AIR NEW ZEALAND

Media Release

Media release
27 August 2020

Air New Zealand adjusted its business quickly to manage the impact of Covid-19

Air New Zealand today announces its 2020 result, affirming the unprecedented effect of the Covid-19 pandemic on its business and the global aviation industry following extensive travel and border restrictions which commenced from March.

Air New Zealand is reporting a loss before other significant items and taxation of $87 million[1] for the 2020 financial year, compared to earnings of $387 million in the prior year.

Despite reporting a strong interim profit of $198 million[2] for the first six months of the financial year, and seeing positive demand on North American and regional routes early in the second half, Covid-related travel restrictions resulted in a 74 percent drop in passenger revenue from April to the end of June compared to the prior year, which drove the airline's operating losses.

Statutory losses before taxation, which include $541 million of other significant items, were $628 million, compared to earnings of $382 million last year. Non-cash items of $453 million reflected most of the other significant items, including the $338 million aircraft impairment charge related to grounding of the Boeing 777-200ER fleet for the foreseeable future.

The airline has responded to this crisis with urgency, including securing additional liquidity, structurally reducing its cost base and deferring significant capex spend, whilst ensuring that the business remains well positioned to grow profitably when travel restrictions are eventually removed and customer demand returns.

Quick and decisive action in response to Covid-19

Air New Zealand's Chairman Dame Therese Walsh says she is proud of the way the business has responded to this crisis, acting with speed and agility to lower the cost base, and pivoting quickly to ramp up domestic and cargo services to help keep the New Zealand economy moving. These actions, along with the strategic review the airline has undertaken in parallel to managing this crisis, ensure that Air New Zealand remains in a strong and competitive position when travel restrictions lift.

"The 2020 financial year has been a year of stark contrast. Air New Zealand had a solid start to the year and was focused on driving profitable growth into the second half. We were also preparing to launch the first ever non-stop link between New Zealand and New York and had announced several exciting innovations in the customer experience space.

"Now, nearly 6 months following the declaration of a global pandemic, the $87 million loss we are reporting today, our first loss in 18 years, reflects the quick and severe impact Covid-19 has had on our business" says Dame Therese.

"Faced with such a swift decline in revenue as lockdown restrictions were implemented and borders were closed, we took immediate steps to secure $900 million in additional funding, and drastically

---

1 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 Group's audited annual financial statements.

2 Represents Earnings before other significant items and taxation.

reduced our cash burn in the knowledge that, for a time, we would be a much smaller business than we had been pre-Covid" Dame Therese says.

In preparation for the eventual recovery of demand, the Board has recently endorsed a refresh of the airline's strategy which is focused on sustaining competitive strengths and ensuring long-term positive outcomes for customers, staff, the broader community and shareholders.

"The Board and I are fully supportive of the new strategy that Greg and his Executive team have been working on in parallel to dealing with this crisis. We have a clear focus on where our business is heading, and I am confident Air New Zealand will be ready when the recovery occurs" Dame Therese says.

Chief Executive Officer Greg Foran will provide more context at the airline's Annual Shareholders' Meeting on 29 September, which will include a discussion of the airline's network focus, enhancements to its Airpoints™ loyalty programme, sustainability focus and digital priorities.

Liquidity and cash burn update

Short-term liquidity as at 25 August 2020 was approximately $1.1 billion, made up of cash and the $900 million standby loan facility from the New Zealand Government. Due to the strong cash position pre-Covid-19, swift action taken by management to reduce cash burn and a better than expected return of domestic demand after the initial lockdown was lifted in New Zealand, the airline has not yet utilised the standby loan facility. However, it expects to start drawing on these funds in the coming days.

Cash burn averaged approximately $175 million per month from April to June, including higher than average refunds, redundancy payments and fuel hedge close out costs, but this reduced to $85 million for July.

The airline is estimating the go forward average monthly cash burn to be in the range of $65 million to $85 million while international travel restrictions remain and assuming resumption of domestic travel with no social distancing requirements, as well as a continuation of government-supported cargo flights.

Dividend and capital structure update

The Board is focused on preserving Air New Zealand's liquidity across a range of potential demand recovery scenarios. Given current financial pressures as the airline manages the impact of Covid-19, the Board has determined that it will not declare a final dividend for the 2020 financial year.

The Government has recently reaffirmed the Crown's long-standing commitment to maintaining its majority shareholding in Air New Zealand, having regard to the unique and critical role the company has in New Zealand's economy and society. This is reflected in the Crown loan facility that provides Air New Zealand with liquidity support whilst the airline works through to a permanent solution. Air New Zealand is engaging constructively with the Crown as it continues to assess its capital structure and funding needs.

Focused on operational resilience

Chief Executive Officer Greg Foran says Covid-19 has highlighted once again that the core strength of the airline is its people and their ability to respond to change quickly.

"I am in awe of the dedication, perseverance, and professionalism of Air New Zealanders across the business and never cease to be amazed at the resilience and strength of our people as we work our way through this crisis.

"Whether it be volunteering to crew repatriation flights to unfamiliar ports, dealing with substantial increases in volume at the call centre, or our cargo team's efforts to keep New Zealand exporters connected to global markets, the response of our people has been nothing short of remarkable" he says.

"I also recognise this has been a particularly trying time for our customers with the mass cancellation of flights and continuing uncertainty regarding international travel. I would like to apologise sincerely for the fact that we didn't live up to customers' expectations in the way we handled the processing of customer credits. I would also like to thank our customers for their ongoing support and patience" says Mr Foran.

Last month, the airline was pleased to roll out the initial stages of a digital tool for customers to view and redeem their credits online. To date, more than 70,000 customers have utilised the tool to redeem existing credits into new bookings.

In June and July, the airline experienced heavy demand for domestic travel, particularly into leisure destinations such as Queenstown and was operating around 70 percent of its pre-Covid Domestic network.

Mr Foran says "It has been great to see our domestic business perform well ahead of our expectations in June and July as the New Zealand public once again shows us that they have an innate love of travel. We are also pleased to have ramped up our cargo offering in recent months, flying more than 50 flights per week under the International Airfreight agreement we signed with the Ministry of Transport in late April. These cargo services ensure key goods such as medical supplies and food continue to flow in and out of New Zealand. However, we have to bear in mind that with almost 70 percent of our revenue derived from international flying, while border restrictions remain in place our business will continue to be significantly impacted. The recent resurgence of community transmission in New Zealand in August, has also reminded us that we cannot afford to be complacent."

"In the airline's 80-year history we have faced many challenges and emerged from each one stronger than before. We entered this crisis in an enviable position, and with our core Domestic network, I believe we are better positioned for recovery than many of our airline peers.

"But given the restructuring and consolidation we had started to see within the global aviation industry, we need to be hyper vigilant and protect our core competitive advantages. It is clear that Covid-19 is unlike any other crisis the aviation industry has experienced and we will need to be more nimble than ever as borders reopen" Mr Foran says.

Outlook for 2021

Given the uncertainty surrounding travel restrictions and the level of demand as these restrictions lift, Air New Zealand is currently not able to provide specific 2021 earnings guidance. However, each of the scenarios we are currently modelling suggest we will make a loss in 2021.

Financial Summary

- Operating revenue of **$4.8 billion**, down 16 percent on the prior year as a result of travel restrictions due to Covid-19
- Total network capacity decline of **21 percent** compared to the prior year
- Cargo revenue of **$449 million**, up 15 percent on the prior year
- Loss before other significant items and taxation of **($87) million**
- Loss before taxation of **($628) million**
- Board has determined not to declare a final dividend for the 2020 financial year, given current financial pressures
- Short-term liquidity of **$1.1 billion** at close of business 25 August 2020, (including funds available under the Government standby loan facility which has not yet been utilised)

AIR NEW ZEALAND

Other Significant Items

	2020 full year impact
De-designation of hedges	($105 million) Partial non-cash charge
Aircraft impairment charge	($338 million) non-cash charge
Reorganisation costs	($140 million) Partial non-cash charge
Gain on sale from landing slots	$21 million cash
Disestablishment of fair value hedges	($46 million) non-cash charge
FX gains on uncovered foreign currency debt	$67 million non-cash charge
Total	**($541 million)** of which ($453 million) non-cash items and ($88 million) cash items

Ends

Issued by Air New Zealand Public Affairs ph +64 21 747 320