crew.
People health, safety and wellbeing	Continued disruption from business transformation, constrained resources, government policy changes and associated "Covid-19 fatigue" could adversely affect employee health and wellbeing and operational performance.	Health, safety and wellbeing management framework and Group critical risk protocols for active monitoring and management of risks and incidents.
Alliance relationships	The unravelling of a key alliance relationship or formation of new alliance partnerships could reduce Air New Zealand's competitiveness, adversely impacting network and growth strategy.	Formal agreements and re-negotiation process, supplemented with strong ongoing relationship management to ensure alignment of objectives and plans.
Supplier concentration	Supplier concentration, rationalisation or insolvency may limit the ability of suppliers to adequately respond to the airline's profile of recovery and result in sustained business disruption and loss of revenue.	System enabled supplier risk management from sourcing throughout the supplier management lifecycle and monitoring of supplier performance.
Talent risk	Continuing business transformation may lead to attrition and loss of key talent and exposure to unmanaged loss of institutional knowledge and capability gaps, impacting culture, safety and wellbeing.	Talent strategy review and alignment for identification of critical roles and skills, supplemented with succession planning and career development for critical roles and key talent.
Legal & regulatory compliance	A significant compliance breach from the inability to respond swiftly to rapidly changing government policy/restrictions, CAA regulations, stock exchange requirements or other legal or regulatory obligations may lead to regulatory sanction, loss of stakeholder confidence and/or reputational damage.	Liaison relationship management with regulators, combined with active monitoring using external law firms, newsletters and IATA forums for timely information on changes in laws / regulations. Application of systematic safety management and robust training / awareness campaigns, including annual company-wide Code of Conduct refresh training to promote awareness of policy requirements.

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

Strategic Risk Area ¹	Description	Mitigation
Competition – traditional and disruptive	A significant increase in traditional or disruptive competition, including from emerging technologies may lead to disintermediation of customers and loss of revenue streams.	Investment in technology through innovation partnerships and research and development, and active management of alliances relationships and partners around response to emerging trends identified.
Duration of Covid-19 and potential for new global pandemics	Inability to respond to or recover from the current Covid-19 crisis, the onset of future global pandemic or similarly disruptive macro event could adversely affect operations, financial performance, and the ability to deliver strategy.	Activation of Group Emergency Management Team for management of Emergency response and ongoing Business Continuity Management.
Business transformation	An inconsistent and unstructured approach to business transformation and change could cause a deterioration in core company values/culture and undesirable changes in employee behaviours, resulting in reduced performance and increased susceptibility to unethical conduct.	Management of business transformation through a dedicated team, including people and processes. Includes consideration and management of employee wellbeing through People Safety team.

Auditors

External Audit

As a Public Entity, Air New Zealand is subject to the Public Audit Act 2001. The Auditor-General is the auditor, but may appoint an independent auditor to conduct the audit process. Deloitte has been appointed in this respect.

The Audit and Risk Committee liaises with the Auditor-General on the appointment and re-appointment of the external auditors, to ensure the independence of the external auditor is maintained, and to approve the performance of any non-audit services in accordance with the Audit Independence Policy.

Air New Zealand requires the external auditor to rotate its lead audit partner at least every five years, with suitable succession planning to ensure consistency.

On a regular basis the Audit and Risk Committee meets with the external auditor to discuss any matters that either party believes should be discussed confidentially. The Chair of the Audit and Risk Committee will call a meeting of that Committee if so requested by the external auditor.

The appointed external auditor, Deloitte, has historically attended the Annual Shareholders' Meeting, and the lead audit partner is available to answer relevant questions from shareholders at that meeting.

Internal Audit

Internal Auditing is an independent and objective assurance and consulting activity that is guided by a philosophy of adding value to improve the operations of Air New Zealand. The Company's Head of Internal Audit reports functionally to the Audit and Risk Committee and administratively to the Chief Financial Officer. The internal auditors' responsibilities are defined by the Audit and Risk Committee as part of their oversight role, and the Head of Internal Audit has unfettered access to the Audit and Risk Committee or its Chair.

Shareholder Rights and Relations

Air New Zealand engages with shareholders in a number of ways, including:

- **Investor Centre Website**

Air New Zealand maintains a dedicated investor website at airnewzealand.co.nz/investor-centre. This website contains financial information, current and historical annual reports and presentations, current share price information, dividend history, notices of shareholder meetings, frequently asked questions and other relevant information pertaining to Air New Zealand.

- **Electronic Communications**

Air New Zealand provides an Investor Relations email address as a mechanism for shareholders to communicate electronically with Air New Zealand on any matters relating to their investment or other dealings with the Company. All shareholder-related enquiries are provided with a response within a reasonable timeframe.

- **Hybrid Annual Shareholder Meetings**

Beginning in 2016, Air New Zealand has where possible offered shareholders the ability to attend the Annual Shareholders' Meeting in either a physical or digital capacity.

- **Investor Day Briefings**

Air New Zealand holds periodic investor briefings to provide an update on the Company's strategy and financial framework, as well as provide shareholders with an in-depth discussion on a particular topic and access to senior management. Webcast access and transcripts of the event are provided on the Air New Zealand website.



CORPORATE GOVERNANCE STATEMENT (CONTINUED)

- **Webcasting Interim and Annual Results Presentations**

Air New Zealand webcasts its earnings announcements on a semi-annual basis. A replay of the webcast and a transcript of the event are made available on the Air New Zealand website.

- **Regular disclosures on company performance**

Monthly investor updates containing operating statistics for the month (traffic and capacity figures, passenger numbers and load factors), as well as details on any significant investor news and events are released to the market and posted on the investor centre website.

In accordance with the Companies Act, Constitution and Listing Rules, Air New Zealand refers any significant matters to shareholders for approval at a shareholder meeting.

Air New Zealand posts any Notices of Shareholder Meetings on its website as soon as these are available. The general practice is to make these available not less than four weeks prior to the shareholder meeting.

Differences in Practice to NZX Code

The Board has not established protocols setting out procedures to be followed in the event of a takeover offer. This is because the Board considers receipt of a takeover offer to be an extremely unlikely event in light of the Crown's majority shareholding in the Company and the other shareholding restrictions that apply to Air New Zealand. In addition, Air New Zealand would have adequate time to implement such protocols and procedures, and communicate those to shareholders, should circumstances change. Accordingly, and having regard to the supporting commentary in the NZX Corporate Governance Code, the Board considers that it is reasonable and appropriate for Air New Zealand not to follow Recommendation 3.6 of the Code at this time. Notwithstanding this, the Board agrees with the principles behind this recommendation, being good communication with shareholders and independent directors leading matters that require appropriate independence.

CLIMATE-RELATED DISCLOSURES

Taskforce on Climate-related Financial Disclosures (TCFD)

Air New Zealand committed to supporting the TCFD in 2019. The following disclosures summarise how Air New Zealand aligns with the TCFD recommendations.



Governance of Climate-Related Risks and Opportunities

TCFD Recommendation: Board's oversight of climate-related risks and opportunities

The Board is ultimately responsible for the Company's response to the risks and opportunities presented by climate-related issues. Board oversight is through its Audit and Risk Committee, which oversees key strategic risks including climate change.

This Committee meets quarterly and, amongst other things, considers updates on management of strategic risks. The Board is updated following each Committee meeting. Matters meriting Board-level consideration are highlighted or dealt with as standalone Board agenda items.

Strategic climate-related risks are also considered by the Board as part of the Company's Group Risk Profile which is an output of the Air New Zealand's Enterprise Risk Management Framework (ERMF).

TCFD Recommendation: Management's role in assessing and managing climate-related risks and opportunities

Management has day-to-day responsibility for identifying and managing climate-related risks and opportunities.

Climate-related workstreams are the responsibility of the full Executive team, operational management and the Sustainability Team. Management focus is given to risk identification, promoting consistency in approach, and that the climate-related activities are adequately resourced (for example, a programme of work relating to sustainable aviation fuel (SAF), zero emissions aircraft, carbon offsetting, regulatory compliance). Key issues are reported up to the Audit and Risk Committee as appropriate.

Sustainability is affirmed as a group policy and is reflected in the Company's Code of Conduct and its Supplier Code of Conduct, which set expectations of employees and of those the Company does business with.



Strategy

TCFD Recommendation:

1. Climate-related risks and opportunities identified over the short, medium, and long-term
2. Actual and potential impacts of climate-related risks and opportunities on the Company's strategy and financial planning
3. Resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario

In 2020 Air New Zealand set a goal to achieve net zero emissions by 2050. Underlying this was the development, and subsequent implementation, of an updated decarbonisation strategy. This includes advocacy to accelerate the availability and commercial viability of SAF, investment in resource and capability to bring new aircraft technology to market (including hydrogen and battery technology), and ongoing engagement with stakeholders to achieve carbon emissions reductions across the network. The decarbonisation strategy was informed by the risks and opportunities which have been identified by Air New Zealand as part of its TCFD disclosure workstream.

Prior to the Covid-19 outbreak, Air New Zealand engaged third-party experts to undertake scenario modelling to quantify the impact of several physical and transitional climate-related risks, and to assess the resilience of the Air New Zealand's strategy. This engagement has been paused until greater certainty is known as to the recovery of the airline industry post the Covid-19 pandemic, and new regulatory requirements for mandatory climate-related reporting.

Transitional Risks

Transitional risks are risks related to the transition to a lower carbon economy. These include the impact of policy, legal, technological, reputational or market measures associated with climate change and decarbonisation. The transitional risks defined below were used to inform Air New Zealand's strategic response to climate change.



CLIMATE-RELATED DISCLOSURES (CONTINUED)



Strategy (continued)

Transitional Risks (continued)

Key Risk and Opportunity Timeframes: **S** Short-term (0-2 Years) **M** Medium-term (2-5 years) **L** Long-term (+5 years)

Transitional Risk	TCFD Category	Risk Description	Risk Mitigation
Government policy changes	Policy and legal Risk timeframe: S M L	Implementation or expansion of domestic and international policy regulating carbon emitting activities could increase operational and compliance costs. Examples include emissions trading schemes, carbon taxes, passenger levies, biofuel mandates or demand control measures. Differing international standards could also introduce compliance complexity, and risk distorting the competitive composition of the market.	<ul style="list-style-type: none"> Air New Zealand actively engages in government consultations on climate change policy with the goal of advancing aviation decarbonisation. This includes advocating for new policy measures to support the supply of SAF. Public submissions and advocacy documents can be found on the Air New Zealand website¹. Implementation of the airline's decarbonisation strategy to achieve reductions in gross carbon emissions, including improvements to operational efficiency, ongoing fleet renewal, planning for zero emissions aircraft, and advocacy to accelerate the availability and commercial viability of SAF.
Carbon pricing and regulation	Policy and legal Risk timeframe: S M L	Rising costs associated with complying with carbon-related regulation. Current compliance obligations include the New Zealand Emissions Trading Scheme (NZETS) for emissions from domestic aviation fuel, and the Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA) for growth in international emissions from a 2019 baseline.	<ul style="list-style-type: none"> Future carbon pricing assumptions considered in operational and strategic planning. Implementation of the airline's decarbonisation strategy to achieve reductions in gross carbon emissions, including improvements to operational efficiency, ongoing fleet renewal, planning for zero emissions aircraft and advocacy to accelerate the availability and commercial viability of SAF. Air New Zealand is advocating for NZETS auction proceeds to be ring fenced to accelerate the development and deployment of technologies to enable aviation decarbonisation. Air New Zealand's compliance costs for the NZETS were \$14.5 million (calendar year 2020) and \$14.6 million (calendar year 2019).
Changing customer/market behaviour and preferences	Market/Reputational Risk timeframe: S M	Changing sentiment amongst leisure and business travellers towards lower carbon alternatives to air travel. This could see customers choose to reduce travel, elect to travel on substitute modes of transport, or elect to avoid air travel.	<ul style="list-style-type: none"> Development of, and communication and disclosure relating to Air New Zealand's decarbonisation strategy. Air New Zealand's voluntary customer offsetting programme FlyNeutral allows customers to offset flight emissions with high quality carbon offsets. Surveys to gain insights on customer and wider market sentiment regarding climate change to inform strategic decisions.

Transitional Opportunities

Transitional Opportunity	TCFD Category	Opportunity Description	Strategy to realise Opportunity
Future aircraft technology	Technology Opportunity timeframe: M L	The evolution of existing aircraft technology to improve fuel efficiency and the development of battery or hydrogen powered electric aircraft, will enable a reduction in operating costs, gross carbon emissions and lower Air New Zealand's exposure to carbon pricing and policy changes.	<ul style="list-style-type: none"> Continued investment in fleet renewal programme. Memorandum of Understanding (MOU) with ATR on hybrid and zero emissions aircraft technology. MOU with Wisk Aero exploring how electric vertical takeoff and landing (eVTOL) aircraft could potentially enable zero emissions short range domestic flights.
Sustainable aviation fuel (SAF)	Technology Opportunity timeframe: S M L	SAF has the potential to reduce carbon emissions from Air New Zealand's existing fleet by between 70% and 90%. In addition to a reduction in gross carbon emissions, this will reduce Air New Zealand's exposure to carbon pricing and policy changes.	<ul style="list-style-type: none"> Engagement with Government to advocate for new policies and investment required to enable SAF production and supply in New Zealand. Air New Zealand is collaborating to advance SAF supply in New Zealand including as a founding member of the SAF Consortium (Air New Zealand, Z Energy, Scion, LanzaTech and LanzaJet).

1. Air New Zealand Sustainability reporting and communications.

CLIMATE-RELATED DISCLOSURES (CONTINUED)



Strategy (continued)

Physical Risks

Physical risks are risks arising from changes in the regional and global climate and the consequential impacts and events. These may include acute physical damage from variations in weather patterns (for example severe storms, coastal/tidal flooding, drought) or chronic impacts (for example sea level rise and temperature increase).

Key Risk and Opportunity Timeframes: **S** Short-term (0-2 Years) **M** Medium-term (2-5 years) **L** Long-term (+5 years)

Physical Risk	TCFD Category	Risk Description	Risk Mitigation
Extreme weather events	Acute Physical Risk timeframe: S M L	Increasing frequency of extreme weather events resulting in greater disruption to flights and the wider network.	<ul style="list-style-type: none"> Implementation of flight planning software using advanced data analytics to optimise flight paths both in planning and dynamically once aircraft are airborne. Investment in advanced operations control thunderstorm detection in Auckland enabling proactive direct-to-aircraft -crew notification. Air New Zealand is a member of New Zealand's New Southern Sky Programme which has been established to future proof New Zealand's airspace with the deployment of advanced technology adoption.
Sea level rise and coastal intrusion	Chronic Physical Risk timeframe: L	Sea level rise and coastal intrusion causing network disruption, loss of access to airports, other aviation support facilities, critical infrastructure and supply chains.	<ul style="list-style-type: none"> Spatial master planning process identifies infrastructure risks and these are reflected in master planning. Ensuring maintenance is fit for purpose and current to legislation and regulation for building resilience.



Risk Management

TCFD Recommendation:

1. Processes for identifying and assessing climate-related risks
2. Processes for managing climate-related risks
3. Processes for identifying, assessing and managing climate-related risks and integrating them into overall risk management

Risks are identified at various levels of the organisation, including a "bottom up" review involving the identification of key risks by business units, review of top Divisional risks by each Executive in respect of their portfolio of functions, a collective review by the Executive team of the top risks for the Company and periodic workshops with the Board to seek "top down" input. These processes are supplemented with specialist input from functional experts, including from the Sustainability, Corporate Finance, Legal and Risk teams, to promote consistency and completeness. Key climate-related risks and opportunities are also identified, assessed, and managed by each business unit in accordance with this process.

Risk activity is driven by a Risk Operating Rhythm which sets a cadence for the review of risks. Key risks identified are entered into Risk Registers and a formal assessment process determines the materiality of the risk.

Risks identified through the ERMF are assigned to a responsible manager (Risk Owner). Key mitigations for identified risks are determined and assessed for effectiveness and action plans developed where required to reduce the risks to an acceptable level.

Significant climate-related risks are brought to the attention of the Executive team and/or the Audit and Risk Committee as part of the process of reporting to those bodies, and where appropriate are escalated to the Board.



CLIMATE-RELATED DISCLOSURES (CONTINUED)



Metrics and Targets

TCFD Recommendation:

1. Metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process
2. Reporting greenhouse gas emissions
3. Targets used by the organisation to manage climate-related risks and opportunities and performance against targets

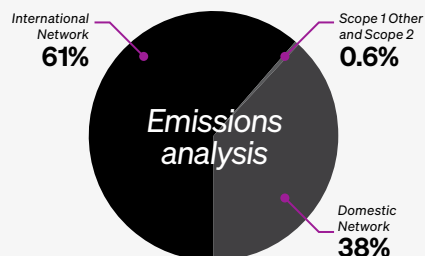
Air New Zealand uses a range of carbon metrics in its internal reporting, strategy formation and decision making. This includes metrics related to assessing the impact of gross carbon emissions, emissions intensity values and the value of New Zealand's carbon compliance obligations. Key metrics are reported below.

The impact of Covid-19 has had a significant impact on Air New Zealand's operations and network as well as the key metrics that Air New Zealand reports on. As a consequence, it is difficult to meaningfully compare the key metrics with prior years.

Carbon Emissions Data ¹	2019	2020	2021
Scope 1 International Network Emissions (Tonnes of CO ₂ -e) ² (Jet Fuel)	3,286,502	2,649,922	817,078
Scope 1 Domestic Network Emissions (Tonnes of CO ₂ -e) (Jet Fuel)	629,876	518,607	508,737
Scope 1 Other Emissions ³ (Tonnes of CO ₂ -e)	9,273	8,106	7,376
Scope 2 Emissions (Tonnes of CO ₂ -e) (Electricity)	3,098	2,832	2,720

Commentary on Carbon Emissions Data

Total Scope 1 and 2 emissions reduced by 58% in 2021. This reduction is due to the reduction in Scope 1 emissions from the international network which reduced by 69%, compared to a 2% reduction in Scope 1 emissions from the domestic network.



Carbon Intensity Data

Carbon intensity data below provides a measure of emissions generated for each kilogram of payload flown.

This is the prominent metric for benchmarking airline carbon intensity. Air New Zealand aims to improve carbon intensity by reducing emissions and maximising total payload carriage (RTK)⁴.

		2019	2020	2021
International Network	Grams of CO ₂ -e per Revenue Tonne Kilometre (RTK)	726	747	972
Domestic Network	Grams of CO ₂ -e per Revenue Tonne Kilometre (RTK)	1,028	1,112	1,168

1. Air New Zealand discloses its emissions within its Greenhouse Gas (GHG) Inventory report, full definitions of emission scopes can be found within that report, extracts from that report are duplicated here within. Deloitte was engaged to provide reasonable assurance over the 2021 GHG Inventory Report. Refer to the reporting and communications page on Air New Zealand's website for the full GHG Inventory and Assurance Report.
2. Gases included in the carbon dioxide equivalents (CO₂-e) factor are carbon dioxide (CO₂), methane (CH₄) and nitrous oxide (N₂O).
3. Scope 1 other emissions include the combustion of jet fuel from ground operations, LPG, natural gas, diesel, petrol, and wood pellets.
4. Revenue Tonne Kilometre (RTK) is a measure of the weight that has been paid for on the aircraft (freight and passengers) multiplied by the number of kilometres transported. Freight values are from Air New Zealand records, and passenger weights are estimated at 100kg per passenger (including checked and carry-on baggage) as recommended by IATA for generating a fuel efficiency target. CO₂-e emissions are from Air New Zealand's use of aviation fuel over the same time period.

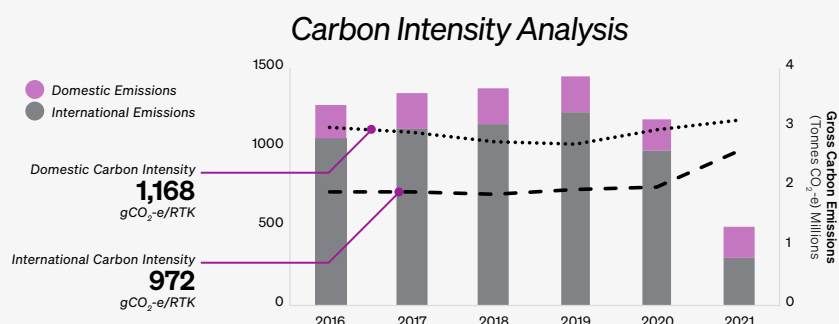
CLIMATE-RELATED DISCLOSURES (CONTINUED)



Metrics and Targets (continued)

Commentary on Carbon Intensity Data

Air New Zealand's carbon intensity (measured in gCO₂-e/RTK) increased 31% compared to 2020. This increase was largely due to New Zealand border restrictions leading to lower than usual load factors on the international network and multiple national lock downs impacting load factors on the domestic network.



Targets

Air New Zealand is a participant on a technical working group established by the Science Based Targets Initiative (SBTi), to provide input on the development of a target-setting tool for the aviation sector. The tool will enable airline's to set a science-based carbon reduction target aligned to the ambition of limiting global warming in line with the ambitions of the Paris Climate Agreement.

Summary of Climate Targets

- Commitment to net zero emissions by 2050.
- A cap on net CO₂ emissions from international aviation from 2020 (carbon-neutral growth). Achieved through the Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA).

Air New Zealand is also committed to meeting the International Air Transport Association (IATA)'s carbon reduction targets.



DIRECTORS' PROFILES

The following directors held office as at 30 June 2021:

Dame Therese Walsh DNZM, BCA, FCA Chairman

Independent Non-Executive Director

Appointed 1 May 2016

Dame Therese Walsh is an Independent director and Chairman of Air New Zealand. She is also a director of ASB Bank Limited, and Contact Energy Limited, and a board member of Antarctica NZ.

Previously she was the Head of New Zealand for the ICC Cricket World Cup 2015 Limited, and the Chief Operating Officer for Rugby New Zealand 2011 Limited. She has also been Chairman of TVNZ Limited, a director of NZX Limited, NZ Cricket and Save the Children NZ, Trustee of Wellington Regional Stadium, CFO at the New Zealand Rugby Union and part of the team that worked on the winning bid to host RWC 2011. Prior to this she was an auditor at KPMG.

Dame Therese is a Fellow of Chartered Accountants Australia and New Zealand, and a commerce graduate from Victoria University. In 2013, she was named the inaugural supreme winner of the Women of Influence Awards and was awarded a Sir Peter Blake Trust Leadership Award in 2014. She became a Dame Companion of the New Zealand Order of Merit in June 2015.

Janice (Jan) Dawson CNZM, BCom, FCA Deputy Chairman

Independent Non-Executive Director

Appointed 1 April 2011

Ms Dawson is Chairman of Westpac New Zealand Limited and a director of AIG Insurance New Zealand Limited and Meridian Energy Limited. Ms Dawson is a member of the University of Auckland Council and the Capital Investment Committee of the National Health Board.

Ms Dawson was a partner of KPMG for 30 years, specialising in audit and risk advisory, and the Chair and Chief Executive of KPMG New Zealand from 2006 until 2011.

Ms Dawson holds a Bachelor of Commerce from the University of Auckland. She is a Fellow of Chartered Accountants Australia and New Zealand, a Fellow of the Institute of Directors in New Zealand, a Paul Harris Fellow, a North Shore Business Hall of Fame Laureate (2010) and named Chartered Accountant of the Year in 2011 by the New Zealand Institute of Chartered Accountants.

Dean Bracewell

Independent Non-Executive Director

Appointed 20 April 2020

Mr Bracewell has significant experience in the freight and logistics industry, with the majority of his career spent at Freightways Limited where he held a number of leadership and Executive roles, including most recently as Managing Director from 1999 to 2017.

Mr Bracewell is a Director of Tainui Group Holdings Limited, Property for Industry Limited and the Halberg Foundation. He was a director of the public policy think tank "The New Zealand Initiative" and its predecessor the "New Zealand Business Roundtable" from 2011 to 2015.

Mr Bracewell is of Ngāti Maniapoto and Ngāi Te Rangi descent.

Laurissa Cooney BMS(Hons), FCA, CMInstD

Independent Non-Executive Director

Appointed 1 October 2019

Ms Cooney is a Fellow of Chartered Accountants Australia and New Zealand, and a Chartered Member of the Institute of Directors in New Zealand. She has previously held senior manager, auditing and consulting roles with Deloitte in New Zealand and Deloitte Touche in London and was the Chief Financial Officer for Te Whare Wānanga o Awanuiārangi.

Ms Cooney currently serves as the Chair of Tourism Bay of Plenty, and is an Independent Non-Executive Director for Goodman (NZ) Limited, Accordant Group Limited and Aotearoa Circle and a Trustee on the Charitable Investment Trust for Ngāi Tai ki Tāmaki. She also holds a role as an independent director on the Audit & Risk board of Ngā Tāngata Tiaki and was previously a committee member for the Institute of Directors Bay of Plenty Branch. She was a 2017 recipient of the Institute of Directors Emerging Director Award.

Ms Cooney is of Te Āti Hau Nui a Pāpā Rangi (Whanganui) descent.

DIRECTORS' PROFILES (CONTINUED)

Larry De Shon BA Communications, BA Sociology

Independent Non-Executive Director

Appointed 20 April 2020

Mr De Shon has more than 40 years' experience in the Aviation and transportation industries.

Prior to joining Air New Zealand's Board in April 2020, he was Chief Executive Officer of Avis Budget Group, Inc, where he was responsible for more than 30,000 employees globally.

He also spent 28 years with United Airlines where he held a number of Executive roles across key business areas such as Airport Operations, Marketing and On-Board Service. During his time as the head of United's worldwide Airport Operations, he oversaw the airline's ground operations, logistics, safety, customer service, product development and internal communications teams.

Mr De Shon is a non-executive director for The Hartford Financial Services Group Inc, a US-based Fortune 500 investment and insurance company.

Mr De Shon has bachelor's degrees in both communications and sociology from the University of Missouri, Kansas City.

Robert (Rob) Jager ONZM, BE(Hons), MBA

Independent Non-Executive Director

Appointed 1 April 2013

Mr Jager spent a career spanning more than 40 years within Shell in a variety of engineering, project development, operations and asset management, executive management and governance roles in New Zealand and overseas. He completed his Bachelor of Engineering degree in 1983 with 1st Class Honours and later gained an MBA with Distinction.

Mr Jager chaired the independent taskforce on Workplace Health and Safety for the New Zealand Government, which has been instrumental in encouraging fundamental changes to New Zealand's approach to workplace health and safety. Mr Jager was awarded Officer of New Zealand Order of Merit (ONZM) in the 2018 New Zealand Honours' for his services to Business and Health and Safety.

Mr Jager has been Chairman of the Air New Zealand Health, Safety and Security Committee since September 2014.

Linda Jenkinson MBA, BBS

Independent Non-Executive Director

Appointed 1 June 2014

Ms Jenkinson is a proven global entrepreneur who has started three multi-national companies, one of which listed on the NASDAQ. Most recently she was the co-founder of John Paul, a global concierge services and digital solutions company that services some of the world's leading customer facing businesses.

Ms Jenkinson currently chairs Guild Super, Jaxsta and Unicef Aotearoa NZ. She is also a director of the Eclipx Group in Australia, a director of Harbour Asset Management and a trustee and secretary of the Massey University Foundation in the United States. Ms Jenkinson is the Founder of LevelUp which supports high-growth companies into hyper-growth.

Previously Ms Jenkinson was a partner at A.T. Kearney in their Global Financial Services Practice and was a leader in A.T. Kearney's Global Sourcing Practice. Ms Jenkinson holds a Master of Business Administration from The Wharton School, University of Pennsylvania and a Bachelor of Business Studies from Massey University.

Jonathan Mason MBA, MA, BA

Independent Non-Executive Director

Appointed 1 March 2014

Mr Mason has more than 30 years' experience in the financial sector, with an emphasis on emerging markets.

Prior to joining Air New Zealand's Board in March 2014, he was Fonterra Co-operative Group's Chief Financial Officer from 2009.

Mr Mason has had governance experience for organisations in both New Zealand and the US. His current directorships include Vector Limited, Westpac NZ and Zespri Group Limited. Mr Mason also serves as an Adjunct Professor of Management at the University of Auckland, specialising in international finance.

Changes to Board Membership

There were no changes to Board membership during the reporting period.



INTERESTS REGISTER

No disclosures were made of interests in transactions under s140(1) of the Companies Act 1993.

Directors have made general disclosures of interests in accordance with s140(2) of the Companies Act. Current interests, and those which ceased during the year, are tabulated below. New disclosures advised since 1 July 2020 are italicised.

Dame Therese Walsh	Antarctica NZ ASB Bank Limited Climate Change Commission – nomination panel Contact Energy Limited On Being Bold Limited Therese Walsh Consulting Limited Victoria University Wellington Homeless Women's Trust	Director Director Member Director Director Director Pro-Chancellor Ambassador
Jan Dawson	AIG Insurance New Zealand Limited Jan Dawson Limited Meridian Energy Limited National Health Board Capital Investment Committee University of Auckland Council Westpac New Zealand Limited World Sailing – resignation advised 24 November 2020	Director Director Director Member Member Chairman Director
Dean Bracewell	Ara Street Investments Limited Dean Bracewell Limited Freightways Limited Halberg Trust Property for Industry Limited Tainui Group Holdings Limited	Director and Shareholder Director and Shareholder Shareholder Director Director Director
Laurissa Cooney	<i>Accordant Group Limited (formerly AWF Madison Group Limited)</i> <i>GMT Bond Issuer Limited</i> <i>GMT Wholesale Bond Issuer Limited</i> <i>Goodman (NZ) Limited</i> <i>Goodman Property Aggregated Limited</i> Ngā Tāngata Tiaki – Audit Committee Ngāi Tai ki Tāmaki Charitable Investment Trust <i>The Aotearoa Circle Trust</i> Western Bay of Plenty Tourism and Visitors Trust (“Tourism Bay of Plenty”)	<i>Director</i> <i>Director</i> <i>Director</i> <i>Director</i> <i>Director</i> Member Trustee <i>Guardian</i> Trustee (Chair)
Larry De Shon	The Hartford Financial Services Group, Inc	Director
Linda Jenkinson	Cryptfolio Limited – ceased 8 December 2020 Eclix Group Limited Gold Cross Products & Services Pty Ltd Guild Link Pty Ltd – ceased 8 December 2020 Guild Trustee Services Limited Harbour Asset Management Limited Jaxsta Limited Massey University US Foundation RewardChain Limited – ceased 8 December 2020 Te Auaha Limited UNICEF NZ Valocity Limited – ceased 8 December 2020 ValueRoad Limited – ceased 7 July 2020	Shareholder Director Chair Director Director Director Director Director and Secretary Shareholder Director Chair Advisor Shareholder
Jonathan Mason	Beloit College (USA) Board of Trustees Dilworth School for Boys New Zealand Assets Management Limited – ceased 30 November 2020 University of Auckland Endowment Fund Vector Limited Westpac New Zealand Limited World Wide Fund for Nature New Zealand Zespri Group Limited	Trustee Trustee Director Trustee Director Director Trustee Director

There have been no interest register entries in respect of use of company information by directors.

DIRECTORS' INTERESTS IN AIR NEW ZEALAND SECURITIES

Directors had relevant interests in shares as at 30 June 2021 as below:

	Interest	Shares
Jan Dawson	Beneficial	20,000
Larry De Shon	Beneficial	50,000
Rob Jager	Beneficial	24,500
Linda Jenkinson	Beneficial	22,000
Jonathan Mason	Beneficial	29,000
Dame Therese Walsh	Beneficial	100,000

INDEMNITIES AND INSURANCE

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



EMPLOYEE REMUNERATION

	Remuneration paid in FY21 including base and exit payments for FY21, and performance rights issued under the LTI scheme that relate to FY20 performance*	
	New Zealand Management	Aircrew, Engineering, Overseas and Other
100,000 - 110,000	171	357
110,000 - 120,000	155	302
120,000 - 130,000	107	239
130,000 - 140,000	84	195
140,000 - 150,000	57	221
150,000 - 160,000	63	129
160,000 - 170,000	41	103
170,000 - 180,000	36	124
180,000 - 190,000	15	52
190,000 - 200,000	14	58
200,000 - 210,000	12	75
210,000 - 220,000	12	62
220,000 - 230,000	12	54
230,000 - 240,000	3	44
240,000 - 250,000	2	39
250,000 - 260,000	3	19
260,000 - 270,000	3	21
270,000 - 280,000	3	22
280,000 - 290,000	1	16
290,000 - 300,000	2	23
300,000 - 310,000	2	20
310,000 - 320,000	-	20
320,000 - 330,000	1	16
330,000 - 340,000	1	15
340,000 - 350,000	3	18
350,000 - 360,000	-	12
360,000 - 370,000	3	6
370,000 - 380,000	1	11
380,000 - 390,000	3	8
390,000 - 400,000	1	13
400,000 - 410,000	3	4
410,000 - 420,000	1	5
420,000 - 430,000	1	6
430,000 - 440,000	3	2
440,000 - 450,000	-	4
450,000 - 460,000	1	3
470,000 - 480,000	1	3
480,000 - 490,000	-	3
490,000 - 500,000	-	2
500,000 - 510,000	-	1
510,000 - 520,000	1	1
520,000 - 530,000	3	-
530,000 - 540,000	-	1
540,000 - 550,000	2	-
550,000 - 560,000	1	1
570,000 - 580,000	-	1
580,000 - 590,000	1	-
640,000 - 650,000	1	-
660,000 - 670,000	1	-
690,000 - 700,000	1	-
700,000 - 710,000	1	-
770,000 - 780,000	1	-
890,000 - 900,000	1	-
930,000 - 940,000	1	-
1,020,000 - 1,030,000	1	-
1,340,000 - 1,350,000	1	-
1,850,000 - 1,860,000	1	-
2,120,000 - 2,130,000	1	-
2,350,000 - 2,360,000	1	-
2,530,000 - 2,540,000	1	-
Grand Total	842	2,331

* This table includes employees who have exited the business during the year.

EMPLOYEE REMUNERATION (CONTINUED)

Remuneration philosophy

Air New Zealand's remuneration philosophy is aligned with its recruitment and leadership development philosophies and performance management approaches to ensure the attraction, development and retention of talented individuals.

Air New Zealand's remuneration strategy is underpinned by a pay for performance philosophy and uses annual performance incentives to create opportunities to achieve market competitive remuneration levels and in the case of superior performance, total remuneration in excess of market.

Executive remuneration

The CEO and Executive remuneration packages are made up of three components:

- Fixed Remuneration;
- Short-term performance incentive; and
- Long-term performance incentives.

Air New Zealand's People Remuneration and Diversity Committee is kept apprised of relevant market information and best practice, obtaining advice from external advisors when necessary. Remuneration levels are reviewed annually for market competitiveness and alignment with strategic priorities and performance outcomes.

Fixed remuneration

Air New Zealand's philosophy is to set fixed remuneration at the market median for Executives who are fully competent in their role.

In the 2021 financial year, Air New Zealand's Chief Executive Officer and other Executives agreed to reduce their fixed remuneration by 15% until 30 June 2021 due to the impact of Covid-19.

Short-term performance incentives

The annual performance incentive component is delivered through the Air New Zealand Short Term Incentive Scheme (STI). For the CEO, the STI is set at 55% of annual fixed salary at target performance.

Targets have historically related to both Company financial performance and individual targets, and the maximum payment was capped at 200% of target.

In the 2021 financial year no STI payments were made to the CEO or Executives.

For the upcoming 2022 financial year, the targets, weighting and maximum payout have been changed to align incentives to strategic objectives using a broader range of business measures, promote collaboration through shared objectives, and support the business recovery. Under the revised structure 50% of the incentive is based on Company financial results, and 50% is based on Company customer, operational and safety measures. The maximum payment is capped at 175% of target if all performance measures are exceeded.

Long-term performance incentives

Air New Zealand's long-term incentive plan arrangements are designed to align the interests of the CEO and Executives with those of our shareholders and to incentivise participants in the plan to enhance long-term shareholder value. In the 2021 financial year the plan available to Executives was the Air New Zealand Long Term Incentive Performance Rights Plan (LTIP). Participation in any year is by annual invitation at the discretion of the Board.

Long Term Incentive Performance Rights Plan (LTIP)

Performance Rights

LTIP participants are eligible to receive a grant of performance rights. Any grant of performance rights is at the discretion of the People Remuneration and Diversity Committee of the Board of Directors but, in the normal course of events, is expected to equate to a value of 55% of fixed remuneration for the CEO, and between 20% and 40% of fixed remuneration for Executives depending on their seniority. The number of performance rights to be allocated will be determined by an independent valuation of the performance rights carried out each year at the time of issue.

Three years after the date of issue of any performance rights, if the Air New Zealand share price has outperformed the performance hurdle, a proportion of the performance rights will convert to shares. The performance hurdle comprises of an index made up of the NZSX All Gross Index and the Bloomberg World Airline Total Return Index in equal proportions.



EMPLOYEE REMUNERATION (CONTINUED)

The proportion of performance rights that convert to shares will depend on the extent to which the Air New Zealand share price has outperformed the index. In particular:

Performance against index	Percent of Rights Vesting
<100%	nil
100%	50%
101% – 119%	Additional 2.5% vesting per 1% increment
120%	100% (maximum)

If vesting is not achieved on the third anniversary of the issue date, 50 percent of performance rights will lapse. For the remaining 50 percent there will be a further 6 month opportunity for the performance rights to vest. If performance rights do not vest at that time, they also lapse.

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

Mandatory Shareholding

Participants are required to commit to investing a specified amount to purchase shares in the Company. The amount is set at a value of 55% of fixed remuneration for the CEO, and between 20% and 40% of fixed remuneration for Executives depending on their seniority.

Until participants have attained this target, any shares issued to them from vested performance rights must be retained as part of the mandatory shareholding. This holding must be maintained while continuing to participate in the LTIP. Executives are not required to purchase shares outside of the LTIP to satisfy this mandatory shareholding requirement.

Chief Executive Officer Remuneration

CEO Target Remuneration

Based on remuneration components outlined earlier, CEO target remuneration is as follows:

Financial Year	CEO	Salary ¹ \$	Benefits ² \$	STI ³ \$	LTIP ⁴ \$	CRSRP ⁵ \$	Summary \$
2021	Greg Foran	1,650,000	111,652	907,500	907,500	-	3,576,652
2020	Greg Foran	1,650,000	102,300	907,500	907,500	-	3,567,300
2020	Christopher Luxon	1,600,000	138,470	880,000	880,000	800,000	4,298,470

- These are full year salary equivalents. As part of the response to Covid-19, Greg Foran's annual contracted salary decreased from \$1,650,000 to \$1,400,000 for the 2021 financial year.
- Benefits include superannuation (KoruSaver scheme) and travel taken in the relevant financial year. As a member of the scheme the CEO is eligible to contribute and receive a matching Company contribution up to 4% of gross taxable earnings (including STI). The CEO and eligible beneficiaries are entitled to a number of trips for personal purposes at no cost to the individual. The dollar value represents the actual benefit received in each financial year, as no target is available for benefits. For Greg Foran's benefit calculation, 4% Kiwisaver on his target STI has been included as no actual STI was available. This is an estimated figure which will be confirmed at the end of the financial year.
- STI target entitlement is 55% of Salary.
- The Long-Term Incentive Plan remains at risk. Each year Performance Rights are awarded with a term of three years. At the end of three years after the date of issue of any Performance Rights, if the Air New Zealand share price has outperformed the performance hurdle, a proportion of the Performance Rights will convert to shares. The performance hurdle comprises an index made up of the NZSX All Gross Index and the Bloomberg World Airline Total Return Index in equal proportions. Should Air New Zealand's share price not perform better than a comparison index the granted Performance Rights will lapse. Christopher Luxon retained the Performance Rights awarded in the 2018 and 2019 programmes.
- Christopher Luxon also participated in the CEO Restricted Share Rights Plan (CRSRP) which commenced in the 2016 financial year, under which restricted share rights could be issued to the CEO. As CEO, he was not granted any further CRSRPs from the date of his resignation and those already awarded have since vested or forfeited according to the CRSRP rules.

EMPLOYEE REMUNERATION (CONTINUED)

CEO Realised Remuneration

Financial Year	Period	CEO ¹	Salary ² \$	Benefits ³ \$	STI ⁴ \$	Rights Vested	
						LTIP ⁵ #	CRSRP ⁶ #
2021	01/07/20 – 30/06/21	Greg Foran	1,400,000	65,352	-	-	-
2020	03/02/20 – 30/06/20	Greg Foran	594,231	23,769	-	-	-
2020	01/07/19 – 03/01/20	Christopher Luxon	1,676,220	142,387	901,698	922,778	275,758

Comments to the table:

1. Jeff McDowall performed the role of Acting Chief Executive Officer from 25 September 2019 to 7 February 2020. In recognition of Jeff McDowall's additional responsibilities during that period, he received additional remuneration as part of his base remuneration.
2. Salary includes cash paid to, or received by, the CEO in respect of the financial period. As part of the response to Covid-19, Greg Foran agreed to reduce his annual contracted salary from \$1,650,000 to \$1,400,000 for the financial year.
3. Benefits include superannuation (KoruSaver scheme) and travel. As a member of the Air New Zealand's group superannuation scheme, KoruSaver, the CEO is eligible to contribute and receive a matching Company contribution up to 4% of gross taxable earnings (including STI). The CEO and eligible beneficiaries are entitled to a number of trips for personal purposes at no cost to the individual.
4. STI in the reporting period reflects the cash value of amounts received where entitlement is determined by the achievement of performance measures that relate to the current period and is not the result of an award made in a previous period. As Air New Zealand suspended the STI scheme for the 2021 financial year due to the impact of Covid-19, no incentive was payable or paid.
5. LTIP includes the number of shares issued to the CEO on conversion of the Performance Rights, where the Air New Zealand share price has outperformed the performance hurdle. The performance hurdle comprises of an index made up of the NZSX All Gross Index and the Bloomberg World Airline Total Return Index in equal proportions. No rights converted to shares in the 2021 financial year.
6. Christopher Luxon also participated in the CEO Restricted Share Rights Plan (CRSRP) which commenced in the 2016 financial year, under which restricted share rights could be issued to the CEO. The CEO was not granted any further CSRSPs from the date of his resignation and those already awarded have since vested or forfeited according to the plan rules.

CEO Share Rights Granted 2021 Financial Year

CEO	LTIP ¹ #
Greg Foran	1,075,237

Comments to the table:

1. LTIP includes the number of Performance Rights granted in September 2020 (FY21). The Long-Term Incentive Plan remains at risk. Three years after the date of issue of any Performance Rights, if the Air New Zealand share price has outperformed the performance hurdle, a proportion of the Performance Rights will convert to shares. The performance hurdle comprises of an index made up of the NZSX All Gross Index and the Bloomberg World Airline Total Return Index in equal proportions. Should Air New Zealand's share price not perform better than a comparison index the granted Performance Rights will lapse.

CEO Pay for Performance Calculation

Greg Foran

Scheme	Description	Performance measures	Percentage/Rating achieved
STI	STI is set at 55% of fixed remuneration and has historically been based on a combination of Company performance and individual performance measures.	As a result of the impact of Covid-19 the short-term incentive scheme was suspended for the 2021 financial year.	
LTIP	Award of share rights under the Long-Term Incentive Performance Rights Plan is set at 55% of fixed remuneration.	Performance rights vest based on an index made of the NZSX All Gross Index and the Bloomberg World Airline Total Return Index in equal proportions.	100%



SUBSIDIARY AND JOINT VENTURE COMPANIES

The following people were directors of Air New Zealand's subsidiary and joint venture companies in the financial year to 30 June 2021. Those who resigned during the year are signified by (R). These companies are New Zealand incorporated companies except where otherwise indicated.

No director of any subsidiary received beneficially any director's fees or other benefits except as an employee.

Air Nelson Limited	Kelvin Duff Jennifer Page Michael Williams John Whittaker (R)
Air New Zealand Aircraft Holdings Limited	Jennifer Page Baden Smith Richard Thomson Jeffrey McDowall (R)
Air New Zealand Associated Companies Limited	Jennifer Page Leila Peters Richard Thomson Jeffrey McDowall (R)
Air New Zealand Associated Companies (Australia) Limited	Jennifer Page Richard Thomson Jeffrey McDowall (R)
Air New Zealand Express Limited	Jennifer Page Richard Thomson Jeffrey McDowall (R)
Air New Zealand Regional Maintenance Limited	Skye Daniels Carrie Hurihanganui Brendon McWilliam Shehan Sinnaduray (R)
Air New Zealand Travel Business Limited	Jennifer Page Richard Thomson Jeffrey McDowall (R)
ANNZES Engines Christchurch Limited	Jennifer Page Richard Thomson Jeffrey McDowall (R)
Ansett Australia & Air New Zealand Engineering Services Limited	Jennifer Page Richard Thomson Jeffrey McDowall (R)
Eagle Airways Limited	Jennifer Page Michael Williams
Mount Cook Airline Limited	Kelvin Duff Jennifer Page Michael Williams John Whittaker (R)
TEAL Insurance Limited	Jennifer Page Hannah Ringland Michelle Redington (R)
Air New Zealand (Australia) Pty Limited (incorporated in Australia)	Jennifer Page Kathryn Robertson

OTHER DISCLOSURES

Donations

The Air New Zealand Group has made donations totalling \$17,616 in the financial year to 30 June 2021, of which \$17,500 related to the Air New Zealand Environmental Trust. No donations were made to any political party. It is Air New Zealand's policy not to make donations, in cash or in kind, or to provide free of charge travel to political parties.

Substantial product holders

The following information is provided in compliance with Section 293 of the Financial Markets Conduct Act 2013 and is stated as at 30 June 2021. The total number of listed Ordinary shares of Air New Zealand Limited at that date was 1,122,844,227.

Substantial Product Holder	Quoted voting products in the Company in which a relevant interest is held
<i>Her Majesty the Queen in Right of New Zealand</i>	588,887,282* ordinary shares

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.

***Relevant interests held as follows:**

As reported in its most recent Substantial Security Holder notice dated 6 July 2015, held by Her Majesty the Queen in Right of New Zealand acting by and through her Minister of Finance (582,854,593 Ordinary shares) and New Zealand Superannuation Fund (6,032,689 Ordinary shares) being property of Her Majesty the Queen in Right of New Zealand and managed by the Guardians of New Zealand Superannuation.



OPERATING FLEET STATISTICS

As at 30 June 2021*

Boeing 777-300ER

Number: 7
Average Age: 9.2 years
Maximum Passengers: 342
Cruising Speed: 910 km/hr



Boeing 777-200ER

Number: 8
Average Age: 15.2 years
Maximum Passengers: 312
Cruising Speed: 910 km/hr



Boeing 787-9 Dreamliner

Number: 14
Average Age: 4.8 years
Maximum Passengers: 302 or 275
Cruising Speed: 910 km/hr
Average Daily Utilisation: 9:07 hrs



Airbus A320/321NEO

Number: 11
Average Age A321: 2.3 years
A320: 2.1 years
Maximum Passengers: A321: 214
A320: 165
Cruising Speed: 850 km/hr
Average Daily Utilisation: A321: 2:17 hrs (to 31 Mar)
6:05 hrs (from 1 Apr to 30 Jun)
A320: 1:52 hrs (to 31 Mar)
5:52 hrs (from 1 Apr to 30 Jun)



Airbus A320CEO

Number: 20
Average Age: Short-haul: 16.8 years
Domestic: 7.4 years
Maximum Passengers: Short-haul: 168
Domestic: 171
Cruising Speed: 850 km/hr
Average Daily Utilisation: Short-haul: 2:46 hrs
Domestic: 4:44 hrs



ATR 72-600

Number: 28
Average Age: 4.5 years
Maximum Passengers: 68
Cruising Speed: 518 km/hr
Average Daily Utilisation: 5:54 hrs



Bombardier Q300

Number: 23
Average Age: 14.4 years
Maximum Passengers: 50
Cruising Speed: 520 km/hr
Average Daily Utilisation: 5:02 hrs



*Covid-19 related domestic lockdowns and government restrictions on international travel continued to impact Air New Zealand's scheduled operations and aircraft utilisation in the 2021 financial year. As both the Boeing 777-300ER and Boeing 777-200ER fleets are in storage, utilisation data has not been included. Utilisation on the Airbus A320/321NEO aircraft was restricted to Domestic operations prior to the opening of the trans-Tasman bubble in March 2021.

SECURITIES STATISTICS

Top Twenty Shareholders – as at 2 August 2021

Investor Name	Number of Ordinary Shares	% of Ordinary Shares
Her Majesty The Queen In Right Of New Zealand acting by and through her Minister of Finance	582,854,593	51.91
New Zealand Depository Nominee	57,764,604	5.14
Citibank Nominees (NZ) Limited	43,272,347	3.85
HSBC Nominees (New Zealand) Limited	24,331,695	2.17
HSBC Nominees (New Zealand) Limited	20,186,557	1.80
JPMORGAN Chase Bank	11,545,889	1.03
BNP Paribas Nominees NZ Limited	9,520,479	0.85
BNP Paribas Nominees NZ Limited Bpss40	8,635,975	0.77
Accident Compensation Corporation	6,824,680	0.61
Citicorp Nominees Pty Limited	6,292,007	0.56
Xinwei Investment (NZ) Limited	4,388,027	0.39
Public Trust	4,357,067	0.39
BNP Paribas Nominees (NZ) Limited	3,336,799	0.30
Garth Barfoot	3,000,000	0.27
Custodial Services Limited	2,514,013	0.22
Private Nominees Limited	2,471,906	0.22
BNP Paribas Nominees Pty Limited	2,190,454	0.20
Christopher Andrew Anderson & Virginia Ivy Anderson	2,000,000	0.18
Hira Lal Suresh & Uma Lal Suresh	1,911,669	0.17
HSBC Custody Nominees (Australia) Limited	1,715,338	0.15
Total	799,114,099	71.18

Shareholder Statistics – as at 2 August 2021

Size of Holding	Investors	% Investors	Shares	% Issued
1-1,000	24,290	46.81	11,556,492	1.03
1,001-5,000	17,179	33.11	43,575,102	3.88
5,001-10,000	5,076	9.78	38,423,986	3.42
10,001-100,000	4,974	9.59	129,754,011	11.56
100,001 and Over	371	0.71	899,550,178	80.11
Total	51,890	100.00	1,122,859,769	100.00



SECURITIES STATISTICS (CONTINUED)

Top Twenty Bondholders – as at 2 August 2021

Investor Name	Number of Bonds	% of Bonds
Custodial Services Limited	12,653,000	25.31
Pt (Booster Investments) Nominees Limited	5,783,000	11.57
FNZ Custodians Limited	5,109,000	10.22
Forsyth Barr Custodians Limited	2,460,000	4.92
Mt Nominees Limited	2,000,000	4.00
Investment Custodial Services Limited	1,629,000	3.26
Risk Reinsurance Limited	1,500,000	3.00
JBWERE (NZ) Nominees Limited	1,115,000	2.23
Tea Custodians Limited	1,000,000	2.00
Hobson Wealth Custodian Limited	796,000	1.59
Custodial Services Limited	350,000	0.70
HSBC Nominees (NZ) Limited	260,000	0.52
Forsyth Barr Custodians Limited	240,000	0.48
Dunedin Diocesan Trust Board	200,000	0.40
Andrea Joy Ransley	200,000	0.40
J M Butland Limited	150,000	0.30
Murray Allen Sherwin & Adriana Maria Arron	150,000	0.30
Forsyth Barr Custodians Limited	145,000	0.29
JBWERE (NZ) Nominees Limited	140,000	0.28
FNZ Custodians Limited	130,000	0.26
Total	36,010,000	72.03

Bondholder Statistics – as at 2 August 2021

Size of Holding	Holders	% Holders	Bonds	% Issued
1-1,000	-	-	-	-
1,001-5,000	40	6.99	200,000	0.4
5,001-10,000	139	24.30	1,360,000	2.72
10,001-100,000	373	65.21	11,919,000	23.84
100,001 and Over	20	3.50	36,521,000	73.04
Total	572	100.00	50,000,000	100.00

Current on-market share buybacks

There is no current share buyback in the market.

GENERAL INFORMATION

Stock exchange listings

Air New Zealand's Ordinary Shares have been listed on the NZX Main Board (ticker code AIR) since 24 October 1989. It also has bonds listed on the NZX Debt Market (ticker code AIR020).

Air New Zealand's Ordinary Shares are listed on ASX (ticker code AIZ) as a Foreign Exempt Listing. The Foreign Exempt Listing means that Air New Zealand is expected to comply primarily with the Listing Rules of the NZX Main Board (being the rules of its home exchange) and is exempt from complying with most of ASX's Listing Rules.

On 9 December 2020, the NZ Markets Disciplinary Tribunal approved a settlement agreement pursuant to NZX finding the Company had breached NZX Listing Rule 3.1.1 by not releasing Material Information promptly and without delay upon becoming aware of it and not releasing Material Information via NZX's market announcement platform before releasing it to the public or any other party. The Company received a public censure by the Tribunal and a financial penalty of \$40,000 plus costs. Neither NZX nor ASX has taken any other disciplinary action against the Company during the financial year ended 30 June 2021. In particular there was no other exercise of powers by NZX under NZX Listing Rule 9.9.3 (relating to powers to cancel, suspend or censure an issuer) with respect to Air New Zealand during the reporting period.

On 20 July 2017, Air New Zealand launched a sponsored Level 1 American Depositary Receipt (ADR) programme. Air New Zealand's American Depositary Shares, each representing five Ordinary Air New Zealand shares and evidenced by ADRs, are traded over-the-counter in the United States (ticker code ANZLY).

Place of incorporation

New Zealand

In New Zealand, the Company's Ordinary Shares are listed with a "non-standard" (NS) designation. This is due to particular provisions of the Company's Constitution, including the rights attaching to the Kiwi Share¹ held by the Crown and requirements regulating ownership and transfer of Ordinary Shares.

New Zealand Exchange

Waivers:

The following waivers from the NZX Listing Rules were granted to the Company or relied upon by the Company during the financial year ended 30 June 2021:

1. Waivers and approvals relating to the Kiwi Share provisions of the Constitution are contained in a decision of NZX Regulation dated 23 July 2019.
2. Under a waiver granted on 29 November 2019 Air New Zealand was permitted to renew an agreement with the Crown (acting through the Ministry of Business, Innovation and Employment) under which Air New Zealand provides government agencies with discounted fares, without the requirement to obtain shareholder approval (as the Crown is a Related Party) under Listing Rule 5.2.1.
3. Air New Zealand was granted a waiver on 19 March 2020 from the requirement under Rule 5.1.1 to obtain shareholder approval to enter into and perform Loan Arrangements in connection with a Loan to be provided by the Crown, where the Loan Arrangements were likely to be a Material Transaction.
4. Air New Zealand was granted a waiver on 19 March 2020 from the requirement under Rule 5.2.1 to obtain shareholder approval to enter into and perform Loan Arrangements in connection with a Loan to be provided by the Crown, where the Crown was a Related Party.
5. On 30 April 2021 Air New Zealand sought and was granted a waiver from the requirement under Rule 5.1.1 to obtain shareholder approval to enter into and perform Loan Arrangements in connection with the extension of a Loan provided by the Crown, where the Loan Arrangements were likely to be a Material Transaction. The waiver from Rule 5.1.1 was granted subject to two independent directors of the Board certifying that (i) the Loan Arrangements have and will be negotiated on an arm's length basis; (ii) entry into the Loan Arrangements is in the best interests of all Air New Zealand shareholders (other than the Crown); and (iii) the Loan Arrangements are not a major transaction requiring shareholder approval for the purposes of the Companies Act 1993.
6. On 30 April 2021 Air New Zealand sought and was granted a waiver from the requirement under Rule 5.2.1 to obtain shareholder approval to enter into and perform Loan Arrangements in connection with the extension of a Loan provided by the Crown, where the Crown was a Related Party. The waiver from Rule 5.2.1 was granted subject to two independent directors of the Board certifying that (i) the Loan Arrangements have and will be negotiated on an arm's length basis; (ii) entry into the Loan Arrangements is in the best interests of all Air New Zealand shareholders (other than the Crown); and (iii) the Crown, as the majority shareholder in Air New Zealand, has not influenced the Air New Zealand Board's decision to enter into the Loan Arrangements.

Compliance with Listing Rules:

For the purposes of ASX Listing Rule 1.15.3, Air New Zealand Limited confirms the Company continues to comply with the NZX Listing Rules.

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 shareholder's 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 DIRECTORY

New Zealand

Link Market Services Limited
Level 30, PwC Tower
15 Customs Street West, Auckland 1010
PO Box 91976, Auckland 1142
New Zealand

Investor Enquiries:

Phone: (64 9) 375 5998
Fax: (64 9) 375 5990
Email: enquiries@linkmarketservices.co.nz

Australia

Link Market Services Limited
Level 12, 680 George Street
Sydney 2000, Australia
Locked Bag A14, Sydney South
NSW 1235
Australia

Investor Enquiries:

Phone: (61) 1300 554 474
Fax: (61 2) 9287 0303

Investor Relations

Investor Relations Office
Private Bag 92007, Auckland 1142
New Zealand
Phone: 0800 22 22 18 (New Zealand)
(64 9) 336 2607 (Overseas)
Fax: (64 9) 336 2664
Email: investor@airnz.co.nz
Website: airnzinvestor.com

Annual Meeting

Date: 28 October 2021
Time: 1:00 pm
Venue: ASB Waterfront Theatre
138 Halsey Street
Auckland

Current Credit Rating

Moody's rate Air New Zealand Baa2

Auditor

Deloitte Limited (on behalf of the Auditor-General)
Deloitte Centre
80 Queen Street, Auckland Central
PO Box 115033, Shortland Street
Auckland 1140
New Zealand

Registered Office

New Zealand

Air New Zealand Limited
Air New Zealand House
185 Fanshawe Street
Auckland 1010
Postal: Private Bag 92007
Auckland 1142, New Zealand
Phone: (64 9) 336 2400
Fax: (64 9) 336 2401
NZBN 9429040402543

Australia

Level 12
7 Macquarie Place
Sydney
Postal: GPO 3923, Sydney
NSW 2000, Australia
Phone: (61 2) 8235 9999
Fax: (61 2) 8235 9946
ABN 70 000 312 685

Board of Directors

Dame Therese Walsh – Chairman
Jan Dawson – Deputy Chairman
Dean Bracewell
Laurissa Cooney
Larry De Shon
Rob Jager
Linda Jenkinson
Jonathan Mason

Chief Executive Officer

Greg Foran

Chief Financial Officer

Richard Thomson

General Counsel and Company Secretary

Jennifer Page



AIR NEW ZEALAND 

***You fly for a hug
We fly for you***

A STAR ALLIANCE MEMBER 



NEW ZEALAND'S EXCHANGE
TE PAEHOKO O AOTEAROA

Results announcement

(for Equity Security issuer/Equity and Debt Security issuer)

Results for announcement to the market		
Name of issuer	Air New Zealand	
Reporting Period	12 months to 30 June 2021	
Previous Reporting Period	12 months to 30 June 2020	
Currency	New Zealand Dollars	
	Amount (000s)	Percentage change
Revenue from continuing operations	2,525,000	(48.2%)
Total Revenue	2,525,000	(48.2%)
Net loss from continuing operations	(289,000)	(36.3%)
Total net loss	(289,000)	(36.3%)
Final Dividend (NZ\$)		
Amount per Quoted Equity Security	No final dividend will be paid	
Imputed amount per Quoted Equity Security	N/A	
Record Date	N/A	
Dividend Payment Date	N/A	
NZ\$ Amount	Current Period	Prior Comparative Period
Net tangible assets per Quoted Equity Security	\$0.82	\$1.01
A brief explanation of any of the figures above necessary to enable the figures to be understood	Refer to media release.	
Authority for this announcement		
Name of person authorised to make this announcement	Jennifer Page, General Counsel and Company Secretary	
Contact person for this announcement	Leila Peters, General Manager Corporate Finance	
Contact phone number	+64 9 336 2607	
Contact email address	investor@airnz.co.nz	
Date of release through MAP	26 August 2021	

Audited financial statements accompany this announcement.

FULL YEAR RESULTS ANNOUNCEMENT

AIR NEW ZEALAND LIMITED

Full Year Ended 30 June 2021 (referred to in this report as the "current full year")

1 Information prescribed by NZX

Refer to Results for announcement to the market.

2 The following information, which may be presented in whatever way the Issuer considers is the most clear and helpful to users, e.g., combined with the body of the announcement, combined with notes to the financial statements, or set out separately.

(a) A Statement of Financial Performance

Refer to the Financial Statements.

(b) A Statement of Financial Position

Refer to the Financial Statements.

(c) A Statement of Cash Flows

Refer to the Financial Statements.

(d) Details of individual and total dividends or distributions and dividend or distribution payments, which:

(i) have been declared, and

(ii) relate to the period (in the case of ordinary dividends or ordinary dividends and special dividends declared at the same time) or were declared within the period (in the case of special dividends).

A final dividend in respect of the 2019 financial year of 11.0 cents per Ordinary Share was paid on 18 September 2019. Imputation credits were attached and supplementary dividends paid to non-resident shareholders

(e) A Statement of Movements in Equity

Refer to the Financial Statements.

(f) Net tangible assets per Quoted Equity Security with the comparative figure for the previous corresponding period

(NZ Cents Per Share)	Current Year	Previous Year
Ordinary Shares	82	101

(g) Commentary on the results

	Measurement	Current Year	Previous Year
(i) Basic and diluted earnings per share	NZ cents per share	(25.7)	(40.4)
(ii) Returns to shareholders (see also section (d) above)			
Final dividend on Ordinary Shares*	\$NZ'm	-	123

* Reflects the final dividend for the 2019 financial year.

(iii) Significant features of operating performance:

Refer to the media release.

(iv) Segmental results:

Industry segment

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

FULL YEAR RESULTS ANNOUNCEMENT

AIR NEW ZEALAND LIMITED

Full Year Ended 30 June 2021 (referred to in this report as the "current full year")

(iv) Segmental results (continued)

Geographical segment

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

	Current Year \$NZ'm	Previous Year \$NZ'm
Analysis of revenue by geographical region of original sale		
New Zealand	2,033	2,894
Australia and Pacific Islands	153	532
United Kingdom and Europe	13	233
Asia	150	446
Americas	168	731
Total operating revenue	2,517	4,836

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

(v) Discussion of trends in performance:

Refer to the media release.

(vi) The Issuer's dividend policy

Refer to Air New Zealand website - <https://www.airnewzealand.co.nz/dividend-history>

(vii) Any other factors which have or are likely to affect the results, including those where the effect could not be quantified:

Refer to the media release.

(h) Audit of financial statements

This report is based on accounts which have been audited. The audit opinion has been attached to the back of the financial statements and contains no qualifications.

Basis of preparation

This report is compiled in accordance with New Zealand Generally Accepted Accounting Practice ("NZ GAAP"). NZ GAAP consists of New Zealand equivalents to International Financial Reporting Standards ("NZ IFRS") and other applicable financial reporting standards as appropriate to profit-oriented entities.

Accounting policies

Refer to the Statement of Accounting Policies and Notes in the financial statements.

Changes in accounting policies

There have not been any accounting policy changes during the year.

Audit Report

A copy of the audit report is attached at the back of the financial statements.

Additional information

Not applicable.

This full year report was approved by the Board of Directors on 26 August 2021.



Dame Therese Walsh
Chairman