

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

MARKET ANNOUNCEMENT

22 November 2023

Moody's upgrades Air New Zealand to Baa1 rating, with stable outlook

Moody's Investors Service has today upgraded the issuer rating and senior unsecured debt rating for Air New Zealand to Baa1 from Baa2. This is a one notch upgrade, and the rating outlook remains stable.

This follows the decision by Moody's to upgrade the airline's baseline credit assessment to baa3 from ba1 to reflect that Air New Zealand's standalone credit profile has returned to pre-pandemic levels.

At the same time, Moody's has upgraded the senior unsecured medium-term note programme rating to (P)Baa1 from (P)Baa2.

Attached is the announcement released by Moody's Investors Service.

Ends.

For investor relations questions, please contact:

Kim Cootes

Head of Investor Relations

kim.cootes@airnz.co.nz

+64 27 297 0244

Air New Zealand postal address: Private Bag 92007, Auckland, 1142, New Zealand

Investor Relations email: investor@airnz.co.nz

Investor website: www.airnewzealand.co.nz/investor



Rating Action: Moody's upgrades Air New Zealand to Baa1; outlook stable

22 Nov 2023

Sydney, November 22, 2023 – Moody's Investors Service (Moody's) has today upgraded Air New Zealand Limited's (Air NZ) issuer rating and senior unsecured debt rating to Baa1 from Baa2. At the same time, Moody's has upgraded the senior unsecured medium-term note program rating to (P)Baa1 from (P)Baa2 and the Baseline Credit Assessment (BCA) to baa3 from ba1, as well as maintained the stable outlook.

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RATINGS RATIONALE

The rating action reflects Moody's view that Air NZ's standalone credit profile has returned to pre-pandemic levels, underpinning its BCA improving back to baa3 from ba1.

Moody's also believes that after the demonstrated support by the Government of New Zealand (Aaa stable) during the pandemic, it remains appropriate to maintain the three-notch uplift to derive Air NZ's rating. The rating also incorporates a one-notch downward adjustment to reflect the subordinated position of the airline's unsecured creditors given its high level of secured debt. The net uplift from the BCA is therefore two notches, resulting in an upgrade to the rating to Baa1 from Baa2.

Air NZ delivered a solid result for the year ended 30 June 2023, driven by a return of passenger capacity to 74.5% of pre-Covid levels for the year and 96.6% in June 2023. In addition, RASK remain elevated at about 45% higher than fiscal 2019's, more than offsetting cost inflation. This enabled the airline to reduce gross debt/EBITDA to 2.3x while maintaining higher than normal levels of liquidity.

While customer demand remains solid across most markets, challenges such as jet fuel price volatility and the weaker NZD as well as high inflation and the uncertain economic environment pose risks. Moody's therefore forecasts the airline will generate lower EBITDA for fiscal 2024 than the very strong levels in fiscal 2023. While the agency expects gross debt/EBITDA to increase to around 2.9x, it should remain well below the threshold of 3.5x set for its rating.

The airline's available liquidity as of 30 June 2023 included NZD2.6 billion comprising NZD2.2 billion in cash and a NZD400 million standby facility with the government.

The stable outlook reflects the rating agency's expectation that Air NZ will maintain its credit metrics within the range set for its rating.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATINGS

Air NZ has a publicly articulated net debt/EBITDA target of 1.5x-2.5x, which Moody's considers to be in line with its BCA of baa3. An upgrade of the BCA is therefore unlikely while these targets are in place.

An upgrade of the Baa1 issuer rating could eventuate from a change to Moody's assessment of the New Zealand government's ability and willingness to provide extraordinary support if required. However, given that Moody's maintained the three-notch uplift after the demonstrated support by the New Zealand government during the

pandemic, the agency does not see this as likely.

Moody's could also upgrade the Baa1 issuer rating if the proportion of unsecured debt to total debt increased to over 50%, resulting in the removal of the one-notch downward adjustment to reflect the subordinated position of its unsecured creditors.

FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATINGS

While not Moody's expectation, a sale of the government's majority shareholding or any reluctance by the government to support Air NZ, if required, would likely result in a multiple-notch downgrade to the issuer rating, given the 3 notches of uplift currently applied to the baa3 BCA to derive the issuer rating.

Moody's could downgrade the BCA if the airline's operating and financial performance weakened such that debt/EBITDA increases to over 3.5x or net debt/EBITDA exceeds 2.5x, or if liquidity reduces to lower than the airline's target liquidity range of NZD1.2 billion – NZD1.5 billion.

The methodologies used in these ratings were Passenger Airlines published in August 2021 and available at <https://ratings.moodys.com/rmc-documents/74345>, and Government-Related Issuers Methodology published in February 2020 and available at <https://ratings.moodys.com/rmc-documents/64864>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of these methodologies.

COMPANY PROFILE

Air New Zealand Limited is New Zealand's leading domestic and international airline. It provides passenger and cargo transportation services within New Zealand as well as overseas. For fiscal 2023, the airline generated operating revenues of NZD6.3 billion.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on <https://ratings.moodys.com/rating-definitions>.

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Ian Chitterer
VP - Senior Credit Officer
Corporate Finance Group
Moody's Investors Service Pty. Ltd.
Level 10
1 O'Connell Street
Sydney, NSW 2000
Australia
JOURNALISTS: 61 2 9270 8141
Client Service: 852 3551 3077

Patrick Winsbury
Associate Managing Director
Corporate Finance Group
JOURNALISTS: 61 2 9270 8141
Client Service: 852 3551 3077

Releasing Office:
Moody's Investors Service Pty. Ltd.
Level 10
1 O'Connell Street
Sydney, NSW 2000
Australia
JOURNALISTS: 61 2 9270 8141
Client Service: 852 3551 3077

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