AIR NEW ZEALAND

ANNUAL SHAREHOLDER REVIEW

2022

Sam and Kiri
Flight Attendants

A STAR ALLIANCE MEMBER

LETTER FROM THE CHAIR

It's fair to say that 2022 has been a busy one.

Dame Therese Walsh
Chair

Restarting the airline at scale, dealing with complex operational challenges, while also launching and completing a significant recapitalisation, has been no easy feat.

Certainly, we could not have achieved any of this without the unwavering dedication of our incredible team of Air New Zealanders. I am so proud of the Air New Zealand whānau and the immense mahi that has been undertaken, both to respond to immediate challenges, but also to keep our eyes firmly set on the future.

Our focus across 2022 has been on remaining nimble, responding to the ever-changing environment, and above all, keeping our customers, our people and our shareholders front of mind. The world has changed so much since the pandemic began in early 2020 and we are making sure Air New Zealand changes with it. We don't want to just build back – our vision is to create the greatest flying experience on Earth, and we know we can't achieve this by sticking to the status quo.

Over the past two years, the team at Air New Zealand has been testing new ideas, investing in digital capabilities and redesigning onboard products to deliver a steady stream of innovation for our customers. The recent announcement of a new suite of seat offerings for our long-haul aircraft, designed to offer all customers the best sleep in the sky, no matter which cabin they choose to fly in, is just one example of the innovative solutions our team has been working hard on. The organisation has also moved to an agile way of working called 'Full Potential', which will enable us to deliver value faster and give us the ability to respond to change quickly.

We have made significant headway on the three key pillars of value creation under our **Kia Mau strategy – Grow Domestic**, **Optimise International** and **Lift Loyalty**. Effective execution of this strategy is key to our ongoing success as we move through the Revive phase of our recovery and into Thrive. Our exploration of electric, hybrid and green hydrogen aircraft as options for our future domestic fleet has further advanced and we have also invested in a new digital platform for our loyalty programme, to put greater flexibility and customisation options in the hands of our millions of Airpoints™ members. North America plays a key role in optimising our international network and we are incredibly excited to launch our inaugural nonstop flight to New York in a little under a month's time.

During the year, we made meaningful progress on our journey to net zero carbon emissions by 2050, setting an interim 2030 science-based emissions reduction target to guide us and keep us accountable. sustainable aviation fuel (SAF) will be the key to achieving this ambitious target. Air New Zealand has been working with the Government to investigate the feasibility of local production here in New Zealand and has a goal that 1 percent of our 2023 fuel uplift will be from SAF. We know the use of SAF on our long-haul network is the most significant carbon reduction lever we can pull. Having committed to have SAF represent 10 percent of our total fuel uplift by 2030, this is a vital step in our journey.

Hayden
Flight Attendant

Jason
On Job Trainer

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Performance update

Turning to the 2022 financial result, Air New Zealand has delivered a loss before other significant items and taxation[1] of $725 million, a statutory loss before taxation of $810 million and a statutory loss after taxation of $591 million.

While passenger demand is currently at levels higher than we have seen in over two years, this follows a long period of suppressed demand and limited international passenger flying. The introduction of the Delta variant into New Zealand, and the resulting regional lockdown for Auckland meant that for the first half of the 2022 financial year, Domestic capacity was down substantially on pre-Covid levels and international passenger flying was still very limited. This, combined with record high fuel prices, has contributed to our financial losses for the year.

Pleasingly, corporate customers have returned with some gusto, trending towards pre-Covid levels. Cargo continues to be a major contributor to revenue, delivering $1.0 billion this financial year, an increase of 32 percent on the prior year. This increase reflects additional flying under the New Zealand and Australian Government airfreight schemes which contributed $403 million, as well as heightened seasonal demand and widebody flying. We expect this level of cargo revenue to moderate as the recovery continues, with the Australian scheme now finished and the New Zealand support scheme tapering off. However, cargo continues to be important to our strategy of optimising international profitability.

Like all businesses that rely to a degree on discretionary spend, we are closely monitoring consumer behaviour given the cost of living and inflationary pressures, and the risk of a global recession.

These pressures have already led to higher fuel prices and higher operating costs, which in turn has resulted in increased airfares. We are sensitive to this and remain committed to ensuring our pricing is affordable and competitive.

Recapitalisation

The $2.2 billion recapitalisation completed in May marked a hugely important step in Air New Zealand's recovery and in our ability to move forward into Revive in earnest. It allowed us to repay the Government loan provided to the airline in March 2020, while also restoring the balance sheet, so we are fighting fit to deliver on our strategy as demand returns following the reopening of borders.

We were pleased with the success of the rights offer, which allowed our existing shareholders to take part in refuelling the airline for success. Thousands of shareholders participated, exceeding our expectations and market benchmarks for this type of offer. The achievement of a $0.28 per share premium in the bookbuild process meant shareholders who did not participate still derived value from the offer. Thanks to the support of our debt investors, we successfully executed a $600 million Australian debt transaction in May, as part of our planned recapitalisation package. We also have a new $400 million unsecured standby loan facility with the Crown, which is undrawn, as well as $200 million of issued Redeemable Shares which we intend to redeem once our recovery is further progressed.

The success of the recapitalisation underscores the confidence shareholders have in our strategy and our ability to drive real value in the future. We thank all our shareholders for their ongoing support.

1. Refer to the Financial Commentary section on page 12.

LETTER FROM THE CHAIR (CONTINUED)

Andrew
DOC Ranger

Victoria
Sustainability Manager

The current environment

As the world opens up again, the whole airline is excited to get back to doing what we love – reconnecting families, friends and colleagues both within New Zealand and around the globe and bringing tourists back into our beautiful country.

Rebuilding the airline after more than two years of highly restricted operations and in the face of an unprecedented surge in demand, has provided its own set of challenges. I want to say thank you to our customers for their patience as we rebuild our network. We are working hard to restore reliability and resilience into our flying schedule, to give customers the Air New Zealand experience they know and love.

Adding more capacity will help and we have started bringing back our 777-300ER fleet, with three of these aircraft already in the skies again. By the end of the 2023 financial year, we will have the remaining four flying again too.

Investing in our people

Since December last year, we have been undertaking the extensive process of hiring, and re-hiring more than 1,500 people across the business and still have more than 1,000 vacancies to fill.

Sustainable income for our people is something we have increased our focus on in recent months, and a personal highlight for me this year has been the work undertaken to deliver a lift in our lowest wages. We have also increased opportunities for our airport and aircraft workers to cross-skill, creating the potential to increase earnings via more highly skilled work and blended shifts. This is just the start of our journey to create great jobs.

We were pleased to recognise the contribution of our permanent employees over a tough two years by reinstating pay benefits, and providing one-off awards of shares and cash. We know our people are key to Air New Zealand's world class service and culture. This year more than ever, they have proven to be the most passionate, dedicated, and hard-working team you could hope for, with countless examples of people going above and beyond.

Dividend

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

Outlook

With borders now open to the majority of the airline's markets, Air New Zealand expects the 2023 financial year to represent the first full year of uninterrupted passenger flying since the beginning of the pandemic.

Total flying capacity for the 2023 financial year is expected to be in the range of 75 percent to 80 percent of pre-Covid levels. On this basis, the airline anticipates a significant improvement in financial performance relative to financial year 2022.

Given the degree of uncertainty regarding volatility in jet fuel prices, the risk of a global recession, and other macroeconomic factors including inflationary pressures on costs, no earnings guidance will be provided at this time.

Closing

We are pleased to be flying to 27 of our 29 international ports and have now welcomed thousands of kiwis and visitors back to Aotearoa. While there is plenty of uncertainty ahead, the desire for travel and connection is strong.

There is an art to building back – we have to get the balance just right. The Air New Zealand team, with your support, has the right strategy, the right people and the right mindset in place to succeed.

Ehara taku toa i te toa takitahi, engari he toa takitini

Ngā mihi

Dame Therese Walsh — Chair
25 August 2022

Q&A WITH THE CHIEF EXECUTIVE OFFICER

Greg Foran
Chief Executive Officer

Q. **Looking back on the last 12 months, what are the three key learnings you are taking into next year?**

A. **1 – Do the right thing.** The reality of a crisis like the one we have experienced is that it creates opportunity. It's obvious once you move beyond the calamity of the situation, but first you must do that. I see no point in dwelling on the negatives. Once you suppress that feeling, you can move forward and reach for the opportunities. We decided to grab the opportunities, with both hands, and move positively towards customer and staff obsession. While we recognise and acknowledge things have been far from perfect, we have never strayed from a simple principle. That is, "do the right thing". The right thing can be extending status for Airpoints™ members, to keeping pricing fair, increasing our lowest wages, to being honest about schedules heading into Christmas, refunds for those in hardship or extending credits. I always go back to the principle of, "do the right thing".

2 – Attitude is a small thing that makes a big difference. We have been tested more than ever this year, with bubbles and borders opening, then closing again, various health mandates and more recently a wave of staff illness which has seen absenteeism at historically high levels. Throw in some inclement weather and we have a perfect storm of last-minute cancellations. It's no secret that restarting an airline is much more difficult than shutting one down, but one of our key learnings has been to stay positive. There were some days where we might have felt like giving up, but even on those challenging days, and trust me we have had our share, the entire team have stood tall, taken a deep breath and got on with it. Attitude is indeed a small thing that makes a big difference, and we will need more of it as we deal with the new abnormal that is airline travel.

3 – Always think forward. Creativity is thinking up new things, innovation is doing them. We don't believe in going back to the way things were, we believe in being prepared for the new abnormal. So, there was no sitting on our hands during the pandemic – we used the time to think forward and do what we do best: innovate for our customers. A lie flat Skynest in the Economy cabin was just a concept in 2020 – but we have worked hard to make this a reality as we know it will be a gamechanger for economy travellers on ultra-long-haul flights. Thinking forward is also about having the right strategy in place. Our Kia Mau strategy is coming to life, and we have taken the bold step of reimagining how we work by going agile as a workforce. We call it "Full Potential" because that is exactly what it's designed to do – get us to our full potential. Whether it be with the brilliant basics and delivering crucial incremental improvements to our service or bigger ticket items like a new loyalty platform. I firmly believe we are building back an airline that's world leading. Using our time wisely over the past few years has meant we could come out of the blocks firing, which is exactly what we have done.

Alison
Team Leader Contact Centre

Ritesh
Contact Centre Consultant

Q&A WITH THE CHIEF EXECUTIVE OFFICER (CONTINUED)

Q. Sustainability is a huge challenge for aviation globally, where is Air New Zealand channelling its efforts?

A. Variants of Covid-19 will pass, or at least be something we learn to live with, but climate change is the biggest crisis facing our industry. We are an island nation dependent on our connections with the rest of the world and we must find a more sustainable way to fly if we want to ensure our tourism and export industries thrive over the long-term. I am proud of where we are in our journey, and 2022 marks a year of genuine progress on many of our key decarbonisation goals.

We made a commitment to New Zealanders earlier this year with Flight NZ0™, a body of work focused on decarbonising to reach our goal of net zero carbon emissions by 2050. More recently, we set an interim science-based target to 2030 to guide us on our journey to 2050. Being the second airline in the world to announce the accreditation of this target by an independent third-party is particularly important – we know you get one point for talking, nine points for doing and we are committed to taking genuine climate action.

SAF and Zero Emissions Aircraft Technology (ZEAT) are the key to reducing around 70 percent of our total emissions. In the past year, we have partnered with public and private organisations to accelerate the research and development of these. One thing that is clear to me, is that we cannot solve for this crisis alone. Supportive policy frameworks will be crucial to accelerating the introduction and production of SAF into New Zealand – we have been vocal in this space and will continue to drive for a collective approach to solving this issue.

Q. The needs of customers have changed, how are you adapting to this?

A. Customers are at the core of every decision we make, and in this new world, simplicity is key. What our customers want is a seamless experience from the minute they visit our website to book, until they collect their bags at the other end. If we can take the friction out of this end-to-end journey, then we are doing our job.

So we are delivering on this. Our next generation app launches shortly, building on the legacy of what we know our customers love. It will have clearer prompts for self-service, integrated travel notifications and critical day-of-travel information so customers know the status of their flight at all times.

We also know customers no longer wish to transit through busy airports, and demand for ultra-long-haul travel has increased. We're giving them the ability to fly direct from Auckland to New York in just over 16 hours. We know they want to arrive rested, so we will be refitting our cabins to offer customers a restful night's sleep, no matter where they are on the aircraft. Skynest is a world leading innovation and one that we've worked hard to get right. Similarly, our new Business Premier Luxe Suites have been designed for travellers that require a little more space and privacy.

But it's not just the big things. We will continue to offer 100,000 fares under $100 at any one time, because we know the importance of affordable fares. And that unique kiwi hospitality that customers love when they step on-board our aircraft, that's not going anywhere either.

Inzaf
Cargo Airline Clerk

Q. Any final thoughts as you sign off FY22?

A. I think I say this every year, but it's been another big year for Air New Zealand. Hiring back and training staff, borders reopening, a recapitalisation, announcing our new cabin experiences, and the hundreds of little things in between. Combine that with high fuel prices, soaring inflation, higher operating costs and the risk of a global recession – it sure has been a bit of a ride.

But one thing we know for sure is that we wouldn't be where we are today without the loyalty and support of our customers and shareholders, and I want to thank them for sticking by us when things got tough. I'd also like to thank our people. You are what makes Air New Zealand one of the best airlines in the world and I'm so grateful for the hard mahi you put in everyday to keep us going.

We've spent a lot of time over the last year setting ourselves up for success. As I said earlier, our Kia Mau strategy is coming to life, and while we are still feeling the effects of Covid-19, the passion for travel is stronger than ever.

Ngā mihi

Greg Foran
Chief Executive Officer

25 August 2022

OUR SUSTAINABILITY JOURNEY

To help Air New Zealand deliver on its promise of taking care further than any other airline on earth, we have driven forward a number of key initiatives on our sustainability agenda throughout 2022.

In particular, we have made meaningful progress on a range of opportunities to reach our net zero carbon emissions by 2050 target. We know that significant action is crucial to enable us to maintain our social licence to operate.

1

Set a 2030 science-aligned carbon reduction target, endorsed by the Science-Based Targets initiative (SBTi)

2

In partnership with the Government, formally invited global sustainable aviation fuel (SAF) producers to scope local production opportunities in New Zealand

3

Issued a Zero Emissions Aircraft Technology (ZEAT) Product Requirements Document inviting aircraft developers to engage with the airline in their alternative propulsion aircraft projects

Commenced a joint initiative with Airbus to research how green hydrogen-powered aircraft could operate in New Zealand

Designed more sustainable serviceware, to be launched in October 2022, reducing the weight of premium serviceware by up to 20 percent and removing over 28 million fossil fuel derived single-use plastic items

Launched Flight NZ0™ to guide us and keep us accountable on our journey to net zero carbon emissions by 2050

New safety video – *'Tiaki & The Guardians'* released, inviting customers to care for our land, people and culture now and for future generations

Through the airline's voluntary carbon offsetting programme, FlyNeutral, customers donated over $1 million to support positive biodiversity outcomes in New Zealand and permanently offset over 55,000 tonnes of CO_2-e

We are proud of where we are at on our journey but acknowledge there is still much to achieve.

OUR SUSTAINABILITY JOURNEY (CONTINUED)

1. Air New Zealand sets an ambitious 2030 target, endorsed by the SBTi

This year, we became the second airline in the world to announce an interim science-based target validated by the SBTi, the global organisation responsible for endorsing emissions reduction targets. Our 2030 target is to reduce carbon intensity by 28.9 percent, compared to a 2019 baseline. This equates to a 16.3 percent reduction in absolute emissions and requires us to reduce the carbon intensity associated with the "well to wake" emissions (which is the end-to-end fuel production process). These include emissions from the use of jet fuel in-flight (scope 1 emissions) as well as upstream emissions generated by the production and distribution of that jet fuel (category 3, scope 3 emissions).

Our 2030 target will act as a key milestone on our journey to net zero carbon emissions by 2050 and makes us accountable today. Implementing our decarbonisation roadmap will be critical to achieving this target – with SAF, zero emissions aircraft technologies, continued fleet renewal and operational efficiencies all playing a role.

To find out more, visit https://www.airnewzealand.co.nz/press-release-2022-airnz-second-airline-globally-to-announce-ambitious-science-based-emissions-reduction-target

2. Air New Zealand and the Government join forces to consider a domestic SAF industry

We believe the use of SAF on our long-haul flights is the single biggest decarbonisation lever we can pull and have a goal that 1 percent of our 2023 fuel uplift will be SAF. We have also committed that 10 percent of our 2030 uplift will be SAF. However, there is currently no local production in New Zealand largely due to the high initial cost of establishing facilities and the ongoing cost of production. As a result, SAF commands a substantial price premium. We believe that with the right policy and investment settings, production in Aotearoa could be a game changer, making it a commercially viable option for Air New Zealand and the broader tourism industry.

In partnership with the Ministry of Business, Innovation and Employment we launched a closed request for proposals (RFP) process inviting sector innovators to demonstrate the feasibility of SAF production in New Zealand. We are currently reviewing these submissions with a view to investigating the commercial viability of select proposals shortly. Following this, it is our hope that plant construction could commence, and SAF could be available in New Zealand from 2027.

Commercially producing SAF would not only help lower Air New Zealand's emissions, but it would also reduce emissions across the entire transport sector, as well as create jobs and economic opportunities in our regional communities.

To find out more, visit https://www.airnewzealand.co.nz/press-release-airnz-and-mbie-join-forces-to-scope-out-sustainable-aviation-fuel-industry

3. ZEAT Product Requirements Document released

New Zealand is uniquely placed to lead the world in the deployment of ZEAT. Our domestic network is made up of mostly short-range routes under two hours duration, making it ideally suited to adopt these technologies. New Zealand's largely renewable electricity grid also allows for cost effective infrastructure to be established.

Our industry leading Zero Emissions Aircraft Product Requirements Document (PRD) was released in December 2021 and shares our vision for ZEAT deployment. It allows current and future aircraft developers to recognise both the opportunity here in New Zealand and Air New Zealand's ambition to make this a reality as soon as possible. The PRD provides an operator-specific set of principles to guide aircraft developers in their alternative propulsion aircraft projects and allows Air New Zealand to understand technology readiness and pinpoint technology leaders for ongoing engagement. A zero emissions aircraft strategy has been developed following comprehensive analysis of submissions received under the PRD and extensive engagement with respondents. Further engagement with leading respondents will take place to test the most viable opportunities.

To find out more, visit https://www.airnewzealand.co.nz/press-release-2021-seeking-innovators-next-gen-aircraft

A YEAR IN THE AIR

2022 by the numbers

7,745,000 CUSTOMERS CARRIED ON OUR NETWORK

123,614 FLIGHTS OPERATED

27 of 29 INTERNATIONAL ROUTES RELAUNCHED

1,692,630 ENGAGEMENTS ACROSS OUR SOCIAL CHANNELS

JUST OVER **1 million** INFLIGHT MEALS SERVED TO CUSTOMERS OUT OF TĀMAKI MAKARAU

#1 WORLD'S SAFEST AIRLINE

250,000 ITEMS BOUGHT VIA THE AIRPOINTS™ STORE – UP FROM 200,000 LAST YEAR

254,126 KIWIS BROUGHT BACK INTO NEW ZEALAND WHILE THE BORDERS WERE CLOSED

108 million KILOGRAMS OF CARGO CARRIED AROUND THE GLOBE

300 KIWIS VACCINATED ON OUR 787 JABASEAT VACCINATION CLINIC

1 exciting NEW ROUTE ANNOUNCED – DIRECT FLIGHTS FROM AUCKLAND TO NEW YORK CITY

3.85 million DOMESTIC FARES SOLD FOR UNDER $100

MORE THAN **1,500** AIR NEW ZEALANDERS WELCOMED INTO OUR WHĀNAU

25 lounges REOPENED AROUND THE GLOBE

9,295 AIR NEW ZEALANDERS DOING AMAZING THINGS

3.1 million COOKIE TIME COOKIES MUNCHED

690,000 CUSTOMER CREDITS FULLY REDEEMED

926,000 HOURS SPENT MAINTAINING OUR FLEETS

7 options ANNOUNCED FOR OUR FUTURE 787 CABIN

10 awesome YEARS OF PARTNERSHIP WITH DEPARTMENT OF CONSERVATION

2.2 billion RAISED DURING OUR RECAPITALISATION

3 new aircraft WELCOMED INTO OUR FLEET – 1 ATR AND 2 A320 NEOS

1 industry-leading PRODUCT REQUIREMENTS DOCUMENT RELEASED TO ACCELERATE THE DEVELOPMENT OF ZERO EMISSIONS AIRCRAFT TECHNOLOGY

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The impact of Covid-19 on international and domestic travel for the majority of the 2022 financial year resulted in Air New Zealand reporting a loss before other significant items and taxation[1] of $725 million.

Including the impact of other significant items, statutory losses before taxation were $810 million.

Olivia
Senior Brand
and Marketing Specialist

Johnny
Chapter Lead SA
Customer Direct Sales
and Service

Revenue

Operating revenue for the year increased 8.6 percent to $2.7 billion, driven by Cargo as well as improved international passenger demand in the last financial quarter following the staged opening of New Zealand's border from March 2022. These increases helped offset the impact of reduced domestic passenger flying throughout the majority of the year as a result of local travel restrictions and Covid-19 related disruptions. There was a nominal impact from foreign exchange. Total capacity (Available Seat Kilometres, ASK) including cargo-only flights, increased 15 percent compared to the same period last year, due to additional demand for airfreight and support schemes from the New Zealand and Australian Governments.

Passenger revenue remained stable at $1.5 billion, as increased international flying following the staged border opening was offset by reduced domestic flying related to Covid-19. Excluding cargo-only flights, capacity increased by 3.4 percent driven by increased long-haul flying towards the end of the year. Demand (Revenue Passenger Kilometres, RPK) increased more than capacity, resulting in a load factor of 67.1 percent, an increase of 9.8 percentage points on the prior year. Revenue per Available Seat Kilometre (RASK) decreased 2.9 percent excluding FX and was impacted by a change in sector mix with proportionately less shorter sector domestic flying and more international flying.

International long-haul capacity increased 17 percent (excluding cargo-only flights) as border openings drove the return of passenger demand for North America and Singapore in the latter part of the year. Demand on international long-haul routes increased 151 percent, with load factors increasing 30.7 percentage points to 57.5 percent. International long-haul RASK increased by 37 percent and was only nominally impacted by foreign exchange.

International short-haul capacity increased by 20 percent, as border openings drove more trans-Tasman and Pacific Islands services. An increased schedule of services was operated from March and April 2022 following the staged border openings. Demand on international short-haul routes improved by 101 percent, with load factors increasing 29.2 percentage points to 72.7 percent. International short-haul RASK was up 72.5 percent and was only nominally impacted by foreign exchange.

Domestic capacity decreased 10 percent, due to various lockdowns, travel restrictions and infection waves impacting passenger demand much more than in the previous financial year. As a result, domestic demand declined more than capacity at 19 percent, with load factors decreasing by 7.3 percentage points to 70.1 percent. Domestic RASK declined 10 percent and was not impacted by foreign exchange.

Cargo revenue was $1.0 billion, an increase of 32 percent. Foreign exchange had a nominal impact. The increase was driven by higher demand for airfreight as well as additional scheduled flying under the New Zealand and Australian Government's airfreight schemes (the Maintaining International Air Connectivity scheme and the International Freight Assistance Mechanism). This resulted in cargo-only capacity increasing 19 percent compared to the prior year. Freight yields also improved 4.0 percent, reflecting fewer international carriers in the New Zealand market.

Contract services and other revenue was $242 million, a decrease of 13 percent, driven primarily by reduced maintenance activity on contracts for third-parties and less passenger activity. There was a nominal impact from foreign exchange.

Expenses

Operating expenditure increased by $555 million or 25 percent, to $2.7 billion with variable cost growth reflecting the airline's recovery ahead of the staged border reopenings. Higher labour costs, increased jet fuel prices and the absence of aviation subsidy support – a feature of the prior corresponding period – all contributed to the overall increase. Reported costs per ASK (CASK) increased 9.1 percent, with a significant increase in fuel price being the largest impact.

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

FINANCIAL COMMENTARY

Victoria
Communications Manager

FINANCIAL COMMENTARY (CONTINUED)

Underlying CASK, which excludes the impact of fuel price, foreign exchange and third-party maintenance as well as the absence of aviation subsidy support, improved by 0.6 percent. This was largely due to a change in the mix of network flying, with a greater portion of lower cost, cargo-only flying.

Labour costs were $976 million, increasing by $146 million or 18 percent. Foreign exchange had no impact for the year. Full-Time Equivalent labour (FTE) increased 13 percent to approximately 8,900 compared to the prior year representing 74 percent of FTE labour compared to pre-Covid levels of approximately 12,000. The increase in FTE was driven by the recall and hiring of operational and support workforces to build back capacity as travel restrictions eased and routes relaunched. In addition to increased staffing levels, salary increases, a provision for incentive payments and employee recognition awards contributed to the increased costs.

Fuel costs were $560 million, increasing by $249 million or 80 percent. Excluding the impact of foreign exchange, fuel costs grew by 75 percent. The increase was largely driven by a higher average fuel price, which included the benefit of hedging, of 62 percent or $192 million. A 92 percent increase in the underlying Singapore Jet fuel price, and to a lesser extent, increases in the price of domestic carbon offsets, drove $288 million of the additional cost and were partially offset by an additional $96 million of hedging gains. Fuel consumption increased 14 percent in the year, due to the 15 percent increase in capacity due to passenger and cargo-only flying, resulting in an additional $41 million in costs. A weaker New Zealand dollar also resulted in a fuel cost increase of $16 million.

Aircraft operations, passenger services and maintenance costs were $787 million, representing an increase of $99 million, or 14 percent. Excluding support received in the prior year under the Government's aviation support package, which did not repeat in the current year, costs increased by $41 million or 5.5 percent. Increased flying activity and costs related to restarting the network largely drove the increased costs across these areas.

Sales and marketing and other expenses were $412 million, growing $87 million or 27 percent reflecting increased brand activity to support sales and borders reopening, commissions and digital activity.

Ownership costs decreased by $49 million or 6.1 percent, driven by reduction in depreciation due to impairment of grounded 777-300ER widebody aircraft that occurred in the prior year and aircraft exits, partially offset by A320neo and ATR aircraft deliveries. Excluding the benefit of foreign exchange, ownership costs decreased by 4.4 percent.

The impact of foreign exchange rate changes on the revenue and cost base in the period resulted in a unfavourable foreign exchange movement of $6 million. After taking into account a $26 million favourable movement in hedging, overall foreign exchange had a net $20 million positive impact on the Group result for the period.

Share of Earnings of Associates

Share of earnings of associates increased by $8 million to $27 million for the year, reflecting higher engine volumes and mix of maintenance work being serviced by the Christchurch Engine Centre.

Other Significant Items

Other significant items represented a loss of $85 million during the year, a decrease of $114 million relative to the prior year. These items relate to unrealised foreign exchange losses on foreign denominated debt of $186 million, the impairment of software of $24 million

FINANCIAL COMMENTARY

offset by lower aircraft impairment charges, reduced redundancy costs and lower losses on foreign exchange hedging where the forecast transaction was no longer expected to occur compared to the prior year. A gain on sale of landing slots was not repeated in the current year.

Cash and Financial Position

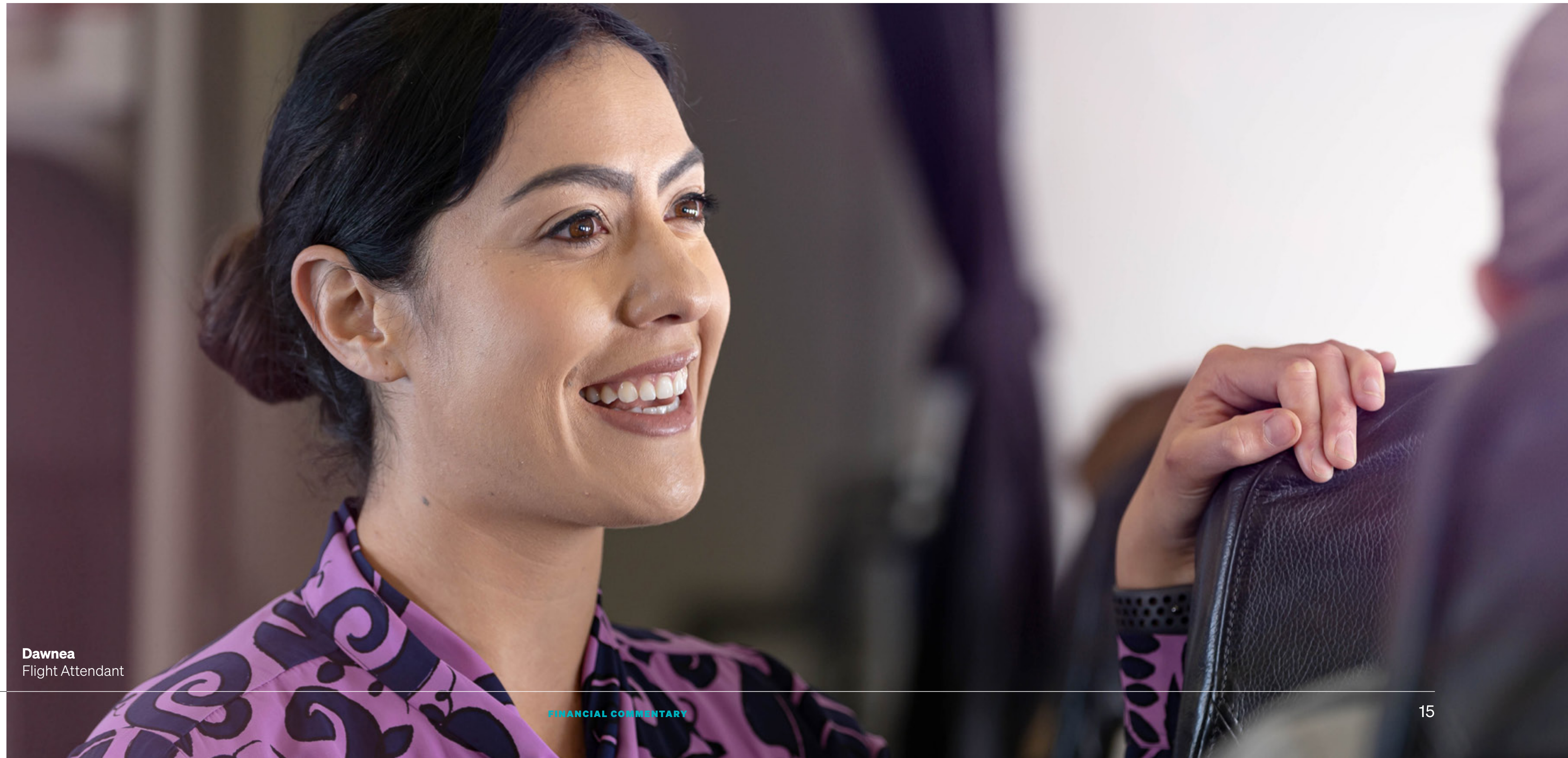
Cash on hand at 30 June 2022 was $1.8 billion, an increase of $1.5 billion since the prior year. This balance reflects the net proceeds from the airline's recapitalisation in May 2022, the remaining balance of Redeemable Shares outstanding to the Crown and cash flows from operating activities following the announcement of border reopenings from March 2022, partially offset by repayment of PAYE and FBT deferrals, debt and lease payments and new aircraft purchases.

In May 2022, the airline completed a capital raise consisting of approximately $1.2 billion of ordinary equity and $600 million of unsecured debt, as well as a new $400 million undrawn Crown Facility. Proceeds from the capital raise were used to repay $850 million of the previous Crown Facility, strengthen the balance sheet, improve liquidity and position the airline for recovery from the pandemic.

Operating cash flows were a net inflow of $550 million, reflecting favourable working capital movements including revenue received for ticket sales in advance of flying, partially offset by a deterioration in cash earnings resulting from travel restrictions across most of the financial year and repayment of PAYE and FBT deferrals.

Net gearing improved 25.7 percentage points to 45.4 percent compared to 30 June 2021, driven by the equity raise and partially offset by net losses after taxation, investment in the airline's fleet and foreign exchange movements.

The Directors have not declared a final dividend for the 2022 financial year, choosing to focus on preserving liquidity while continuing to navigate the airline through the post pandemic recovery. The Board does not expect to consider payment of dividends before the airline achieves a consistent recovery in earnings.



Dawnea
Flight Attendant

CHANGE IN PROFITABILITY

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

June 2021 loss before taxation	-$415m	
Passenger capacity	$49m	- Capacity increased by 3 percent (excluding cargo-only flights) due to relaxation of travel restrictions and reopening of borders. Including cargo-only flights capacity increased by 15 percent. - Domestic capacity declined by 10 percent reflecting nationwide lockdowns and extended non-essential travel restrictions in the Auckland region, as well as the occurrence of multiple Covid-19 infection waves. - International short-haul capacity increased by 20 percent. Border restrictions and isolation requirements reduced scheduled services for most of the year. Staged border reopenings and relaxation of travel restrictions saw strong customer demand and an increase in passenger services from March 2022. - International long-haul capacity increased 17 percent due to the removal of travel restrictions and border reopenings in the latter half of the 2022 financial year.
Passenger RASK	-$43m	- Domestic Revenue per Available Seat Kilometre (RASK) declined by 10 percent excluding FX and loads declined 7.3 percentage points to 70.1 percent as a result of domestic travel restrictions and disruptions. - International short-haul RASK improved by 72.5 percent excluding FX and loads increased 29.2 percentage points to 72.7 percent. - International long-haul RASK improved by 37 percent excluding FX and loads increased 30.7 percentage points to 57.5 percent as borders reopened and customer demand improved in the second half of 2022. In earlier periods limited passenger services, primarily for essential travel and repatriations, supplemented cargo services. - Overall Group RASK declined 2.9 percent excluding FX and was impacted by a change in mix of network flying in the current year from shorter sectors towards longer international sectors. Loads increased by 9.8 percentage points to 67.1 percent.
Cargo revenue	$247m	- Cargo revenue improved due to increased capacity as a result of more international widebody flying, higher customer demand and additional cargo-only scheduled flights awarded by the New Zealand and Australian Governments under the airfreight schemes.
Contract services and other revenue	-$38m	- Reduced maintenance work for third-parties and border restrictions reduced customer activity.
Labour	-$146m	- Higher staffing levels due to an increase in operational activity, reinstatement of performance incentives, employee recognition awards and reduced Government wage subsidies.
Fuel	-$233m	- Singapore Jet price increased by 92 percent. The average fuel price net of hedging increased 54 percent compared to the prior year resulting in an increase in costs of $192 million. Consumption increased by 14 percent ($41 million) compared to an increase in capacity of 15 percent.
Maintenance, aircraft operations and passenger services	-$38m	- Higher costs related to an increase in flying activity and recommencement of international routes.
Aviation support package	-$59m	- Receipt of aviation relief package subsidies in the prior year not repeated in the current year.
Sales and marketing and other expenses	-$83m	- Higher brand spend to support sales activity and route relaunches as well as increased commissions and digital activity.
Ownership costs	$35m	- Decrease in depreciation reflecting impairment of grounded widebody aircraft in the prior year and aircraft exits partially offset by new aircraft deliveries.
Net impact of foreign exchange movements	$20m	- Net favourable impact of foreign exchange from reduced hedging losses offset by currency movements on revenue and costs.
Share of earnings of associates	$8m	- Increase in earnings from Christchurch Engine Centre driven by higher engine volumes and heavier mix of maintenance visits.
Other significant items	-$114m	- Reduction in foreign exchange gains on uncovered debt, software impairment and gain on sale of landing slots in the prior year partially offset by reduced reorganisation costs, lower aircraft impairment and lease modification costs and a decrease in de-designation of hedges as a result of forecast transactions no longer being expected to occur.
June 2022 loss before taxation	-$810m	

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

FINANCIAL SUMMARY

Financial Performance

	12 MONTHS TO 30 JUNE 2022 $M	RESTATED 12 MONTHS TO 30 JUNE 2021 $M
Operating Revenue		
Passenger revenue	1,476	1,470
Cargo	1,016	769
Contract services and other revenue	242	278
	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)
	(2,738)	(2,183)
Operating Earnings (excluding items below)	(4)	334
Depreciation and amortisation	(668)	(715)
Net finance costs	(80)	(82)
Share of earnings of associates (net of taxation)	27	19
Loss Before Other Significant Items and Taxation	(725)	(444)
Other significant items	(85)	29
Loss Before Taxation	(810)	(415)
Taxation credit	219	123
Net Loss Attributable to Shareholders of Parent Company	(591)	(292)
Net tangible assets per share (cents)	39	86

Cash Flows

	12 MONTHS TO 30 JUNE 2022 $M	RESTATED 12 MONTHS TO 30 JUNE 2021 $M
Cash inflows from operating activities	3,360	2,517
Cash outflows from operating activities	(2,810)	(2,199)
Net cash flow from operating activities	550	318
Net cash flow from investing activities	(331)	(177)
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	1,793	266

FINANCIAL POSITION

Financial Position

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

The summary financial information has been derived from, and should be read in conjunction with, the Air New Zealand Group Annual Financial Statements (the 'Annual Financial Statements'). The Annual Financial Statements, dated 25 August 2022, are available at: **airnzinvestor.com**. The summary financial information cannot be expected to provide as complete an understanding as provided by the Annual Financial Statements. The accounting policies used in these financial statements are attached in the notes to the Annual Financial Statements.

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Annual Financial Statements

The Annual Financial Statements are available by visiting our website **airnzinvestor.com** OR you may elect to have a copy sent to you by contacting Investor Relations.

ELECTRONIC SHAREHOLDER COMMUNICATION

If you would like to receive all investor communications electronically, including interim and annual shareholder reviews, please visit the Link Market Services website **linkmarketservices.com** or contact them directly (details to the left).

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Our **Kia Mau** strategy is focused on 3 clear drivers of value creation, executed through excellence and innovation across 4 key business enablers.

Profit drivers

Grow Domestic

Profitably grow and enhance our iconic domestic offering, providing New Zealanders with even more choice as the best-connected country in the world

Optimise International

Connecting New Zealanders and our exports to the world through an optimal international network and premium leisure product

Lift Loyalty

Increase products and benefits members value from our Airpoints™ programme, supercharging the loyalty ecosystem for the airline

Enabled by strong culture and focused investment

Brilliant Basics

Operational excellence that provides a seamless travel experience for our customers – do it right, first time, every time

Serious about Sustainability

Committed to meaningful action to reduce our carbon impact

Digital Dexterity

Technology focused on delivering a world-class experience for our people and customers while driving efficiencies

Prioritising People & Safety

Putting people, health and safety first

AIR NEW ZEALAND

A STAR ALLIANCE MEMBER