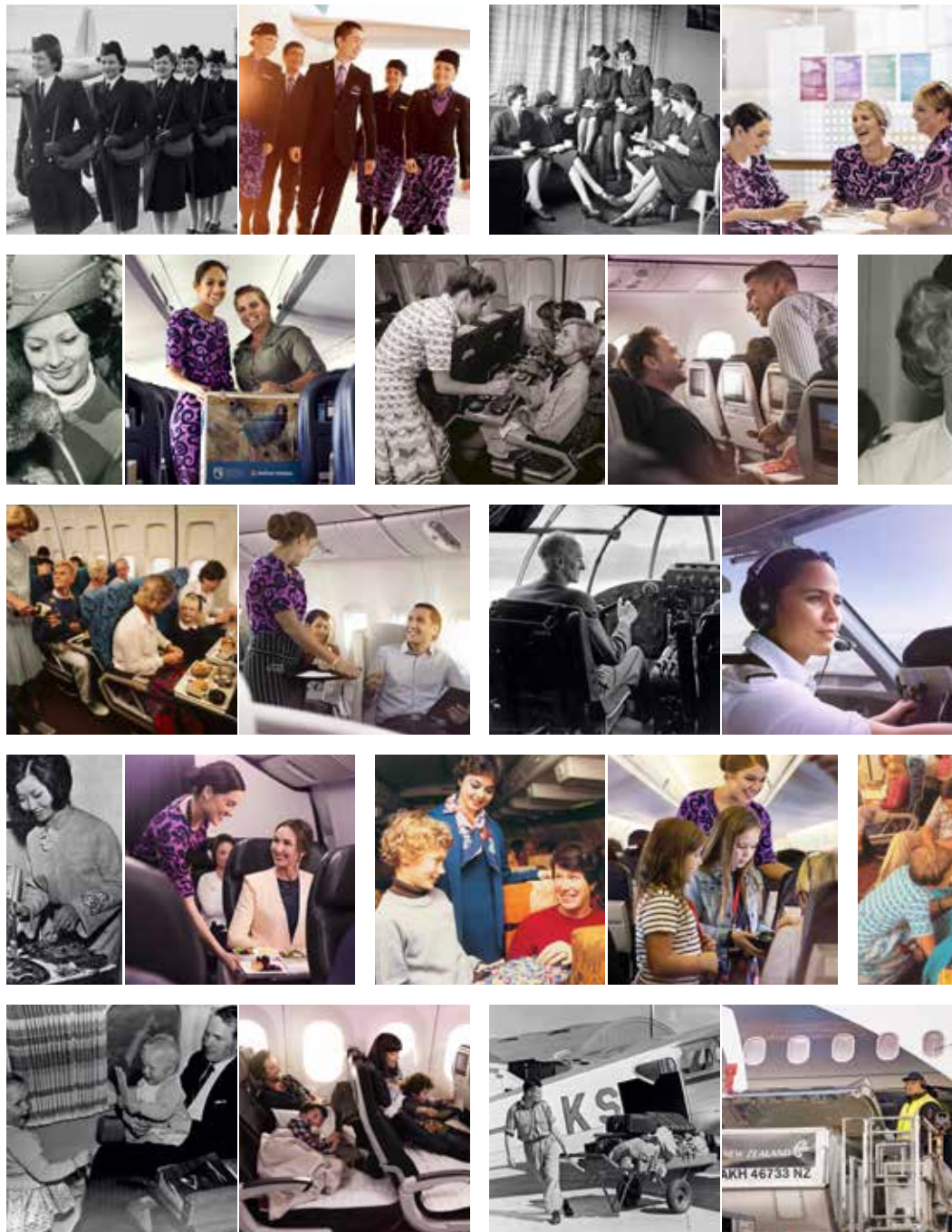


2020

ANNUAL
SHAREHOLDER
REVIEW

—



Then, Now,
Always.

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 million¹ 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



Dame Therese Walsh — Chairman

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.

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



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 lockdown². 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	
Letter from the Chairman	2
Letter from the Chief Executive Officer	5
Our Story	8
Health & Safety	10
Financial Commentary	13
Change in Profitability	16
Financial Summary	17

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 mangu – 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

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.



Greg Foran — Chief Executive Officer

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



Our Story

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 million¹. 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 2019², 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.

²Gearing 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	



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

Level 11, Deloitte Centre
80 Queen Street, Auckland 1010, New Zealand
PO Box 91976, Auckland 1142, New Zealand

Email: enquiries@linkmarketservices.com

Website: linkmarketservices.com

New Zealand Phone: (64 9) 375 5998

New Zealand Fax: (64 9) 375 5990

Australia Phone: (61) 1300 554 474

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

Phone: 0800 22 22 18 (New Zealand)

Phone: (64 9) 336 2607 (Overseas)

Fax: (64 9) 336 2664

Email: investor@airnz.co.nz

Website: airnzinvestor.com





**HE TĀNGATA,
HE TĀNGATA,
HE TĀNGATA.**