AIR NEW ZEALAND

WE ARE ALL CONNECTED

INTERIM FINANCIAL REPORT

2021

A STAR ALLIANCE MEMBER

LETTER FROM THE CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Kia ora koutou katoa

Dame Therese Walsh
Chairman

IT IS EASY TO REFLECT ON THE LAST YEAR AND SEE ONLY THE DAMAGE THAT COVID-19 HAS DONE TO OUR AIRLINE AND TO THE INDUSTRY AS A WHOLE.

While it is true that this is a crisis like no other, the foundation of Air New Zealand, who we are, what we do, our passion for customers and for innovating to deliver a superior service, remains the same. If anything, the importance of this foundation has only been amplified.

Compared to most of our global peers, we are in a fortunate position. We have flown every single day since Covid-19 began and have been operating a significant portion of our pre-Covid domestic capacity for almost a year now. In December alone, we released an additional 16,000 seats across the network due to stronger than expected domestic demand. We also sold over 500,000 seats for under $100 to further stimulate and drive this demand. Pleasingly, with the cost efficient A321 NEO aircraft we have redeployed from the Tasman to the Domestic network, we are able to offer customers these competitive prices and do so profitably. We are incredibly grateful to our loyal customers for their continued support of the airline – the number of New Zealanders getting out and exploring their own backyard has been a delight to see.

WITH INTERNATIONAL PASSENGER FLIGHTS SIGNIFICANTLY SCALED BACK, OUR CARGO TEAM PIVOTED THE BUSINESS VIRTUALLY OVERNIGHT TO ENABLE US TO FLY MORE THAN 50 CARGO FLIGHTS A WEEK UNDER THE GOVERNMENT'S INTERNATIONAL AIRFREIGHT CAPACITY SCHEME (IAFC).

These additional cargo flights have resulted in a stronger performance from the cargo business this year and has provided the airline with vital cash flow during a time where we have limited international passenger revenue. Importantly these flights have also helped us to repatriate more than 60,000 kiwis' home since the crisis began. We are proud to have been able to play such a critical role in keeping New Zealanders connected to each other during a time when international travel is largely non-existent, and in supporting New Zealand's economic recovery by moving key cargo in, out and around the country. It is times like these that remind us that Air New Zealand is a key part of New Zealand's infrastructure, and our success is inextricably linked.

As we look ahead, 2021 looks set to be a year of further recovery. With the vaccines steadily making their way across the globe, and our own supplies here in New Zealand having arrived recently, we hope to see short-haul international travel restrictions begin to lift sometime during the 2021 calendar year. While it is unclear what the demand picture will look like when borders reopen, the significant recovery in our Domestic network suggests to us that when people feel confident in the safety of the travel environment, there is still huge desire to travel.

Although our financial results continue to be subdued, we are proud of what we have achieved since the outset of the pandemic. Not only have we managed our way through the most significant

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THE INCREDIBLE GRIT THAT THE AIR NEW ZEALAND WHĀNAU HAVE SHOWN OVER THE PAST 12 MONTHS IS TRULY INSPIRING.

Greg Foran
Chief Executive Officer

crisis to ever face the airline industry, but our team have also made important progress on the key initiatives we identified during our strategy refresh. The crisis has given us a unique opportunity to reset our business – to look at each and every element of what we do and the products we offer and really consider if they deliver value for our customers and our shareholders.

In particular, we have spent a lot of time thinking about how we can elevate the Domestic experience even further. Every customer on our network is different, so we have spent the last six months talking to our customers, understanding what they value most, and developing tools to cater to those needs. We also continued to work on the strategic pillars we identified as part of our strategy refresh late last year. While there is still much work to be done before we implement some of these exciting innovations, we are very excited about the opportunities this presents.

The incredible grit that the Air New Zealand whānau have shown over the past 12 months is truly inspiring. Through their efforts we are positioned to come out of this crisis strongly, with our competitive advantages intact.

NO MATTER WHAT AREA OF THE AIRLINE YOU LOOK AT, EVERY SINGLE PERSON IN THIS BUSINESS HAS FACED EXTRAORDINARY AND UNIQUE CHALLENGES SINCE COVID-19 FIRST TOOK A GRIP ON THE WORLD.

Although we are now much smaller in number, we are just as fierce in our commitment to this airline, to New Zealand, and most importantly to our customers here at home and around the world.

For all of the challenges that Covid-19 has presented, it has made us even more agile, innovative and resilient as a business. The way in which our team have gone about running this airline in the midst of a global pandemic is admirable. They have dealt with each and every obstacle thrown their way with a huge degree of professionalism and have ensured we stay true to our purpose of connecting New Zealanders with each other and the world. We have also delivered exceptionally high on-time performance in the last six months, driven by operational flexibility and

LETTER FROM THE CHAIRMAN AND CHIEF EXECUTIVE OFFICER (CONTINUED)

AIR NEW ZEALAND DELIVERED A LOSS BEFORE OTHER SIGNIFICANT ITEMS AND TAXATION[1] OF $185 MILLION FOR THE SIX MONTHS ENDED 31 DECEMBER 2020 COMPARED TO EARNINGS OF $198 MILLION IN THE PREVIOUS SIX-MONTH PERIOD. THIS RESULT ILLUSTRATES THE CONTINUED CHALLENGES PRESENTED BY THE COVID-19 PANDEMIC.

proactive disruption management, which is an impressive effort. The new normal we find ourselves in requires great skill and dexterity to navigate and the reality is, having now spent the better part of the last year dealing with a state of constant change, our team are the best equipped to drive the airline towards recovery.

In the meantime, we remain focussed on maintaining our operational agility and our ability to quickly respond to rapidly changing environments. As we await the opening of a trans-Tasman or Pacific Islands bubble, we have started to bring some of our furloughed crew back – you can be assured that when borders open, we will be ready.

Financial Results

Air New Zealand delivered a loss before other significant items and taxation[1] of $185 million for the six months ended 31 December 2020 compared to earnings of $198 million in the previous six-month period. This result illustrates the continued challenges presented by the Covid-19 pandemic.

Group operating revenues were $1.2 billion, which represents a decline of 59 percent on the prior six-month period. This reflects limited international passenger flying and the impact of New Zealand's second lockdown in August 2020. This was partially offset by stronger cargo revenues, which were up 91 percent on the previous six months.

Since the outset of the pandemic, the airline has meaningfully reduced operating costs, by making the tough decisions quickly. While some of those actions took time to fully implement, we are now seeing the benefits of these in our results. Operating costs are down 58 percent on the prior period on 65 percent less capacity and some of these cost reductions are expected to be sustained moving forward. These cost reductions have not only helped reduce cash burn from around $175 million at the start of the crisis, to an average of $79 million between September 2020 and January 2021, they have also reduced the amount we have needed to draw down on the New Zealand Government standby loan facility (the Crown facility). The current drawn down balance on the Crown facility is $350 million, resulting in short-term liquidity of just over $700 million as at 23 February 2021. This comprises undrawn amounts under the Crown facility of $550 million and cash on hand of approximately $170 million.

Dividend

The Board remains focused on preserving Air New Zealand's liquidity across a range of potential demand recovery scenarios. While the domestic and cargo businesses are performing well, the airline continues to face significant financial pressures as a result of Covid-19. As such, and in accordance with the terms of the Crown facility, there will be no interim dividend for the 2021 financial year.

We would like to thank our shareholders for their continued and unwavering support. Although Covid-19 is still very much a part of our current day to day reality, we are seeing some optimistic signs as we look ahead to the remainder of 2021. We are determined

1. Refer to the Financial Commentary section on page 6. Losses before taxation were $104 million.

that Air New Zealand will once again deliver strong results for all of our stakeholders in the future.

Capital Structure and Liquidity

Air New Zealand has actively engaged with the Crown as the company has continued to assess its longer-term capital structure and funding needs. Air New Zealand has recently reconfirmed to the market and the Crown its intention to complete a capital raise before 30 June 2021. Given the critical role the company has in New Zealand's economy and society, the Crown has, in that context, confirmed in a letter its longstanding commitment to maintaining a majority shareholding in Air New Zealand and that, subject to Cabinet being satisfied with the terms of the proposed equity capital raise, it would participate in that equity capital raise in order to maintain a majority shareholding in Air New Zealand.

Outlook

As there is still a large degree of uncertainty surrounding the lifting of travel restrictions and the subsequent level of demand, Air New Zealand is not providing 2021 earnings guidance at this time. Despite strong domestic and cargo performance, the scenarios we are currently modelling suggest we will make a significant loss in 2021.

Ngā mihi

Dame Therese Walsh
Chairman

Greg Foran
Chief Executive Officer

25 February 2021

EXECUTIVE TEAM CHANGES

THIS YEAR WE WELCOMED LEANNE GERAGHTY AND NIKKI DINES TO THE EXECUTIVE TEAM, LEANNE AS OUR CHIEF CUSTOMER AND SALES OFFICER AND NIKKI AS OUR CHIEF PEOPLE OFFICER.

Leanne Geraghty
Chief Customer and Sales Officer

Leanne has a tremendous depth of industry knowledge from a career in the aviation and tourism industries that spans more than 30 years. Leanne is one of the airline's most experienced global leaders and is held in the highest regard by key stakeholders ranging from trade and Government partners through to customers and fellow Air New Zealanders. Her detailed knowledge of the New Zealand, Australian and Pacific Islands markets in particular provides the executive with a crucial skill set for when international tourism recovery begins.

Nikki Dines
Chief People Officer

Nikki is regarded as an outstanding leader having held a variety of people related roles with the airline since 2013. She brings extensive knowledge of both our operational and corporate functions and has played a key role in navigating the airline through the impacts of Covid-19. She is passionate about talent attraction and retention, people development and diversity, and will be pivotal in helping the airline rebuild post-Covid.

I WOULD ALSO LIKE TO TAKE THIS OPPORTUNITY TO THANK AND FAREWELL OUR CHIEF FINANCIAL OFFICER JEFF MCDOWALL.

Jeff McDowall
Chief Financial Officer

If you have ever had the pleasure of meeting **Jeff**, you will know his genuine passion for Air New Zealand is second to none. Without Jeff's leadership over the past two decades, especially as part of the Executive team in recent years, the airline would not have delivered its long run of commercial success or grown its international footprint so successfully. Although he will be with us for a bit longer yet, I wish Jeff all the best with his future endeavours.

Our new Chief Financial Officer, Richard Thompson will be starting at the end of March, and we are very excited to welcome him back to the Air New Zealand whānau.

Greg

FINANCIAL COMMENTARY

Due to the continued challenges presented by Covid-19, Air New Zealand reported a loss before other significant items and taxation of $185 million[1] for the six months ended 31 December 2020. Including the impact of other significant items, statutory losses before taxation were $104 million.

Revenue

Operating revenue for the period declined to $1.2 billion, a decrease of 59 percent as Covid-19 related border closures and travel restrictions resulted in substantially reduced network flying. There was a nominal impact from foreign exchange.

Passenger revenue declined by 73 percent to $708 million, reflecting the continued impact of limited international travel and inbound international tourists due to Covid-19. Capacity (Available Seat Kilometres, ASK) reduced by 79 percent excluding cargo-only flights, due to the operation of a limited passenger schedule while borders were shut across all markets the airline operates in. Including cargo-only flights, capacity reduced 65 percent compared to the same period last year.

Demand (Revenue Passenger Kilometres, RPK) decreased more than capacity for the period, resulting in a load factor of 53.7 percent, a decline of 30.6 percentage points on the prior comparative period. Revenue per Available Seat Kilometre (RASK) improved 31 percent excluding FX driven by a change in the mix of network flying. While total ASKs were down substantially, Domestic ASKs made up a higher proportion of total ASKs, increasing revenue per ASK. Domestic RASK is typically higher than International RASK because of the shorter sector distances.

International long-haul capacity declined 88 percent with only 1,800 international flights operating this half compared to an average of 14,800 flights in pre-Covid times. Demand on international long-haul routes declined 96 percent, with load factor decreasing 57.4 percentage points to 27.8 percent. International long-haul RASK reduced by 27 percent. Excluding the impact of foreign exchange, long-haul RASK declined 28 percent.

International short-haul capacity declined 90 percent as a result of limited flying across the Tasman and to the Pacific Islands. Demand on international short-haul routes declined 97 percent, with load factors decreasing to 27.4 percent which is down 55.1 percentage points. International short-haul RASK was down 42 percent and was only nominally impacted by foreign exchange.

Domestic capacity decreased 24 percent despite high levels of leisure demand, partly due to a second lockdown in New Zealand, which meant that for a period of more than 40 days, non-essential travel to and from the country's largest city was prohibited. In addition, the lack of international tourists connecting on to our Domestic network had a significant impact on both capacity and demand, as did a slow early build back of corporate demand. Demand declined more than capacity at 32 percent, with load factors decreasing slightly, by 8.4 percentage points to 76 percent. Domestic RASK declined 11 percent and was not impacted by foreign exchange.

Cargo revenue was $373 million, an increase of 91 percent. Excluding the impact of foreign exchange, cargo revenue increased by 92 percent. This was driven by more than 1,400 cargo flights under the New Zealand Government's International Airfreight Capacity scheme (IAFC) which provided support on international flights for the movement of imports and exports to New Zealand at a time when there are fewer international cargo carriers.

Contract services and other revenue were $153 million, a decrease of $91 million or 37 percent, driven primarily by reduced maintenance activity on contracts for third parties as other global airlines deal with the impact of Covid-19 on their own operations. Reduced lounge revenue, and lower customer activity were partially offset by higher charter revenue. There was a nominal impact from foreign exchange.

1. Losses/earnings before other significant items and taxation represent Earnings stated in compliance with NZ IFRS (Statutory Earnings) after excluding items which due to their size or nature warrant separate disclosure to assist with understanding the underlying financial performance of the Group. Earnings before other significant items and taxation is reported within the 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 declined by $1.4 billion or 58 percent, with variable costs declining substantially as a result of Covid-19 related capacity reductions. Costs per ASK (CASK) increased 22 percent, including foreign exchange, fuel, and maintenance for third party contracts. This adverse movement is predominantly a result of reduced economies of scale associated with the operation of a less than optimal network schedule due to Covid-19 related border and travel restrictions and a shift in the mix of flying towards domestic. These diseconomies are also driven by modest holding costs that the airline has maintained in order to ensure operational surety and readiness when borders reopen and passenger demand returns. Diseconomies of scale and unfavourable foreign exchange movements were partially offset by fuel price declines and a reduction in maintenance costs for third parties due to reduced work.

Labour costs were $394 million, reducing by $287 million or 42 percent. Foreign exchange had no impact on labour costs in the period. A 65 percent decline in total network activity due to Covid-19 and the resulting 38 percent reduction in headcount were the largest drivers of lower labour costs this year, in addition to the removal of incentive payments for all staff and receipt of government wage subsidies during the period. In addition to this, there was also a substantial reduction in discretionary labour spend, such as travel and entertainment costs, as part of ongoing cost discipline measures.

Fuel costs were $152 million, declining by $504 million or 77 percent. Excluding the impact of foreign exchange, fuel costs reduced by 76 percent. The decline in fuel cost was largely driven by a 68 percent reduction in volumes consumed reflecting lower network capacity, which resulted in $445 million of savings. The average fuel price, net of hedging also fell $56 million, or 8.5 percent, as global demand for Singapore Jet fuel declined substantially as a result of Covid-19.

Aircraft operations, passenger services and maintenance costs were $310 million, representing a significant decline of $443 million or 59 percent. This was driven by the reduction in departure activity due to Covid-19 and the resulting decrease in landing, meal, lounge and crew trip costs as well as other variable operating costs. The reduction in net costs also incorporated support received under the Government's aviation relief package.

Sales and marketing and other expenses declined by $190 million or 57 percent reflecting lower commissions, promotional and customer activity due to a reduction in services.

Ownership costs decreased by $26 million or 6.7 percent, driven by a decrease in depreciation reflecting the impairment of those Boeing 777 aircraft that are indefinitely grounded, the exit of several ATR aircraft and reduced utilisation of capitalised engine maintenance, partially offset by new aircraft deliveries.

The impact of foreign exchange rate changes on the revenue and cost base in the period resulted in an unfavourable foreign exchange movement of $5 million. After taking into account a $36 million unfavourable movement in hedging, overall foreign exchange had a net $41 million adverse impact on the Group result for the period.

Share of Earnings of Associates

Share of earnings of associates has decreased by $13 million to $10 million for the period, reflecting a reduction in both engine volumes being serviced by the Christchurch engine centre due to Covid-19 and a change in mix in the type of work being done towards lighter maintenance.

Other Significant Items

Other significant items resulted in a gain of $81 million during the six-month period. These relate to net foreign exchange gains on uncovered debt of $146 million and a gain on sale from landing slots of $21 million partially offset by reorganisation costs of $41 million, aircraft impairment and lease modifications costs of $39 million and de-designation of hedges as a result of forecast transactions no longer being expected to occur of $6 million.

Cash and Financial Position

Cash on hand at 31 December 2020 was $174 million, a decrease of $264 million since 30 June 2020. This balance reflects the continued impact of significantly reduced customer sales as international travel remains significantly subdued, as well as refunds, fixed asset purchases and debt and lease payments offset by $310 million in drawings on the $900 million Government Standby loan facility.

The airline has undertaken significant work to reassess its longer-term capital structure and funding needs and intends to complete an equity capital raise before 30 June 2021.

Operating cash flows were a net outflow of $134 million, reflecting significantly lower cash earnings, ticket refunds and redundancy payments.

Net gearing increased 1.3 percentage points to 70.5 percent compared to 30 June 2020, driven by net losses after taxation, investment in the airline's fleet and redundancy payments, offset by foreign exchange movements.

No dividend for the 2021 interim financial period has been declared due to the continued impact of Covid-19 on the business and the conditions of the standby loan facility with the New Zealand Government.

CHANGE IN EARNINGS

THE KEY CHANGES IN EARNINGS, AFTER ISOLATING THE IMPACT OF FOREIGN EXCHANGE MOVEMENTS, ARE SET OUT IN THE TABLE BELOW*:

December 2019 earnings before taxation	$139m	
Passenger capacity	-$1,731m	- Capacity decreased by 79 percent (excluding cargo-only flights) due to Covid-19 border closures and travel restrictions impacting the whole network. Including cargo-only flights capacity reduced by 65 percent - The Domestic network operated at 76 percent capacity, a decline of 24 percent compared to the prior year due to changes in New Zealand alert levels during August and September 2020, minimal inbound international travellers and slow early build of corporate demand - International short-haul capacity declined 90 percent and was significantly impacted by the pandemic with a limited number of services operating due to travel and border restrictions - International long-haul capacity decreased by 88 percent due to the suspension of services as a result of the global pandemic and a small number of passenger services primarily operated on routes supported by the International Airfreight Capacity scheme
Passenger RASK	-$138m	- Domestic RASK declined by 11 percent excluding FX and loads declined 8.4 percentage points to 76.4 percent due to changes in New Zealand alert levels requiring social distancing onboard and ongoing uncertainty (impacting corporate and leisure demand) - International short-haul RASK declined by 42 percent excluding FX and loads declined 55.1 percentage points to 27.4 percent - International long-haul RASK declined by 28 percent excluding FX and loads decreased 57.4 percentage points to 27.8 percent. Limited passenger services, primarily for essential travel and repatriations, supplemented cargo services operating under the International Airfreight Capacity scheme - Overall Group Revenue per Available Seat Kilometre (RASK) improved by 31 percent excluding FX as a result of a change in the mix of network flying in the current year. Loads decreased by 30.6 percentage points to 53.7 percent
Cargo revenue	$179m	- Cargo revenue improved due to the award of cargo-only scheduled flights under the International Airfreight Capacity scheme
Contract services and other revenue	-$92m	- Reduced maintenance work for third parties, lounge revenue and customer activity due to Covid-19 offset by higher charter revenue
Labour	$287m	- Reduced labour costs due to a 38 percent reduction in staffing levels resulting from Covid-19 capacity reductions, suspension of incentive payments, wage subsidies and other cost savings initiatives
Fuel	$501m	- The average fuel price declined 8.5 percent compared to the prior year (net of hedging) resulting in a reduction in costs of $56 million. Consumption decreased by 68 percent ($445 million) due to the reduction in scheduled flights arising from international border closures and travel restrictions
Maintenance	$85m	- Decrease in maintenance due to reduction in flying as well as for third parties
Aircraft operations and passenger services	$359m	- Reduced schedule activity due to the Covid-19 pandemic and receipt of aviation relief package support
Sales and marketing and other expenses	$190m	- Reduced commissions, promotional and customer activity due to the reduction in services arising from Covid-19
Ownership costs	$31m	- Decrease in depreciation reflecting impairment of grounded widebody aircraft and fleet exits as well as reduced utilisation of capitalised engine maintenance offset by new aircraft deliveries
Net impact of foreign exchange movements	-$41m	- Net unfavourable impact of foreign exchange hedging losses and the adverse impact of currency movements on revenue and costs
Share of earnings of associates	-$13m	- Decrease in earnings from Christchurch Engine Centre driven by a reduction in engine volumes and lighter maintenance work being performed due to Covid-19
Other significant items	$140m	- Net foreign exchange gains on uncovered debt and gain on sale of landing slots offset by reorganisation costs, aircraft impairment and lease modifications and de-designation of hedges as a result of forecast transactions no longer being expected to occur
December 2020 earnings before taxation	-$104m	

*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 2020

	NOTES	6 MONTHS TO 31 DEC 2020 $M	6 MONTHS TO 31 DEC 2019 $M
Operating Revenue			
Passenger revenue		**708**	2,576
Cargo	2(b)	**373**	195
Contract services		**93**	117
Other revenue		**60**	127
	3	**1,234**	3,015
Operating Expenditure			
Labour	2(b)	**(394)**	(681)
Fuel		**(152)**	(656)
Maintenance		**(140)**	(224)
Aircraft operations	2(b)	**(143)**	(358)
Passenger services	2(b)	**(27)**	(171)
Sales and marketing		**(29)**	(174)
Foreign exchange (losses)/gains		**(13)**	23
Other expenses		**(114)**	(159)
		(1,012)	(2,400)
Operating Earnings (excluding items below)		**222**	615
Depreciation and amortisation		**(373)**	(412)
Earnings Before Finance Costs, Associates, Other Significant Items and Taxation		**(151)**	203
Finance income		**4**	20
Finance costs	2(b)	**(48)**	(48)
Share of earnings of associates (net of taxation)	2(a)	**10**	23
Earnings Before Other Significant Items and Taxation		**(185)**	198
Other significant items	4	**81**	(59)
Earnings Before Taxation		**(104)**	139
Taxation credit/(expense)		**32**	(38)
Net (Loss)/Profit Attributable to Shareholders of Parent Company		**(72)**	101
Per Share Information:			
Basic and diluted earnings per share (cents)		**(6.4)**	9.0
Net tangible assets per share (cents)		**97**	163

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 2020

	6 MONTHS TO 31 DEC 2020 $M	6 MONTHS TO 31 DEC 2019 $M
Net (Loss)/Profit for the Period	**(72)**	101
Other Comprehensive Income:		
Items that may be reclassified subsequently to profit or loss:		
Changes in fair value of cash flow hedges	**(10)**	91
Transfers to net (loss)/profit from cash flow hedge reserve	**42**	(16)
Net translation loss on investment in foreign operations	**(3)**	-
Changes in cost of hedging reserve	**3**	4
Taxation on above reserve movements	**(14)**	(22)
Total items that may be reclassified subsequently to profit or loss	**18**	57
Total Other Comprehensive Income for the Period, Net of Taxation	**18**	57
Total Comprehensive (Loss)/Income for the Period, Attributable to Shareholders of the Parent Company	**(54)**	158

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STATEMENT OF CHANGES IN EQUITY (unaudited)

FOR THE SIX MONTHS TO 31 DECEMBER 2020

	NOTE	SHARE CAPITAL $M	HEDGE RESERVES $M	FOREIGN CURRENCY TRANSLATION RESERVE $M	GENERAL RESERVES $M	TOTAL EQUITY $M
Balance as at 1 July 2020		**2,209**	**(123)**	**(11)**	**(757)**	**1,318**
Net loss for the period		**-**	**-**	**-**	**(72)**	**(72)**
Other comprehensive income for the period		**-**	**25**	**(7)**	**-**	**18**
Total Comprehensive Income for the Period		**-**	**25**	**(7)**	**(72)**	**(54)**
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	2(g)	**2,211**	**(98)**	**(18)**	**(829)**	**1,266**

	NOTES	SHARE CAPITAL $M	HEDGE RESERVES $M	FOREIGN CURRENCY TRANSLATION RESERVE $M	GENERAL RESERVES $M	TOTAL EQUITY $M
Balance as at 1 July 2019		2,219	(31)	(12)	(184)	1,992
Net profit for the period		-	-	-	101	101
Other comprehensive income for the period		-	57	-	-	57
Total Comprehensive Income for the Period		-	57	-	101	158
Transactions with Owners:						
Equity-settled share-based payments (net of taxation)		2	-	-	-	2
Equity settlements of long-term incentive obligations	2(f)	(15)	-	-	-	(15)
Dividends on Ordinary Shares	2(h)	-	-	-	(123)	(123)
Total Transactions with Owners		(13)	-	-	(123)	(136)
Balance as at 31 December 2019		2,206	26	(12)	(206)	2,014

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STATEMENT OF FINANCIAL POSITION (unaudited)

AS AT 31 DECEMBER 2020

	NOTES	31 DEC 2020 $M	30 JUN 2020 $M
Current Assets			
Bank and short term deposits		**174**	438
Trade and other receivables		**294**	305
Inventories		**101**	106
Derivative financial assets		**20**	38
Income taxation		**5**	3
Other assets		**125**	119
Total Current Assets		**719**	1,009
Non-Current Assets			
Trade and other receivables		**140**	142
Property, plant and equipment		**3,254**	3,336
Right of use assets		**2,173**	2,357
Intangible assets		**179**	186
Investments in other entities	2(a)	**137**	162
Other assets	2(d)	**348**	351
Total Non-Current Assets		**6,231**	6,534
Total Assets		**6,950**	7,543
Current Liabilities			
Trade and other payables	2(b)	**398**	322
Revenue in advance		**687**	828
Interest-bearing liabilities	2(e)	**465**	160
Lease liabilities		**389**	353
Derivative financial liabilities		**84**	116
Provisions		**65**	104
Other liabilities		**163**	219
Total Current Liabilities		**2,251**	2,102
Non-Current Liabilities			
Revenue in advance		**437**	491
Interest-bearing liabilities	2(e)	**1,114**	1,303
Lease liabilities		**1,514**	1,885
Provisions		**242**	295
Other liabilities		**29**	32
Deferred taxation		**97**	117
Total Non-Current Liabilities		**3,433**	4,123
Total Liabilities		**5,684**	6,225
Net Assets		**1,266**	1,318
Equity			
Share capital		**2,211**	2,209
Reserves	2(g)	**(945)**	(891)
Total Equity		**1,266**	1,318

Dame Therese Walsh, CHAIRMAN
For and on behalf of the Board, 25 February 2021

Jan Dawson, DEPUTY CHAIRMAN

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STATEMENT OF CASH FLOWS (unaudited)

FOR THE SIX MONTHS TO 31 DECEMBER 2020

	NOTES	6 MONTHS TO 31 DEC 2020 $M	6 MONTHS TO 31 DEC 2019 $M
Cash Flows from Operating Activities			
Receipts from customers		**1,047**	3,072
Payments to suppliers and employees		**(1,138)**	(2,474)
Income tax paid		**(5)**	(39)
Interest paid		**(45)**	(46)
Interest received		**7**	21
Net Cash Flow from Operating Activities		**(134)**	534
Cash Flows from Investing Activities			
Disposal of property, plant and equipment, intangibles and assets held for resale		**2**	7
Proceeds from sale of landing slots	4	**-**	42
Distribution from associates		**21**	17
Acquisition of property, plant and equipment, right of use assets and intangibles		**(135)**	(485)
Interest-bearing asset payments		**-**	(58)
Investment in associate		**(3)**	(1)
Net Cash Flow from Investing Activities		**(115)**	(478)
Cash Flows from Financing Activities			
Interest-bearing liabilities drawdowns		**340**	46
Lease liabilities drawdowns		**-**	193
Equity settlements of long-term incentive obligations	2(f)	**-**	(15)
Interest-bearing liabilities payments		**(108)**	(75)
Lease liabilities payments		**(173)**	(181)
Rollover of foreign exchange contracts*		**(74)**	54
Dividends on Ordinary Shares	2(h)	**-**	(130)
Net Cash Flow from Financing Activities		**(15)**	(108)
Decrease in Cash and Cash Equivalents		**(264)**	(52)
Cash and cash equivalents at the beginning of the period		**438**	1,055
Cash and Cash Equivalents at the End of the Period		**174**	1,003
Reconciliation of Net (Loss)/Profit Attributable to Shareholders to Net Cash Flows from Operating Activities:			
Net (loss)/profit attributable to shareholders		**(72)**	101
Plus/(less) non-cash items:			
Depreciation and amortisation		**373**	412
Loss on disposal of property, plant and equipment, right of use assets and assets held for resale	4	**6**	2
Impairment/(impairment reversal) on property, plant and equipment and right of use assets	4	**34**	(3)
Foreign exchange losses on debt, no longer offset by foreign exchange gains on the hedged item	4	**-**	46
Foreign exchange gains on uncovered interest-bearing liabilities and lease liabilities	4	**(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)	**(10)**	(23)
Movements on fuel derivatives		**(15)**	(2)
Other non-cash items		**(6)**	3
		170	536
Net working capital movements:			
Assets		**7**	(43)
Revenue in advance		**(195)**	38
Liabilities		**(116)**	3
		(304)	(2)
Net Cash Flow from Operating Activities		**(134)**	534

*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 2020

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 a 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 2020.

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 2020 and 31 December 2019.

Impact of Covid-19

The Group has significantly reduced its network capacity 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 immediate actions including a reduction in flight capacity, labour reductions, hiring freeze, capital expenditure deferrals, cost reductions and modifications to various vendor and supplier agreements. In addition, the Group applied for wage subsidies from the New Zealand government and grants under an aviation support package which provided relief from passenger based government charges and airways related fees. The Group applied Covid-19 related tax relief by electing to carry back the 2020 financial year income tax loss and was granted deferral of FBT and PAYE for the period 1 July 2020 to 30 September 2021. The FBT and PAYE liabilities arising during this period will be settled during October 2021 and March 2022.

In May 2020 a standby Government loan facility of $900 million was secured to support the future business operations. The facility is available until 27 May 2022. As at 31 December 2020 the Group had drawn down $310 million of the facility (30 June 2020: Nil).

Capital structure

Given the severity of the impact of Covid-19 on the business, the Board is advanced in reviewing the future capital structure of the Group with an intention to complete a fully underwritten equity raise prior to 30 June 2021. In conjunction, the Board is considering further debt funding, which will be reviewed in the context of the Group's targeted gearing and debt coverage ratios.

The Group's capital structure is managed in the light of economic conditions, future capital expenditure profiles and the risk characteristics of the underlying assets. The Group monitors capital on the basis of gearing and debt coverage ratios. The gearing ratios are calculated as net debt (including an estimate of capitalised aircraft operating leases prior to 1 July 2019) over net debt plus equity.

The Group targets a minimum liquidity level, ensuring long-term commitments are managed with respect to forecast available cash inflow and managing maturity profiles. The Group responded quickly to preserve liquidity as the pandemic took hold, cancelled the 2020 interim dividend distribution and all non-essential spend and deferred capital expenditure.

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 impact of the pandemic and includes an assumption around a planned equity raise and additional debt financing. Given the uncertainty in predicting such timeframes as to when 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. Whilst such severe scenarios are not considered likely, in the event a more material adverse scenario occurs, the Group has considered a number of further actions over and above what is currently in place.

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

Given the announced intention for the completion of an equity raise prior to 30 June 2021, the continued support from the Crown regarding such plans and the consideration of additional debt funding, the Board has a reasonable expectation that the Group has access to sufficient liquidity to continue to operate for the foreseeable future and therefore that the adoption of the going concern basis for the financial statements is appropriate.

CONDENSED NOTES TO THE FINANCIAL STATEMENTS (continued) (unaudited)

AS AT AND FOR THE SIX MONTHS TO 31 DECEMBER 2020

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 $10 million (31 December 2019: $23 million).

Government grants, subsidies and other related party transactions

(b) During the six months ended 31 December 2020 the Group received Covid-19 related wage subsidies from the New Zealand government of $51 million and grants under an aviation support package (which provided relief from passenger based government charges and airways related fees) of $58 million. In addition the Group was awarded a grant to continue supplying international airfreight services to the New Zealand Government as part of efforts to ensure the supply of critical imports and maintain economic benefits of high value to New Zealand exports during the Covid-19 pandemic. An amount of $142 million was recognised in relation to the International Airfreight Capacity scheme during the six months ended 31 December 2020. The grant was awarded for the period through to 30 April 2021. No amounts were recognised in the six months ended 31 December 2019 in relation to government grants or subsidies.

The Group undertook during the six months ended 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 $12 million were recognised in relation to the Government standby loan facility during the six months ended 31 December 2020 (31 December 2019: Nil).

In accordance with Covid-19 related tax relief the Group deferred FBT and PAYE amounts payable for the period of $156 million (30 June 2020: Nil).

Impairment of 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 in the Air New Zealand fleet and therefore the assets were tested for impairment separately from the rest of the Group's assets based on an assessment of their fair value less costs to sell. The market values were obtained from an external valuer which equated to level 2 on the fair value hierarchy. Key inputs into the external valuations include economic factors, the age and manufacture type of the aircraft and engines, the maintenance condition of the aircraft and list prices of manufacturers. As at 31 December 2020 a further impairment expense of $25 million was recognised in the Statement of Financial Performance in relation to these aircraft (31 December 2019: Nil). An impairment provision of $363 million was held against these aircraft and associated assets as at 31 December 2020 (30 June 2020: $338 million).

The carrying value of all other assets were tested for impairment as part of the airline network cash generating unit, using a value in use discounted cash flow model. Cash flow projections were developed for a 10 year period, on the basis of detailed forecasts which incorporate recovery towards pre-Covid-19 capacity, followed by extrapolation at a growth rate of 1.5% per annum from the 2026 financial year (30 June 2020: 1.5% 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. The uncertain nature of the timing of border reopenings requires a judgement of Management and the Board and has been assumed to progressively commence from the 2021 calendar year, with Short-haul international markets assumed to open 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 cash flow 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 cash flow 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 10.2% (30 June 2020: 10.5%) which reflected a market estimate of the weighted average cost of capital for the Group with sensitivities performed within the range of 9.0% to 11.6% (30 June 2020: 9.3% to 12.5%). This pre-tax weighted average cost of capital equated to a post tax rate of 8.0% (30 June 2020: 8.25%).

CONDENSED NOTES TO THE FINANCIAL STATEMENTS (continued) (unaudited)

AS AT AND FOR THE SIX MONTHS TO 31 DECEMBER 2020

2. General Disclosures (Continued)

The discounted cash flows from the cash generating unit confirmed that there was no impairment to the remaining aircraft as, in the opinion of the directors, the recoverable value from value in use exceeded the book value of the aircraft, based on the Director's current assessment of the Group's future operations.

Interest-bearing assets

(d) Non-current "Other assets" include interest-bearing assets of $333 million (30 June 2020: $334 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 2020 was $372 million (30 June 2020: $364 million) and are subject to fixed and floating interest rates. Fixed interest rates in the six months to 31 December 2020 ranged from 0.07% per annum to 3.6% per annum (six months to 31 December 2019: 3.1% per annum to 3.6% per annum).

Interest-bearing liabilities

(e) Interest-bearing liabilities of $1,579 million (30 June 2020: $1,463 million) are recognised initially at fair value and subsequently measured at amortised cost. The fair value at 31 December 2020 is $1,565 million (30 June 2020: $1,432 million).

Interest-bearing liabilities include unsecured bonds of $50 million (30 June 2020: $50 million), secured borrowings of $1,219 million (30 June 2020: $1,413 million) which are secured over aircraft assets and a secured borrowing facility from the New Zealand Government of $310 million (30 June 2020: nil) which is 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 7.30% per annum in the six months to 31 December 2020 (six months to 31 December 2019: 1.0% per annum). Unsecured bonds have a fixed interest rate of 4.25% per annum (31 December 2019: 4.25% per annum).

Share capital

(f) During the six months ended 31 December 2019 the Group funded the purchase on-market of 5,456,593 shares for $15 million. The shares were used to settle obligations under long-term incentive plans. 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

(g) As at 31 December 2020, $97 million of losses (30 June 2020: $120 million of losses) were held in the cash flow hedge reserve and $1 million of losses (30 June 2020: $3 million of losses) in the costs of hedging reserve. These reserves are combined within the Statement of Changes in Equity as "Hedge reserves".

Dividend

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

An interim dividend in respect of the 2020 financial year of 11.0 cents per Ordinary Share was declared on 26 February 2020, however due to the severe impact of Covid-19 on the Group, and in accordance with conditions precedent in securing the availability of the standby Government loan facility, the dividend was subsequently cancelled on 20 March 2020.

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 2020 $M	6 MONTHS TO 31 DEC 2019 $M
Analysis of revenue by geographical region of original sale		
New Zealand	**981**	1,870
Australia and Pacific Islands	**66**	347
United Kingdom and Europe	**8**	136
Asia	**82**	270
Americas	**97**	392
Total Operating Revenue	**1,234**	3,015

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 (continued) (unaudited)

FOR THE SIX MONTHS TO 31 DECEMBER 2020

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 2020 $M	6 MONTHS TO 31 DEC 2019 $M
Foreign exchange losses on debt and leases, no longer offset by foreign exchange gains on the hedged item, following:		
- disestablishment of fair value hedges	-	(46)
Foreign exchange amounts transferred from the cash flow hedge reserve where the forecast transaction is no longer expected to occur	**(6)**	-
Foreign exchange gains on uncovered interest-bearing liabilities and lease liabilities	**146**	-
Aircraft impairment and lease modifications	**(39)**	-
Reorganisation costs	**(41)**	(13)
Gain on sale of landing slots	**21**	-
	81	(59)

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

Disestablishment of fair value hedges

In September 2019, the International Financial Reporting Interpretations Committee ("IFRIC") published an agenda decision in respect of a "Fair Value Hedge of Foreign Currency Risk on Non-Financial Assets". The interpretation issued by IFRIC of the principles of IFRS 9 - Financial Instruments no longer permits certain fair value hedges of underlying United States Dollar aircraft values which were previously undertaken by the Group. The interpretation has been applied retrospectively in the financial statements.

As a result of the reversal of the fair value hedges, $46 million of foreign currency losses arising on translation of the previously designated debt, was no longer offset by foreign currency gains arising on the hedged item for the six months to 31 December 2019. In September 2019 the debt was subsequently re-designated in new hedge relationships in accordance with the Group's financial risk management policies.

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 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. Market values were determined based on asset condition and estimates of market demand. Impairment expenses of $25 million (31 December 2019: Nil) and losses arising on lease modifications of $5 million (31 December 2019: Nil) were recognised in respect of these aircraft for the period ended 31 December 2020.

The Group exited from service six ATR72-500 aircraft in February 2020 following a scheduled fleet replacement. The aircraft were classified as Held for Resale and were carried at the lower of their previous book value at the date of transfer or fair value less costs to sell. An impairment expense of $9 million was recognised during the period ended 31 December 2020 (31 December 2019: Nil).

Reorganisation costs

Due to the unprecedented impact of Covid-19 on the airline a reorganisation programme was undertaken to realign the cost base. Since April 2020 approximately 38% of the labour workforce has left the organisation with redundancy costs being recognised in the year ended 30 June 2020 and six months ended 31 December 2020.

In March 2019, Air New Zealand announced a two-year cost reduction programme. Reorganisation costs, comprising of redundancy and other related costs, were recognised during the six months to 31 December 2019 in relation to the programme. In addition, following the announcement in October 2019 of the withdrawal of services on the London-Los Angeles route, a provision for redundancy costs was recognised in the comparative period in respect of the London based cabin crew, ground staff and sales staff.

Gain on sale of landing slots

The Group entered into an agreement to dispose of its London Heathrow slots following the announced withdrawal from the London-Los Angeles route. Proceeds from the sale of $42 million were received in December 2019. A gain on sale of $21 million was recognised during the six months to 31 December 2020.

CONDENSED NOTES TO THE FINANCIAL STATEMENTS (continued) (unaudited)

AS AT 31 DECEMBER 2020

5. Commitments

	31 DEC 2020 $M	30 JUN 2020 $M
Capital commitments		
Aircraft and engines	**2,469**	2,907
Other assets	**28**	21
	2,497	2,928

In September 2020 the Group exercised its substitution rights to convert one firm order of a Boeing 787-10 aircraft to a Boeing 787-9. The aircraft is scheduled to be delivered in the 2023 financial year.

In October 2020 the Group agreed to defer the delivery of one ATR72-600 aircraft from May 2021 to September 2021. In February 2021 two Airbus A320 NEO aircraft deliveries were deferred from July 2021/August 2021 to August 2021/October 2021 and one Boeing 787 aircraft deferred from September 2022 to October 2022.

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

6. Contingent Liabilities

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

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

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

Outstanding letters of credit and performance bonds total $28 million (30 June 2020: $34 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 $79 million (30 June 2020: $70 million).

7. Subsequent Event

Subsequent to balance date work ceased on a third-party engine maintenance contract undertaken by the gas turbines division for a German customer where the engine was for a naval end user based in the Middle East. An independent investigation has been commenced at the request of the Board of Directors as to whether any repair work conducted by the gas turbines division required permits before being exported or otherwise was in contravention of any applicable export laws. The Group may be subject to fines, penalties or cancellation fees as a result of the repair work.

INDEPENDENT AUDITOR'S REVIEW REPORT

TO THE SHAREHOLDERS OF AIR NEW ZEALAND LIMITED
FOR THE SIX MONTHS ENDED 31 DECEMBER 2020

Deloitte.

The Auditor-General is the auditor of Air New Zealand Limited ("the Company") and its subsidiaries ("the Group"). The Auditor-General has appointed me, Peter Gulliver, using the staff and resources of Deloitte Limited, to carry out the 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 9 to 18, which comprise the Statement of Financial Position as at 31 December 2020, 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 2020, 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 engagements in the areas of other assurance and non-assurance services. 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 review of the Group's future capital structure, 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 consideration of further debt funding.

Of particular importance to the future capital structure of the Group, is the confirmation of the Crown's longstanding commitment to maintaining a majority shareholding in the Company and that it would participate in the proposed equity capital raise, subject to Cabinet being satisfied with the terms of the proposal.

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 might identify in an audit. Accordingly, we do not express an audit opinion on these interim financial statements.

Peter Gulliver
Partner
for Deloitte Limited
On behalf of the Auditor-General

25 February 2021
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**

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