

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

MARKET ANNOUNCEMENT

14 December 2021

Air New Zealand updates on revised Crown support package pending capital raise

Air New Zealand announces the entry into a revised Crown support package comprising a further \$500 million of additional liquidity to better position the airline during the period up to its recapitalisation, including an ordinary equity raising. The revised package, with overall liquidity support available increased to \$2 billion, comprises:

- a new agreement, which gives Air New Zealand the ability to issue up to \$1 billion of non-voting redeemable shares to the Crown; and
- a reduction in the existing secured facility from \$1.5 billion to \$1 billion, with an extended term to January 2026.

Ongoing uncertainty

On 13 August 2021, Air New Zealand, following consultation with the Crown, announced a further deferral of its planned equity raise until the first quarter of 2022. Since that announcement, the airline has been impacted by the recent domestic lockdowns and the ongoing Covid-related travel restrictions across its international network.

The Government has recently outlined a plan of phased reopening of borders from early 2022, which, in the airline's view, provides an indicative pathway to reopening New Zealand for international travel. However, the future impacts of Covid remain uncertain and circumstances continue to change all over the world.

In that context, the airline has been considering its financial support requirements during the period up to a planned equity raising – which the airline is still targeting for the first quarter of 2022 - together with what further support and flexibility may be needed if material and unexpected events were to occur in 2022 such that it becomes prudent to consider a further delay to the planned capital raise.

Revised support package

While the airline, with the support of the Crown, remains focused on an ordinary equity raise, it is important that the airline has sufficient flexibility to withstand presently unforeseen delays without relying entirely on increasing debt levels. In that context, the airline and the Crown have agreed to modify the Crown financial support for Air New Zealand and the overall liquidity support for Air New Zealand has increased to \$2 billion, as follows:

- (a) Air New Zealand is able to issue up to \$1 billion of redeemable shares to the Crown (**Redeemable Shares**); and
- (b) the existing facility limit under the secured Crown loan facility has been reduced from \$1.5 billion to \$1 billion and the maturity has been extended from September 2023 to January 2026 (**Amended Crown Loan**).

The key terms of the Redeemable Shares and the Amended Crown Loan are set out below.

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Investor Relations email: investor@airnz.co.nz

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The terms of the Amended Crown Loan and of the Redeemable Shares have been negotiated between Air New Zealand and the Crown on an arm's length basis with each party having been independently advised.

It is Air New Zealand's intention that all amounts outstanding under the Amended Crown Loan and any issued Redeemable Shares will be repaid from the proceeds of the company's proposed equity raise, together with an aligned debt capital markets transaction. The Crown has confirmed to the airline that it shares this expectation.

KEY TERMS OF THE REDEEMABLE SHARES

Conditions for subscription	<p>Air New Zealand can call for the Crown to subscribe for up to \$1 billion of Redeemable Shares once at least \$850 million is drawn under the Amended Crown Loan. The minimum amount that can be called is \$20 million and in integral multiples of \$10 million.</p> <p>A call cannot be made if:</p> <ul style="list-style-type: none"> • Air New Zealand has been subject to an insolvency event; • Air New Zealand has raised at least \$1 billion of ordinary equity; • all of the Redeemable Shares issued have been redeemed; • Air New Zealand has provided an irrevocable written notice to the Crown that Air New Zealand does not need to issue any more Redeemable Shares; or • following the scheduled redemption date (as described below).
Redeemable at Air NZ's option	<p>The Redeemable Shares are redeemable at Air New Zealand's option at any time, with a scheduled redemption date of 14 December 2046 (as may be extended in accordance with the terms and conditions of the Redeemable Shares). For example, the scheduled redemption date shall be automatically extended by five years if Air New Zealand has not completed an equity raise of at least \$1 billion.</p>
Accounting treatment	<p>Air New Zealand expects these Redeemable Shares to be treated as equity for accounting purposes.</p>
Distribution payable	<p>A distribution is payable quarterly to the Crown at a base rate, plus a margin of 3.5% until 31 December 2023.</p> <p>The margin over the base rate steps up to 5.5% from 1 January 2024 until 31 December 2026 and steps up to 7.5% from 1 January 2027.</p> <p>The base rate is the 3 month rate designated "FRA" rate displayed as calculated and published by the New Zealand Financial Markets</p>

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	Association (3 month BKBM Rate) on the first day of each quarter. If the 3 month BKBM Rate is not available on the relevant date, the base rate is calculated by using linear interpolation by reference to available rates over a similar period. If the 3 month BKBM Rate is not calculated or published for any reason, the base rate is determined by the Crown taking into account market rates and conditions.
Distribution deferral at Air NZ's option	Air New Zealand has the option to defer distribution on the Redeemable Shares, and must do so in certain circumstances, including upon an insolvency event. If a distribution has been deferred on the Redeemable Shares, the unpaid amount of the distribution cumulates, capitalises and compounds on each dividend payment date and will be added to all amounts outstanding to the Crown. Air New Zealand will not be able to pay dividends on its quoted ordinary shares during any period whilst a distribution in respect of the Redeemable Shares has been deferred.
Restrictions on use of proceeds	The proceeds of the issue of Redeemable Shares cannot be used to repay amounts drawn under the Amended Crown Loan without the Crown's prior consent. In effect this ensures that the proceeds of the issue of these shares are incremental liquidity in addition to the loan proceeds, and not used as a mechanism to repay secured debt provided by the Crown.
Non-voting	The Redeemable Shares are non-voting and the Crown has no ability to convert them to ordinary shares, so the Crown's voting rights will not change as a result of the issue of Redeemable Shares.
Ranking on a liquidation	The Redeemable Shares rank equally with ordinary shares on a liquidation of AIR but are capped at a maximum aggregate amount equal to the aggregate issue price of all Redeemable Shares on issue and all dividends which have accrued and cumulated.

KEY TERMS OF THE AMENDED CROWN LOAN

Amount	\$1 billion consisting of a tranche of \$850 million (Tranche A) and a tranche of \$150 million (Tranche B). Tranche B can only be drawn once Tranche A is fully drawn and subject to the Company providing the Crown with an updated operating plan.
Maturity	January 2026.

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Purpose	General working capital (with limited exceptions).
Interest rate	<p>A base rate plus the margin below.</p> <p>The base rate is the “FRA” rate displayed as calculated and published by the New Zealand Financial Markets Association (BKBM Rate) on the first day of the relevant interest period. The BKBM Rate is a floating rate and can move up or down.</p> <p>If there is no BKBM Rate for such period, the base rate is calculated by using linear interpolation by reference to available rates. If the BKBM Rate is not calculated or published for any reason, the base rate is determined by the Crown taking into account market rates and conditions.</p>
Tranche A Margin	2.5% per annum stepping up by 1.5% from the first date of drawing Tranche B (and stepping down by 1.5% on and from the date of repayment and cancellation of Tranche B).
Tranche B Margin	4.0% per annum.
Fees	1.0% per annum line fee calculated on the limit of each of Tranche A and Tranche B.
Cancellation Rights	Subject to certain limited exceptions (including termination of the facility in full at the maturity date and/or the replacement of the facility) the limit cannot be reduced below \$100 million.
Financial Covenants	None.
Other key terms	<p>A prohibition on payment by Air New Zealand of any dividends or other distributions to holders of ordinary shares (including the Crown) while any amount is available to be drawn under the facility and any amounts remain outstanding under the facility.</p> <p>The Crown has the ability to seek repayment through a capital raise by the airline or converting the loan to equity (subject to compliance with laws and any necessary regulatory and/or shareholder approvals).</p> <p>Air New Zealand and certain of its subsidiaries give security for the loan over their assets (subject to certain exceptions).</p>
Other Covenants and events of default	Air New Zealand giving various other typical operational and informational undertakings and representations and typical events of default.

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NZX Waivers from NZX Listing Rules

NZ RegCo has granted Air New Zealand waivers from the relevant requirements under the NZX Listing Rules to obtain shareholder approval for entry into and performance of the Amended Crown Loan and the Redeemable Shares with the Crown, subject to the conditions specified in those waivers which are available at <https://www.nzx.com/companies/AIR/announcements>.

One of those NZX conditions requires Air New Zealand to convene a shareholders' meeting for shareholders to consider and vote on an ordinary resolution to ratify the entry into the Amended Crown Loan by 31 December 2022 (unless the Redeemable Shares and Amended Crown Loan no longer remain in place at that time). If that occurs, the relevant notice of meeting convening that shareholders' meeting would provide further information to shareholders about both the Redeemable Shares and Amended Crown Loan. As part of the restructure of its liquidity support for the airline, the Crown (acting by and through the Minister of Finance) has committed to Air New Zealand that it would, in its capacity as the holder of its ordinary shares in Air New Zealand, vote in favour of such a ratification resolution.

The airline's current intention remains that such a meeting will be unnecessary given Air New Zealand's plans to raise equity in early 2022.

Liquidity update

As at 14 December 2021, the airline has drawn \$505 million of the existing Crown Loan. It is currently estimated that drawings could be approximately \$900 million by late February or March 2022. This reflects the estimated cash flow impact of ongoing travel restrictions including as set out in the airline's announcement on 17 September 2021 and the previously communicated repayment of \$300 million of PAYE which is required in early 2022.

Dame Therese Walsh
Chairman

Ends.

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