AIR NEW ZEALAND

ANNUAL FINANCIAL RESULTS

2022

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 2022.

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 2022 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:

T M Walsh

Dame Therese Walsh
Chair

A. R. Gerry

Alison Gerry
Director

25 August 2022

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* This document, in conjunction with the Air New Zealand Annual Shareholder Review 2022, constitutes the 2022 Annual Report to shareholders of Air New Zealand Limited.

STATEMENT OF FINANCIAL PERFORMANCE

FOR THE YEAR TO 30 JUNE 2022

	NOTES	2022 $M	RESTATED 2021 $M
Operating Revenue			
Passenger revenue		1,476	1,470
Cargo		1,016	769
Contract services		117	161
Other revenue		125	117
	1	2,734	2,517
Operating Expenditure			
Labour		(976)	(830)
Fuel		(560)	(311)
Maintenance		(259)	(254)
Aircraft operations		(412)	(350)
Passenger services		(116)	(84)
Sales and marketing		(131)	(73)
Foreign exchange losses		(3)	(29)
Other expenses		(281)	(252)
	2	(2,738)	(2,183)
Operating Earnings (excluding items below)		(4)	334
Depreciation and amortisation		(668)	(715)
Loss Before Finance Costs, Associates, Other Significant Items and Taxation		(672)	(381)
Finance income		14	8
Finance costs		(94)	(90)
Share of earnings of associates (net of taxation)	13	27	19
Loss Before Other Significant Items and Taxation		(725)	(444)
Other significant items	3	(85)	29
Loss Before Taxation		(810)	(415)
Taxation credit	4	219	123
Net Loss Attributable to Shareholders of Parent Company		(591)	(292)
Per Share Information:			
Basic and diluted earnings per share (cents)	5	(40.8)	(26.0)
Net tangible assets per share (cents)		39	86

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

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR TO 30 JUNE 2022

	NOTE	2022 $M	RESTATED 2021 $M
Net Loss for the Year		(591)	(292)
Other Comprehensive Income:			
Items that will not be reclassified to profit or loss:			
Actuarial (losses)/gains on defined benefit plans		(5)	6
Taxation on above reserve movements	4	1	(2)
Total items that will not be reclassified to profit or loss		(4)	4
Items that may be reclassified subsequently to profit or loss:			
Changes in fair value of cash flow hedges		111	64
Transfers to net loss from cash flow hedge reserve		(96)	35
Net translation gain/(loss) on investment in foreign operations		3	(3)
Changes in cost of hedging reserve		(5)	4
Taxation on above reserve movements		1	(32)
Total items that may be reclassified subsequently to profit or loss		14	68
Total Other Comprehensive Income for the Year, Net of Taxation		10	72
Total Comprehensive Loss for the Year, Attributable to Shareholders of the Parent Company		(581)	(220)

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

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR TO 30 JUNE 2022

	NOTES	SHARE CAPITAL $M	HEDGE RESERVES $M	FOREIGN CURRENCY TRANSLATION RESERVE $M	RESTATED GENERAL RESERVES $M	RESTATED TOTAL EQUITY $M
Balance as at 1 July 2021		2,213	(49)	(17)	(1,042)	1,105
Application of IFRIC interpretation	27	-	-	-	(7)	(7)
Restated balance as at 1 July 2021		2,213	(49)	(17)	(1,049)	1,098
Net loss for the year		-	-	-	(591)	(591)
Other comprehensive income for the year		-	7	7	(4)	10
Total Comprehensive Loss for the Year		-	7	7	(595)	(581)
Transactions with Owners:						
Shares issued	20	1,156	-	-	-	1,156
Equity-settled share-based payments (net of taxation)	4, 20	8	-	-	-	8
Equity settlements of staff share award obligations	20	(4)	-	-	-	(4)
Total Transactions with Owners		1,160	-	-	-	1,160
Balance as at 30 June 2022		3,373	(42)	(10)	(1,644)	1,677

	NOTES	SHARE CAPITAL $M	HEDGE RESERVES $M	FOREIGN CURRENCY TRANSLATION RESERVE $M	RESTATED GENERAL RESERVES $M	RESTATED TOTAL EQUITY $M
Balance as at 1 July 2020		2,209	(123)	(11)	(757)	1,318
Application of IFRIC interpretation	27	-	-	-	(4)	(4)
Restated balance as at 1 July 2020		2,209	(123)	(11)	(761)	1,314
Net loss for the year		-	-	-	(292)	(292)
Other comprehensive income for the year		-	74	(6)	4	72
Total Comprehensive Loss for the Year		-	74	(6)	(288)	(220)
Transactions with Owners:						
Equity-settled share-based payments (net of taxation)	4, 20	4	-	-	-	4
Total Transactions with Owners		4	-	-	-	4
Balance as at 30 June 2021		2,213	(49)	(17)	(1,049)	1,098

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

STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2022

	NOTES	2022 $M	RESTATED 2021 $M
Current Assets			
Bank and short-term deposits	6	1,793	266
Trade and other receivables	7	363	252
Inventories	8	98	92
Derivative financial assets	24	165	79
Other assets	9	78	137
Total Current Assets		2,497	826
Non-Current Assets			
Trade and other receivables	7	36	92
Property, plant and equipment	10	3,190	3,128
Right of use assets	11	1,617	1,989
Intangible assets	12	147	169
Investments in other entities	13	164	138
Derivative financial assets	24	143	-
Deferred taxation	4	164	-
Other assets	9	392	342
Total Non-Current Assets		5,853	5,858
Total Assets		8,350	6,684
Current Liabilities			
Trade and other payables		497	524
Revenue in advance	14	1,635	689
Interest-bearing liabilities	15	248	524
Lease liabilities	16	342	383
Derivative financial liabilities	24	63	11
Provisions	18	169	58
Income taxation		2	-
Other liabilities	19	215	164
Total Current Liabilities		3,171	2,353
Non-Current Liabilities			
Revenue in advance	14	219	503
Interest-bearing liabilities	15	1,595	1,023
Derivative financial liabilities	24	159	-
Lease liabilities	16	1,183	1,378
Redeemable shares	17	200	-
Provisions	18	118	241
Other liabilities	19	28	30
Deferred taxation	4	-	58
Total Non-Current Liabilities		3,502	3,233
Total Liabilities		6,673	5,586
Net Assets		1,677	1,098
Equity			
Share capital	20	3,373	2,213
Reserves	21	(1,696)	(1,115)
Total Equity		1,677	1,098

Dame Therese Walsh
Chair

Alison Gerry
Director

For and on behalf of the Board, 25 August 2022

STATEMENT OF CASH FLOWS

FOR THE YEAR TO 30 JUNE 2022

	NOTES	2022 $M	RESTATED 2021 $M
Cash Flows from Operating Activities			
Receipts from customers		3,353	2,471
Payments to suppliers and employees		(2,736)	(2,116)
Income tax refunded		-	35
Interest paid		(74)	(83)
Interest received		7	11
Net Cash Flow from Operating Activities	6	550	318
Cash Flows from Investing Activities			
Disposal of property, plant and equipment, intangibles and assets held for resale		14	10
Distribution from associates	26	32	38
Acquisition of property, plant and equipment, right of use assets and intangibles		(327)	(226)
Interest-bearing asset (payments)/receipts		(34)	9
Investment in associate	26	(12)	(8)
Investment in other entities		(4)	-
Net Cash Flow from Investing Activities		(331)	(177)
Cash Flows from Financing Activities			
Ordinary Shares issued	20	1,156	-
Redeemable Shares issued	26	600	-
Interest-bearing liabilities drawdowns		1,277	380
Rollover of foreign exchange contracts*		36	(184)
Redemption of Redeemable Shares	26	(400)	-
Equity settlements of staff share award obligations	20	(4)	-
Interest-bearing liabilities payments		(1,030)	(178)
Lease liabilities payments	16	(327)	(331)
Net Cash Flow from Financing Activities		1,308	(313)
Increase/(Decrease) in Cash and Cash Equivalents		1,527	(172)
Cash and cash equivalents at the beginning of the year		266	438
Cash and Cash Equivalents at the End of the Year	6	1,793	266

*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 2022

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 25 August 2022.

Impact of Covid-19

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

Liquidity was supported by cancelling a significant amount of non-essential spend and deferring capital expenditure. The Group applied for Covid-19 related tax relief by electing to carry back the 2020 financial year income tax loss and was granted a deferral of FBT and PAYE for the period 1 July 2020 to 30 September 2021. Under the arrangement the Group deferred $298 million of FBT and PAYE repayments (30 June 2021: $254 million). The FBT and PAYE liabilities arising during this period were repaid in January 2022 to March 2022.

In February and March 2022 the New Zealand Government made a series of announcements regarding the relaxation of travel restrictions into New Zealand which commenced from April and May 2022. Following these announcements, the airline experienced increased bookings for international travel which has resulted in stronger cash inflows from customer activity compared to the first six months of the 2022 financial year.

A debt funding arrangement with the New Zealand Government (CSF1 Loan Facility) was secured and amended in the prior year as the impact of the pandemic progressed, to support the future business operations. In December 2021, the airline announced a revised Crown support package, which gave the Group the ability to issue up to $1 billion of non-voting Redeemable Shares to the Crown and reduced the CSF1 Loan Facility from $1.5 billion to $1 billion, with an extended term to January 2026. The Group was able to call for the Crown to subscribe for up to $1 billion of Redeemable Shares once at least $850 million was drawn under the CSF1 Loan Facility. During the year, the Group made further draw downs of $500 million under the CSF1 Loan Facility (30 June 2021: $350 million).

On 30 March 2022 the Group announced a $2.2 billion recapitalisation package to help position the airline for recovery. The package included a pro rata renounceable Rights Offer to raise $1.2 billion of new Ordinary Shares as well as the issue of $600 million of Redeemable Shares to the Crown and a new committed unsecured 4 year Crown loan facility of $400 million.

The Rights Offer commenced on 6 April 2022 and the shares were allotted on 9 May 2022. It allowed eligible shareholders an opportunity to buy additional shares in the Group at a discount relative to the prevailing share price. Proceeds received from the capital raise were partly used to repay $850 million drawn down under the CSF1 Loan Facility. Upon repayment of all outstanding amounts under the CSF1 Loan Facility arrangement, the facility was cancelled.

On 7 April 2022 the Group issued to the Crown $150 million of Redeemable Shares and on 6 May 2022 a further $450 million (refer Note 26 for further details).

On 30 March 2022 a new unsecured committed revolving loan facility (CSF2 Loan Facility) was entered into with the Crown for up to $400 million for a period through to 30 January 2026 for the purpose of providing additional liquidity, if required, as the airline recovers from the effects of the pandemic. Further details are contained in Note 26. In addition, the Group issued unsecured, unsubordinated Australian Medium Term Notes on 25 May 2022. Australian Medium Term Notes of AUD$300 million have a maturity date of 25 May 2026 and AUD$250 million have a maturity date of 25 May 2029. Proceeds from the Australian Medium Term Notes were used to repay $400 million of Redeemable Shares. As at 30 June 2022, $200 million of Redeemable Shares remained on issue.

Given the completion of an equity capital raise, the issue of the Australian Medium Term Notes, the entering into the CSF2 Loan Facility with the Crown, and accessibility of additional debt funding, the Board has a reasonable expectation that the Group has sufficient liquidity to continue to operate for the foreseeable future. Therefore, a going concern basis has been adopted in the preparation of the financial statements.

STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

FOR THE YEAR TO 30 JUNE 2022

Basis of measurement

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

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	
Revenue in advance	Note 1	Revenue recognition and segmental information
	Note 14	Revenue in advance
Aircraft lease return provisions	Note 18	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
Taxation	Note 10	Taxation

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

Significant accounting policies

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

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

In April 2021, the International Financial Reporting Interpretations Committee ("IFRIC") issued an agenda decision on Configuration or Customisation Costs in a Cloud Computing Arrangement (IAS 38). This Interpretation clarifies the accounting treatment in respect of costs of configuring or customising a supplier's application software in a Software as a Service ("SaaS") arrangement. The interpretation has been applied retrospectively and comparative information within the financial statements restated accordingly. Further details are set out in Note 27.

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 External Reporting Board ('XRB') of New Zealand is currently developing reporting standards to support mandatory reporting on climate risks. The XRB intends to issue a climate-related disclosure framework: Aotearoa New Zealand Climate Standards with three Climate Standards being issued that set requirements for: Climate-related Disclosures; First-time adoption; and General Requirements for Disclosures. The disclosure areas are expected to be in line with the international Task Force on Climate-related Disclosures ('TCFD'), being Governance, Strategy, Risk Management and Metrics & Targets.

The XRB anticipates issuing standards by December 2022. The first climate statement required under these new standards is expected to be as at 30 June 2024, with mandatory assurance required on the Greenhouse Gas emissions included in the climate statements for the 2025 Annual Report. The Group currently prepares separate voluntary Climate-related Financial Disclosures that follow the principles outlined in the TCFD which do not form part of the Group 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.

STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

FOR THE YEAR TO 30 JUNE 2022

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.

Impairment

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

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR TO 30 JUNE 2022

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

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

Contract services revenue

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

Other revenue

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

Finance income

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

Cargo revenue – Government grants and assistance

	2022 $M	2021 $M
Cargo government grants and assistance:		
- New Zealand	370	321
- Other regions	33	12
Total cargo grants and assistance	403	333

The Group was awarded grants to supply international airfreight services by the New Zealand Government through the Ministry of Transport as part of its efforts to ensure the supply of critical imports and maintain economic benefits of high value New Zealand exports during the Covid-19 pandemic. The arrangement was for a period from 30 April 2020 through to 31 March 2023. The awards were negotiated on an arm's length basis using standard commercial terms. Conditions attached to the grants recognised in the Statement of Financial Performance have been satisfied as at balance date.

The Group was awarded from August 2020 to June 2022 contracts to provide international freight services on certain ports from Australia to the United States under the Australian Government International Freight Assistance Mechanism (IFAM). IFAM was intended to restore critical supply chains due to the impact of the global pandemic. Conditions attached to the award recognised in the Statement of Financial Performance have been satisfied as at balance date.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR TO 30 JUNE 2022

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.

	2022 $M	2021 $M
Analysis of revenue by geographical region of original sale		
New Zealand	2,031	2,033
Australia and Pacific Islands	221	153
Asia, United Kingdom and Europe	247	163
America	235	168
Total operating revenue	2,734	2,517

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:

	2022 $M	2021 $M
Superannuation expense	42	41
Audit and review of financial statements*	1	1

* In addition to fees paid for the audit and review of the financial statements of $1,422k (30 June 2021: $1,225k), other fees were paid for assurance engagements including the student fee protection audit of $5k (30 June 2021: $5k) and Greenhouse Gas inventory review of $20k (30 June 2021: Nil). The Group also paid $17k to Deloitte for administrative and other advisory services provided to the Corporate Taxpayers Group for which Air New Zealand, alongside a number of other organisations, is a member (30 June 2021: $17k). The prior financial year also included fees for a US Passenger Facility Charge audit of $22k.

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.

	2022 $M	2021 $M
Government grants and subsidies recognised in the Statement of Financial Performance include:		
Wage subsidies (recognised within 'Labour')		
- New Zealand	48	52
- Other regions	1	4
Total wage subsidies	49	56
Aviation support grant (recognised within 'Passenger services')	-	18
Aviation support grant (recognised within 'Aircraft operations')	-	40
Aviation support grant (recognised within 'Other expenses')	-	1
Total aviation support grant	-	59

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR TO 30 JUNE 2022

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.

	2022 $M	2021 $M
Foreign exchange (losses)/gains on uncovered interest-bearing liabilities and lease liabilities	(43)	143
Foreign exchange amounts transferred from the cash flow hedge reserve where the forecast transaction is no longer expected to occur	(13)	(18)
Aircraft impairment and lease modifications	(6)	(78)
Impairment of intangible asset	(24)	-
Reorganisation costs	1	(39)
Gain on sale of landing slots	-	21
	(85)	29

Foreign exchange (losses)/gains on uncovered interest-bearing liabilities and lease liabilities

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

Foreign exchange 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. As a result of Covid-19 there was a substantial decline in customer demand due to border closures and domestic travel restrictions. The airline significantly reduced operating capacity, affecting revenues and operating expenditure. A number 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 the Statement of Financial Performance.

Aircraft impairment and lease modifications

As a result of Covid-19 the Group significantly reduced its network capacity following border closures and international travel restrictions. Due to the severe impact that the pandemic had on global demand for international air travel in prior years, the Boeing 777-200ER fleet and one Boeing 777-300ER aircraft were grounded for an indefinite period into the future. The Group has since commenced a reactivation programme for the Boeing 777-300ER aircraft which re-entered service in August 2022. The impairment provision held in relation to the Boeing 777-300ER aircraft was reversed as at 30 June 2022.

The aircraft and other associated assets were assessed for impairment to determine the recoverable amount based on the fair value less costs to sell. Fair values were determined based on external market valuations. Net impairment expense of $4 million was recognised in the Statement of Financial Performance in relation to these aircraft (30 June 2021: $58 million). In the prior year ended 30 June 2021 losses arising on lease modifications of $5 million were recognised in respect of these aircraft. Further details are set out in Notes 10 and 11.

In prior years the Company exited from service the ATR72-500 fleet following a scheduled fleet replacement. As at 30 June 2021 five aircraft were classified as Held for Resale and were carried at the lower of their previous book value at the date of transfer or fair value less costs to sell. The aircraft were disposed or parted-out in the 2022 financial year. An impairment expense of $2 million was recognised during the year ended 30 June 2022 (30 June 2021: $15 million).

Impairment of intangible asset

The Group undertook, over a number of years, a software development project related to implementing an aircrew management system. During the 2022 financial year the Group ceased development of a software programme associated with turboprop-related aspects of the aircrew management system due to the high degree of complexity and expected delivery timeframes. The asset was fully written down with an impairment expense of $24 million recognised against the capital work in progress (within 'Intangible Assets').

Reorganisation costs

Due to the unprecedented impact of Covid-19 on the airline, a reorganisation programme was undertaken to realign the cost base. This resulted in a reduction in employee numbers in the prior year of over 4,000 staff, with redundancy costs being recognised over the period including within the year ended 30 June 2021. In the 2022 financial year redundancy provisions of $1 million were released following the recall of staff as a result of a recovery in customer demand.

Gain on sale of landing slots

The Group entered into an agreement to dispose of its London Heathrow slots following the announced withdrawal from the London-Los Angeles route. Proceeds from the sale were received in December 2019. The gain on sale of $21 million was recognised in the year ended 30 June 2021 upon formal transfer of the slots to the purchaser.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR TO AND AS AT 30 JUNE 2022

4. Taxation (continued)

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.

	2022 $M	2021 $M
Current taxation (expense)/credit		
Current year	(2)	33
	(2)	33
Deferred taxation credit		
Origination of temporary differences	29	(24)
Unused tax losses	192	114
	221	90
Total taxation credit recognised in earnings	219	123
Reconciliation of effective tax rate		
Loss before taxation	(810)	(415)
Taxation at 28%	227	116
Adjustments		
Non-deductible expenses	(4)	(1)
Non-taxable income	1	6
Equity settlements	-	(1)
Reinstatement of tax depreciation on buildings	-	3
Other	(5)	-
Taxation credit	219	123

The Group has $40 million of imputation credits as at 30 June 2022 (30 June 2021: $39 million).

Deferred taxation

Deferred tax assets and liabilities are attributable to the following:

	NON-AIRCRAFT ASSETS $M	AIRCRAFT RELATED $M	PROVISIONS AND ACCRUALS $M	FINANCIAL INSTRUMENTS $M	PENSION OBLIGATIONS $M	EQUITY SETTLEMENTS $M	UNUSED TAX LOSSES $M	TOTAL $M
As at 1 July 2020	7	289	(66)	(51)	(1)	-	(61)	117
Application of IFRIC interpretation	(2)	-	-	-	-	-	-	(2)
Restated as at 1 July 2020	5	289	(66)	(51)	(1)	-	(61)	115
Amounts recognised in Other Comprehensive Income	-	-	-	31	2	-	-	33
Amounts recognised in earnings	(9)	29	7	-	(1)	(2)	(114)	(90)
As at 30 June 2021	(4)	318	(59)	(20)	-	(2)	(175)	58
Amounts recognised in Other Comprehensive Income	-	-	-	-	(1)	-	-	(1)
Amounts recognised in earnings	(10)	(17)	(4)	-	-	2	(192)	(221)
As at 30 June 2022	(14)	301	(63)	(20)	(1)	-	(367)	(164)

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.

The Group is carrying forward $1,311 million of tax losses (30 June 2021: $625 million) that are available indefinitely for offsetting against future taxable income. A deferred tax asset of $367 million (30 June 2021: $175 million) has been recognised in respect of these losses as there are taxable temporary differences against which the tax losses can be offset. The Board considers it probable that there will be sufficient future taxable profits against which the carried forward tax losses can be utilised.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR TO AND AS AT 30 JUNE 2022

5. Earnings Per Share

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

	2022 $M	2021 $M
Earnings for the purpose of basic and diluted earnings per share:		
Net loss attributable to shareholders	(591)	(292)
Weighted average number of shares (in millions of shares)		
Weighted average number of Ordinary Shares for basic and diluted earnings per share	1,449	1,123
Basic and diluted earnings per share	(40.8)	(26.0)

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:

	2022 $M	2021 $M
Cash balances	73	44
Other short-term deposits and short-term bills	1,720	222
Total cash and cash equivalents	1,793	266
Reconciliation of Net Loss Attributable to Shareholders to Net Cash Flows from Operating Activities:		
Net loss attributable to shareholders	(591)	(292)
Plus/(less) non-cash items:		
Depreciation and amortisation	668	715
Loss on disposal of property, plant and equipment, intangibles and assets held for resale	11	12
Impairment expense on property, plant and equipment, right of use assets and assets held for resale	30	73
Share of earnings of associates	(27)	(19)
Movement on fuel derivatives	(10)	(21)
Foreign exchange losses/(gains) on uncovered interest-bearing liabilities and lease liabilities	43	(143)
Amounts transferred from the cash flow hedge reserve where the forecast transaction is no longer expected to occur	13	18
Foreign exchange losses	8	3
Other non-cash items	13	6
	158	352
Net working capital movements:		
Assets	(52)	98
Revenue in advance	662	(127)
Liabilities	(218)	(5)
	392	(34)
Net cash flow from operating activities	550	318

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

AS AT 30 JUNE 2022

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.

	2022 $M	2021 $M
Current		
Trade and other receivables	313	192
Prepayments	50	60
	363	252
Non-current		
Other receivables	-	39
Prepayments	36	53
	36	92

Expected credit loss provisions of $4 million were recognised as at 30 June 2022 (30 June 2021: $4 million).

8. Inventories

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

	2022 $M	2021 $M
Engineering expendables	81	73
Consumable stores	17	19
	98	92
Held at cost	83	78
Held initially at cost	73	74
Less provision for inventory obsolescence	(58)	(60)
Held at net realisable value	15	14
	98	92

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

AS AT 30 JUNE 2022

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.

Carbon credits
Carbon credit units are intangible in nature and stated at cost less accumulated impairment losses. Carbon credits are based on a first-in, first-out cost method.

	2022 $M	2021 $M
Current		
Contract work in progress	40	74
Assets held for resale	13	48
Carbon credits	21	13
Other assets (including defined benefit assets)	4	2
	78	137
Non-current		
Interest-bearing assets	360	324
Carbon credits	27	11
Other assets	5	7
	392	342

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. In the prior year the Group exited from service four Boeing 777-200ER aircraft, three spare engines and other associated assets which were not expected to return to operation in the Air New Zealand fleet. The market values were obtained from an external valuer which equated to level 2 on the fair value hierarchy. Key inputs into the external valuations included economic factors, the age and manufacture type of the aircraft and engines and the maintenance condition of the aircraft.

In the 2020 financial year the Group exited from service the ATR72-500 fleet following a scheduled replacement. As at 30 June 2021 five aircraft were being marketed for sale. The aircraft were disposed or parted-out during the 2022 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 2022 were between 0.04% and 3.60% per annum (30 June 2021: 0.01% to 3.60% per annum). The fair value of interest-bearing assets as at 30 June 2022 was $373 million (30 June 2021: $361 million).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

AS AT 30 JUNE 2022

10. Property, Plant and Equipment

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

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

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

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

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

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

	AIRFRAMES, ENGINES AND SIMULATORS $M	SPARES $M	PLANT AND EQUIPMENT $M	LAND AND BUILDINGS $M	CAPITAL WORK IN PROGRESS $M	TOTAL $M
2022						
Carrying value as at 1 July 2021	2,639	73	130	210	76	3,128
Additions	193	26	1	10	48	278
Disposals	(1)	(10)	-	-	-	(11)
Depreciation	(259)	(8)	(30)	(33)	-	(330)
Impairment reversal/(expense)	2	-	-	-	(1)	1
Transfers of capital work in progress	22	-	12	10	(44)	-
Transfers from right of use assets	124	-	-	-	-	124
Carrying value as at 30 June 2022	2,720	81	113	197	79	3,190
Represented by:						
Cost	4,403	156	502	550	79	5,690
Accumulated depreciation	(1,680)	(75)	(389)	(341)	-	(2,485)
Provision for impairment	(3)	-	-	(12)	-	(15)
Carrying value as at 30 June 2022	2,720	81	113	197	79	3,190

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

AS AT 30 JUNE 2022

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

	2022 $M	2021 $M
Airframes, engines and simulators comprise:		
Owned airframes, engines and simulators	2,490	2,405
Progress payments	230	234
	2,720	2,639
Land and buildings comprise:		
Leasehold properties	185	196
Freehold properties	12	14
	197	210

Certain aircraft and aircraft related assets with a carrying value of $1,665 million as at 30 June 2022 are pledged as specific security over secured borrowings (30 June 2021: $2,166 million). In the year ended 30 June 2021 all other assets were pledged as general security under a loan facility provided by the New Zealand Government. The security was released upon repayment and cancellation of the facility in the year ended 30 June 2022.

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Impairment

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

Fleet

Given the severity of the Covid-19 pandemic on long-haul travel the Group grounded its Boeing 777 fleets. As at 30 June 2022 the Boeing 777-200ER fleet was not expected to return to service for Air New Zealand. In the prior financial year, the Boeing 777-200ER fleet as well as one leased Boeing 777-300ER aircraft were not expected to return to service. At the end of the 2022 financial year the Group commenced reactivation of the leased Boeing 777-300ER aircraft.

The Boeing 777-200ER owned aircraft, spare engines and associated assets were transferred to 'Assets held for resale' (within 'Other Assets') in the 2021 financial year and were carried at the lower of their fair value less costs to sell and their previous carrying value. Prior to their transfer to 'Assets held for resale' an impairment expense of $11 million was recognised against these assets with a further $5 million of impairment recognised against aircraft interiors on leased aircraft. An impairment provision of $3 million was held against aircraft interiors on leased aircraft as at 30 June 2022 (30 June 2021: $5 million).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

AS AT 30 JUNE 2022

10. Property, Plant and Equipment (continued)

The carrying value of all other assets (including the Boeing 777-300ER fleet) were tested for impairment as part of the airline network cash generating unit, using a value-in-use discounted cash flow model. Cash flow projections were developed for a 10-year period, on the basis of detailed shorter-term forecasts which incorporate recovery towards pre-Covid-19 capacity, followed by extrapolation at a growth rate of 2.00% per annum from the 2027 financial year (30 June 2021: 1.75% per annum from the 2026 financial year).

Cash flow projections used in the discounted cash flow models reflect the Board's and management's current view of network growth following the impact of the pandemic. The projections incorporated key inputs and assumptions including the recovery of passenger demand for domestic and international travel. Following the removal of border and travel restrictions towards the end of the 2022 financial year, and based on positive levels of customer demand observed to date, the airline's passenger network has been assumed to progressively ramp up in the 2023 financial year, nearing pre-Covid levels by the 2024 financial year. Cash flow projections also included the Group's expectations for expected fleet usage, network operations and investment profile.

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

In assessing the cash flow projections, the Board has considered a number of sensitivities. The factors driving the largest sensitivities within the overall model were terminal values and discount rates, and within the detailed projection period to the 2027 financial year were RASK and fuel price. Consideration has been given to historical performance and the previous Board approved 5-year plans, particularly when assessing the reasonableness of cash flows towards the end of the projected period and terminal year growth assumptions.

The majority of the enterprise value within the value-in-use model is derived from the terminal value as opposed to short-term detailed cashflow projections to the 2027 financial year. Potential short-term variances in the Group's cashflow projections, while impacting the measurement of the recoverable amount, does not materially impact the headroom identified.

The cash flow projections are discounted using a pre-tax rate of 12.6% (30 June 2021: 10.7%) which reflected a market estimate of the weighted average cost of capital for the Group with sensitivities performed within the range of 11.6% to 13.9% (30 June 2021: 9.5% to 11.9%). This pre-tax weighted average cost of capital equated to a post tax rate of 10.00% (30 June 2021: 8.75%).

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 Director's current assessment of the Group's future operations.

Land and buildings

Air New Zealand Gas Turbines (ANZGT) provides overhaul services to aero derivative engines that are applied to energy production and marine industries. In prior years a down turn in the market resulted in a decline in activity and profitability of the business. Impairment provisions of $12 million were recognised against the land and building assets of the business in previous years. During the year ended 30 June 2022 the assets were assessed for impairment based on a value-in-use discounted cash flow valuation. Cash flow projections were sourced from the 2023 financial year plan. The Group intends to cease operations of ANZGT from 30 June 2023. 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 10% discount rate (30 June 2021: 9%). Discounted cashflow valuation supported the carrying value of the assets.

Residual values and useful lives

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 2022 the residual values of the aircraft were reassessed and depreciation expense was decreased by $6 million (30 June 2021: increased by $9 million).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

AS AT 30 JUNE 2022

11. Right of Use Assets

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

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

	AIRFRAME AND ENGINES WITH PURCHASE OPTION* $M	AIRFRAME AND ENGINES WITH NO PURCHASE OPTION $M	LAND AND BUILDINGS $M	TOTAL $M
2022				
Carrying value as at 1 July 2021	1,284	437	268	1,989
Additions	-	5	25	30
Disposals	-	-	(2)	(2)
Depreciation	(137)	(105)	(49)	(291)
Impairment reversal	-	15	-	15
Transfers to property, plant and equipment	(124)	-	-	(124)
Carrying value as at 30 June 2022	1,023	352	242	1,617
Represented by:				
Cost	2,000	806	382	3,188
Accumulated depreciation	(977)	(387)	(140)	(1,504)
Provision for impairment	-	(67)	-	(67)
Carrying value as at 30 June 2022	1,023	352	242	1,617
2021				
Cost	2,263	843	356	3,462
Accumulated depreciation	(838)	(170)	(49)	(1,057)
Provision for impairment	-	(48)	-	(48)
Carrying value as at 1 July 2020	1,425	625	307	2,357
Additions	7	30	15	52
Disposals	-	(42)	(4)	(46)
Depreciation	(168)	(134)	(50)	(352)
Impairment expense	-	(42)	-	(42)
Transfers from property, plant and equipment	20	-	-	20
Carrying value as at 30 June 2021	1,284	437	268	1,989
Represented by:				
Cost	2,283	821	361	3,465
Accumulated depreciation	(999)	(295)	(93)	(1,387)
Provision for impairment	-	(89)	-	(89)
Carrying value as at 30 June 2021	1,284	437	268	1,989

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

Certain aircraft and aircraft related assets with a carrying value of $990 million as at 30 June 2022 (30 June 2021: $1,243 million) are pledged as security over lease liabilities.

Impairment
As detailed in Note 10, the severity of the impact of the Covid-19 pandemic resulted in the grounding of the Boeing 777-200ER fleet and one Boeing 777-300ER aircraft. In the prior year, five of these aircraft were leased aircraft which were put into long-term storage for an indefinite period of time. During the 2022 financial year one aircraft was returned to the lessor and another, a Boeing 777-300ER aircraft, commenced a reactivation programme to return to service. As it is unlikely that the remaining three aircraft will be required for use prior to the lease return date the right of use assets have been fully impaired, with a provision for impairment of $67 million remaining as at balance date (30 June 2021: $89 million). An impairment provision reversal of $15 million was recognised as at 30 June 2022 for the Boeing 777-300ER aircraft which returned to service in August 2022. An impairment expense of $42 million was recognised in the Statement of Financial Performance in relation to these assets in the 2021 financial year.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

AS AT 30 JUNE 2022

11. Right of Use Assets (continued)

All other right of use assets (including Boeing 777-300ER aircraft) 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 and useful lives

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 2022 the residual values of the aircraft were reassessed and depreciation expense was decreased by $7 million (30 June 2021: increased by $7 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. Cloud based software as a service arrangements are recognised as an asset where the Group has the right to use and the ability to control and obtain future economic benefits. These assets have a finite life and are amortised on a straight-line basis over their estimated useful lives of two to ten years.

	INTERNALLY DEVELOPED SOFTWARE $M	EXTERNALLY PURCHASED SOFTWARE $M	CAPITAL WORK IN PROGRESS $M	OTHER $M	TOTAL $M
2022					
Restated carrying value as at 1 July 2021	136	2	30	1	169
Additions	-	-	50	-	50
Disposals	(1)	-	-	-	(1)
Amortisation	(46)	(1)	-	-	(47)
Impairment expense	-	-	(24)	-	(24)
Transfers of capital work in progress	29	-	(29)	-	-
Carrying value as at 30 June 2022	118	1	27	1	147
Represented by:					
Cost	524	151	27	1	703
Accumulated depreciation	(406)	(150)	-	-	(556)
Carrying value as at 30 June 2022	118	1	27	1	147
2021					
Cost	476	154	29	1	660
Accumulated depreciation	(323)	(151)	-	-	(474)
Carrying value as at 1 July 2020	153	3	29	1	186
Restatement for IFRIC agenda decision (refer note 27):					
Cost	(7)		(2)	-	(9)
Accumulated depreciation	3		-	-	3
Restated carrying value as at 1 July 2020	149	3	27	1	180
Additions	-	-	38	-	38
Disposals	(1)	-	-	-	(1)
Amortisation	(47)	(1)	-	-	(48)
Transfers of capital work in progress	35	-	(35)	-	-
Restated carrying value as at 30 June 2021	136	2	30	1	169
Represented by:					
Cost	502	153	30	1	686
Accumulated depreciation	(366)	(151)	-	-	(517)
Restated carrying value as at 30 June 2021	136	2	30	1	169

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR TO AND AS AT 30 JUNE 2022

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.

	2022 $M	2021 $M
Investments in associates	158	137
Investments in other entities	6	1
	164	138

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.

Associates and Joint Ventures

Significant associates and joint ventures comprise:

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

* The Group committed to investing capital of up to $25 million in Drylandcarbon One Limited Partnership. As at 30 June 2022 $25 million had been invested (30 June 2021: $13 million).

Summary financial information of associates

	CEC 2022 $M	DRYLAND 2022 $M	TOTAL 2022 $M	CEC 2021 $M	DRYLAND 2021 $M	TOTAL 2021 $M
Assets and liabilities of associates are as follows:						
Current assets	374	23	397	306	13	319
Non-current assets	54	105	159	48	49	97
Current liabilities	(127)	(13)	(140)	(75)	(2)	(77)
Non-current liabilities	(27)	-	(27)	(25)	-	(25)
Net identifiable assets	274	115	389	254	60	314
Group share of net identifiable assets	134	24	158	125	12	137
Carrying value of investment in associates	134	24	158	125	12	137

Results of associates						
Revenue	877	3	880	611	-	611
Earnings after taxation	56	(1)	55	40	(2)	38
Total comprehensive income	56	(1)	55	40	(2)	38
Group share of net earnings after taxation	27	-	27	19	-	19
Group share of total comprehensive income	27	-	27	19	-	19

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

AS AT 30 JUNE 2022

14. Revenue in Advance

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

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

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

Transportation sales in advance
As a result of the impact that Covid-19 has had on international border closures and domestic travel restrictions the Group's airline operating schedule was severely impacted resulting in a significant number of flight reschedules and cancellations. Passenger ticket sales which are no longer assigned to a specific scheduled service are held in credit and are available to be assigned to a specific flight. The carriage will be performed within 12 months of assignment. Estimates have been applied to the expected availment profile of the credits in determining the term allocation of the liability. Key judgements included assumptions around recovery of passenger demand, forecasted operating capacity and revenue per available seat kilometre. Following the New Zealand Government making a series of announcements on the relaxation of travel restrictions into New Zealand which commenced from April and May 2022 the Group experienced increased bookings for international travel resulting in an increase in Transportation sales in advance as at 30 June 2022.

Loyalty Programme
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 and changes in customer behaviour (including the mix of air and non-air redemptions). For the year ended 30 June 2022 it is expected that loyalty balances will be redeemed within two years (30 June 2021: two to three years).

	2022 $M	2021 $M
Current		
Transportation sales in advance	1,422	494
Loyalty programme	194	175
Other	19	20
	1,635	689
Non-current		
Transportation sales in advance	21	279
Loyalty programme	195	221
Other	3	3
	219	503

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

AS AT 30 JUNE 2022

15. Interest-Bearing Liabilities

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

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

	2022 $M	2021 $M
Current		
Secured borrowings	198	174
Secured borrowings – New Zealand Government	-	350
Unsecured bonds	50	-
	248	524
Non-current		
Secured borrowings	987	973
Australian medium term notes	608	-
Unsecured bonds	-	50
	1,595	1,023
Interest rates basis:		
Fixed rate	732	144
Floating rate	1,111	1,403
At amortised cost	1,843	1,547
At fair value	1,852	1,534

Non-cash movements in interest-bearing liabilities during the year ended 30 June 2022 included foreign exchange losses of $49 million (30 June 2021: gains of $118 million).

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

Secured borrowings with third parties are secured over aircraft and are subject to both fixed and floating interest rates. Fixed interest rates were 1.0% per annum (30 June 2021: 1.0% per annum).

Secured borrowings with the New Zealand Government (CSF1 Loan Facility) were secured against specific aircraft assets and a general security interest held against other assets of the Group. The facility was subject to interest rates between 3.8% to 4.9% per annum (30 June 2021: 3.8% to 7.3% per annum). In May 2022 upon completion of a Rights Offer the CSF1 Loan Facility was fully repaid and cancelled (refer Note 26). A new unsecured committed revolving standby facility (CSF2 loan Facility) was entered into with the Crown on 30 March 2022. Under the arrangement the Group has the ability to draw down up to $400 million for a period through to 30 January 2026.

On 25 May 2022 the Group issued AUD$550 million of unsecured, unsubordinated Australian medium term notes in two tranches. The first tranche, of AUD$300 million, was a 4-year fixed rate note maturing on 25 May 2026 with a fixed coupon of 5.7% per annum payable semi-annually. The second tranche, of AUD$250 million, was a 7-year fixed rate bonds maturing on 25 May 2029 with a fixed coupon of 6.5% per annum payable semi-annually.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

AS AT 30 JUNE 2022

16. Lease Liabilities

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

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

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

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

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

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

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

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

The Group adopted the requirements of Covid-19-Related Rent Concessions with effect from 1 July 2019 which allows lessees not to assess whether particular Covid-related rent concessions are lease modifications. During the year, amounts of $1 million (30 June 2021: $3 million) were recognised within 'Other revenue' with respect to Covid-19 related rent concessions.

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

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

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

Leasing activities

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

AS AT 30 JUNE 2022

16. Lease Liabilities (continued)

Sale and leasebacks

During the 2020 financial year, four owned Airbus A320 aircraft were sold and leased back. 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 $4 million (30 June 2021: $10 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 and provided certainty to the Group of the residual proceeds. No such transactions were entered into in the current year.

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

	AIRFRAME AND ENGINE LEASES WITH PURCHASE OPTION* $M	AIRFRAME AND ENGINE LEASES WITH NO PURCHASE OPTION $M	BUILDING LEASES WITH NO PURCHASE OPTION $M	TOTAL $M
2022				
Carrying value as at 1 July 2021	989	491	281	1,761
Additions	-	4	21	25
Interest cost	-	9	10	19
Capitalised interest	7	-	-	7
Repayments**	(138)	(153)	(55)	(346)
Terminations	-	-	(2)	(2)
Foreign currency movements	11	48	2	61
Carrying value as at 30 June 2022	869	399	257	1,525
Represented by:				
Current	169	131	42	342
Non-current	700	268	215	1,183
Carrying value as at 30 June 2022	869	399	257	1,525
2021				
Carrying value as at 1 July 2020	1,223	694	321	2,238
Additions	-	29	13	42
Interest cost	-	12	11	23
Capitalised interest	7	-	-	7
Repayments**	(146)	(150)	(58)	(354)
Terminations	-	(36)	(4)	(40)
Foreign currency movements	(95)	(58)	(2)	(155)
Carrying value as at 30 June 2021	989	491	281	1,761
Represented by:				
Current	205	138	40	383
Non-current	784	353	241	1,378
Carrying value as at 30 June 2021	989	491	281	1,761

	2022 $M	2021 $M
Interest rates basis:		
Fixed rate	1,013	1,161
Floating rate	512	600
At amortised cost	1,525	1,761

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

** The principal amount of $327 million (30 June 2021: $331 million) is presented in the Statement of Cash Flows within 'Financing Activities', and interest payments of $19 million (30 June 2021: $23 million) are presented in 'Operating Activities'.

Lease liabilities with purchase options which are reasonably certain of being exercised are secured over aircraft and are subject to both fixed and floating interest rates. Fixed interest rates ranged from 0.5% to 3.6% per annum (30 June 2021: 0.5% to 3.6% per annum). The weighted average discount rates used for leases which have no purchase option, or one which is not likely to be exercised, is 2.9% per annum (30 June 2021: 2.8% per annum).

	2022 $M	2021 $M
Amounts recognised in earnings (within 'Other expenses')		
Expenses relating to short-term leases	4	3
Expenses relating to variable lease payments, not included in the measurement of lease liabilities	3	4
	7	7

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

AS AT 30 JUNE 2022

17. Redeemable Shares

Redeemable shares 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.

	2022 $M	2021 $M
Non-current:		
Redeemable shares	200	-
At amortised cost	200	-
At fair value	217	-

Redeemable Shares issued to the New Zealand Government in the second half of the year ended 30 June 2022 are redeemable at the option of the Company, in part or in full, at any time with 20 days' written notice with an unconditional right to defer redemption until the scheduled redemption date of 14 December 2046. Dividends are payable quarterly in arrears and accrued at the rate of 5.2% per annum. The Company may elect to defer the payment of dividends, in which case they accrue on a cumulative compound basis to the next payment date. Further details are provided in Note 26.

18. 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 2021	275	15	9	299
Amount provided	28	4	6	38
Amount utilised and released	(64)	(11)	(2)	(77)
Foreign exchange movement	27	-	-	27
Balance as at 30 June 2022	266	8	13	287
Represented by:				
Current	160	7	2	169
Non-current	106	1	11	118
Balance as at 30 June 2022	266	8	13	287

Nature and purpose of provisions

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

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

Other
Other provisions include insurance provisions and make good provisions. Insurance provisions are expected to be utilised within 12 months and are based on historical claim experience. Make good provisions are based on cost estimates provided by third-party suppliers and are expected to be utilised within three years (30 June 2021: two years).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

AS AT 30 JUNE 2022

19. 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 benefit 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.

	2022 $M	2021 $M
Current		
Employee entitlements	206	153
Amounts owing to associates	-	1
Other liabilities (including defined benefit liabilities)	9	10
	215	164
Non-current		
Employee entitlements	14	13
Other liabilities	14	17
	28	30

The Group operates one defined benefit plan for qualifying employees in New Zealand and in the prior year operated one scheme for overseas employees. The New Zealand plan is closed to new members and the overseas plan was closed on 1 July 2021 with the scheme assets transferred to a defined contribution scheme. Defined benefit 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. A net liability was recognised within 'Other liabilities' of $3 million (30 June 2021: net asset of $1 million recognised within 'Other assets'). The current service cost recognised through earnings was $1 million (30 June 2021: $1 million).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

AS AT 30 JUNE 2022

20. Share Capital

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

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

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

	2022 $M	2021 $M
Share Capital comprises:		
Authorised, issued and fully paid in capital	3,349	2,197
Equity-settled share-based payments (net of taxation)	24	16
	3,373	2,213

	2022 $M	2021 $M
Balance at the beginning of the year	2,213	2,209
Shares issued (net of transaction costs)	1,156	-
Equity settlements of staff share award obligations*	(4)	-
Equity-settled share-based payments	8	4
Balance at the end of the year	3,373	2,213

* During the year ended 30 June 2022 the Group funded the purchase on-market of 2,279,412 shares (30 June 2021: Nil). The shares were used to settle obligations under a staff share award.

	2022	2021
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
Shares issued	2,245,620,088	-
Balance at the end of the year**	3,368,464,315	1,122,844,227

** Includes treasury stock of 34,183 shares (30 June 2021: 34,183 shares).

Ordinary Shares
On 6 April 2022 the Group launched a $1.2 billion pro rata renounceable rights offer to eligible shareholders at a ratio of 2 for 1. The offer price on the new shares was NZD$0.53 and AUD$0.49. The new Ordinary Shares were alloted on 9 May 2022. Transaction costs of $36 million were recognised against the share issue.

Restrictions on dividend declarations on Ordinary Shares
The Group is restricted from paying dividends on its Ordinary Shares if at any time there are any amounts drawn under a New Zealand Government unsecured committed revolving standby facility (CSF2 Loan Facility) or while a dividend on Redeemable Shares has been deferred. As at 30 June 2022, the Group has not drawn any amounts under the CSF2 Loan Facility or deferred any dividends on Redeemable 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 2022 financial year (30 June 2021: Nil). Total treasury stock held as at 30 June 2022 is 34,090 shares (30 June 2021: 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 2022 was 93 (30 June 2021: 93).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

AS AT 30 JUNE 2022

20. Share Capital (continued)

Share-Based Payments

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

Total expenses recognised in the year ended 30 June 2022 in respect of equity-settled share-based payment transactions related to performance share rights was $3 million (30 June 2021: $4 million). An additional $5 million of expense was recognised in relation to a 'Thank You' staff share award and an Exceptional Contributor incentive scheme in the 2022 financial year (30 June 2021: Nil)

Performance share rights
Performance share rights have been offered to a number of senior executives on attainment of predetermined performance objectives.

	PERFORMANCE SHARE RIGHTS 2022	PERFORMANCE SHARE RIGHTS 2021
Number outstanding		
Outstanding at beginning of the year	11,977,616	9,898,958
Granted during year	5,276,405	5,839,208
Forfeited during year	(4,832,103)	(3,760,550)
Outstanding at the end of the year	12,421,918	11,977,616
Fair value of rights granted in year ($M)	5.0	4.9
Unamortised grant date fair value ($M)	5.2	5.7

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. 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 (%)
2022	155	37	16	0.59	3.5	1.34	0.0
2021	135	40	16	0.55	3.5	0.31	0.0
2020	280	23	12	0.34	3.5	0.84	7.7
2019	319	25	11	0.51	3.5	1.70	6.6
2018	348	30	13	0.53	3.5	2.02	5.8

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).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

AS AT 30 JUNE 2022

21. Reserves

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

	2022 $M	2021 $M
Cash flow hedge reserve	(38)	(49)
Costs of hedging reserve	(4)	-
Hedge reserves	(42)	(49)
Foreign currency translation reserve	(10)	(17)
General reserves	(1,644)	(1,049)
Total Reserves	(1,696)	(1,115)

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 both the fair value of time value on fuel options and currency basis on cross currency interest rate swaps which are excluded from hedge designations.

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

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

22. Commitments

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

	2022 $M	2021 $M
Capital commitments:		
Aircraft and engines	2,815	2,568
Other property, plant and equipment and intangible assets	18	21
	2,833	2,589

In August 2021 the Group deferred one Boeing 787 aircraft from the 2024 financial year to the 2026 financial year, and in September 2021 deferred two A321 NEO aircraft from August 2023 and September 2023 to the third quarter of the 2026 calendar year. Three A321 NEO aircraft due to arrive from the end of the 2022 financial year have been delayed resulting in an aircraft delivery moving from the 2022 to the 2023 financial year.

Capital commitments as at reporting date include eight Boeing 787 aircraft (contractual delivery from 2024 to 2028 financial years) and seven Airbus A321 NEOs (delivery from 2023 to 2027 financial years).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

AS AT 30 JUNE 2022

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.

	2022 $M	2021 $M
Letters of credit	20	22

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

There are no other significant contingent liability claims 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 $154 million (30 June 2021: $100 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.

CREDIT RISK

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

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

Credit evaluations are performed on all customers requiring direct credit. The Group is not exposed to any concentrations of credit risk within receivables, other assets and derivatives. This remains unchanged despite the current economic environment. The Group does not require collateral or other security to support financial instruments with credit risk. A significant proportion of receivables are settled through the International Air Transport Association (IATA) clearing mechanism which undertakes its own credit review of members. Over 93% of trade and other receivables are current, with less than 1.2% past due by more than 90 days (30 June 2021: 93% current and less than 1.1% 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 2021: 35% to 90%) of forecast net operating cash flows for the first 6 months, with progressive reductions in percentages hedged over the next 6 to 12 months. Forward points are excluded from the hedge designation in respect of operating revenue and expenditure transactions and are marked to market through earnings. The underlying forecast revenue and expenditure transactions in respect of foreign currency cash flow hedges in place at reporting date, are expected to occur over the next 12 months.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

AS AT 30 JUNE 2022

24. Financial Risk Management (continued)

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 in the 2020 financial year. Where the forecast transactions are no longer expected to occur, the related cumulative gains or losses were transferred from the cash flow hedge reserve to earnings. The remaining cumulative gains or losses will be transferred to earnings as the underlying forecast transactions occur. Since March 2020, the debt and lease liabilities previously designated in these hedge relationships have remained largely unhedged with foreign currency gains or losses arising on those instruments being recognised in earnings.

Currency exposure arising on Australian Dollar denominated Medium Term Notes is hedged using cross currency interest rate swaps in qualifying cash flow hedges.

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

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

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

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

	NZD $M	USD $M	AUD $M	EUR $M	JPY $M	OTHER $M	TOTAL $M
As at 30 June 2022							
Investments in other entities	35	129	-	-	-	-	164
Interest-bearing assets	183	-	36	141	-	-	360
Lease liabilities	(265)	(781)	(14)	(173)	(291)	(1)	(1,525)
Interest-bearing liabilities	(50)	(741)	(608)	(115)	(329)	-	(1,843)
Provisions	(29)	(258)	-	-	-	-	(287)
	(126)	(1,651)	(586)	(147)	(620)	(1)	(3,131)
Hedged by:							
Derivatives	-	943	586	72	283	-	1,884
Unhedged*	(126)	(708)	-	(75)	(337)	(1)	(1,247)
As at 30 June 2021							
Investments in other entities	13	125	-	-	-	-	138
Interest-bearing assets	126	24	35	139	-	-	324
Lease liabilities	(279)	(877)	(18)	(175)	(411)	(1)	(1,761)
Interest-bearing liabilities	(400)	(592)	-	(141)	(414)	-	(1,547)
Provisions	(46)	(253)	-	-	-	-	(299)
	(586)	(1,573)	17	(177)	(825)	(1)	(3,145)
Hedged by:							
Derivatives	-	672	(17)	87	388	-	1,130
Unhedged*	(586)	(901)	-	(90)	(437)	(1)	(2,015)

* 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

AS AT 30 JUNE 2022

24. Financial Risk Management (continued)

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.

Impact of hedging foreign currency risk

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

CASH FLOW HEDGES OF FOREIGN CURRENCY RISK

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

The following foreign currency derivatives were recognised within 'Derivative financial instruments' on the Statement of Financial Position as at reporting date. Where forecast operating revenue and expenditure transactions are considered highly probable, the derivatives are designated as the hedging instrument in qualifying cash flow hedges of such forecast transactions. Where hedge relationships have been de-designated, the change in the fair value of the derivatives affected is recognised in earnings through 'Foreign exchange losses'. All derivatives mature within 12 months (30 June 2021: 12 months).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

AS AT 30 JUNE 2022

24. Financial Risk Management (continued)

	2022 NZ$M	2021 NZ$M
Hedging instruments used		
Derivative financial instruments		
NZD	(305)	(107)
USD	544	233
AUD	(102)	(73)
EUR	(15)	(2)
JPY	(9)	(7)
CNH	(31)	(23)
GBP	(12)	(5)
Other	(41)	(16)
Hedge accounted foreign currency derivatives	29	-

In addition, cross currency interest rate swaps were recognised within 'Derivative financial instruments' on the Statement of Financial Position as at reporting date and were designated in qualifying cash flows hedges of foreign currency risk arising on future principal and interest settlements on Australian Dollar denominated Medium Term Notes. Currency basis risk 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. The volume hedged, together with contract rates and maturities are set out below:

	2022 NZ$M	2021 NZ$M
Net fair value of derivative financial liabilities (NZ$M)	(17)	-
Volume (AUD M)	550	-
Weighted average contract rate (%)	6.1	-
Weighted average contract maturities (years)	5.3	-

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.

	2022 NZ$M	2021 NZ$M
Recognised in Statement of Changes in Equity		
Hedge reserves		
Balance at the beginning of the year	(84)	(97)
Change in fair value*	13	(23)
Transfers to foreign exchange losses	-	23
Transfers to foreign exchange gains on de-designation	12	18
Changes in costs of hedging reserve	(1)	-
Taxation on reserve movements	(7)	(5)
Balance at the end of the year	(67)	(84)
Represented by:		
Forecast operating revenue/expense	(73)	(115)
Future principal and interest settlements	(18)	-
Tax effect	24	31
Balance at the end of the year	(67)	(84)

* The change in fair value of the hedging instrument is used for the purpose of assessing hedge effectiveness. No ineffectiveness arose on cash flow hedges of foreign currency transactions during the year (30 June 2021: Nil). Forward points and currency basis excluded from the hedge designation were $2 million and $1 million respectively during the year (30 June 2021: Nil).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

AS AT 30 JUNE 2022

24. Financial Risk Management (continued)

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

	2022	2021
USD	0.6679	0.6997
AUD	0.9555	0.9247
EUR	0.6020	0.5907
JPY	84.89	75.74
CNH	4.41	4.60
GBP	0.5149	0.5157

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'.

	2022 NZ$M	2021 NZ$M
Hedged amount of United States Dollar investment	113	113
Hedged by: United States Dollar interest-bearing liabilities	(113)	(113)

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.

	2022 NZ$M	2021 NZ$M
Foreign currency translation reserve		
Balance at the beginning of the year	(17)	(11)
Translation gains on hedged investment**	12	(10)
Translation losses on hedging instrument**	(12)	10
Translation gains on unhedged investments	3	(3)
Taxation on reserve movements	4	(3)
Balance at the end of the year	(10)	(17)

** 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 2021: Nil).

HEDGED, BUT NOT HEDGE ACCOUNTED

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

	2022 $M	2021 $M
Hedging instruments		
Derivative financial instruments		
NZD	(1,242)	(1,135)
USD	930	687
AUD	(22)	(15)
EUR	72	87
JPY	284	389
Not hedge accounted foreign currency derivatives	22	13

The changes in fair value of hedged items and hedging instruments during the year offset within 'Foreign exchange losses' within the Statement of Financial Performance, as set out below. In addition, foreign exchange losses of $43 million (30 June 2021: $143 million gains) 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.

	2022 $M	2021 $M
Foreign currency (losses)/gains on:		
Lease liabilities	(11)	17
Interest-bearing liabilities	(21)	83
Provisions	(27)	21
Interest-bearing assets	(1)	-
Derivative financial instruments	64	(123)
	4	(2)

Forward points on non-hedge accounted foreign currency derivatives of $9 million were recognised in 'Finance costs' during the year (30 June 2021: $3 million).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

AS AT 30 JUNE 2022

24. Financial Risk Management (continued)

Sensitivity analysis

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

Foreign currency sensitivity on financial instruments

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

Appreciation/depreciation (US cents):	2022 NZ$M +5c	2022 NZ$M -5c	2021 NZ$M +5c	2021 NZ$M -5c
Impact on loss before taxation:				
USD	54	(64)	60	(69)
EUR	6	(7)	6	(7)
JPY	25	(29)	29	(34)

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

Impact on equity:				
USD	(46)	54	(20)	23
AUD	8	(9)	5	(6)
EUR	1	(1)	-	-
JPY	1	(1)	-	(1)
CNH	2	(3)	2	(2)
GBP	1	(1)	-	-
Other	3	(3)	1	(1)

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

	2022	2021
Significant foreign exchange rates used at balance date for one New Zealand Dollar are:		
USD	0.6220	0.6990
AUD	0.9040	0.9310
CNY	4.17	4.52
EUR	0.5960	0.5870
JPY	84.90	77.30
GBP	0.5130	0.5050

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

AS AT 30 JUNE 2022

24. Financial Risk Management (continued)

FUEL PRICE RISK

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

The Group enters into fuel swap and option agreements to reduce the impact of price changes on fuel costs in accordance with the policy approved by the Board of Directors. Uplift in the first six months is hedged between 35% and 90% (30 June 2021: first six months is hedged between 35% to 90%) with progressive reductions in percentages hedged over the next 6 to 12 months.

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

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

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

Impact of hedging fuel price risk

Weighted average strike prices of fuel derivatives	2022 USD	2021 USD
Weighted average collar ceiling (Brent)	76	61
Weighted average collar floor (Brent)	63	50
Weighted average bought calls (Brent)	111	-
Weighted average Brent swap strike	-	48
Weighted average Jet swap strike	61	58
Weighted average Jet-Brent crack spread price	-	3
Barrels hedged (millions of barrels)	2.1	2.1

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	2022 $M	2021 $M
Derivative financial assets	52	55

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.

Hedge reserves		
Balance at the beginning of the year	36	(24)
Change in fair value*	98	87
Transfers to fuel	(108)	(8)
Changes in costs of hedging reserve	(4)	4
Taxation on reserve movements	4	(23)
Balance at the end of the year	26	36

* 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 2021: Nil).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

AS AT 30 JUNE 2022

24. Financial Risk Management (continued)

Fuel price sensitivity on financial instruments

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

Price movement per barrel:	2022 $M +USD 30	2022 $M -USD 30	2021 $M +USD 20	2021 $M -USD 20
Impact on loss before taxation	-	-	-	-
Impact on cash flow hedge reserve (within equity)	58	(37)	51	(45)

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.

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 2021: 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 (including cross currency 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

	2022	2021
Interest rate derivatives		
Volume (USD M)	-	35
Weighted average contract rate (%)	-	1.6
Weighted average contract maturities (years)	-	0.4

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. Nil remained in the cash flow hedge reserve at 30 June 2022 (30 June 2021: losses of $1 million).

Interest rate sensitivity on financial instruments

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

Interest rate change:	2022 $M +100 bp*	2022 $M -100 bp*	2021 $M +25 bp*	2021 $M -25 bp*
Impact on loss before taxation	(18)	18	(5)	5
Impact on cash flow hedge reserve (within equity)	-	-	-	-

**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 2022

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 unsecured committed revolving standby facility to enable it to meet its liabilities as they fall due and to sustain operations in the event of unanticipated external factors or events.

Liquidity risk management has become a primary focus as a result of the impact of the Covid-19 pandemic. With the rapid depletion of cash reserves, various measures have been undertaken to reduce cash outflows (refer Statement of Accounting Policies). Cash flows are being actively monitored in conjunction with regular revisions to revenue and expenditure forecasts. Given the completion of an equity capital raise, the issue of the Australian Medium Term Notes, the entering into an arrangement with the Crown for a revolving loan facility, and accessibility of additional debt funding, the Board has a reasonable expectation that the Group has sufficient liquidity.

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

	STATEMENT OF FINANCIAL POSITION $M	CONTRACTUAL CASH FLOWS $M	< 1 YEAR $M	1-2 YEARS $M	2-5 YEARS $M	5+ YEARS $M
As at 30 June 2022						
Trade and other payables	497	497	497	-	-	-
Secured borrowings	1,185	1,260	218	206	571	265
Australian medium term notes	608	792	37	37	424	294
Unsecured bonds	50	51	51	-	-	-
Lease liabilities*	1,525	1,764	361	293	575	535
Redeemable shares	200	216	11	205	-	-
Total non-derivative financial liabilities	4,065	4,580	1,175	741	1,570	1,094
Foreign exchange derivatives						
– Inflow		1,872	1,872	-	-	-
– Outflow		(1,822)	(1,822)	-	-	-
	51	50	50	-	-	-
Fuel derivatives	52	43	43	-	-	-
Cross currency interest rate derivatives	(17)	(17)	(1)	(5)	(8)	(3)
Total derivative financial instruments	86	76	92	(5)	(8)	(3)

* Lease liabilities recognised within 5+ years include $129 million related to three 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 2021						
Trade and other payables	524	524	524	-	-	-
Secured borrowings	1,497	1,538	541	183	531	283
Unsecured bonds	50	53	2	51	-	-
Lease liabilities**	1,761	2,025	406	351	563	705
Amounts owing to associates	1	1	1	-	-	-
Total non-derivative financial liabilities	3,833	4,141	1,474	585	1,094	988
Foreign exchange derivatives						
– Inflow		1,539	1,539	-	-	-
– Outflow		(1,527)	(1,527)	-	-	-
	13	12	12	-	-	-
Fuel derivatives	55	53	53	-	-	-
Total derivative financial instruments	68	65	65	-	-	-

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

AS AT 30 JUNE 2022

24. Financial Risk Management (continued)

FAIR VALUE ESTIMATION

Financial instruments for which fair value is recognised or disclosed are categorised within the fair value hierarchy as described below. Financial instruments are either carried at fair value or amounts approximating fair value, with the exception of interest-bearing liabilities and Redeemable Shares, for which the fair value is disclosed in Note 15 Interest-bearing liabilities and Note 17 Redeemable Shares. This equates to "Level 2" of the fair value hierarchy defined within NZ IFRS 13 - Fair Value Measurement. The fair value of derivative financial instruments is based on published market prices for similar assets or liabilities or market observable inputs to valuation at balance date ("Level 2" of the fair value hierarchy). The fair value of foreign currency forward contracts is determined using forward exchange rates at reporting date. The fair value of fuel swap and option agreements is determined using forward fuel prices at reporting date. The fair value of interest rate swaps is determined using forward interest rates as at reporting date.

Capital risk management

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

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

The Group monitors capital on the basis of gearing and debt coverage ratios. The gearing ratios are calculated as net debt over net debt plus equity. Net debt is calculated as total borrowings, bonds, medium term notes, lease obligations and Redeemable Shares (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/(losses) before interest, taxation, depreciation and amortisation (adjusted for non-cash items). Gross debt is calculated as total borrowings, bonds, medium term notes, lease obligations and Redeemable Shares. 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 2022 $M	AMOUNTS NOT OFFSET 2022 $M	NET AMOUNTS IF OFFSET 2022 $M	STATEMENT OF FINANCIAL POSITION 2021 $M	AMOUNTS NOT OFFSET 2021 $M	NET AMOUNTS IF OFFSET 2021 $M
Financial assets						
Bank and short-term deposits	1,793	(18)	1,775	266	-	266
Derivative financial assets	308	(204)	104	79	(9)	70
Financial liabilities						
Derivative financial liabilities	(222)	222	-	(11)	9	(2)

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR TO AND AS AT 30 JUNE 2022

26. Related Parties

Crown

The Crown, the major shareholder of the Company, owns 51% of the issued capital of the Company (30 June 2021: 52%).

On 9 May 2022, the Crown acquired $593 million of new Ordinary Shares issued by the Company under a pro rata renounceable Rights Offer, in order to maintain a majority shareholding in Air New Zealand. A pre-commitment participation fee of $3 million was paid to the Crown in the 2022 financial year in relation to the equity raise.

Crown standby loan facility

On 27 May 2020, the Group entered into a debt funding agreement (CSF1 Loan Facility) with the New Zealand Government to support the airline as it managed the unprecedented impact of the Covid-19 outbreak on its business. The CSF1 Loan Facility, as amended in May 2021, was structured in two tranches - a tranche of $1 billion with an effective interest rate in the order of 3.5% per annum and a second tranche of $500 million with an effective interest rate expected to be 5.0% per annum. The facility was available through to 27 September 2023. The CSF1 Loan Facility was negotiated on an arms' length basis, with each party having been independently advised. Under the arrangement, the Group undertook various representations and operational, informational and other undertakings. The arrangement was subject to typical events of default. The CSF1 Loan Facility was secured against specific aircraft assets and a general security interest was provided against other assets of the Group (subject to certain exemptions).

In December 2021, the airline announced a revised Crown support package, which gave the Group the ability to issue up to $1 billion of non-voting Redeemable Shares to the Crown and reduced the CSF1 Loan Facility from $1.5 billion to $1 billion, with an extended term to January 2026. During the 2022 financial year the Group drew down an additional $500 million under the CSF1 Loan Facility (30 June 2021: $350 million).

Following completion of a capital raise undertaken by the Company on 9 May 2022, the proceeds were used to repay in full the $850 million drawn down at that date under the CSF1 Loan Facility.

On 30 March 2022, a new unsecured committed standby revolving facility (CSF2) was entered into with the Crown for up to $400 million for a period through to 30 January 2026. The purpose of the facility is to provide additional liquidity, if required, as the airline recovers from the effects of the pandemic. Interest on any amounts drawn will be charged initially at a bank bill benchmark rate plus an initial margin of 1.5% per annum together with a commitment fee of 1.0% per annum on the committed facility limit. No amounts were drawn under the facility as at 30 June 2022.

The new standby revolving facility was negotiated on an arms' length basis, with each party having been independently advised. Under the arrangement, the Group undertook various representations, warranties and undertakings, including regular reporting on operational and financial performance, with additional reporting and information requirements if the loan has been drawn. The arrangement is subject to typical events of default. The facility is unsecured subject to the Group being required to grant the Crown first ranking security over aircraft assets which are financed using the facility.

For the year ended 30 June 2022, the Group recognised commitment fees of $11 million (30 June 2021: $18 million) and interest costs of $16 million (30 June 2021: $10 million) within the Statement of Financial Performance in relation to the facilities.

Redeemable Shares

In December 2021, Air New Zealand entered into a Redeemable Shares subscription agreement with the New Zealand Government in which the Group had the ability to call for the Crown to subscribe for up to $1 billion of fully paid Redeemable Shares.

On 30 March 2022, the Group called for Redeemable Shares to be issued in two tranches, being $150 million on 7 April 2022 and $450 million on 6 May 2022. The availability period to issue new Redeemable Shares ceased on 9 May 2022. Some of the proceeds from the issue of the Australian Medium Term Notes (refer Note 15) were subsequently used to redeem $400 million of the Redeemable Shares on 2 June 2022. As at 30 June 2022, $200 million of Redeemable Shares remain on issue. These shares are redeemable at the option of the Group, in part or in full, at any time with 20 days' written notice with an unconditional right to defer redemption until the scheduled redemption date of 14 December 2046. Dividends are payable quarterly in arrears and accrue on a cumulative compound basis if unpaid.

Dividends of $4 million were recognised within Finance costs in the Statement of Financial Performance during the year ended 30 June 2022 (30 June 2021: Nil).

Transactions with Crown entities

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

During the period the Group entered into agreements with the Crown to undertake domestic charters to support quarantine activity as part of border restriction requirements. The transactions were negotiated on an arm's length basis.

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.

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 total amount deferred for the period was $298 million. The FBT and PAYE liabilities arising during this period were settled during January 2022 to March 2022 with no amounts outstanding at balance date (30 June 2021: deferred FBT and PAYE liabilities of $254 million).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR TO AND AS AT 30 JUNE 2022

26. Related Parties (continued)

Key management personnel

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

	2022 $M	2021 $M
Short-term employee costs	9	11
Directors' fees	1	1
Share-based payments	1	1
	11	13

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 performance rights plans

Shares held by the Staff Share Purchase scheme and Executive 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

Associated companies

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

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

Capital contributions to Drylandcarbon One Limited Partnership of $12 million were made during the year ended 30 June 2022 (30 June 2021: $8 million).

	2022 $M	2021 $M
During the year, there have been transactions between Air New Zealand and its associated companies as follows:		
Operating revenue	1	1
Operating expenditure	-	(3)
Balances outstanding at the end of the year are unsecured and on normal trading terms:		
Amounts owing to associates	1	1

During the year CEC paid total distributions to the Group of $32 million (30 June 2021: $38 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR TO AND AS AT 30 JUNE 2022

27. Impact of New Accounting Interpretations

In April 2021, the International Financial Reporting Interpretations Committee ("IFRIC") issued an agenda decision on Configuration or Customisation Costs in a Cloud Computing Arrangement (IAS 38). This Interpretation clarifies the accounting treatment in respect of costs of configuring or customising a supplier's application software in a Software as a Service ("SaaS") arrangement. Whilst such costs may be able to continue to be capitalised in limited circumstances, in many cases the costs will now need to be recognised as an operating expense.

Changes in accounting treatment as a result of an agenda decision are generally accounted for as a voluntary change in accounting policy and must be applied retrospectively. The Group has completed the review of such costs and has identified the following adjustments to previous reporting periods.

The impact of the changes on the affected line items in the Statement of Financial Performance for the year ended 30 June 2021 is set out below:

STATEMENT OF FINANCIAL PERFORMANCE

	2021 PRIOR TO APPLICATION OF AGENDA DECISION $M	2021 AGENDA DECISION ADJUSTMENTS $M	2021 AFTER APPLICATION OF AGENDA DECISION $M
Other expenses	(247)	(5)	(252)
Operating Earnings (excluding items below)	**339**	**(5)**	**334**
Depreciation and amortisation	(716)	1	(715)
Loss Before Finance Costs, Associates, Other Significant Items and Taxation	**(377)**	**(4)**	**(381)**
Loss Before Taxation	**(411)**	**(4)**	**(415)**
Taxation credit	122	1	123
Net Loss Attributable to Shareholders of Parent Company	**(289)**	**(3)**	**(292)**

The impact of the changes on the affected line items in the Statement of Financial Position as at 30 June 2021 is set out below:

STATEMENT OF FINANCIAL POSITION

	PRIOR TO APPLICATION OF AGENDA DECISION $M	AGENDA DECISION ADJUSTMENTS $M	AFTER APPLICATION OF AGENDA DECISION $M
As at 30 June 2021			
Non-Current Assets			
Intangible assets	179	(10)	169
Total Non-Current Assets	**5,868**	**(10)**	**5,858**
Total Assets	**6,694**	**(10)**	**6,684**
Deferred taxation	61	(3)	58
Total Non-Current Liabilities	**3,236**	**(3)**	**3,233**
Total Liabilities	**5,589**	**(3)**	**5,586**
Net Assets	**1,105**	**(7)**	**1,098**
Reserves	(1,108)	(7)	(1,115)
Total Equity	**1,105**	**(7)**	**1,098**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR TO AND AS AT 30 JUNE 2022

27. Impact of New Accounting Interpretations (continued)

The impact of the changes on the affected line items in the Statement of Changes in Equity is set out below:

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 2020	**(757)**	**(4)**	**(761)**	**1,318**	**(4)**	**1,314**
Net loss for the year	(289)	(3)	(292)	(289)	(3)	(292)
Total comprehensive loss for the year	(285)	(3)	(288)	(217)	(3)	(220)
Balance as at 30 June 2021	**(1,042)**	**(7)**	**(1,049)**	**1,105**	**(7)**	**1,098**

The impact of the changes on the affected line items in the Statement of Cash Flows is set out below:

STATEMENT OF CASH FLOWS

	2021 PRIOR TO APPLICATION OF AGENDA DECISION $M	2021 AGENDA DECISION ADJUSTMENTS $M	2021 AFTER APPLICATION OF AGENDA DECISION $M
Payments to suppliers and employees	(2,111)	(5)	(2,116)
Net Cash Flow from Operating Activities	**323**	**(5)**	**318**
Acquisition of property, plant and equipment, right of use assets and intangibles	(231)	5	(226)
Net Cash Flow from Investing Activities	**(182)**	**5**	**(177)**
Cash and Cash Equivalents at the End of the Year	**266**	**-**	**266**
Reconciliation of Net Loss Attributable to Shareholders to Net Cash Flows from Operating Activities:			
Net loss attributable to shareholders	(289)	(3)	(292)
Plus/(less) non-cash items:			
– Depreciation and amortisation	716	(1)	715
Net working capital movements:			
Liabilities	(4)	(1)	(5)
Net Cash Flow from Operating Activities	**323**	**(5)**	**318**

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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, Melissa Collier, 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 45, that comprise the Statement of Financial Position as at 30 June 2022, 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 2022, 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 25 August 2022. 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 $21 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. $21 million represents 2.6% of net loss before tax, 1.3% of total equity and 0.08% 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
Carrying value of aircraft and related assets including assessment of the residual values of aircraft	
Group aircraft and related assets, including right of use assets, total $4,095 million at 30 June 2022 (2021: $4,360 million) as outlined in notes 10 and 11. The Group has recognised a net impairment charge on aircraft of $6 million (refer to notes 3, 10 and 11). The Covid-19 global pandemic has impacted the global economy and the aviation sector in particular. Although global restrictions have eased in recent months, there still remains uncertainty surrounding the expected recovery period and global demand. This in turn establishes a high degree of estimation uncertainty and significant judgement, impacting the fair value of the Group's fleet and whether the carrying value of assets are appropriate. 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. 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. An assessment of individual aircraft for impairment was undertaken where their value is to be realised by means other than future use as part of the fleet. These aircraft are separately assessed for impairment by comparing their fair value less cost to dispose, as determined by a third-party valuation expert, to their carrying value. In addition the useful lives and residual values of aircraft may be influenced by changes to economic conditions, demand, competition and new technology. The Group considers these changes when reassessing the useful lives and residual values of aircraft to determine the appropriate depreciation rates. This is a key audit matter due to the significance of aircraft and related assets to the financial statements, the indicators of impairment that have arisen as a result of Covid-19, and the level of estimates involved in determining the recoverable amounts.	In assessing the appropriateness of the carrying values and residual values of aircraft and related assets we performed the following procedures: • considered the Group's assessment of its cash-generating unit and the basis for assessing certain aircraft for impairment on an individual basis; • gained an understanding of the Group's impairment assessment and held discussions with management to understand the basis of determining key assumptions used in the impairment model; • evaluated the Group's assumptions in the value in use model against the assumptions used in the cash flow projections 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 (including inquiring about the impact of climate considerations on input assumptions) and terminal growth rates used; • performed sensitivity analysis over key assumptions in the Group's impairment model; • challenged the Group's assumptions underpinning the calculation of residual values by making a comparison to external information such as industry data and period end exchange rates; and • evaluated the controls in place over the calculation of depreciation, in particular around the initial input of, or changes to, residual values and useful life information. We consider the Group's assessment of the residual values and useful lives of aircraft to be reasonable. We also consider the assumptions and estimates applied in the value-in-use model and the determination of fair value less costs to sell for certain individual aircraft to be appropriate.
Revenue recognition	
The Group's revenue consists of passenger revenue which totalled $1,476 million (2021: $1,470 million). Passenger revenue is complex due to the various fare rules that may apply to a transaction, and as tickets are typically sold prior to the day of flight. Complex IT systems and processes are required to correctly record these sales as transportation sales in advance and then as revenue when flights occur. We have included revenue recognition as a key audit matter due to the magnitude of revenue in relation to the financial statements and the substantial dependence on complex IT systems.	In performing our procedures we: • evaluated the systems, processes and controls in place over passenger revenue in advance and key account reconciliation processes; • tested the IT environment in which passenger sales occur and interfaces with other relevant systems; • assessed the quality of information produced by these systems and tested the accuracy and completeness of reports generated by these systems and used to recognise or defer passenger revenue; • 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 • agreed a sample of revenue transactions to supporting documentation. We are satisfied revenue has been appropriately recognised.

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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.

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Responsibilities of the auditor for the audit of the consolidated financial statements (continued)	• We communicate with the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit. • We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards. From the matters communicated with the Board of Directors, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication. Our responsibility arises from section 15 of the *Public Audit Act 2001*.
Other information	The Board of Directors is responsible on behalf of the Group for all other information. The other information includes the Annual Shareholder Review and the information included with the consolidated financial statements and audit report in the Annual Financial Results. Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of audit opinion or assurance conclusion thereon. In connection with our audit of the consolidated financial statements, our responsibility is to read the other information. In doing so, we consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on our work, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.
Independence	We are independent of the Group in accordance with the independence requirements of the Auditor-General's Auditing Standards which incorporate the independence requirements of Professional and Ethical Standard 1: International Code of Ethics for Assurance Practitioners issued by the New Zealand Auditing and Assurance Standards Board and we have fulfilled our other ethical responsibilities in accordance with these requirements. In addition to the audit we have carried out engagements in the areas of review of the interim financial statements, assurance services relating to greenhouse gas emissions inventory, and compliance with student fee protection rules. In addition we provide non-assurance services to the Corporate Taxpayers Group. These services are compatible with those independence requirements. In addition to these engagements, principals and employees of our firm deal with the Group on normal terms within the ordinary course of trading activities of the Group. These engagements and trading activities have not impaired our independence as auditor of the Group. Other than the audit and these engagements and trading activities, we have no relationship with, or interests in the Group.

Melissa Collier
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

	2022 $M	2021 $M	2020 $M	2019 $M	2018 $M
Operating Revenue					
Passenger revenue	1,476	1,470	3,942	4,960	4,696
Cargo	1,016	769	449	390	387
Contract services	117	161	216	197	193
Other revenue	125	117	229	238	219
	2,734	2,517	4,836	5,785	5,495
Operating Expenditure					
Labour	(976)	(830)	(1,197)	(1,351)	(1,294)
Fuel	(560)	(311)	(1,022)	(1,271)	(987)
Maintenance	(259)	(254)	(441)	(399)	(352)
Aircraft operations	(412)	(350)	(575)	(678)	(634)
Passenger services	(116)	(84)	(258)	(319)	(295)
Sales and marketing	(131)	(73)	(253)	(350)	(344)
Foreign exchange (losses)/gains	(3)	(29)	18	53	(19)
Other expenses	(281)	(252)	(326)	(290)	(281)
	(2,738)	(2,183)	(4,054)	(4,605)	(4,206)
Operating Earnings (excluding items below)	(4)	334	782	1,180	1,289
Depreciation and amortisation	(668)	(715)	(840)	(554)	(515)
Rental and lease expenses	-	-	-	(245)	(227)
(Loss)/Earnings Before Finance Costs, Associates, Other Significant Items and Taxation	(672)	(381)	(58)	381	547
Finance income	14	8	34	48	40
Finance costs	(94)	(90)	(103)	(79)	(73)
Share of earnings of associates (net of taxation)	27	19	39	37	33
(Loss)/Earnings Before Other Significant Items and Taxation	(725)	(444)	(88)	387	547
Other significant items	(85)	29	(541)	(5)	(57)
(Loss)/Profit Before Taxation	(810)	(415)	(629)	382	490
Taxation credit/(expense)	219	123	174	(106)	(136)
Net (Loss)/Profit Attributable to Shareholders of Parent Company	(591)	(292)	(455)	276	354

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 ("IFRIC") issuing a new interpretation in April 2021 on Configuration or Customisation Costs in a Cloud Computing Arrangement (IAS 38) certain costs in respect of configuring or customising a supplier's application software in a Software as a Service ("SaaS") arrangement were no longer able to be capitalised and were required to be recognised as an operating expense. The interpretation was applied retrospectively and comparatives restated accordingly. The Group adopted NZ IFRS 16 - Leases on 1 July 2019. In accordance with the transitional provisions of NZ IFRS 16, comparatives have not been restated. NZ IFRS 15 - Revenue from Contracts with Customers was adopted on 1 July 2018 with comparatives being restated for the 2018 financial year.

HISTORICAL SUMMARY OF CASH FLOWS

FIVE YEAR STATISTICAL REVIEW
FOR THE YEAR TO 30 JUNE

	2022 $M	2021 $M	2020 $M	2019 $M	2018 $M
Cash flow from operating activities	550	318	228	986	1,028
Cash flow from investing activities	(331)	(177)	(540)	(883)	(775)
Cash flow from financing activities	1,308	(313)	(305)	(391)	(279)
Increase/(Decrease) in cash holding	1,527	(172)	(617)	(288)	(26)
Total cash and cash equivalents	1,793	266	438	1,055	1,343

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 ("IFRIC") issuing a new interpretation in April 2021 on Configuration or Customisation Costs in a Cloud Computing Arrangement (IAS 38) certain costs in respect of configuring or customising a supplier's application software in a Software as a Service ("SaaS") arrangement were no longer able to be capitalised and were required to be recognised as an operating expense. The interpretation was applied retrospectively and comparatives restated accordingly.

HISTORICAL SUMMARY OF FINANCIAL POSITION

FIVE YEAR STATISTICAL REVIEW
AS AT 30 JUNE

	2022 $M	2021 $M	2020 $M	2019 $M	2018 $M
Current Assets					
Bank and short-term deposits	1,793	266	438	1,055	1,343
Other current assets	704	560	571	749	910
Total Current Assets	2,497	826	1,009	1,804	2,253
Non-Current Assets					
Property, plant and equipment	3,190	3,128	3,336	5,133	4,892
Other non-current assets	2,663	2,730	3,193	680	554
Total Non-Current Assets	5,853	5,858	6,529	5,813	5,446
Total Assets	8,350	6,684	7,538	7,617	7,699
Current Liabilities					
Debt[1]	590	907	513	307	431
Other current liabilities	2,581	1,446	1,589	2,359	2,265
Total Current Liabilities	3,171	2,353	2,102	2,666	2,696
Non-Current Liabilities					
Debt[1]	2,978	2,401	3,188	2,290	2,303
Other non-current liabilities	524	832	934	672	630
Total Non-Current Liabilities	3,502	3,233	4,122	2,962	2,933
Total Liabilities	6,673	5,586	6,224	5,628	5,629
Net Assets	1,677	1,098	1,314	1,989	2,070
Total Equity	1,677	1,098	1,314	1,989	2,070

1. Debt is comprised of secured borrowings, bonds, medium term notes, finance lease liabilities, lease liabilities and Redeemable Shares.

HISTORICAL SUMMARY OF DEBT

FIVE YEAR STATISTICAL REVIEW
AS AT 30 JUNE

	2022 $M	2021 $M	2020 $M	2019 $M	2018 $M
Debt					
Secured borrowings	1,185	1,497	1,413	1,459	1,563
Unsecured bonds	50	50	50	50	50
Medium term notes	608	-	-	-	-
Finance lease liabilities	-	-	-	1,088	1,121
Lease liabilities	1,525	1,761	2,238	-	-
Redeemable shares	200	-	-	-	-
	3,568	3,308	3,701	2,597	2,734
Bank and short-term deposits	1,793	266	438	1,055	1,343
Net open derivatives held in relation to interest-bearing liabilities and lease liabilities[1]	23	13	(37)	7	42
Interest-bearing assets (included within Other assets)	360	324	334	264	182
Net Debt	1,392	2,705	2,966	1,271	1,167
Net aircraft operating lease commitments[2]	-	-	-	1,246	1,232
Net Debt (including off Balance Sheet)	1,392	2,705	2,966	2,517	2,399

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

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

KEY FINANCIAL METRICS

FIVE YEAR STATISTICAL REVIEW

		2022	2021	2020	2019	2018
Profitability and Capital Management						
EBITAS[1]/Operating Revenue	%	(24.6)	(15.1)	(1.2)	6.6	10.0
EBITDRASA[2]/Operating Revenue	%	(0.1)	13.3	16.2	20.4	23.5
Passenger Revenue per Revenue Passenger Kilometre (Yield)	cents	20.7	24.9	13.3	12.9	12.8
Passenger Revenue per Available Seat Kilometre (RASK)[3]	cents	13.9	14.3	10.8	10.8	10.6
Cost per Available Seat Kilometre (CASK)[4]	cents	13.7	12.5	10.5	10.0	9.5
Return on Invested Capital Pre-tax (ROIC)[5]	%	(21.2)	(8.2)	(13.3)	10.6	13.6
Liquidity ratio[6]	%	65.6	10.6	9.1	18.2	26.8
Gearing (incl. net capitalised aircraft operating leases)[7]	%	45.4	71.1	69.3	55.9	53.7
Shareholder Value						
Basic Earnings per Share[8]	cps	(40.8)	(26.0)	(40.5)	24.6	31.5
Operating Cash Flow per Share[8]	cps	16.3	28.3	20.3	87.8	91.6
Ordinary Dividends Declared per Share[8]	cps	-	-	-	22.0	22.0
Net Tangible Assets per Share[8]	$	0.39	0.86	1.10	1.82	1.92
Closing Share Price 30 June	$	0.57	1.55	1.32	2.65	3.18
Weighted Average Number of Ordinary Shares	m	1,449	1,123	1,123	1,123	1,123
Total Number of Ordinary Shares	m	3,368	1,123	1,123	1,123	1,123
Total Market Capitalisation	$m	1,920	1,740	1,482	2,976	3,565
Total Shareholder Returns[9]	%	(19.5)	0.7	(5.3)	14.0	26.7

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

Certain comparatives within the five year statistical review have been reclassified for comparative purposes, to ensure consistency with the current year. Following the International Financial Reporting Interpretations Committee ("IFRIC") issuing a new interpretation in April 2021 on Configuration or Customisation Costs in a Cloud Computing Arrangement (IAS 38) certain costs in respect of configuring or customising a supplier's application software in a Software as a Service ("SaaS") arrangement were no longer able to be capitalised and were required to be recognised as an operating expense. The interpretation was applied retrospectively and comparatives restated accordingly. The Group adopted NZ IFRS 16 - Leases on 1 July 2019. In accordance with the transitional provisions of NZ IFRS 16, comparatives have not been restated. NZ IFRS 15 - Revenue from Contracts with Customers was adopted on 1 July 2018 with comparatives being restated for the 2018 financial year.

KEY OPERATING STATISTICS

FIVE YEAR STATISTICAL REVIEW
FOR THE YEAR TO 30 JUNE

	2022	2021	2020	2019	2018
Passengers Carried (000)					
Domestic	6,836	8,191	8,821	11,513	11,089
International					
Australia and Pacific Islands	734	386	3,002	4,044	3,798
Asia	51	32	734	914	837
America and Europe	124	40	968	1,267	1,242
Total	909	458	4,704	6,225	5,877
Total Group	7,745	8,649	13,525	17,738	16,966
Available Seat Kilometres (M)					
Domestic	4,929	5,480	5,619	7,104	6,905
International					
Australia and Pacific Islands	2,665	2,214	10,367	13,640	12,963
Asia	1,229	1,572	8,117	9,699	9,169
America and Europe	1,828	1,038	12,232	15,586	15,237
Total	5,722	4,824	30,716	38,925	37,369
Total passenger flights	10,651	10,304	36,335	46,029	44,274
Cargo-only flights	9,368	7,106	2,151	-	-
Total Group	20,019	17,410	38,486	46,029	44,274
Revenue Passenger Kilometres (M)					
Domestic	3,452	4,244	4,552	5,957	5,719
International					
Australia and Pacific Islands	1,937	964	8,265	11,195	10,584
Asia	445	292	6,526	8,140	7,467
America and Europe	1,312	408	10,225	13,281	12,892
Total	3,694	1,664	25,016	32,616	30,943
Total Group	7,146	5,908	29,568	38,573	36,662
Passenger Load Factor (%)					
Domestic	70.1	77.4	81.0	83.9	82.8
International					
Australia and Pacific Islands	72.7	43.5	79.7	82.1	81.6
Asia	36.2	18.6	80.4	83.9	81.4
America and Europe	71.8	39.3	83.6	85.2	84.6
Total	65.5	36.5	81.4	83.8	83.4
Total Group	67.1	57.3	81.4	83.8	82.8
GROUP EMPLOYEE NUMBERS (Full Time Equivalents)	8,863	7,840	9,988	11,793	11,074

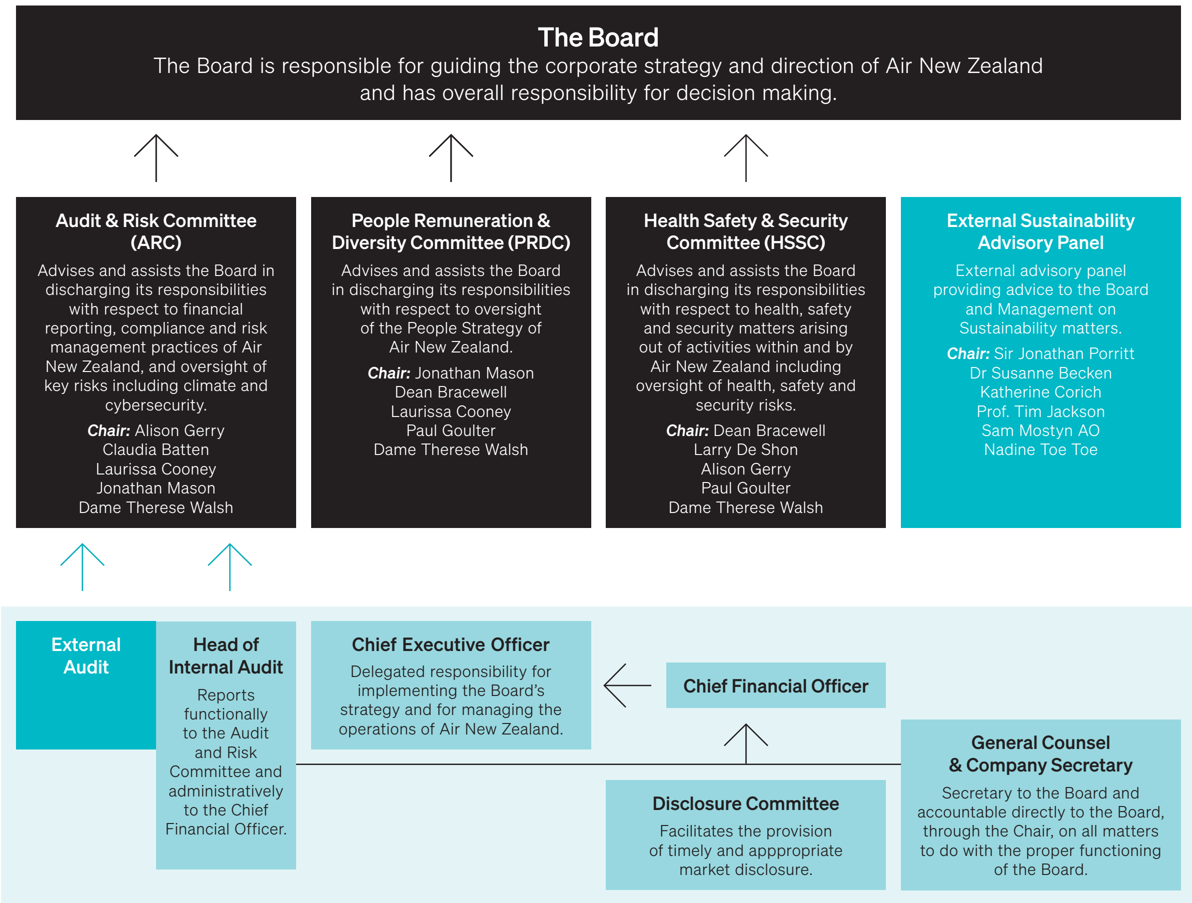
New Zealand, Australia and Pacific Islands represent short-haul operations. Asia, America and Europe represent long-haul operations.

CORPORATE GOVERNANCE STATEMENT

Effective corporate governance is at the heart of the Air New Zealand Board's agenda, and it considers its governance practices to be consistent with the Principles of the NZX Corporate Governance Code.

This Corporate Governance Statement was approved by the Board on 24 August 2022 and is current as at that date.

Our Governance Structure



Board / Committee meeting attendance – 1 July 2021 to 30 June 2022

	Board	Audit and Risk Committee	People Remuneration & Diversity Committee	Health, Safety and Security Committee	Covid-19 Committee
	Attendance[1]	Attendance[1]	Attendance[1]	Attendance[1]	Attendance[1]
Dame Therese Walsh	17/17	4/4	5/5	4/4	8/8
Claudia Batten	13/13	3/3			
Dean Bracewell	16/17		5/5	3/3	
Laurissa Cooney	17/17	4/4	5/5		
Larry De Shon	16/17			4/4	
Alison Gerry	13/13	3/3		2/3	4/4
Paul Goulter	13/13		3/3	3/3	
Jonathan Mason	16/17	4/4	5/5		8/8
Jan Dawson	4/4	1/1	2/2		4/4
Rob Jager	3/4			1/1	
Linda Jenkinson	4/4			1/1	

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

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

Current Directors

Dame Therese Walsh
DNZM, BCA, FCA
Independent Non-Executive Director
(Appointed 1 May 2016)
Chair

Claudia Batten
LLB(Hons), BCA
Independent Non-Executive Director
(Appointed 28 October 2021)

Dean Bracewell
Independent Non-Executive Director
(Appointed 20 April 2020)
Health Safety & Security Committee Chair

Laurissa Cooney
BMS(Hons), FCA, CMInstD
Independent Non-Executive Director
(Appointed 1 October 2019)

Larry De Shon
BA Communications, BA Sociology
Independent Non-Executive Director
(Appointed 20 April 2020)

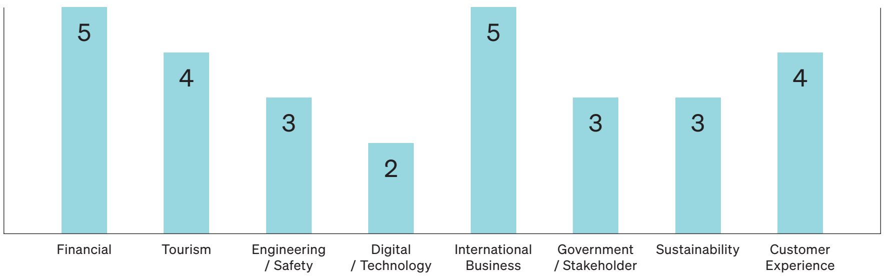
Alison Gerry
BMS(Hons), MAppFin
Independent Non-Executive Director
(Appointed 28 October 2021)
Audit and Risk Committee Chair

Paul Goulter
LLB, MA(Hons), BA
Independent Non-Executive Director
(Appointed 28 October 2021)

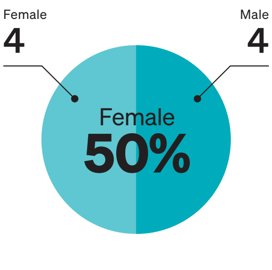
Jonathan Mason
MBA, MA, BA
Independent Non-Executive Director
(Appointed 1 March 2014)
People Remuneration & Diversity Committee Chair

Details of directors' skills and experience can be found at
airnewzealand.co.nz/air-new-zealand-board

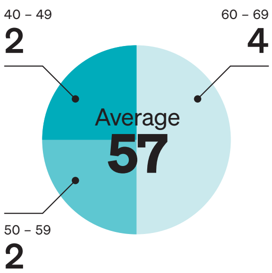
Board skills and diversity



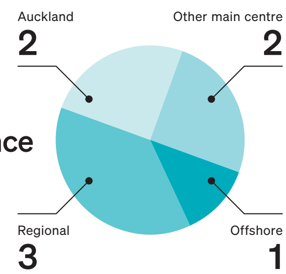
Gender



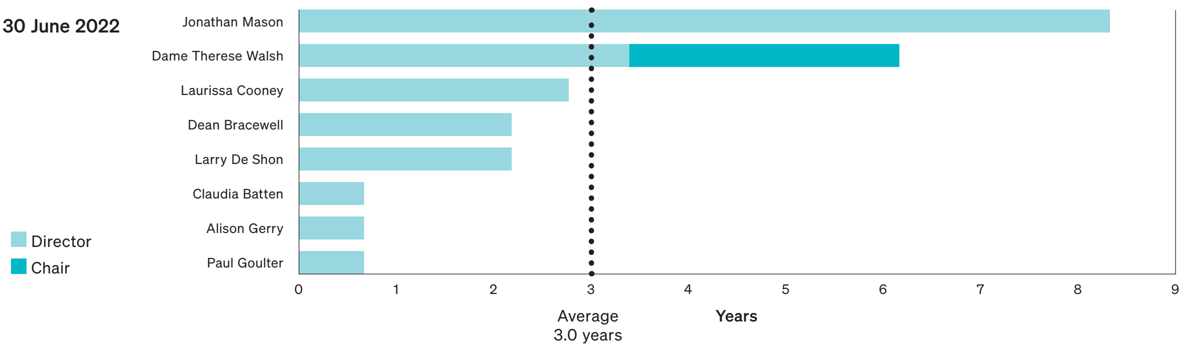
Age



Residence



Tenure as at 30 June 2022



CORPORATE GOVERNANCE STATEMENT (CONTINUED)

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.

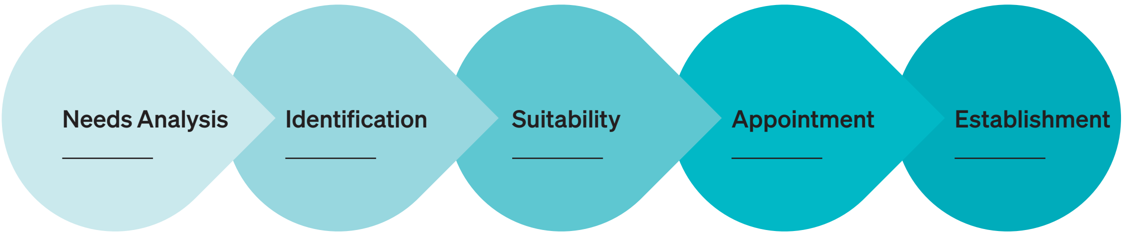
All directors have been determined to be Independent Directors under these criteria, and for the purposes of the NZX Listing Rules. Directors are required to inform the Board of all relevant information which may affect their independence such that the Board continually considers the independence of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

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

Director Appointments

Jan Dawson, Rob Jager and Linda Jenkinson retired from the Board at the conclusion of the Annual Shareholders' Meeting held on 28 October 2021. Shareholders at that meeting elected Claudia Batten, Alison Gerry and Paul Goulter to the Board as independent, non-executive directors.

The Board's approach to appointing directors is depicted below. The Board as a whole considers the requirement for additional or replacement directors.



Needs Analysis
- Assessment of existing and desirable skills on the Board to fulfil its governance role and contribute to the long-term strategic direction of the Company
- Diversity considerations

Identification
- Identification of suitable candidates.
- External consultants may be engaged

Suitability
- Ensure constitutional requirements are met
- Ensure relevant independence criteria (including NZX Code) are satisfied
- Interviewing and reference checking

Appointment
- Formal letter of appointment outlining key terms and conditions of appointment
- Shareholder approval at next Annual Shareholder Meeting

Establishment
- Induction
- Disclosure of Interests and agree conflicts management plans where relevant
- Committee assignments
- Ongoing evaluation and development

Directors are expected to acquire a shareholding in the Company equivalent to 50% of the annual base director fee within 3 years of appointment.

Key Governance documents are available on the Air New Zealand website. These include:

- the Company's **Code of Conduct and Ethics**, stating our guiding principles of ethical and legal conduct, applicable to everyone working at or for Air New Zealand – directors, executives, employees, contractors and agents
- the **Securities Trading Policy**, identifying behaviours that are illegal, unacceptable or risky in relation to dealings in Air New Zealand's securities by directors, employees or their associated persons
- the **Continuous Disclosure Policy**, addressing compliance with continuous disclosure obligations, and the timely treatment of Material Information.
- **Charters for the Board and each of its Committees**, detailing authorities, responsibilities, membership and operation

Air New Zealand's key Governance documents can be found at **airnewzealand.co.nz/corporate-governance**

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

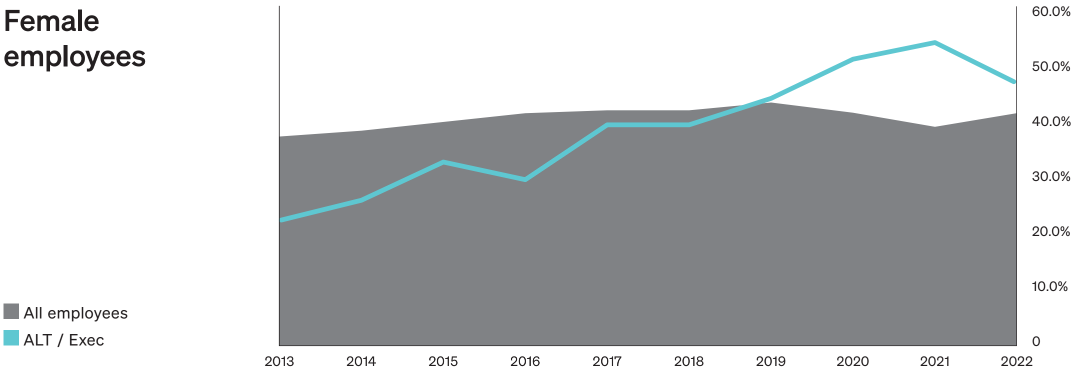
Diversity and Inclusion

The Company's Diversity, Equity & Inclusion Policy recognises the value of a diverse workforce, proudly representative of Aotearoa, and aims to create an inclusive environment where Air New Zealanders can be themselves and thrive.

Diversity is considered across a number of measures, including gender, ethnicity, disability, age, and sexual identity. There is a focus on recruitment practices that promote the retention and attraction of diverse talent, and a broad range of employee initiatives to reflect, support and develop the diversity we have in the airline. We continue to focus on improving inclusion and accessibility for people with disabilities and creating more opportunities for youth. Air New Zealand's 10 Employee Networks all play a key role in supporting and advocating for employees and ensuring the success of the airline's Diversity, Equity & Inclusion strategy.

With an ongoing challenging environment, Air New Zealand's performance has remained consistent in respect of the Policy. With a target of 50% women in the Airline Leadership Team (which includes the Executive Team), the Company achieved 45.5% as at 30 June 2022. This target will be maintained and there will be a continued focus on building a pipeline of women leaders at all levels of leadership to help us achieve this.

Female employees



Air New Zealand also has a target of 20% of the Company's people leadership roles being held by Māori and Pasifika employees by 2025; as at 30 June 2022 the result was 15%. The target will be maintained for the following financial year, and the Mangōpare leadership development programme continues to support growth in our Māori and Pasifika aspiring leaders, with two cohorts totalling 36 people having completed the programme during the 2022 financial year.

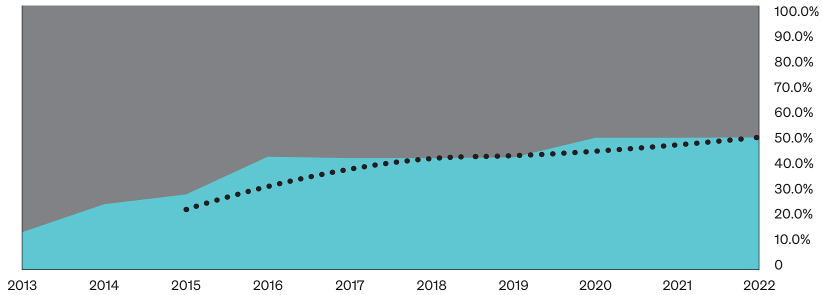
*AS AT 30 JUNE	2021	2022
Directors (female:male:gender diverse)	4:4:0	4:4:0
Executive team (female:male:gender diverse)*	3:4:0	3:6:0

* 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 Company has announced the appointment of a Chief Sustainability Officer to commence in December 2022 who is not included in the figures above.

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

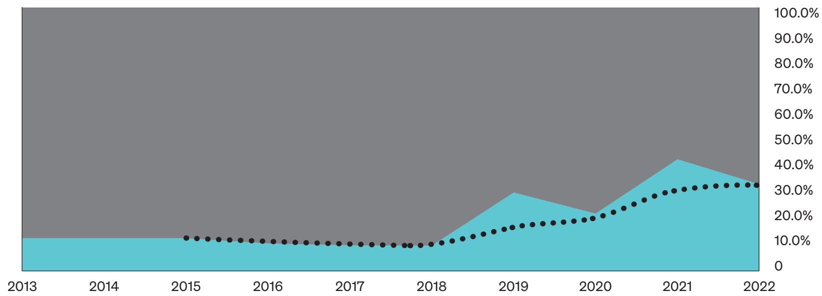
Gender balance – Board

● 3 year average
■ Male
■ Female



Gender balance – Executive

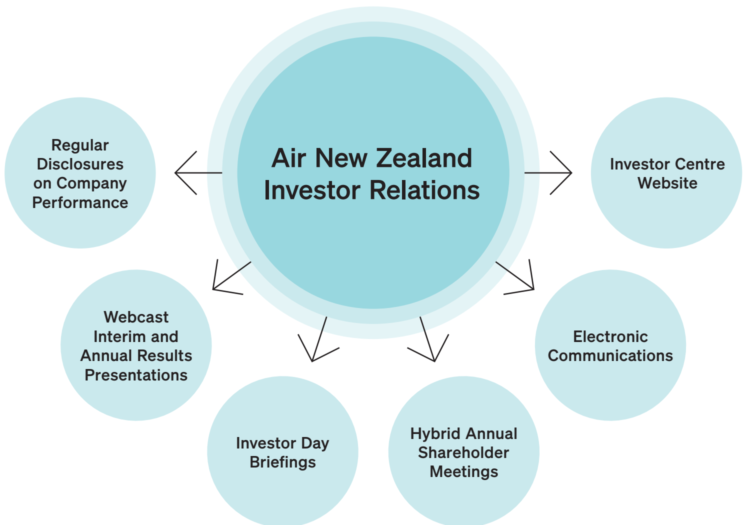
● 3 year average
■ Male
■ Female



Air New Zealand's Investor Centre can be found at
airnewzealand.co.nz/investor-centre

Shareholder Engagement

Air New Zealand utilises a number of channels to communicate with its shareholders. The investor centre on the Air New Zealand website is the focal point for many of these, and shareholders are encouraged to utilise this site, which contains current and historical financial information, shareholder meeting materials, and links to other information of relevance to investors. The Investor Relations e-mail can also be used by shareholders to efficiently address enquiries regarding their investment.



Disclosure of material information is first made through announcements to NZX and ASX. 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. The hybrid form of shareholder meeting (attendance either physically or digitally) enables wide participation by shareholders.

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

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.

Board Activities

The ongoing effects of the Covid-19 pandemic impacted on the Board activities and decisions during the year, with a high workload and time commitment being required. However, the Board ensured it retained a strategic perspective and that the Company is positioning itself for the future. The Board operates a regular schedule of formal Board meetings, most of which utilised on-line meeting tools due to lockdowns, and where necessary the use of written resolutions. This activity is supplemented by a programme of Strategy sessions enabling deep dives into topical matters.

During the year Directors attended 17 Board meetings and 7 Strategy sessions. There were also 21 Committee meetings (4 ARC, 4 HSSC, 5 PRDC and 8 Covid-19).

Key areas addressed during the year include:

Kia Mau

Guiding the Company's strategy, ensuring it remains appropriate in a dynamic operating context, and monitoring progress towards achievement, is central to the Board's activities. The Kia Mau strategy has been refined during the year in light of internal and external factors including global concerns over carbon emissions, the pathways to recovery from the Covid-19 pandemic, changing competitive threats, technological developments including artificial intelligence, and changing stakeholder expectations.

At heart, the Kia Mau strategy remains robust, focussed on the opportunities to Grow Domestic, Optimise International, and Lift Loyalty. The business drivers – Brilliant Basics, Serious about Sustainability, Digital Dexterity, and Prioritising People & Safety – remain key to the airline best serving its customers, shareholders, and wider society.

Funding

A key focus area of the Board was the preparation for and execution of a capital raise to provide adequate funding for the future success of the airline. Directors were particularly conscious of their legal duties to the company and its shareholders, employees, customers and creditors, and gave careful consideration to advice prior to resolving to make a rights issue, and in the successful completion of this exercise and the subsequent debt raising.

The Renounceable Rights Offer raised $1.2 billion, and the Company subsequently raised a further AUD550 million (~NZD608 million) in an Australian Medium Term Note (AMTN) debt issuance. With a further $400 million standby facility available from the Crown, the airline is financially well positioned to thrive.

Prior to the capital raise the Board also issued $600 million in Redeemable Shares to the Crown, and has since redeemed and cancelled $400 million of these.

Climate Change

Climate change presents a significant challenge to the airline, and the Board has considered the key risks and management's pathway towards a net zero carbon goal. The Board has had visibility of the development of a science based target (which has subsequently been validated by the Science Based Targets initiative) and the ongoing process of developing meaningful climate-based reporting including the initial iteration of scenario modelling. New technology will be crucial to achieving the desired outcomes, and the Board continues to monitor and promote initiatives in this space, including Sustainable Aviation Fuel and zero emission aircraft technologies. The Audit and Risk Committee has specific responsibility to oversee this area, and the forthcoming appointment of a Chief Sustainability Officer has been a welcome recognition of the importance of this activity.

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

Airline Restart

The Board's clear focus as the airline restarted passenger operations was safety: of passengers, pilots and crew, ground staff, aircraft, and operations. The lead time necessary to prepare for a safe restart required careful assessment, and the airline had to work through timing uncertainties around easing of domestic and international travel constraints. As routes have reopened, the Board has engaged with management on the ongoing resourcing challenges in the airline, to minimise impacts on customers and maintain the level of manaaki we pride ourselves on. Almost 1,500 staff were recruited or returned to the airline during the year, and recruitment has continued at pace into the new financial year. Similar resource challenges are faced by many of the airline's suppliers and partners, and the Board has supported flexibility in management's responses to customer disruption, and focussed investment in systems and people to help address these.

Full Potential

The Board has engaged closely with management as the airline has explored and moved towards an Agile operating model. Directors have brought their experience with both the model and the transition process to assist and challenge management, and the Board is also addressing how its own operations can best adapt and support an Agile approach.

Te Ao Māori

Celebrating our indigenous culture is important to our business, and the Board encourages this dimension to be part of the way we work. This year the Board has actively brought this into the Boardroom, with directors participating in and endorsing the creation of a Te Ao Māori strategy for the business. This has given the Board a renewed appreciation of the taonga we are privileged to share. Our Tiaki Promise, which formed the backbone of the latest Safety video, is another way the Company links its desire to care for our environment and our pride in our Māori culture and heritage.

Safety

Primarily through the Board's Health Safety and Security Committee, the safety of our customers, employees and aircraft has been a consistent theme. All Directors take the opportunity when visiting airports and offices to participate in Safety Walk Arounds, and these are shared with the Board and management to identify areas where improvements can be made, or to recognise the good work being done by our employees.

The Board was particularly pleased to note the success of both the company and individual managers in the NZ Workplace Health & Safety Awards, recognising industry leadership in health and safety, and the HeadFit Awards recognising innovation and technology excellence in respect of mental health.

Remuneration

Ensuring our employees are rewarded for their contribution, and motivated toward achievement of the company's objectives, has been the focus of the Board's oversight of remuneration. Through the People, Remuneration and Diversity Committee, the Board has supported a focus on ensuring our lower paid employees are fairly remunerated, and is also paying close attention to the structure of incentive plans.

Board Assessment

The Board engaged Propero to review its performance, and this exercise was completed in August 2022. The Board is developing action plans to address key findings.

Employee Surveys and Culture

Regular employee surveys are taken, and the Board monitors the results. In addition to the overall engagement scores, particular attention is paid to staff comments, and any trends that these highlight. Staff have remained very engaged despite the challenges of the past two years, and the Board is keen to build on the sense of purpose that is evident amongst our whanau, and encouraged by the high levels of commitment to safety.

The Company's values underpin the cultural behaviours required to make the Full Potential transformation a success, and the project to relocate the Head Office to the Auckland Airport base should better align the culture and ensure strong connections between operational and administrative activities.

Each Board meeting includes an opportunity for the Directors to get to know one of our leaders, both as a senior manager and as an individual. The commitment of these leaders to making our airline the best flying experience on Earth is evident, and helps explain the manaaki expressed throughout the airline.

Fleet Plan

The Board has engaged with management, especially through the preparation for the capital raise, on the appropriate composition of the wide body fleet to meet projected demand and align to the Kia Mau strategy. In addition to the aircraft mix, the interior layout options have been considered by the Board, including a refresh of the Business Premier offering, and determining the optimal mix of seat offerings for different destinations.

The Board is also being kept abreast of developing technologies to support the sustainability objectives, particularly zero emissions aircraft.

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

Customer Initiatives

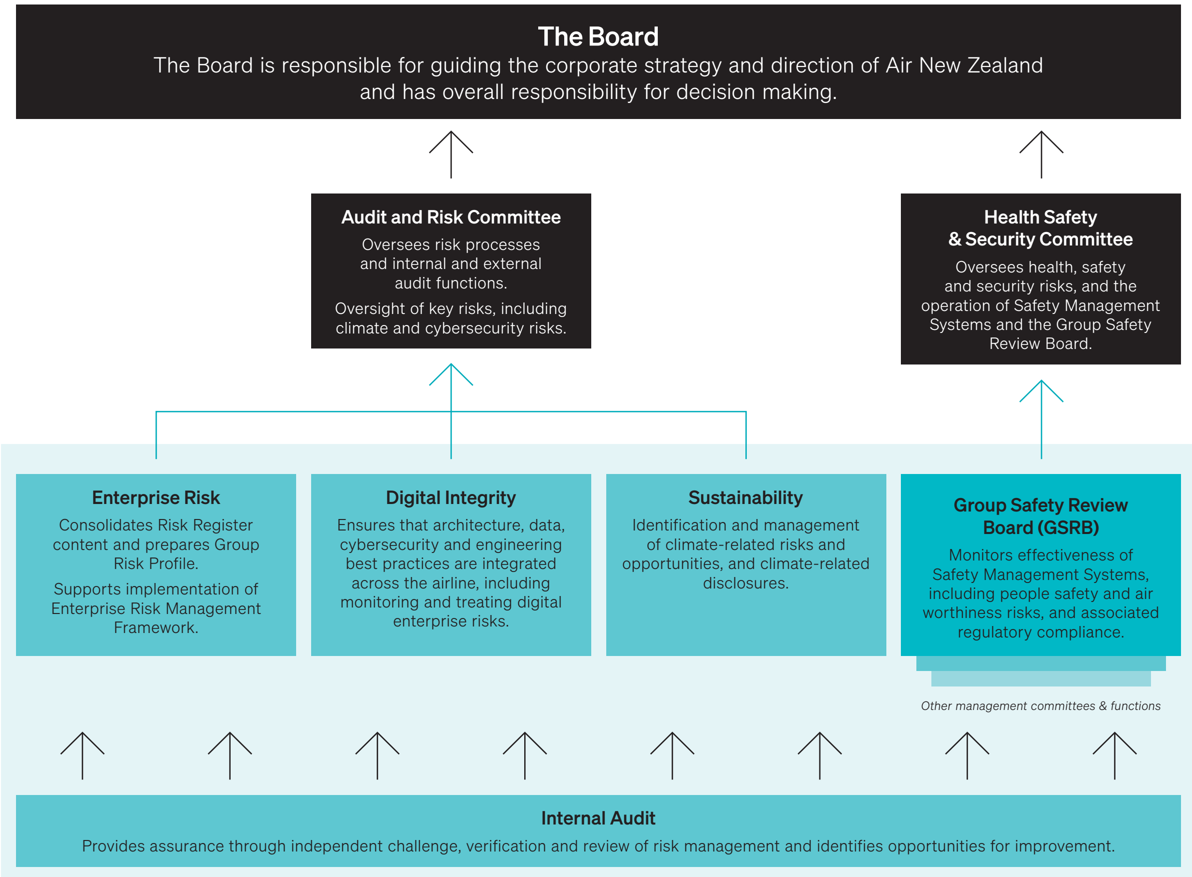
The Board has been kept up to date by management on a number of customer initiatives, from in-flight food offerings to innovative aircraft layouts including the Skynests to be offered on the Boeing 787 fleet. Customer satisfaction is constantly measured, and remained strong despite the challenges presented, especially by Covid-19, on staff and schedules, and the impacts on the call centre.

The care our people demonstrate to our customers has been a major factor in the Company's success in external awards and industry recognition.

- **AirlineRatings.com: Best Long-Haul Airline Pacific**, **Best Premium Economy**, and **Best Economy** and **2nd in the Top Twenty Airlines for 2022**
- **First – Kantar Corporate Reputation**
- **Judges award – 2021 Deloitte Top 200 Awards**
- **Best Air Cargo Carrier – Oceania** at the 2021 Asian Freight and Supply Chain (AFLAS) Awards

Risk Management/Strategic Risks

In a complex operating environment, risk is a fact of life, and it is important to the Board that material risks are identified and appropriately managed. In some cases, there is also a legal or regulatory overlay to be addressed.



Note: Only principal management relationships are depicted.

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

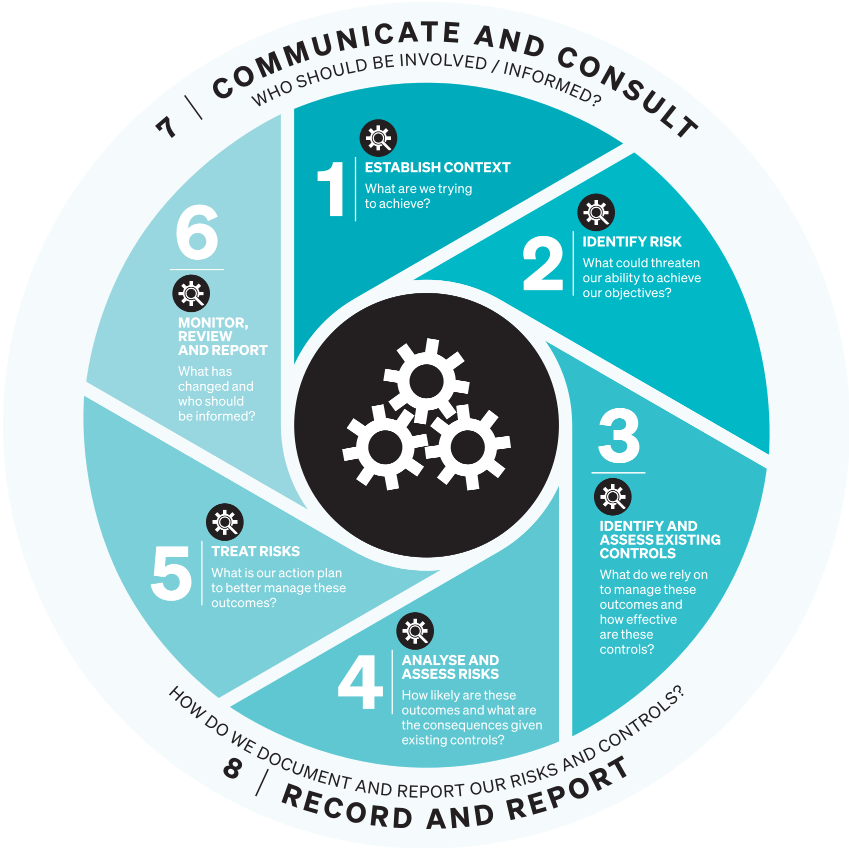
Risks are identified through both top-down and bottom-up processes, and follow a regular cadence of reporting to relevant management, Board Committees or the Board.

Each of the Strategic Risks is confirmed by the Audit and Risk Committee, and prioritised based on an assessment of the level of risk, itself a function of the likelihood and the impact of an event. All risks are also assigned a responsible manager, who ensures appropriate management of the risk. Given their significance, Principal Risks are assigned to members of the Executive Team.

A broad review of the risk management framework is underway to ensure it continues to operate effectively under the Full Potential model. As well as considering how the process will perform under the new model, recognising changes to the organisational structure and functional interactions, the exercise is addressing the cadence of risk review and reporting, and where capability can be improved. The Audit and Risk Committee is closely involved in this review.

The Company's key Strategic Risks include the risks tabulated below. The identification of Strategic Risks guides both the Board and its Committees as they address risk priorities and this year there have been deep dives on a number of these including Sustainability, Cybersecurity and Loyalty.

Particular attention has been paid to climate risks and cybersecurity, both areas where the Board has continued to up-skill and also draws on a range of internal and external advice. Risks associated with the recent deterioration in the economic sector, the knock-on effects of the Covid-19 pandemic, and the transition to the Full Potential operating framework are also being closely monitored.



CORPORATE GOVERNANCE STATEMENT (CONTINUED)

Strategic Risk Area	Description	Mitigation
Climate Change: Transitional Risks	Increasing carbon regulation globally, changing customer sentiment and constraints in relation to decarbonisation may adversely impact travel demand, cost of operations, investor expectations and Air New Zealand's social licence.	Initiatives into and promotion of sustainable fuels and zero emission aircraft, and mitigation of carbon cost. Active engagement with stakeholders, including customer-facing initiatives and climate-related financial disclosures.
Macroeconomic uncertainty	Heightened economic, geopolitical and market uncertainties could affect the ability to anticipate and plan for the recovery in travel demand (and the shape of this recovery) accurately, adversely impacting supply side planning, revenue optimisation and growth expectations.	Regular market monitoring through a range of economic and market indicators to facilitate forecasting of and planning for underlying demand, revenue and capacity.
Cybersecurity	A cyber-attack could lead 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.	Cybersecurity programme delivered by a dedicated Cybersecurity function, complemented by appropriate cybersecurity measures and insurance.
Technology debt	An aging, disparate legacy IT asset base may lead to digital disruption, impede transformation and innovation, and introduce cyber vulnerabilities and business continuity impacts.	Technology Roadmap, System Lifecycle Management and program to reduce technology debt, supported by threat and vulnerability management systems.
Breakdown in Industrial Relations	Inability to reset legacy employment agreements, pressure on pay rates and introduction of mandatory vaccines could lead to a deterioration in union relationships, a heightened risk of industrial unrest and the potential for significant operational disruption as flight demand returns in the recovery phase.	Dedicated HR team with effective union relationship management, supported by communication and issue resolution processes.
Talent risk – Retention and attraction	An intensified war for talent, industry disruption and inability to attract talent may lead to a loss of specialist critical skills, loss of institutional knowledge and capability gaps constraining the ability to move toward Full Potential transformation.	Talent Strategy review and alignment for identification of critical roles and skills, supplemented with succession planning and career development for critical roles and key talent.

Kia Mau strategies

Grow Domestic
Optimise International
Lift Loyalty
Brilliant Basics
Serious about Sustainability
Digital Dexterity
Prioritising People & Safety

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

Strategic Risk Area	Description	Mitigation
People Health, Safety and Wellbeing	Continued operational uncertainty, complexity and change in the operating environment could lead to employee fatigue, burnout, mental ill health and overall heightened wellbeing concerns.	Health, safety and wellbeing management framework and Group critical risk protocols for active monitoring and management of risks and incidents.
Competition – Traditional and Disruptive	A significant increase in disruptive competition from emerging technologies, traditional competition or airline/industry consolidation during and post Covid-19 may lead 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.
Another Pandemic or significant unforeseen macro event	The onset of an unforeseen significant macro event such as a pandemic, ongoing pandemic disruptions or other Acts of God could create uncertainty around demand/destinations for travel (domestic & international), adversely affecting operations, financial performance and the ability to deliver strategy.	Activation of Group Emergency Management Team for management of Emergency response and ongoing Business Continuity Management.
Changing customer expectations	A lack of responsiveness to changing customer expectations, adverse publicity or media perception could erode brand strength and reputation leading to loss of competitiveness and constrained growth.	Ongoing monitoring of customer satisfaction, and identification of and investment in valued customer product offerings. Responsive customer policies and reputation management.
Infrastructure Constraints	Insufficient investment in New Zealand airport infrastructure (including but not limited to air traffic control, security, lounge facilities or renewable energy generation) could constrain the future growth of the airline.	Engagement with government and airports to influence and align infrastructure planning and promote sustainable initiatives including provision for decarbonisation and new aircraft technologies.
Climate Change: Physical Risks	Climate change and the increasing frequency and severity of weather events may lead to chronic physical damage, sustained operational disruption and network growth limitations, which in turn could impact on the cost of operations and the customer experience.	Investment in new flight planning and weather tools, and continuous review of operational procedures. Promotion of sustainable aviation fuel solutions and climate-related disclosures. Ongoing engagement with key partners.

A third line of defence, behind the business's identification and management of risks, and the operation of the risk management framework and engagement of the Board and Board Committees, is the internal audit function. This group acts for the Audit and Risk Committee (and through them, the Board) to independently and objectively assess, assure and enhance the business's management of risk. Outputs from this activity can include specific action plans whose achievement is monitored by the Audit and Risk Committee.

Kia Mau strategies

Grow Domestic | Optimise International | Lift Loyalty

Brilliant Basics | Serious about Sustainability | Digital Dexterity | Prioritising People & Safety

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

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. Melissa Collier of Deloitte has been appointed in this respect, from the 2022 financial year.

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 has historically attended the Annual Shareholders' Meeting, and is available to answer relevant questions from shareholders at that meeting.

Remuneration

Director Remuneration

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

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

	Position	Fees (Per Annum)
Board of Directors	Chair[1]	$270,000
	Deputy Chair	$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 Chair receives no additional committee fees.

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. Directors have an entitlement to a limited number of free of charge flights for each year served as a director as set out in a director travel policy.

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

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

	Board Fees	ARC	HSSC	PRDC	Total Fees	Value of Travel Entitlement Utlised[1,8]
Dame Therese Walsh (Chair)	$270,000	-	-	-	$270,000	$14,008
Claudia Batten[2]	$67,436	$13,487	-	-	$80,923	$1,820
Dean Bracewell[3]	$100,000	-	$26,667 (Chair[3])	$10,000	$136,667	$19,383
Laurissa Cooney[4]	$100,000	$20,000	-	$7,500	$127,500	$32,198
Larry De Shon	$100,000	-	$20,000	-	$120,000	-
Alison Gerry[5]	$67,436	$26,975 (Chair[5])	$13,487	-	$107,898	$11,208
Paul Goulter[6]	$66,667	-	$13,333	$6,667	$86,667	-
Jonathan Mason	$100,000	$20,000	-	$20,000 (Chair)	$140,000	$43,577
Jan Dawson (Deputy Chair)[7]	$38,000	$13,333 (Chair)	-	$3,333	$54,666	-
Rob Jager[7]	$33,333	-	$13,333 (Chair)	-	$46,666	-
Linda Jenkinson[7]	$33,333	-	$6,667	-	$40,000	$43,096
Total	**$976,205**	**$93,795**	**$93,487**	**$47,500**	**$1,210,987**	**$165,290**

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. Claudia Batten was elected to the Board on 28 October 2021 and was appointed to the ARC from that date.
3. Dean Bracewell was appointed as Chair of the HSSC from 28 October 2021.
4. Laurissa Cooney was appointed to the PRDC from 28 October 2021.
5. Alison Gerry was elected to the Board on 28 October 2021 and was appointed as the Chair of the ARC and a member of the HSSC from that date.
6. Paul Goulter was elected to the Board on 28 October 2021 and was appointed to the HSSC and the PRDC from that date.
7. Jan Dawson, Rob Jager and Linda Jenkinson retired from the Board on 28 October 2021.
8. The value of the travel entitlements utilised by former directors during the 2022 financial year were as follows: Tony Carter ($9,392), Paul Bingham ($55,748), Roger France ($6,486), Jim Fox ($9,033), John Palmer ($4,232), Warren Larsen ($730), Jane Freeman ($33,192). Additional travel entitlements for Jan Dawson, Rob Jager and Linda Jenkinson $4,800, $20,875 and $68,530 respectively were utilised post their retirement on 28 October 2021 in accordance with the travel policy.

The Board disestablished the Funding Committee in February 2022. The Board also operated a special purpose committee comprising Jan Dawson (to 28 October 2021), Alison Gerry (from 28 October 2021), Jonathan Mason and Dame Therese Walsh, to assist in management of Covid-19 issues. No additional fees were payable to directors who were members of either the Funding Committee or the Covid-19 Committee.

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

EMPLOYEE REMUNERATION

	Remuneration paid in FY22 including base for FY22, incentive payments and performance rights issued under the LTI scheme	
	New Zealand Management	Aircrew, Engineering, Overseas and Other
100,000 - 110,000	177	254
110,000 - 120,000	155	227
120,000 - 130,000	117	233
130,000 - 140,000	99	198
140,000 - 150,000	80	181
150,000 - 160,000	72	112
160,000 - 170,000	47	138
170,000 - 180,000	36	136
180,000 - 190,000	31	148
190,000 - 200,000	20	102
200,000 - 210,000	17	68
210,000 - 220,000	12	56
220,000 - 230,000	10	42
230,000 - 240,000	7	61
240,000 - 250,000	6	43
250,000 - 260,000	9	25
260,000 - 270,000	4	19
270,000 - 280,000	2	34
280,000 - 290,000	1	76
290,000 - 300,000	1	19
300,000 - 310,000	1	18
310,000 - 320,000	1	10
320,000 - 330,000	-	2
330,000 - 340,000	1	17
340,000 - 350,000	2	9
350,000 - 360,000	3	31
360,000 - 370,000	-	20
370,000 - 380,000	2	11
380,000 - 390,000	4	12
390,000 - 400,000	5	3
400,000 - 410,000	2	8
410,000 - 420,000	-	5
420,000 - 430,000	1	2
430,000 - 440,000	-	5
440,000 - 450,000	2	4
450,000 - 460,000	1	3
460,000 - 470,000	-	2
470,000 - 480,000	-	4
480,000 - 490,000	1	3
500,000 - 510,000	-	1
520,000 - 530,000	1	-
530,000 - 540,000	-	1
550,000 - 560,000	3	1
560,000 - 570,000	1	-
570,000 - 580,000	1	1
580,000 - 590,000	1	-
630,000 - 640,000	1	-
650,000 - 660,000	2	-
680,000 - 690,000	1	-
700,000 - 710,000	1	-
710,000 - 720,000	1	-
740,000 - 750,000	1	-
850,000 - 860,000	2	-
960,000 - 970,000	1	-
1,020,000 - 1,030,000	1	-
1,030,000 - 1,040,000	1	-
2,640,000 - 2,650,000	1	-
Grand Total	**949**	**2,345**

REMUNERATION REPORT

Remuneration Philosophy

Air New Zealand's remuneration philosophy is aligned with its recruitment and leadership development philosophies and performance management approaches to ensure the attraction, development, and retention of talented individuals.

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

Executive remuneration

The CEO and Executive remuneration packages are made up of three components:

- Fixed remuneration;
- Short-term performance incentives; 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 priorities and performance outcomes.

Fixed remuneration

Air New Zealand's philosophy is to set fixed remuneration at the market median for Executives who are fully competent in their role. For the 2022 financial year the Air New Zealand's Chief Executive Officer fixed remuneration reverted to his contractual amount following an agreed reduction by the Chief Executive Officer and other Executives of 15% in the 2021 financial year due to the impact of Covid-19.

Short-term performance incentives

The annual performance incentive component is delivered through Air New Zealand Short-Term Incentive Scheme (STI). For the CEO, the STI is set at 55% of annual fixed salary at target performance.

For the 2022 financial year short-term incentive scheme, the structure of the scheme was changed from prior years by:

- Changing the targets and weightings. Previously the scheme was based on individual performance and company profitability targets. The 2022 financial year targets were based on a broader range of business measures to promote collaboration through shared objectives and support the business recovery. 50% of the incentive is based on Group financial results, and 50% is based on Group customer, operational and safety measures.
- The maximum payment is capped at 175% of target if all performance measures are exceeded (vs. 200% for prior years).

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 2022 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. 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)

REMUNERATION REPORT (CONTINUED)

If vesting is not achieved on the third anniversary of the issue date, 50% of the performance rights will lapse. For the remaining 50% there will be a further 6 month opportunity for the performance rights to vest. If performance rights do not vest at that time, they also lapse.

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

Mandatory Shareholding

Participants are required to commit to investing a specified amount to purchase shares in the Company. The amount is set at a value of 55% of the fixed remuneration for the CEO, and between 20% and 40% of fixed remuneration for Executives.

Until participants have attained this target, any shares issued to them from vested performance rights must be retained as part of the mandatory shareholding. This holding must be maintained while continuing to participate in the LTIP. Executives are not required to purchase shares outside of the LTIP to satisfy this mandatory shareholding requirement.

Chief Executive Officer Remuneration

CEO Target Remuneration

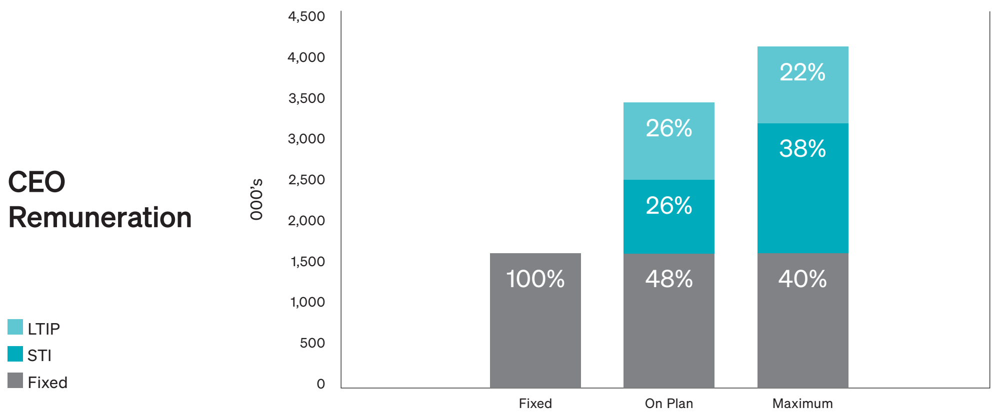
Based on remuneration components outlined earlier, CEO target remuneration is as follows:

Financial Year	CEO	Salary[1] $	Benefits[2] $	STI[3] $	LTIP[4] $	Summary $
2022	Greg Foran	1,664,479	113,643	915,464	915,464	3,609,050
2021	Greg Foran	1,650,000	111,652	907,500	907,500	3,576,652
2020	Greg Foran	1,650,000	102,300	907,500	907,500	3,567,300

1. These are full year salary equivalents. As part of the response to Covid-19, Greg Foran's annual contracted salary decreased from $1,650,000 to $1,400,000 for the 2021 financial year.
2. Benefits include superannuation and travel taken in the relevant financial year. As a member of the scheme the CEO is eligible to contribute and receive matching Company contribution up to 4% of gross taxable earnings (including STI). The CEO and eligible beneficiaries are entitled to a number of trips for personal purposes at no cost to the individual. The dollar value represents the actual benefit received in each financial year, as no target is available for benefits. For Greg Foran's benefit calculation, 4% KiwiSaver on his target STI has been included as no actual STI was available. This is an estimated figure which will be confirmed at the end of the financial year.
3. STI target entitlement is 55% of salary.
4. 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.

CEO Remuneration Structure

The CEO remuneration structure is consistent with the executive management remuneration structure described previously. The CEO remuneration target and maximum total remuneration mix for the 2022 financial year is set out below.



REMUNERATION REPORT (CONTINUED)

CEO Realised Remuneration

Financial Year		CEO	Salary[1] $	Benefits[2] $	STI[3] $	LTIP[4] $	CRSRP[5] $
2022	01/07/21 – 30/06/22	Greg Foran	1,657,169	76,733	613,361	-	-
2021	01/07/20 – 30/06/21	Greg Foran	1,400,000	65,352	-	-	-

Comments to the table:

1. Salary includes cash paid to, or received by, the CEO in respect of the financial period. As part of the response to Covid-19, Greg Foran agreed to reduce his annual contracted salary from $1,650,000 to $1,400,000 for the 2021 financial year.
2. Benefits include superannuation and travel. As a member of the Air New Zealand's group superannuation 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.
3. STI in the reporting period reflects the cash value of amounts received where entitlement is determined by the achievement of performance measures that relate to the current period and is not the result of an award made in a previous period.
4. LTIP includes the number of shares issued to the CEO on conversion of the Performance Rights, where the Air New Zealand share price has outperformed the performance hurdle. The performance hurdle comprises of an index made up of the NZSX All Gross Index and the Bloomberg World Airline Total Return Index in equal proportions. No rights converted to shares in the 2022 financial year.

CEO Share Rights Granted 2022 Financial Year

CEO	LTIP[1] #
Greg Foran	953,256

Comments to the table:

1. LTIP includes the number of Performance Rights granted in September 2021 (2022 financial year). The Long-Term Incentive Plan remains at risk. Three years after the date of issue of any Performance Rights, if the Air New Zealand share price has outperformed the performance hurdle, a proportion of the Performance Rights will convert to shares. The performance hurdle comprises of an index made up of the NZSX All Gross Index and the Bloomberg World Airline Total Return Index in equal proportions. Should Air New Zealand's share price not perform better than a comparison index the granted Performance Rights will lapse.

CEO Pay for Performance Calculation

Scheme	Description	Performance Measures	Percentage/Rating Achieved
STI	STI is set at 55% of fixed remuneration and is based on Company performance measures.	100% based on Air New Zealand business measures 50% on Group financial measures 50% on Group customer, operational and safety measures.	14% achieved on financial measures 53% on non-financial measures 67% overall outcome
LTIP	Award of share rights under the Long-Term Incentive Performance Rights Plan is set at 55% of fixed remuneration.	Performance rights vest based on an index made of the NZSX All Gross Index and the Bloomberg World Airline Total Return Index in equal proportions.	100%

CLIMATE-RELATED DISCLOSURES

Taskforce on Climate-related Financial Disclosures (TCFD)

The airline committed to supporting the TCFD in 2019. The following disclosures summarise how the airline aligns with the TCFD recommendations.

Governance of Climate-related Risks and Opportunities

TCFD Recommendation:
Board's oversight of climate-related risks and opportunities

The Board considers and provides direction on the airline's strategic consideration of the impacts of climate change.

The Board is ultimately responsible for the airline's response to the risks and opportunities presented by climate-related issues. Board oversight is through its Audit and Risk Committee, which oversees key strategic risks including climate change.

This Committee meets quarterly and, amongst other things, considers updates on management of strategic risks biannually. 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 airline's Group Risk Profile which is an output of the airline's Enterprise Risk Management Framework (ERMF).

The airline's external Sustainability Advisory Panel, consisting of subject matter experts, provides independent advice to the Board (and Management) on all aspects of the airline's sustainability strategy. This assists the airline to improve and develop its strategic response to the impacts of climate change.

TCFD Recommendation:
Management's role in assessing and managing climate-related risks and opportunities

Management has day-to-day responsibility for identifying and managing climate-related risks and opportunities.

Climate-related workstreams are the responsibility of the full Leadership Squad, operational management, and the Sustainability Centre of Excellence. Management focus is given to risk identification and ensuring that climate-related activities are adequately resourced (for example, programmes of work relating to Sustainable Aviation Fuel (SAF), zero emissions aircraft technologies (ZEAT), carbon offsetting, and regulatory compliance). Key issues are reported up to the Audit and Risk Committee as appropriate.

Sustainability is affirmed as a group policy and is reflected in the airline's Code of Conduct and Ethics and its Supplier Code of Conduct, which set expectations of employees and of those the airline does business with.

Strategy

TCFD Recommendation:

1. *Climate-related risks and opportunities identified over the short, medium, and long-term*
2. *Actual and potential impacts of climate-related risks and opportunities on the Company's strategy and financial planning*
3. *Resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario*

In 2020 the airline set a goal to achieve net zero carbon emissions by 2050 and developed an updated decarbonisation strategy to meet this. The strategy includes investment in and advocacy to support the availability and commercial viability of SAF, investment in resource and capability to bring ZEAT to market, and ongoing engagement with stakeholders to achieve carbon emissions reductions across the network. The strategy was informed by the risks and opportunities which have been identified by the airline as part of its TCFD disclosure workstream.

In 2022, the airline launched Flight NZ0, its public campaign promoting its commitment to decarbonisation. Flight NZ0 is about acknowledging the impact of aviation on the climate and taking genuine action to decarbonise the operation. It is designed to provide transparency for customers as to the airline's decarbonisation goals and the concrete steps it is taking to meet these.

CLIMATE-RELATED DISCLOSURES (CONTINUED)

Strategy *(continued)*

Transition Risks and Opportunities

Transition risks and opportunities are those related to the transition to a lower carbon economy. These include the impact of policy, legal, technological, reputational or market measures associated with climate change and decarbonisation.

In 2022, the airline engaged third-party experts Ernst and Young (EY) to consider for the first time the transition risks and opportunities and the impact of these to the airline across three climate-related scenarios. The risks and opportunities were analysed over three different time horizons: short-term (2019-2030); medium-term (2031-2040); and long-term (2041-2050).

The three climate change scenarios, each representing different climate warming and transition trajectories, are outlined in ***Figure 1*** over page. These three trajectories were chosen to align with the TCFD recommendation to use a 2˚C or lower scenario in addition to two or three other scenarios most relevant to the business's circumstances.

The three scenarios were developed using a combination of inputs from four leading scenario providers: the Network for Greening the Financial System (NGFS), the International Energy Agency (IEA), the Air Transport Action Group (ATAG) Waypoint 2050 Report, and the New Zealand Climate Change Commission's (NZCCC's) Energy and Emissions modelling.

These four scenario providers were selected to achieve the granularity and aviation-specificity required for meaningful and decision-useful scenario analysis. This aligns with guidance from the New Zealand External Reporting Board (XRB) on using sector-specific scenarios and balances the need for aviation-specific data points with the required climate warming trajectories to sufficiently stress test the airline's strategy under different climate change scenarios.

EY used a proprietary transition risk model designed for the aviation sector to perform the modelling. This model calculates the greenhouse gas emissions profile and cost implications based on various data inputs out to 2050. These inputs were compiled from a combination of data from the airline and external data sources and assumptions.

The overarching conclusion from the modelling was that total incremental costs to the airline would be larger in the disorderly scenario due to delayed policy, investment, and emissions reductions, which increases technology costs and results in a higher carbon price.

The airline will continue to build on this scenario analysis to deepen its understanding of the impacts of climate change under different warming scenarios, the resilience of the company strategy in the face of these, and potential resulting material financial implications.

The airline plans to conduct physical risk analysis in the 2023 and 2024 financial years.

CLIMATE-RELATED DISCLOSURES (CONTINUED)

Strategy *(continued)*

Transition Risks and Opportunities (continued)

Figure 1.

The airline's climate scenarios for the consideration of transition risks[1]

Scenario – 1 **Orderly Scenario** 1.5˚C	*Scenario – 2* **Disorderly Scenario** 1.8˚C	*Scenario – 3* **Business as Usual Scenario** 2.5˚C
• Emissions in the wider economy decline in a coherent and gradual fashion from now out to net zero emissions in 2050 • The aviation sector lags the wider economy by 5-10 years with meaningful decarbonisation starting from 2030-2050 • Global warming is limited to 1.5˚C	• Emissions in the wider economy slowly rise until 2030, before an abrupt and steep transition to net zero by 2050 • The aviation sector lags the wider economy, delaying implementation of decarbonisation strategies until 2035-2040 which requires a very sudden fleet turnover to reach net zero in 2050 • Global warming is limited to 1.8˚C	• Emissions in the wider economy continue to rise out to 2050 with minimal action by governments to address climate change beyond those already known and in place • The airline's current decarbonisation strategy is considered sufficient to mitigate reputational risks • The aviation sector does not implement any decarbonisation strategies unless it is economically preferable • Global temperatures increase to 2.5˚C
Impact • Airline impacted by short, medium and long term transition risks due to regulatory action to decarbonise the economy in line with limiting global warming to 1.5˚C • This scenario has lower potential costs from transition impacts than the Disorderly Scenario	**Impact** • This scenario would see the most impact and cost on the airline from transition risks due to delayed action to decarbonise the economy, requiring rapid change from 2035-2050	**Impact** • Given Business as Usual assumes no further regulatory action, risks related to this would have less impact on the airline than under the other scenarios • Physical risks likely to be the highest of the scenarios and significant but not modelled
External scenarios • NGFS 2021: Net Zero 2050 • IEA World Energy Outlook (WEO) 2021: Net Zero Emissions by 2050 Scenario • ATAG Waypoint 2050: Scenario 1: pushing technology and operations • NZCCC: Demonstration Path	**External scenarios** • NGFS 2021: Delayed transition • A combination of Business as Usual / Reference and Orderly Scenario external scenario providers to 2030-2035 before linearly shifting to an end point slightly higher than the Orderly Scenario	**External scenarios** • NGFS 2021: NDCs • IEA WEO 2021: Stated Policies Scenario • ATAG Waypoint 2050: Scenario 0: Baseline / continuation of current trends • NZCCC: Current Policy Reference

[1] The airline selected these three warming scenarios to consider transition risks, in accordance with TCFD and XRB recommendations at the time. For future scenario modeling exercises, including the modeling of physical risks planned for 2023, the airline will include consideration of a 3˚C or greater climate-related scenario in accordance with the most recent XRB recommendations.

CLIMATE-RELATED DISCLOSURES (CONTINUED)

Strategy *(continued)*

Transition Risks

The transition risks defined below have been informed by the climate-related scenario modelling outlined above.

S **Short-term** *2022 – 2030*

M **Medium-term** *2031 – 2040*

L **Long-term** *2041 – 2050*

Risk	TCFD category and timeframe	Risk description	Potential financial impacts	Mitigation
Carbon pricing	Policy and legal S M L	Increased carbon-related regulation in New Zealand and internationally. Current compliance obligations include the New Zealand Emissions Trading Scheme (NZETS) for emissions from domestic aviation fuel, and the Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA) for growth in international emissions from a 2019 baseline.	New or increased carbon taxes present risk to EBIT by increasing operating expenditure.	• Future carbon pricing assumptions considered in operational and strategic planning. • Implementation of the airline's decarbonisation strategy to achieve reductions in gross carbon emissions, including improvements to operational efficiency, ongoing fleet renewal, investment in and advocacy to accelerate the availability and commercial viability of SAF, and advocacy and planning for ZEAT. • The airline is advocating for NZETS auction proceeds to be used to accelerate the development and deployment of technologies to enable aviation decarbonisation. The airline's compliance costs for the NZETS were $14.4 million (calendar year 2021), $14.5 million (calendar year 2020) and $14.6 million (calendar year 2019). • Monitoring international regulatory developments to understand risk and opportunities.
Government policy changes	Policy and legal S M L	Implementation or expansion of domestic and international policy regulating carbon emitting activities. Examples include emissions trading schemes, carbon taxes, passenger levies, SAF mandates, or demand control measures. Differing international standards could also introduce compliance complexity, and risk distorting the competitive composition of the market.	Increased operational and compliance costs present risk to EBIT.	• The airline actively engages in government consultations on climate change policy with the goal of advancing aviation decarbonisation. This includes advocating for new policy measures to support the supply of SAF. Public submissions and advocacy documents can be found on the airline's website[2]. • Implementation of the airline's decarbonisation strategy to achieve reductions in gross carbon emissions, including improvements to operational efficiency, ongoing fleet renewal, investment in and advocacy to accelerate the availability and commercial viability of SAF, and advocacy and planning for ZEAT. • Monitoring international regulatory developments to understand risk and opportunities.

[2] Air New Zealand Sustainability Reporting and communications www.airnewzealand.co.nz/sustainability-reporting-and-communication.

CLIMATE-RELATED DISCLOSURES (CONTINUED)

Strategy *(continued)*

Transition Risks (continued)

Risk	TCFD category and timeframe	Risk description	Potential financial impacts	Mitigation
Cost and supply of Sustainable Aviation Fuel (SAF)	Technology S M L	Cost of SAF is around 2 to 5 times the cost of jet fuel. SAF supply is limited: current SAF production is equivalent to less than 1% of the jet fuel that is consumed globally. In addition, supply is geographically constrained, with production based in jurisdictions with supporting policy: there is currently no SAF produced in the Asia-Pacific region.	SAF cost presents a risk to EBIT by increasing operating expenditure and compliance costs. SAF supply limitations present a risk to EBIT from increased compliance costs and reputational damage.	• Continuing advocacy[3] for new policy measures to support the supply and commercial viability of SAF in New Zealand, including advocating for a SAF-specific mandate, and SAF-specific policies to support the establishment of import supply chains and domestic production. • Partnership[4] with the New Zealand Government to explore domestic SAF production in New Zealand, to secure local supply and improve fuel security. • Membership in World Economic Forum Clean Skies for Tomorrow Coalition[5]. • Collaboration with partner airlines on developing global SAF supply, including Star Alliance members.
Rapid fleet renewal	Technology M L	Rapid fleet renewal to mitigate emissions. Risk that technology does not develop sufficiently to meet emissions reduction goals.	Acquiring ZEAT represents an upfront cost increasing capital and operating expenditures. Technology lag presents a risk to EBIT from increased compliance costs and reputational damage.	• Engaging with aircraft designers to support the development of these aircraft, including providing the airline's own specifications[6] for ZEAT. • Partnership[7] with Airbus to explore the deployment of hydrogen-powered aircraft in New Zealand. • Continuing advocacy for new policy and regulatory measures to support the deployment of ZEAT in New Zealand, including through new infrastructure and energy supply. • Partnership[7] with ATR to explore hybrid and zero emissions aircraft technology. • Partnership[7] with Wisk Aero exploring how electric vertical take-off and landing (eVTOL) aircraft could potentially enable zero emissions short-range domestic flights.
Reduced travel demand due to changes in consumer preferences, and damage to brand value	Reputation / Market S M L	Increasingly climate conscious customers – leisure and business travellers seeking to reduce their own emissions footprint may reduce air travel consumption.	Reduced air travel demand and eroded brand value presents risk to EBIT by reducing revenue.	• Building on current carbon reporting provided to corporate customers, providing Air New Zeakand-specific carbon data to better inform customers as to their emissions footprints from travel. • Developing a corporate and cargo SAF purchasing programme, to enable emissions reductions in-line with the Science Based Targets initiative guidelines. • Flight NZ0[8] to inform customers as to the actions the airline is taking to decarbonise, and further plans for decarbonisation as the technology matures in the medium to long-term.

[3] Air New Zealand Sustainability Reporting and communications www.airnewzealand.co.nz/sustainability-reporting-and-communication.
[4] Air New Zealand Flight NZ0 Sustainable aviation fuel www.flightnz0.airnewzealand.co.nz/#saf.
[5] World Economic Forum Clean Skies for Tomorrow Coalition www.weforum.org/projects/clean-skies-for-tomorrow-coalition.
[6] Air New Zealand Zero Emissions Aircraft Product Requirements Document www.flightnz0.airnewzealand.co.nz/initiatives/zero-emissions-aircraft-technology.
[7] Air New Zealand Flight NZ0 Zero emissions aircraft technology www.flightnz0.airnewzealand.co.nz/initiatives/zero-emissions-aircraft-technology.
[8] Air New Zealand Flight NZ0 www.flightnz0.airnewzealand.co.nz.

CLIMATE-RELATED DISCLOSURES (CONTINUED)

Strategy *(continued)*

Transition Opportunity

Opportunity	TCFD category and timeframe	Description	Potential financial impacts	Mitigation
Increased demand for net zero emissions flying	Products and services S M L	Increasing market share and potential price premiums from business and leisure customers seeking net zero emissions flying.	Increased revenue through demand for lower emission air travel. Better competitive position resulting in increased revenue. Improved access to decarbonisation technologies. Continued access to capital.	• Continue to implement decarbonisation roadmap and to identify new opportunities to decarbonise. • Continue to engage with stakeholders through Flight NZ0[9], as outlined on previous page. • Engage with corporate and cargo customers to develop SAF purchasing programme and provide airline-specific carbon emissions data, as outlined on previous page.

Physical Risks

Physical risks are risks arising from changes in the regional and global climate and the consequential impacts and events. These may include acute physical damage from variations in weather patterns (for example severe storms, coastal/tidal flooding, drought) or chronic impacts (for example sea level rise and temperature increase).

Risk	TCFD category and timeframe	Description	Potential financial impacts	Mitigation
Extreme weather events	Acute Physical S M L	Increasing frequency of extreme weather events resulting in greater disruption to flights and the wider network.	Decrease in flying presents risk to EBIT by reducing revenue. Damage to infrastructure presents risk of increasing capital costs. Increased insurance premiums and potential for reduced availability of insurance on assets in "high risk" locations.	• Implementation of flight planning software using advanced data analytics to optimise flight paths both in planning and dynamically once aircraft are airborne. • Investment in advanced operations control thunderstorm detection in Auckland enabling proactive direct-to-aircraft-crew notification. • The airline is a member of New Zealand's New Southern Sky Programme which has been established to future proof New Zealand's airspace with the deployment of advanced technology adoption.
Sea level rise and coastal intrusion	Chronic Physical M L	Sea level rise and coastal intrusion causing network disruption and loss of access to airports, other aviation support facilities, critical infrastructure and supply chains.	Decrease in flying presents risk to EBIT by reducing revenue. Damage to infrastructure presents risk of increasing capital costs. Increased insurance premiums and potential for reduced availability of insurance on assets in "high risk" locations.	• Spatial master planning process identifies infrastructure risks and these are reflected in master planning. • Ensuring maintenance is fit for purpose and current to legislation and regulation for building resilience.

[9] Air New Zealand Flight NZ0 www.flightnz0.airnewzealand.co.nz.

CLIMATE-RELATED DISCLOSURES (CONTINUED)

Risk Management

TCFD Recommendation :

1. *Processes for identifying and assessing climate-related risks*
2. *Processes for managing climate-related risks*
3. *Processes for identifying, assessing and managing climate-related risks and integrating them into overall risk management*

Risks are identified at various levels of the organisation, including a "bottom up" review involving the identification of key risks by business units and a review of top divisional risks by each Executive in respect of their portfolio of functions.

These processes are supplemented with specialist input from functional experts, including from the Sustainability, Corporate Finance, Legal and Risk teams, to promote consistency and completeness. Key climate-related risks and opportunities are also identified, assessed, and managed by each business unit in accordance with this process.

Risks identified through this process are analysed and consolidated by the Enterprise Risk team to inform the Group Risk Profile, representing the top strategic risks for the airline.

Periodic workshops are held with the Board to gain insights and input, including into risk identification, assessment, and management.

Key risks identified are entered into Risk Registers and a formal assessment process determines the materiality of the risk. Risks are assigned to a responsible manager. Key mitigations for identified risks are determined and assessed for effectiveness and action plans developed where required to reduce the risks to an acceptable level.

Significant climate-related risks are brought to the attention of the Leadership Squad 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

TCFD Recommendation:

1. *Metrics used by the organisation to assess climate-related risks and opportunities in-line with its strategy and risk management process*
2. *Reporting greenhouse gas emissions*
3. *Targets used by the organisation to manage climate-related risks and opportunities and performance against targets*

The airline uses a range of carbon metrics in its internal reporting, strategy formation and decision making. This includes metrics related to assessing the impact of gross carbon emissions, emissions intensity values and the value of New Zealand's carbon compliance obligations. Key metrics are reported below.

The impact of Covid-19 has had a significant impact on the airline's operations and network as well as the key metrics that the airline reports on. As a consequence, it is difficult to meaningfully compare the key metrics with prior years.

CLIMATE-RELATED DISCLOSURES (CONTINUED)

Metrics and Targets (continued)

Carbon Emissions Data (Tonnes CO_2-e)[1]	2020	2021	2022
Scope 1 – International network emissions (Jet Fuel)	2,649,922	817,078	1,040,786
Scope 1 – Domestic network emissions (Jet Fuel)	518,607	508,737	465,303
Scope 1 – Other emissions[2]	8,106	7,376	6,796
Total Scope 1 emissions	3,176,635	1,333,191	1,512,885
Scope 2 – Emissions (Electricity)	2,832	2,720	2,736
Scope 3, Category 3 (Upstream emissions of purchased fuels)[3]	-	-	307,335
Total Scope 1, Scope 2 and Scope 3 (category 3) emissions	-	-	1,822,956

[1] The airline discloses its emissions within its Greenhouse Gas (GHG) Inventory report. Full definitions of emission scopes can be found within that report; extracts from that report are duplicated here within. Deloitte was engaged to provide reasonable assurance over the scope 1 and scope 2 components over the GHG Inventory Report, and limited assurance over the scope 3, category 3 components. Refer to the reporting and communications page on Air New Zealand's website for the full GHG Inventory and Assurance Report. Gases included in the carbon dioxide equivalents (CO_2-e) factor are carbon dioxide (CO_2), methane (CH_4) and nitrous oxide (N_2O).

[2] Scope 1 other emissions include the combustion of jet fuel from ground operations, LPG, natural gas, diesel, petrol, and wood pellets.

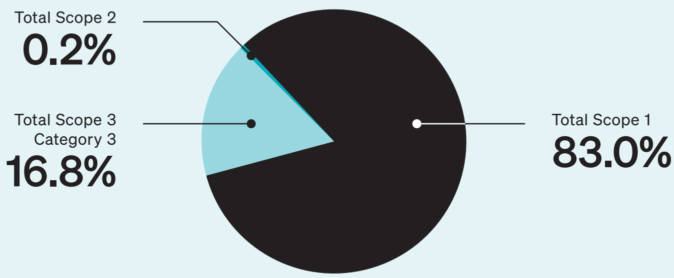
[3] Scope 3, category 3 emissions include emissions generated in the extraction, production, and transportation of fuels consumed by the airline. 2022 is the first year that Scope 3 (Category 3) emissions have been reported.

Commentary on Carbon Emissions Data

Total Scope 1 and 2 emissions increased by 13% in 2022. This increase was due to the increase in Scope 1 emissions resulting from greater network capacity as New Zealand's Covid-19 restrictions eased through 2022. These emission levels remain significantly lower than pre-Covid-19 levels.

In 2022 the airline disclosed its scope 3, category 3 emissions for the first time. Category 3 emissions are the airline's predominant source of scope 3 emissions.

Emissions Analysis

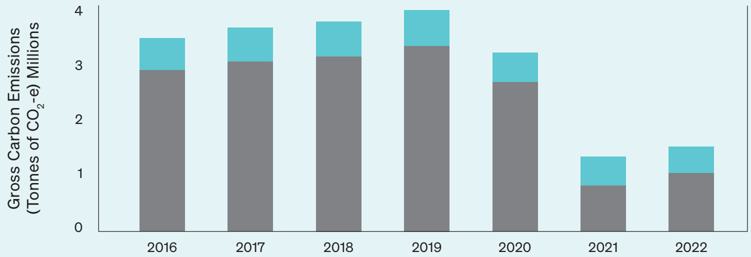


CLIMATE-RELATED DISCLOSURES (CONTINUED)

Metrics and Targets (continued)

Gross Carbon Emissions (CO_2-e)

International
Domestic



Carbon Intensity Data

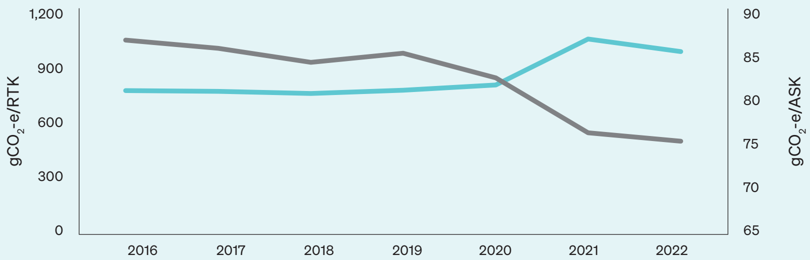
Carbon intensity data below provides a measure of emissions generated for each kilogram of payload flown and each available seat. Payload carriage is expressed as Revenue Tonne Kilometre (RTK)[4] and seat availability is measured in Available Seat Kilometre (ASK)[5].

These are both prominent metrics for benchmarking airline carbon intensity. The airline aims to improve carbon intensity by reducing emissions from flight operations and maximising total payload carriage.

Carbon Intensity Metrics	2020	2021	2022
Grams of CO_2-e per Available Seat Kilometre (ASK)	82	76	75
Grams of CO_2-e per Revenue Tonne Kilometre (RTK)	789	1,039	971
Well-to-Wake Grams of CO_2-e per Revenue Tonne Kilometre (RTK)[6]	-	-	1,165

Carbon Intensity Analysis

gCO_2-e/ASK
gCO_2-e/RTK



Commentary on Carbon Intensity Metrics

The airline's carbon intensity (measured in gCO_2–e/RTK) decreased 7% compared to 2021. This improvement was largely due to easing New Zealand border restrictions leading to higher load factors on the network. However, this metric still remains elevated when compared to pre-Covid-19 levels due to the national lockdowns and border restrictions in place at varying times throughout the 2022 financial year.

While the airline's carbon intensity (measured in gCO_2–e/RTK) has trended upwards through the Covid-19 impacted period, carbon intensity (measured in gCO_2–e/ASK) has continued a downward trend, decreasing 12% between 2019 to 2022. This reduction has been a result of the improved efficiency achieved through the retirement of the Boeing 777-200ER fleet and continued efforts to improve operational efficiency.

[4] Revenue Tonne Kilometre (RTK) is a measure of the weight that has been paid for on the aircraft (freight and passengers) multiplied by the number of kilometres transported. Freight values are from the airline's records, and passenger weights are estimated at 100kg per passenger (including checked and carry-on baggage) as recommended by IATA for generating a fuel-efficiency target. CO_2-e emissions are from the airline's use of aviation fuel over the same time period.

[5] Available Seat Kilometre (ASK) is measured by the available seats for sale multiplied by the number of kilometres transported. The airline has participated in the Maintaining International Air Connectivity scheme using passenger aircraft to fly cargo-only flights. The equivalent ASK's from these flights has been included in the total ASK number.

[6] Well-to-Wake (WTW) emissions cover the activities and accompanying emissions across the value chain of jet fuel in the aviation sector. WTW emissions can be split into two components: Well-to-Tank (WTT) which encompasses emissions from feedstock sourcing, processing and transportation to fuel production and distribution (measured as scope 3, category 3 emissions); and Tank-to-Wake (TTW) includes emissions from the combustion of fuel (measured as scope 1 emissions).

CLIMATE-RELATED DISCLOSURES (CONTINUED)

Metrics and Targets (continued)

Targets

The airline has set a 2030 science-based target (as outlined below), validated by the Science Based Targets initiative. The target includes a carbon intensity reduction component and an associated gross emissions reduction component. The target is aligned to a 'well below 2°C' pathway[7] and requires an absolute reduction in carbon emissions, with no provision for carbon offsets. Each component of the target should be considered side-by-side for a balanced view of performance against the target.

The airline's science-based carbon reduction target

Air New Zealand commits to reduce Well-to-Wake GHG emissions related to jet fuel by 28.9% per Revenue Tonne Kilometre from owned operations, equivalent to a 16.3% absolute reduction, by 2030 from a 2019 base year[8]

Summary of Climate Targets

- Commitment to net zero carbon emissions by 2050.
- Validated 2030 science-based carbon reduction target (as outlined above).
- The airline has signed the Clean Skies for Tomorrow 2030 Ambition Statement, pledging support for SAF and committing to help accelerate the supply and use of SAF to reach 10% of global jet aviation fuel supply by 2030.
- A cap on net CO_2 emissions from international aviation from 2020. Achieved through the Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA).

[7] The Science Based Targets initiative does not provide a 1.5˚C aligned pathway for the aviation industry.

[8] Non-CO_2-e effects which may also contribute to aviation induced warming are not included in this target. The airline commits to report publicly on its collaboration with stakeholders to improve understanding of opportunities to mitigate the non-CO_2-e impacts of aviation annually over its target timeframe. The target boundary includes biogenic emissions and removals from bioenergy feedstocks.

Next steps for the airline's TCFD work plan

- Use and build on transition risk scenario modelling that has been undertaken to deepen understanding of the impacts of climate change under different warming scenarios, the resilience of the airline strategy in the face of these, and potential resulting material financial implications.
- Conduct physical risk scenario modeling, including analysis of a 3˚C or greater climate-related scenario and consideration of possible adaptation measures required.
- Contribute to sector wide scenario modelling as applicable.
- Progress towards full compliance with New Zealand's Climate-related risk disclosure standards.

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 2021 are italicised.

Dame Therese Walsh	Antarctica NZ ASB Bank Limited Climate Change Commission – nomination panel Contact Energy Limited – ceased 31 August 2021 On Being Bold Limited Therese Walsh Consulting Limited Wellington Homeless Women's Trust	Director Director (Chair) Member Director Director Director Ambassador
Claudia Batten	*Pyper Vision Limited* *Serko Limited* *Vista Group International Limited* *Wonderful Investments Limited*	*Shareholder* *Chair* *Director* *Director*
Dean Bracewell	Ara Street Investments Limited Dean Bracewell Limited Freightways Limited Halberg Trust *Port of Tauranga Limited* Property for Industry Limited Tainui Group Holdings Limited	Director and Shareholder Director and Shareholder Shareholder Director *Director* Director Director
Laurissa Cooney	*Accordant Group Limited* *GMT Bond Issuer Limited* *GMT Wholesale Bond Issuer Limited* Goodman (NZ) Limited *Goodman Property Aggregated Limited* Ngā Tāngata Tiaki – Audit Committee – ceased 25 March 2022 Ngāi Tai ki Tāmaki Charitable Investment Trust The Aotearoa Circle Trust Western Bay of Plenty Tourism and Visitors Trust ("Tourism Bay of Plenty")	Director *Director* *Director* Director *Director* Member Trustee Guardian Trustee (Chair)
Larry De Shon	The Hartford Financial Services Group, Inc *United Rentals, Inc*	Director *Director*
Alison Gerry	*ANZ Bank New Zealand Limited* *Asteron Life Limited – ceased 11 May 2022* *Glendora Avocados Limited* *Glendora Holdings Limited* *Infratil Limited* *On Being Bold Limited* *Sharesies AU Group Limited* *Sharesies Group Limited* *Sharesies Investment Management Limited* *Sharesies Limited* *Sharesies Nominee Limited* *Vero Insurance New Zealand Limited – ceased 11 May 2022* *Vero Liability Insurance Limited – ceased 11 May 2022*	*Director* *Director* *Director* *Director* *Director* *Director* *Director* *Director* *Director* *Director* *Director* *Director* *Director*
Paul Goulter	*New Zealand Educational Institute Te Riu Roa Incorporated – ceased 18 Feb 2022* *New Zealand Nurses Organisation Incorporated* *The Co-operative Bank Limited – ceased 31 December 2021*	*Officer* *Officer* *Director*
Jonathan Mason	Beloit College (USA) Board of Trustees – ceased May 2022 Dilworth School for Boys *University of Auckland Council* University of Auckland Endowment Fund Vector Limited Westpac New Zealand Limited World Wide Fund for Nature New Zealand Zespri Group Limited	Trustee Trustee *Member* Trustee Director Director Trustee Director

Disclosures were also made during the period by Jan Dawson (who resigned from the Board on 28 October 2021) of appointments as a director of Ports of Auckland Limited and Serko 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 2022 as below:

	Interest	Shares
Dean Bracewell[1]	Beneficial	125,000
Laurissa Cooney	Beneficial	146,570[3]
Larry De Shon	Beneficial	1,002,514
Alison Gerry[2]	Beneficial	84,393
Jonathan Mason	Beneficial	164,000
Dame Therese Walsh	Beneficial	500,000

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

	Transaction	Date	Number	Consideration
Dean Bracewell[1]	Purchase	9 May 2022	125,000	$98,100
Laurissa Cooney	Purchase Purchase	14 June 2022 16 June 2022	107,570 39,000	$59,701 $22,035
Larry De Shon	Issue[4] Issue[5] Purchase Purchase	9 May 2022 9 May 2022 6 June 2022 7 June 2022	100,000 137,514 304,843 410,157	$53,000 $111,386 $197,102 $263,799
Alison Gerry[2]	Purchase Purchase	9 May 2022 12 May 2022	56,660 27,733	$45,895 $19,968
Jonathan Mason	Issue[4] Purchase	9 May 2022 7 June 2022	58,000 77,000	$30,740 $49,665
Dame Therese Walsh	Issue[4] Purchase	9 May 2022 12 May 2022	200,000 200,000	$106,000 $146,875

1. Dean Bracewell holds his interest through an associated person, Ara Street Investments Limited
2. Alison Gerry holds her interest via Sharesies Nominees Limited.
3. Laurissa Cooney has an interest in 107,570 shares through a Craigs' KiwiSaver Scheme, and 39,000 shares personally held.
4. Issue of Shares pursuant to the Rights Offer
5. Issue of Shares pursuant to the Bookbuild

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.

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 2022. Those who resigned during the year are signified by (R). These companies are New Zealand incorporated companies except where otherwise indicated.

No director of any subsidiary received beneficially any director's fees or other benefits except as an employee.

Air Nelson Limited	Kelvin Duff Jennifer Page Michael Williams
Air New Zealand Aircraft Holdings Limited	Jennifer Page Baden Smith Richard Thomson
Air New Zealand Associated Companies Limited	Jennifer Page Leila Peters Richard Thomson
Air New Zealand Associated Companies (Australia) Limited (Note 2)	Jennifer Page (R) Richard Thomson (R)
Air New Zealand Express Limited	Jennifer Page Richard Thomson
Air New Zealand Regional Maintenance Limited	Hamish Curson Brendon McWilliam Skye Daniels (R) Carrie Hurihanganui (R)
Air New Zealand Travel Business Limited (Note 2)	Jennifer Page (R) Richard Thomson (R)
ANNZES Engines Christchurch Limited	Jennifer Page Richard Thomson
Ansett Australia & Air New Zealand Engineering Services Limited (Note 2)	Jennifer Page (R) Richard Thomson (R)
Eagle Airways Limited (Note 1)	Jennifer Page (R) Michael Williams (R)
Mount Cook Airline Limited	Kelvin Duff Jennifer Page Michael Williams
TEAL Insurance Limited	Jennifer Page Hannah Ringland Craig Tolley
Air New Zealand (Australia) Pty Limited (incorporated in Australia)	Paul McLean Jennifer Page Kathryn Robertson (R)

1. Eagle Airways Limited was amalgamated with Air New Zealand Associated Companies Limited on 22 December 2021
2. Air New Zealand Associated Companies (Australia) Limited, Air New Zealand Travel Business Limited and Ansett Australia & Air New Zealand Engineering Services Limited amalgamated with Air New Zealand Associated Companies Limited on 28 March 2022

* This table includes employees who have exited the business during the year.

OTHER DISCLOSURES

Donations

The Air New Zealand Group has made donations totalling $17,500 in the financial year to 30 June 2022. No donations were made to any political party. It is Air New Zealand's policy not to make donations, in cash or in kind, or to provide free of charge travel to political parties.

Substantial product holders

The following information is provided in compliance with Section 293 of the Financial Markets Conduct Act 2013 and is stated as at 30 June 2022. The total number of listed Ordinary shares of Air New Zealand Limited at that date was 3,368,464,315.

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	1,717,916,801 * 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.

* As reported in its most recent Substantial Security Holder notice dated 11 May 2022, held by Her Majesty the Queen in Right of New Zealand acting by and through Her Minister of Finance.

OPERATING FLEET STATISTICS

As at 30 June 2022*

Boeing 777-300ER

Number: 7
Average Age: 10.2 years
Maximum Passengers: 342
Cruising Speed: 910 km/hr
Average Daily Utilisation: 9:30 hrs

Boeing 787-9 Dreamliner

Number: 14
Average Age: 5.8 years
Maximum Passengers: 302 or 275
Cruising Speed: 910 km/hr
Average Daily Utilisation: 10:45 hrs (1 Jul – 31 Dec)
12:12 hrs (1 Jan – 31 Jun)

Airbus A320/321NEO

Number: 13
Average Age A321: 3.3 years
A320: 2.3 years
Maximum Passengers: A321: 214
A320: 165
Cruising Speed: 850 km/hr
Average Daily Utilisation: A321: 2:27 hrs (1 Jul to 31 Dec)
3:47 hrs (1 Jan to 30 Jun)
A320: 1:26 hrs (1 Jul to 31 Dec)
5:16 hrs (1 Jan to 30 Jun)

Airbus A320CEO

Number: 18
Average Age: Short-haul: 16.8 years
Domestic: 8.4 years
Maximum Passengers: Short-haul: 168
Domestic: 171
Cruising Speed: 850 km/hr
Average Daily Utilisation: Short-haul: 2:41 hrs (1 Jul to 31 Dec)
2:53 hrs (1 Jan to 30 Jun)
Domestic: 3:06 hrs (1 Jul to 31 Dec)
5:16 hrs (1 Jan to 30 Jun)

ATR 72-600

Number: 29
Average Age: 5.3 years
Maximum Passengers: 68
Cruising Speed: 518 km/hr
Average Daily Utilisation: 4:43 hrs (1 Jul to 31 Dec)
5:34 hrs (1 Jan to 30 Jun)

Bombardier Q300

Number: 23
Average Age: 15.4 years
Maximum Passengers: 50
Cruising Speed: 520 km/hr
Average Daily Utilisation: 4:35 hrs (1 Jul to 31 Dec)
5:19 hrs (1 Jan to 30 Jun)

* Covid-19 related domestic lockdowns and government restrictions on international travel continued to impact Air New Zealand's scheduled operations and aircraft utilisation in the 2022 financial year, particularly in the first half. Scheduled operations began to recover in the second half. The Boeing 777-300ER fleet is being gradually returned to service and the utilisation above reflects utilisation for the period following reactivation.

SECURITIES STATISTICS

Top Twenty Shareholders – as at 1 August 2022

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	1,717,916,801	51.00
New Zealand Depository Nominee	209,129,776	6.21
Citibank Nominees (NZ) Ltd	123,935,328	3.68
HSBC Nominees (New Zealand) Limited	102,908,528	3.06
HSBC Nominees (New Zealand) Limited	72,817,157	2.16
JPMORGAN Chase Bank	50,973,875	1.51
BNP Paribas Nominees NZ Limited Bpss40	35,907,230	1.07
Accident Compensation Corporation	32,879,293	0.98
BNP Paribas Nominees NZ Limited	31,228,332	0.93
Washington H Soul Pattinson and Company Limited	13,751,374	0.41
Public Trust	13,241,181	0.39
Xinwei Investment (NZ) Limited	13,164,081	0.39
Ping Luo	8,690,843	0.26
Custodial Services Limited	8,657,317	0.26
Citicorp Nominees Pty Limited	8,373,146	0.25
BNP Paribas Nominees (NZ) Limited	7,586,311	0.23
BNP Paribas Nominees Pty Ltd	7,499,519	0.22
Tea Custodians Limited	7,309,363	0.22
FNZ Custodians Limited	6,006,025	0.18
Garth Barfoot	6,000,000	0.18
Total	**2,477,975,480**	**73.59**

Shareholder Statistics – as at 1 August 2022

Size of Holding	Investors	% Investors	Shares	% Issued
1-1,000	18,590	34.08	8,551,188	0.25
1,001-5,000	16,808	30.82	42,806,119	1.27
5,001-10,000	6,598	12.10	49,183,034	1.46
10,001-100,000	11,154	20.45	329,221,808	9.77
100,001 and Over	1,389	2.55	2,938,702,166	87.25
Total	**54,539**	**100.00**	**3,368,464,315**	**100.00**

SECURITIES STATISTICS (CONTINUED)

Top Twenty Bondholders – as at 1 August 2022

Investor Name	Number of Bonds	% of Bonds
Custodial Services Limited	12,630,000	25.26
PT (Booster Investments) Nominees Limited	6,133,000	12.27
FNZ Custodians Limited	5,024,000	10.05
Forsyth Barr Custodians Limited	2,428,000	4.86
Mt Nominees Limited	2,000,000	4.00
Risk Reinsurance Limited	1,500,000	3.00
Hobson Wealth Custodian Limited	1,189,000	2.38
Tea Custodians Limited	1,000,000	2.00
NZX WT Nominees Limited	861,000	1.72
JBWERE (NZ) Nominees Limited	730,000	1.46
Investment Custodial Services Limited	563,000	1.13
JBWERE (NZ) Nominees Limited	355,000	0.71
Custodial Services Limited	350,000	0.70
Forsyth Barr Custodians Limited	265,000	0.53
HSBC Nominees (NZ) Limited	260,000	0.52
Westpac Banking Corporation	206,000	0.41
Dunedin Diocesan Trust Board	200,000	0.40
J M Butland Limited	150,000	0.30
Murray Allen Sherwin & Adriana Maria Arron	150,000	0.30
JBWERE (NZ) Nominees Limited	140,000	0.28
Total	**36,134,000**	**72.27**

Bondholder Statistics – as at 1 August 2022

Size of Holding	Holders	% Holders	Bonds	% Issued
1-1,000	-	-	-	-
1,001-5,000	40	7.12	200,000	0.40
5,001-10,000	137	24.38	1,338,000	2.68
10,001-100,000	365	64.94	11,697,000	23.39
100,001 and Over	20	3.56	36,765,000	73.53
Total	**562**	**100.00**	**50,000,000**	**100.00**

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 other disciplinary action against the Company during the financial year ended 30 June 2022. In particular there was no other exercise of powers by NZX under NZX Listing Rule 9.9.3 (relating to powers to cancel, suspend or censure an issuer) with respect to Air New Zealand during the reporting period.

On 20 July 2017, Air New Zealand launched a sponsored Level 1 American Depositary Receipt (ADR) programme. Air New Zealand's American Depositary Shares, each representing five Ordinary Air New Zealand shares and evidenced by ADRs, are traded over-the-counter in the United States (ticker code ANZLY).

Place of incorporation

New Zealand

In New Zealand, the Company's Ordinary Shares are listed with a "non-standard" (NS) designation. This is due to particular provisions of the Company's Constitution, including the rights attaching to the Kiwi 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 2022:

1. Waivers and approvals relating to the Kiwi Share provisions of the Constitution are contained in a decision of NZX Regulation dated 23 July 2019.
2. Under a waiver granted on 29 November 2019 Air New Zealand is permitted to renew an agreement with the Crown (acting through the Ministry of Business, Innovation and Employment) under which Air New Zealand provides government agencies with discounted fares, without the requirement to obtain shareholder approval (as the Crown is a Related Party) under Listing Rule 5.2.1.
3. During the 2022 financial year the Company was granted or relied upon a number of waivers (contained in NZ RegCo Decisions dated 30 April 2021, 30 September 2021, 14 December 2021 and 30 March 2022) in respect of funding and debt arrangements it entered into with the Crown, and various amendments to these arrangements. The waivers had the effect of waiving the requirement in each case for shareholder approvals which would otherwise have been required under Listing Rule 5.1.1 (which requires shareholder approval for a major transaction) and Listing Rule 5.2.1 (which requires shareholder approval for a Material Transaction with a Related Party), and were each subject to conditions detailed in the waivers, which included certification by two independent directors of certain matters. The 14 December 2021 and 30 March 2022 waivers from Listing Rule 5.1.1 included a condition that the Company obtain shareholder ratification of the respective loan arrangements by 31 December 2022.

   The 30 March 2022 decision also waived the requirement under Listing Rule 4.17.6(a) for the Company to give five business days' notice before the Ex Date for the Rights Issue, and allowed the Company to make the Ex Date for the Offer to be two Business Days following the announcement of the Offer.

   The waivers granted to the company may be accessed at:

30 April 2021 NZ RegCo decision	30 September 2021 NZ RegCo decision	14 December 2021 NZ RegCo decision	30 March 2022 NZ RegCo decision
https://www.nzx.com/announcements/371423	https://www.nzx.com/announcements/380126	https://www.nzx.com/announcements/384619	https://www.nzx.com/announcements/389771

Compliance with Listing Rules:

For the purposes of ASX Listing Rule 1.15.3, Air New Zealand Limited confirms the Company continues to comply with the NZX Listing Rules.

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

SHAREHOLDER DIRECTORY

New Zealand

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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: 22 September 2022
Time: 2:00pm
Venue: Ellerslie Event Centre – Tote on Ascot
100 Ascot Avenue
Remuera
Auckland

Current Credit Rating

Moody's rate Air New Zealand Baa2

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Board of Directors

Dame Therese Walsh – Chair
Claudia Batten
Dean Bracewell
Laurissa Cooney
Larry De Shon
Alison Gerry
Paul Goulter
Jonathan Mason

Chief Executive Officer
Greg Foran

Chief Financial Officer
Richard Thomson

General Counsel and Company Secretary
Jennifer Page

AIR NEW ZEALAND