Media Release

Media release
27 August 2020

Air New Zealand adjusted its business quickly to manage the impact of Covid-19

Air New Zealand today announces its 2020 result, affirming the unprecedented effect of the Covid-19 pandemic on its business and the global aviation industry following extensive travel and border restrictions which commenced from March.

Air New Zealand is reporting a loss before other significant items and taxation of $87 million[1] for the 2020 financial year, compared to earnings of $387 million in the prior year.

Despite reporting a strong interim profit of $198 million[2] for the first six months of the financial year, and seeing positive demand on North American and regional routes early in the second half, Covid-related travel restrictions resulted in a 74 percent drop in passenger revenue from April to the end of June compared to the prior year, which drove the airline's operating losses.

Statutory losses before taxation, which include $541 million of other significant items, were $628 million, compared to earnings of $382 million last year. Non-cash items of $453 million reflected most of the other significant items, including the $338 million aircraft impairment charge related to grounding of the Boeing 777-200ER fleet for the foreseeable future.

The airline has responded to this crisis with urgency, including securing additional liquidity, structurally reducing its cost base and deferring significant capex spend, whilst ensuring that the business remains well positioned to grow profitably when travel restrictions are eventually removed and customer demand returns.

Quick and decisive action in response to Covid-19

Air New Zealand's Chairman Dame Therese Walsh says she is proud of the way the business has responded to this crisis, acting with speed and agility to lower the cost base, and pivoting quickly to ramp up domestic and cargo services to help keep the New Zealand economy moving. These actions, along with the strategic review the airline has undertaken in parallel to managing this crisis, ensure that Air New Zealand remains in a strong and competitive position when travel restrictions lift.

"The 2020 financial year has been a year of stark contrast. Air New Zealand had a solid start to the year and was focused on driving profitable growth into the second half. We were also preparing to launch the first ever non-stop link between New Zealand and New York and had announced several exciting innovations in the customer experience space.

"Now, nearly 6 months following the declaration of a global pandemic, the $87 million loss we are reporting today, our first loss in 18 years, reflects the quick and severe impact Covid-19 has had on our business" says Dame Therese.

"Faced with such a swift decline in revenue as lockdown restrictions were implemented and borders were closed, we took immediate steps to secure $900 million in additional funding, and drastically

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1 Earnings 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. Earnings before other significant items and taxation is reported within the Group's audited annual financial statements.

2 Represents Earnings before other significant items and taxation.

reduced our cash burn in the knowledge that, for a time, we would be a much smaller business than we had been pre-Covid" Dame Therese says.

In preparation for the eventual recovery of demand, the Board has recently endorsed a refresh of the airline's strategy which is focused on sustaining competitive strengths and ensuring long-term positive outcomes for customers, staff, the broader community and shareholders.

"The Board and I are fully supportive of the new strategy that Greg and his Executive team have been working on in parallel to dealing with this crisis. We have a clear focus on where our business is heading, and I am confident Air New Zealand will be ready when the recovery occurs" Dame Therese says.

Chief Executive Officer Greg Foran will provide more context at the airline's Annual Shareholders' Meeting on 29 September, which will include a discussion of the airline's network focus, enhancements to its Airpoints™ loyalty programme, sustainability focus and digital priorities.

Liquidity and cash burn update

Short-term liquidity as at 25 August 2020 was approximately $1.1 billion, made up of cash and the $900 million standby loan facility from the New Zealand Government. Due to the strong cash position pre-Covid-19, swift action taken by management to reduce cash burn and a better than expected return of domestic demand after the initial lockdown was lifted in New Zealand, the airline has not yet utilised the standby loan facility. However, it expects to start drawing on these funds in the coming days.

Cash burn averaged approximately $175 million per month from April to June, including higher than average refunds, redundancy payments and fuel hedge close out costs, but this reduced to $85 million for July.

The airline is estimating the go forward average monthly cash burn to be in the range of $65 million to $85 million while international travel restrictions remain and assuming resumption of domestic travel with no social distancing requirements, as well as a continuation of government-supported cargo flights.

Dividend and capital structure update

The Board is focused on preserving Air New Zealand's liquidity across a range of potential demand recovery scenarios. Given current financial pressures as the airline manages the impact of Covid-19, the Board has determined that it will not declare a final dividend for the 2020 financial year.

The Government has recently reaffirmed the Crown's long-standing commitment to maintaining its majority shareholding in Air New Zealand, having regard to the unique and critical role the company has in New Zealand's economy and society. This is reflected in the Crown loan facility that provides Air New Zealand with liquidity support whilst the airline works through to a permanent solution. Air New Zealand is engaging constructively with the Crown as it continues to assess its capital structure and funding needs.

Focused on operational resilience

Chief Executive Officer Greg Foran says Covid-19 has highlighted once again that the core strength of the airline is its people and their ability to respond to change quickly.

"I am in awe of the dedication, perseverance, and professionalism of Air New Zealanders across the business and never cease to be amazed at the resilience and strength of our people as we work our way through this crisis.

"Whether it be volunteering to crew repatriation flights to unfamiliar ports, dealing with substantial increases in volume at the call centre, or our cargo team's efforts to keep New Zealand exporters connected to global markets, the response of our people has been nothing short of remarkable" he says.

"I also recognise this has been a particularly trying time for our customers with the mass cancellation of flights and continuing uncertainty regarding international travel. I would like to apologise sincerely for the fact that we didn't live up to customers' expectations in the way we handled the processing of customer credits. I would also like to thank our customers for their ongoing support and patience" says Mr Foran.

Last month, the airline was pleased to roll out the initial stages of a digital tool for customers to view and redeem their credits online. To date, more than 70,000 customers have utilised the tool to redeem existing credits into new bookings.

In June and July, the airline experienced heavy demand for domestic travel, particularly into leisure destinations such as Queenstown and was operating around 70 percent of its pre-Covid Domestic network.

Mr Foran says "It has been great to see our domestic business perform well ahead of our expectations in June and July as the New Zealand public once again shows us that they have an innate love of travel. We are also pleased to have ramped up our cargo offering in recent months, flying more than 50 flights per week under the International Airfreight agreement we signed with the Ministry of Transport in late April. These cargo services ensure key goods such as medical supplies and food continue to flow in and out of New Zealand. However, we have to bear in mind that with almost 70 percent of our revenue derived from international flying, while border restrictions remain in place our business will continue to be significantly impacted. The recent resurgence of community transmission in New Zealand in August, has also reminded us that we cannot afford to be complacent."

"In the airline's 80-year history we have faced many challenges and emerged from each one stronger than before. We entered this crisis in an enviable position, and with our core Domestic network, I believe we are better positioned for recovery than many of our airline peers.

"But given the restructuring and consolidation we had started to see within the global aviation industry, we need to be hyper vigilant and protect our core competitive advantages. It is clear that Covid-19 is unlike any other crisis the aviation industry has experienced and we will need to be more nimble than ever as borders reopen" Mr Foran says.

Outlook for 2021

Given the uncertainty surrounding travel restrictions and the level of demand as these restrictions lift, Air New Zealand is currently not able to provide specific 2021 earnings guidance. However, each of the scenarios we are currently modelling suggest we will make a loss in 2021.

Financial Summary

- Operating revenue of **$4.8 billion**, down 16 percent on the prior year as a result of travel restrictions due to Covid-19
- Total network capacity decline of **21 percent** compared to the prior year
- Cargo revenue of **$449 million**, up 15 percent on the prior year
- Loss before other significant items and taxation of **($87) million**
- Loss before taxation of **($628) million**
- Board has determined not to declare a final dividend for the 2020 financial year, given current financial pressures
- Short-term liquidity of **$1.1 billion** at close of business 25 August 2020, (including funds available under the Government standby loan facility which has not yet been utilised)

Other Significant Items

	2020 full year impact
De-designation of hedges	($105 million) Partial non-cash charge
Aircraft impairment charge	($338 million) non-cash charge
Reorganisation costs	($140 million) Partial non-cash charge
Gain on sale from landing slots	$21 million cash
Disestablishment of fair value hedges	($46 million) non-cash charge
FX gains on uncovered foreign currency debt	$67 million non-cash charge
Total	**($541 million)** of which ($453 million) non-cash items and ($88 million) cash items

Ends
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AIR NEW ZEALAND

2020 ANNUAL FINANCIAL RESULTS

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Forward-looking statements

This presentation contains forward-looking statements. Forward-looking statements often include words such as “anticipate”, “expect”, “intend”, “plan”, “believe”, “continue” or similar words in connection with discussions of future operating or financial performance.

The forward-looking statements are based on management's and directors’ current expectations and assumptions regarding Air New Zealand’s businesses and performance, the economy and other future conditions, circumstances and results. As with any projection or forecast, forward-looking statements are inherently susceptible to uncertainty and changes in circumstances. Air New Zealand’s actual results may vary materially from those expressed or implied in its forward-looking statements.

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Changes in accounting treatment

Throughout this presentation and all related commentary, prior period comparative figures have been restated, where applicable, to reflect the retrospective disestablishment of fair value aircraft hedges following clarifications on the treatment of these hedges by the International Financial Reporting Interpretations Committee during the 2020 reporting period.

The Group's adoption of the new leasing standard (NZ IFRS 16) effective 1 July 2019, has also impacted the way in which the Group presents lease costs and other associated balances in the income statement, balance sheet and statement of cash flows. Prior year comparatives have not been restated, in accordance with the transition provisions of the new standard.

For further information, please refer to Note 27 of the Group's 2020 Annual Financial Statements.

Agenda

Business update

Financial results

Outlook

Q&A

AIR NEW ZEALAND

BUSINESS UPDATE

Greg Foran
Chief Executive Officer

2020 Overview

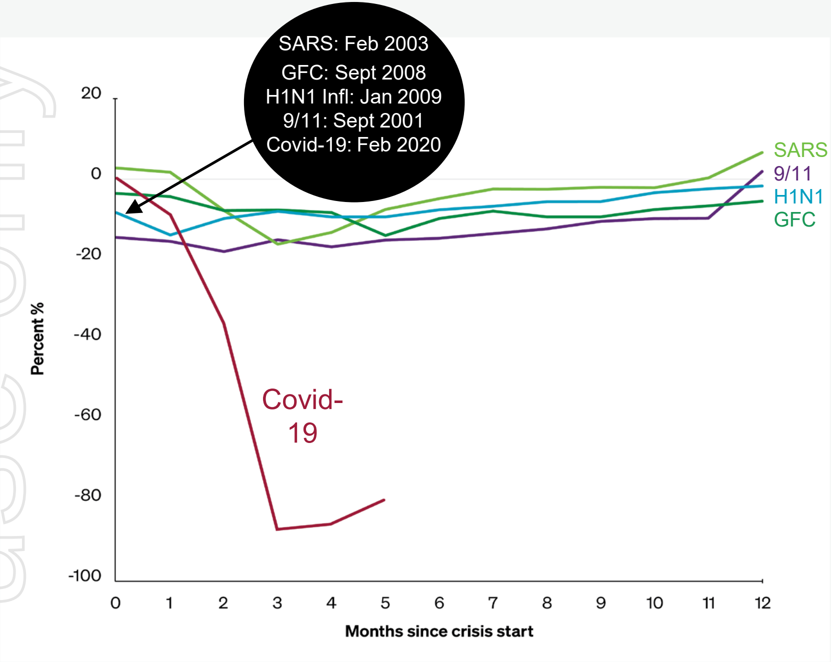
- Reporting a **loss before other significant items and taxation** of **$87 million,** compared to a profit of $387 million last year
  - Solid start to H2 2020
  - Flights into Shanghai and Seoul suspended in Feb 2020, NZ borders subsequently closed to all foreign nationals in early Mar 2020
  - On 23 Mar 2020, New Zealand moves into seven week period of lockdown – all non-essential travel strictly prohibited
  - Air New Zealand capacity declines more than 95% in April
- Including the impact of **other significant items of $541 million**, **statutory losses before taxation** were **$628 million**[1]

- Short-term liquidity **of $1.1 billion as at 25 August 2020** – includes the $900 million standby loan facility with the Government[2]
- Timing of reopening of global borders is uncertain
  - Strong levels of Domestic demand observed June through August, operating ~70% of pre-Covid capacity
  - **Cargo flights continue to exceed expectations**, on a revenue basis now equates to **~30%** of our previous long-haul business
  - Currently not anticipating a return of passenger demand to 2019 levels **until 2023 or beyond**
- The airline **continues to assess its capital structure** and the longer term options available

[1] Aircraft impairments account for $338 million of the other significant items charge. For further detail, please refer to slide 18.
[2] The $900 million facility has not yet been drawn upon as at 27 August 2020.

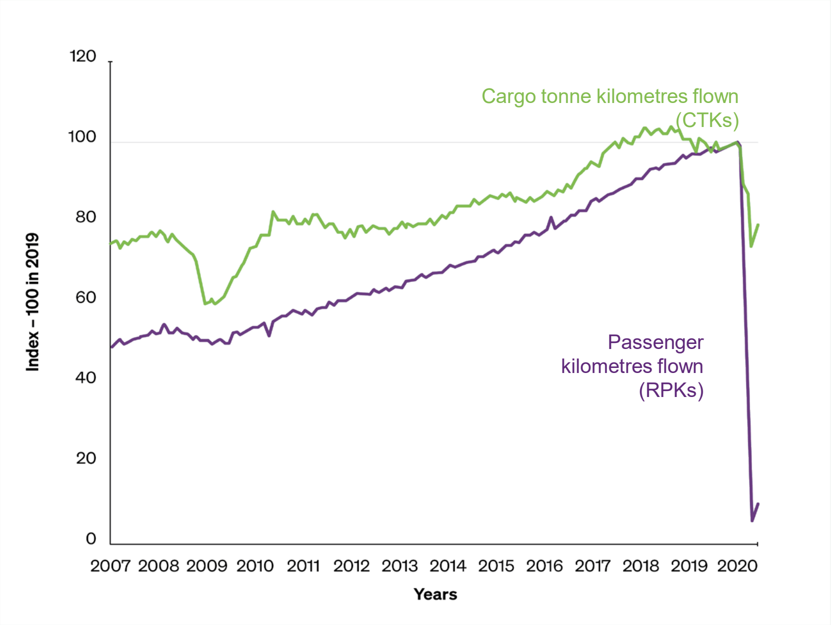
Global demand for air travel has suffered an unparalleled decline following the outbreak of Covid-19

Global ASK (YoY monthly change rate, %)



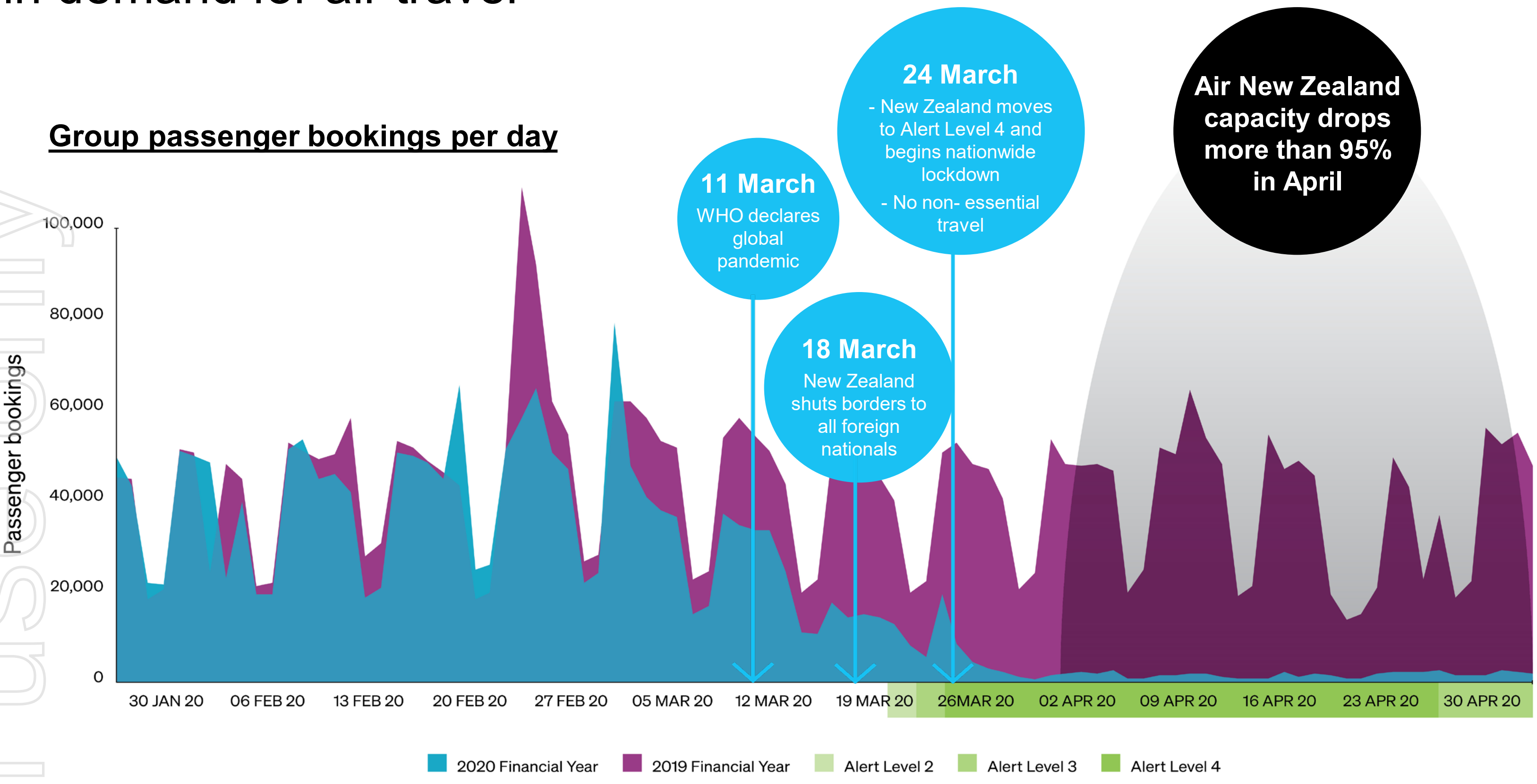
Sources: Financial crisis: IATA, IMF, TradingEconomics.com, Statista.com; DIIO, 2001-2020 data

Passenger kilometres and Cargo tonne kilometres flown



Source: IATA/Tourism Economics, Air Passenger Forecasts, April 2020.

New Zealand's elimination strategy led to a precipitous reduction in demand for air travel



Air New Zealand adjusted its business quickly and is positioned to emerge strongly from this crisis…

- Air New Zealand entered 2H20 in a strong position, with a **resilient balance** sheet, cash **of ~$1 billion** and nearing the **end of its fleet replacement programme**

- **Quick and decisive action** was taken to adjust the business in response to the steep decline in demand that followed the widespread outbreak of Covid-19 in Q3 2020
  - **Swiftly negotiated a $900 million, standby loan facility** with the New Zealand Government
  - Made **significant reductions to the cost base**, including:
    1. Reducing employee numbers by ~4,000 to reflect lower levels of anticipated demand to 2023
    2. Deferral or cancellation of ~$700 million in expected capital expenditure[1]
    3. Cancellation of non-essential spend, reduction in lease costs, modification of supplier terms

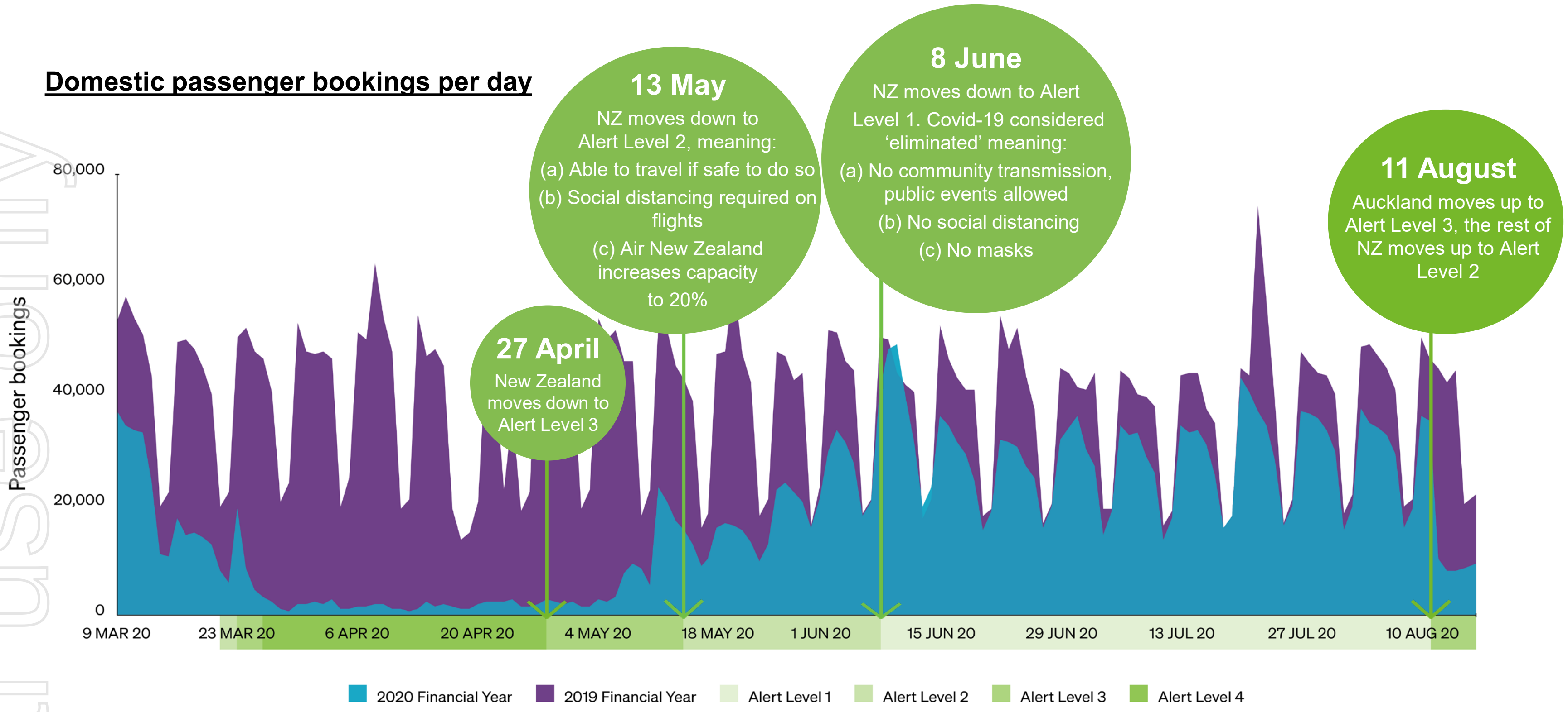
- We have a clear **strategy**, setting us up strongly for the future

- These actions have **structurally reduced the cost base**, ensuring Air New Zealand is competitively **positioned to succeed** and take a pivotal role in New Zealand's economic recovery

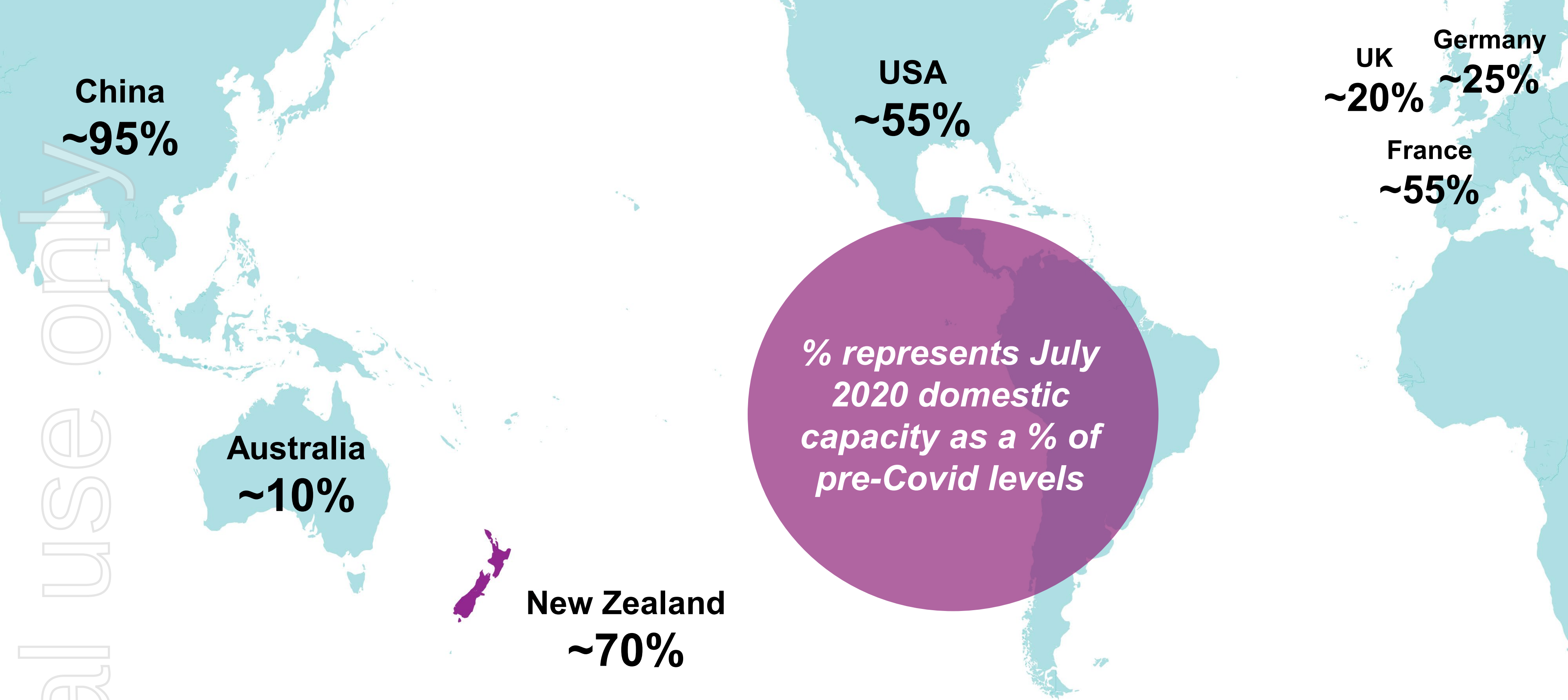
[1] These deferrals/savings are through to December 2022.

…and saw higher than expected levels of Domestic demand following New Zealand's move to Alert Level 1 in June

Domestic passenger bookings per day



Air New Zealand's domestic recovery is happening more quickly than other jurisdiction's around the world



Cargo has also contributed strongly in 2H20, driven by heavy charter volumes and flights under the International Airfreight Capacity scheme

- Overall cargo increased 13%* in 2020, excluding FX, due to:
  - More than 250 charters, to support the movement of pandemic response equipment and personal protective equipment
  - Cargo flights supported by the Government’s International Airfreight Capacity scheme:
    - More than 50 flights operated per week largely to Asia, Australia and North America
    - Vital service to keep NZ export community connected to the global market
    - Scheme recently extended to November 2020
  - Delivering a positive cash contribution

* Reported Cargo revenue increased 15%, inclusive of foreign exchange impact.

However the most important determinant of long-term recovery is the reopening of global borders




- In a typical year, international travel represents two-thirds of Air New Zealand's revenue
  - Under Alert Level 1, observed strong domestic leisure rebound, suggesting Kiwis are substituting international holiday destinations for domestic locations
  - However in the long-term, our business is structured to be a Pacific Rim carrier, offering services to key international destinations
- Uncertainty surrounding the **timing of international borders reopening**
  - Timing is reliant on decisions by various individual governments and authorities – all borders will not open simultaneously

Therefore our priorities are very clear across the short, medium and long-term

Short-term

- Maintain **operational integrity and wellbeing of staff**
- Maintain strong **connection with customers**
- **Overhaul cost base**, reduce pace of cash burn
- Encourage Kiwis to explore NZ, **rebuild the Domestic engine**
- Support recovery of the economy via **cargo**

Medium-term

- Build back a **network of profitable flying**
- **Preserve and protect** competitive advantages
- Leverage strong domestic brand presence and customer loyalty to **stimulate travel on Tasman and Pacific Islands** routes

Long-term

- Return **sustainable level of earnings** through the cycle
- **Smaller more efficient airline**, focussed on optimal network
- Right sized **cost base**
- **Expand and leverage loyalty** programme
- **Ancillary revenue opportunities**

AIR NEW ZEALAND

FINANCIAL RESULTS

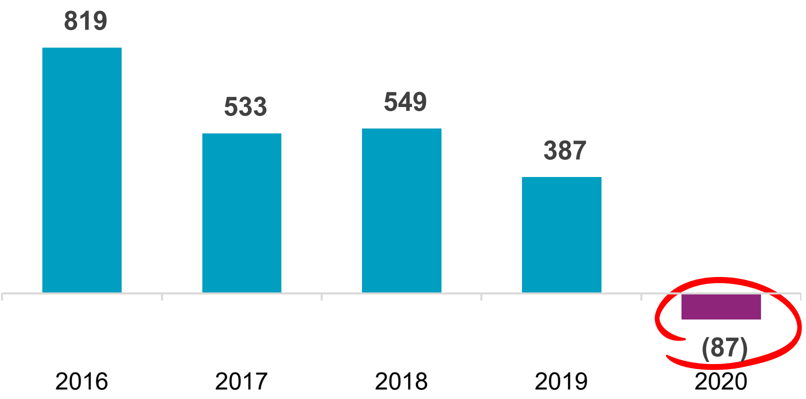
Jeff McDowall

Chief Financial Officer

2020 financial summary

- Operating revenue **$4.8 billion**, down 16%
- Loss before other significant items and taxation[1] **($87) million**
- Loss before taxation **($628) million**
- Net loss after taxation **($454) million**
- Short-term cash of **$438 million**[2]

Earnings before other significant items and taxation
($ millions)



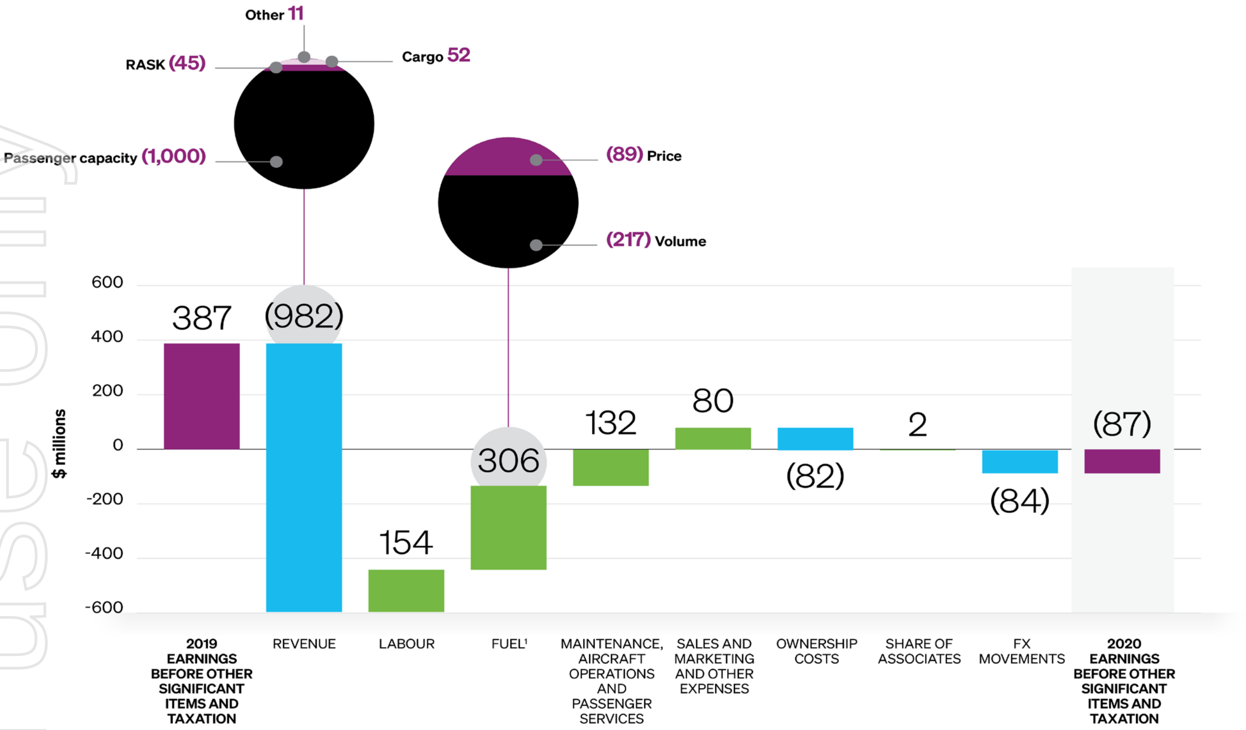
Earnings performance pre-Covid was tracking in line with the earnings guidance provided at the Interim 2020 results. The substantial adverse impact began in March 2020

1H20 vs 2H20 ($ millions)

1 Refer to slide 18 for further details on Other Significant Items of $541 million.

2 As at 30 June 2020, not including funds from the $900 million Government standby loan facility. Please refer to slide 19 for details on liquidity as at 25 August 2020.

Profitability waterfall



[1] For further details on fuel cost movement, refer to slide 33.

Additional commentary

- Labour cost decrease of 11.4%, driven by reduced network activity, headcount reduction due to Covid-19 and the removal of incentive payments. Payments received under the Government wage subsidy also reduced labour costs
- Maintenance, aircraft operations and passenger services costs decreases reflect Covid-19 capacity reductions, and the resulting decline in variable operating costs, partially offset by increased maintenance activity for third parties and end of lease activity
- Ownership costs increased due to new aircraft deliveries, engine overhauls and digital investment, as well as lower interest income.

Other significant items of $541 million were recognised in 2020[1]

Other Significant Items impact for the 2020 Financial Year		
De-designation of hedges	($105 million)	Partial non-cash
Aircraft impairment charge	($338 million)	Non-cash
Reorganisation costs	($140 million)	Partial non-cash
Gain on sale from landing slots	$21 million	Cash
Disestablishment of fair value hedges	($46 million)	Non-cash
FX gains on uncovered foreign currency debt	$67 million	Non-cash
Total Other Significant Items	**($541 million)**	

Non-cash
$453 million

Cash
$88 million[2]

[1] Please refer to slide 37 for more information.
[2] Refers to cash paid in the 2020 financial year.

Air New Zealand has structurally reset the cost base, reducing cash burn and protecting liquidity

Cash flow management

- Permanent reduction in staffing of ~ 30%, more than 4,000 employees
- Cancellation of 2020 interim dividend
- Reduction in CEO, Executive and Board remuneration
- Suspension of all short-term incentives
- ~50% reduction in operating costs[1]
- Lease reductions across fleet, property and other areas for 2021 financial year
- Extension of terms with major suppliers

Capital management

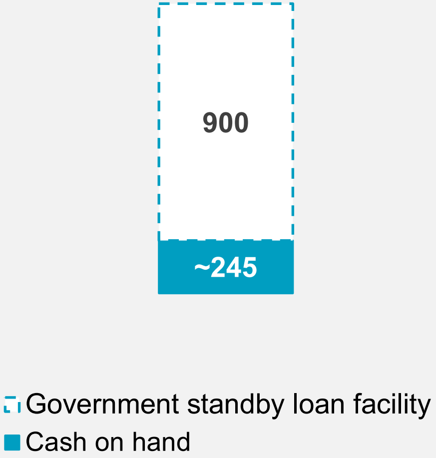
- Deferral/cancellation of ~$700 million in capex[2], including reduced hangar, digital and infrastructure spend
- Suspension of dividends
- Grounding of the 777 widebody fleet until at least the end of 2020, saving significant maintenance and operational costs
- Deferral of delivery of 5 A321 NEOs into 2022 and 2023 financial period, and 1 ATR72-600 into 2021

Other initiatives

- Negotiated $900 million standby loan facility with the NZ Government
- Increased cargo flying, won competitive tender to restart the NZ export market
- Government wage subsidy of ~$115 million[3]
- Made use of tax relief and other legislative changes to increase short-term liquidity by $80 million

~$1.1 billion in short-term liquidity

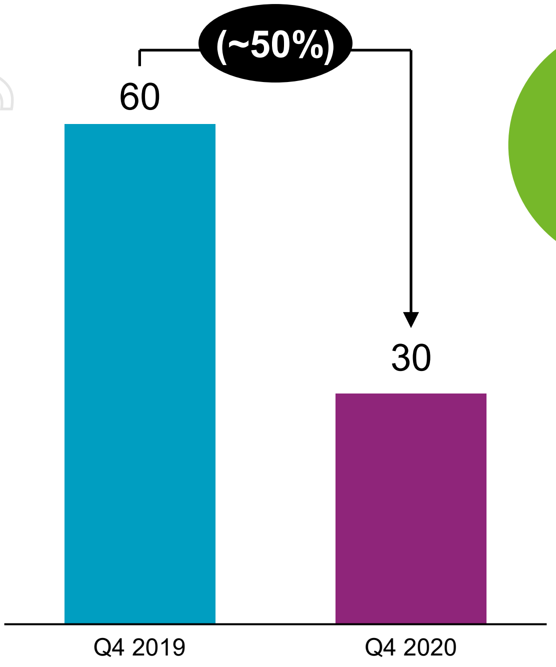
(as at 25 Aug 2020)



[1] This excludes redundancy costs.
[2] These deferrals/savings are through to Dec 2022.
[3] Approximately $75 million relates to the period ended 30 June 2020. A further ~$40 million was received under Tranche 2 of the subsidy scheme in July 2020.

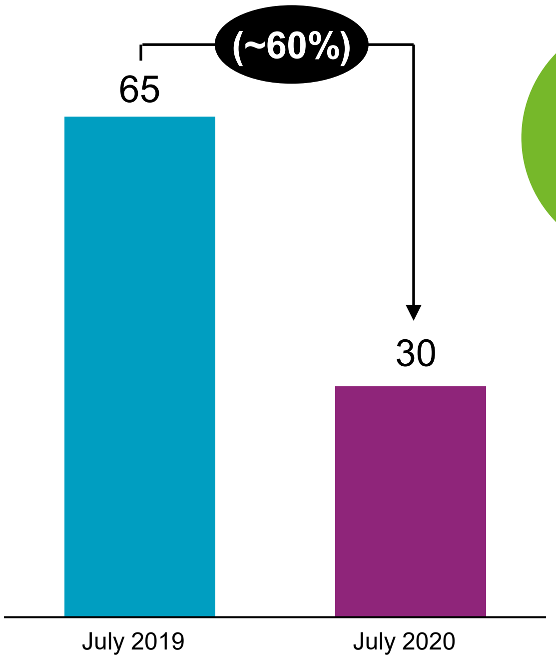
Reduction in operating costs reflect substantial capacity declines and benefit of early management actions

Q4 average weekly operating costs (ex fuel)
($ millions)



vs.
capacity
decline of
~75%

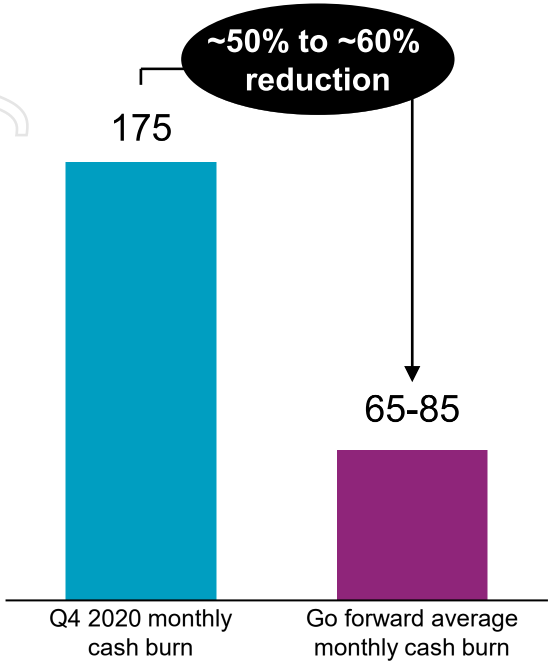
July weekly operating costs (ex fuel)
($ millions)



vs.
capacity
decline of
~65%

Significant reduction in cash burn[1]

Cash burn
($ millions)



Estimated cash burn assumes:

- Revenue benefit from operating Domestic network at ~70% pre-Covid levels with no social distancing, as well as additional cargo flying
- International travel restrictions remain in place
- Cost reduction actions already taken by Management
- Reduced level of refunds, redundancy payments and hedge losses
- Continued focus on working capital

Risks to cash burn estimates include:

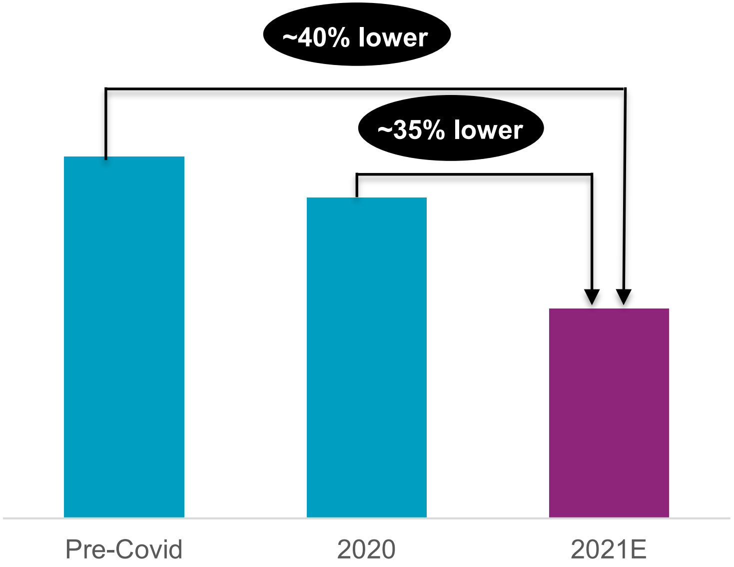
- Prolonged flying restrictions or social distancing requirements on Domestic flights
- Discontinuation of government support for international cargo

[1] Cash burn is inclusive of estimated redundancy and refund payments, interest on the Government standby loan facility and principal amortisation of loan. It also includes hedge gains/losses.

Labour costs

- **Phase 1** commenced in April 2020 - focus on driving **structural labour savings** given current views on profile of demand recovery
  - Largely complete, more than ~4,000 staff exiting either through redundancy, voluntary exit or furlough mechanisms
- **Phase 2** commenced in June 2020 - **targeted labour cost reduction** of ~$150 million, recognising that in the near-term, the airline will be substantially smaller as borders remain closed;
  - Incremental and temporary labour savings required
  - Redundancy is viewed as the last option, after exhausting additional solutions such as reduced hours, furloughs for example

Labour costs
($ millions)



Liquidity and gearing position

$ millions	30 Jun 2020	31 Dec 2019
Gross debt	(3,701)	(3,660)
Cash, restricted deposits and net open derivatives	735	1,271
Net debt	(2,966)	(2,389)
Gross debt/EBITDA	4.4	3.0
Net debt/EBITDA	3.6	2.0
Gearing	69.2%	54.3%
Total liquidity	1,338	1,003
Liquidity (% of 2019 revenue)	23.1%	17.3%
Moody's rating	Baa2 (investment grade)	Baa2 (investment grade)

Capital structure and dividend

Capital structure

- The Board continues to assess the airline's capital structure and funding needs with the goal of ensuring long-term financial resilience
- The New Zealand Government has recently reaffirmed its commitment to maintaining its majority shareholding in Air New Zealand, and the Board is engaging constructively with the Crown in its capital structure and funding discussions

Dividend

- Due to financial pressures as the airline manages the impact of Covid-19, the Board has determined that it will not declare a final dividend for the 2020 financial year
- First time since 2005 that the airline has not paid a dividend, reflecting the significant impact that Covid-19 has had on the airline's operations and balance sheet

Hedging update

- The significant reduction in network capacity from March 2020 onwards led to a decline in fuel consumption and foreign currency revenues, driving an over-hedged position
- The airline managed this by closing out certain hedges that covered Q4 2020 and the first nine months of the 2021 financial year
  - Cash costs to close were **~$65 million**
- In addition, the de-designation of hedges resulted in a **$105 million charge** reflected within other significant items
- The Board has granted temporary exemption to certain aspects of the airline's treasury policy with regard to required hedging levels whilst Covid-19 drives uncertainty of future capacity

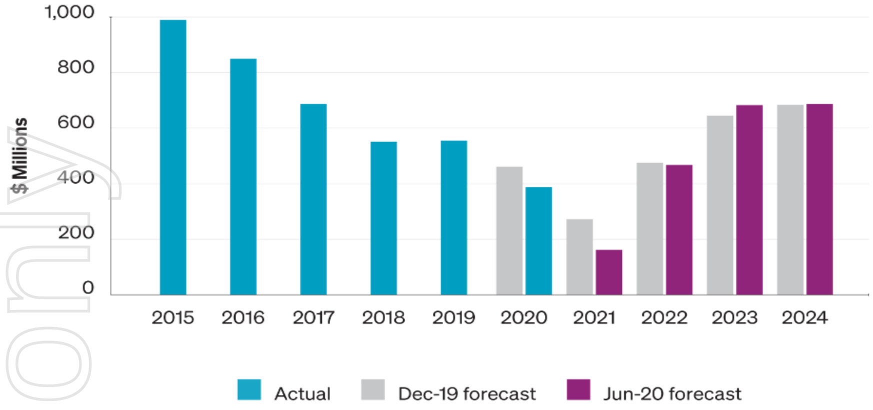
Fuel hedge position
(as at 19 August 2020)

Period	Hedged volume (in barrels)	Net compensation from hedging[1]
1H 2021	1,725,000	(~$35 million)
2H 2021	870,000	(~$1 million)

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

Fleet investment update

Actual and forecast aircraft capital expenditure*



- Forecasted investment of **$2.0 billion** in aircraft and associated assets through **to 2024**
  - Forecast capex **spend reduced by $200m for 2020 – 2022 period**, reflecting management actions
- Timing of forecast expenditure has shifted with the delay in the arrival of 5 domestic NEOs and 1 ATR**

Aircraft delivery schedule (as at 30 June 2020)

		Number in existing fleet	Number on order	**Delivery Dates** (financial year)			
				2021	**2022**	**2023**	**2024**
Owned fleet on order	Boeing 787	-	3***	-	-	1	2
	Airbus A320/A321 NEOs	11	9	-	3	3	3
	ATR72-600	27	2	2	-	-	-

* Includes progress payments on aircraft.
** Includes deferral of five A321 NEO aircraft. One from 2021 to 2022, two from 2022 to 2023, one delayed within 2023 and one from 2023 to 2024. The ATR is deferred from 2020 to 2021
*** Does not reflect five Boeing 787 on order for expected delivery from 2025.

AIR NEW ZEALAND

OUTLOOK

Greg Foran
Chief Executive Officer

Our priorities for 2021

- The aviation sector has been deeply impacted by global travel restrictions imposed to combat Covid-19
- Although significant uncertainty remains, we are currently expecting in the short-term to be a largely Domestic airline with cargo and some flying to the Tasman and Pacific Islands
- Have flexibility to scale operations up should conditions recover more quickly
  - Continue to chase opportunities in the cargo space to keep New Zealand connected to the world
- The performance of our domestic business in June and July was highly encouraging, and we remain focused on driving domestic tourism, and rebuilding the domestic corporate business
- Pre-Covid, our international long-haul business represented ~40% of total revenue.
  - We expect there to be some substitution effect, however unlikely to match the volume of revenue lost from reduced international passenger revenue
- We will continue to refine our refreshed strategy, exploring some exciting prospects within loyalty, digital and sustainability

2021 Outlook

Given the uncertainty surrounding travel restrictions and the level of demand as these restrictions lift, Air New Zealand is currently not able to provide specific 2021 earnings guidance. However, each of the scenarios we are currently modelling suggest we will make a loss in 2021.

AIR NEW ZEALAND

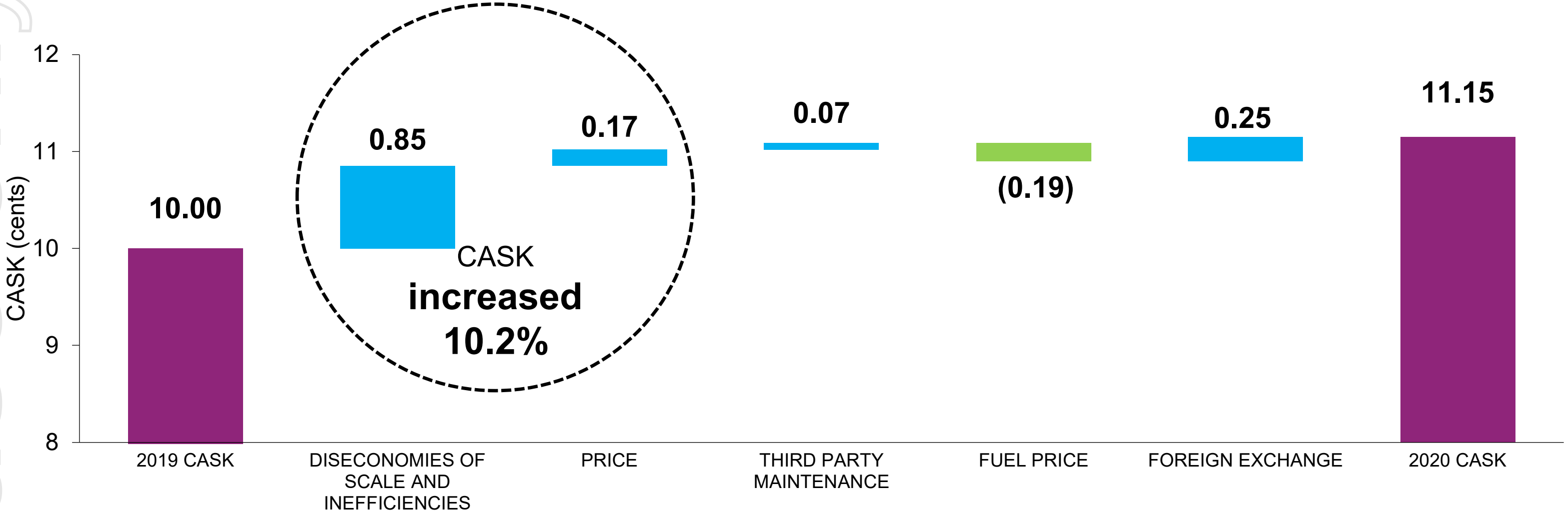
THANK YOU

AIR NEW ZEALAND

SUPPLEMENTARY INFORMATION

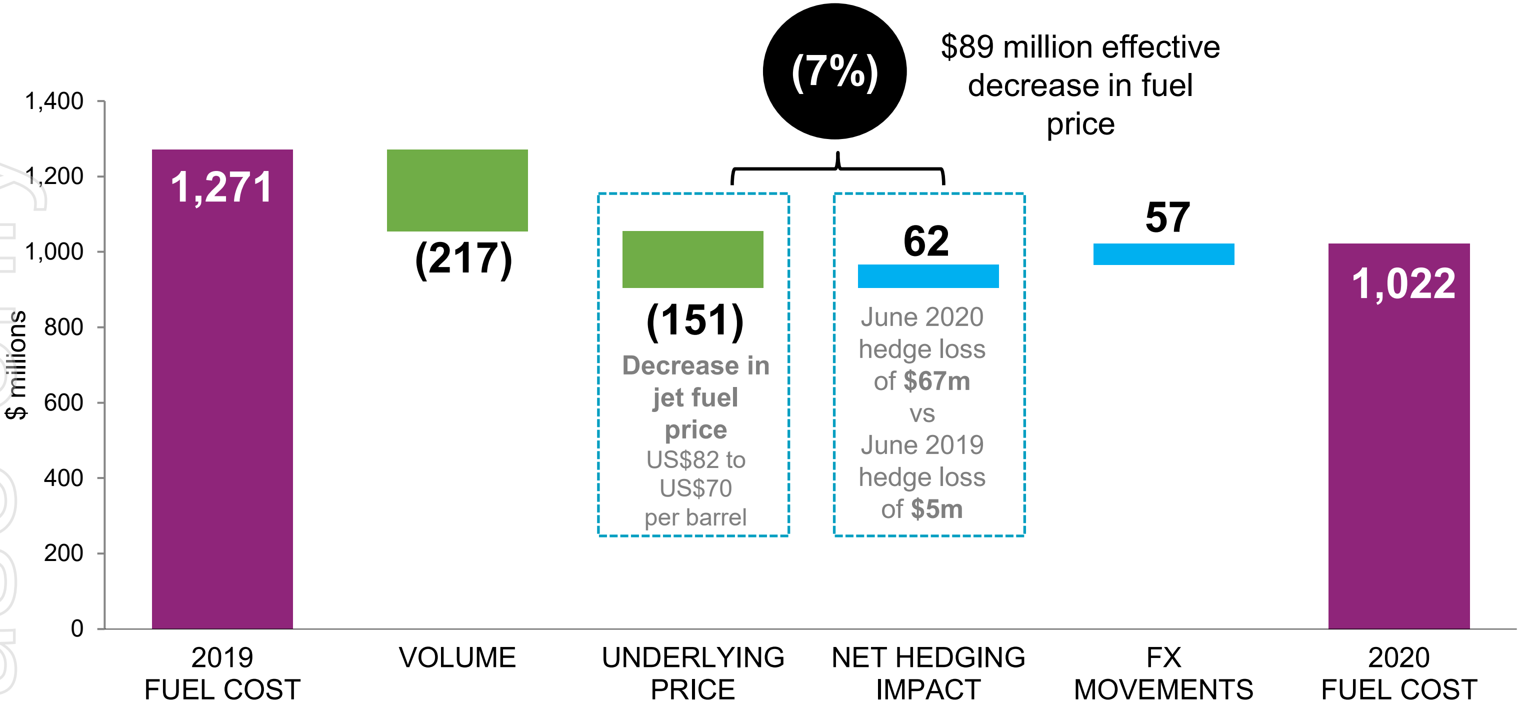
CASK movement

- CASK* **increased 10.2%**
  - Reported CASK increased 11.5%, mainly driven by diseconomies of scale and inefficiencies associated with Covid-19 schedule changes



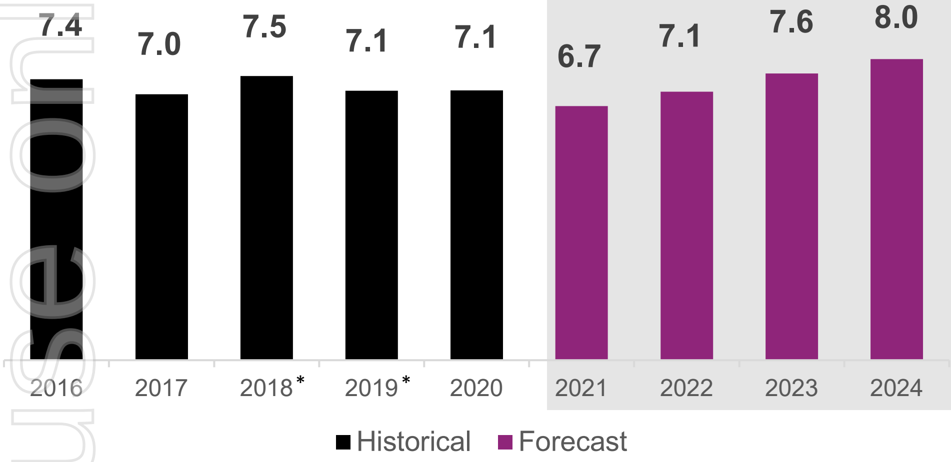
* Excluding fuel price movement, foreign exchange and third party maintenance.

Fuel cost movement



Projected aircraft in service and fleet age

Aircraft fleet age in years
(seat weighted)[1]



	2020	2021	2022	2023	2024
Boeing 777-300ER	7	7	7	7	7
Boeing 777-200ER	8	-	-	-	-
Boeing 787-9/787-10	14	14	14	15	17
Airbus A320	22	20	17	15	13
Airbus A320/A321 NEO	11	11	14	17	20
ATR72-600	27	29	29	29	29
Bombardier Q300	23	23	23	23	23
Total Fleet	**112**	**104**	**104**	**106**	**109**

* Excludes short-term leases which provide cover for the global Rolls-Royce engine issues.
[1] Excludes the Boeing 777-200 fleet, which has been grounded for an indefinite period.

Impact of new lease accounting standard (NZ IFRS 16)

Income statement impact

	Jun 2019 $M		Jun 2020 $M	Notes	
Rental and lease expense	245	Depreciation expense	227	Net movement of $19 million comprised of:	
		Interest expense	29	NZ IFRS 16 methodology changes	10
		Other expenses	8	Underlying changes to lease portfolio	9
Total income statement	**245**	**Total income statement**	**264**		**19**

Statement of cash flows impact

	Jun 2019 $M		Jun 2020 $M	Notes
Cash flows from operating activities	244	Cash flows from operating activities	29	Principal repayments have also been reclassified from operating to financing activities
		Cash flows from financing activities	203	

Note: For details on the transitional impact of NZ IFRS 16 on the balance sheet, refer to Note 27 of the Group's Annual Financial Statements.

Reconciliation of gearing movements

	Reported 30 Jun 2019	Fair value hedge adjustment	Adjusted 30 Jun 2019	Impact of NZ IFRS 16	Restated 1 Jul 2019	Reported 30 Jun 2020
Net Debt ($M)	2,517*	-	2,517*	(384)	2,133	**2,966**
Equity ($M)	2,089	(97)	1,992	-	1,992	**1,318**
Gearing (%)	54.6*		55.8*		51.7	**69.2**

Impact of bringing operating leases on balance sheet:

$862m	Operating lease liabilities
$(1,246m)	Aircraft lease commitments for the next twelve months multiplied by a factor of seven

* Includes capitalised off-balance sheet aircraft lease commitments at 30 June 2019.

[1] Refer to Note 27 in the Group’s 2020 Annual Financial Statements for details of the fair value hedge adjustment and impact of NZ IFRS 16.

Earnings before other significant items and taxation[1]

	Jun 2020 $M	June 2019 $M
(Losses)/Earnings before taxation (per NZ IFRS)	**(628)**	**382**
Add back other significant items:		
De-designation of hedges	105	-
Aircraft impairment charge	338	-
Reorganisation costs	140	-
Gain on sale of airport slots	(21)	-
Disestablishment of fair value aircraft hedges	46	5
FX gains on uncovered foreign currency debt	(67)	-
(Losses)/Earnings before other significant items and taxation	**(87)**	**387**

[1] Earnings 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. Earnings 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 annual financial statements

Financial overview

	Jun 2020 $M	Jun 2019 $M	Movement $M	Movement %
Operating revenue	4,836	5,785	(949)	(16.4%)
Earnings before other significant items and taxation	(87)	387	(474)	(122.5%)
Earnings before taxation	(628)	382	(1,010)	(264.4%)
Net (loss)/profit after taxation	(454)	276	(730)	(264.5%)
Operating cash flow	230	986	(756)	(76.7%)
Cash position	438	1,055	(617)	(58.5%)
Gearing*	69.2%	51.7%	-	(17.5pts)
Ordinary dividends declared**	-	22.0 cps	(22.0 cps)	(100%)

* Comparative information is at 1 July 2019, the Group's transition date for NZ IFRS 16.
** Dividends are fully imputed.

Group performance metrics

	Jun 2020	Jun 2019	Movement*
Passengers carried (‘000s)	13,525	17,738	(23.8%)
Available seat kilometres (ASKs, millions)	36,335	46,029	(21.1%)
Revenue passenger kilometres (RPKs, millions)	29,568	38,573	(23.3%)
Load factor	81.4%	83.8%	(2.4pts)
Passenger revenue per ASKs as reported (RASK, cents)	10.8	10.8	0.7%
Passenger revenue per ASKs, excluding FX (RASK, cents)	10.8	10.8	0.0%

* Calculation based on numbers before rounding.

Domestic

	Jun 2020	Jun 2019	Movement*
Passengers carried (‘000s)	8,821	11,513	(23.4%)
Available seat kilometres (ASKs, millions)	5,619	7,104	(20.9%)
Revenue passenger kilometres (RPKs, millions)	4,552	5,957	(23.6%)
Load factor	81.0%	83.9%	(2.9pts)
Passenger revenue per ASKs as reported (RASK, cents)	23.6	22.5	5.1%
Passenger revenue per ASKs, excluding FX (RASK, cents)	23.5	22.5	4.8%

* Calculation based on numbers before rounding.

Tasman & Pacific Islands[1]

	Jun 2020	Jun 2019	Movement*
Passengers carried (‘000s)	3,002	4,044	(25.8%)
Available seat kilometres (ASKs, millions)	10,367	13,640	(24.0%)
Revenue passenger kilometres (RPKs, millions)	8,265	11,195	(26.2%)
Load factor	79.7%	82.1%	(2.4pts)
Passenger revenue per ASKs as reported (RASK, cents)	9.4	9.6	(2.2%)
Passenger revenue per ASKs, excluding FX (RASK, cents)	9.5	9.6	(1.9%)

1 Pacific Islands including Bali and Hawaii.
* Calculation based on numbers before rounding.

International

	Jun 2020	Jun 2019	Movement*
Passengers carried (‘000s)	1,702	2,181	(22.0%)
Available seat kilometres (ASKs, millions)	20,349	25,285	(19.5%)
Revenue passenger kilometres (RPKs, millions)	16,751	21,421	(21.8%)
Load factor	82.3%	84.7%	(2.4pts)
Passenger revenue per ASKs as reported (RASK, cents)	8.1	8.1	(0.7%)
Passenger revenue per ASKs, excluding FX (RASK, cents)	7.9	8.1	(2.2%)

* Calculation based on numbers before rounding.

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	Net Debt / (Net Debt + Equity); Net Debt includes capitalised aircraft operating lease commitments at 30 June 2019
Earnings before interest, tax, depreciation and amortisation (EBITDA)	Operating earnings (before depreciation and amortisation, rental and lease expenses, net finance costs, associate earnings, other significant items and taxation) plus finance income and cash dividends received from associates less foreign exchange gains
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, plus, for the prior period, net aircraft operating lease commitments for the next twelve months multiplied by a factor of seven (excluding short-term leases, which provide cover for Boeing 787-9 engine issues)
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 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 2020 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

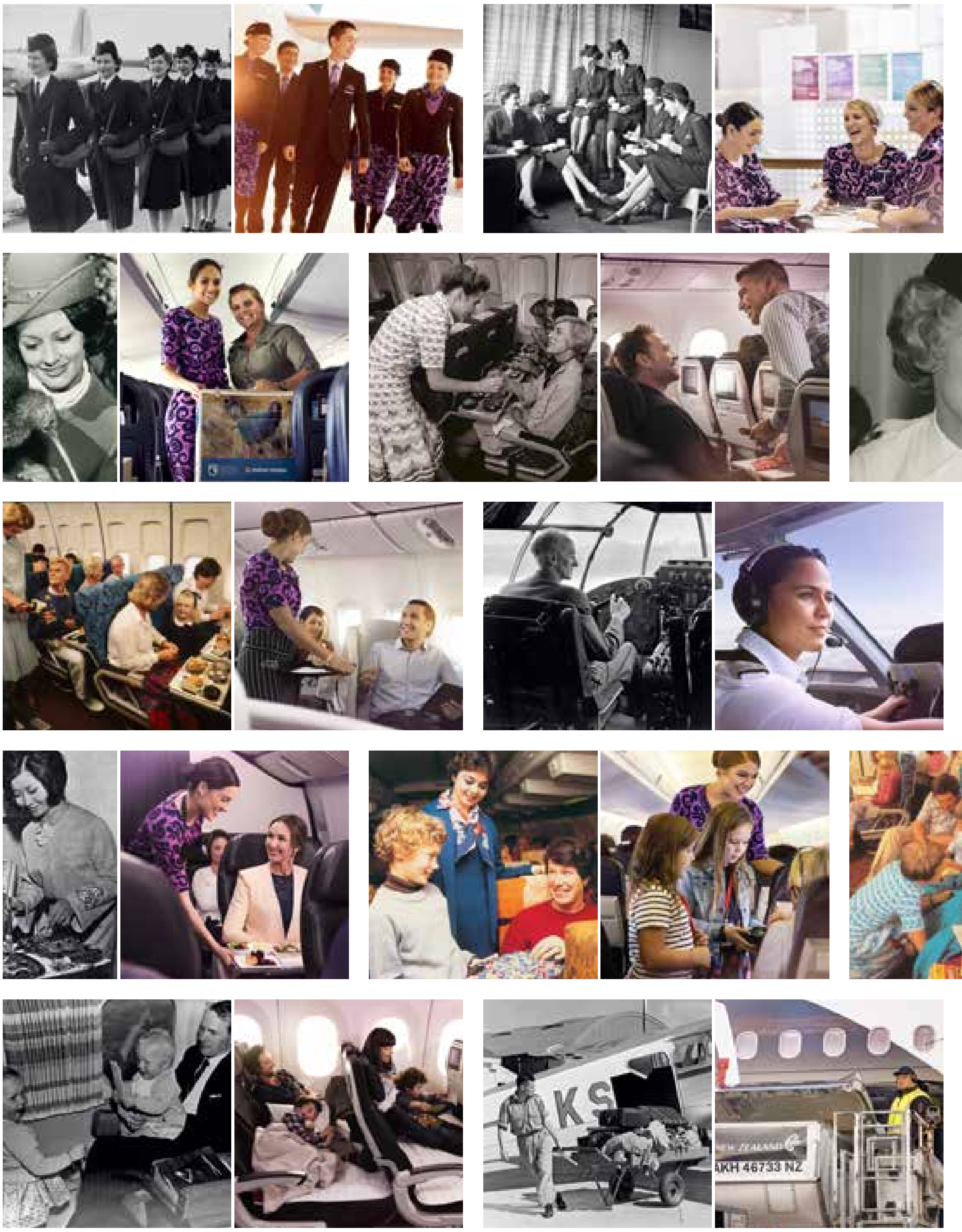
Share registrar: enquiries@linkmarketservices.com

AIR NEW ZEALAND

A STAR ALLIANCE MEMBER

AIR NEW ZEALAND

2020 ANNUAL SHAREHOLDER REVIEW



Then, Now,
Always.

A STAR ALLIANCE MEMBER

Letter from the Chairman

Kia ora koutou katoa

My first year in the role of Chairman of Air New Zealand has certainly been an eventful and challenging one. The Covid-19 pandemic has had a rapid and devastating impact across all areas of society, and in particular has dealt a huge blow to the aviation and tourism sectors both here in New Zealand and around the world. The unprecedented level of disruption on our business has required quick and decisive action by management and the Board, as well as strong governance and leadership to ensure we are positioned to succeed in what will no doubt be a tough economic environment for the next few years.

Air New Zealand had a solid start to the 2020 financial year, with a strong focus on profitable growth into new markets and stimulating domestic leisure demand. We were also preparing to launch the first ever non-stop link between New Zealand and New York. Now, a little over six months later and following the declaration of a global pandemic, the $87 million[1] loss we are reporting today, our first loss in 18 years, reflects the severe impact that Covid-19 has had on our business. While we moved swiftly, the impact on the airline was so significant that we were unable to prevent a material impact to our 2020 financial result.

The past few months, and in particular the last three weeks, have again highlighted to me how important it is, not only to have a solid foundation of core competitive advantages, but to be flexible, nimble and prepared to adjust the business at pace. After successfully eliminating Covid-19 for 102 days, New Zealand's recent move back into lockdown in early August reminds us all how quickly these situations can evolve. I truly believe our response to both lockdown periods, and the dedication and full commitment of Air New Zealanders to do whatever it takes, proves Air New Zealand has the ability to adapt to any challenge that presents itself. This will be the key to our long-term resilience and ongoing success.

The Board and I are fully supportive of the new strategy that Greg and his Executive team have been working on in parallel to dealing with this crisis. While I think it is very easy at this time to get caught up in the now, it is equally important that we focus on where our business is headed. We have a plan in place, and I know all Air New Zealanders will be ready for the next phase when it comes.

Dame Therese Walsh — Chairman

Overview of Covid-19 and our response

When we reported our 2020 interim results earlier in February this year, we had only recently announced the suspension of our services into Shanghai and Seoul, although we were monitoring the situation very closely and made early adjustments to capacity across our network.

What has since transpired has been vastly different to our initial expectations. In March 2020, following widespread transmission of the disease and declaration of Covid-19 as a global pandemic, the New Zealand Government announced that all foreign nationals would need to undertake a 14-day mandatory isolation period upon entry to New Zealand. Unlike some of our peers, we came into this crisis in a really strong position with a resilient balance sheet, an investment grade credit rating and cash of more than $1 billion. We were also nearing the end of our fleet replacement programme, meaning that future capital expenditure requirements in the medium-term had reduced significantly. However, the decision to restrict inbound visitors clearly had huge implications for our business and for our liquidity. As such, in late March we acted swiftly and approached the New Zealand Government to

[1] Refers to Earnings before other significant items and taxation. Refer to the financial commentary section on page 17.

Letter from the Chairman (continued)

negotiate a $900 million standby loan facility to bolster liquidity and provide us with flexibility to deal with the potential for prolonged travel restrictions and closure of our borders.

A few days after the announcement of the facility agreement, the New Zealand Government closed our borders completely to foreign nationals and announced a four-tier alert system that ultimately resulted in New Zealand moving into a seven-week period of nationwide lockdown[2]. During this lockdown, all non-essential businesses were closed or operated under severe restrictions, people were required to stay at home and avoid contact with anyone outside their residence and strict limitations were placed on all methods of travel.

While the lockdown was very effective at slowing the spread of Covid-19, it also had a profound impact on demand for air travel. In March and April, demand reduced to almost zero, which resulted in Air New Zealand operating less than 5 percent of our total network capacity. Never in the 80-year history of our airline have we had to reduce network capacity to this extent.

Faced with this drastic decline in demand, we took unfortunate but necessary steps to cancel the 2020 interim dividend and initiate a deep review of our entire cost base, in the knowledge that at least for a time, we would be a much smaller business than we had been pre-Covid. We knew that we would need to make some difficult decisions and make them quickly if we wanted to emerge strongly and competitively from this crisis.

Sadly, without the ability to mandatorily furlough staff like our airline peers in other jurisdictions around the world, we knew there were some particularly hard decisions that needed to be made with respect to our people.

People

All Air New Zealanders have been impacted by this crisis in some way, shape or form. Over 4,000 people have lost their roles, while others are working reduced hours, taking leave without pay, or have been temporarily redeployed. Others may face significant changes to their personal situations at home, and those who remain are adjusting to a different cadence as we slowly rebuild our business.

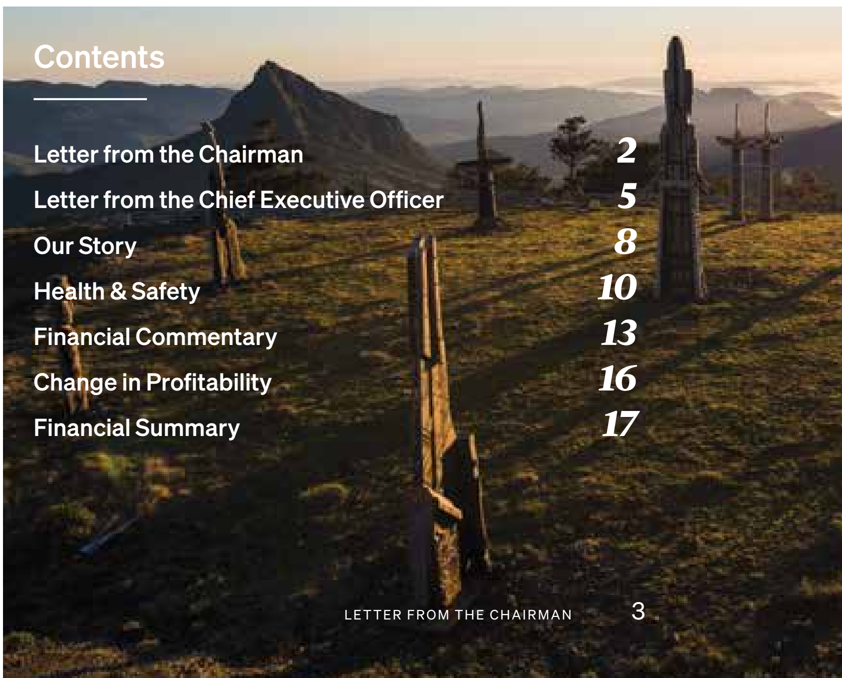
The widespread restructure of our airline has been a heart-breaking experience for everyone involved – both management and the Board are acutely aware that what has always made Air New Zealand such a special company and has driven our record levels of customer satisfaction and engagement, is our people. He aha te mea nui o te ao, he tāngata he tāngata he tāngata. In making these decisions we have planned carefully to ensure we strike the right balance between adjusting our cost base for what could be a substantively lower demand environment for some time, and making sure that when borders reopen, we can act at pace to add capacity back on to the network.

To say that I am proud of the way in which Air New Zealanders have acted with dedication, dignity, and complete professionalism over this challenging time would be an understatement. In fact, it is the sentiment of many departing Air New Zealanders that has made me even more determined for Air New Zealand to come out of this crisis stronger than ever.

Dividend

The Board is focused on preserving Air New Zealand's liquidity across a range of potential demand recovery scenarios. Given current financial pressures as the airline manages the impact of Covid-19, the Board has determined that it will not declare a final dividend for the 2020 financial year.

On behalf of the Board I would like to thank our shareholders for their continued support as we work through these unprecedented times. Please be assured that we are working tirelessly to manage the airline through this crisis and get the best possible outcome for all of our stakeholders.



Contents

[2] Refers to the time spent in Alert levels 4 and 3 between 24 March 2020 and 13 May 2020.

Letter from the Chairman (continued)

Capital structure

The Government has recently reaffirmed the Crown's long-standing commitment to maintaining its majority shareholding in Air New Zealand, having regard to the unique and critical role the company has in New Zealand's economy and society. This is reflected in the Crown standby facility that provides Air New Zealand with liquidity support whilst the airline works through to a permanent solution. Air New Zealand is engaging constructively with the Crown as it continues to assess its capital structure and funding needs.

Outlook

Given the uncertainty surrounding travel restrictions and the level of demand as these restrictions lift, Air New Zealand is currently not able to provide specific 2021 earnings guidance. However, each of the scenarios we are currently modelling suggest we will make a loss in 2021.

In closing

Prior to going into the most recent lockdown in August, we had been pleasantly surprised by how quickly domestic demand for air travel had recovered, with a strong domestic schedule gaining huge momentum thanks to our loyal customers. We were also starting to see the return of our corporate customers and there was huge excitement from Kiwis about the prospect of a travel bubble between New Zealand and the Cook Islands. While the latest outbreak of Covid-19 in Auckland has been disappointing, these reactions give me hope that while the road will be tough for a while yet, there is still strong demand for air travel.

I want to take a moment to thank our shareholders, customers and suppliers for their continued support and engagement over this challenging time.

I would also like to pay tribute to my Board colleagues, our Chief Executive Officer Greg Foran, the Executive leadership team and the entire Air New Zealand whānau for their enduring support and dedication to our customers. Thank you.

E kore e whati te raupō i mangungu – the raupo though bruised will not break apart.

Ngā mihi

Dame Therese Walsh
Chairman

27 August 2020


Laurissa Cooney


Larry De Shon


Dean Bracewell

Following the retirement of Chairman Tony Carter and Director Sir John Key we were thrilled to welcome Laurissa Cooney, Larry De Shon and Dean Bracewell to our Board.

Laurissa has an incredibly strong understanding of the regional tourism industry, as well as deep connections to iwi and regional stakeholders across New Zealand. She has excellent commercial skills as well as a passion for leadership, and we are very excited for the new perspective she brings to the Board.

Larry brings with him a wealth of international business, transport and aviation experience, having previously had a distinguished 28-year career with United Airlines. He also spent 13 years with Avis Budget Group, as the Global Chief Executive further strengthening his ties to our broader industry. His deep experience in growing a global business in the wake of the GFC is also timely given the phase Air New Zealand will go through rebuilding post Covid-19.

Dean is one of New Zealand's most highly regarded business leaders and has an intimate understanding of the transport and logistics industries. He also understands what it takes for a company to succeed both in New Zealand and in a tough and competitive environment. As we seek to rebuild Air New Zealand following Covid-19, he brings commercial and leadership skills that will further strengthen the Board's existing skill set.

I would also like to thank our Deputy Chairman, Jan Dawson. After 9 years of service to our Board, Jan's intention was to retire at our Annual Shareholder Meeting in September this year. Given the unprecedented situation the airline is in as a result of Covid-19, Jan has agreed to continue in her position in the short-term to provide continuity as we work through the significant impacts of Covid-19. Once a date for Jan's retirement has been agreed, the Board will revert back down to 7 directors.

Letter from the Chief Executive Officer

Greg Foran — Chief Executive Officer

Tēnā koutou e ōku rangatira

I think it would be an understatement to say that the first six months of my time at Air New Zealand have been vastly different to what I was expecting. What started off as the closure of two routes into Asia in February, has fast evolved into the most financially threatening event that has ever faced the aviation and tourism industries. From the onset of this crisis we have been proactive and decisive, and I am confident that we are taking the right steps to get us through these challenging times and to ensure our long-term success.

Our key priorities throughout this period have been very clear. First and foremost, we have been focused on protecting the health and the safety of our people and our customers, not only on-board our flights, but at the airport, in operational areas and in our office spaces. Chief Medical Officer Dr Ben Johnston has led Air New Zealand's health response through this crisis with dedication and precision, working closely with the Ministry of Health to ensure we implement the most up to date practices and precautions, so that our staff and our customers stay safe across the entire travel journey.

Secondly, we made substantial changes to our cost base and our planned capital spend to preserve liquidity and right size our business for how we think the demand profile may look in the coming two to three years. I use the word "may" because at this point, there is a lot of uncertainty associated with any forward-looking view of demand. Our recent move back into lockdown here in New Zealand, after 102 days of living life almost as normal shows that while we can make an educated guess, we certainly cannot accurately predict when travel restrictions will ease, driving the return of customer demand.

While flexibility is essential in this environment, like all of our airline peers we are planning on being smaller, at least for a time. We moved faster than most in the industry and took a hard look at our cost base, restructuring our permanent labour costs, as well as spend across aircraft, properties, supply chain and marketing, just to name a few areas. We knew that we needed to act quickly and decisively to ensure our survival and to compete strongly going forward.

As a result of the actions taken and lower capacity, we have reduced operating costs by 50 percent in the fourth quarter of 2020, compared to the same period last year. We have also managed to reduce our cash burn from around $175 million per month over April to June down to around $85 million in July.

Thirdly, we have worked hard to ensure that every action and decision we have made will set us up to emerge strongly and competitively from this crisis. The unfortunate reality is that some airlines will not survive this. The actions we have taken to date, albeit painful, are with a view to setting ourselves up for success in whatever competitive and demand environment emerges on the other side of this crisis. That is also why the Executive and I have been working to define Air New Zealand's strategy and set a course for our future, at the same time as managing the widespread impacts of Covid-19. Our project is called Kia Mau which in this context means to get ready in te reo Māori. As we expected, the results of this review showed that we are fundamentally a very strong, very efficient airline. We are not moving the dial 180 degrees here – rather, we are making refinements to our existing strategy, as well as exploring some exciting prospects within the loyalty, digital and sustainability spaces. I am looking forward to sharing more details on this at our Annual Shareholders Meeting in September this year.

Letter from the Chief Executive Officer (continued)

A sincere thank you to the Air New Zealand whānau

While the past six months have been incredibly challenging, seeing Air New Zealanders pull together through one of the most difficult periods in our history has made me extremely proud. As this year has proven, the airline industry will continue to change at pace and there is always the potential for a significant shock. Being agile and resilient has long been a competitive advantage of ours and one outstanding example of this has been the way our cargo business has performed over the past few months.

Within 48 hours of border restrictions being put in place around the world, our cargo team had remodelled our cargo operations, enabling the airline to operate cargo-only charters. Because of this we won a substantial portion of flights under the Government's International Airfreight Capacity agreement (IAFC). We are proud to have taken such a crucial role in keeping the wheels of the New Zealand economy turning, helping Kiwi exporters to get their products to the world, as well as bring important cargo such as masks and medical supplies into New Zealand.

I would like to take this opportunity to thank the entire Air New Zealand whānau – those who are still with us, and those who are not. Many have made significant personal sacrifices, with more than 3,500 people sadly losing their roles, over 600 staff taking voluntary exit, and almost 400 taking significant reductions to their work hours. This is all to ensure that Air New Zealand emerges strongly from this crisis. Scaling down our operations, revising network schedules on a daily basis and operating in an environment with new government regulations and added complexity is a tough ask at the best of times, let alone in the midst of a global pandemic. Our people have shown unwavering poise and dedication while operating in this environment of constant flux and challenge, and I am in awe of their resilience.

In this context, a special thank you must also be said to Chief Marketing and Customer Officer Mike Tod, Chief Strategy, Networks and Alliances Officer Nick Judd, Chief Air Operations and People Safety Officer John Whittaker, and former Chief People Officer Jodie King for their significant contributions to Air New Zealand. Between them they have given more than 70 years of service and I am deeply grateful for their contribution.

I would also like to give specific mention to our international cabin crew and pilots, who in recent months have been the focus of fears of another spike of Covid-19 in New Zealand. We have worked closely with the health authorities and have various measures in place to keep our customers, crew and the New Zealand public safe. On top of everything else the team have dealt with in the past few months, being subject to unjust treatment by some members of the public has been particularly upsetting, both for crew and their families. The Board, Executive and I stand with our crew and appreciate the part they are playing to return people to their homes safely and get our economy moving again.

An apology to our customers

I do want to take this opportunity to again apologise sincerely to our customers for the way in which our credits and refunds process was initially handled. The scale of cancellations was something we were not prepared for and our response fell well below our expectations and yours. Our customers and the trust they have in us is pivotal to our ongoing success and I appreciate the patience you have shown as our team worked to build a long-term, bespoke digital solution from scratch. We have also introduced extra flexibility around the use of credits, including extending the timeframe in which a new booking can be made, and travel taken.

Letter from the Chief Executive Officer (continued)

The way forward

It was hugely encouraging to see thousands of Kiwis take to the skies across June and July to explore the wonderful sights and experiences our great country has to offer. With no community transmission of Covid-19 for 102 days, and no social distancing in place, we experienced better than expected domestic travel demand. This was important, not only for Air New Zealand but also for the local economies of those centres and regions.

Although we had significantly more aircraft in the air through June and July than we did in April and May, revenue from our domestic networks represents around a third of our total revenue in a typical year. This means that until global borders reopen, we will continue to be significantly impacted by this crisis. The unfortunate reality is that we don't expect to see a return to long-haul travel for some time and until then we will be a keenly focused domestic airline; hopefully with Tasman and Pacific Islands services added before too long. While the recent move back into lockdown in New Zealand is disappointing, it was not unexpected given what we have seen elsewhere in the world. I do believe however that once the country comes out of this lockdown, we will again see Kiwis eager to travel domestically.

I want to be up-front about the fact that Air New Zealand has a difficult road ahead, but I am determined that we will continue to make Kiwis proud. For today, we are focused on structuring our organisation for the current reality that faces us and building a solid foundation for the future. The strategy we have been working on for the past few months, is based on our purpose, which is fundamentally unchanged. We want to continue to enrich our country by connecting New Zealanders to each other and to the world. Given time, I know we will once again achieve great things for our airline and our nation.

Greg Foran
Chief Executive Officer

27 August 2020

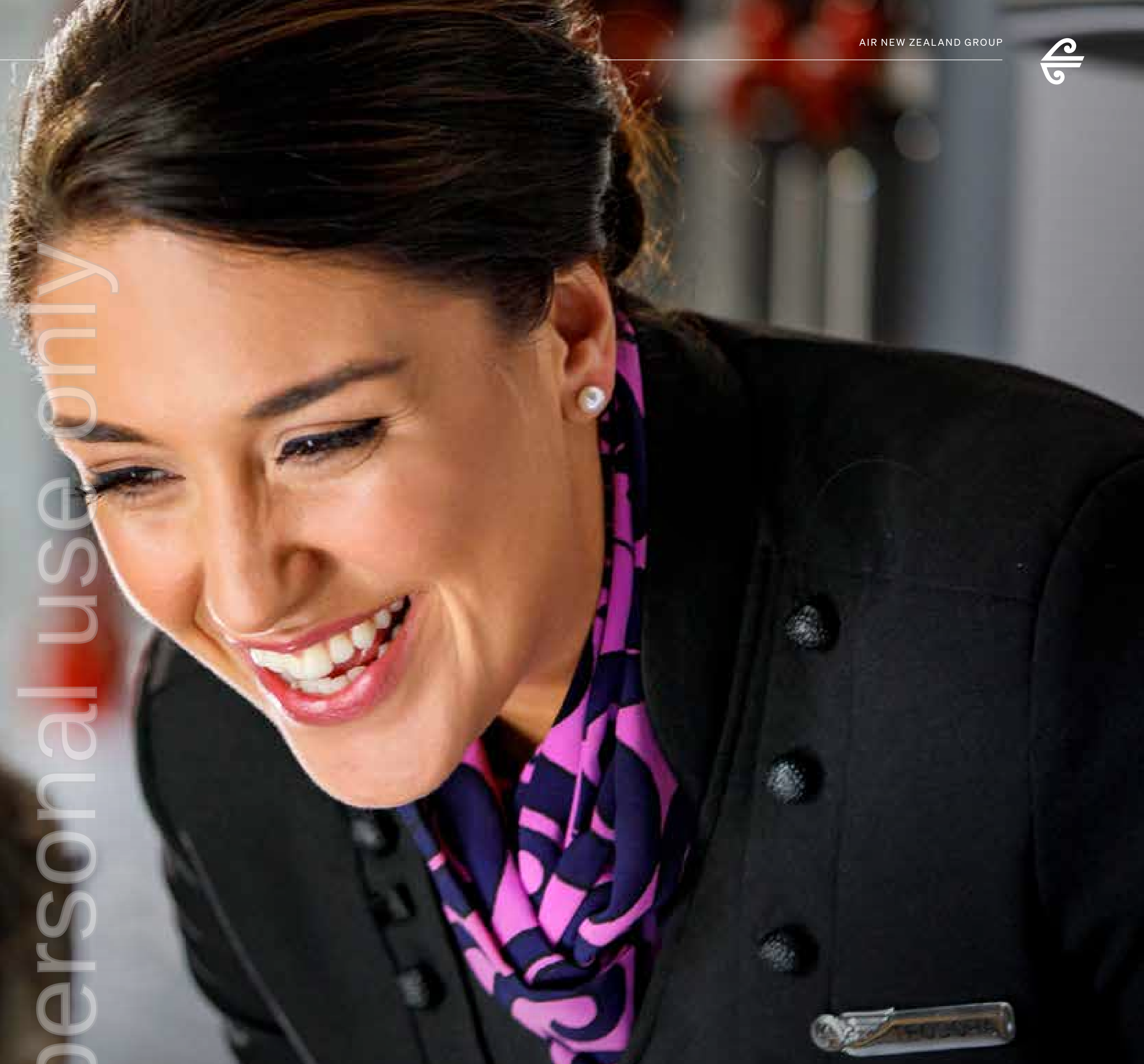
Here is our story. It's what we stand for and where we're heading, so if anyone asks, here's the story we love to share.

Great organisations stand for an idea that the people who work there believe in — a purpose that's more than making money.

At Air New Zealand our purpose is about enriching our country through connecting New Zealanders to each other and New Zealand to the world. It's an idea that's been at the heart of our airline from the very beginning – 80 years ago and what's made New Zealanders feel proud of who we are.

To connect our whānau, we work to a set of common values – we share every day – no matter where in the business you are. They empower us, help and guide us on what to do and how to do it. For our customers, suppliers, communities and for each other. These are;

- **Welcome as a Friend**. Extending Manaaki as if it's your home, treating people with warmth and respect, making everyone feel part of our whānau.
- **Be Yourself**. Letting your best self shine, creating an environment where everyone can be at their best and celebrating our differences.
- **Share your Aotearoa**. Celebrating and showcasing all that makes New Zealand unique, taking care of the environment around us, supporting local and inspiring travel.
- **Can do**. Taking initiative, being accountable and making things happen, safely. Putting people at the heart of what we do and working together to get inventive and solve problems.



The way we show and express our purpose and values to our customers is through our brand promise. The promise we make to them each day. *"Manaaki – taking care further, than any other airline"*. That's no mean feat. It does demand a lot from each and every one of us. Unity around the goal of being seen as the world's best at what we do. Starting here, on our home patch and then expanding out across the globe.

So the focus of our business, systems, processes and efforts is on;

- putting customer care at the centre of every product, service or experience we deliver;
- empowering our culture around a core set of values that we all deeply believe in;
- a simplified, profitable network and fleet;
- sustainability by addressing the one thing that people care about more than most – our carbon footprint;
- community by better enabling sustainable tourism and economic activity, and finally;
- recognising and rewarding our customers for their loyalty to us.

If we achieve that, we'll collectively deliver on our strategy; people as our competitive advantage, a profitable and resilient airline business, transformed customer loyalty, leadership in sustainable aviation and digitally enabled customers and staff.

Health & Safety

Air New Zealand's Dr Ben Johnston, Chief Medical Officer and Leeanne Langridge, General Manager Cabin Crew answer common questions on how Covid-19 affects the ability of our staff and customers to travel safely.

Is it safe to fly? What makes it safe?

Yes, airline travel is very safe – I regularly fly by myself or with my family. The air quality on our jet aircraft is better than most office buildings. Any recirculated air passes through HEPA filters, which effectively screen out any bacteria or viruses.

My team and I have been working with our cabin crew and pilots, cleaners, customer-facing staff, line maintenance engineers and employees right across the business to ensure everybody feels well equipped to look after themselves and our customers.

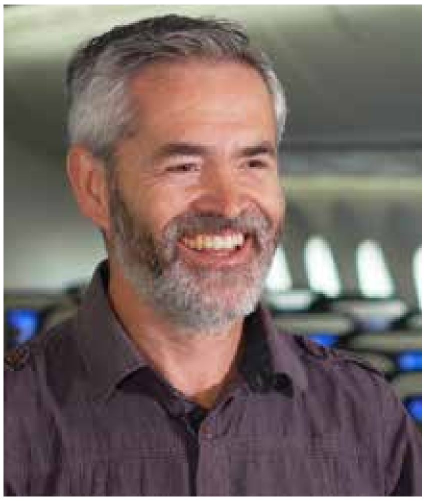
The simplest way to take care of yourself while travelling is to be cautious but sensible – maintain your distance from people who are unwell and wash your hands regularly. We also strongly encourage customers on our international flights to wear a mask. With our recent move back to Alert Level 3, face coverings are strongly encouraged for anyone outside the home, which includes in our workspaces and on our planes for essential travellers.

What is Air New Zealand doing to ensure my safety, both at the airport and on-board?

In February, when the extent of the Covid-19 pandemic began to unfold, we put a range of protocols in place to protect our people and customers. Since then, we have continued to refine these protocols as information about the virus has evolved. We are doing a number of things to look after our customers while they travel. This includes taking extra steps to clean our aircraft and lounges, making hand sanitiser readily available in airports and on-board, and providing masks and gloves for crew, as well as masks for customers on international flights, which we strongly encourage them to wear. With our recent move back to Alert levels 3 and 2 in August, we have issued further guidance around the use of masks, requiring all domestic cabin crew in flight, pilots when interacting with customers or transiting through Auckland Airport, and front of house staff to wear masks, just to name a few areas.

What do you use to clean your planes?

We are taking extra steps to enhance our cleaning procedures for our aircraft, lounges and common spaces, which includes using a stronger disinfectant product for routine cleaning. This is a more effective antiviral product, called Netbiokem, which helps reduce the risk of our customers coming into contact with infected surfaces. We have also increased the frequency of cleaning for high touch surfaces and items. Additionally, there are strict deep cleaning procedures in place that the team will use if a sick person has travelled with us.



Dr Ben Johnston — Chief Medical Officer

What has changed for crew with the new quarantine requirements announced recently?

Because of the importance of maintaining international air routes, New Zealand-based international air crew are mostly exempt from the requirement for isolation or quarantine, if they meet certain conditions both in flight and during layover.

These conditions include self-isolating in their hotel room on layover, having food delivered to their room, using dedicated private transport between the airport and their hotel and wearing masks while travelling through offshore airports.

Air crew living in New Zealand and returning from high risk destinations are required to self-isolate, have a Covid-19 test on day two after their arrival in New Zealand and continue to self-isolate until the results of their test have been returned.

All of these measures are in place to protect our crew and our customers, but it does mean a number of crew may feel isolated from their friends and family. Many of our crew have unjustly been the

Health & Safety (continued)

target of the community's fears of another Covid-19 spike, which is hard to see because the protocols we have in place are robust.

How do you stay on top of all the evolving information regarding Covid-19, interaction with New Zealand's Ministry of Health, discussion with airline bodies such as IATA?

I am a member of the IATA Medical Advisory Group so I have a direct line of communication with the IATA medical director and a group of 10 of my peers from large airlines across the world. We share information on a daily basis with a view to learning from each other and implementing best practice. The IATA medical advisor links with WHO, ICAO, US CDC and European CDC, foreign civil aviation regulators, aircraft manufacturers and NASA just to name a few, then disseminates information to IATA member airlines. That information includes scientific and policy publications relevant to airline risks and interests. I also have at least weekly discussions with the team at the Ministry of Health regarding international and domestic infection risks, regular discussions with the NZ reference lab, ESR, regarding testing and related science and epidemiologists and infectious disease specialists.

Why are crew not subject to the same quarantine rules as passengers?

Essentially, it's because crew don't mix with the local community while on layover in other countries. The protocols I mentioned earlier, such as requiring crew to self-isolate in hotel rooms while away, use dedicated private transport et cetera are all in place to ensure that our crew keep themselves, and others safe.

Our cabin crew and pilots are essential workers, just like supermarket or healthcare workers, and we are really proud of their efforts.

How is Air New Zealand supporting crew during this time?

I am so proud of how our crew have stepped up during this challenging time – the environment has been incredibly fluid so it's been great to see how resilient and adaptive they have been.

I believe one of the most important things we have done throughout this crisis is communicate regularly, making sure our people know they can come to us at any time with questions or concerns. We have also provided free access to Employee Assistance Programme services as we know that everyone is dealing with a lot at this time and may need to talk to someone that can provide some external advice and perspective. We have also provided financial support to crew via our Āwhina Trust, as we know that limited flying and reduced hours has a huge impact on their personal situations.

For international crew in particular, we have also worked with hotels to make the layover experience as enjoyable as possible. The ability to access fresh, healthy food via a delivery service or improving the outlook of their rooms all goes towards supporting their physical and mental wellbeing while they are offshore and confined to their rooms.

What is the feeling amongst crew at the moment – are people scared to go to work?

No, our crew are really passionate and committed about what they do, and are well aware of the requirements in place to keep both them and our customers safe. Air New Zealand has its own medical team led by Chief Medical Officer Dr Ben Johnston, an internationally recognised expert in aviation medicine. Dr Johnston has been working very closely with the Ministry of Health and our crew to arm them with information and training in the most up to date health and safety requirements. Alongside this, we have also put in a number of our own changes

Leeanne Langridge —
General Manager Cabin Crew

that go over and above these requirements, for example, introducing split groups for our A320 crew – so there is one team for flights operating across the Tasman and one for domestic flights. We have also made sure we have the appropriate physical and emotional support systems in place.

Health & Safety (continued)

How have crew dealt with the public backlash around the potential for them to bring Covid-19 back into New Zealand?

It's been really sad to see our crew and pilots become the focus of people's fears when it comes to Covid-19 in New Zealand. Our crew are extremely dedicated to getting our customers to and from their destinations safely and have been working throughout this crisis as essential workers to do just that. In my opinion they have done an amazing job during a very stressful and unique time in our history, so it is upsetting and disappointing to see some people in the community discriminating against our crew and their families because of the job they do. I ask that people remember that it is other Kiwis, people's loved ones, that our crew are bringing home to New Zealand – we should be thanking them, not treating them poorly.

Our crew are doing a great job keeping New Zealanders and New Zealand products connected with each other and I know that I speak for everyone at Air New Zealand when I say they have our full support and admiration.

Is there any support in place for crew who have departed?

Absolutely. We have tried to do everything we can to support those who have unfortunately lost their roles due to Covid-19. To be clear, our crew did absolutely nothing to deserve this and it is a horribly unfortunate situation, so we wanted to do everything in our power to reduce the impact of this blow.

We provided access to financial and wellbeing resources, provided Careerdesk CV advice services and set up livestreams and bespoke sessions for career advice. We set up the Āwhina Trust, which enables staff to apply for a hardship grant and also allowed early FlexiSaver withdrawals. Another important thing we have done is provide the opportunity for departing employees to receive updates on relevant job opportunities within Air New Zealand, should they wish to return when demand has recovered. We set up redeployment opportunities both internally and externally, actively seeking other opportunities for our staff.

We also created a furlough mechanism that provides crew with the option to go on long-term leave without pay, with first opportunity to return when demand recovers.

Covid-19 has changed the nature of work for international crew and pilots – how are we thinking about the longer-term sustainability of the additional requirements?

The work of our international cabin crew has changed markedly since the emergence of Covid-19. From testing before flights, isolating in hotels while offshore on a layover, to further self-isolation periods and testing upon arrival back in New Zealand. It is certainly a far cry from life prior to Covid-19. However, our crew take the responsibility of keeping themselves, their colleagues, our customers and the rest of the New Zealand public safe, very seriously, so are willing to make this sacrifice to keep everyone safe.

Our rostering process is now very different as it needs to reflect the self-isolation periods required between flights. We have also set up an in-house testing centre, to speed up the process of getting a test performed, as crew need confirmation of a negative test prior to operating to some offshore ports.

Looking forward, we expect these restrictions will remain in place given it seems we are still some time away from a vaccine or another form of suitable treatment for Covid-19. As such we have a project underway reviewing what the crew experience will look like in the future to ensure it is as seamless and pleasant for our crew as possible.

Financial commentary

As a result of government travel restrictions implemented from February 2020 in response to the Covid-19 pandemic, Air New Zealand reported a loss before other significant items and taxation of $87 million[1]. Including the impact of other significant items, statutory losses before taxation were $628 million.

Revenue

Operating revenue for the period declined 16 percent to $4.8 billion, a decrease of $949 million resulting from border closures and Covid-19-related travel restrictions. Excluding the impact of foreign exchange, operating revenue declined 17 percent.

Passenger revenue declined by 21 percent to $3.9 billion, reflecting the impact of Covid-19. Capacity (Available Seat Kilometres, ASK) reduced by 21 percent, due to the operation of a skeleton passenger schedule in the final quarter of the 2020 financial year following border restrictions across all of the markets operated by the airline. Prior to this time, moderate network growth arose from the annualisation of new routes to Chicago and Taipei, increased frequency to Singapore and growth on the Tasman. Demand (Revenue Passenger Kilometres, RPK) decreased more than capacity for the year, resulting in a load factor of 81.4 percent for the period, a decline on last year. Passenger Revenue per Available Seat Kilometre (RASK) was comparable to the prior period.

1. Earnings 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. Earnings 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 annual financial statements.

Financial commentary (continued)

International long-haul capacity declined 20 percent as moderated growth in the first nine months of the financial year was more than offset by the impact of Covid-19 travel restrictions and border closures. Demand on international long-haul routes declined 22 percent, with load factor decreasing 2.4 percentage points to 82.3 percent. International long-haul RASK declined by 0.7 percent. Excluding the impact of foreign exchange, long-haul RASK declined 2.2 percent.

Short-haul capacity, including Domestic declined 23 percent as moderate network reductions in the first nine months of the financial year were further reduced by the impact of Covid-19. Demand declined more than capacity at 25 percent, with load factors decreasing by 2.5 percentage points to 80.2 percent. Short-haul RASK improved by 2.7 percent both including and excluding the impact of foreign exchange.

Cargo revenue was $449 million, an increase of 15 percent. Excluding the impact of foreign exchange, cargo revenue increased by 13 percent, driven by cargo only charters, as well as the New Zealand Government's International Airfreight Capacity scheme (IAFC) which commenced in May 2020 and provided subsidies on international flights for the movement of imports and exports to New Zealand.

Contract services and other revenue was $445 million, an increase of 2.3 percent, driven by higher maintenance activity on contracts for third parties and charter revenue, partially offset by reduced ancillary income, lounge revenue and lower customer activity related to Covid-19. There was a nominal impact from foreign exchange.

Expenses

Operating expenditure declined by $553 million or 12 percent, with variable costs declining as a result of Covid-19 related reductions in network capacity.

Costs per ASK (CASK) increased 12 percent, including foreign exchange, fuel, and maintenance for third party contracts. This adverse movement is predominantly a result of the inefficiencies associated with the airline being unable to operate an optimal level of network capacity due to Covid-19 border and travel restrictions. Unfavourable foreign exchange movements and increased maintenance for third party contracts (for which there is a corresponding increase in revenue from third party maintenance contracts) also contributed to the adverse movement. Excluding those items, CASK increased 10 percent.

Labour costs were $1.2 billion, reducing by $154 million or 11 percent. Foreign exchange did not impact labour costs in the period.

Financial commentary (continued)

Reductions in network activity and headcount reductions were the largest components of the lower labour costs, in addition to the removal of incentive payments and the impact of the $75 million recognised under the New Zealand Government's wage subsidy.

Fuel costs were $1.0 billion, declining by $249 million or 20 percent. Excluding the impact of foreign exchange, fuel costs reduced by 24 percent. The largest driver of the decline was reduced volumes reflecting the 21 percent reduction in capacity, which resulted in $217 million of savings. The average fuel price, net of hedging also fell $89 million, or 7.0 percent, as global demand for Singapore Jet Fuel declined substantially as a consequence of reduced air travel from Covid-19. A weaker New Zealand Dollar partially offset the fuel savings, resulting in a $57 million unfavourable movement from foreign exchange. Fuel hedge losses as a result of reduced flying are reflected within other significant items.

Aircraft operations, passenger services and maintenance costs were $1.3 billion, representing a decline of $122 million or 8.7 percent. This was driven by the reduction in network capacity due to Covid-19 and the resulting decline in air navigation fees, landing charges, meal and lounge costs and other variable operating costs. Cash received under the Government's aviation relief package also contributed to the net decline. These decreases were partially offset by increased maintenance activity for third parties and end of lease activity.

Sales and marketing and other expenses declined by $63 million or 9.8 percent reflecting lower commission and promotional activity, which were partially offset by increased property and digital expenses.

Ownership costs increased by $80 million or 9.6 percent, driven by new aircraft deliveries, engine overhauls and digital investments, as well as lower interest income due to a reduction in cash holdings.

The impact of foreign exchange rate changes on the revenue and cost base in the period resulted in an unfavourable foreign exchange movement of $49 million. After taking into account a $35 million unfavourable movement in hedging, overall foreign exchange had a net $84 million adverse impact on the Group result for the period.

Share of Earnings of Associate

Share of earnings of associates has increased by $2 million to $39 million for the period, reflecting further growth in engine volumes from the Christchurch Engine Centre.

Other Significant items

Other significant items of $541 million were recognised during the period. These relate to Boeing 777-200ER fleet impairment charges of $338 million, reorganisation costs of $140 million, de-designation of hedges of $105 million and the impact of retrospectively disestablishing fair value aircraft hedges of $46 million. Other significant items also include a gain on sale of $21 million from the sale of landing slots at London's Heathrow Airport, as well as a gain on foreign currency revaluations on uncovered foreign currency debt of $67 million.

Cash and Financial Position

Cash on hand at 30 June 2020 was $438 million, a decrease of $617 million from 30 June 2019. The reduced cash position reflects the impact of lower customer bookings from March 2020 onwards, refunds issued to customers, fixed asset purchases and the cost of closing out fuel hedges during the period. The cash level is currently below the airline's previously stated liquidity target range of $700 million to $1 billion, however is supported by the $900 million standby loan facility provided by the New Zealand Government.

Operating cash flows were $230 million, a decline of 77 percent, reflecting lower earnings and unfavourable working capital movements, partially offset by a refund of prior year taxes.

Net gearing increased 17.5 percentage points to 69.2 percent compared to 1 July 2019[2], driven by net losses after taxation, foreign exchange movements, the payment of the 2019 final ordinary dividend and investment in the airline's fleet.

No final dividend for the 2020 financial year has been declared, consistent with the Board's decision on 20 March 2020 to cancel the 2020 interim ordinary dividend. This is a result of Covid-19 and the conditions of the $900 million standby loan facility with the New Zealand Government. This is the first time since 2005 that the airline has not paid a dividend to its shareholders and reflects the significant impact that Covid-19 has had on the airline's operations and balance sheet.

2. Gearing has been restated on a comparable basis following the Group's adoption of NZ IFRS 16, the new lease accounting standard, which was effective from 1 July 2019.

Change in profitability

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

June 2019 earnings before taxation	$382m	
Passenger capacity	-$1,000m	- Capacity decreased by 21.1 percent due to Covid-19 border closures and travel restrictions which impacted Asia routes from February 2020 and the rest of the network from March 2020. Prior to this time, growth arose from the annualisation of new routes to Chicago and Taipei, increased frequency on Singapore and growth on the Tasman
Passenger RASK	-$45m	- Revenue per Available Seat Kilometre (RASK) is comparable with the previous year. Loads decreased by 2.4 percentage points to 81.4 percent - Long-haul RASK declined by 2.2 percent excluding FX and loads decreased 2.4 percentage points to 82.3 percent - Short-haul RASK improved by 2.7 percent excluding FX and loads declined 2.5 percentage points to 80.2 percent
Cargo revenue	$52m	- Cargo revenue improved due to the award of cargo only scheduled flights under the Government's International Airfreight Capacity scheme and Government subsidies
Contract services and other revenue	$11m	- Increase in maintenance work for third parties and charter revenue offset by reduced ancillary income, lounge revenue and lower customer activity due to Covid-19
Labour	$154m	- Reduced staffing levels resulting from Covid-19 capacity reductions, suspension of incentive payments and receipt of wage subsidies
Fuel	$306m	- The average fuel price declined 7.0 percent compared to the prior year (net of hedging) resulting in a reduction in costs of $89 million. Consumption decreased by 17.1 percent ($217 million) due to the reduction in scheduled flights arising from international border closures and travel restrictions
Maintenance	-$37m	- Increase in maintenance for third parties and higher end of lease costs
Aircraft operations and passenger services	$169m	- Reduced schedule activity due to the Covid-19 pandemic and receipt of aviation support subsidies offset by price increases in air navigation and landing charges
Sales and marketing and other expenses	$80m	- Reduced commissions and promotional activity due to the reduction in services arising from Covid-19 offset by higher property and digital costs
Ownership costs	-$82m	- Increase in depreciation reflecting new aircraft deliveries offset by fleet exits
Net impact of foreign exchange movements	-$84m	- Net unfavourable impact of currency movements on revenue and costs and lower foreign exchange hedging gains
Share of earnings of associates	$2m	- Improved earnings from Christchurch Engine Centre driven by growth in engine volumes
Other significant items	-$536m	- Foreign exchange losses on uncovered debt following retrospective disestablishment of the fair value aircraft hedge, reorganisation costs, aircraft impairment resulting from the indefinite grounding of the B777-200ER fleet and de-designation of hedges as a result of forecast transactions no longer being expected to occur offset by foreign exchange gains on uncovered debt following de-designation of revenue hedges and gain on sale of landing slots
June 2020 earnings before taxation	-$628m	

* The numbers referred to in the Financial Commentary on the previous page have not isolated the impact of foreign exchange.

Financial summary

Financial Performance

	12 MONTHS TO 30 JUNE 2020 $M	12 MONTHS TO 30 JUNE 2019 $M
Operating Revenue		
Passenger revenue	3,942	4,960
Cargo	449	390
Contract services and other revenue	445	435
	4,836	5,785
Operating Expenditure		
Labour	(1,197)	(1,351)
Fuel	(1,022)	(1,271)
Maintenance	(441)	(399)
Aircraft operations	(575)	(678)
Passenger services	(258)	(319)
Sales and marketing	(253)	(350)
Foreign exchange gains	18	53
Other expenses	(324)	(290)
	(4,052)	(4,605)
Operating Earnings (excluding items below)	784	1,180
Depreciation and amortisation	(841)	(554)
Rental and lease expenses	-	(245)
Earnings Before Finance Costs, Associates, Other Significant Items and Taxation	(57)	381
Net finance costs	(69)	(31)
Share of earnings of associates (net of taxation)	39	37
Earnings Before Other Significant Items and Taxation	(87)	387
Other significant items	(541)	(5)
Earnings Before Taxation	(628)	382
Taxation credit/(expense)	174	(106)
Net (Loss)/Profit Attributable to Shareholders of Parent Company	(454)	276
Interim and final dividends declared per share (cents)	-	22.0
Net tangible assets per share (cents)	101	161

Cash Flows

	12 MONTHS TO 30 JUNE 2020 $M	12 MONTHS TO 30 JUNE 2019 $M
Cash inflows from operating activities	4,740	5,915
Cash outflows from operating activities	(4,510)	(4,929)
Net cash flow from operating activities	230	986
Net cash flow from investing activities	(542)	(883)
Net cash flow from financing activities	(305)	(391)
Decrease in cash and cash equivalents	(617)	(288)
Cash and cash equivalents at the beginning of the year	1,055	1,343
Cash and Cash Equivalents at the End of the Year	438	1,055

Certain balances for the year ended 30 June 2019 have been restated following the International Financial Reporting Interpretations Committee ("IFRIC") publishing an agenda decision in September 2019 in respect of a "Fair Value Hedge of Foreign Currency Risk on Non-Financial Assets". The new interpretation by IFRIC of the principles of IFRS 9 - Financial Instruments no longer permits certain fair value hedges of underlying United States Dollar aircraft values previously undertaken by the Group. Refer to Note 3 and 27 of the Group Annual Financial Statements for further details.

Financial summary (continued)

Financial Position

AS AT	30 JUNE 2020 $M	30 JUNE 2019 $M
Bank and short-term deposits	438	1,055
Trade and other receivables	305	564
Inventories	106	81
Derivative financial assets	38	48
Income taxation	3	-
Other assets	119	56
Total Current Assets	1,009	1,804
Trade and other receivables	142	64
Property, plant and equipment	3,336	5,133
Right of use assets	2,357	-
Intangible assets	186	186
Investments in other entities	162	149
Other assets	351	285
Total Non-Current Assets	6,534	5,817
Total Assets	7,543	7,621
Trade and other payables	322	585
Revenue in advance	828	1,372
Interest-bearing liabilities	160	307
Lease liabilities	353	-
Derivative financial liabilities	116	32
Provisions	104	105
Income taxation	-	25
Other liabilities	219	240
Total Current Liabilities	2,102	2,666
Revenue in advance	491	200
Interest-bearing liabilities	1,303	2,290
Lease liabilities	1,885	-
Provisions	295	165
Other liabilities	32	42
Deferred taxation	117	266
Total Non-Current Liabilities	4,123	2,963
Total Liabilities	6,225	5,629
Net Assets	1,318	1,992
Share capital	2,209	2,219
Reserves	(891)	(227)
Total Equity	1,318	1,992

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 27 August 2020, 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

LINK MARKET SERVICES LIMITED

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Annual Financial Statements

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).

Investor Relations Office

Private Bag 92007, Auckland 1142, New Zealand

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Website: airnzinvestor.com

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AIR NEW ZEALAND

2020

ANNUAL FINANCIAL RESULTS

Then, Now,
Always.

A STAR ALLIANCE MEMBER

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 2020.

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 2020 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

Jan Dawson
Deputy Chairman

27 August 2020

Contents

*This document, in conjunction with the Air New Zealand Annual Shareholder Review 2020, constitutes the 2020 Annual Report to shareholders of Air New Zealand Limited.

STATEMENT OF FINANCIAL PERFORMANCE

FOR THE YEAR TO 30 JUNE 2020

	NOTES	2020 $M	2019 $M
Operating Revenue			
Passenger revenue		3,942	4,960
Cargo		449	390
Contract services		216	197
Other revenue		229	238
	1	4,836	5,785
Operating Expenditure			
Labour		(1,197)	(1,351)
Fuel		(1,022)	(1,271)
Maintenance		(441)	(399)
Aircraft operations		(575)	(678)
Passenger services		(258)	(319)
Sales and marketing		(253)	(350)
Foreign exchange gains		18	53
Other expenses		(324)	(290)
	2	(4,052)	(4,605)
Operating Earnings (excluding items below)		784	1,180
Depreciation and amortisation		(841)	(554)
Rental and lease expenses	16	-	(245)
Earnings Before Finance Costs, Associates, Other Significant Items and Taxation		(57)	381
Finance income		34	48
Finance costs		(103)	(79)
Share of earnings of associates (net of taxation)	13	39	37
Earnings Before Other Significant Items and Taxation		(87)	387
Other significant items	3	(541)	(5)
Earnings Before Taxation		(628)	382
Taxation credit/(expense)	4	174	(106)
Net (Loss)/Profit Attributable to Shareholders of Parent Company		(454)	276
Per Share Information:			
Basic earnings per share (cents)	5	(40.4)	24.6
Diluted earnings per share (cents)	5	(40.4)	24.4
Interim and final dividends declared per share (cents)	19	-	22.0
Net tangible assets per share (cents)		101	161

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

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR TO 30 JUNE 2020

	NOTE	2020 $M	2019 $M
Net (Loss)/Profit for the Year		(454)	276
Other Comprehensive Income:			
Items that will not be reclassified to profit or loss:			
Actuarial gains/(losses) on defined benefit plans		6	(9)
Taxation on above reserve movements	4	(2)	3
Total items that will not be reclassified to profit or loss		4	(6)
Items that may be reclassified subsequently to profit or loss:			
Changes in fair value of cash flow hedges		(249)	(41)
Transfers to net (loss)/profit from cash flow hedge reserve		112	(85)
Changes in cost of hedging reserve		9	(8)
Taxation on above reserve movements		37	38
Total items that may be reclassified subsequently to profit or loss		(91)	(96)
Total Other Comprehensive Loss for the Year, Net of Taxation		(87)	(102)
Total Comprehensive (Loss)/Income for the Year, Attributable to Shareholders of the Parent Company		(541)	174

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR TO 30 JUNE 2020

	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)	(87)	2,089
Application of IFRIC interpretation	27	-	-	-	(97)	(97)
Restated 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

	NOTES	SHARE CAPITAL $M	HEDGE RESERVES $M	FOREIGN CURRENCY TRANSLATION RESERVE $M	GENERAL RESERVES $M	TOTAL EQUITY $M
Balance as at 1 July 2018		2,226	66	(13)	(103)	2,176
Application of IFRIC interpretation	27	-	-	-	(103)	(103)
Restated Balance as at 1 July 2018		2,226	66	(13)	(206)	2,073
Net profit for the year		-	-	-	276	276
Other comprehensive loss for the year		-	(97)	1	(6)	(102)
Total Comprehensive Income for the Year		-	(97)	1	270	174
Transactions with Owners:						
Equity-settled share-based payments (net of taxation)	4, 20	7	-	-	-	7
Equity settlements of long-term incentive obligations	20	(14)	-	-	-	(14)
Dividends on Ordinary Shares	19	-	-	-	(248)	(248)
Total Transactions with Owners		(7)	-	-	(248)	(255)
Balance as at 30 June 2019		2,219	(31)	(12)	(184)	1,992

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

STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2020

	NOTES	2020 $M	2019 $M
Current Assets			
Bank and short-term deposits	6	438	1,055
Trade and other receivables	7	305	564
Inventories	8	106	81
Derivative financial assets	24	38	48
Income taxation		3	-
Other assets	9	119	56
Total Current Assets		1,009	1,804
Non-Current Assets			
Trade and other receivables	7	142	64
Property, plant and equipment	10	3,336	5,133
Right of use assets	11	2,357	-
Intangible assets	12	186	186
Investments in other entities	13	162	149
Other assets	9	351	285
Total Non-Current Assets		6,534	5,817
Total Assets		7,543	7,621
Current Liabilities			
Trade and other payables		322	585
Revenue in advance	14	828	1,372
Interest-bearing liabilities	15	160	307
Lease liabilities	16	353	-
Derivative financial liabilities	24	116	32
Provisions	17	104	105
Income taxation		-	25
Other liabilities	18	219	240
Total Current Liabilities		2,102	2,666
Non-Current Liabilities			
Revenue in advance	14	491	200
Interest-bearing liabilities	15	1,303	2,290
Lease liabilities	16	1,885	-
Provisions	17	295	165
Other liabilities	18	32	42
Deferred taxation	4	117	266
Total Non-Current Liabilities		4,123	2,963
Total Liabilities		6,225	5,629
Net Assets		1,318	1,992
Equity			
Share capital	20	2,209	2,219
Reserves	21	(891)	(227)
Total Equity		1,318	1,992

Dame Therese Walsh
Chairman

Jan Dawson
Deputy Chairman

For and on behalf of the Board, 27 August 2020

STATEMENT OF CASH FLOWS

FOR THE YEAR TO 30 JUNE 2020

	NOTES	2020 $M	2019 $M
Cash Flows from Operating Activities			
Receipts from customers		4,660	5,869
Payments to suppliers and employees		(4,418)	(4,835)
Income tax refunded/(paid)		40	(23)
Interest paid		(92)	(71)
Interest received		40	46
Net Cash Flow from Operating Activities	6	230	986
Cash Flows from Investing Activities			
Disposal of property, plant and equipment, intangibles and assets held for resale		67	13
Proceeds from sale of slots		42	-
Distribution from associates	26	35	7
Acquisition of property, plant and equipment, right of use assets and intangibles		(615)	(821)
Interest-bearing asset payments		(66)	(82)
Investment in associate		(5)	-
Net Cash Flow from Investing Activities		(542)	(883)
Cash Flows from Financing Activities			
Interest-bearing liabilities drawdowns		45	263
Lease liabilities drawdowns	16	225	-
Rollover of foreign exchange contracts*		74	58
Equity settlements of long-term incentive obligations	20	(15)	(14)
Interest-bearing liabilities payments		(154)	(438)
Lease liabilities payments	16	(350)	-
Dividends on Ordinary Shares	19	(130)	(260)
Net Cash Flow from Financing Activities		(305)	(391)
Decrease in Cash and Cash Equivalents		(617)	(288)
Cash and cash equivalents at the beginning of the year		1,055	1,343
Cash and Cash Equivalents at the End of the Year	6	438	1,055

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

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

STATEMENT OF ACCOUNTING POLICIES

FOR THE YEAR TO 30 JUNE 2020

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 27 August 2020.

Forecast Liquidity

From March 2020 the Group reduced its network capacity by more than 95% as demand declined following border closures and international travel restrictions as a result of the Covid-19 pandemic. As a result of the severity of the pandemic, the rapid deterioration of worldwide and domestic travel, and the expected recovery period of global demand the Board has considered the ability of the Group to continue to operate as a going concern for at least 12 months from the date the financial statements are authorised.

In response to the significant reduction in operations, the following actions to manage the operations and liquidity of the Group were undertaken:

- On 27 May 2020 a standby Government loan facility of $900 million was secured to support the future business operations. The facility is available until 27 May 2022 and remained undrawn as at balance date (refer note 26 for further details). The Board is considering the future capital structure of the Group with a view to enabling the settlement of this facility;
- The Board cancelled the interim dividend payable to shareholders for the 2020 financial year;
- Deferral or cancellation of approximately $700 million of capital expenditure for the period through to December 2022 including deferrals of Airbus A321 NEO deliveries;
- Labour reductions of 30%, approximately 4,000 employees, including a reduction in the Executive team of 30%;
- Short-term incentive schemes for all employees were suspended. The Chief Executive and Executive team salaries, and the Directors' fees were reduced by 15% for the period through to 31 December 2020;
- A wage freeze for employees on individual employment agreements;
- A hiring freeze was implemented and voluntary leave options undertaken;
- Government grants were applied for in relation to wage subsidies, aviation support packages and international airfreight services;
- Reductions were made across all other areas of the airline's cost base including cancellation of all non-essential spend, reduction in lease costs and modifications of various vendor and supplier terms;
- Following Covid-19 related tax relief being provided by the New Zealand Government, the Group elected to carrying back the 2020 financial year income tax loss to the 2019 financial year. 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 October 2021 to March 2022; and
- The Boeing 777-200ER and Boeing 777-300ER fleets were grounded until at least the end of the 2020 calendar year.

The Group has cash of $438 million and the standby Government loan facility of $900 million at 30 June 2020 and has taken the mitigating actions detailed above to increase the Group's liquidity.

However, in view of the uncertainties created by the Covid-19 pandemic, the Group has modelled two scenarios, the Base and Downside Cases for the going concern period to support its assessment of the use of going concern basis for the year ended 30 June 2020.

The Base Case reflects the Board and management's view of the anticipated timing and recovery from the impact of the pandemic on the Group over the period covered by the going concern assessment.

The key inputs and assumptions used in the Base Case include:

- The recovery of capacity, which has been modelled regionally with a gradual recovery across the Group from the reduction of 95%, as measured against 2019 levels, from March 2020 to 55% lower at June 2021 and 45% lower at the end of the first quarter of the 2022 financial year (Q1 FY22).

STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

FOR THE YEAR TO 30 JUNE 2020

- The rate of growth varies across markets based on domestic and international travel restrictions and assumptions on the opening of international borders. The scenario assumes that the Domestic network increases to 25% lower than pre-Covid-19 levels by June 2021 and remains at 25% lower during Q1 FY22. Short-haul international markets are assumed to open in a phased approach during the 2021 financial year, reaching 20% lower at June 2021 and 10% to 15% lower by the end of Q1 FY22. The long-haul international network is assumed to operate minimal capacity which include operations of freight services and the repatriation of passengers through to Q1 FY22.
- Revenue per Available Seat Kilometre (RASK) for the Group is expected to remain largely consistent with the 2019 levels over the going concern period although this assumption is dependent on the mix of Domestic versus Short-haul, business versus leisure travel and the ability and timing to restart the networks.

The Downside Case applies further stress to the Base Case by contemplating a longer adverse impact driven by ongoing travel restrictions in the international markets and a more gradual recovery of demand.

- Capacity is assumed to more slowly build back to be 60% lower than pre-Covid-19 levels by June 2021 and 50% lower by Q1 FY22. This growth path is primarily driven by delays in short-haul international markets and continued delay of long-haul revenue due to border restrictions.
- RASK for the Domestic network is assumed to be lower than the pre-Covid-19 levels, reflecting changes to the business and leisure mix and International RASK is assumed to be constant with pre-Covid-19 levels as capacity is adjusted to reflect demand.

In addition to the Base and Downside Cases, the Board has considered additional sensitivities of adverse factors on capacity levels, delays in border openings, short-term domestic restrictions, RASK, sales profile, fuel price, foreign exchange, refunds and credit assumptions, direct and overhead costs. The scenarios were particularly sensitive to changes in assumptions relating to delays in border re-opening, RASK, sales profile and fuel prices.

Based on the liquidity shown in the Base and Downside Cases and the additional sensitivity analyses completed, the Board has a reasonable expectation that the Group has sufficient liquidity to continue to operate for the foreseeable future and therefore the adoption of the going concern basis for the financial statements is appropriate.

Given the uncertainty surrounding the timeframes in which travel restrictions and border re-openings may occur, the potential for future waves of the Covid-19 pandemic and the severity of the economic impact, the Group is not able to provide certainty that there may not be more severe downside scenarios to such factors as capacity, timing and RASK, than those which they have considered. While such severe scenarios are not considered likely, in the event a materially more adverse scenario occurs, then the Group would consider a number of further actions in relation to the extent of cost cutting and the need for additional funding over and above what is currently in place.

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 Group's functional currency.

Use of accounting estimates and judgements

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

Areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed 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 over page.

STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

FOR THE YEAR TO 30 JUNE 2020

The Group adopted the requirements of NZ IFRS 16 - Leases with effect from 1 July 2019. This standard has significantly changed the accounting treatment of leases by lessees. The previous dual accounting model for lessees which distinguished between on-balance sheet finance leases and off-balance sheet operating leases, no longer applies. Instead, there is now a single, on-balance sheet accounting model for all leases. Lessor accounting remains similar to previous practice. The Group has also adopted the requirements of Covid-19-Related Rent Concessions. This amendment to NZ IFRS 16 allows lessees not to assess whether particular Covid-19-related rent concessions are lease modifications. The amendment becomes effective for annual reporting periods commencing on or after 1 June 2020. The Group adopted the Amendment early with effect from 1 July 2019.

The Group applied the requirements of NZ IFRS 16 using the modified retrospective approach which means that comparative information has not been restated and continues to be reported under previous accounting policies. The details of the previous accounting policies are disclosed separately in Notes 11, 16 and 22 and further details of the impact of the standard, including transitional adjustments arising on adoption, are included in Note 27.

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 new interpretation by IFRIC of the principles of IFRS 9 - Financial Instruments no longer permits certain fair value hedges of underlying United States Dollar aircraft values previously undertaken by the Group. The interpretation has been applied retrospectively and comparative information within the financial statements restated accordingly. Further details are set out in Notes 3 and 27.

The Group adopted the requirements of NZ IFRIC 23 - Uncertainty over Income Tax Treatments with effect from 1 July 2019. It clarifies how to apply the recognition and measurement requirements in NZ IAS 12 - Taxation when there is uncertainty over income tax treatments. This Interpretation has not had any impact on the financial statements.

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.

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.

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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR TO 30 JUNE 2020

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.

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. Dividend revenue is recognised when the right to receive payment is established.

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

Cargo revenue

On 30 April 2020, following a tender process, 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 through to 30 June 2020 and was subsequently renewed through to 30 November 2020. The award was negotiated on an arm's length basis using standard commercial terms. During the year ended 30 June 2020 an amount of $21 million was recognised in the Statement of Financial Performance within Cargo revenue (30 June 2019: Nil). Conditions attached to the grant have been satisfied as at balance date.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR TO 30 JUNE 2020

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.

	2020 $M	2019 $M
Analysis of revenue by geographical region of original sale		
New Zealand	2,894	3,409
Australia and Pacific Islands	532	698
United Kingdom and Europe	233	283
Asia	446	519
America	731	876
Total operating revenue	4,836	5,785

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:

	2020 $M	2019 $M
Superannuation expense	56	55
Audit and review of financial statements*	1	1

* In addition to fees paid for the audit and review of the financial statements of $1,170k (30 June 2019: $1,115k), other fees were paid for assurance engagements including Greenhouse Gas inventory review of $20k (30 June 2019: $18k), student fee protection audit of $5k (30 June 2019: $5k), US Passenger Facility Charge audit of $22k (30 June 2019: $27k) and a Singapore branch audit file review of $4k (30 June 2019: nil). Non-assurance fees were paid for tax compliance work undertaken for the Corporate Taxpayers Group of $17k (30 June 2019: $17k) and sustainability reporting of $15k (30 June 2019: $15k). In the 2019 financial year, non-assurance fees of $51k were paid for a social impact assessment.

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.

	2020 $M	2019 $M
Government grants and subsidies recognised in the Statement of Financial Performance include:		
Wage subsidy (recognised within 'Labour')	75	-
Aviation support grant (recognised within 'Passenger services')	6	-
Aviation support grant (recognised within 'Aircraft operations')	17	-
Aviation support grant (recognised within 'Other expenses')	4	-

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 a 12 week period from 8 April 2020 through to the end of the financial year for those businesses which could demonstrate a 30% decline in revenues as a result of the pandemic. The wage subsidy was recognised within Labour expenses as an offset to the underlying labour cost. Conditions attached to the government subsidy which has been recognised in the Statement of Financial Performance to 30 June 2020 have been satisfied. In July 2020 the Group received a further $42 million in wage subsidies from the Ministry of Social Development for a 8 week period from 2 July 2020.

In May 2020 the New Zealand Government through the Ministry of Transport announced 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 covers the period from 1 March 2020 through to 31 August 2020. Conditions attached to the government assistance which has been recognised to 30 June 2020 have been satisfied.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR TO 30 JUNE 2020

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.

	2020 $M	2019 $M
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)	(5)
Amounts transferred from the cash flow hedge reserve where the forecast transaction is no longer expected to occur		
- fuel	(122)	-
- foreign exchange	17	-
Foreign exchange gains on uncovered interest-bearing liabilities and lease liabilities	67	-
Aircraft impairment expense	(338)	-
Reorganisation costs	(140)	-
Gain on sale of landing slots	21	-
	(541)	(5)

Foreign exchange losses on debt and leases, no longer offset by foreign exchange gains on the hedged item

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 permits certain fair value hedges of underlying United States Dollar aircraft values which were previously undertaken by the Group. The interpretation has been applied retrospectively in the financial statements. The impact on the comparative period is set out in Note 27.

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 (30 June 2019: $5 million). In September 2019 the debt was subsequently re-designated in new hedge relationships in accordance with the Group's financial risk management policies.

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 with effect from March 2020, affecting revenues, operating expenditure and fuel consumption. 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. 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 profit or loss. A number of trades de-designated from hedge relationships remained open as at reporting date. 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 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 March 2020 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.

Aircraft impairment

From March 2020, the Group reduced its network capacity by more than 95% as demand declined as a result of Covid-19 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 was grounded for an indefinite period into the future. 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 provisions of $338 million were recognised against the fleet for the year ended 30 June 2020 (30 June 2019: Nil). Further details are set out in Notes 10 and 11.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR TO 30 JUNE 2020

3. Other Significant Items (continued)

Reorganisation costs

Due to the unprecedented impact of Covid-19 on the airline a reorgansiation programme was undertaken to realign the cost base. This resulted in a reduction in employee numbers from April 2020 by 4,000 (being approximately 30% of the total labour workforce).

In March 2019, Air New Zealand announced a two-year cost reduction programme. Prior to March 2020 reorganisation costs, comprising of redundancy and other related costs, were recognised 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 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 an announced withdrawal from the London-Los Angeles route. Proceeds from the sale of $42 million were received in December 2019. A gain on sale of $21 million was recognised for the year ended 30 June 2020. A further gain on sale of $21 million is expected to be recognised in November 2020 when the remaining slots are formally registered and transferred.

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.

	2020 $M	2019 $M
Current taxation credit/(expense)		
Current year	57	(66)
Adjustment for prior periods	-	1
	57	(65)
Deferred taxation credit/(expense)		
Origination of temporary differences	56	(41)
Unused tax losses	61	-
Total taxation credit/(expense) recognised in earnings	174	(106)
Reconciliation of effective tax rate		
Earnings before taxation	(628)	382
Taxation at 28%	176	(107)
Adjustments		
Non-deductible expenses	(8)	(3)
Non-taxable income	6	1
Equity settlements of long-term incentive obligations	-	5
Over/(under) provided in prior periods	1	(1)
Reinstatement of tax depreciation on buildings	3	-
Foreign tax paid	(4)	(1)
Taxation credit/(expense)	174	(106)

The Group has $79 million of imputation credits as at 30 June 2020 (30 June 2019: $187 million).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR TO AND AS AT 30 JUNE 2020

4. Taxation (continued)

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	LTIP OBLIGATIONS $M	UNUSED TAX LOSSES $M	TOTAL $M
As at 1 July 2018	15	325	(55)	24	(1)	-	-	308
Application of IFRIC interpretation	-	(40)	-	-	-	-	-	(40)
Restated as at 1 July 2018	15	285	(55)	24	(1)	-	-	268
Amounts recognised in Other Comprehensive Income	-	-	-	(38)	(3)	-	-	(41)
Amounts recognised in equity	-	-	-	-	-	(2)	-	(2)
Amounts recognised in earnings	(1)	51	(8)	-	1	(2)	-	41
As at 30 June 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

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.

5. Earnings Per Share

Basic earnings per share is calculated by dividing the profit 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.

	2020 $M	2019 $M
Earnings for the purpose of basic and diluted earnings per share:		
Net (loss)/profit attributable to shareholders	(454)	276
Weighted average number of shares (in millions of shares)		
Weighted average number of Ordinary Shares for basic earnings per share	1,123	1,123
Effect of dilutive ordinary shares:		
- Performance rights and share options	-	6
Weighted average number of Ordinary Shares for diluted earnings per share	1,123	1,129
Basic earnings per share	(40.4)	24.6
Diluted earnings per share	(40.4)	24.4

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR TO AND AS AT 30 JUNE 2020

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:

	2020 $M	2019 $M
Cash balances	130	132
Other short-term deposits and short-term bills	308	923
Total cash and cash equivalents	438	1,055
Reconciliation of Net (Loss)/Profit Attributable to Shareholders to Net Cash Flows from Operating Activities:		
Net (loss)/profit attributable to shareholders	(454)	276
Plus/(less) non-cash items:		
Depreciation and amortisation	841	554
Loss on disposal of property, plant and equipment, intangibles and assets held for resale	-	2
Impairment expense/(reversal) on property, plant and equipment, right of use assets and assets held for resale	335	(4)
Share of earnings of associates	(39)	(37)
Movement on fuel derivatives	4	1
Foreign exchange losses on debt, no longer offset by foreign exchange gains on the hedged item	46	5
Foreign exchange gains on uncovered interest-bearing liabilities and lease liabilities	(67)	-
Amounts transferred from the cash flow hedge reserve where the forecast transaction is no longer expected to occur	40	-
Foreign exchange losses	2	2
Other non-cash items	12	11
	720	810
Net working capital movements:		
Assets	67	19
Revenue in advance	(253)	65
Liabilities	(304)	92
	(490)	176
Net cash flow from operating activities	230	986

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.

	2020 $M	2019 $M
Current		
Trade and other receivables	260	440
Prepayments	45	124
	305	564
Non-current		
Other receivables	78	-
Prepayments	64	64
	142	64

Expected credit loss provisions of $7 million were recognised as at 30 June 2020 (30 June 2019: $2 million).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

AS AT 30 JUNE 2020

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 variable selling expenses.

	2020 $M	2019 $M
Engineering expendables	82	65
Consumable stores	24	16
	106	81
Held at cost	99	68
Held initially at cost	68	68
Less provision for inventory obsolescence	(61)	(55)
Held at net realisable value	7	13
	106	81

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.

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.

	2020 $M	2019 $M
Current		
Amounts owing from associates	-	1
Contract work in progress	76	35
Assets held for resale	34	1
Other assets	9	19
	119	56
Non-current		
Interest-bearing assets	334	264
Assets held for resale	-	1
Other assets	17	20
	351	285

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. Following replacement of the ATR72-500 fleet with ATR72-600 aircraft in February 2020 the Group removed from service six aircraft which are expected to be disposed in the 2021 financial year. Spares related to exited fleets are being marketed for sale and it is expected that proceeds will be received over the next three years.

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 2020 were between 0.14% and 3.60% (30 June 2019: 2.72% to 3.10%). The fair value of interest-bearing assets as at 30 June 2020 was $364 million (30 June 2019: $287 million).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

AS AT 30 JUNE 2020

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

As a result of global Trent 1000 engine issues, there was a significant change in the expected pattern of consumption of future economic benefits embodied in those assets. The method of depreciation applied to the engine maintenance assets was changed from a straight-line to a usage basis approach over the period during which the engines were unserviceable. The impact on the financial statements for the year to 30 June 2020 was a reduction in depreciation expense of $5 million on owned aircraft and $1 million on right of use aircraft (30 June 2019: reduction in depreciation of $12 million on owned aircraft and $1 million on finance leased aircraft). At the time that the engines became serviceable again, the method of depreciation reverted to a straight line basis.

	AIRFRAMES, ENGINES AND SIMULATORS $M	SPARES $M	PLANT AND EQUIPMENT $M	LAND AND BUILDINGS $M	CAPITAL WORK IN PROGRESS $M	TOTAL $M
2020						
Carrying value as at 1 July 2019	4,618	82	141	188	104	5,133
Transferred to right of use assets on application of NZ IFRS 16	(1,298)	-	-	-	-	(1,298)
Restated 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

AS AT 30 JUNE 2020

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
2019						
Cost	6,606	147	448	455	66	7,722
Accumulated depreciation	(2,057)	(68)	(308)	(236)	-	(2,669)
Provision for impairment	-	-	-	(18)	-	(18)
Carrying value as at 1 July 2018	4,549	79	140	201	66	5,035
Application of IFRIC interpretation						
Cost	(177)	-	-	-	-	(177)
Accumulated depreciation	34	-	-	-	-	34
	(143)	-	-	-	-	(143)
Restated carrying value as at 1 July 2018	4,406	79	140	201	66	4,892
Additions	517	17	5	4	236	779
Disposals	(25)	(6)	-	-	-	(31)
Depreciation	(431)	(8)	(34)	(38)	-	(511)
Impairment reversal	-	-	-	4	-	4
Transfers of capital work in progress	151	-	30	17	(198)	-
Carrying value as at 30 June 2019	4,618	82	141	188	104	5,133
Represented by:						
Cost	6,935	156	464	470	104	8,129
Accumulated depreciation	(2,317)	(74)	(323)	(268)	-	(2,982)
Provision for impairment	-	-	-	(14)	-	(14)
Carrying value as at 30 June 2019	4,618	82	141	188	104	5,133

	2020 $M	2019 $M
Airframes, engines and simulators comprise:		
Finance leased airframes, engines and simulators	-	1,298
Owned airframes, engines and simulators	2,637	3,166
Progress payments	187	154
	2,824	4,618
Land and buildings comprise:		
Leasehold properties	198	177
Freehold properties	15	11
	213	188

Certain aircraft and aircraft related assets with a carrying value of $1,741 million as at 30 June 2020 are pledged as security over secured borrowings (30 June 2019: $1,855 million over borrowings and $1,375 million over finance lease obligations).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

AS AT 30 JUNE 2020

10. Property, Plant and Equipment (continued)

Impairment

Assets are required to be carried at no more than their recoverable amount either through use or sale of the asset. From March 2020 the Group reduced its network capacity by more than 95% as demand declined following border closures and international travel restrictions. Due to the rapid deterioration of worldwide and domestic travel, and the expected recovery period of global demand the Group has undertaken impairment testing to ensure the carrying value of assets are appropriate.

As a result of the severity of the Covid-19 pandemic on long-haul travel the Group has grounded the Boeing 777-200ER fleet for an indefinite period into the future. Due to uncertainty surrounding the future operation of the Boeing 777-200ER aircraft and associated assets, the assets were tested for impairment separately based on an assessment of their fair value less costs to sell. The market values were obtained from an external valuer. An impairment provision of $287 million was recognised against the Boeing 777-200ER aircraft and associated assets for the year ended 30 June 2020 (30 June 2019: Nil). An additional $3 million was recognised for associated capital work in progress projects (30 June 2019: Nil).

The carrying value of all other assets 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 short-term forecasts which incorporate some recovery of pre-Covid-19 capacity, followed by extrapolation at a growth rate of 1.5% per annum. The projections incorporated assumptions around market demand, expected fleet usage and network operations. Consideration has been given to historical performance and the previous Board approved 5 year plan. Key assumptions include exchange rates, jet fuel costs, passenger load factors, route yields and terminal values. The cash flow projections are particularly sensitive to fluctuations in economic demand, and to a lesser extent, fuel prices, exchange rates and terminal values. The cash flow projections are discounted using a post-tax rate of 8.25% with sensitivities performed within the range of 7.25% and 9.75%.

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 directors' current assessment of the Group's future trading prospects.

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 $14 million were recognised against the land and building assets of the business in previous years. During the year ended 30 June 2020 the assets were assessed for impairment based on a value in use discounted cash flow valuation. Cash flow projections were sourced from the 2021 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 2019: 9%). An impairment provision reversal of $2 million was recognised in the 30 June 2020 financial year (30 June 2019: $4 million reversal).

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 2020 the residual values of the aircraft were reassessed and depreciation expense was reduced by $3 million (30 June 2019: decreased by $3 million for owned aircraft and $1 million for finance leased aircraft).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

AS AT 30 JUNE 2020

11. Right of Use Assets

The Group has applied NZ IFRS 16 - Leases effective from 1 July 2019 using the modified retrospective approach and therefore comparative information has not been restated and is presented in accordance with the requirements of NZ IAS 17 - Leases.

Policy with effect from 1 July 2019

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.

Policy applicable prior to 1 July 2019

Finance leased assets

Leases under which the Group assumes substantially all the risks and rewards of ownership were classified as finance leases. All other leases were classified as operating leases. Upon initial recognition, assets held under finance leases were measured at amounts equal to the lower of their fair value and the present value of the minimum lease payments at inception of the lease. A corresponding liability was also established. Subsequent to initial recognition, the asset was accounted for in accordance with the accounting policy applicable to that asset.

The carrying amount of finance leased assets and finance lease liabilities immediately prior to 1 July 2019 became right of use assets and lease liabilities under NZ IFRS 16 with effect from this date.

	AIRFRAME AND ENGINES WITH PURCHASE OPTION* $M	AIRFRAME AND ENGINES WITH NO PURCHASE OPTION $M	LAND AND BUILDINGS $M	TOTAL $M
2020				
Recognised on application of NZ IFRS 16	-	554	322	876
Transferred from property, plant and equipment on application of NZ IFRS 16	1,298	-	-	1,298
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. Prior to 1 July 2019 these assets were referred to as finance leased assets.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

AS AT 30 JUNE 2020

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. Four of the aircraft are leased aircraft which have been moved to long-term storage for an indefinite period of time. As there is uncertainty as to whether 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 $48 million being recognised (30 June 2019: nil).

All other right of use assets 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 2020 the residual values of the aircraft were reassessed and depreciation expense was 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
2020					
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
2019					
Cost	391	152	16	2	561
Accumulated depreciation	(240)	(150)	-	-	(390)
Provision for impairment	-	-	-	(1)	(1)
Carrying value as at 1 July 2018	151	2	16	1	170
Additions	-	-	59	-	59
Amortisation	(42)	(1)	-	-	(43)
Transfers	54	2	(56)	-	-
Carrying value as at 30 June 2019	163	3	19	1	186
Represented by:					
Cost	442	153	19	2	616
Accumulated depreciation	(279)	(150)	-	-	(429)
Provision for impairment	-	-	-	(1)	(1)
Carrying value as at 30 June 2019	163	3	19	1	186

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR TO AND AS AT 30 JUNE 2020

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.

	2020 $M	2019 $M
Investments in associates	161	148
Investments in other entities	1	1
	162	149

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 Partnership LLC	Associate	21	Carbon credit generation	New Zealand	30 June
ANZGT Field Services LLC	Joint Venture	51	Engineering services	United States	30 June

* On 1 June 2020 ANZGT Field Services LLC ceased operations and became non-trading.

Summary financial information of associates

	CEC 2020 $M	DRYLAND 2020 $M	TOTAL 2020 $M	CEC 2019 $M	DRYLAND 2019 $M	TOTAL 2019 $M
Assets and liabilities of associates are as follows:						
Current assets	336	3	339	410	1	411
Non-current assets	55	19	74	47	-	47
Current liabilities	(44)	(1)	(45)	(134)	-	(134)
Non-current liabilities	(26)	-	(26)	(21)	-	(21)
Net identifiable assets	321	21	342	302	1	303
Group share of net identifiable assets	157	4	161	148	-	148
Carrying value of investment in associates	157	4	161	148	-	148
Results of associates						
Revenue	1,188	-	1,188	1,018	-	1,018
Earnings after taxation	80	(2)	78	76	-	76
Total comprehensive income	80	(2)	78	76	-	76
Group share of net earnings after taxation	39	-	39	37	-	37
Group share of total comprehensive income	39	-	39	37	-	37

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

AS AT 30 JUNE 2020

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 by 30 June 2021. 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, the amount of held in credit balances and changes in customer behaviour (including the mix of air and non-air redemptions). For the year ended 30 June 2020 it is expected that loyalty balances will be redeemed within two to three years.

	2020 $M	2019 $M
Current		
Transportation sales in advance	726	1,172
Loyalty programme	77	175
Other	25	25
	828	1,372
Non-current		
Transportation sales in advance	133	-
Loyalty programme	351	195
Other	7	5
	491	200

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

AS AT 30 JUNE 2020

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.

The Group has applied NZ IFRS 16 - Leases from 1 July 2019 using the modified retrospective approach and therefore comparative information has not been restated. Prior to this date, finance lease obligations were recognised and measured in the same way as borrowing and bonds in accordance with NZ IAS 17. From 1 July 2019, they are accounted for under the requirements of NZ IFRS 16 and reported within Lease liabilities (refer to Note 16).

Borrowings, bonds and finance lease obligations (prior to 1 July 2019) 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.

	2020 $M	2019 $M
Current		
Secured borrowings	160	146
Finance lease liabilities	-	161
	160	307
Non-current		
Secured borrowings	1,253	1,313
Unsecured bonds	50	50
Finance lease liabilities	-	927
	1,303	2,290
Interest rates basis:		
Fixed rate	157	621
Floating rate	1,306	1,976
At amortised cost	1,463	2,597
At fair value:		
Secured borrowings and bonds	1,432	1,549
Finance lease liabilities	-	1,131
	1,432	2,680

Non-cash movements in interest-bearing liabilities during the year ended 30 June 2020 included foreign exchange losses of $63 million (30 June 2019: losses of $20 million on interest-bearing liabilities and $12 million on finance lease obligations). Capitalised interest of $6 million was recognised on finance lease obligations during the year ended 30 June 2019.

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 are secured over aircraft and are subject to both fixed and floating interest rates. Fixed interest rates were 1.0% (30 June 2019: 1.0%).

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

AS AT 30 JUNE 2020

16. Lease Liabilities

The Group has applied NZ IFRS 16 - Leases effective from 1 July 2019 using the modified retrospective approach and therefore comparative information has not been restated and is presented in accordance with the requirements of NZ IAS 17 - Leases.

Policy applicable from 1 July 2019

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.

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.

Policy applicable prior to 1 July 2019

Leases under which the Group assumes substantially all the risks and rewards of ownership were classified as finance leases. All other leases were classified as operating leases. Upon initial recognition, assets held under finance leases were measured at amounts equal to the lower of their fair value and the present value of the minimum lease payments at inception of the lease. A corresponding liability was also established, and subsequently stated at amortised cost using the effective interest rate method, where appropriate. Payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Payments made under operating leases (net of any incentives received) were recognised as an expense in the Statement of Financial Performance on a straight-line basis over the term of the lease.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

AS AT 30 JUNE 2020

16. Lease Liabilities (continued)

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.

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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 the 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.

Sale and leasebacks

During the 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 $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 provides certainty to the Group of the residual proceeds. No such transactions were entered into in the prior year.

Disclosures required under NZ IFRS 16 - Leases for periods effective from 1 July 2019

Amounts recognised as lease liabilities on application of NZ IFRS 16 - Leases together with movements 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
2020				
Recognised on application of NZ IFRS 16	-	535	327	862
Transferred from Interest-bearing liabilities on application of NZ IFRS 16	1,088	-	-	1,088
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
Interest rates basis:				
Fixed rate				1,469
Floating rate				769
At amortised cost				2,238

*Airframes and engines where a purchase option is assessed as reasonably certain to be exercised. Prior to 1 July 2019 these leases were referred to as finance leases.

**The principal amount of $350 million is presented in the Statement of Cash Flows within 'Financing Activities', and interest payments of $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%. The weighted average discount rates used for leases which have no purchase option, or one which is not likely to be exercised, is 2.7%.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

AS AT 30 JUNE 2020

16. Lease Liabilities (continued)

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

Disclosures required under NZ IAS 17 - Leases for periods prior to 1 July 2019

	2019 $M
Rental and lease expense (operating leases) recognised within earnings	
Aircraft	183
Property	62
	245

Finance lease liabilities outstanding as at 30 June 2019 were repayable over the following periods:

	2019 $M
Repayable as follows:	
Not later than 1 year	181
Later than 1 year and not later than 5 years	642
Later than 5 years	377
	1,200
Less future finance costs	(112)
Present value of future rentals	1,088
Repayable as follows:	
Not later than 1 year	161
Later than 1 year and not later than 5 years	594
Later than 5 years	333
	1,088

Finance lease liabilities are secured over aircraft and are subject to both fixed and floating interest rates. Fixed interest rates for the year ended 30 June 2019 ranged from 0.7% to 3.1%.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

AS AT 30 JUNE 2020

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 2019	269	-	1	270
Amount provided	109	138	1	248
Amount utilised and released	(82)	(44)	-	(126)
Foreign exchange movement	7	-	-	7
Balance as at 30 June 2020	303	94	2	399
Represented by:				
Current	15	87	2	104
Non-current	288	7	-	295
Balance as at 30 June 2020	303	94	2	399

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. Insurance provisions are expected to be utilised within 12 months and are based on historical claim experience.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

AS AT 30 JUNE 2020

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.

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.

	2020 $M	2019 $M
Current		
Employee entitlements	165	220
Amounts owing to associates	12	-
Other liabilities (including defined benefit liabilities)	42	20
	219	240
Non-current		
Employee entitlements	12	14
Other liabilities	20	28
	32	42

The Group operates two defined benefit plans for qualifying employees in New Zealand and overseas. A net liability was recognised of $5 million (30 June 2019: $13 million). The New Zealand plan is now closed to new members. The plans provide a benefit on retirement or resignation based upon the employee's length of membership and final average salary. Each year an actuarial calculation is undertaken using the Projected Unit Credit Method to calculate the present value of the defined benefit obligation and the related current service cost. The current service cost recognised through earnings was $2 million (30 June 2019: $3 million).

19. Distributions to Owners

	2020 $M	2019 $M
Distributions recognised		
Final dividend on Ordinary Shares	123	124
Interim dividend on Ordinary Shares	-	124
	123	248
Distributions paid		
Final dividend on Ordinary Shares	130	130
Interim dividend on Ordinary Shares	-	130
	130	260

A 2020 interim dividend of 11.0 cents per Ordinary Share was declared on 26 February 2020, payable on 25 March 2020. As a result of the severe impact of Covid-19 on the Group, and in accordance with conditions precedent in securing the availability of the Government funding facility, the dividend was subsequently cancelled on 20 March 2020.

A final dividend in respect of the 2019 financial year of 11.0 cents per Ordinary Share was paid on 18 September 2019 (2018 financial year: 11.0 cents per Ordinary Share was paid on 19 September 2018). Imputation credits were attached and supplementary dividends paid to non-resident shareholders.

An interim dividend in respect of the 2019 financial year of 11.0 cents per Ordinary Share was paid on 27 March 2019. Imputation credits were attached and supplementary dividends paid to non-resident shareholders.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

AS AT 30 JUNE 2020

20. Share Capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares, rights or options 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.

	2020 $M	2019 $M
Share Capital comprises:		
Authorised, issued and fully paid in capital	2,197	2,206
Equity-settled share-based payments (net of taxation)	12	13
	2,209	2,219

Balance at the beginning of the year	2,219	2,226
Equity settlements of long-term incentive obligations*	(15)	(14)
Equity-settled share-based payments	4	5
Taxation on share capital reserve	1	2
Balance at the end of the year	2,209	2,219

* During the year ended 30 June 2020 the Group funded the purchase on-market of 5,456,593 shares (30 June 2019: 4,463,819). The shares were used to settle obligations under employee share-based compensation plans.

	2020	2019
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 2019: 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 2020 financial year (30 June 2019: Nil). Total treasury stock held as at 30 June 2020 is 34,090 shares (30 June 2019: 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 2020 was 93 (30 June 2019: 93).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

AS AT 30 JUNE 2020

20. Share Capital (continued)

Equity-Settled Share-Based Payments

The fair value (at grant date) of share rights and options granted to employees is recognised as an expense, within the Statement of Financial Performance, over the vesting period of the rights and options, 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 and share options that will ultimately vest.

Share rights and options over ordinary shares

Performance share rights have been offered to a number of senior executives on attainment of predetermined performance objectives, and restricted share rights have been offered to the CEO subject to remaining in employment over the vesting period. Prior to the 2015 financial year, share options were granted to a number of senior executives on attainment of predetermined performance objectives. All remaining share options were fully excercised in the 2019 financial year.

The total expense recognised in the year ended 30 June 2020 in respect of equity-settled share-based payment transactions was $4 million (30 June 2019: $5 million).

	PERFORMANCE SHARE RIGHTS 2020	CEO RESTRICTED SHARE RIGHTS* 2020	PERFORMANCE SHARE RIGHTS 2019	LONG-TERM INCENTIVE PLAN 2019	CEO RESTRICTED SHARE RIGHTS* 2019
Number outstanding					
Outstanding at beginning of the year	11,871,481	275,758	12,236,381	415,735	510,808
Granted during year	5,040,420	-	4,287,459	-	242,643
Exercised during year	(5,180,835)	(275,758)	(3,824,080)	(415,735)	(380,636)
Forfeited during year	(1,832,108)	-	(828,279)	-	(97,057)
Outstanding at the end of the year**	9,898,958	-	11,871,481	-	275,758
Weighted average exercise price:					
- exercised during the year ($)	-	-	-	1.23	-
Weighted average:					
- Share price at the date options exercised ($)	-	-	-	3.27	-
Fair value of rights granted in year ($M)	6.4	-	6.4	-	0.7
Unamortised grant date fair value ($M)	6.2	-	6.5	-	0.3

* The CEO Restricted Share Rights was 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 (%)
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
2016	239	28	13	0.40	3.5	2.53	7.1

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
2019 Tranche 2	322	1.05	7.50	9.1	2.3	1.65	4.8
2018 Tranche 1	348	1.10	7.50	9.6	1.3	1.84	5.9
2018 Tranche 2	348	1.10	7.50	9.6	2.3	1.94	5.4
2017 Tranche 2	194	1.30	7.50	11.1	2.3	1.90	7.2

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

AS AT 30 JUNE 2020

20. Share Capital (continued)

Options	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 (%)	DISCOUNT TO REFLECT NEGOTIABILITY RESTRICTIONS (%)
Long-Term Incentive Plan*								
2014	139	27	15	0.25	5.0	4.40	5.8	25

* Volatility and correlation estimates were derived using historical data over the past 3-5 years. Risk free rate was based on the 5 year zero coupon bond yield.

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 financial year vested on 31 December 2019.

OPTIONS

The Group previously undertook a stock settled share appreciation rights scheme whereby shares are issued equating to the delta between the market price and the exercise price. The exercise price was modelled as a stochastic variable, using the volatility, correlation, dividend yield and risk free rate assumptions provided. The volatility and correlation estimates were derived from measuring these parameters using historical data. The risk free rate was based on the zero coupon bond yield implied from short to medium-term yields for government bonds. The expected life used in calculating the value of options was determined by analysis of the attrition rates and early exercise behaviour of staff in long-term incentive programmes in similar large corporates. All remaining outstanding share options were exercised in the year ended 30 June 2019.

(a) Long-Term Incentive Plan (LTIP)

The options were able to be exercised at any time between three and five years after the date of issue (subject to compliance with insider trading restrictions and the rules of the scheme). All options remaining under the plan were exercised in the prior year. The exercise price was set three years after issue, and was based on Air New Zealand's share price at the issue date increased or decreased by the percentage movement in a specified index over the three years, and decreased by any distributions made over the same period. The specified index comprised the total shareholder return for the NZX All Gross Index and the Bloomberg World Airline Total Return Index (adjusted for dividends) in 50:50 proportions.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR TO AND AS AT 30 JUNE 2020

21. Reserves

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

	2020 $M	2019 $M
Cash flow hedge reserve	(120)	(21)
Costs of hedging reserve	(3)	(10)
Hedge reserves	(123)	(31)
Foreign currency translation reserve	(11)	(12)
General reserves	(757)	(184)
Total Reserves	(891)	(227)

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 liabilities and the Group's share of equity accounted associates' reserves. Opening general reserves have been restated to reflect the impact of the IFRIC Interpretation (refer to Note 27).

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. On 1 July 2019, the Group adopted the requirements of NZ IFRS 16 - Leases. Effective from this date, lease liabilities were recognised on-balance sheet (refer Notes 11, 16 and 27 for further details). Where lease arrangements have not yet commenced, lease commitments are disclosed below.

	2020 $M	2019 $M
Capital commitments:		
Aircraft and engines	2,907	1,056
Other property, plant and equipment and intangible assets	21	52
	2,928	1,108

Following approval being obtained at the Annual Shareholder Meeting on 25 September 2019, agreements were entered into to acquire eight Boeing 787-10 aircraft (powered by GE Aviation's Genx-1B engines) and two spare engines.

In May 2020 the Group deferred the delivery of five A321 NEO aircraft from February 2021 to November 2021 through to June 2022 to November 2023.

Capital commitments as at reporting date include eight Boeing 787-10 aircraft (planned delivery from 2023 to 2028 financial years), seven Airbus A321 NEOs and two Airbus A320 NEOs (delivery from 2022 to 2024 financial years) and two ATR72-600s (delivery in 2021 financial year).

On 1 July 2019, the Group adopted the requirements of NZ IFRS 16 - Leases. Effective from this date, lease liabilities were recognised on balance sheet (refer to Note 27 for further details). Where lease arrangements have not yet commenced, commitments are disclosed below.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

AS AT 30 JUNE 2020

22. Commitments (continued)

	2020 $M	2019 $M
Lease commitments:		
Aircraft	-	767
Property	-	291
	-	1,058

	2019 $M
Future operating lease commitments	
Aircraft leases payable*	
Not later than 1 year**	192
Later than 1 year and not later than 5 years	417
Later than 5 years	158
	767
Property leases payable	
Not later than 1 year	50
Later than 1 year and not later than 5 years	157
Later than 5 years	84
	291
Total operating lease commitments	1,058

* Included lease commitments for one Airbus A320 NEO aircraft and one Boeing 787-9 aircraft which were delivered in the 2020 financial year.

** Aircraft leases payable not later than 1 year included $14 million of commitments for short-term leases which provided cover for Boeing 787-9 engine issues in the 2019 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.

	2020 $M	2019 $M
Letters of credit and performance bonds	34	31

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

In April 2020, the Employment Court released a judgment involving third parties which is relevant to the treatment of payments made under short-term incentive schemes in calculating entitlements under the Holidays Act 2003. The judgment has been appealed by the third party involved. It is expected that the position regarding payments made under the Group's discretionary short-term incentive scheme will be clarified when the case is heard before, and determined by, the Court of Appeal. That decision will not be available for some time. If the Employment Court's initial reasoning is upheld and that reasoning was determined to be applicable to the Group's short-term incentive scheme, then a liability of approximately $25 million would arise for obligations in respect of the preceding six-year period.

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 $70 million (30 June 2019: $155 million).

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

AS AT 30 JUNE 2020

24. Financial Risk Management (continued)

As a result of Covid-19, uncertainty regarding the resumption of international flying is expected to continue to affect the ability to accurately forecast transactions subject to the above risks in the short to medium-term. Consequently the Board of Directors has granted an interim exemption to certain risk management policies, which is set out in more detail below. Governance reporting of the Group's risk management position continues to be monitored by the Board of Directors and management on a regular basis.

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 95% of trade and other receivables are current, with less than 3.5% 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 2019: 47% to 87%) of forecast net operating cash flows for the first 6 months, with progressive reductions in percentages hedged over the next 6 to 12 months. As a result of Covid-19, and the uncertainty of cash flow forecasts until international travel resumes, the Board has granted an interim exemption to this policy. Derivatives continue to be put in place for future periods within original policy parameters, albeit at significantly reduced volumes. 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 year. Where the forecast transactions are no longer expected to occur, the related cumulative gains or losses have been 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 been 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 the remaining 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 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 gains'.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

AS AT 30 JUNE 2020

24. Financial Risk Management (continued)

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 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.

	NZD $M	USD $M	AUD $M	EUR $M	JPY $M	OTHER $M	TOTAL $M
As at 30 June 2019							
Investments in other entities	-	149	-	-	-	-	149
Interest-bearing assets	152	-	34	78	-	-	264
Interest-bearing liabilities	(134)	(1,358)	-	(220)	(885)	-	(2,597)
Provisions	(45)	(225)	-	-	-	-	(270)
	(27)	(1,434)	34	(142)	(885)	-	(2,454)
Hedged by:							
Cash flow hedges of forecast revenue	-	-	-	45	484	-	529
Derivative cover	-	695	(34)	97	401	-	1,159
Unhedged**	(27)	(739)	-	-	-	-	(766)

** As a result of an IFRIC Interpretation, certain fair value hedges were retrospectively disestablished (refer to Note 27 for further detail). Debt instruments which were previously designated as the hedging instrument in fair value hedge relationships became unhedged upon disestablishment.

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 2020

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 gains'. All derivatives mature within 12 months (30 June 2019: 12 months).

	2020 NZ$M	2019 NZ$M
Hedging instruments used		
Derivative financial instruments		
NZD	(173)	(511)
USD	408	1,050
AUD	(106)	(219)
EUR	(19)	(48)
JPY	(15)	(42)
CNH	(19)	(58)
GBP	(34)	(72)
Other	(34)	(87)
Hedge accounted foreign currency derivatives	8	13

As at 30 June 2019, the following interest-bearing liabilities were recognised within 'Interest-bearing liabilities' on the Statement of Financial Position as at reporting date and were designated as the hedging instrument in qualifying cash flow hedges of highly probable forecast JPY and EUR operating revenue expected to occur in the time periods shown. Due to the severe impact of Covid-19 on forecast foreign currency revenues, these hedges were de-designated in March 2020. Where the underlying forecast transactions were no longer expected to occur, the previously deferred foreign currency gains/losses were recognised immediately in profit or loss. The remaining cumulative gains/losses will remain in the cash flow hedge reserve until the originally forecast transaction occurs.

	< 1 YEAR NZ$M	1-2 YEARS NZ$M	2-5 YEARS NZ$M	5+ YEARS NZ$M	TOTAL NZ$M
Interest-bearing liabilities					
As at 30 June 2019					
EUR	(6)	(6)	(20)	(13)	(45)
JPY	(53)	(55)	(156)	(220)	(484)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

AS AT 30 JUNE 2020

24. Financial Risk Management (continued)

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.

	2020 $M	2019 $M
Recognised in Statement of Changes in Equity		
Hedge reserves		
Balance at the beginning of the year	(14)	26
Change in fair value*	(64)	3
Transfers to foreign exchange gains	(32)	(59)
Transfers to foreign exchange gains on de-designation	(19)	-
Taxation on reserve movements	32	16
Balance at the end of the year	(97)	(14)
Represented by:		
Forecast operating revenue/expense	(133)	(18)
Tax effect	36	4
Balance at the end of the year	(97)	(14)

* 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 2019: Nil). Forward point gains excluded from the hedge designation of $8 million were recognised in 'Finance income' during the year (30 June 2019: $8 million in 'Finance income').

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

	2020	2019
USD	0.6430	0.6748
AUD	0.9504	0.9433
EUR	0.5818	0.5914
JPY	68.57	75.10
CNH	4.57	4.61
GBP	0.5049	0.5181

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'.

	2020 NZ$M	2019 NZ$M
Hedged amount of United States Dollar investment	131	125
Hedged by: United States Dollar interest-bearing liabilities	(131)	(125)

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.

	2020 NZ$M	2019 NZ$M
Foreign currency translation reserve		
Balance at the beginning of the year	(12)	(13)
Translation gains on hedged investment**	5	1
Translation losses on hedging instrument**	(5)	(1)
Taxation on reserve movements	1	1
Balance at the end of the year	(11)	(12)

** 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 2019: Nil).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

AS AT 30 JUNE 2020

24. Financial Risk Management (continued)

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.

	2020 $M	2019 $M
Hedging instruments		
Derivative financial instruments		
NZD	(1,502)	(1,143)
USD	959	670
AUD	(11)	(24)
EUR	98	106
JPY	419	398
Other	-	3
Not hedge accounted foreign currency derivatives	(37)	10

The changes in fair value of hedged items and hedging instruments during the year offset within 'Foreign exchange gains' within the Statement of Financial Performance, as set out below. In addition, foreign exchange gains of $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.

	2020 $M	2019 $M
Foreign currency gains/(losses) on:		
Lease liabilities	(4)	-
Interest-bearing liabilities	(47)	(15)
Provisions	(7)	(1)
Interest-bearing assets	1	(1)
Derivative financial instruments	56	17
	(1)	-

Forward points on non-hedge accounted foreign currency derivatives of $7 million were recognised in 'Finance costs' during the year (30 June 2019: $9 million).

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 or the underlying fair value of hedged non-financial assets. 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

AS AT 30 JUNE 2020

24. Financial Risk Management (continued)

Appreciation/depreciation (US cents):	2020 NZ$M +5c	2020 NZ$M -5c	2019 NZ$M +5c	2019 NZ$M -5c
Impact on (loss)/profit before taxation:				
USD	77	(89)	55	(64)
AUD	-	(1)	(1)	1
EUR	(1)	2	(1)	1

The above would be offset in earnings through either the fair value hedge mechanism or through the impact of foreign currency on depreciation.

	2020 NZ$M +5c	2020 NZ$M -5c	2019 NZ$M +5c	2019 NZ$M -5c
Impact on equity:				
USD	(25)	29	(75)	87
AUD	7	(8)	15	(18)
EUR	1	(1)	7	(8)
JPY	-	(1)	37	(41)
CNH	1	(1)	4	(5)
GBP	2	(2)	5	(6)
Other	2	(3)	6	(7)

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

	2020	2019
Significant foreign exchange rates used at balance date for one New Zealand Dollar are:		
USD	0.6420	0.6700
AUD	0.9360	0.9570
CNY	4.55	4.61
EUR	0.5710	0.5890
JPY	69.10	72.20
GBP	0.5220	0.5290

FUEL PRICE RISK

Fuel price risk is the risk of loss to Air New Zealand 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 2019: first six months is hedged between 45% to 85%) with progressive reductions in percentages hedged over the next 6 to 12 months. As a result of Covid-19 and the uncertainty of forecast operating capacity (and hence fuel consumption) until international travel resumes, the Board has granted an interim exemption to this policy. Derivatives continue to be put in place for future periods within original policy parameters, albeit at significantly reduced volumes.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

AS AT 30 JUNE 2020

24. Financial Risk Management (continued)

Impact of hedging fuel price risk

Weighted average strike prices of fuel derivatives	2020 Brent USD	2019 Brent USD
Weighted average collar ceiling	57	68
Weighted average collar floor	50	57
Weighted average bought calls	52	64
Weighted average sold calls	58	69
Weighted average Brent swap strike	53	-
Weighted average Jet swap strike	44	-
Weighted average Jet-Brent crack spread price	15	17
Barrels hedged (millions of barrels)	2.7	5.8

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	2020 $M	2019 $M
Derivative financial liabilities	(48)	(5)

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 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.

Hedge reserves		
Balance at the beginning of the year	(16)	38
Change in fair value*	(184)	(39)
Transfers to fuel	41	(27)
Transfers to fuel on de-designation	122	-
Changes in cost of hedging reserve	9	(8)
Taxation on reserve movements	4	20
Balance at the end of the year	(24)	(16)

* 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 2019: Nil).

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 profit 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:	2020 $M +USD 15	2020 $M -USD 15	2019 $M +USD 20	2019 $M -USD 20
Impact on (loss)/profit before taxation	24	(26)	-	-
Impact on cash flow hedge reserve (within equity)	27	(27)	118	(115)

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 profit 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

AS AT 30 JUNE 2020

24. Financial Risk Management (continued)

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. Whilst the Group's policy is to fix between 70% to 90% (30 June 2019: 70% to 90%) of its exposure to interest rates, including fixed interest leases, in the next 12 months, the impact of Covid-19 on the Group's cash position has resulted in interest exposure outside of these parameters at the end of the financial year. The Board has approved an interim exemption to this policy. 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

	2020	2019
Interest rate derivatives		
Volume (USD M)	160	260
Weighted average contract rate (%)	2.6	2.3
Weighted average contract maturities (years)	0.6	0.8

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.

	2020 $M	2019 $M
Statement of Financial Position		
Derivative financial liabilities	(1)	(2)

The effective portion of changes in the fair value of interest rate 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 occurred.

Hedge reserves		
Balance at the beginning of the year	(1)	2
Change in fair value*	(1)	(5)
Transfers to finance costs	-	1
Taxation on reserve movements	-	1
Balance at the end of the year	(2)	(1)

*The change in fair value recognised in the cash flow hedge reserve is the effective portion. No ineffectiveness arose on cash flow hedges of interest rates during the year (30 June 2019: Nil).

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 over the page. 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:	2020 $M +25 bp*	2020 $M -25 bp*	2019 $M +50 bp*	2019 $M -50 bp*
Impact on (loss)/profit before taxation	(5)	5	(10)	10
Impact on cash flow hedge reserve (within equity)	(1)	1	(2)	2

**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 2020

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. A Government standby loan facility is available for draw down when required (refer Note 26).

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 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)	-	-	-
	(29)	(29)	(29)	-	-	-
Fuel derivatives	(48)	(48)	(48)	-	-	-
Interest rate derivatives	(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.

	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 2019						
Trade and other payables	585	585	585	-	-	-
Secured borrowings	1,459	1,602	178	178	586	660
Unsecured bonds	50	57	2	2	53	-
Finance lease obligations	1,088	1,200	181	182	460	377
Total non-derivative financial liabilities	3,182	3,444	946	362	1,099	1,037
Foreign exchange derivatives						
– Inflow		2,338	2,338	-	-	-
– Outflow		(2,312)	(2,312)	-	-	-
	23	26	26	-	-	-
Fuel derivatives	(5)	(10)	(10)	-	-	-
Interest rate derivatives	(2)	(2)	-	(2)	-	-
Total derivative financial instruments	16	14	16	(2)	-	-

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

AS AT 30 JUNE 2020

24. Financial Risk Management (continued)

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 (including an estimate of capitalised aircraft operating leases prior to 1 July 2019) 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 2020 $M	AMOUNTS NOT OFFSET 2020 $M	NET AMOUNTS IF OFFSET 2020 $M	STATEMENT OF FINANCIAL POSITION 2019 $M	AMOUNTS NOT OFFSET 2019 $M	NET AMOUNTS IF OFFSET 2019 $M
Financial assets						
Bank and short-term deposits	438	(13)	425	1,055	-	1,055
Derivative financial assets	38	(34)	4	48	(25)	23
Financial liabilities						
Derivative financial liabilities	(116)	46	(70)	(32)	25	(7)

Letters of credit, performance bonds 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 2020

26. Related Parties

Crown
The Crown, the major shareholder of the Company, owns 52% of the issued capital of the Company (30 June 2019: 52%).

Crown standby loan facility

On 27 May 2020, the Group entered into a debt funding agreement with the New Zealand Government. Under the terms of the agreement the Government provided a standby loan facility (the Loan Facility) of up to $900 million to support the airline as it manages the unprecedented impact of the Covid-19 outbreak on its business. The debt funding will be used to support the airline's business operations as it manages the implications of various government border restrictions and substantial reductions in travel demand.

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 is 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 Loan Facility is structured in two tranches – a tranche of $600 million with an effective interest rate initially expected to be between 7% and 8% per annum and a second tranche of $300 million with an effective interest rate initially expected to be in the order of 9% per annum. The Loan Facility will be available for a period through to 27 May 2022. The effective interest rates on both tranches will increase by 1% if the Loan Facility remains after 27 May 2021. As at 30 June 2020, the Loan Facility was undrawn.

Under the Loan Facility, the Group is required to pay a commitment fee from 20 March 2020 (the date on which a general terms agreement was signed) on the committed Loan Facility limit. For the year ended 30 June 2020, the Group recognised commitment fees of $5 million 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.

From February 2020 the Group entered into agreements with the Crown in relation to repatriation flights and arrangements to provide support to the government in its response to Covid-19. The transactions were negotiated on an arm's length basis.

In February and April 2020 the Group was chartered by the Crown to operate repatriation flights from Wuhan and India. In addition the Group undertook domestic charters to support quarantine activity as part of border restriction requirements. The transactions were negotiated on an arm's length basis.

The Group entered into an agreement in April 2020 with the New Zealand Government, through the Ministry of Health, to provide travel management services as part of the Covid-19 border restrictions. Under the arrangement the Group 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 April 2020 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 October 2021 to March 2022.

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

	2020 $M	2019 $M
Short-term employee costs	14	14
Directors' fees	1	1
Share-based payments	2	3
	17	18

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 2020

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.

In the 2019 financial year, the Group acquired a 20.7% interest in Drylandcarbon One Partnership LLC. Capital contributions of $5 million were made during the year ended 30 June 2020 (30 June 2019: $0.4 million).

	2020 $M	2019 $M
During the year, there have been transactions between Air New Zealand and its associated companies as follows:		
Operating revenue	1	4
Operating expenditure	(28)	(20)
Balances outstanding at the end of the year are unsecured and on normal trading terms:		
Amounts owing from associates	-	1
Amounts owing to associates	12	-

During the year CEC paid total distributions to the Group of $35 million (30 June 2019: $7 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.

27. Impact of New Accounting Standards and Interpretations

During the year, Air New Zealand adopted the following NZ IFRSs that had been issued by the New Zealand Accounting Standards Board.

NZ IFRS 16 - Leases
The Group adopted the requirements of NZ IFRS 16 - Leases with effect from 1 July 2019. This standard has significantly changed the accounting treatment of leases by lessees. The previous dual accounting model for lessees which distinguished between on-balance sheet finance leases and off-balance sheet operating leases, no longer applies. Instead, there is now a single, on-balance sheet accounting model for all leases. Lessor accounting remains similar to previous practice. The Group has also adopted the requirements of Covid-19-Related Rent Concessions. This amendment to NZ IFRS 16 allows lessees not to assess whether particular Covid-19-related rent concessions are lease modifications. The amendment becomes effective for annual reporting periods commencing on or after 1 June 2020. The Group adopted the Amendment early with effect from 1 July 2019.

This standard has had a significant impact on the financial statements, for which the key changes are set out below:

- recognition of a right of use asset and lease liability for operating leases, adjusted for any unamortised payments in advance or incentives at that date, on the Statement of Financial Position;
- recognition of depreciation and interest expense instead of operating lease rental expense in the Statement of Financial Performance;
- classification of the principal portion of lease payments as 'Financing activities' within the Statement of Cash Flows with the interest portion continuing to be presented within 'Operating activities';
- additional foreign exchange exposure in respect of the retranslation of the additional United States Dollar (USD) denominated aircraft operating lease liabilities recognised in the Statement of Financial Position. This is managed as part of the Group's Financial Risk Management Policy; and
- reclassification of finance lease assets and liabilities from 'Property, plant and equipment' and 'Interest-bearing liabilities' to 'Right of use assets' and 'Lease liabilities', respectively, within the Statement of Financial Position.

In accordance with the transition provisions of NZ IFRS 16, comparatives have not been restated, with the cumulative effect having been recognised in opening retained earnings at the date of initial application of 1 July 2019. Right of use assets were measured at 1 July 2019 at an amount equal to the lease liability. As permitted by NZ IFRS 16, initial direct costs have been excluded from the measurement of the right of use asset at the date of initial application and lease terms, where the lease contains options to extend or terminate the lease, have been redetermined with the benefit of hindsight. Lease payments in respect of leases for which the lease term ends within 12 months of the date of initial application, will be recognised as an expense over the lease term.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR TO AND AS AT 30 JUNE 2020

27. Impact of New Accounting Standards and Interpretations (continued)

STATEMENT OF FINANCIAL POSITION AS AT 1 JULY 2019	IMPACT OF CHANGES IN ACCOUNTING POLICIES			
	PRIOR TO APPLICATION OF NZ IFRS 16* $M	NZ IFRS 16 ADJUSTMENTS $M	FINANCE LEASE RECLASSIFICATION $M	AFTER APPLICATION OF NZ IFRS 16 $M
Current Assets				
Trade and other receivables	564	(25)	-	539
Total Current Assets	1,804	(25)	-	1,779
Non-Current Assets				
Trade and other receivables	64	(4)	-	60
Property, plant and equipment	5,133	-	(1,298)	3,835
Right of use assets	-	876	1,298	2,174
Total Non-Current Assets	5,817	872	-	6,689
Total Assets	7,621	847	-	8,468
Current Liabilities				
Interest-bearing liabilities	307	-	(161)	146
Lease liabilities	-	193	161	354
Other liabilities	240	(3)	-	237
Total Current Liabilities	2,666	190	-	2,856
Non-Current Liabilities				
Interest-bearing liabilities	2,290	-	(927)	1,363
Lease liabilities	-	669	927	1,596
Other liabilities	42	(12)	-	30
Total Non-Current Liabilities	2,963	657	-	3,620
Total Liabilities	5,629	847	-	6,476
Net Assets	1,992	-	-	1,992

* Including the impact of the IFRIC interpretation adjustment (refer following page).

The following table provides a reconciliation of the operating lease commitments disclosed as at 30 June 2019 to the total lease liabilities recognised on the Statement of Financial Position in accordance with NZ IFRS 16 as at 1 July 2019:

	NOTES	2019 $M
Operating lease commitments as at 30 June 2019		1,058
Leases not yet commenced	(a)	(182)
Effect of discounting	(b)	(141)
Redetermination of lease term	(c)	141
Short-term leases	(d)	(14)
Total additional lease liabilities expected on adoption of NZ IFRS 16		862
Finance lease obligations as at 30 June 2019		1,088
Total lease liabilities as at 1 July 2019		1,950

(a) Leases not yet commenced: Operating lease commitments disclosed as at 30 June 2019 included amounts relating to leases entered into by the Group that had not yet commenced as at 30 June 2019. In accordance with NZ IFRS 16, assets and liabilities are not recognised on the Statement of Financial Position until the date of commencement of the leases. Leases which have not yet commenced continue to be disclosed as a commitment under NZ IFRS 16.

(b) Effect of discounting: The amount of the lease liability recognised under NZ IFRS 16 is on a discounted basis whereas operating lease commitments under NZ IAS 17 were on an undiscounted basis. The discount rates used on transition are appropriate for each lease, based on factors such as the lease term and lease currency. The weighted average discount rate used on transition was around 3%.

(c) Redetermination of lease term: 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.

(d) Short-term leases: Certain leases with a term of less than 12 months (including those providing cover for Boeing 787-9 engine issues) have not been recognised as assets or liabilities as at 1 July 2019. Operating lease commitments disclosed as at 30 June 2019 included such leases.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR TO AND AS AT 30 JUNE 2020

27. Impact of New Accounting Standards and Interpretations (continued)

NZ IFRIC 23 - Uncertainty over Income Tax Treatments
The Group adopted the requirements of NZ IFRIC 23 - Uncertainty over Income Tax Treatments with effect from 1 July 2019. It clarifies how to apply the recognition and measurement requirements in NZ IAS 12 - Taxation when there is uncertainty over income tax treatments. This Interpretation has not had any impact on the financial statements.

IFRIC Interpretation
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 new interpretation by IFRIC of the principles of IFRS 9 - Financial Instruments no longer permits certain fair value hedges of underlying United States Dollar aircraft values previously undertaken by the Group. The interpretation has now been applied retrospectively. The impact of the change on the prior year comparatives is set out below:

- as a result of retrospectively applying the IFRIC agenda decision, cumulative foreign exchange gains recognised within aircraft assets were reversed. The impact in the year to 30 June 2019 was $5 million, offset by $13 million of depreciation expense on the accumulated position.
- the above adjustments resulted in $5 million of foreign exchange losses, which arose upon retranslation of previously designated debt in the year to 30 June 2019, now having no offsetting hedged item. Given that Group policy requires such items to be hedged, this has been reclassified to 'Other significant items'.

STATEMENT OF FINANCIAL PERFORMANCE

	2019 AS PREVIOUSLY REPORTED $M	2019 ADJUSTMENTS $M	2019 RECLASSIFICATION $M	2019 AS RESTATED $M
Foreign exchange gains	53	(5)	5	53
Operating Earnings (excluding items below)	**53**	**(5)**	**5**	**53**
Depreciation and amortisation	(567)	13	-	(554)
Earnings Before Finance Costs, Associates, Other Significant Items and Taxation	**368**	**8**	**5**	**381**
Other significant items	-	-	(5)	(5)
Earnings Before Taxation	**374**	**8**	**-**	**382**
Taxation expense	(104)	(2)	-	(106)
Net Profit Attributable to Shareholders of Parent Company	**270**	**6**	**-**	**276**

STATEMENT OF FINANCIAL POSITION

	30 JUN 2019 AS PREVIOUSLY REPORTED $M	30 JUN 2019 ADJUSTMENTS[1] $M	30 JUN 2019 AS RESTATED $M
Property, plant and equipment	5,268	(135)	5,133
Total Non-Current Assets	5,952	(135)	5,817
Total Assets	**7,756**	**(135)**	**7,621**
Deferred taxation	304	(38)	266
Total Non-Current Liabilities	3,001	(38)	2,963
Net Assets	**2,089**	**(97)**	**1,992**
Reserves	(130)	(97)	(227)
Total Equity	**2,089**	**(97)**	**1,992**

[1] As at 30 June 2019, the retrospective application of IFRIC's agenda decision resulted in a decrease of $135 million in aircraft assets, representing accumulated foreign exchange losses recognised up to the date of the change, offset by a decrease of $38 million in deferred taxation. An amount of $103 million was recognised through opening retained earnings as at 1 July 2018 offset by net profit after taxation of $6 million in the year to 30 June 2019.

STATEMENT OF CHANGES IN EQUITY	GENERAL RESERVES			TOTAL EQUITY		
	AS PREVIOUSLY REPORTED $M	ADJUSTMENTS $M	AS RESTATED $M	AS PREVIOUSLY REPORTED $M	ADJUSTMENTS $M	AS RESTATED $M
Balance as at 1 July 2018	(103)	(103)	(206)	2,176	(103)	2,073
Net profit for the year	270	6	276	270	6	276
Total Comprehensive Income for the Year	**264**	**6**	**270**	**168**	**6**	**174**
Balance as at 30 June 2019	**(87)**	**(97)**	**(184)**	**2,089**	**(97)**	**1,992**

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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 48, that comprise the Statement of Financial Position as at 30 June 2020, 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 2020, 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 27 August 2020. 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 $20 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. $20 million represents 3.2% of loss before tax, 1.5% of total equity and 0.4% 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.

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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	

Key audit matter

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

The Covid-19 pandemic began to impact the Group's operations in the third quarter of the 2020 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 was significantly negatively impacted.

As at 30 June 2020, the net assets of the Group are $1,318 million (2019: $1,992 million) and the Group has cash and cash equivalents of $438 million (2019: $1,055 million) and has arranged a standby loan facility from the Crown for $900 million. This facility was not drawn down at 30 June 2020.

The Group has undertaken various scenario analyses to consider the possible impact of the Covid-19 pandemic on the business. 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 approval of these financial statements.

Forecasts were prepared under both a base case scenario and a downside scenario for the 30 month period to December 2022 using key inputs and assumptions including:

- revenue growth over the forecast period driven by re-establishing capacity on the domestic network and a gradual re-opening of international borders starting with the short-haul network, including Australia and the Pacific Islands;
- jet fuel price;
- revenue per available seat kilometre (RASK) inputs;
- labour and other operating costs reflecting the restructuring activity that has occurred, including the proportion of costs that are fixed, variable and semi-variable; and
- the use of the Crown standby facility as required to provide appropriate liquidity.

In broad terms the downside scenario applies a more conservative set of assumptions particularly around network capacity and revenue metrics such as revenue per available seat kilometre.

Further sensitivities on key assumptions under the base case scenario have also been modelled by management.

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.

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

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 and engaged our internal specialists to review the model for completeness of inputs, accuracy and logic;
- challenged key assumptions within the forecasts by considering historical outturns, our understanding of the business and other relevant external information with the support of our internal specialists;
- performed a retrospective review of the prior period cash flow forecast to assess the Group's historical accuracy in preparing forecasts, albeit the economic conditions created by the Covid-19 pandemic are unique and have not been experienced in the past;
- performed sensitivity analysis over key assumptions in the forecast model (both base case and downside scenario). The key assumptions for which this work was performed included;
  - forecast revenue growth (flexing border re-opening time frames, route capacity and (RASK))
  - jet fuel prices
  - impact of foreign exchange
- assessed the terms of the Crown standby loan facility agreement and the timing of anticipated drawdowns; 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.

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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 $4,874 million at 30 June 2020 (2019: $4,618 million) as outlined in Notes 10 and 11. The Group has recognised an impairment charge of $338 million (refer to Notes 3, 10 and 11). The Covid-19 pandemic has impacted the global economy and the aviation sector in particular. This in turn has 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 the aircraft are not likely to generate cashflows as part of the operating fleet. Where individual aircraft are assessed for impairment, their carrying values are compared to fair value less costs to sell, as determined by an external valuer. 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. 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 management 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 management'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 third party sales prices, 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.

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Key audit matter | **How our audit addressed the key audit matter and the results of our work**

Revenue recognition

Key audit matter

The Group's revenue primarily consists of passenger revenue which totalled $3,942 million in the year to 30 June 2020 (2019: $4,960 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 significance of revenue to the consolidated financial statements and the substantial dependence on complex IT systems.

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

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;
- for the period prior to the outbreak of Covid-19, we 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; and
- for the significantly reduced revenue recognised from March 2020 onwards, we have performed a combination of analytical review and detailed testing procedures for individual transactions.

We are satisfied revenue has been appropriately recognised.

NZ IFRS 16 Leases

Key audit matter

As at 30 June 2020, the Group recognised right of use assets of $2,357 million and lease liabilities of $2,238 million (refer to Notes 11 and 16).

The Group adopted the requirements of NZ IFRS 16 - Leases with effect from 1 July 2019. Under NZ IFRS 16, an entity must recognise a right of use asset and a lease liability arising from leases (with some exceptions), in the consolidated Statement of Financial Position. The Group has applied the modified retrospective approach to adoption which means that comparative information has not been restated.

On the date of adoption, a right of use asset of $2,174 million and a lease liability of $1,950 million was recognised by the Group. This includes amounts previously recognised as assets held under finance lease and finance lease liabilities of $1,298 million and $1,088 million respectively. As outlined in note 27 a number of judgements and estimates have been made by management in establishing these opening balances. These comprise:

- incremental borrowing rates at the time of adoption; and
- determination of lease terms, including any rights of renewal expected to be exercised.

This was considered a key audit matter due to the magnitude of the balance recognised on adoption of the new standard, the number of material leases involved, and significant effort required to audit.

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

We performed the following audit procedures:

- held discussions with management to understand the implementation process, including the basis for the judgements and estimates used in the calculation of opening balances;
- obtained an understanding of the practical expedients applied and considered the appropriateness of applying these expedients based on what is permitted in the standard;
- on a sample basis we performed procedures on the Group's quantification of the right of use asset and lease liability as at 1 July 2019, including:
  - examining key contractual inputs to the calculations including lease end dates, fixed lease payments and lease incentives;
  - evaluating key judgements and estimates including rights of renewal used to determine the lease term and the incremental borrowing rates adopted for both aircraft and property leases;
  - assessing the completeness of the identified lease contracts included in the determination of right of use asset and lease liability.
- tested movements in the right of use asset and lease liability during the year to 30 June 2020 including on a sample basis, aircraft and property lease additions and disposals;
- recalculated the interest and deprecation charges recognised in the income statement relating to the lease liability and the right of use assets respectively;
- considered the appropriateness of disclosures in the financial statements.

We consider the Group's assessment of the right of use asset and liability to be reasonable and the disclosures in the financial statements to be appropriate.

Deloitte.

Key audit matter	How our audit addressed the key audit matter and the results of our work
Aircraft lease return costs	
Certain aircraft under operating leases are required to be returned to the lessor at the expiry of the lease term in a specified condition. The Group estimates the cost of returning the aircraft to the specified condition and has made provision for this in the current period of $303 million as explained further in Note 17. 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 life-limited parts. It is based on the Group's historical experience, manufacturers' advice and contractual obligations in determining the present value of the estimated future costs of major airframe inspections and engine overhauls required under the lease conditions. This is a key audit matter due to the size of the balance and the level of judgement required by the Group in determining the estimate.	In performing our procedures we: • assessed the terms and conditions of new or updated lease agreements to understand the return conditions and ensured that the calculation had been updated for changes in contractual terms; • assessed the key assumptions against internal and external information such as operating cycle history, supplier costs for various components, consumables and labour, maintenance plans and market data such as exchange rates; • challenged changes in assumptions from prior periods and reviewed the history of provisions made against actual costs incurred on the return of aircraft under lease agreements and when an overhaul occurs; and • tested the arithmetical accuracy of the calculation and evaluated the sensitivity of the calculation to changes in the key variables and assumptions. We found the assumptions and resulting estimates to be reasonable.

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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.

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 and other assurance and non-assurance services, which 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

	2020 $M	2019 $M	2018 $M	2017 $M	2016 $M
Operating Revenue					
Passenger revenue	3,942	4,960	4,696	4,376	4,481
Cargo	449	390	387	335	349
Contract services	216	197	193	164	172
Other revenue	229	238	219	234	229
	4,836	5,785	5,495	5,109	5,231
Operating Expenditure					
Labour	(1,197)	(1,351)	(1,294)	(1,261)	(1,225)
Fuel	(1,022)	(1,271)	(987)	(827)	(846)
Maintenance	(441)	(399)	(352)	(321)	(350)
Aircraft operations	(575)	(678)	(634)	(556)	(531)
Passenger services	(258)	(319)	(295)	(266)	(246)
Sales and marketing	(253)	(350)	(344)	(352)	(348)
Foreign exchange gains/(losses)	18	53	(19)	(6)	112
Other expenses	(324)	(290)	(278)	(255)	(255)
	(4,052)	(4,605)	(4,203)	(3,844)	(3,689)
Operating Earnings (excluding items below)	784	1,180	1,292	1,265	1,542
Depreciation and amortisation	(841)	(554)	(516)	(484)	(452)
Rental and lease expenses	-	(245)	(227)	(230)	(244)
Earnings Before Finance Costs, Associates, Other Significant Items and Taxation	(57)	381	549	551	846
Finance income	34	48	40	43	53
Finance costs	(103)	(79)	(73)	(87)	(100)
Share of earnings of associates (net of taxation)	39	37	33	26	20
Earnings Before Other Significant Items and Taxation	(87)	387	549	533	819
Other significant items	(541)	(5)	(57)	23	(118)
Earnings Before Taxation	(628)	382	492	556	701
Taxation credit/(expense)	174	(106)	(137)	(153)	(211)
Net (Loss)/Profit Attributable to Shareholders of Parent Company	(454)	276	355	403	490

Certain comparatives within the five year statistical review have been reclassified for comparative purposes, to ensure consistency with the current year. Following the International Financial Reporting Interpretations Committee issuing a new interpretation in September 2019 of the principles of IFRS 9 - Financial Instruments certain fair value hedges of underlying United States Dollar aircraft values previously undertaken by the Group are no longer permittted. The interpretation has been applied retrospectively and comparatives restated accordingly. The Group adopted NZ IFRS 16 - Leases on 1 July 2019. In accordance with the transition provisions of NZ IFRS 16, comparatives have not been restated. NZ IFRS 15 - Revenue from Contracts with Customers was adopted on 1 July 2018 with comparatives being restated for the 2018 financial year in respect of the adopted standard.

HISTORICAL SUMMARY OF FINANCIAL POSITION

FIVE YEAR STATISTICAL REVIEW
AS AT 30 JUNE

	2020 $M	2019 $M	2018 $M	2017 $M	2016 $M
Current Assets					
Bank and short-term deposits	438	1,055	1,343	1,369	1,594
Other current assets	571	749	910	518	745
Total Current Assets	1,009	1,804	2,253	1,887	2,339
Non-Current Assets					
Property, plant and equipment	3,336	5,133	4,892	4,650	4,361
Other non-current assets	3,198	684	558	539	427
Total Non-Current Assets	6,534	5,817	5,450	5,189	4,788
Total Assets	7,543	7,621	7,703	7,076	7,127
Current Liabilities					
Debt[1]	513	307	431	317	464
Other current liabilities	1,589	2,359	2,265	2,088	2,007
Total Current Liabilities	2,102	2,666	2,696	2,405	2,471
Non-Current Liabilities					
Debt[1]	3,188	2,290	2,303	2,197	2,103
Other non-current liabilities	935	673	631	556	534
Total Non-Current Liabilities	4,123	2,963	2,934	2,753	2,637
Total Liabilities	6,225	5,629	5,630	5,158	5,108
Net Assets	1,318	1,992	2,073	1,918	2,019
Total Equity	1,318	1,992	2,073	1,918	2,019

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

Certain comparatives within the five year statistical review have been reclassified for comparative purposes, to ensure consistency with the current year. Following the International Financial Reporting Interpretations Committee issuing a new interpretation in September 2019 of the principles of IFRS 9 - Financial Instruments certain fair value hedges of underlying United States Dollar aircraft values previously undertaken by the Group are no longer permits. The interpretation has been applied retrospectively and comparatives restated accordingly.

HISTORICAL SUMMARY OF CASH FLOWS

FIVE YEAR STATISTICAL REVIEW
FOR THE YEAR TO 30 JUNE

	2020 $M	2019 $M	2018 $M	2017 $M	2016 $M
Cash flow from operating activities	230	986	1,031	904	1,074
Cash flow from investing activities	(542)	(883)	(778)	(616)	(797)
Cash flow from financing activities	(305)	(391)	(279)	(513)	(4)
(Decrease)/increase in cash holding	(617)	(288)	(26)	(225)	273
Total cash and cash equivalents	438	1,055	1,343	1,369	1,594

KEY FINANCIAL METRICS

FIVE YEAR STATISTICAL REVIEW

		2020	2019	2018	2017	2016
Profitability and Capital Management						
EBIT[1]/Operating Revenue	%	(1.2)	6.6	10.0	10.8	16.2
EBITDRA[2]/Operating Revenue	%	16.2	20.4	23.5	24.8	29.5
Passenger Revenue per Revenue Passenger Kilometre (Yield)	cents	13.3	12.9	12.8	12.6	13.5
Passenger Revenue per Available Seat Kilometre (RASK)	cents	10.8	10.8	10.6	10.4	11.3
Cost per Available Seat Kilometre (CASK)[3]	cents	11.2	10.0	9.5	9.1	9.3
Return on Invested Capital Pre-tax (ROIC)[4]	%	(13.3)	10.6	13.7	16.4	20.3
Liquidity ratio[5]	%	9.1	18.2	26.8	33.1	26.8
Gearing (incl. net capitalised aircraft operating leases)[6]	%	69.2	55.8	53.6	52.7	49.6
Shareholder Value						
Basic Earnings per Share[7]	cps	(40.4)	24.6	31.6	35.9	43.6
Operating Cash Flow per Share[7]	cps	20.5	87.8	91.8	80.5	95.6
Ordinary Dividends Declared per Share[7]	cps	-	22.0	22.0	21.0	20.0
Special Dividends Declared per Share[7]	cps	-	-	-	-	25.0
Net Tangible Assets per Share[7]	$	1.01	1.61	1.69	1.58	1.69
Closing Share Price 30 June	$	1.32	2.65	3.18	3.26	2.10
Weighted Average Number of Ordinary Shares	m	1,123	1,123	1,123	1,123	1,122
Total Number of Ordinary Shares	m	1,123	1,123	1,123	1,123	1,123
Total Market Capitalisation	$m	1,482	2,976	3,565	3,660	2,352
Total Shareholder Returns[8]	%	(5.3)	14.0	26.7	41.5	20.0

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

HISTORICAL SUMMARY OF DEBT

FIVE YEAR STATISTICAL REVIEW
AS AT 30 JUNE

	2020 $M	2019 $M	2018 $M	2017 $M	2016 $M
Debt					
Secured borrowings	1,413	1,459	1,563	1,243	930
Unsecured bonds	50	50	50	50	150
Finance lease liabilities	-	1,088	1,121	1,221	1,487
Lease liabilities	2,238	-	-	-	-
	3,701	2,597	2,734	2,514	2,567
Bank and short-term deposits	438	1,055	1,343	1,369	1,594
Net open derivatives held in relation to interest-bearing liabilities and lease liabilities[1]	(37)	7	42	(32)	(17)
Interest-bearing assets (included within Other assets)	334	264	182	164	288
Net Debt	2,966	1,271	1,167	1,013	702
Net aircraft operating lease commitments[2]	-	1,246	1,232	1,120	1,288
Net Debt (including off Balance Sheet)	2,966	2,517	2,399	2,133	1,990

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).

Certain comparatives within the five year statistical review have been reclassified for comparative purposes, to ensure consistency with the current year. Following the International Financial Reporting Interpretations Committee issuing a new interpretation in September 2019 of the principles of IFRS 9 - Financial Instruments certain fair value hedges of underlying United States Dollar aircraft values previously undertaken by the Group are no longer permitttted. The interpretation has been applied retrospectively and comparatives restated accordingly. The Group adopted NZ IFRS 16 - Leases on 1 July 2019. In accordance with the transition provisions of NZ IFRS 16, comparatives have not been restated. NZ IFRS 15 - Revenue from Contracts with Customers was adopted on 1 July 2018 with comparatives being restated for the 2018 financial year in respect of the adopted standard.

KEY OPERATING STATISTICS

FIVE YEAR STATISTICAL REVIEW
FOR THE YEAR TO 30 JUNE

	2020	2019	2018	2017	2016
Passengers Carried (000)					
Domestic	8,821	11,513	11,089	10,379	9,725
International					
Australia and Pacific Islands	3,002	4,044	3,798	3,561	3,507
Asia	734	914	837	814	791
America and Europe	968	1,267	1,242	1,198	1,138
Total	4,704	6,225	5,877	5,573	5,436
Total Group	13,525	17,738	16,966	15,952	15,161
Available Seat Kilometres (M)					
Domestic	5,619	7,104	6,905	6,597	6,065
International					
Australia and Pacific Islands	10,367	13,640	12,963	12,039	11,438
Asia	8,117	9,699	9,169	8,918	8,349
America and Europe	12,232	15,586	15,237	14,615	13,832
Total	30,716	38,925	37,369	35,572	33,619
Total Group	36,335	46,029	44,274	42,169	39,684
Revenue Passenger Kilometres (M)					
Domestic	4,552	5,957	5,719	5,311	4,887
International					
Australia and Pacific Islands	8,265	11,195	10,584	9,784	9,532
Asia	6,526	8,140	7,467	7,270	7,070
America and Europe	10,225	13,281	12,892	12,449	11,734
Total	25,016	32,616	30,943	29,503	28,336
Total Group	29,568	38,573	36,662	34,814	33,223
Passenger Load Factor (%)					
Domestic	81.0	83.9	82.8	80.5	80.6
International					
Australia and Pacific Islands	79.7	82.1	81.6	81.3	83.3
Asia	80.4	83.9	81.4	81.5	84.7
America and Europe	83.6	85.2	84.6	85.2	84.8
Total	81.4	83.8	83.4	83.8	84.3
Total Group	81.4	83.8	82.8	82.6	83.7
GROUP EMPLOYEE NUMBERS (Full Time Equivalents)[1]	9,988	11,793	11,074	10,890	10,527

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

1. As at 16 August 2020, Group Employee Numbers were 8,107.

CORPORATE GOVERNANCE STATEMENT

The Board of Air New Zealand considers strong corporate governance to be a critical component of the overall performance of the Company, and a contributor to superior performance and achieving best outcomes for its shareholders, customers, employees and the wider community. Accordingly, policies and processes are in place to establish, shape and maintain appropriate governance standards and behaviours throughout the Company, consistent with this philosophy.

The Board has had regard to a number of corporate governance statements, including the Institute of Directors' Code of Practice and the New Zealand Corporate Governance Forum's Guidelines. While Air New Zealand no longer has a requirement to report against the ASX's Corporate Governance Principles and Recommendations, these continue to inform the Board's approach to governance. The NZX Listing Rules require the Company to report against the NZX Corporate Governance Code.

This Corporate Governance Statement follows the structure of the NZX Corporate Governance Code and addresses its Recommendations. The Board considers its governance practices to be consistent with the Code's Principles.

This Corporate Governance Statement was approved by the Board on 26 August 2020 and is current as at that date.

Governance under Covid-19

The governance mechanisms were tested and responded well to the changes to the commercial and social environments as a result of the Covid-19 pandemic and the measures instituted by the New Zealand Government and others to manage, control, and eliminate the virus.

Specific elements of the response at the governance level included:

- The Board established and maintained strong information pathways with management around the developing threat, measures being implemented at different stages, and longer-term recovery strategies.
- Systems were in place that enabled the Directors to perform their duties while self-isolated, including increased use of video- or audio-conferencing, and written resolutions.
- Directors agreed to a temporary reduction in their fees, which was reflected in an agreed modification to their appointment letters.
- A special purpose committee was established by the Board to address specific Covid-19 issues. Other Board Committees addressed impacts of the event that fell within their Charter obligations; the Health, Safety and Security Committee held an additional meeting to provide assurance of continued safety management, and the Audit and Risk Committee considered the financial estimates and judgements in an additional workshop.
- Operational and financial responses were pursued to ensure the resilience of the Company.
- The Board ensured it had access to expert independent advice on key matters relating to the pandemic and the Company's response. Where appropriate, advisers attended the Board meetings.
- Trading halts and market disclosures were used to ensure trading in Air New Zealand securities was on the basis of a fully informed market.

Code of Ethical Behaviour

"Directors should set high standards of ethical behaviour, model this behaviour and hold management accountable for these standards being followed throughout the organisation."

Air New Zealand is committed to the highest standards of social and environmental responsibility and ethical conduct. This is good for our customers, our shareholders, our wider community and our Company. The Board acknowledges it as a whole, and each director individually, has a role to play in guiding and modelling the high ethical standards that we want to pervade the whole organisation. It is recognised that codification of ethical principles, whether in a Code of Conduct, policies or elsewhere, is only a baseline, and tools like the brand values and leadership behaviours help to create an ingrained ethical culture.

Code of Conduct

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

The Code of Conduct forms part of the induction process for all new employees, and is available online. Annually, all employees are provided refresh training to re-confirm their understanding of the standards for behaviours expected under the Code of Conduct.

The Code of Conduct is high-level in nature, and provides clear guidance, supported by practical examples, across a range of ethical and legal matters, including:

- Health, safety and well-being
- People, diversity and inclusion
- Airline security and business disruption management
- Gifts and entertainment
- External communications
- Use of business resources
- Personal information and privacy
- Sustainability and sponsorship
- Conflicts of interest
- Inducements and bribes
- Continuous disclosure
- Insider trading

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

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

Related Documents

The Code of Conduct 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 the matters specified in the NZX Corporate Governance Code.

In addition to the high-level guidance in the Code of Conduct, specific policies provide a further layer of management, particularly in more technical areas. For example, Air New Zealand 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. Without taking away ultimate responsibility of the individuals for their trading activities, the policy provides a framework that reduces the potential for insider trading. Training is provided to staff on the policy, and no material policy breaches have been reported during the 2020 reporting period.

The ethical approach adopted within the Group is complemented by a Supplier Code of Conduct, outlining the minimum standards and expectations applicable to all suppliers of goods and services to Air New Zealand. The Supplier Code addresses labour and human rights, health and safety, environmental sustainability, ethical business, security, information security, risk management and commercial sustainability.

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

Constitution/Charters	Policies
• Constitution	• Anti-bribery and corruption policy
• Board Charter	• Audit independence policy
• Audit and Risk Committee Charter	• Continuous disclosure policy
• Funding Committee Charter	• Distribution policy
• Health, Safety and Security Committee Charter	• Equality, diversity and inclusion policy
• People Remuneration and Diversity Committee Charter	• Risk management policy
• Covid-19 Committee Charter	• Securities trading policy
Codes of Conduct	**Other Documents**
• Employee Code of Conduct	• Palm oil position statement
• Supplier Code of Conduct	• Slavery and human trafficking statement

Board Composition and Performance

"To ensure an effective Board, there should be a balance of independence, skills, knowledge, experience and perspectives."

Responsibilities of the Board

The Board has responsibility for taking appropriate steps to protect and enhance the value of the assets of Air New Zealand in the best interests of the Company and its shareholders.

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

Management Delegation

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

Board Cadence

6	physical Board meetings
13	teleconference meetings
19	committee meetings
1	offshore visit
3	strategy/deep dive sessions

Recent Focus Areas

- Covid-19
- CEO appointment
- Sustainability
- Operations Review
- Future Strategy and Routes
- Cargo
- Director recruitment

Chairman

Dame Therese Walsh succeeded Tony Carter as Chairman of Air New Zealand on 25 September 2019. Jan Dawson was appointed Deputy Chairman on 27 September 2013. The Chairman's role includes ensuring the Board is well informed and effective, acting as the link between the Board and the Chief Executive Officer and ensuring effective communication with shareholders.

The Board Charter makes explicit that the Chairman and the Chief Executive Officer roles are separate.

Company Secretary

Under the Board Charter, the General Counsel and 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.

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

Director Independence

The Board has identified 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.

Board Structure, Skills and Composition

The role of the Board in the governance of Air New Zealand requires its members to bring a range of skills and experience to the table, to be able to challenge, support, monitor, mentor, guide and inspire management, and to ensure Air New Zealand is and continues to be a business that its owners, customers, employees and the wider public, can be proud of.

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.

Strategic Competencies

The Board has reviewed and restated the competencies and attributes it considers appropriate to support the Company's strategic direction, and assessed the extent to which these exist across the current membership. The Board evaluation process, undertaken with an external consultant, assisted in this exercise. The competencies form an important part of the criteria used in the review and development of existing directors, and in the recruitment of new directors. As the Company itself develops, the specific strategic competencies will change and be addressed as the Board refreshes itself, and some gap between the identified strategic competencies and a snapshot of current capability is usually to be expected.

The Board works to ensure these competencies are adequately addressed in its membership, and notes it is generally not necessary or practical for every director to individually demonstrate these: competency depth may be as relevant as breadth.

The specific qualifications, skills and experience of current directors are separately discussed in the biographies of each director.

Diversity and Inclusion

Air New Zealand has not altered its diversity policy or long-term objectives. Building greater diversity and inclusion within our workforce is a core tenet of our People strategy, and is consistent with our role as a major New Zealand company that shows leadership on important societal issues.

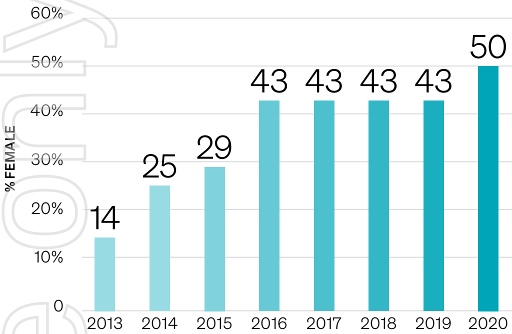
That said, the reduction in employee numbers as a result of the Covid-19 event has impacted on Air New Zealand's workforce composition. The significant numbers and mix of employees who have left Air New Zealand has been determined by factors ranging from provisions of collective employment agreements, through to individual preferences and essential skill retention and utilisation, such that diversity mix within some employee groups has improved, while in others it has declined. Staffing levels will likely remain under review through the next year, and further labour force changes may alter the diversity mix further.

Once the company has stabilised its employee base over the coming months, close attention will be paid to recalibration of the diversity metrics, identification of priority areas and targets, and reassessment of programmes to achieve these. For example, Air New Zealand has had targets relating to its Senior Leadership Team (SLT) of 50% female representation, and 80% completion of the Unconscious Knowledge and Bias Awareness (UKBA) programme. As at 30 June 2020 49% of the SLT were female, and 63% of the SLT had completed the UKBA programme. The SLT was recently replaced with a smaller Airline Leadership Team (ALT). Of the ALT, 51% were female as at 30 June 2020.

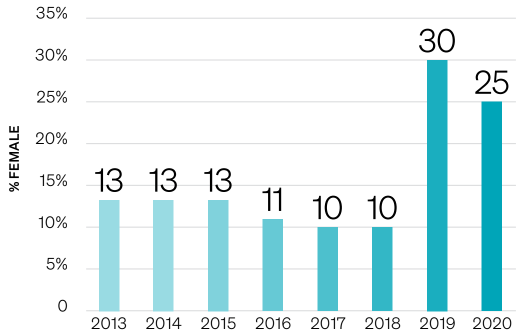
Air New Zealand has also had a target of 20% of the Company's people leadership roles being held by Māori and Pasifika employees by 2022. Both this target, and the targets relating to the newly formed ALT, will be reviewed and confirmed over the coming months.

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

Directors



Officers



AS AT 30 JUNE	2019	2020
Directors (female:male)	3:4	4:4
Executive Team (female:male)*	3:7	2:6

Air New Zealand considers diversity and inclusion across a number of measures, including gender, ethnicity, disability, age, and sexual identity and continues to support broader employee initiatives, including the following networks:

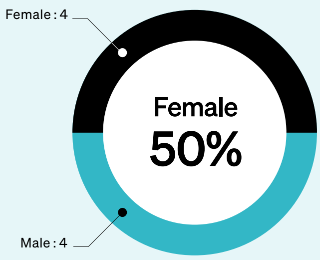
- Māori & Pacific Islands Manu network
- Woman's Network
- Kiwi Asia Network
- Enable Network
- Women in Engineering
- Pride Network
- Young Professionals
- Ex Services Network
- WINGS – Women inspiring the next generation of female pilots
- Women in Digital

Diversity on the Board

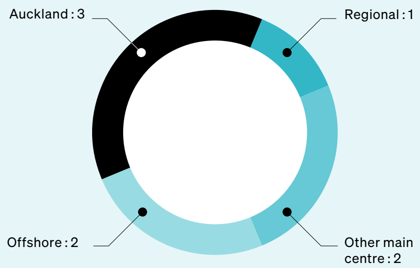
The Board's ability to contribute is enhanced by the diversity of its members. This diversity may be demonstrated through a number of criteria, such as those discussed or depicted below. The range of experience of directors, recorded in the biographies on pages 73-74, is another important source of diversity.

Achieving gender balance has been a strong diversity focus, but the Board is also interested in other dimensions of its diversity including structural factors of tenure and age. The size of the Board is a constraining factor in formulating meaningful numeric targets for Board diversity, but the Board is diligent in recognising and encouraging an expansive approach to diversity in its own membership as well as in the wider Company, and in the ongoing consideration of measures or targets.

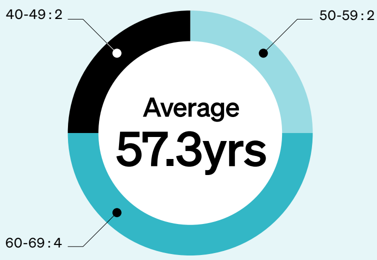
GENDER



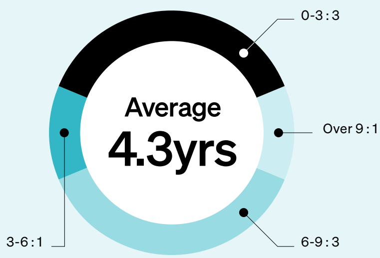
RESIDENCE



AGE



TENURE



* The Executive Team comprises the Chief Executive Officer and direct reports to the Chief Executive Officer, and corresponds to "Officers" as defined in the Listing Rules. The ratio changed to 2:5 (29%) on 31 July 2020 following disestablishment of an executive position.

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

Board Evaluation

The Board Charter provides for regular performance reviews of the Board as a whole and its Committees. Individual director views and the views of some members of the Executive Team are sought on Board process, efficiency, and effectiveness, and are discussed by the Board as a whole. In conjunction with this process, those directors retiring annually by rotation who are standing for re-election have their performance evaluated by their fellow directors in a process co-ordinated by the Chairman, (or by the Deputy Chairman to review the Chairman) with individual feedback to each director as their evaluation is completed.

Director Appointments and Induction

The Board as a whole considers the requirement for additional or replacement directors, subject to the Constitutional limitation of the number of directors. In so doing, it has regard to the skills, experience and diversity 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 may engage 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. There must be between five and eight directors, at least three of whom are 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 addressed.

The Constitution provides that all Non-Executive Directors are elected by Shareholders. Directors may be appointed by the Board to fill vacancies, but they are then subject to re-election at the next annual Shareholder meeting. In addition to directors retiring by rotation, and eligible for re-election, nominations may be made by Shareholders.

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 introduces new directors to Senior Executives and the business through specifically tailored induction programmes. The programme includes one-on-one meetings with members of the Executive Team together with visits to key operational business areas.

Director Development

All directors are regularly updated on current industry and company issues by presentations and briefings from Senior Executives. The Board expects all directors to undertake continuous education so that they can effectively perform their duties and progress on this forms part of the Board evaluation process. Training highlights in the past year include participation in the New Zealand Institute of Directors' programmes and Leadership Conference.

Board Committees

"The Board should use committees where this will enhance its effectiveness in key areas, while still retaining board responsibility."

The Board has established committees 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

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

Laurissa Cooney was appointed to the ARC on 1 October 2019.

Dame Therese Walsh was appointed to the PRDC, HSSC, and the Funding Committee with effect from 26 September 2019.

Dean Bracewell was appointed to the PRDC, and Larry De Shon to the HSSC on 20 April 2020.

The Board established a special purpose committee to assist in management of Covid-19 issues. The members of this Committee are Jan Dawson (Chair), Dame Therese Walsh and Jonathan Mason. No fees were paid to members of this committee.

Attendance at meetings by employees or other persons is at the invitation and discretion of the respective Committee, through its Chair.

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 2020 reporting period.

Board/Committee Meetings 1 July 2019 – 30 June 2020

	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	19/19	4/4	4/4	4/4	4/4
Dean Bracewell	5/6		1/1		
Tony Carter	3/3	1/1	1/1	0/1	
Laurissa Cooney	16/16	3/3			
Jan Dawson	18/19	4/4	5/5		4/4
Larry De Shon	6/6			2/2	
Rob Jager	19/19			5/5	
Linda Jenkinson	19/19			5/5	
Sir John Key	11/11		2/3		
Jonathan Mason	18/19	4/4	5/5		4/4

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.

Reporting and Disclosure

"The Board should demand integrity in financial and non-financial reporting, and in the timeliness and balance of corporate disclosures."

The Board is committed to timely, accurate and meaningful reporting of financial and non-financial information.

As a listed company there is an imperative to ensure the market is informed, and the listed securities are being fairly valued by the market. 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.

Initiatives are pursued to inform all stakeholders of the Company's performance against broader objectives, including responsibilities to our communities, people, environment and economy.

Air New Zealand has a Continuous Disclosure Policy, available on the Air New Zealand website. 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.

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

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

Remuneration

"The remuneration of directors and executives should be transparent, fair and reasonable."

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 the increase in the Board to 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 have taken a voluntary 15% reduction in fees from 16 March 2020 until 31 December 2020.

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

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

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

	Board Fees	Audit and Risk Committee	HSSC	PRDC	Total Fees	Value of Travel Entitlement[1,8]
Dame Therese Walsh (Chairman)[2]	$217,375	$5,000	-	-	$222,375	$39,617
Tony Carter (Chairman)[3]	$67,500	-	-	-	$67,500	$29,635
Jan Dawson (Deputy Chairman)	$109,725	$38,500 (Chair)	-	$9,625	$157,850	$41,698
Dean Bracewell[4]	$21,250	-	-	$2,125	$23,375	-
Laurissa Cooney[5]	$71,250	$14,250	-	-	$85,500	$10,366
Larry De Shon[6]	$21,250	-	$4,250	-	$25,500	-
Rob Jager	$96,250	-	$38,500 (Chair)	-	$134,750	$20,704
Linda Jenkinson	$96,250	-	$19,250	-	$115,500	$84,536
Sir John Key[7]	$75,000	-	-	$7,500	$82,500	$22,503
Jonathan Mason	$96,250	$19,250	-	$19,250 (Chair)	$134,750	$34,038
Total	**$872,100**	**$77,000**	**$62,000**	**$38,500**	**$1,049,600**	**$283,097**

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. Dame Therese Walsh became Chairman on 25 September 2019. No committee fees are paid to the Chairman, but were payable to her for Committee appointments prior to that date.
3. Tony Carter was Chairman until 25 September 2019, when he retired from the Board.
4. Dean Bracewell was appointed to the Board on 20 April 2020 and was appointed to the PRDC from that date.
5. Laurissa Cooney was appointed to the Board on 1 October 2019 and was appointed to the ARC from that date.
6. Larry De Shon was appointed to the Board on 20 April 2020 and was appointed to the HSSC from that date.
7. Sir John Key retired from the Board on 31 March 2020.
8. The value of the travel entitlements received by former directors during the accounting period were as follows: Paul Bingham ($43,184), Roger France ($41,470), Jim Fox ($20,404), John Palmer ($28,160), Warren Larsen ($3,682), Jane Freeman ($9,960), John MacDonald ($1,520).

In addition to the director remuneration provisions above, Air New Zealand's employee remuneration policy, including the components of remuneration, is reflected in the philosophies and principles discussed in the remuneration report.

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

Risk Management

"Directors should have a sound understanding of the material risks faced by the issuer and how to manage them. The Board should regularly verify that the issuer has appropriate processes that identify and manage potential and material risks."

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").

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

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. On a six-monthly basis, the Board receives a Group Risk Profile representing the most significant strategic risks facing the Company as identified by management. 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 is also responsible for reviewing the Risk Management Policy and ERM priorities at least annually.

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 (involving the full Board) 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 to obtain assurance that risks receive the appropriate focus from management.

Further monitoring of the effectiveness of Air New Zealand's safety management systems 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 provides for regular risk conversations amongst the Executive Team, and the operation of risk champions throughout the business in accordance with a cadence, referred to as the Risk Operating Rhythm.

Enterprise Risk Management Framework

In the 2018 financial year, the Board, led by the Audit Committee, worked with management to develop and implement an ERMF to provide a consistent approach to risk identification, management and reporting.

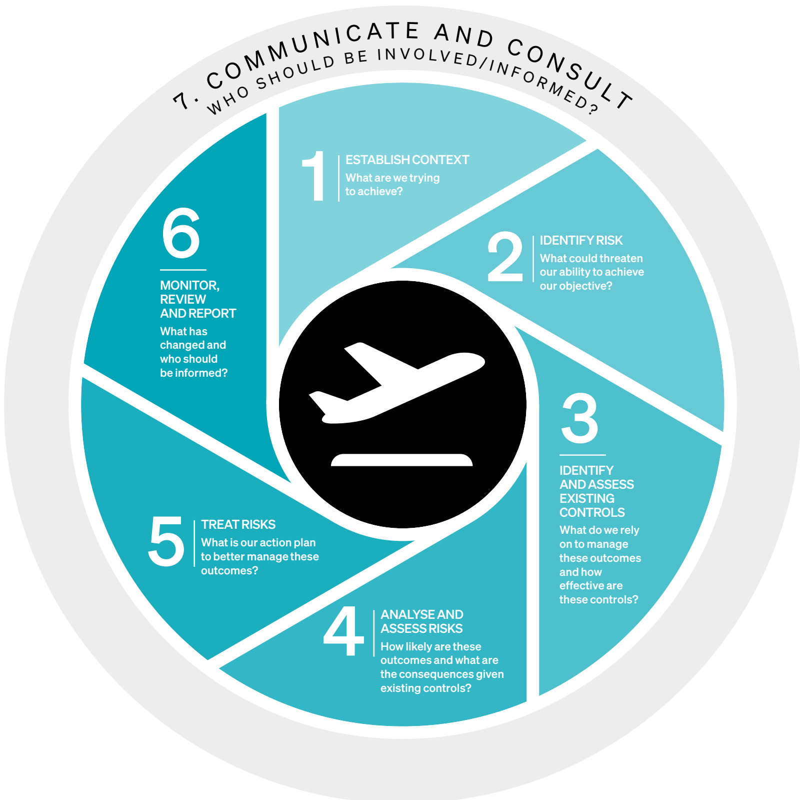
The ERMF is built on the commonly accepted ISO31000:2009 standard for risk management. This includes a simple, seven-step risk management process that is being progressively implemented company-wide.

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.

Key risks are identified at business unit, divisional and group levels, with ownership for the management of these formally assigned to senior managers.

Key risks are assessed and prioritised against a risk matrix of likelihood and consequence.

A taxonomy of risk types is maintained to assist in the identification of risks and facilitate their consistent categorisation to drive meaningful analysis.



ERM focus for the 2021 financial year

The focus in the 2020 financial year has been on strengthening the cohesion between the company's bottom-up and top-down processes for the review of risks. This year the top-down approach involved the Executive's participation in the risk identification process and included an additional layer of Divisional risks owned by each Executive. The approach considered the internal and external environment, including the organisational strategy in identifying the most consequential risks to the Company.

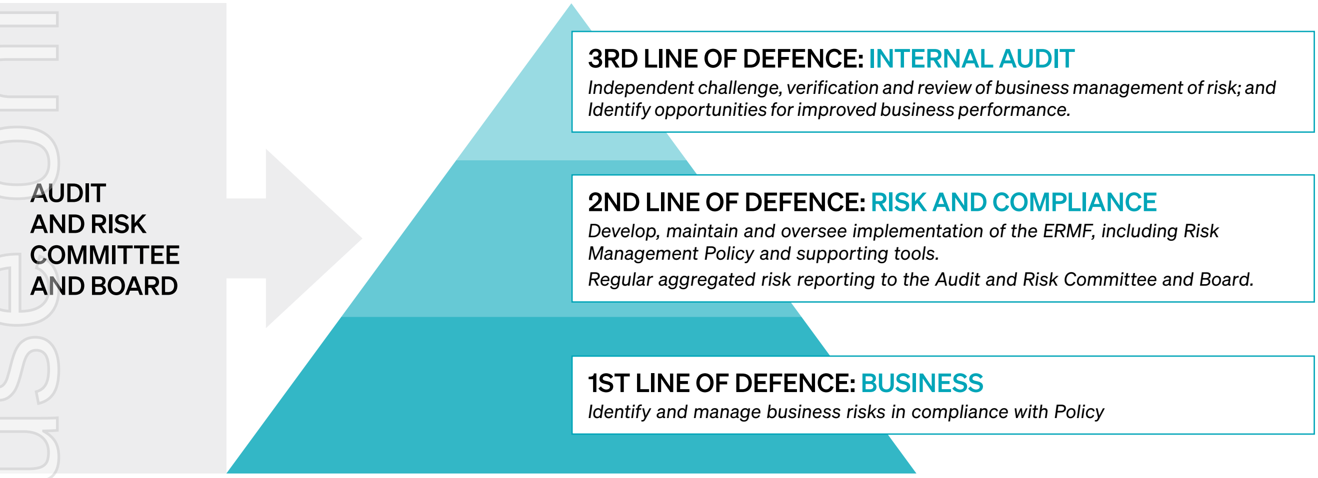
The bottom-up process complements the top-down view by providing management's detailed view of risks that threaten the achievement of business objectives.

Over the 2021 financial year, initiatives to improve the maturity of risk management activity will address a formal risk appetite, lifting risk management awareness and capability across our business and creating stronger pathways between strategy and risk through the strategic planning process.

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

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 and assessed a number of strategic risks facing the business. These have been prioritised based on their relative strategic importance and criticality.

As an airline that operates in a complex global environment, Air New Zealand's vulnerability to uncertainty or unfavourable changes in the general macro-economic conditions has been identified as one of the top strategic risks for the company.

Prior to the Covid-19 outbreak, pandemic risk had been identified and considered in the Company's risk assessments with a low probability of occurrence. As a rapidly-emerging risk with uncertain consequences globally, the impacts have been quantitatively and qualitatively more significant than could have been reasonably anticipated and have been felt more deeply in aviation than any other pandemic in decades.

The effects of Covid-19, and the changing regulatory and commercial restrictions impacting the Company from the pandemic, have manifested within many strategic risk areas including, by way of example, resultant macro-economic uncertainty, workforce disruption, cybersecurity, increased operational safety and health risks with changing regulatory requirements, infrastructure constraints and restrictions for partners in the aviation industry, reputation and brand risk, and supply chain resilience.

Going forward, the Company's assessment of pandemic risk and its interconnectedness with key strategic risks will be a continued focus as the Company considers lessons learned through the Covid-19 event, and the ongoing impacts on our business environment both domestically and globally.

Strategic Risk Area	Description	Mitigation
Macro-environmental Uncertainty	Complexity or uncertainty in the macro environment, or a significant economic downturn impairs long-term planning and the global propensity to travel, adversely impacting capacity management, revenue optimisation and growth.	Regular and ongoing monitoring of market trend development through a range of economic and market indicators to facilitate forecasting of and planning for underlying demand, revenue and capacity.
Cybersecurity	A cyber attack leads to a significant data privacy breach, loss of integrity/availability of information or of a control system and widespread business disruption resulting in financial loss, reputational damage and regulatory fines or sanctions.	Information security management systems, complemented by appropriate cybersecurity measures and insurance.
Industrial Relations Risk	Impacts of transformation agenda drive cultural detachment of employees and lead to a deterioration in union relationships presenting a heightened risk of industrial unrest, labour cost escalation and the potential for significant operational disruption.	Dedicated HR team with effective union relationship management, supported by issue resolution and communication processes.
Consumer Climate Change activism	Climate change activism and public perceptions of Air New Zealand's actions on sustainability lead to a significant decline in the long run demand profile adversely impacting the airline's social licence to operate, brand trust and revenue growth.	Real-time monitoring of and response to stakeholder sentiment, and customer insights process.

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

Strategic Risk Area	Description	Mitigation
Operational Safety and Integrity	A significant compliance breach, failure of the aviation safety system or catastrophic aircraft accident results in a suspension or revocation of Air New Zealand's Air Operator's Certificate.	Airline Safety Management System supplemented with strict training and competency requirements for flight and cabin crew.
Privacy Compliance Risk	A significant privacy compliance breach resulting from people or process failure results in regulatory warnings, improvement notices, corrective action notices or penalties for non-compliance from regulators and loss of stakeholder confidence/brand loyalty.	Appropriate policy standards reinforced with ongoing training. Dedicated Global Privacy Office to support the use and management of customer and employee data and respond to actual or potential breaches.
Infrastructure Constraints	Lack of investment in New Zealand airport infrastructure (Airways, security, lounge etc.) constrains the future growth of the airline.	Engagement at senior levels with other industry bodies and ongoing monitoring of drivers of customer satisfaction.
Key Supplier Risk	Increasing technical and commercial challenges with OEMs could lead to future airframe/engine performance or product quality issues potentially resulting in sustained unplanned operational disruption, aircraft out of service/fleet grounding for an extended period and associated revenue and growth impacts.	Formal Fleet Acquisition Strategy to manage identified risks, including through spread of technology and commercial risks. Close supervision utilising both contracted and in-house expertise. Multiple processes including fleet management and contingency options to maximise aircraft utilisation.
Digital Investment and Transformation	Lack of stability and scalability in digital platforms to support Air New Zealand's digital transformation initiatives leading to digital disruption and inability to sustain competitive advantage.	Annual digital planning process, with supporting digital workplan and ongoing programme for investment in new technology.
Competition-Traditional and Disruptive	A significant increase in disruptive competition from emerging technologies (e.g. virtual and augmented realities, large scale drones), traditional competition or industry consolidation (distribution and airline) leads to disintermediation of customers and marginalisation of Air New Zealand.	Investment in technology through innovation partnerships and research and development, and active management of alliances relationships and partners around response to emerging trends identified.
Constraints on Carbon Emissions	Increasing constraints on carbon emissions (driven by government and stakeholder action to mitigate climate change) lead to increased costs for carbon offsetting which make the business model unsustainable.	Development of Air New Zealand's long-term strategy to improve climate resilience, modern fleet with low emission engines, investment into research and development of alternative lower emission fuels and power sources, carbon offsetting initiatives, leadership role in advocacy within industry and at governmental level.
Business Transformation Risk	The scale of business transformation leads to turnover of talent pool/critical leaders resulting in a deterioration in core company values/culture, capability gaps and significant business disruption, compromising the ability to deliver the business plan.	Explicit management of business transformation through a dedicated team, including people and processes. Includes consideration and management of employee wellbeing through engagement of People Safety team.

Auditors

"The Board should ensure the quality and independence of the external audit process."

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.

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

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

"The Board should respect the rights of shareholders and foster constructive relationships with shareholders that encourage them to engage with the issuer."

The Board recognises the rights of shareholders and is committed to engaging with them positively on significant matters.

Air New Zealand's shareholder relations programme is designed to ensure effective, two-way communication between shareholders and Air New Zealand. Relevant information is provided to the investment community as quickly and efficiently as possible as part of Air New Zealand's compliance with continuous disclosure obligations.

In addition to providing disclosures to the market, 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 is an important part of Air New Zealand's communication with shareholders. It 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. The website is freely accessible to the public and is updated regularly.

- **Electronic Communications**

  Air New Zealand provides an Investor Relations email address which provides shareholders a mechanism by which they can 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 offered shareholders the ability to attend the Annual Shareholders' Meeting in either a physical or digital capacity. For shareholders who are unable to travel, the online option of participating in the Annual Shareholders' Meeting allows all shareholders the ability to engage with the Board of Directors and Executive. In 2019, Air New Zealand had approximately 170 online participants who asked 9 questions using the virtual tool. Resolutions at shareholder meetings are by way of a poll, where each shareholder has one vote per share. Air New Zealand encourages shareholders to ask questions in advance of the meeting, to encourage further engagement with the Company and provide management with a view of the concerns of the Company's shareholders.

- **Investor Day Briefings**

  On a periodic basis, Air New Zealand holds 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. To ensure all shareholders and prospective investors have the opportunity to view the content of Investor Day briefing, Air New Zealand also provides webcast access and transcripts of the event on the Air New Zealand website.

- **Webcasting Interim and Annual Results Presentations**

  Air New Zealand webcasts its earnings announcements on a semi-annual basis to provide investors with timely information pertaining to the business, strategy and financial performance. 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**

  Air New Zealand makes regular disclosures relating to the company's performance. On a monthly basis an investor update 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 is 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. For the 2020 financial year, the following disclosures summarise how Air New Zealand aligns with TCFD recommendations.

Governance of Climate-Related Risks and Opportunities	
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 risks including climate change. This Committee meets quarterly and, amongst other things, considers updates and assurance 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 Enterprise Risk Management Framework and its Group Risk Profile. Where applicable, climate risk also forms part of the Board's evaluation of material projects and capital investments.
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 risks are identified through the Company's divisional risk registers. Climate-related workstreams are the responsibility of the full Executive team, the Executive Climate Committee (ECC) and the Sustainability Team. Management focus is given to risk identification, ensuring consistency in approach, and that the climate-related activities are adequately resourced (for example, fuel monitoring/reporting, carbon reduction programme, offsetting, regulatory compliance). The ECC reports key issues to the Audit and Risk Committee. Environmental sustainability is affirmed as a business principle within 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	
Climate-related risks and opportunities identified over the short, medium, and long-term	Air New Zealand has identified the impact of climate change as one of its top strategic risks. These risks (and opportunities) manifest as either: - 'physical' risks which are those 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); or - 'transitional' risks which are those 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. **Physical risks** Short, medium and long-term physical risks (both acute and chronic) to the Company include: - In the short-term, higher rainfall and storm frequency and intensity, and, in the long-term, sea level rise and tidal/coastal intrusion causing network disruptions and loss of access to airports as well as other aviation support facilities, critical infrastructure, and supply chains; - Increase in the frequency of extreme weather events altering flight dynamics and operational planning requirements. Ultimately, extreme weather frequency and intensity may cause sustained operational disruption and network growth limitations, which may adversely impact Air New Zealand's cost base, future revenue, customer experience and reputation. **Transitional risks** The most likely and impactful transitional effects for the Company include: - Increased regulatory constraints associated with carbon emissions, resulting in higher operating costs. These in turn can impact revenue outcomes. Air New Zealand is cognisant of potential threats and opportunities arising if policy measures are not equivalent across different jurisdictions. - Changing demand for discretionary air travel due to individuals or businesses seeking to reduce their carbon footprint. This can also create opportunities for the most carbon-efficient airlines to enhance their competitive advantage.

CLIMATE-RELATED DISCLOSURES (CONTINUED)

Strategy continued	
Actual and potential impacts of climate-related risks and opportunities on the Company's strategy and financial planning	Climate-related risks and opportunities are considered as part of Air New Zealand's annual and longer-term business planning and financial planning processes, including decisions on fleet investment and aircraft weight as well as consideration of the regulatory impacts of carbon pricing. The Company's recognition of climate-related risks and opportunities helps shape the sustainability strategy, in turn guiding decisions to invest in modern and fuel-efficient fleet, development of an operational carbon reduction programme and a voluntary carbon offsetting scheme, and long-term carbon credit supply to meet compliance obligations under the New Zealand Emissions Trading Scheme. The Covid-19 crisis has had a significant and ongoing impact on Air New Zealand and on the global aviation industry. While there has been a temporary reduction in air travel, the Company acknowledges the continued need for urgent action to reduce carbon emissions. It has commenced a strategic review of its current and future operations, and the related climate change impacts, with a goal of establishing new emissions reduction targets and defining a roadmap of decarbonisation levers and actions to achieve these targets by 2050.
Resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario	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 Company's strategy (including against three IEA Energy Technology Perspective (ETP) scenarios which were 1.5, 2 and 3-4 degree aligned). This engagement has been paused until such time as there is greater certainty over the Company's and the industry's post-Covid-19 context.
Risk Management	
Processes for identifying and assessing climate-related risks	Climate-related risks and opportunities are primarily identified, assessed, and managed, by each business unit in accordance with Air New Zealand's Enterprise Risk Management Framework (see page 68). These processes are supplemented with specialist input from functional experts, including the Sustainability, Strategy, Corporate Finance, Legal, and Risk teams, to promote consistency and completeness.
Processes for managing climate-related risks	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. Risk activity is largely 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 then determines the materiality of the risk.
Processes for identifying, assessing and managing climate-related risks and integrating them into overall risk management	All risks identified through the Enterprise Risk Management Framework are assigned to a responsible manager (Risk Owner), so that mitigation or minimisation actions are developed and implemented to reduce the risks to an acceptable level. These actions are also recorded in the Risk Register, tracked for progress, and reported to senior management. Significant climate-related risks are brought to the attention of the ECC 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.
Metrics and Targets	
Metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process **Reporting greenhouse gas emissions** **Targets used by the organisation to manage climate-related risks and opportunities and performance against targets**	The minimum current targets for the Company include those established by the International Air Transport Association: - an average annual efficiency improvement of at least 1.5% between 2009 and 2020 - carbon-neutral growth post 2020 (to be achieved through CORSIA) - and 2050 net emissions being 50% of 2005 emissions levels Air New Zealand also supports the New Zealand Government's goal (enshrined in legislation) of net-zero emissions by 2050. New emissions reduction targets will be finalised by management and the Board in the 2021 financial year. Air New Zealand discloses its Scope 1 and 2 emissions on an annual basis (see **2020 Greenhouse Gas Inventory** on the Air New Zealand website for further detail), its carbon emissions efficiency – measured in tonnes of emissions for every tonne of passenger and cargo carried (CO2 per Revenue Tonne Kilometre) and the Company also discloses volumes of carbon offset through voluntary carbon offsetting programme FlyNeutral. The impact of Covid-19 on the Company's operations has resulted in emissions for the 2020 financial year being significantly lower than normal, and inconsistent with both prior year trends and long-term expectations. The Covid-19 impacts are expected to continue at least through the 2021 financial year.

DIRECTORS' PROFILES

The following directors held office as at 30 June 2020:

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 Limited. She is also a Director of ASB Bank Limited, and Contact Energy Limited, a Board member of Antarctica NZ and Pro-Chancellor of Victoria University.

Previously she was the Head of New Zealand for the ICC Cricket World Cup 2015, 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 the New Zealand Institute of Chartered Accountants 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 and a director of AIG Insurance New Zealand Limited, Meridian Energy Limited and World Sailing. 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 the New Zealand Institute of Chartered Accountants, 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 (Freightways) where he held a number of senior leadership and Executive roles, including most recently as Managing Director from 1999 to 2017.

During his over 30-year career at Freightways he led the business through its successful initial public offering in 2003 and as it diversified its business and extended its geographical footprint into Australia.

Mr Bracewell is a Director of Tainui Group Holdings Limited, Property for Industry Limited and the Halberg Foundation. He is also a member of the Government's Future of Rail Steering Group and 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 the New Zealand Institute of Chartered Accountants, 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 AWF Madison Group 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.

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.

DIRECTORS' PROFILES (CONTINUED)

Mr De Shon is a non-executive director for The Hartford Financial Services Group Inc, a US-based Fortune 500 investment and insurance company, where he serves on the Board's Audit Committee and the Finance, Investment and Risk Management Committee.

Mr De Shon has bachelor's degrees in both communications and sociology from the University of Missouri, Kansas.

Robert (Rob) Jager ONZM, BE(Hons), MBA

Independent Non-Executive Director – Appointed 1 April 2013

Mr Jager was formerly Chairman and Vice President of the Shell Companies in New Zealand, and more recently the Vice President of Shell Australia's Prelude Floating LNG and wider East Browse assets offshore of Western Australia.

Mr Jager spent a career spanning more than 40 years within Shell, joining the group in New Zealand in 1978 as an engineering cadet and working for 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 also chaired the Petroleum Exploration and Production Association NZ as well as the Business Leaders Health and Safety Forum. Mr Jager was a Director for National Science Challenge – Sustainable Seas – Project and an advisor to a major conservation project working towards the ecological restoration of New Zealand's iconic Mount Taranaki.

In 2013, Mr Jager received the Energy Executive of the Year Award at the New Zealand Deloitte Energy Excellence Awards for his "standout performance in the New Zealand energy sector". He was elected a fellow of the Institute of Professional Engineers in 2015 for his contribution to the advancement of engineering practice and leadership in the profession and was recognised with a Safeguard Life-time Achievement Award in 2017. 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. Prior to that Linda was the first New Zealand women to list on the NASDAQ, where she listed a global on-demand transportation company with more than 6,000 workers in 80 cities.

Ms Jenkinson currently chairs Guild Super, Jaxsta (JXT.AX) and Unicef Aotearoa NZ. She is a director of the Eclipz Group (ECX.AX) 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, working with high-growth companies which includes Valocity, where she chairs the Advisory Board.

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. In 2016, Ms Jenkinson was named a World Class New Zealander by Kea and was named as one of the most influential women in the Bay Area for 2014 by the San Francisco Business Times. In 2014 Ms Jenkinson was a recipient of Massey University's Sir Geoffrey Peren Award, which recognises a graduate who has reached the highest level of achievement or who has been of significant service to the university, community or nation.

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.

He joined Fonterra in 2009 from US-based chemicals company Cabot Corporation where he was Executive Vice-President and Chief Financial Officer. Prior to this he was employed as the Chief Financial Officer at forest products company Carter Holt Harvey Limited and also served in senior financial management positions at US based International Paper.

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

Laurissa Cooney was appointed to the Board on 1 October 2019 as an independent, non-executive director. Dean Bracewell and Larry De Shon were appointed to the Board on 20 April 2020 as independent, non-executive directors.

Tony Carter retired from the Board at the conclusion of the 2019 Annual Shareholders' Meeting on 25 September 2019 and the Rt Hon Sir John Key resigned from the Board on 31 March 2020.

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 2019 are italicised.

Dame Therese Walsh	Antarctica NZ	Director
	ASB Bank Limited	Director
	Climate Change Commission – nomination panel	*Member*
	Contact Energy Limited	Director
	On Being Bold Limited	Director
	Television New Zealand Limited – resignation advised 31 October 2019	Chairman
	Therese Walsh Consulting Limited	Director
	Victoria University	Pro-Chancellor
	Wellington Homeless Women's Trust	Ambassador
	Wellington Regional Stadium Trust – resignation advised 1 September 2019	Trustee
Jan Dawson	AIG Insurance New Zealand Limited	Director
	Fulbright New Zealand – resignation advised 25 September 2019	Director
	Jan Dawson Limited	Director
	Meridian Energy Limited	Director
	National Health Board Capital Investment Committee	Member
	University of Auckland Council	Member
	Westpac New Zealand Limited	Chairman
	World Sailing	Director
Dean Bracewell	*Ara Street Investments Limited*	*Director and Shareholder*
	Dean Bracewell Limited	*Director and Shareholder*
	Freightways Limited	*Shareholder*
	Halberg Trust	*Director*
	Property for Industry Limited	*Director*
	Tainui Group Holdings Limited	*Director*
Laurissa Cooney	*Ātihau Whanganui Incorporation - Audit Committee – resignation advised 7 December 2019*	*Member*
	AWF Madison Group	*Director*
	Ngā Tāngata Tiaki - Audit Committee	*Member*
	Ngāi Tai ki Tāmaki Charitable Investment Trust	*Trustee*
	Te Whare Wānanga o Awanuiārangi – resignation advised 16 January 2020	*Officer*
	Western Bay of Plenty Tourism and Visitors Trust ("Tourism Bay of Plenty")	*Trustee (Chair)*
Larry De Shon	*The Hartford Financial Services Group, Inc*	*Director*
Linda Jenkinson	*Cryptfolio Limited*	*Shareholder*
	Eclipx Group Limited	Director
	Gold Cross Products & Services Pty Ltd	Chair
	Guild Group Holdings Limited – resigned 30 June 2020	Director
	Guild Insurance Limited – resigned 30 June 2020	Director
	Guild Link Pty Ltd	Director
	Guild Superannuation Services Limited – resigned 30 June 2020	Director
	Guild Trustee Services Limited	Director
	Harbour Asset Management Limited	Director
	Jaxsta Limited	Director
	Massey University US Foundation	Director and Secretary
	Refunme Limited – ceased 23 September 2019	Director and Shareholder
	RewardChain Limited	Shareholder
	Te Auaha Limited	Director
	UNICEF NZ	Chair
	Valocity Limited	*Advisor*
	ValueRoad Limited – ceased 7 July 2020	Shareholder
Jonathan Mason	Beloit College (USA) Board of Trustees	Trustee
	Dilworth School for Boys	Trustee
	New Zealand Assets Management Limited	Director
	University of Auckland Endowment Fund	Trustee
	Vector Limited	Director
	Westpac New Zealand Limited	Director
	World Wide Fund for Nature New Zealand	Trustee
	Zespri Group Limited	Director

Disclosures were also made during the year by former directors, Tony Carter (Director of Datacom Limited) and Sir John Key (Director of MTK Capital Limited).

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 2020 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

During the year, directors advised the following dealings that they (or associated persons) had in shares of the company:

	Transaction	Date	Number	Consideration
Dame Therese Walsh	Purchase	30 October 2019	15,000	$42,450

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 FY20 including base for FY20, and incentive payments including performance rights issued under the LTI scheme that relate to FY19 performance and paid in FY20	
	New Zealand Management	Aircrew, Engineering, Overseas and Other
100,000 - 110,000	183	361
110,000 - 120,000	189	323
120,000 - 130,000	188	360
130,000 - 140,000	161	229
140,000 - 150,000	104	241
150,000 - 160,000	73	258
160,000 - 170,000	59	200
170,000 - 180,000	65	150
180,000 - 190,000	45	105
190,000 - 200,000	43	63
200,000 - 210,000	35	70
210,000 - 220,000	29	61
220,000 - 230,000	17	62
230,000 - 240,000	19	49
240,000 - 250,000	8	47
250,000 - 260,000	7	40
260,000 - 270,000	12	71
270,000 - 280,000	9	65
280,000 - 290,000	8	19
290,000 - 300,000	7	24
300,000 - 310,000	3	19
310,000 - 320,000	2	15
320,000 - 330,000	2	17
330,000 - 340,000	1	10
340,000 - 350,000	2	17
350,000 - 360,000	-	31
360,000 - 370,000	1	24
370,000 - 380,000	-	15
380,000 - 390,000	1	8
390,000 - 400,000	4	6
400,000 - 410,000	1	17
410,000 - 420,000	5	24
420,000 - 430,000	2	19
430,000 - 440,000	3	12
440,000 - 450,000	3	14
450,000 - 460,000	2	7
460,000 - 470,000	6	15
470,000 - 480,000	-	8
480,000 - 490,000	2	12
490,000 - 500,000	1	7
500,000 - 510,000	1	2
510,000 - 520,000	1	4
520,000 - 530,000	-	2
530,000 - 540,000	-	1
540,000 - 550,000	-	1
550,000 - 560,000	2	2
560,000 - 570,000	1	-
580,000 - 590,000	3	1
590,000 - 600,000	3	-
600,000 - 610,000	1	1
620,000 - 630,000	2	-
630,000 - 640,000	1	4
640,000 - 650,000	1	-
650,000 - 660,000	1	-
680,000 - 690,000	2	-
690,000 - 700,000	1	-
770,000 - 780,000	1	-
820,000 - 830,000	1	-
870,000 - 880,000	1	-
920,000 - 930,000	-	1
960,000 - 970,000	1	-
1,060,000 - 1,070,000	1	-
1,090,000 - 1,100,000	1	-
1,220,000 - 1,230,000	1	-
1,240,000 - 1,250,000	1	-
1,300,000 - 1,310,000	1	-
1,430,000 - 1,440,000	1	-
1,840,000 - 1,850,000	1	-
2,050,000 - 2,060,000	1	-
2,300,000 - 2,310,000	1	-
4,440,000 - 4,450,000	1	-
Grand Total	**1,336**	**3,114**

EMPLOYEE REMUNERATION (CONTINUED)

Remuneration philosophy

In order to attract and retain talented individuals, Air New Zealand's performance and reward strategy is aligned with both the recruitment philosophy – to source talented people, and the Company's capability development agenda – to develop future leaders and provide succession pipelines into key roles. The key objectives of the strategy are attracting and retaining high performing individuals, providing rich developmental opportunities and recognising achievement through targeted performance and reward initiatives.

Air New Zealand's remuneration strategy is underpinned by a pay for performance philosophy and uses annual performance incentives to create opportunities for everyone to achieve market competitive remuneration levels and in the case of superior performance, total remuneration in excess of market.

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 appraised 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 and performance priorities.

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. Air New Zealand executives agreed to reduce their fixed remuneration by 15% for the period from 16 March 2020 to 31 December 2020 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). The measures used to determine the quantum of the STI are set annually. Targets relate to both Company financial performance and individual targets. For the CEO the STI is set at 55% of annual fixed salary at target (Achieving) performance and the weighting is based 60% on Company financial performance and 40% on individual performance. For all other employees the weighting is 50% Company financial performance and 50% individual performance. Participation in the plan is by annual invitation at the discretion of the Company.

At the start of the 2020 financial year the Board confirmed the Company financial target would be 13% Return on Invested Capital (ROIC). The Company would need to achieve 10% ROIC before any company component was paid out and the maximum company component of 200% would be achieved when the Company reaches and exceeds 19% ROIC.

The main factors for the assessment of individual performance for the 2020 financial year were business performance, strategy development and delivery, leadership and people and culture.

In the 2020 financial year, Air New Zealand suspended the Short-Term Incentive scheme for the current year due to the impact of Covid-19.

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 2020 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.

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% of performance rights will lapse. For the remaining 50% there will be a further 6 month opportunity for the performance rights to vest.

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

EMPLOYEE REMUNERATION (CONTINUED)

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.

Chief Executive Officer Remuneration

CEO Target Remuneration

Based on remuneration components outlined earlier, CEO target remuneration is as follows:

Financial Year	CEO[1]	Salary[2] $	Benefits[3] $	STI[4] $	LTIP[5] $	CRSRP[6] $	Summary $
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
2019	Christopher Luxon	1,600,000	150,846	880,000	880,000	775,000	4,285,846

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 usual base remuneration.
2. These are full year salary equivalents. As part of the response to Covid-19, Greg Foran's effective annual contracted salary decreased from $1,650,000 to $1,400,000 from 16 March 2020 until 31 December 2020. Prorated for time worked in the reporting period and based on his reduced target salary, his paid salary was $594,231.
3. Benefits include superannuation (KoruSaver scheme) and travel taken in the relevant financial year. Past and present CEOs are members of Air New Zealand's group superannuation scheme, KoruSaver. 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.
4. STI target entitlement is 55% of Salary.
5. 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 will retain the Performance Rights awarded in the 2017, 2018 and 2019 programmes.
6. Christopher Luxon also participated in the CEO Restricted Share Rights Plan (CRSRP) which commenced in the 2016 financial year. The CRSRP was established to recognise the commercial importance of retaining the services of Christopher Luxon for an extended period. Under the plan, each year, at the discretion of the Board, and on condition of the CEO achieving the performance hurdles set for the previous financial year, restricted share rights could be issued to the CEO based on 50% of the CEO's fixed remuneration.

   Share rights issued under the plan were not earned or vested unless the CEO remained employed by Air New Zealand at vesting milestones across the period from 2017 to 2021. If this condition was met, a proportion of the rights vested to the CEO on that date. The CEO was not granted any further CRSRPs from the date of his resignation and those already awarded have vested or forfeited according to the plan rules.

CEO Realised Remuneration 2020 Financial Year

					Rights Vested	
CEO[1]	Period	Salary[2] $	Benefits[3] $	STI[4] $	LTIP[5] #	CRSRP[6] #
Greg Foran	03/2/20 – 30/06/20	594,231	23,769	-	-	-
Christopher Luxon	01/07/19 – 03/01/20	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. Cash paid to Christopher Luxon includes for the 12 month notice period and accrued and entitled annual leave.
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.

EMPLOYEE REMUNERATION (CONTINUED)

4. STI in the reporting period reflects the cash value of amounts received where entitlement is determined by the achievement of performance measures, both Company and individual, that relate to the current period and is not the result of an award made in a previous period. For Christopher Luxon, this includes the payment of target STI and cash paid in lieu of a 2020 Financial Year LTI grant, both proated to reflect time worked.
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.
6. CRSRP includes the number of restricted shares rights that have been converted to shares as a result of the achievement of service milestones. In December 2019 130,172 rights converted to shares from the September 2017 (FY18) award and 145,586 rights converted to shares from the September 2018 (FY19) award.

CEO Share Rights Granted 2020 Financial Year

CEO	LTIP[1] #
Greg Foran	293,840
Christopher Luxon	692,368

Comments to the table:

1. LTIP includes the number of Performance Rights granted in September 2019 (FY20). 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.
2. In recognition of his service in the 2020 Financial Year, Christopher Luxon was granted a cash payment of $450,849 in lieu of a September 2020 LTIP grant.

CEO Pay for Performance Calculation

Greg Foran

Scheme	Description	Performance measures	Percentage/Rating achieved
STI	STI is set at 55% of fixed remuneration and is based on a combination of Company performance.	60% on Company financial performance. The Company must achieve 10% ROIC before any company component is paid out. At 10% ROIC, 25% of the target payout is paid. The maximum company component is 200%, which is achieved when the Company reaches or exceeds 150% of the financial target 19% ROIC. 40% on individual performance.	As a result of the impact of Covid-19 the short-term incentive scheme was suspended for FY20.
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.	Granted 293,840 rights reflecting prorated term as CEO from 3/2/2020.

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 2020. 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.

11Ants Analytics Group Limited	Jeremy O'Brien Leila Peters Glen Bond (R) Stephan Deschamps (R)
ADP (New Zealand) Limited	Jennifer Page Chloe Surridge Brian Wilson (R)
Air Nelson Limited	Kelvin Duff Jennifer Page John Whittaker Michael Williams Glen Bond (R)
Air New Zealand Aircraft Holdings Limited	Jeffrey McDowall Jennifer Page Baden Smith Stephan Deschamps (R)
Air New Zealand Associated Companies Limited	Jeffrey McDowall Jennifer Page Leila Peters Stephan Deschamps (R)
Air New Zealand Associated Companies (Australia) Limited	Jeffrey McDowall Jennifer Page
Air New Zealand Express Limited	Jeffrey McDowall Jennifer Page
Air New Zealand Regional Maintenance Limited	Carrie Hurihanganui Shehan Sinnaduray Vivian De Beus (R)
Air New Zealand Travel Business Limited	Jeffrey McDowall Jennifer Page
ANNZES Engines Christchurch Limited	Jeffrey McDowall Jennifer Page
Ansett Australia & Air New Zealand Engineering Services Limited	Jeffrey McDowall Jennifer Page
Eagle Airways Limited	Jennifer Page Michael Williams Glen Bond (R)
Mount Cook Airline Limited	Kelvin Duff Jennifer Page John Whittaker Michael Williams Glen Bond (R)
TEAL Insurance Limited	Jennifer Page Michelle Redington Hannah Ringland
Air New Zealand (Australia) Pty Limited (incorporated in Australia)	Jennifer Page Kathryn Robertson
ANZGT Field Services LLC (Joint Venture, incorporated in Del., USA)	Greg Bobrow John Callesen Trevor Hughes Todd Witwer

OTHER DISCLOSURES

Donations

The Air New Zealand Group has made donations totalling $1,363,406 in the financial year to 30 June 2020. 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.

Principal recipients were: the Āwhina Trust, a trust set-up to provide financial support to Air New Zealand Group employees who are experiencing financial hardship following the impacts of Covid-19 ($1,228,000); the Australian Red Cross to support the Australian bush fire disaster relief and recovery ($105,042); and the Air New Zealand Environment Trust, to be used towards the Mangarara Learning in Nature Centre in the Hawkes Bay ($20,000).

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 2020. 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
Her Majesty the Queen in Right of New Zealand	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 2020*

Boeing 777-300ER

Number: 7
Average Age: 8.2 years
Maximum Passengers: 342
Cruising Speed: 910 km/hr
Average Daily Utilisation: to 30 Jun: 12:25 hrs
to 29 Feb: 14:07 hrs

Boeing 777-200ER

Number: 8
Average Age: 14.2 years
Maximum Passengers: 312
Cruising Speed: 910 km/hr
Average Daily Utilisation: to 30 Jun: 8:40 hrs
to 29 Feb: 11:35 hrs

Boeing 787-9 Dreamliner

Number: 14
Average Age: 3.8 years
Maximum Passengers: 302 or 275
Cruising Speed: 910 km/hr
Average Daily Utilisation: to 30 Jun: 10:57 hrs
to 29 Feb: 13:13 hrs

Airbus A320/321NEO

Number: 11
Average Age A321: 1.3 years
A320: 1.1 years
Maximum Passengers: A321: 214
A320: 165
Cruising Speed: 850 km/hr
Average Daily Utilisation: A321: 7:18 hrs (30 Jun) or 9:23 hrs (29 Feb)
A320: 6:53 hrs (30 Jun) or 8:54 hrs (29 Feb)

Airbus A320CEO

Number: 22
Average Age: Short-haul: 16.1 years
Domestic: 6.4 years
Maximum Passengers: Short-haul: 168
Domestic: 171
Cruising Speed: 850 km/hr
Average Daily Utilisation: Short-haul: 6:10 hrs (30 Jun) or 7:40 hrs (29 Feb)
Domestic: 5:43 hrs (30 Jun) or 7:16 hrs (29 Feb)

ATR 72-500 / ATR 72-600

Number: 27
Average Age: 3.6 years
Maximum Passengers: 68
Cruising Speed: 518 km/hr
Average Daily Utilisation: to 30 Jun: 5:26 hrs
to 29 Feb: 6:29 hrs

Bombardier Q300

Number: 23
Average Age: 13.4 years
Maximum Passengers: 50
Cruising Speed: 520 km/hr
Average Daily Utilisation: to 30 Jun: 5:13 hrs
to 29 Feb: 6:17 hrs

* Due to the impact of Covid-19 and the government restrictions on both international and domestic travel, a number of Air New Zealand's aircraft were parked over the months of March to June 2020. The aircraft totals above reflect the number of aircraft in the fleet capable of operation as at 30 June 2020. Average utilisation figures have been provided for both the full financial year, which incorporates the non-operational periods, and for the year to 29 February 2020, prior to the impacts of Covid-19.

SECURITIES STATISTICS

Top Twenty Shareholders – as at 3 August 2020

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 Limited	45,202,599	4.03
Citibank Nominees (NZ) Limited	37,849,226	3.37
HSBC Nominees (New Zealand) Limited	37,262,775	3.32
Citicorp Nominees Pty Limited	25,130,096	2.24
HSBC Nominees (New Zealand) Limited	23,645,774	2.11
JPMORGAN Chase Bank	16,987,394	1.51
J P Morgan Nominees Australia Pty Limited	8,597,146	0.77
HSBC Custody Nominees (Australia) Limited	6,785,584	0.60
Accident Compensation Corporation	5,597,133	0.50
Xinwei Investment (NZ) Limited	4,188,027	0.37
Cogent Nominees Limited	3,431,026	0.31
Private Nominees Limited	3,126,919	0.28
FNZ Custodians Limited	2,934,620	0.26
BNP Paribas Nominees Pty Limited	2,548,834	0.23
Garth Barfoot	2,500,000	0.22
New Zealand Permanent Trustees Limited	2,398,632	0.21
BNP Paribas Nominees NZ Limited	2,396,868	0.21
National Nominees Limited	2,164,192	0.19
BNP Paribas Noms Pty Limited	1,801,194	0.16
Total	**817,402,632**	**72.80**

Shareholder Statistics – as at 3 August 2020

Size of Holding	Investors	% Investors	Shares	% Issued
1-1,000	23,681	46.22	11,453,156	1.02
1,001-5,000	17,266	33.70	44,148,350	3.93
5,001-10,000	5,036	9.83	38,275,488	3.41
10,001-100,000	4,947	9.66	128,903,844	11.48
100,001 and Over	308	0.60	900,063,389	80.16
Total	**51,238**	**100.00**	**1,122,844,227**	**100.00**

Bondholder Statistics – as at 3 August 2020

Size of Holding	Holders	% Holders	Bonds	% Issued
1-1,000	-	-	-	-
1,001-5,000	42	6.95	210,000	0.42
5,001-10,000	149	24.67	1,432,000	2.90
10,001-100,000	388	64.24	12,544,000	25.08
100,001 and Over	25	4.14	35,814,000	71.60
Total	**604**	**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.

Neither NZX nor ASX has taken any disciplinary action against the Company during the financial year ended 30 June 2020. In particular there was no 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 Share[1] 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 2020:

1. In 2017 Air New Zealand and the Crown (acting through the Ministry of Business, Innovation and Employment) entered into an agreement under which Air New Zealand will provide government agencies with discounted fares. As the Crown is a Related Party, Air New Zealand sought and was granted a waiver dated 21 February 2017 from the requirement to obtain shareholder approval. On 29 November 2019, a redocumentation of this waiver was granted, to enable Air New Zealand and the Crown to renew the agreement subject to its original terms without the requirement to obtain shareholder approval under Listing Rule 5.2.1. This waiver was granted subject to two independent directors of the Board certifying that: (i) any decision to renew the agreement has been negotiated on arm's length commercial terms; (ii) renewal of the agreement is in the best interests of all shareholders (other than the Crown); and (iii) the Crown, as the majority shareholder in Air New Zealand, has not influenced the Board of Directors of Air New Zealand, to enter into the agreement.
2. Waivers and approvals relating to the Kiwi Share provisions of the Constitution were reissued by NZX Regulation in a decision dated 23 July 2019. This redocumented a previous 12 October 2004 NZXR decision.
3. Air New Zealand transitioned to the new NZX Listing Rules (dated 1 January 2019) on 1 July 2019, and relied on the class waivers and Rulings granted by NZX Regulation on 19 November 2018 in relation to the transition, including the class waiver allowing NZX issuers to delay updating their constitution (to be consistent with the new NZX Listing Rules) until the relevant issuer's first annual meeting of shareholders after it transitioned to the new NZX Listing Rules). Air New Zealand relied on the class Ruling, allowing Issuers to rely on previously granted waivers and Rulings until 30 June 2020, in respect of the historic waivers noted under 1. and 2. above until the date of their respective redocumentation.
4. On 19 March 2020 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 a Loan to be 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.
5. On 19 March 2020 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 a Loan to be 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

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New Zealand
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(64 9) 336 2607 (Overseas)
Fax: (64 9) 336 2664
Email: investor@airnz.co.nz
Website: airnzinvestor.com

Annual Meeting

Date: 29 September 2020
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)
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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
Jeff McDowall

General Counsel and Company Secretary
Jennifer Page

HE TĀNGATA, HE TĀNGATA, HE TĀNGATA.

NZX NEW ZEALAND'S EXCHANGE

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 2020	
Previous Reporting Period	12 months to 30 June 2019	
Currency	New Zealand Dollars	
	Amount (000s)	**Percentage change**
Revenue from continuing operations	4,870,000	(16.5%)
Total Revenue	4,870,000	(16.5%)
Net loss from continuing operations	(454,000)	(264.5%)
Total net loss	(454,000)	(264.5%)
Final Dividend (NZ$)		
Amount per Quoted Equity Security	No final dividend will be paid	
Imputed amount per sec Quoted Equity Security	N/A	
Record Date	N/A	
Dividend Payment Date	N/A	
NZ$ Amount	**Current Period**	**Prior Comparative Period**
Net tangible assets per Quoted Equity Security	1.01	1.61
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	27 August 2020	

Audited financial statements accompany this announcement.

FULL YEAR RESULTS ANNOUNCEMENT
AIR NEW ZEALAND LIMITED
Full Year Ended 30 June 2020 (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 2020 interim dividend of 11.0 cents per Ordinary Share was declared on 26 February 2020, payable on 25 March 2020. As a result of the severe impact of Covid-19 on the Group, and in accordance with conditions precedent in securing the availability of the Government funding facility, the dividend was subsequently cancelled on 20 March 2020.

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.

An interim dividend in respect of the 2019 financial year of 11.0 cents per Ordinary Share was paid on 27 March 2019. Imputation credits were attached and supplementary dividends paid to non-resident shareholders.

	$NZ'm*	NZ Cents Per Share
Distributions recognised		
Final dividend for 2019 financial year on Ordinary Shares	123	11.0
Distributions paid		
Final dividend for 2019 financial year on Ordinary Shares	130	11.0

* The difference between distributions recognised and paid relates to supplementary dividends.

(e) A Statement of Movements in Equity
Refer to the Financial Statements.

(f) Net tangible assets per security with the comparative figure for the previous corresponding period

(NZ Cents Per Share)	Current Year	Previous Year
Ordinary Shares	101	161

(g) Commentary on the results

		Measurement	Current Year	Previous Year
(i)	Basic earnings per share	NZ cents per share	(40.4)	24.6
	Diluted earnings per share	NZ cents per share	(40.4)	24.4
(ii)	Returns to shareholders (see also section (d) above)			
	Final dividend on Ordinary Shares*	$NZ'm	123	124

* Reflects the final dividends for the 2018 and 2019 financial years. Details on the final dividend for the 2019 financial year is provided in the first paragraph of section 2(d).

(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.

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	2,894	3,409
Australia and Pacific Islands	532	698
United Kingdom and Europe	233	283
Asia	446	519
America	731	876
Total operating revenue	**4,836**	**5,785**

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.

FULL YEAR RESULTS ANNOUNCEMENT

AIR NEW ZEALAND LIMITED

Full Year Ended 30 June 2020 (referred to in this report as the "current full year")

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

Refer to the Statement of Accounting Policies and Note 27 in the financial statements.

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 27 August 2020.

Dame Therese Walsh

Chairman