Media Release

Media release
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Air New Zealand positions itself for success

Interim highlights

- Domestic capacity 76 percent of pre-Covid levels, led by robust domestic tourism and the return of business demand during the first half of the 2021 financial year
- Cargo revenue up 91 percent on the same period last year, supported by the Government's International Airfreight Capacity scheme (IAFC)
- Short-term liquidity of just over $700 million as at 23 February 2021, made up of approximately $170 million cash and $550 million undrawn funds on the Government standby loan facility (the Crown facility)
- Continued cost discipline has resulted in a significant decline in cash burn to an average of $79 million per month from September 2020 through January 2021. For the remaining five months of the financial year, average monthly cash burn is expected to be in the range of $45 million to $55 million
- Steps to recapitalise the balance sheet are underway and are intended to be completed by 30 June 2021
- Providing customers with even greater flexibility by extending credit redemption deadline to 30 June 2022 and continuing to waive change fees for customers with international flights commencing before 30 June 2021
- Focus for the second half of the financial year is on maintaining strong performance in our Domestic and cargo businesses, cost discipline and operational readiness ahead of border reopenings

Air New Zealand has today announced a loss before other significant items and taxation of $185 million[1] for the six-month period ended 31 December 2020, reflecting the considerable impact of the Covid-19 pandemic on the airline and global aviation industry. This compares to earnings before other significant items and taxation of $198 million for the same period last year.

Statutory losses before taxation of $104 million include an $81 million gain from other significant items, compared to a $139 million profit before taxation for the first half of the previous financial year.

The continuation of significant restrictions on international travel to and from New Zealand saw the airline's operating revenue decline 59 percent to $1.2 billion in the first six months of the financial year, as network flying was substantially reduced by 65 percent. This was despite strong Domestic operations and additional cargo flying supported by the IAFC.

Chief Executive Officer Greg Foran says that the interim results are something the Air New Zealand whānau should be very proud of given the context of a global pandemic that has virtually suspended international air travel.

"I could not be more proud of the way our team have gone about operating our airline in the midst of this crisis. They have dealt with each and every obstacle thrown their way with a huge degree of professionalism and frankly, we wouldn't be operating the level of domestic and cargo capacity we are without their extraordinary efforts.

[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 Group's unaudited interim financial statements. See table at the end of this release for a summary of Other Significant Items.

"While we made significant changes to our business and cost base, and did this more quickly than most airlines, since the outbreak of the pandemic we have still burnt through over $1 billion in our own cash reserves – that's just huge. We have been fortunate to receive significant financial assistance from wage subsidies and the Government's aviation relief package throughout the first half of the financial year, as well as benefiting from lower fuel prices, however these benefits are not expected to extend into the second half of the financial year.

"From the start of this crisis we have had to make a lot of incredibly tough calls, especially where our people are concerned, and that is never something we would do lightly – but it has all been with the sole purpose of ensuring Air New Zealand's survival. The fact is, we must remain vigilant and disciplined in our approach to cost management and cash burn while borders remain closed" notes Mr Foran.

Mr Foran went on to comment that the airline remains optimistic about the future, and, after making both short and long-term changes to the business to lower the cost base, is well positioned for recovery when demand returns.

"Although it is clear that Covid-19 will continue to impact the aviation industry for some time to come, we are thrilled to see such strong results from our domestic and cargo businesses. We are one of the few airlines globally that has seen this level of passenger recovery and we know that is driven by our core strength on the domestic market. We know this recovery would not be possible without the continued support of our customers and I want to thank each and every one of you for your support of our airline.

"For the six months to 31 December 2020, we operated 1,800 flights, moving four million passengers around the country and saw strong signs of corporate demand recovery as the economy started to ramp up following the second lockdown in August 2020.

"Air New Zealand is a critical part of the country's infrastructure, connecting Kiwis within and around New Zealand and transporting crucial imports and exports.

"The airline's cargo operations, supported by the IAFC scheme, have also played a vital role in driving New Zealand's economic recovery, delivering vital medical supplies and PPE and transporting our precious export products around New Zealand and the world. As a result of these operations, cargo revenue has increased 91 percent to $373 million for the six-month period.

"Following the most challenging year in the airline's 80-year history, it has been incredibly satisfying for the team to see both the domestic and cargo businesses perform so well. In particular, the strong recovery in domestic travel has been really exciting because it shows that when people have confidence to travel, they will. With the roll out of the vaccines underway around the world and here in New Zealand, this has positive implications for our recovery when borders open" Mr Foran says.

Chairman Dame Therese Walsh noted that while the results from the first half of the 2021 financial year are still significantly subdued, she is optimistic that the changes made to the business over the last year or so have set the airline up well for when borders reopen and the capital raise is complete.

"Since the initial travel restrictions were introduced in early 2020, Air New Zealand has taken significant actions to reduce its cost base. While some of these actions have taken time to implement, we are now seeing the benefits of these efforts flow through into our results. Compared to pre-Covid times, operating costs excluding fuel in the first half of this financial year declined more than 50 percent, and some of these are expected to be sustainable cost reductions moving forward.

"This will be pivotal as we enter recovery mode as it means we will not only be highly cost effective, but with the changes we have made to our fleet, we will also have one of the most modern, efficient fleets in the world.

"The Board and I know that the rapid implementation of these changes would not have been possible if it were not for the skill and determination of our people. I want to thank our team, who in the face of much adversity, change and uncertainty has been resolute in their focus on delivering for our customers" Dame Therese says.

Liquidity and cash burn update

As at 23 February 2021, the airline has short-term available liquidity of just over $700 million, consisting of cash of approximately $170 million and $550 million of undrawn funds on the Crown facility. The total amount drawn on the Crown facility is $350 million.

Having now taken numerous actions to reduce the airlines cost base, cash burn averaged approximately $79 million per month from September 2020 through January 2021. This compares to an average cash burn of $175 million per month in the fourth quarter of the 2020 financial year.

The airline is estimating average monthly cash burn for the remaining five months of the financial year to be in the range of $45 million to $55 million while international travel restrictions remain and assuming continued operation of the domestic network with no further lockdowns or social distancing requirements, as well as a continuation of government-supported cargo flights. This reflects lower expected refunds and redundancies compared to the first half of the financial year. However, the airline does not expect cash burn to remain at such reduced levels beyond the end of the 2021 financial year, as deferrals in operating and investing cash flows roll off.

Capital structure update and dividend

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 an equity 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 to the Air New Zealand Chairman its longstanding commitment to maintaining a majority shareholding in Air New Zealand and that, subject to 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 in Air New Zealand.

Due to the ongoing financial pressures from Covid-19, and the restrictions of the Crown facility, there will be no interim dividend for the 2021 financial year.

Outlook for 2021

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.

Other Significant Items

	Interim impact (as reported in the Interim Financial Results)
Foreign exchange gains on uncovered debt	$146 million
Gain on sale from landing slots	$21 million
Foreign exchange amounts transferred from the cash flow hedge reserve where forecast transaction is no longer expected	($6 million)
Aircraft impairment and lease modifications	($39 million)
Reorganisation costs	($41 million)
Total Other Significant Items	**$81 million**

Ends

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