

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

MARKET ANNOUNCEMENT

20 March 2020

Air New Zealand enters into debt funding agreement for up to \$900 million and cancels 2020 interim dividend

Air New Zealand has entered into a debt funding agreement with the New Zealand Government. Under the terms of the agreement the Government will provide a standby loan facility (“the facility”) of up to \$900 million to support the airline as it manages the unprecedented impact of the Covid-19 outbreak on its business.

The facility will provide Air New Zealand with the ability to draw down on funds should its cash reserves drop below a minimum threshold, providing additional funds if cash reserves are not at a satisfactory level. The facility was negotiated on an arms’ length basis, with each party having been independently advised. The facility will be provided in two tranches – a tranche of \$600,000,000 with an effective interest rate initially expected to be between 7% and 8% per annum and a second tranche of \$300,000,000 with an effective interest rate initially expected to be in the order of 9% per annum. The facility will be available for a period of 24 months. The effective interest rates on both tranches will step-up by 1% if the facility remains after 12 months. This debt funding will be used to support the airline’s business operations as it manages the implications of various government border restrictions and substantial reductions in travel demand.

The availability of each tranche of the facility is subject to certain conditions precedent, including agreeing an operating finance plan with the Government and other documentary conditions precedent. Another condition precedent which Air New Zealand must satisfy in order to have the facility available is the cancellation of the 2020 interim dividend of 11 cents per share (which equates to a total of \$123 million) that was announced to the market on 27 February 2020 and was due to be paid to all shareholders, including the Government, on 25 March 2020. Air New Zealand’s Board of Directors believes that, given the highly uncertain environment that exists, the cancellation of this dividend is in the best interests of the airline, including because that action is a pre-requisite to the availability of the facility. Accordingly, the Air New Zealand Board has cancelled this interim dividend effective today.

Other terms of the agreement (which is in the form of a binding terms sheet to be converted into long form agreements), include: a prohibition on payment by Air New Zealand of any dividends or other distributions to shareholders (including the Government) while any amount is available to be drawn under the facility, the giving of security for the loan by Air New Zealand and certain of its subsidiaries over their assets (subject to certain exceptions), the Government having the ability to seek repayment through a capital raise by the airline after six months, or converting the loan to equity (subject to compliance with laws and any necessary regulatory and/or shareholder approvals), Air New Zealand giving various undertakings, representations and operational and informational and other undertakings, and typical events of default. NZX Regulation has granted Air New Zealand waivers from the requirements under the NZX Listing Rules to obtain shareholder approval for entry into and performance of the facility with the Government (as a related party of

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

MARKET ANNOUNCEMENT

Air New Zealand). Those waivers were granted because of the recent, extraordinary decline in Air New Zealand's market capitalisation, and on the grounds that Air New Zealand's Board of Directors have confirmed that: entry into the facility is in the best interests of all Air New Zealand shareholders (other than the Government); there has been an arms' length negotiation in relation to the facility, and that the Government has not influenced Air New Zealand's decision to enter into the facility.

Both Air New Zealand and the Government acknowledge that the terms of the facility do not alter the fundamental principles of their relationship, with the airlines Board of Directors, Greg Foran as CEO and the Executive Team maintaining responsibility for all commercial and operational decisions of the airline.

Separately, and distinct from this agreement, the Government is working with Air New Zealand to ensure other key services can be provided, including repatriation flights, maintaining critical cargo transport lines and having Air New Zealand staff assist the health response. Those services will be provided for under separate commercial arrangements to be negotiated in the future on an arms' length basis between the airline and the Government.

For investor relations questions, please contact:

Leila Peters, GM of Investor Relations & Financial Planning
leila.peters@airnz.co.nz
+64 21 743 057

Kim Cootes, Investor Relations Manager
kim.cootes@airnz.co.nz
+64 27 297 0244

Ends.