AIR NEW ZEALAND


# Interim financial report 2022

A STAR ALLIANCE MEMBER

LETTER FROM THE CHAIR AND CHIEF EXECUTIVE OFFICER

# Kia ora koutou katoa

**DAME THERESE WALSH**
Chair

## Covid-19 remains a key theme for the 2022 financial year while Air New Zealand continues to play a vital role in the nation's economy, connecting Kiwis and keeping supplies moving around the world.

Reflecting on the past 24 months, it would be easy to believe the first year of the pandemic was going to be the most difficult for Air New Zealand's finances. In reality, only the final quarter of the 2020 financial year was impacted. During the 2021 financial year disruptions were sporadic and the airline was able to access relief support from the Government through various subsidy programmes, PAYE deferrals and cargo support schemes to mitigate some of the impact. The domestic network was also largely flying across the 2021 year, and the trans-Tasman and Cook Islands bubbles opened and contributed positively during the second half of the year.

This 2022 financial year continues to be different again, with the impact of Covid-19 suppressing domestic demand while we simultaneously plan for the phased international border openings.

These factors have contributed to a loss in the first half.

Positively, and across the entire pandemic to date, we have seen our cargo business operate at record levels, and we have taken the time to refine our strategy and develop our offerings so the exceptional customer service and travel experience we are so famous for is better than ever when we welcome Kiwis home and international travellers back to Aotearoa.

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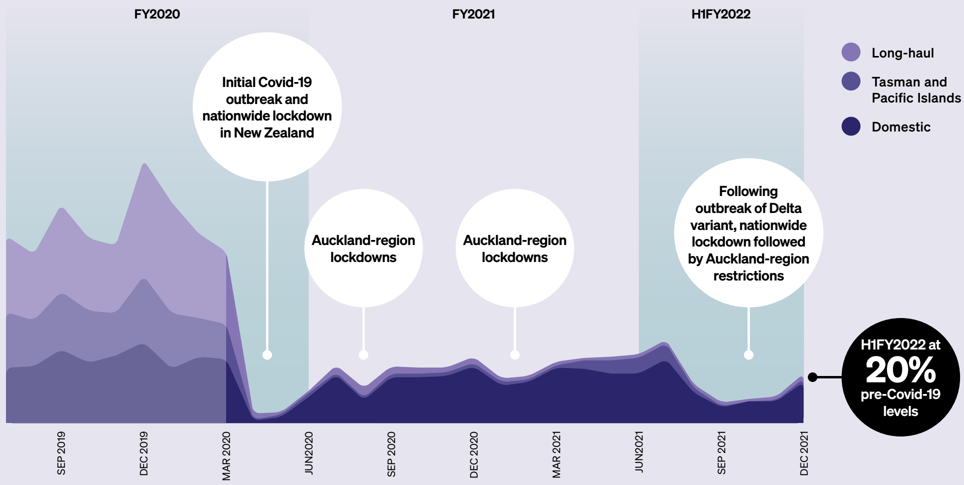
**GREG FORAN**
Chief Executive Officer

*Impact of Covid-19 on passenger revenue*




## *A challenging start to the year*

Following an optimistic start to the first half of the 2022 financial year with record numbers of customers flying on the domestic network in July and good forward bookings, our network was constrained by the introduction of the Delta variant in New Zealand and the resulting lockdown. This lockdown saw Aucklanders stay in the region for 107 days, by far the longest restriction that has been experienced since the onset of the pandemic. As a result, much of our passenger network wasn't flying in the first half, impacting our financial results compared to the same period in the 2021 financial year. Cargo has been critical during this time, providing our airline with a source of much needed revenue as we assist with the vital task of connecting New Zealand exporters and their goods with the rest of the world, while also importing crucial goods into the country.

# LETTER FROM THE CHAIR AND CHIEF EXECUTIVE OFFICER (CONTINUED)

After the summer holiday period, which saw 1.3 million Kiwis exploring all corners of the country, and gearing up for the planned border openings early in the New Year, the arrival of the Covid-19 Omicron variant has changed the landscape once again, adding more uncertainty as we head into the second half of the financial year.

Tourism and hospitality industries in New Zealand continue to be significantly impacted by Covid-19. Our own network has been disrupted numerous times as a result of travel restrictions both in New Zealand and in other markets. Our people have worked tirelessly to reschedule flights and support customers with mass flight cancellations and rebookings throughout – and we can't thank them enough for all they do every day as we navigate this ever-changing situation.

Our sincere thank you to our customers also for their ongoing patience, understanding and support as events continue to disrupt their plans and create challenges.

## *Our people making a difference*

We can't discount that there has been some exceptional work from our people over this first half.

In our efforts to support the vaccine rollout, the team dreamed up Jabaseat – a unique experience for New Zealanders to get vaccinated on board one of our Boeing 787s and catch up on some inflight entertainment with a goody-bag. Our vaccine mandates for domestic and international flying were announced in an effort to keep our people and customers safe. The subsequent rollout of these has been smooth, with the international no jab, no fly policy coming into place on 1 February following the implementation of the domestic policy mid-December.

The vaccine pass introduction was seamless, with our digital teams creating the app in record time and making it available so our Airports team could support customers from day one.

It highlights just how well Air New Zealanders come together to solve problems quickly.

We have been working closely with our unions on a number of initiatives, including the vaccination rollout, and it has been pleasing to see such a strong uptake of vaccinations and subsequently the Rapid Antigen Testing programme.

The restart of the Domestic network in mid-December, along with the reinstatement of Cook Islands flights on 14 January, was another highlight, with good on time performance over the holiday period – 93.5 percent of flights arriving at the scheduled time. It is about getting these 'brilliant basics' right, and our people are showcasing that every day.

Teams across the business came together to set up new cargo routes, including those from Australia direct to North America, and connecting Northland to the rest of the country when Auckland was in lockdown. We are also in the process of selling our remaining Boeing 777-200s and introduced new aircraft into the fleet to support our operations, with two Airbus A320neos and our 29th and final ATR72-600 joining the fleet in November and December.

The resilience, agility and power of our people is what has allowed us to adapt to the variety of challenges thrown our way. We wouldn't be here without them, and we couldn't be prouder of them all.


Jump on board Jabaseat

New Airbus A320neo

New ATR72-600


## *Ready for recovery*

From the perspective of business resilience and readiness, we have started welcoming back some cabin crew and pilots to strengthen our Domestic network and as we prepare for international borders to reopen in the near-term.

Air New Zealand has also continued strengthening its position, with a clear strategy, strong leadership team and investment in the right areas to prepare it for the future. The past six months has seen further refinement and depth added to the strategy, where the focus is on our three profit drivers of domestic, international and loyalty, underpinned by our enablers of brilliant basics, sustainability, digital dexterity and prioritising people and safety. By controlling what we can, we have laid out a clear path for areas of focus over the medium-term.

Executing on our strategy includes enabling some new ways of working together – allowing us to build on our people's agility and creativity to drive innovation. You will have seen some of this in our trials with new food and beverage offerings on domestic flights. We are looking at how we embed these principles further across the business to really help us accelerate the strategy.

Investments continue to be made to enhance the customer experience and keep us future focused. In addition to updating the Air New Zealand app so customers can easily upload vaccine passes for domestic travel, we announced late last year we are launching our own credit card which will give customers new and innovative ways to earn Airpoints™.

Sustainability is critical to the long-term viability of Air New Zealand, and we are putting in place a number of initiatives that will see us achieve carbon neutrality by 2050. Key to the success of this is the introduction of cost-effective sustainable aviation fuel (SAF) in New Zealand. We are working closely with the Ministry of Business, Innovation & Employment to make SAF a reality, as it will be critical for reducing the carbon footprint of our international fleet. In addition, we have launched a request for proposal for zero emissions aircraft for our Domestic network and have a memorandum of understanding with Airbus on a joint research project to better understand the opportunities and challenges of flying zero-emission hydrogen aircraft in New Zealand.


# LETTER FROM THE CHAIR AND CHIEF EXECUTIVE OFFICER (CONTINUED)

## *Building back international*

We were pleased when the Government announced its five-step plan in February for reopening of borders, allowing New Zealanders to travel home more freely without the restrictions of managed isolation, and later this year allowing us to welcome international travellers to Aotearoa.

In preparation for this, we have started welcoming back more of our Air New Zealand whānau to support this, including approximately 250 cabin crew and pilots. We have also started reactivating a number of our key ports around the world so we are ready for customers.

Looking further out to the end of this calendar year, we will be introducing more flights to North America and reinstating some of our routes that have been closed for the past two years, including Chicago and Houston.

We are thrilled to be commencing flights to New York City later in the year – something we know excites Kiwis as well! Adding this direct route from Auckland will give our customers greater reach to destinations across the eastern United States and another fantastic holiday destination to choose from.

## *Financial results*

Air New Zealand delivered a loss before other significant items and taxation[1] of $367 million for the six-month period ended 31 December 2021, reflecting the substantial impact the Covid-19 pandemic continues to have on the airline. This compares to the loss before other significant items and taxation of $186 million for the same period last year.

Statutory losses before taxation of $376 million include a $9 million loss from other significant items (aircraft impairment and foreign exchange losses on uncovered debt) compared to a $105 million loss before taxation for the first half of the previous financial year.

The continuation of substantial restrictions on international travel to and from New Zealand and the national lockdown in August 2021 saw the airline's operating revenue decline 9 percent to $1.1 billion in the first six months of the financial year, as passenger revenues were substantially reduced by 26 percent to $523 million. This was partially offset by strong cargo revenues of $482 million, which were up 29 percent on the same period last year.

Operating costs increased by 11 percent or $108 million to $1.1 billion, in large part due to higher labour costs, increased jet fuel prices and the removal of aviation subsidy support compared to the prior period.

Our net gearing position increased to 78.0 percent, a change of 6.9 percentage points from 30 June 2021, and was primarily driven by losses in the period, and to a lesser extent, investment in aircraft and weaker foreign exchange. The Board remains committed to a medium-term gearing target range of 45 percent to 55 percent as we recover from the pandemic.

## *Liquidity and cash burn update*

Due to the ongoing financial impact from Covid-19, we have needed to continue to draw on the Crown Standby Loan Facility (Crown Facility) in the first six months of the year, with $195 million of drawings bringing the total as at 31 December to $545 million. Those drawdowns have continued early into calendar year 2022, as we have started to paydown PAYE and FBT deferrals of approximately $300 million.

In mid-December we announced a revised Crown support package, comprising of a further $500 million of additional liquidity. Total support from the Crown is now $2 billion, consisting of $1 billion of the Crown Facility and $1 billion of non-voting redeemable shares.

As at 23 February 2022, the airline has available liquidity of $1.4 billion, consisting of cash of approximately $170 million, $240 million of available funds on the Crown Standby Loan Facility and $1.0 billion of redeemable shares.

Based on the current demand profile and noting the last PAYE and FBT repayment of approximately $100 million due in March, the airline expects it will begin issuing redeemable shares to the Crown in March 2022. The redeemable shares become available, and will be accessed incrementally, once $850 million has been drawn under the Crown Facility.

## *Capital structure and dividend*

Air New Zealand continues to actively engage with the Crown as it assesses its longer-term capital structure and funding needs. This includes the additional liquidity of $500 million that was announced in December which better positions the airline during the period up to its recapitalisation.

Air New Zealand intends to launch an equity capital raise by the end of March 2022 or shortly thereafter, subject to market conditions. Given the critical role the company has in New Zealand's economy and society, the Crown is

1. Refer to the Financial Commentary section on page 8.

supportive of this intention and has confirmed its longstanding commitment to maintaining a majority shareholding and, subject to Cabinet being satisfied with the terms of Air New Zealand's proposed equity capital raise, it would participate in the equity capital raise in order to maintain a majority shareholding in Air New Zealand.

Due to the ongoing financial impact from Covid-19 and the restrictions of the Crown Facility dividends remain suspended. Accordingly, there will be no interim dividend for the 2022 financial year.

## Outlook

There remains a large degree of uncertainty on the impact of the Omicron variant on demand for domestic travel for the remainder of the financial year.

Additionally, while recent clarity on the phasing of border openings for New Zealand is helpful, the timing of reduced or removed self-isolation restrictions remains unclear, driving continued uncertainty in the level of demand for international air travel. Self-isolation restrictions are expected to continue to have a substantial adverse impact on international demand in the second half of 2022 financial year, and for as long as those restrictions exist.

Air New Zealand's current expectations are that the 2022 financial year will incur a loss before taxation and other significant items that exceeds $800 million.

## Close

Earlier this month we farewelled Chief Operations Officer Carrie Hurihanganui. We thank her for her years of commitment and dedication to the airline and all she has achieved over the past 23 years. We wish her all the best in her new role as Chief Executive Officer of Auckland Airport and look forward to continuing to work with her as she leads New Zealand's largest airport into the future.

We are excited about welcoming our new Chief Operations Officer Alexandria Marren in late March from Atlanta, USA and Michael Williams as our Chief Transformation & Alliances Officer to the Executive team. Both Alexandria and Michael bring a wealth of experience and skills which will be vital for taking us forward.

Once again, thank you to our customers and shareholders for sticking with us through these turbulent times. Thank you also to our people who have stayed committed to our customers and made it possible for us to respond rapidly to the changes and challenges thrown our way.

As we head into the second half, we are optimistic about our future now we have a clearer picture of how borders and international flying will phase over the coming months. We know Covid-19 will run its course, and we are ready and excited to welcome Kiwis home and customers back to the skies!

Ngā mihi nui

**Dame Therese Walsh**
Chair

**Greg Foran**
Chief Executive Officer

24 February 2022

## EXECUTIVE TEAM CHANGES

### With the departure of Carrie Hurihanganui, Alexandria Marren has been appointed into the Chief Operations Officer role.

Alexandria has spent her career in large scale, complex industries and has more than 30 years' experience in aviation, working previously as Chief Operating Officer for ExpressJet Airlines, across various senior leadership roles with United Airlines and led Hertz Rental Cars' North American operations team. She comes to us from her role of President of ABM Aviation, where she has led a team of 11,000 plus to support airlines at airports around the globe to navigate Covid-19.

### In addition, Michael Williams, formerly Group General Manager Commercial, Alliances & Strategy, has been appointed to the newly created role of Chief Transformation & Alliances Officer.

Michael has held several senior commercial and strategy roles since joining the airline in 2016, having previously worked with the Boston Consulting Group in Australia, Finland and the USA with clients in the aviation, technology and retail sectors. With his deep understanding of our business and a sharp strategic ability, he will be integral in leading the programme to look at our ways of working to support the successful delivery of our strategy.

**TOP TO BOTTOM**
Alexandria Marren – Chief Operations Officer / Michael Williams – Chief Transformation & Alliances Officer

# FINANCIAL COMMENTARY

**Due to the continued impact of Covid-19, including extended domestic travel restrictions following the outbreak of the Delta variant, Air New Zealand reported a loss before other significant items and taxation[1] of $367 million for the six months ended 31 December 2021. Including the impact of other significant items, statutory losses before taxation were $376 million.**

## *Revenue*

Operating revenue for the period declined to $1.1 billion, a decrease of 9 percent as continued Covid-19 related border closures and travel restrictions expanded to temporarily include the Domestic network, resulting in substantially reduced passenger network flying. Foreign exchange drove a 0.5 percent adverse impact.

Passenger revenue declined by 26 percent to $523 million, as the continued impact of significantly limited international travel due to Covid-19 was further exacerbated from an outbreak of the Delta variant in New Zealand in August 2021. The subsequent three week nationwide lockdown and extended domestic border restrictions around the Auckland region lasted 107 days, substantially impacting the domestic passenger network for the period. Capacity (Available Seat Kilometres, ASK) reduced by 26 percent excluding cargo-only flights, due to the operation of a limited passenger schedule. Including cargo-only flights, capacity increased 6.7 percent compared to the same period last year, due to additional flying supported by the New Zealand and Australian governments.

Demand (Revenue Passenger Kilometres, RPK) decreased less than capacity for the period, resulting in a load factor of 58.5 percent, an increase of 4.8 percentage points on the prior comparative period. Revenue per Available Seat Kilometre (RASK) decreased nominally by 0.2 percent excluding FX and was impacted by the change in segment mix from longer sector long-haul travel and corporate travel towards shorter sector domestic leisure travel.

International long-haul capacity declined 44 percent as continued travel restrictions in New Zealand and globally impacted demand. Demand on international long-haul routes declined 40 percent, with load factors increasing 2.2 percentage points to 30.0 percent. International long-haul RASK reduced by 13 percent. Excluding the impact of foreign exchange, long-haul RASK declined 11 percent.

International short-haul capacity increased by 5 percent as a result of two-way quarantine free travel to the Cook Islands up to mid-August 2021 and from Australia for parts of July 2021 as well as workers arriving from low-risk Pacific Island nations under the Recognised Seasonal Employer (RSE) scheme. Demand on international short-haul routes improved by 107 percent, with load factors increasing 26.6 percentage points to 54.0 percent. International short-haul RASK was up 30 percent and was only nominally impacted by foreign exchange.

Domestic capacity decreased 23 percent, due to a nationwide lockdown and continued prohibition on non-essential travel for the Auckland region which lasted nearly four months. As a result of the temporary restrictions, domestic demand declined more than capacity at 27 percent, with load factors decreasing by 3.8 percentage points to 72.6 percent. Domestic RASK declined 4.7 percent and was not impacted by foreign exchange.

Cargo revenue was $482 million, an increase of 29 percent. Foreign exchange had a nominal impact. The increase was driven by additional scheduled flying under the New Zealand Government's Maintaining International Air Connectivity scheme (MIAC). Higher demand for air freight also contributed to the growth as a consequence of fewer international carriers in the New Zealand market.

Contract services and other revenue were $120 million, a decrease of $33 million or 22 percent, driven primarily by reduced maintenance activity on contracts for third parties. Reduced lounge revenue and lower customer activity also contributed to the decline. Foreign exchange resulted in an adverse impact of 2.6 percent.

1. Loss before other significant items and taxation represent Earnings stated in compliance with NZ IFRS (Statutory Earnings) after excluding items which due to their size or nature warrant separate disclosure to assist with understanding the underlying financial performance of the Group. Loss before other significant items and taxation is reported within the condensed Group interim financial statements which was subject to review by the external auditors. Further details are contained within Note 4 of the condensed Group interim financial statements.

## Expenses

Operating expenditure increased by $108 million or 11 percent. Higher labour costs, increased jet fuel prices and the lack of aviation subsidy support in the period all contributed to the overall increase. Reported costs per ASK (CASK) increased 3.7 percent, with the removal of the aviation subsidy support driving the largest impact in the period. Underlying CASK, which excludes the impact of fuel price, foreign exchange and third-party maintenance as well as the absence of aviation subsidy support, deteriorated nominally by 0.2 percent.

Labour costs were $433 million, increasing by $39 million or 9.9 percent. Foreign exchange had no impact on labour costs in the period. Full-time equivalent labour (FTE) increased 8.1 percent to approximately 8,000 compared to the prior period (represents a 33 percent reduction compared to pre-Covid levels of approximately 12,000), driven by the select recall and hiring of operational and support workforces to support the expected recovery as travel restrictions ease. An employee share award received in the period, a provision for incentive payments and investment in digital labour to support the airline's medium-term strategic priorities also drove the increase. A government wage subsidy was received following the impact of nationwide and Auckland-area lockdowns however, this support was $6 million less than the prior comparative period.

Fuel costs were $174 million, increasing by $22 million or 14.5 percent. Excluding the impact of foreign exchange, fuel costs grew by 22 percent. The increase in fuel cost was largely driven by a higher average fuel price in the period of 19 percent or $29 million. Significant increases in underlying Singapore Jet fuel, and to a lesser extent, increases in the price of domestic carbon offsets, drove $97 million of the additional cost, and were partially offset by $68 million of hedging gains. A 6.7 percent increase in capacity due to cargo flying in the period drove a 4 percent increase in consumption, or $4 million, and was more than offset by an $11 million benefit from the stronger New Zealand dollar.

Aircraft operations, passenger services and maintenance costs were $348 million, representing an increase of $38 million. Excluding support received in the prior period under the Government's aviation support package, which did not repeat in the current six months, costs decreased by $20 million or 5.4 percent. Underlying reductions in activity, including reduced third-party maintenance revenues drove lower costs across these areas.

Sales and marketing and other expenses were $167 million, growing $22 million or 15.2 percent reflecting increased brand activity and digital costs.

Ownership costs decreased by $34 million or 8.2 percent, driven by impairment of grounded Boeing 777 widebody aircraft that occurred in the prior year, aircraft exits and reduced utilisation of engine maintenance assets, partially offset by A320neo and ATR aircraft deliveries.

The impact of foreign exchange rate changes on the revenue and cost base in the period resulted in a favourable foreign exchange movement of $16 million. After taking into account a $13 million favourable movement in hedging, overall foreign exchange had a net $29 million positive impact on the Group result for the period.

## Share of Earnings of Associates

Share of earnings of associates increased by $2 million to $12 million for the period, reflecting higher engine volumes and mix of maintenance work being serviced by the Christchurch Engine Centre.

## Other Significant Items

Other significant items resulted in a loss of $9 million during the six-month period, a decrease of $90 million. These relate in the current period to net foreign exchange losses on uncovered debt of $6 million and aircraft impairment of $3 million.

## Cash and Financial Position

Cash on hand at 31 December 2021 was $156 million, a decrease of $110 million since 30 June 2021. This balance reflects the impact of fixed asset purchases and debt and lease payments offset by $195 million in drawings on the $1 billion Crown Facility and other aircraft financing as well as cash flows from operating activities.

In December 2021, the airline announced a revised Crown support package including a further $500 million of additional liquidity. Total support from the Crown is now $2 billion, consisting of $1 billion of the Crown Facility and $1 billion of non-voting redeemable shares.

Operating cash flows were a net inflow of $40 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 the increased restrictions in the period.

Net gearing increased 6.9 percentage points to 78.0 percent compared to 30 June 2021, driven by net losses after taxation, investment in the airline's fleet and foreign exchange movements.

No dividend for the 2022 interim financial period has been declared due to the continued impact of Covid-19 on the business and the conditions of the Crown Facility.

# CHANGE IN EARNINGS

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

| | | |
|---|---|---|
| **December 2020 loss before taxation** | -$105m | |
| Passenger capacity | -$155m | - Capacity decreased by 26 percent (excluding cargo-only flights) due to Covid-19 border closures and travel restrictions. Including cargo-only flights capacity increased by 6.7 percent.<br>- Domestic capacity declined by 23 percent reflecting nationwide lockdowns and extended non-essential travel restrictions in the Auckland region from mid August through to mid December.<br>- International short-haul capacity increased by 5 percent. Two-way quarantine free travel with Australia was paused in July and suspended in August. Capacity increases to the Pacific Islands were driven by quarantine-free travel with the Cook Islands to August and Recognised Seasonal Employer (RSE) scheme workers coming to New Zealand.<br>- International long-haul capacity declined 44 percent due to the suspension of services as a result of the global pandemic with a small number of passenger services operating primarily on routes supported by international airfreight schemes. Capacity declines reflected the initial demand for repatriation flights in the prior period. |
| Passenger RASK | -$28m | - Domestic Revenue per Available Seat Kilometre (RASK) declined by 5 percent excluding FX and loads declined 3.8 percentage points to 72.6 percent.<br>- International short-haul RASK improved by 30 percent excluding FX and loads increased 26.6 percentage points to 54.0 percent.<br>- International long-haul RASK declined by 11 percent excluding FX and loads increased 2.2 percentage points to 30.0 percent. Limited passenger services, primarily for essential travel and repatriations, supplemented cargo services.<br>- Overall Group RASK was in-line with the prior period (declining 0.2 percent excluding FX) and was impacted by a change in segment mix of flying in the current year towards shorter sector leisure travel. Loads increased by 4.8 percentage points to 58.5 percent. |
| Cargo revenue | $110m | - Cargo revenue improved due to the award of additional cargo-only scheduled flights by the New Zealand Government under the Maintaining International Air Connectivity scheme and increased demand with fewer carriers operating to New Zealand. |
| Contract services and other revenue | -$29m | - Reduced maintenance work for third-parties and border restrictions reducing customer activity. |
| Labour | -$39m | - Higher labour costs due to reduced government subsidies, a staff share award, performance incentives and increased investment in digital activities. |
| Fuel | -$33m | - The average fuel price increased 19 percent compared to the prior year (net of hedging) resulting in an increase in costs of $29 million. Consumption increased by 4 percent ($4 million) compared to an increase in capacity of 6.7 percent. |
| Maintenance, aircraft operations and passenger services | $16m | - Decrease in maintenance driven by a reduction in third-party work. |
| Aviation support package | -$59m | - Receipt of aviation support package subsidies in the prior period not repeated in the current year. |
| Sales and marketing and other expenses | -$21m | - Higher investment in brand and digital activity. |
| Ownership costs | $26m | - Decrease in depreciation reflecting impairment of grounded Boeing 777 widebody aircraft in the prior year and aircraft exits as well as reduced utilisation of engine maintenance assets partially offset by new aircraft deliveries. |
| Net impact of foreign exchange movements | $29m | - Net favourable impact of foreign exchange from reduced hedging losses and currency movement impact on revenue and costs. |
| Share of earnings of associates | $2m | - Increase in earnings from Christchurch Engine Centre driven by higher engine volumes and heavier mix of maintenance visits. |
| Other significant items | -$90m | - Reduction in foreign exchange gains on uncovered debt 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. |
| **December 2021 loss before taxation** | -$376m | *The numbers referred to in the Financial Commentary on the previous page have not isolated the impact of foreign exchange. |

# STATEMENT OF FINANCIAL PERFORMANCE (unaudited)

*For the six months to 31 December 2021*

| | NOTES | 6 MONTHS TO 31 DEC 2021 $M | RESTATED 6 MONTHS TO 31 DEC 2020 $M |
|---|---|---|---|
| **Operating Revenue** | | | |
| Passenger revenue | | **523** | 708 |
| Cargo | 2(b) | **482** | 373 |
| Contract services | | **66** | 93 |
| Other revenue | | **54** | 60 |
| | 3 | **1,125** | 1,234 |
| **Operating Expenditure** | | | |
| Labour | 2(b) | **(433)** | (394) |
| Fuel | | **(174)** | (152) |
| Maintenance | | **(123)** | (140) |
| Aircraft operations | 2(b) | **(180)** | (143) |
| Passenger services | 2(b) | **(45)** | (27) |
| Sales and marketing | | **(41)** | (29) |
| Foreign exchange gains/(losses) | | **-** | (13) |
| Other expenses | 2(b) | **(126)** | (116) |
| | | **(1,122)** | (1,014) |
| **Operating Earnings (excluding items below)** | | **3** | 220 |
| Depreciation and amortisation | | **(344)** | (372) |
| **Loss Before Finance Costs, Associates, Other Significant Items and Taxation** | | **(341)** | (152) |
| Finance income | | **3** | 4 |
| Finance costs | 2(b) | **(41)** | (48) |
| Share of earnings of associates (net of taxation) | 2(a) | **12** | 10 |
| **Loss Before Other Significant Items and Taxation** | | **(367)** | (186) |
| Other significant items | 4 | **(9)** | 81 |
| **Loss Before Taxation** | | **(376)** | (105) |
| Taxation credit | | **104** | 32 |
| **Net Loss Attributable to Shareholders of Parent Company** | | **(272)** | (73) |
| **Per Share Information:** | | | |
| Basic and diluted earnings per share (cents) | | **(24.2)** | (6.5) |
| Net tangible assets per share (cents) | | **57** | 97 |

These condensed financial statements have not been audited. They have been the subject of review by the auditor pursuant to NZ SRE 2410 (Revised) Review of Financial Statements Performed by the Independent Auditor of the Entity, issued by the External Reporting Board. The accompanying notes form part of these financial statements.

# STATEMENT OF COMPREHENSIVE INCOME (unaudited)

*For the six months to 31 December 2021*

| | 6 MONTHS TO 31 DEC 2021 $M | RESTATED 6 MONTHS TO 31 DEC 2020 $M |
|---|---|---|
| **Net Loss for the Period** | **(272)** | (73) |
| **Other Comprehensive (Loss)/Income:** | | |
| **Items that may be reclassified subsequently to profit or loss:** | | |
| Changes in fair value of cash flow hedges | **20** | (10) |
| Transfers to net loss from cash flow hedge reserve | **(45)** | 42 |
| Net translation loss on investment in foreign operations | **-** | (3) |
| Changes in cost of hedging reserve | **-** | 3 |
| Taxation on above reserve movements | **8** | (14) |
| **Total items that may be reclassified subsequently to profit or loss** | **(17)** | 18 |
| **Total Other Comprehensive (Loss)/Income for the Period, Net of Taxation** | **(17)** | 18 |
| **Total Comprehensive Loss for the Period, Attributable to Shareholders of the Parent Company** | **(289)** | (55) |

These condensed financial statements have not been audited. They have been the subject of review by the auditor pursuant to NZ SRE 2410 (Revised), issued by the External Reporting Board. The accompanying notes form part of these financial statements.

# STATEMENT OF CHANGES IN EQUITY (unaudited)

*For the six months to 31 December 2021*

| | 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 | 7 | **-** | **-** | **-** | **(7)** | **(7)** |
| **Restated Balance as at 1 July 2021** | | **2,213** | **(49)** | **(17)** | **(1,049)** | **1,098** |
| Net loss for the period | | **-** | **-** | **-** | **(272)** | **(272)** |
| Other comprehensive loss for the period | | **-** | **(18)** | **1** | **-** | **(17)** |
| **Total Comprehensive Loss for the Period** | | **-** | **(18)** | **1** | **(272)** | **(289)** |
| **Transactions with Owners:** | | | | | | |
| Equity-settled share-based payments (net of taxation) | | **6** | **-** | **-** | **-** | **6** |
| Equity settlements of staff share award obligations | 2(g) | **(4)** | **-** | **-** | **-** | **(4)** |
| **Total Transactions with Owners** | | **2** | **-** | **-** | **-** | **2** |
| **Balance as at 31 December 2021** | 2(h) | **2,215** | **(67)** | **(16)** | **(1,321)** | **811** |

| | 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 | 7 | - | - | - | (4) | (4) |
| **Restated Balance as at 1 July 2020** | | 2,209 | (123) | (11) | (761) | 1,314 |
| Net loss for the period | 7 | - | - | - | (73) | (73) |
| Other comprehensive income for the period | | - | 25 | (7) | - | 18 |
| **Total Comprehensive Loss for the Period** | | - | 25 | (7) | (73) | (55) |
| **Transactions with Owners:** | | | | | | |
| Equity-settled share-based payments (net of taxation) | | 2 | - | - | - | 2 |
| **Total Transactions with Owners** | | 2 | - | - | - | 2 |
| **Balance as at 31 December 2020** | 7 | 2,211 | (98) | (18) | (834) | 1,261 |

These condensed financial statements have not been audited. They have been the subject of review by the auditor pursuant to NZ SRE 2410 (Revised), issued by the External Reporting Board. The accompanying notes form part of these financial statements.

# STATEMENT OF FINANCIAL POSITION (unaudited)

*As at 31 December 2021*

| | NOTES | 31 DEC 2021 $M | RESTATED 30 JUN 2021 $M |
|---|---|---|---|
| **Current Assets** | | | |
| Bank and short term deposits | | **156** | 266 |
| Trade and other receivables | | **287** | 252 |
| Inventories | | **100** | 92 |
| Derivative financial assets | | **50** | 79 |
| Other assets | | **110** | 137 |
| **Total Current Assets** | | **703** | 826 |
| **Non-Current Assets** | | | |
| Trade and other receivables | | **39** | 92 |
| Property, plant and equipment | | **3,288** | 3,128 |
| Right of use assets | | **1,721** | 1,989 |
| Intangible assets | 7 | **171** | 169 |
| Investments in other entities | 2(a) | **129** | 138 |
| Deferred taxation | 2(e) | **53** | - |
| Other assets | 2(d) | **352** | 342 |
| **Total Non-Current Assets** | | **5,753** | 5,858 |
| **Total Assets** | | **6,456** | 6,684 |
| **Current Liabilities** | | | |
| Trade and other payables | 2(b) | **559** | 524 |
| Revenue in advance | | **748** | 689 |
| Interest-bearing liabilities | 2(f) | **784** | 524 |
| Lease liabilities | | **260** | 383 |
| Derivative financial liabilities | | **7** | 11 |
| Provisions | | **117** | 58 |
| Other liabilities | | **178** | 164 |
| **Total Current Liabilities** | | **2,653** | 2,353 |
| **Non-Current Liabilities** | | | |
| Revenue in advance | | **492** | 503 |
| Interest-bearing liabilities | 2(f) | **1,000** | 1,023 |
| Lease liabilities | | **1,322** | 1,378 |
| Provisions | | **149** | 241 |
| Other liabilities | | **29** | 30 |
| Deferred taxation | 7 | **-** | 58 |
| **Total Non-Current Liabilities** | | **2,992** | 3,233 |
| **Total Liabilities** | | **5,645** | 5,586 |
| **Net Assets** | | **811** | 1,098 |
| **Equity** | | | |
| Share capital | | **2,215** | 2,213 |
| Reserves | 2(h) | **(1,404)** | (1,115) |
| **Total Equity** | | **811** | 1,098 |

Dame Therese Walsh
CHAIR

Alison Gerry
DIRECTOR

For and on behalf of the Board, 24 February 2022

These condensed financial statements have not been audited. They have been the subject of review by the auditor pursuant to NZ SRE 2410 (Revised), issued by the External Reporting Board. The accompanying notes form part of these financial statements.

# STATEMENT OF CASH FLOWS (unaudited)

*For the six months to 31 December 2021*

| | NOTES | 6 MONTHS TO 31 DEC 2021 $M | RESTATED 6 MONTHS TO 31 DEC 2020 $M |
|---|---|---|---|
| **Cash Flows from Operating Activities** | | | |
| Receipts from customers | | **1,177** | 1,047 |
| Payments to suppliers and employees | 7 | **(1,105)** | (1,140) |
| Income tax paid | | **-** | (5) |
| Interest paid | | **(35)** | (45) |
| Interest received | | **3** | 7 |
| **Net Cash Flow from Operating Activities** | | **40** | (136) |
| **Cash Flows from Investing Activities** | | | |
| Disposal of property, plant and equipment, intangibles and assets held for resale | | **10** | 2 |
| Distribution from associates | | **32** | 21 |
| Acquisition of property, plant and equipment, right of use assets and intangibles | 7 | **(234)** | (133) |
| Interest-bearing asset receipts | | **17** | - |
| Investment in associate | | **(8)** | (3) |
| **Net Cash Flow from Investing Activities** | | **(183)** | (113) |
| **Cash Flows from Financing Activities** | | | |
| Interest-bearing liabilities drawdowns | | **313** | 340 |
| Equity settlements of staff share award | 2(g) | **(4)** | - |
| Interest-bearing liabilities payments | | **(83)** | (108) |
| Lease liabilities payments | | **(200)** | (173) |
| Rollover of foreign exchange contracts* | | **7** | (74) |
| **Net Cash Flow from Financing Activities** | | **33** | (15) |
| **Decrease in Cash and Cash Equivalents** | | **(110)** | (264) |
| Cash and cash equivalents at the beginning of the period | | **266** | 438 |
| **Cash and Cash Equivalents at the End of the Period** | | **156** | 174 |
| **Reconciliation of Net Loss Attributable to Shareholders to Net Cash Flows from Operating Activities:** | | | |
| Net loss attributable to shareholders | | **(272)** | (73) |
| Plus/(less) non-cash items: | | | |
| Depreciation and amortisation | | **344** | 372 |
| Loss on disposal of property, plant and equipment, right of use assets and assets held for resale | 4 | **4** | 6 |
| Impairment on property, plant and equipment, right of use assets and assets held for resale | 4 | **3** | 34 |
| Foreign exchange losses/(gains) on uncovered interest-bearing liabilities and lease liabilities | 4 | **6** | (146) |
| Amounts transferred from the cash flow hedge reserve where the forecast transaction is no longer expected to occur | 4 | **-** | 6 |
| Share of earnings of associates | 2(a) | **(12)** | (10) |
| Movements on fuel derivatives | | **1** | (15) |
| Other non-cash items | | **8** | (6) |
| | | **82** | 168 |
| Net working capital movements: | | | |
| Assets | | **(54)** | 7 |
| Revenue in advance | | **48** | (195) |
| Liabilities | | **(36)** | (116) |
| | | **(42)** | (304) |
| **Net Cash Flow from Operating Activities** | | **40** | (136) |

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

These condensed financial statements have not been audited. They have been the subject of review by the auditor pursuant to NZ SRE 2410 (Revised), issued by the External Reporting Board. The accompanying notes form part of these financial statements.

# CONDENSED NOTES TO THE FINANCIAL STATEMENTS (unaudited)

*As at and for the six months to 31 December 2021*

## 1. Financial Statements

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.

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. The Company is an FMC Reporting Entity under the Financial Markets Conduct Act 2013 and the Financial Reporting Act 2013.

Air New Zealand prepares its condensed Group interim financial statements ("financial statements") in accordance with New Zealand Generally Accepted Accounting Practice ("NZ GAAP") as it applies to the interim period. 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 have not been audited. The financial statements comply with NZ IAS 34: Interim Financial Reporting and IAS 34: Interim Financial Reporting and have been the subject of review by the auditor, pursuant to NZ SRE 2410 (Revised) Review of Financial Statements Performed by the Independent Auditor of the Entity, issued by the External Reporting Board.

The financial statements should be read in conjunction with the Annual Report for the year ended 30 June 2021.

### Significant accounting policies

The accounting policies and computation methods used in the preparation of the financial statements are consistent with those used as at 30 June 2021 and 31 December 2020 except as outlined 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 7.

### Impact of Covid-19

The Group has significantly reduced its network as demand declined following border closures and international travel restrictions arising from the Covid-19 pandemic. In response to the impact, the Group took a number of 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 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. The FBT and PAYE liabilities arising during this period will be settled during January 2022 to March 2022.

A standby Government loan facility was secured 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, comprising a new agreement which gives the Group the ability to issue up to $1 billion of non-voting Redeemable Shares to the Crown and a reduction in the existing secured loan facility from $1.5 billion to $1 billion, with an extended term to January 2026. The Group can call for the Crown to subscribe for up to $1 billion of Redeemable Shares once at least $850 million is drawn under the secured loan facility. The revised support package provides an additional $500 million of liquidity to better position the airline during the period leading up to its recapitalisation. As at 31 December 2021, the Group had drawn down $545 million of the facility (30 June 2021: $350 million).

**Capital structure**

Given the severity of the impact of Covid-19 on the business, the Board is well advanced in considering the future capital structure of the Group and intends to launch a fully underwritten equity raise in the first quarter of the 2022 calendar year. In revising the Crown support package, consideration was given to what support and flexibility may be needed if unexpected and material events were to occur such that a further delay to the planned equity raise may be deemed necessary. In conjunction with the planned equity raise, the Board is also considering further debt funding, which will be reviewed in the context of the Group's liquidity needs plus targeted gearing and debt coverage ratios.

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

**Forecast liquidity**

Detailed cash flow projections have been developed (refer Note 2(c)) which incorporate the Board's and management's current view of the anticipated recovery timeframe from the Covid-19 pandemic and includes an assumption around a planned equity raise and additional debt financing. Given the uncertainty in predicting the timeframes over which travel restrictions may be lifted and border reopenings may occur, the potential for future waves of the pandemic and the severity of the economic impact, the Group is not able to provide certainty that there may not be more severe downsides than those already considered. While such severe scenarios are not considered likely, in the event a more material adverse scenario occurs, the Group would consider a number of other actions that could be taken.

# CONDENSED NOTES TO THE FINANCIAL STATEMENTS (unaudited)

*As at and for the six months to 31 December 2021*

## 1. Financial Statements (Continued)

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

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

## 2. General Disclosures

### Group composition

(a) The Group has a 49% interest in the Christchurch Engine Centre ("CEC") and a 21% interest in Drylandcarbon One Partnership LLC which are recognised as investment in associates. The Group's share of equity accounted earnings from the CEC was $12 million (31 December 2020: $10 million).

### Government grants, subsidies and other related party transactions

(b) 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 arrangements are for a period from 30 April 2020 through to 31 March 2022. The awards were negotiated on an arm's length basis using standard commercial terms. The Group was awarded from August 2020 contracts to provide international freight services on certain ports from Australia to the United States under the Australian Government International Freight Assistance Mechanism (IFAM). IFAM was intended to restore critical supply chains due to the impact of the global pandemic. Conditions attached to the grants recognised in the Statement of Financial Performance have been satisfied as at balance date.

| | 6 MONTHS TO 31 DEC 2021 $M | 6 MONTHS TO 31 DEC 2020 $M |
|---|---|---|
| **Amounts recognised in Cargo revenue for government grants and assistance:** | | |
| - New Zealand | **182** | 142 |
| - Other regions | **12** | 5 |
| **Total cargo grants and assistance** | **194** | 147 |

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 was 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.

| | 6 MONTHS TO 31 DEC 2021 $M | 6 MONTHS TO 31 DEC 2020 $M |
|---|---|---|
| **Government grants and subsidies recognised in Operating Expenditure include:** | | |
| Wage subsidies (recognised within 'Labour'): | | |
| - New Zealand | **46** | 51 |
| - Other regions | **1** | 2 |
| **Total wage subsidies** | **47** | 53 |
| | | |
| 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 |

The Group undertook during the six months ended 31 December 2021 and 31 December 2020 domestic charters and other services to support quarantine activity as part of border restriction requirements. The transactions were negotiated on an arm's length basis.

Financing costs of $14 million were recognised in relation to the Government standby loan facility during the six months ended 31 December 2021 (31 December 2020: $12 million).

In accordance with Covid-19 related tax relief the Group has deferred FBT and PAYE amounts payable of $298 million (30 June 2021: $254 million). The deferred amount was recognised in the Statement of Financial Position within 'Trade and other payables'.

# CONDENSED NOTES TO THE FINANCIAL STATEMENTS (unaudited)

*As at and for the six months to 31 December 2021*

## 2. General Disclosures (Continued)

### Impairment of assets intended for resale, property, plant and equipment and right of use assets

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

Given the severity of the Covid-19 pandemic on long-haul travel the Group has grounded its Boeing 777 fleets. The Boeing 777-200ER fleet as well as one leased Boeing 777-300ER aircraft are not expected to return to service for Air New Zealand. The Boeing 777-200ER owned aircraft, spare engines and associated assets were transferred to assets held for resale and are carried at the lower of their fair value less costs to sell and their previous carrying value.

For the 2022 financial year the fair values were determined based on expressions of interest from third parties. In the 2021 financial year, market values of the owned Boeing 777-200ER aircraft were obtained from an external valuer which equated to level 2 on the fair value hierarchy. Key inputs into the external valuations include economic factors, the age and manufacture type of the aircraft and engines, the maintenance condition of the aircraft and list prices of manufacturers. The leased Boeing 777-200ER and Boeing 777-300ER aircraft were tested for impairment separately from the rest of the Group's assets and the right of use assets were fully impaired. No impairment expense was recognised in the Statement of Financial Performance in relation to these assets (31 December 2020: $25 million). An impairment provision of $5 million was held against aircraft interiors on leased aircraft (30 June 2021: $5 million).

The carrying value of all other assets (including Boeing 777-300ER aircraft expected to return to service in the Air New Zealand fleet) were tested for impairment as part of the airline network cash generating unit, using a value in use discounted cash flow model. Cash flow projections were developed for a 9.5 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 2.10% per annum from the 2026 financial year (30 June 2021: 1.75% per annum).

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

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

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

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

The cash flow projections are discounted using a pre-tax rate of 11.0% (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 9.8% to 12.1% (30 June 2021: 9.4% to 11.9%). This pre-tax weighted average cost of capital equated to a post tax rate of 9.00% (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 Board's current assessment of the Group's future operations.

### Interest-bearing assets

(d) Non-current "Other assets" include interest-bearing assets of $317 million (30 June 2021: $324 million). Interest-bearing assets are measured at amortised cost, using the effective interest method, less any impairment. The fair value of interest-bearing assets as at 31 December 2021 was $351 million (30 June 2021: $361 million) and are subject to fixed and floating interest rates. Fixed interest rates in the six months to 31 December 2021 ranged from 0.04% per annum to 3.6% per annum (six months to 31 December 2020: 0.07% per annum to 3.6% per annum).

# CONDENSED NOTES TO THE FINANCIAL STATEMENTS (unaudited)

*As at and for the six months to 31 December 2021*

## 2. General Disclosures (Continued)

### Deferred taxation

(e) The Group recognised a deferred tax asset as at 31 December 2021 (30 June 2021: Nil). Detailed cash flow projections used to model the Group's anticipated recovery timeframe (refer note 2(c) above) were used to inform judgement around the recognition and recoverability of the net deferred tax asset relating to income tax losses.

### Interest-bearing liabilities

(f) Interest-bearing liabilities of $1,784 million (30 June 2021: $1,547 million) are recognised initially at fair value and subsequently measured at amortised cost. The fair value at 31 December 2021 is $1,767 million (30 June 2021: $1,534 million).

Interest-bearing liabilities include unsecured bonds of $50 million (30 June 2021: $50 million), secured borrowings of $1,189 million which are secured over aircraft assets (30 June 2021: $1,147 million) and secured borrowings from the New Zealand Government of $545 million (30 June 2021: $350 million) which are secured against specific aircraft assets and a general security interest against other assets of the Group. Secured borrowings are subject to both fixed and floating interest rates. Fixed interest rates on secured borrowings were between 1.0% per annum and 4.4% per annum in the six months to 31 December 2021 (six months to 31 December 2020: 1.0% to 7.3% per annum). Unsecured bonds have a fixed interest rate of 4.25% per annum (31 December 2020: 4.25% per annum).

Under the terms of the revised Crown support package (refer to Note 1), Tranche A of the Amended Crown loan reduced from $1 billion to $850 million and Tranche B reduced from $500 million to $150 million. There were no changes to the interest rates on the tranches.

### Share capital

(g) During the six months ended 31 December 2021 the Group funded the purchase on-market of 2,279,412 shares for $4 million. The shares were used to settle obligations under a staff share award. The total cost of the purchase including transaction costs has been deducted from Share Capital. No purchases were funded for the six months ended 31 December 2020.

### Hedge reserves

(h) As at 31 December 2021, $67 million of losses (30 June 2021: $49 million of losses) were held in the cash flow hedge reserve and nil (30 June 2021: Nil) in the costs of hedging reserve. These reserves are combined within the Statement of Changes in Equity as "Hedge reserves".

## 3. 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.

### Geographical

An analysis of revenue by geographical region of original sale is provided below.

| | 6 MONTHS TO 31 DEC 2021 $M | 6 MONTHS TO 31 DEC 2020 $M |
|---|---|---|
| **Analysis of revenue by geographical region of original sale** | | |
| New Zealand | **867** | 981 |
| Australia and Pacific Islands | **66** | 66 |
| Asia, United Kingdom and Europe | **103** | 90 |
| Americas | **89** | 97 |
| **Total Operating Revenue** | **1,125** | 1,234 |

The principal non-current asset of the Group is 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.

# CONDENSED NOTES TO THE FINANCIAL STATEMENTS (unaudited)

*As at and for the six months to 31 December 2021*

## 4. Other Significant Items

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

| | 6 MONTHS TO 31 DEC 2021 $M | 6 MONTHS TO 31 DEC 2020 $M |
|---|---|---|
| Foreign exchange amounts transferred from the cash flow hedge reserve where the forecast transaction is no longer expected to occur | **-** | (6) |
| Foreign exchange (losses)/gains on uncovered interest-bearing liabilities and lease liabilities | **(6)** | 146 |
| Aircraft impairment and lease modifications | **(3)** | (39) |
| Reorganisation costs | **-** | (41) |
| Gain on sale of landing slots | **-** | 21 |
| | **(9)** | 81 |

**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 profit or loss.

**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.

**Aircraft impairment and lease modifications**

As a result of Covid-19 the Group significantly reduced its network capacity following border closures and international travel restrictions. Due to the severe impact that the pandemic had on global demand for international air travel, the Boeing 777-200ER fleet and one Boeing 777-300ER leased aircraft were grounded for an indefinite period into the future. 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 for the 2022 financial year were determined based on expressions of interest from third parties and in the 2021 financial year from external market valuations. No impairment expense was recognised in the Statement of Financial Performance in relation to these assets (31 December 2020: $25 million). In the six months ended 31 December 2020 losses arising on lease modifications of $5 million were recognised in respect of these aircraft.

In the prior year, the Group exited from service the ATR72-500 fleet following a scheduled replacement. As at 31 December 2021 two aircraft were classified as Held for Resale (31 December 2020: six aircraft) and were carried at the lower of their previous book value at the date of transfer or fair value less costs to sell. During the six months ended 31 December 2021 an impairment expense of $3 million was recognised in the Statement of Financial Performance (31 December 2020: $9 million).

**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 six months ended 31 December 2020.

**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 six months ended 31 December 2020 upon formal transfer of the slots to the purchaser.

# CONDENSED NOTES TO THE FINANCIAL STATEMENTS (unaudited)

*As at and for the six months to 31 December 2021*

## 5. Commitments

| | 31 DEC 2021 $M | 30 JUN 2021 $M |
|---|---|---|
| **Capital commitments** | | |
| Aircraft and engines | **2,511** | 2,568 |
| Other assets | **18** | 21 |
| | **2,529** | 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 A321neo aircraft from August 2023 and September 2023 to the third quarter of the 2026 calendar year. Three A321neo aircraft due to arrive in the middle of the 2022 calendar year have been delayed by one month resulting in an aircraft delivery moving from the 2022 financial year to the 2023 financial year.

Capital commitments as at reporting date include eight Boeing 787 aircraft (planned delivery from 2024 to 2028 financial years) and seven Airbus A321neos (delivery from 2023 to 2027 financial years).

## 6. Contingent Liabilities

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

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

Outstanding letters of credit total $21 million (30 June 2021: $22 million).

The Group has a partnership agreement with Pratt and Whitney in which it holds a 49% interest in the CEC. By the nature of the agreement, joint and several liability exists between the two parties. Total liabilities of the CEC are $167 million (30 June 2021: $100 million).

## 7. 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 six months ended 31 December 2020 is set out below:

| | 6 MONTHS TO 31 DEC 2020 PRIOR TO APPLICATION OF AGENDA DECISION $M | 6 MONTHS TO 31 DEC 2020 AGENDA DECISION ADJUSTMENTS $M | 6 MONTHS TO 31 DEC 2020 AFTER APPLICATION OF AGENDA DECISION $M |
|---|---|---|---|
| Other expenses | (114) | (2) | (116) |
| **Operating Earnings (excluding items below)** | **222** | **(2)** | **220** |
| Depreciation and amortisation | (373) | 1 | (372) |
| **Loss Before Finance Costs, Associates, Other Significant Items and Taxation** | **(151)** | **(1)** | **(152)** |
| **Loss Before Taxation** | **(104)** | (1) | **(105)** |
| Taxation credit | 32 | - | 32 |
| **Net Loss Attributable to Shareholders of Parent Company** | **(72)** | **(1)** | **(73)** |

# CONDENSED NOTES TO THE FINANCIAL STATEMENTS (unaudited)

*As at and for the six months to 31 December 2021*

## 7. Impact of New Accounting Interpretations (Continued)

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** |

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 period | (72) | (1) | (73) | (72) | (1) | (73) |
| Total comprehensive loss for the period | (72) | (1) | (73) | (54) | (1) | (55) |
| **Balance as at 31 December 2020** | **(829)** | **(5)** | **(834)** | **1,266** | **(5)** | **1,261** |
| **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

| | 6 MONTHS TO 31 DEC 2020 PRIOR TO APPLICATION OF AGENDA DECISION $M | 6 MONTHS TO 31 DEC 2020 AGENDA DECISION ADJUSTMENTS $M | 6 MONTHS TO 31 DEC 2020 AFTER APPLICATION OF AGENDA DECISION $M |
|---|---|---|---|
| Payments to suppliers and employees | (1,138) | (2) | (1,140) |
| **Net Cash Flow from Operating Activities** | **(134)** | **(2)** | **(136)** |
| Acquisition of property, plant and equipment, right of use assets and intangibles | (135) | 2 | (133) |
| **Net Cash Flow from Investing Activities** | **(115)** | **2** | **(113)** |
| **Cash and Cash Equivalents at the End of the Period** | **174** | **-** | **174** |
| **Reconciliation of Net Loss Attributable to Shareholders to Net Cash Flows from Operating Activities:** | | | |
| Net loss attributable to shareholders | (72) | (1) | (73) |
| Plus/(less) non-cash items: | | | |
| Depreciation and amortisation | 373 | (1) | 372 |
| **Net Cash Flow from Operating Activities** | **(134)** | **(2)** | **(136)** |

# INDEPENDENT AUDITOR'S REVIEW REPORT TO THE SHAREHOLDERS OF AIR NEW ZEALAND LIMITED

Deloitte.

*For the six months ended 31 December 2021*

The Auditor-General is the auditor of Air New Zealand Limited ("the Company") 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 review of the condensed consolidated interim financial statements ('interim financial statements') of the Group on his behalf.

## Conclusion

We have reviewed the interim financial statements of the Group on pages 11 to 22, which comprise the Statement of Financial Position as at 31 December 2021, and the Statement of Financial Performance, Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows for the six months ended on that date, and condensed notes to the interim financial statements.

Based on our review, nothing has come to our attention that causes us to believe that the interim financial statements of the Group do not present fairly, in all material respects, the financial position of the Group as at 31 December 2021, and its financial performance and cash flows for the six months ended on that date, in accordance with NZ IAS 34 *Interim Financial Reporting* and IAS 34 *Interim Financial Reporting*.

## Basis for Conclusion

We conducted our review in accordance with NZ SRE 2410 (Revised) *Review of Financial Statements Performed by the Independent Auditor of the Entity* ('NZ SRE 2410 (Revised)'). Our responsibilities are further described in the *Auditor's Responsibilities for the Review of the Interim Financial Statements* section of our report.

We are independent of the Group in accordance with the Auditor-General's ethical requirements relating to the audit of the annual financial statements, which incorporate the independence requirements 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 this review and the audit of the Group annual financial statements, we have carried out 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. 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 these engagements and trading activities, we have no relationship with, or interests in, the Group.

## Emphasis of Matter – Impact of Covid-19, Capital Structure and Forecast Liquidity

Without modifying our conclusion, we draw attention to Note 1 of the interim financial statements, which outlines the Board's view of the Group's future capital structure and forecast liquidity, given the severity of the impact of Covid-19 on the business. The Board intends to complete a fully underwritten equity capital raise in conjunction with additional debt financing.

Of particular importance to the future capital structure and forecast liquidity of the Group, is the confirmation of the Crown's commitment to maintain a majority shareholding in the Company and participate in the proposed equity capital raise, subject to Cabinet being satisfied with the terms of the proposal; as well as the revised Crown support package and accessibility of additional debt funding.

## Directors' Responsibilities for the Interim Financial Statements

The directors are responsible, on behalf of the Group, for the preparation and fair presentation of these interim financial statements in accordance with NZ IAS 34 *Interim Financial Reporting* and IAS 34 *Interim Financial Reporting* and for such internal control as the Board of Directors determine is necessary to enable the preparation and fair presentation of the interim financial statements that are free from material misstatement, whether due to fraud or error.

The directors are also responsible for the publication of the interim financial statements, whether in printed or electronic form.

## Auditor's Responsibilities for the Review of the Interim Financial Statements

Our responsibility is to express a conclusion on the interim financial statements based on our review. NZ SRE 2410 (Revised) requires us to conclude whether anything has come to our attention that causes us to believe that the interim financial statements, taken as a whole, are not prepared, in all material respects, in accordance with NZ IAS 34 *Interim Financial Reporting* and IAS 34 *Interim Financial Reporting*.

A review of the interim financial statements in accordance with NZ SRE 2410 (Revised) is a limited assurance engagement. We perform procedures, primarily consisting of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with International Standards on Auditing (New Zealand) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on these interim financial statements.

M Collier

**Melissa Collier**
**Partner**
**for Deloitte Limited**
**On behalf of the Auditor-General**

24 February 2022
Auckland, New Zealand

# SHAREHOLDER ENQUIRIES

### Shareholder Communication

Air New Zealand's investor website **www.airnzinvestor.co.nz** provides shareholders with information on monthly operating statistics, financial results, stock exchange releases, corporate governance, annual meetings, investor presentations, important dates and contact details. Shareholders can also view webcasts of key events from this site.

Shareholders who would like to receive electronic news updates can register online at **www.airnzinvestor.co.nz** or email Investor Relations directly on **investor@airnz.co.nz**

### Share Registrar

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