

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

## MARKET ANNOUNCEMENT

31 March 2020

### **Air New Zealand Chief Executive Officer's email to staff and customers**

Air New Zealand will begin the painful process of materially reducing its workforce from this week as the severe economic impact of COVID-19 hits our airline.

We have had to cut more than 95 percent of our flights here in New Zealand and around the world. The only flights remaining are in place to keep supply lines open and transport options for essential services personnel. I would like to thank our people for all they are doing to keep our nation connected with the world at this vital time despite the enormity of the situation ahead.

Air New Zealand is an expensive business to run with operating costs in the billions.

We are no different to a household. We have outgoings like debt repayments, utilities bills, lease payments (in our case planes not cars) etc... and we need income (or as we call it – revenue) to cover all our bills.

Before COVID-19 came along and wiped out global air travel, we had annual revenue of around \$5.8 billion. After paying all our bills, that saw us end the last financial year making a profit of \$374 million. And we had over a billion dollars in the bank, which was our version of the rainy-day account in case an unexpected event hit our business.

Unfortunately, COVID-19 has seen us go from having revenue of \$5.8 billion to what is shaping up to be less than \$500 million annually based on the current booking patterns we are seeing. That's right - a drop of more than \$5 billion dollars. This has the potential to be catastrophic for our business unless we take some decisive action.

The only way we will see an improvement in that revenue estimate this calendar year is if Kiwis embrace domestic travel after the Level Four Alert is lifted. The harsh reality is that most countries will take a cautious approach to allowing international tourism in the next year, New Zealand included.

And international tourism flows make up two thirds of Air New Zealand's revenue. So, that is billions of dollars in ticket sales we won't be booking and more than 1.5 million tourists who won't be arriving here to fly on our domestic network.

In that light, it is clear the Air New Zealand which emerges from COVID-19 is a much smaller airline and could take years to get back to its former size. Therefore, we are planning to be a domestic airline with limited international services to keep supply lines open for the foreseeable future.

The Air New Zealand of pre-COVID-19 employed 12,500 people around the world. Clearly, we will be smaller for some time and we will need fewer staff. We expect that even in a year's time we will be at least 30 percent smaller than we are today.

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We have been collaborating with our Unions and our Air New Zealanders to explore how we can together reduce the costs of running our airline. Our monthly labour cost alone is \$110 million. We have \$960 million in cash reserves today, but with very little revenue coming in, our cash balance will fall by tens of millions of dollars each week. We have negotiated a loan with the Government and expect that we will need to begin to draw on that within months because our outgoings are so high. Every dollar we use from this loan facility comes with interest (more than double current interest rates for a household mortgage) and must be re-paid.

Through collaboration, we have been able to reduce costs by asking all our Air New Zealanders to take Leave Without Pay, forgo bonuses, reduce hours and consider voluntary exits. We have also made savings from voluntary pay cuts by the Board of Directors, myself as Chief Executive Officer and my Executive team, and cancelling all incentive payments for staff on Individual Employment Agreements. While these measures help, they only go part of the way to reducing costs to the level we need to be viable in the long-term.

The Government's recently announced wage subsidy may provide some relief which would be helpful. We are working with the Government to determine how the subsidy can be applied in our business and in turn to the benefit of our people. The subsidy is, however, a short-term measure and doesn't right-size the business for the future, especially when you consider that even in a year, we will be 30 percent smaller than we are today. But we are grateful that the Government has put in place a scheme that means the cuts to the size of our workforce are not as deep as they may needed to have been.

Burdening our airline with massive debt would significantly lessen our ability to compete with airlines emerging from COVID-19. Unfortunate as it is, our revenue and expenses forecasting indicate that a large-scale reduction of the workforce must occur on top of all our other actions.

The extent of this reduction is based on conservative assumptions and we may have to change these as the situation evolves, especially if the Level 4 Alert goes beyond the planned 28 days or border restrictions are in place for a prolonged period.

So, this week we will begin the process of a large-scale reduction of our workforce in the international regions. New Zealand will follow once the Executive agrees a final plan in the coming days. These are necessary measures to ensure our nation retains an airline, albeit a smaller one. To be clear it is shaping up that the size of the Air New Zealand workforce will reduce by up to 3,500 roles in coming months. No areas will be immune whether it is our most senior leaders through to new joiners. The situation we find ourselves in is nobody's fault.

And I am acutely conscious that a smaller Air New Zealand also comes with a significant impact on many of our suppliers, some of whom will probably have to reduce the size of their workforces because we won't be doing as much business with them.

These are certainly unprecedented and challenging days. I look forward to working positively with our union partners to ensure that we do all we can to minimise the size of the workforce reduction.

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Please remember our Employee Assistance Programme is an independent, professional support service that is available to all Air New Zealand employees and their immediate family. It is free, completely confidential, and available 24/7. Employees located within New Zealand can contact EAP on 0800 284 678. Employees located outside New Zealand, please book an EAP session online and you will be contacted by our EAP provider.

Thank you for your ongoing support of Air New Zealand.

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*Ends.*