

Stock exchange listings: New Zealand (NZX: AIR) / Australia (ASX: AIZ) / ADR (OTC: ANZLY)

MARKET ANNOUNCEMENT

18 June 2021

Air New Zealand provides update on current trading position

Air New Zealand is today providing a trading update as well as indicative earnings commentary for the 2022 financial year.

Trading update

The strong and sustained recovery in demand for domestic travel, alongside the contribution of the airline's cargo business has been a significant factor in mitigating the negative impacts of Covid-19 on the airline.

Domestic capacity is now at approximately 90% of pre-Covid levels, and corporate demand continues to show strong signs of recovery, averaging around 80% of historical levels for the past three months. Importantly, our Domestic load factors are also tracking in a similar range.

The Tasman market is building following the opening of the Trans-Tasman bubble in late April 2021, with capacity currently at around 70% of pre-Covid levels. Load factors on the Tasman are expected to recover gradually, with the airline focussing on offering customers a reliable and stable schedule of flying.

The Pacific Islands network is yet to reopen, with the exception of the Cook Islands which is seeing demand levels exceed those of pre-Covid levels, albeit this route represents less than 2% of the airline's total pre-Covid capacity. Loads for the Cook Islands are also building well, particularly into the school holiday season.

Long-haul international passenger travel remains highly restricted, with passenger volumes currently less than 5% of pre-Covid levels while international borders remain effectively closed.

The cargo business continues to contribute strongly to Air New Zealand's revenue base, with the recent extension of the Government's Maintaining International Air Connectivity (MIAC) scheme providing the airline with the support needed to operate an average of 30 international flights per week until the end of October 2021. For the 2021 financial year, Government financial support under the air cargo support schemes is expected to contribute between \$320 million and \$340 million in total cargo revenue.

The airlines' operating environment remains challenging and uncertain with the potential for adverse developments regarding timeframes of international border reopenings, progress of global vaccination programmes, and recovery levels for customer demand. While demand on the airline's Domestic and short-haul networks is currently showing positive momentum, if there are further border restrictions or lockdowns, there is no certainty that this momentum will continue.

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The airline has had positive EBITDA¹ since September 2020 and has been operating cash flow positive since the second quarter of the 2021 financial year, albeit that performance has benefitted from the Government's air cargo support schemes, wage subsidies and other aviation relief packages. As discussed at the 2021 interim results, operating cash flow has also benefitted from the one-off deferral of around \$310 million in PAYE payments this year, which will start to be repaid in the 2022 financial year.

Chief Executive Officer Greg Foran says that despite the challenges of the last 12 months, the airline continues to have a strong core in its Domestic and short-haul businesses. After making structural changes to lower the cost base, while at the same time investing in key customer programmes, the airline is well positioned to capitalise when long-haul international travel demand returns.

"There has been much to celebrate in recent months, with the opening of travel bubbles on the Trans-Tasman and to the Cook Islands, and the continued strong demand across our Domestic network. Our cargo business, which continues to be supported by the Government's MIAC scheme, has also provided the Company with a crucial earnings stream while international borders remain closed.

"The airline has its eyes firmly set on the future as we move out of the survive phase and into revival mode. For us this means further strengthening our core Domestic business and putting even greater focus on our customer obsession, making sure we understand what our customers truly want from their end-to-end travel journey. It means maintaining the hard-won structural cost reductions made across our business from the outset of this pandemic and ensuring continued cost vigilance" Mr Foran says.

With this in mind, the airline has recently renegotiated the delivery date of the first of eight new Boeing 787 Dreamliners, which were ordered in 2019 prior to the outbreak of Covid-19. The first aircraft was due to enter the fleet in the 2023 financial year but as a result of the airline's strong, longstanding relationship with the manufacturer, an agreement has been reached to move the delivery of this aircraft out to the 2024 financial year. The airline also retains the ability to utilise a number of further contractual delivery deferral rights on other aircraft due to be delivered from 2024 onward.

The airline recognises this has been an extraordinarily difficult time for its people, who have worked tirelessly for the past 15 months to keep customers moving and connected to each other. Many of those people have taken significant pay cuts, leave without pay and participated in other voluntary initiatives to help the airline through the survive phase. In recognition of this exceptional effort, the airline will provide all eligible permanent staff employed by the company as at December 2020 with an award of \$1,000 worth of Air New Zealand shares. These shares will be allocated to all eligible permanent employees in the fourth quarter of this calendar year. Acknowledging that the airline

¹ Earnings before interest, tax, depreciation and amortisation (EBITDA) refers to Operating earnings (before depreciation and amortisation, net finance costs, associate earnings, other significant items and taxation) plus finance income and cash dividends received from associates less foreign exchange gains/losses

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must retain talented people to help the business progress to the thrive phase, the company will also end staff salary reductions from the start of the 2022 financial year.

Liquidity update

With continued focus on cost management, and the revenue inflows from our Domestic, cargo and short-haul networks, the airline confirms there have been no further drawdowns on the Crown standby loan facility ('the Facility') since the interim results were announced on 25 February 2021. As such, the total amount drawn down remains at \$350 million. As disclosed in April 2021, the total available amount under the Facility is \$1.5 billion, therefore the Company has remaining available funds of \$1.15 billion under the Facility.

As previously announced to the market, the airline is targeting to undertake a capital raise before 30 September 2021, a portion of the proceeds from which will be used to repay any amounts drawn under the Facility.

FY21 earnings guidance update

Air New Zealand expects losses before other significant items and taxation will not exceed \$450 million for the 2021 financial year.

FY22 indicative earnings commentary

Despite the Domestic market continuing to perform strongly and the fact that bookings on the Tasman and Cook Islands continue to build, a large degree of uncertainty remains. The airline is not expecting any meaningful recovery in long-haul demand in the 2022 financial year, notwithstanding the roll out of global vaccination programmes and the potential for long-haul borders to begin reopening progressively in the second half of the financial year.

Underlying operating performance is expected to gradually improve over the coming financial year but international border reopenings, fuel and currency fluctuations, and the recovery of long-haul travel demand continues to remain highly uncertain. All of these factors are important to the airline's financial performance.

In addition, the airline has previously noted that the 2021 financial result benefitted from a number of tailwinds received through various Government support and other mechanisms totalling approximately \$300 million, which will not continue at the same level in the 2022 financial year. The airline currently anticipates a loss before other significant items and taxation in the 2022 financial year comparable with that expected for the 2021 financial year. However, given the current environment, the outlook for the 2022 financial year remains uncertain

Ends.

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