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Operator: Ladies and gentlemen, thank you for standing by and welcome to the Air New Zealand 2021 Interim Results Investor Briefing. At this time, all participants are in a listen only mode. After the speaker's presentation, there will be a question and answer session. To ask a question during the session, you will need to press star one on your telephone.

Please be advised that today's conference is being recorded. I'd now like to hand the conference over to your first speaker today, Air New Zealand General Manager of Corporate Finance, Leila Peters. Thank you. Please go ahead.

Leila Peters: Thank you and good morning everyone. Today's call is being recorded and will be accessible for future playback on our investor centre website which you can find at www.airnewzealand.co.nz\investorcentre

Also on the website, you can find our interim results presentation, financial report, media release and relevant stock exchange disclosures. Speaking on the call today will be Chief Executive Officer, Greg Foran, and Chief Financial Officer, Jeff McDowall. I would like to take a moment to remind you that our comments today will include certain forward looking statements regarding our future expectations which may differ from actual results.

We ask that you read through the forward looking cautionary statement provided on slide 2 of the presentation. Before moving on, I would like to take a moment to personally acknowledge and thank Jeff on his last earnings call with Air New Zealand. It has been a career highlight of mine to work alongside you for the past four years and I know I speak for the wider team when I say we wish you the best of luck for the future.

With that, I will now hand the call over to Greg.

Greg Foran: Thank you Leila. Kia ora and good morning everyone and thanks for joining us on today's call. Earlier this morning we released Air New Zealand's financial results for the first half of the 2021 financial year. Despite strong domestic operations and additional revenues from the airlines cargo business, both of which I will talk about in more detail shortly, we reported a loss before other significant items and taxation of $185 million and a statutory loss after taxation of $72 million.

While these results reflect a continuation of the most challenging conditions ever faced by the airline and indeed the industry as a whole, I could not be more proud of the way in which the Air New Zealand whanau have responded to the challenge of running our

operations in the midst of a global pandemic.

Together, we've kept kiwis connected to each other in a time when international travel is largely non-existent by delivering a reliable domestic schedule which has been running at around 76% of pre-COVID capacity across the first half of the financial year.

We've also helped keep New Zealand's economy turning by continuing to move crucial medical and trade supplies in and out of the country via our cargo operations which has driven a 91% increase in cargo revenues, supported by the government's international air freight capacity scheme.

Constantly changing rules and protocols have made the already complex job of successfully and safely operating an airline even more difficult. But the operational agility and flexibility we've learnt over this time is now ingrained in us and I want to thank the team for their extraordinary efforts.

I know we wouldn't be operating the level of domestic and cargo capacity that we are without their hard work. Air New Zealand entered this crisis with a resilient balance sheet and an investment grade credit rating. With the support of the Crown's standby loan facility and the efforts of our team to meaningfully reduce operating costs, as at 23 February, we have a remaining short term liquidity of just over $700 million. Of which $550 million relates to undrawn amounts on the Crown facility.

As you may have seen a few weeks ago, the airline recently reconfirmed to both the Crown and the market its intention to complete a capital raise before 30 June 2021. At that time, the Crown confirmed its longstanding commitment to maintaining a majority shareholding in the airline and stated that subject to cabinet being satisfied with the terms of the equity capital raise, it would participate in such a raise in order to maintain a majority shareholding.

Although it's been clear for some time that COVID-19 was not going to be a fleeting issue, I think it's fair to say that no one could have accurately predicted just how long and how severe COVID-19s grip on the world would be.

With over 110 million cases worldwide, and some of the world's biggest economies, like the UK, Germany, and France in some form of lockdown, it is clear that the impact of COVID-19 will take some time to fully dissipate.

Our view, which we shared with you at the annual results last August was that the

recovery would not be quick and it wouldn't be uniform. You can see from the graph on the slide that since our first lockdown in March 2020, our domestic network in green has recovered swiftly and significantly due to New Zealand's strong stance on elimination and general public sentiment that it is safe to travel around the country.

However, what you can also see is that our international capacity, depicted in blue, is a shadow of what it used to be and globally the story is much the same. As a reminder, pre-COVID, domestic made up about a third of our total pool of passenger revenues and around 20% of that was driven by inbound tourists travelling domestically.

So you can see that without international passenger flying, there's still a significant gap in our earnings stream. On the positive side, what has been equally as unexpected is the speed with which viable highly effective vaccines have been created, manufactured, and now distributed across the globe.

Over 200 million doses have been administered worldwide and our own supplies here in New Zealand arrived last week with the first doses also administered to some frontline workers.

So although a full recovery to pre-COVID levels is certainly not expected imminently, we are confident that given the success seen in our own domestic network, customer demand will return. And when it does, Air New Zealand is strongly positioned to succeed.

Compared to most of our global peers, we are in a very fortunate position. Air New Zealand has spent years, decades even, building up a strong core domestic market and investing in a schedule that offers the right mix of frequency and depth of service.

It is the very heart of our business and frankly, the only reason we are still here. It still surprises many people when I tell them that we've flown every single day since COVID-19 began and we've been operating a significant portion of our pre-COVID domestic capacity for almost a year now.

Excluding August 2020 when Auckland went back into lockdown, our domestic capacity has been above 70% of pre-COVID times each month of the first half of the financial year. We also saw load factors in the first half of the year in the high [70%s] which is important for two reasons. One being that the first half includes a period of time in which Auckland was in a second lockdown which required the airline to implement the related social distancing requirements on our flights.

The other being that this shows that we aren't just flying empty planes. We are operating these planes at or around optimal loads. In December we released an additional 16,000 seats across the network due to stronger than expected domestic demand.

We also sold over 500,000 seats for under $100 to further stimulate and drive this demand. Pleasingly with the cost efficient A321 NEO aircraft we've redeployed from the Tasman to the domestic network, we're able to offer our customers these competitive prices and do so profitably.

We are incredibly grateful to our loyal customers for their continued support of the airline. The recovery in our domestic network gives us cause for optimism for the future, particularly as the vaccine rolls out.

It is clear from what we've seen here in our own domestic market, that once people feel safe to travel, they will and that is hugely important for our long term recovery. There is no road map for how international demand will recover but if you look at how quickly kiwis returned to travel once New Zealand was COVID free, you can infer that global behaviour will likely be similar.

We have been pleased to see the significant return in recent months of our corporate customers. There was much speculation that business travellers would get used to a world in which Zoom meetings were the norm and would not return to their former ways of physical meetings.

With corporate bookings at around 75% to 80% of pre-COVID times in recent months, our experience is that our business travellers still value that human physical connection.

Now I won't spend too much time on this slide. Really what the map shows is that several countries have now returned to a substantial level of flying which is hugely positive from a long term recovery perspective.

If you think about a similar map that we presented at the annual results, most countries were operating very little capacity. While our recovery started earlier and stronger than many of the other jurisdictions, the most important thing we can take from these numbers is that the desire to travel remains strong worldwide.

Alongside domestic, cargo has been a critical source of revenue for the airline this year. Cargo flights supported by the government's international airfreight capacity scheme have seen our team deliver chilled meats, seafood, stone fruits, berries, dairy products, and

even live penguins all across the globe.

Critically, they've also enabled us to carry vital medical supplies and PPE into New Zealand that would not otherwise be able to arrive given few international carriers are flying to New Zealand at the moment.

These flights have also supported the repatriation of more than 60,000 kiwis which is fantastic. These additional cargo flights have resulted in a higher contribution from the cargo business this year and has provided the airline with vital cashflow during a time when we have limited international passenger revenue.

The current agreement finishes in April. However, we are hopeful that given the success of the scheme in keeping New Zealand's global trade links alive, that the scheme will be extended.

With the roll out of the vaccine and enhanced testing methods, 2021 looks set to be a year of further recovery. Although to what extent, we do not know. What we do know however is that the foundation of Air New Zealand, who we are, what we do, our passion for customers and for innovating to deliver a superior service, has not changed and will not change.

We remain focused on those things that we can control. Supporting and protecting our people and our customers, maintaining operational flexibility and agility, protecting and enhancing our domestic and cargo business and maintaining strong cost discipline.

Just before we move onto the financial results, I wanted to take a moment now to thank and acknowledge Jeff McDowall, our CFO, for the huge contribution he has made to Air New Zealand over the past 20 years.

I know that many of you on today's call have firsthand experience of Jeff's passion and depth of knowledge for all things Air New Zealand. And having personally spent a great deal of time learning about this business from Jeff when I first started. I can only say a huge thank you for everything that you’ve contributed to this great airline. So thank you Jeff, and I will now pass the call over to you.

Jeff McDowall: Thank you Greg for those kind words, and good morning to everyone on the call. It does feel a bit strange that this will be my last results announcement, but I am delighted that Richard Thomson has been appointed as my successor. I just can't think of a better person to take on the role.

So turning now to some of the key financial numbers for the period. Operating revenues of $1.2 billion were down 59% on the prior year, as a result of the continuation of significant restrictions on international travel to and from New Zealand. Despite this strong domestic operations, along with additional flying within our cargo business, has meant the Airline has had positive underlying EBITDA since July 2020 and has been operating cash flow positive since the second quarter of this financial year.

I think that's really significant, and probably somewhat different to what many of our global peers are experiencing. To me it shows that the Airline has a strong core business. After making structural changes to lower the cost base is well-positioned for recovery when demand returns. I guess I would temper that however by reiterating that although our domestic network has recovered significantly since the early days of the pandemic, which is really great to see, it does only represent about one-third of our pre-COVID-19 revenue base. So there still is quite a big gap for us to fill.

Overall for the six-month period to December we are reporting a loss before other significant items and taxation of $185 million, and a statutory loss before taxation of $104 million. This includes a gain from other significant items of $81 million, which I will cover in more detail later on in the presentation. Net loss after taxation for period was $72 million.

Turning to our profitability waterfall chart on slide 12. I won't go into each of these, but I think there are two really clear messages here. First and foremost, you can see that the huge different profitability is largely a result of the $1.9 billion decline in passenger revenue. Driven by limited international passenger flying, which was only partially offset by cargo revenue.

The second thing this chart conveys is the substantial decline across all areas of our cost base. While you would expect variable costs to decline significantly when a large portion of the passenger network isn't operating, the fact is that we have also made great progress in reducing a lot of the most fixed costs of our business, which I'll talk about shortly.

The other thing I want to be very clear on here is that these results have been somewhat bolstered by lower fuel prices, over $50 million of wage subsidies received in the first quarter, and almost $60 million in other aviation support receipts that are not expected to extend into the second half of the financial year. I don't say that to detract from the result we have achieved. But I do want to be clear that the second half performance is expected to differ from the first half.

This next slide shows our other significant items for the first six months of this financial year, the large majority of which are non-cash. The largest of these items is foreign exchange gains on uncovered debt of around $146 million from the strengthening of the New Zealand dollar against the US dollar. If you recall, this relates to the significant decline in expected foreign currency revenues due to COVID-19 and the subsequent de-designation of revenue hedges that had been put in place in the prior year.

Also within other significant items for the half was a gain on sale from Heathrow landing slots, offset by aircraft impairment and some reorganisation costs.

You would have heard us talk last year about the significant changes we made to our business and our cost base to respond to the revenue and liquidity challenges presented by COVID-19. These actions included labour reductions, some permanent and some temporary, overhead reductions, deferrals of non-critical OpEx and CapEx spend, as well as renegotiation of some of our supply contracts. As a result of these actions costs have declined substantially.

If we look at the first half of this financial year and we break it down into quarters, you can see that operating costs excluding fuel decreased 55% in the first quarter and 50% in the second quarter, compared to the equivalent periods last year. This is compared to a reduction in capacity of 65% for both of those periods. While it looks like our cost performance worsened in the second quarter, the key difference actually relates to the fact that we received over $50 million in wage subsidies, which offset some of our costs.

As you can see in the graph on the next slide, we managed to reduce our cash burn from around $175 million per month in the first quarter of 2020, down to $69 million per month in the second quarter of the 2021 financial year. If we look at the period from October through January, which takes out the noise from the extended Auckland lockdown in August and September, the average monthly cash burn is better at approximately $60 million per month.

This is a huge improvement in the context of our average loan amortisation and lease costs of approximately $45 million per month. However cash burn performance was also bolstered by several one-off tailwinds, such as the wage subsidy and the other aviation relief I mentioned early in the call, together with the deferral of PAYE.

For the remainder of the 2021 financial year we expect the rate of cash burn to reduce even further to between $45 million and $55 million per month. This reflects refunds and

redundancy payments, which are expected to be substantially lower than those experienced in the first half of the financial year. However this lower rate of cash burn is not expected to extend by 2021 financial year. Cash burn beyond June 2021 will likely increase due to aircraft-related CapEx payments, as well as the first repayments of deferred PAYE starting from October 2021.

This range is obviously predicated on several assumptions. Including that our domestic network continues to operate around the 80% mark, with no further lockdowns and no social distancing requirements onboard, and that international travel restrictions remain. It also assumes continued cargo flying under the IAFC scheme and implemented cost reductions are maintained.

This range also assumes that we return to a business-as-usual level of refunds, which we have seen over the past few months, and that we do not receive any substantial benefits from support, such as the aviation relief package which we received in the first half of the financial year.

We have also outlined the key downside risks to this range on the slide, which are largely unchanged from the last time we reported. However we have included foreign exchange fluctuations as an additional risk.

The Board is nearing completion of its assessment of the Airline's capital structure and longer-term funding needs and has recently confirmed to the Crown and the market that we intend to complete a capital raise before 30 June 2021. Over the course of the last six months we have drawn down $350 million of the Crown's standby loan facility. We have intentionally drawn only what we need to maintain a prudent level of cash, while ensuring that we are not incurring more interest costs than absolutely necessary. As a result of this we have just over $700 million in cash and short-term liquidity remaining at 23 February 2021. Made up of around $170 million in cash, and $550 million of undrawn funds under the Crown facility.

We know that dividends remain a really crucial matter for our investors, and I can assure you that we want to return to a profitable network of flying as soon as possible. However due to the ongoing financial pressures resulting from COVID-19 and the restrictions of the Crown facility there will be no interim dividend for the 2021 financial year.

Turning now to hedging. As a reminder, we executed a significant level of fuel and FX hedge closeouts towards the end of the last financial year that impacted our cash flow. Our

hedging profile since then has reduced substantially, reflecting about one-third of our pre-COVID-19 level of fuel hedging. This consists of volumes related to domestic and cargo operations in the first half. We have a similar profile for the remainder of the 2021 financial year. We do not anticipate any significant further closeouts will be required.

As we discussed at our Annual Results announcement in August, our fuel hedging profile for the first half was expected to drive hedging losses as those hedges were put in place prior to March of last year. Overall operating cash outflows in the period relating to fuel to FX hedging was $39 million.

Looking ahead to the remainder of the financial year. The increases in fuel prices we have observed, most noticeably since November, will be partially offset by our hedges based on current market pricing. We continue to see benefits of hedging against potential fuel price rises and adverse FX movements. Notwithstanding the benefit from our hedge profile, we do expect fuel costs to increase compared to what we experienced in the first half of the year.

You can see in the chart on slide 18 the expected phasing of our contracted aircraft capital expenditures through to 2024, which total approximately $1.7 billion based on an exchange rate of $0.72. You can see just how hard our fleet team have worked in the last 12 months to really bring down their level of spend in the 2021 financial year to reduce our cash outflows while passenger revenue is so significantly constrained.

What this graph doesn’t reflect, and what is an important distinction, is that we have negotiated a number of slide rights that when we have the option to push out the delivery of some aircraft due to be delivered from 2024 onwards. This isn't reflected in the CapEx chart shown here, as decision dates for those slide rights are in the future. If these rights are exercised and delivery is delayed, it would have the effect of lowering the CapEx outlay in earlier financial periods as well, given any pre-delivery payments would also shift out.

We are however still expecting to receive the first of our new Boeing 787 Dreamliners in FY23. Aside from the slide rights I mentioned earlier, we also have negotiated a significant level of aircraft deferrals across our incoming narrowbody and turboprop fleet. While some of these deferrals are intra-period, so within the same financial year, they still represent a significant cost benefit for the business while borders remain closed.

This slide shows a couple of key points, being that we have both short-term and long-term levers that we can pull with regards to our fleet should demand return more slowly than

anticipated. In the short-term we have the option to exit a portion of our 777-300 fleet. In the longer-term we have the opportunity to push out the delivery of both the new 787 Dreamliners and the A321NEOs.

The great thing about these options is that we do not have to make these decisions for another six months to nine months. At that stage the rollout of the vaccine will be even further progressed, and we may have additional clarity on the timing or borders reopening.

I will now pass you back over to Greg who is going to discuss the outlook, and leave you with some closing remarks.

Greg Foran: Thank Jeff. At the Annual Results last year I said to you all that we had a difficult road ahead of us. While I think that is still true, the speed with which the vaccine was created and subsequently produced, alongside the success story we are seeing with domestic demand, not only on our own network but in other jurisdictions around the world, has given me optimism for the future of travel demand.

Whenever borders start to open it is clear that when people feel safe to travel they will. If I think about the number of people wanting to see friends and family overseas, or just wanting to get out and explore what the world has to offer, it fills me with great confidence for the recovery of our business and for the industry as a whole.

So while we may be a largely domestic airline with a solid cargo business for a time longer yet, we remain focused on those things we can control, and those things that we know will enable us to be strongly positioned to compete and win in the future.

As I look to the remainder or the 2021 financial year we have identified five key priorities. To protect the safety and wellbeing of our staff and customers, which at the end of the day is out most fundamental duty. To maintain our core strength on a domestic market, enabling us to fulfil our purpose of keeping New Zealanders connected. To keep building agility and dexterity into our operations, so that we are ready to act quickly when borders reopen. Or to respond to any further challenges we are faced with.

We intend to complete our capital raise process this financial year, enabling the Airline to have a long-term capital structure and funding plan in place. Finally, we need to deliver on our strategic priorities so that when demand for air travel returns, and we are confident it will, we are ready with a service offering and a network that is second-to-none for our customers.

Turning now to our outlook. 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.

So with that, can I say thank you very much for listening. I know you'll have lots of questions, so, Operator, please open up the line.

Operator: Thank you. Ladies and gentlemen, we'll now begin the question and answer session. If you wish to ask a question, please press star one on your telephone and wait for your name to be announced. If you wish to cancel your request, please press the pound or hash key. Once again, it is star one and wait for your name to be announced. Thank you very much. Once again, it is star one. Our next telephone question comes from the line of Andy Bowley from Forsyth Barr. Please ask your question, Andy.

Andy Bowley: (Forsyth Barr, Analyst) Thanks, Operator, and good morning, guys. I've got a couple of questions to kick things off, the first of which is around the cash burn, and thanks for the commentary around - and congratulations in lowering that cash burn through the first half. But could you talk to the guidance you're providing for the second half in a bit more detail and maybe you can tell us what it really implies around particular items, like loan amortisation, working capital, CapEx, any lease restructures, et cetera, and the PAYE comment that you made in the presentation?

Jeff McDowall: Morning, Andy. It's Jeff. Yes. So loan amortisation is a good point. I mean, if you look at the cash burn guidance that we've provided for the second half of $45 million to $55 million, the vast bulk of that is loan amortisation and lease costs. The one thing we wanted to make really clear, I think we've mentioned in the materials, is that it also reflects the benefit of the PAYE deferral program and that remains until September and then goes the other way, as we start to repay that for the six months following from October through March. So those are probably the two key things.

I mean, it does reflect a business that with domestic and cargo operating is operating cash flow positive. So the bulk then of what you're seeing in the cash burn number is CapEx and lease and loan amortisation.

Andy Bowley: (Forsyth Barr, Analyst) Can you give us a sense of the magnitude of the PAYE savings, Jeff, through the second half?

Jeff McDowall: Yes, so it's roughly - it fluctuates a little bit with - earlier it was a bit higher with restructuring costs, but it's in the [20% to 25%] a month range.

Leila Peters: That will be reflected in operating cash flows, Andy.

Andy Bowley: (Forsyth Barr, Analyst) Sorry. I didn't pick that up, Leila.

Leila Peters: Sorry. That'd be reflected in our operating cash flows, so across the first half and second half of FY21. That would be fairly consistent.

Andy Bowley: (Forsyth Barr, Analyst) Okay. Then just lastly on that question around working capital, what kind of working capital demands are there on the business in light of - in the passenger behaviour and in bookings and the - and what we see from a really advanced point of view of that further reducing through the first half?

Jeff McDowall: I mean, the - as you can imagine - and when you look at the page that shows cash burn during the period, it comes down quite a bit. A lot of that is because of the big bulk of refunds that we were paying early on to stabilise. So the - there is a business as usual level of refund that we're still seeing, but in terms of the big working capital item being revenue in advance, we're not - that will come down materially when borders start to reopen. Well, it will start to move when borders start to reopen and with people redeeming their credits sort of offset by cash coming in. But until that happens, I'd expect it to be relatively stable.

Leila Peters: So I guess what I would characterise, Andy, is the difference really between first half and second half cash flow performance or expected cash burn performance is - obviously with the operating cash flows, we have the benefit of significantly reduced redundancies and refunds, as Jeff already mentioned, domestic and cargo is somewhat consistent in both periods. Investing cash flows, we have looked to defer or push out some additional projects, so that would be slightly improved from the first half and then financing cash flows are largely similar.

The other thing that we'd point out is fuel prices are of course higher or expected to be higher in this half, but then that's somewhat mitigated by a stronger New Zealand dollar and our hedging book is, of course, as Jeff mentioned previously, in the money currently.

Andy Bowley: (Forsyth Barr, Analyst) Great. Thanks, Leila. So then just taking forward the cash burn. I recognise there's a lot of water to go under the bridge over the next few months in light of the operating environment that we're in and border closures, et cetera,

but if I take the comments around first half '22 being - or pushing back to higher levels, can you give us some colour around what that kind of means in terms of some kind of quantum if the current operating conditions persist for the next six, nine, 12 months?

Jeff McDowall: I mean, it's - I think it's a bit early to provide any specific guidance in terms of content, but I think the - I mean, the key difference is going to be that PAYE deferral, so that - as you can imagine, we're taking what was a deferral over a period of 15 months and turning it into a repayment over a period of six months. You'll see that kick in from halfway through that second half from October. There is a little bit more debt amortisation, I think, as well, but that's not - that's a component, but it's not huge.

Andy Bowley: (Forsyth Barr, Analyst) Okay. Great. A final question from me and to finish off cash burn, but I'm keen just to talk balance sheet. In a post-COVID world is the historic or are the historic target gearing ranges still appropriate for the business and what are the key balance sheet priorities or metrics that we should be thinking about ahead of a capital raise?

Jeff McDowall: Yes, it's a really good question. I mean, I think philosophically, our - the position that we got to that informed our capital management and distribution policy a couple of years ago, I think it was, still remain, which is the first priority is to maintain a resilient balance sheet and that the way we define that is by saying we want to target gearing. I mean, it's not a shackle, but a target of between 45% and 55%. Continue to target an investment grade credit rating and, as part of that debt coverage of 3.3 times maximum, recognising that you may not get there immediately and those are long-term targets, rather than things that we have to be constrained to all of the time.

Then you kind of get to this interesting question about, well, how do you think about the world, particularly from a liquidity perspective, when you reflect on the lessons from COVID? That's a really difficult one. If you - I think it's - yes, it's probably reasonable to say that it's uneconomic to hold an amount of cash that would allow the airline to effectively not fly at all for a significant period of time, as you see in a pandemic like COVID. But on the other hand - when we looked at all the black swan possible outcomes when we were looking at this, a period of time like this we didn't contemplate really as a genuine thing that we would hold liquidity for.

But having said that, I think those sort of things do naturally point you to be a bit more conservative, at least to provide more time to react to something like this. So that's

something that we will work through as - in the post-COVID environment.

Andy Bowley: (Forsyth Barr, Analyst) Great. Thanks, Jeff. Much appreciated.

Operator: Our next telephone question comes from Andrew Steele from Jarden. Please ask your question, Andrew.

Andrew Steele: (Jarden, Analyst) Good morning, guys. The first one from me is just on the operating cost base. Looking at the level of OpEx in Q2, if I was to look at that on a per ASK basis, would that be a reasonable proxy for how you're thinking about the OpEx base through the remainder of the year and the current operating conditions?

Jeff McDowall: Yes, I guess it would be. I mean…

Leila Peters: I mean, roughly, but of course there's a number of operating costs, Andrew, as you know, that are not driven by ASKs. They're driven by departures, block hours and whatnot. But I think from a round-arm swing perspective, that's fine.

Andrew Steele: (Jarden, Analyst) Okay, right.

Leila Peters: The only thing just to caution you on with there is operating costs of course in the first and second quarter of the financial year included the benefit of the aviation relief support subsidies and wage subsidy.

Andrew Steele: (Jarden, Analyst) Okay. You would - and just to be clear, you're not expecting anything from that. That's right?

Leila Peters: That's correct. We're currently not anticipating any of that in the second half.

Andrew Steele: (Jarden, Analyst) Yes. Then just on the fleet CapEx spend, I was surprised that FY22 was - remained - the guidance for that's remained pretty steady. Could you talk to any flex you have in that number and how much could you reduce that by if needed or are you locked into that number and so the rationale at keeping it steady at this time?

Jeff McDowall: I mean, the - one of the big items in there is the first 787 - or actually, that's…

Leila Peters: No, no.

Jeff McDowall: …in FY23, isn't it?

Leila Peters: No, but there's predelivery payments for the 787 in the FY22 number. The deliveries, of course, are related to the Trans-Tasman NEOs and domestic 321s, which

we've spoken about for a while. The current aircraft that are performing on that network are near end of life and will need to be replaced. There is, of course, always some flexibility in those numbers, Andrew, and they do move around a little bit, of course, with FX and potentially with some further fleet decisions that do not need to be made at this particular time. So it's not a concrete number, but it is our current expectation.

Andrew Steele: (Jarden, Analyst) But, I guess, to read between the lines in your comments, it feels like a pretty firm number. There's not a lot of flex in that at this stage.

Jeff McDowall: Yes, I mean, that is fair. I mean, as Leila was saying, the two key components - there's some predelivery payments for that first Dreamliner, which lies in calendar '22, but late - sorry - early FY23. That one is committed and then it's the narrowbodies that Leila described, which we actually do want and need.

Andrew Steele: (Jarden, Analyst) Great, thank you. Just the last one for me on the outlook statement. I think at the full year result you commented that under the scenarios you were modelling, even if Tasman and Pacific Islands were to reopen, on a monthly basis, you would remain loss-making. I just want to check, given where you now sit in terms of resetting your operational cost base, whether that still holds that if Tasman and Pacific Islands were to reopen, you would remain loss-making?

Jeff McDowall: I - yes, that does still hold. The - yes, the international business being a significant part of our pre-COVID business - obviously having Tasman and Pacific Islands operating at a cash level will make a material difference. Obviously we'd have good operating cash flow at that level. We may still be slightly negative, because of lease and debt amortisation and then having international would push us back into a good positive position, both from a cash and a EBIT metric.

Greg Foran: It would also depend on what assumptions we want to make in terms of revenue.

Jeff McDowall: Yes, that's right.

Greg Foran: How competitive it's going to be, how long and how deep that would last, so a lot of what-ifs around that.

Andrew Steele: (Jarden, Analyst) Great. Thank you, guys.

Operator: Our next telephone question comes from the line of Nick Mah from Macquarie. Please ask your question, Nick.

Nick Mah: (Macquarie, Analyst) Morning, guys. Just on the potential for pushing the aircraft deliveries out, is there any cost to you guys of having those slide options in there?

Jeff McDowall: Nothing material is the short answer. The - there is a degree of escalation, so the way the contracts work is that the price is set at a given year, if you like, and then there's sort of an inflation-driven escalation. So if you delay the delivery, then the nominal cash you pay is a bit higher, just because of that escalation. But other than that, there's nothing material.

Nick Mah: (Macquarie, Analyst) For exiting the leases, other than make-goods is there any penalties on those?

Jeff McDowall: You mean for lease deferrals or lease - for accelerated lease exits are you talking about?

Nick Mah: (Macquarie, Analyst) Well a combination of both. You've kind of - yes, modified some leases during the period and there was a non-cash cost to that. Then the potential deferrals that you - sorry, the potential lease modifications or exits in the future for some of those 777 aircraft.

Jeff McDowall: Yes, so a couple of different things there. I mean, the non-cash cost of the lease modifications that we've specified in - as part of other significant items really relates to accounting under IFRS 16. So it's really the right-of-use asset being re-valued or valued downwards as our expectation of the period of use being reduced.

Then in terms of the - we have a number of aircraft with early termination options and essentially how they work is that you can notify - with a reasonable and specified advanced notice period, an early exit of a lease.

There's no penalty associated with that in a contractual sense other than that when you return an aircraft, there's a series of return conditions which mean that typically requires a level of investment and maintenance. So if you return the aircraft earlier with an early termination option, then that means you spend that end of lease restoration cost earlier.

Nick Mah: (Macquarie, Analyst) Okay, great and then just lastly, could you just talk through the difference in movement between your gross and net debt numbers versus the change in liquidity for the period?

Jeff McDowall: Yes, I think the biggest single difference is the FX revaluation. So the - I mean, the net debt position is probably better than you would expect because of all but

$150 million reduction in the New Zealand dollar value of the US denomination debt.

Nick Mah: (Macquarie, Analyst) Okay, that's good. Thanks a lot.

Operator: Once again, it is star one. Our next telephone question is from Marcus Curley from UBS. Please, ask your question, Marcus.

Marcus Curley: (UBS, Analyst) Thanks. Just a couple from me. I just wondered if you could talk to the cargo business, in particular can you talk to the margins that you're achieving on that at the moment and where the operating costs sit within the business at the moment? In your reporting structure?

Greg Foran: Yes, the cargo business, Marcus is certainly contributing at this point and we've got a lot of support from the international freight capacity scheme which has been extended a couple of times now. We don't get into the margins on how that business is operating apart from saying that it is contributing and allowing us to do a couple of things. Obviously move freight but importantly, move a whole bunch of people back into New Zealand. So we're moving the best part of 1000 people a week.

Leila Peters: Sorry, Marcus, then to your other question, Marcus, in terms of where the costs are located. They'd be mostly predominantly in aircraft operations and fuel, of course.

Marcus Curley: (UBS, Analyst) Okay and then secondly, I just wondered if you could provide a little bit of colour, if you can, on your thoughts around border openings? I'd just be keen to understand what you're working assumptions are and the thinking behind that at this stage?

Greg Foran: Yes, look, we - like I think most people around the world, and certainly those involved in airlines, are trying to predict something here which is really difficult and it moves and it changes, depending on the information that's available.

So we've provided our outlook at this stage for the year and not providing any guidance on that apart from saying that we think there'll be a significant loss and the borders will open when the various countries get in place whatever rationale that they want to put in place.

As recently as last night, I see Singapore are heading down a path which is their path and whether that's the path that New Zealand follows or Australia follows, we'll have to wait and see. We continue to talk to the right people and we'll just have to be patient and get those open whenever we can.

The good thing is that we've got some capacity in the business that when they do open and we can get ourselves started up again sensibly and Jeff, I think we're doing a reasonable job of getting that balance between having enough capacity and not just burning a whole bunch of cash.

Jeff McDowall: Mm-hm, that's right.

Greg Foran: Because we need that, because it'll take a bit of time to get planes started up and get people trained. So I can't comment any further than that because I don't know anything more than that.

Marcus Curley: (UBS, Analyst) How about if I just rephrase it then? Obviously you're in the thrust of thinking about your capital raising. What's - and I suppose previously, you've spoken about let's say a sensible downside working case, have you formed a view on - I suppose that assumption, effectively how many more months of cash burn do you think is appropriate for the business to fund?

Greg Foran: Well we run multiple scenarios, as you can imagine, and take into account a whole bunch of factors because these are essentially just as I said, scenarios. They're not even forecasts. Things do change. It's different today than what it was in January. Different than what it was in December. A lot different than what it was in July last year.

So we run those scenarios and as we've identified, we are in discussions at the moment around capital structure and we continue to work on those scenarios with all the right people and if the government is going to be happy that we're in the right position, then we'll look to complete a new capital structure by 30 June. That's about all I can say about it at this stage.

Marcus Curley: (UBS, Analyst) Then just following off on that, is - can you talk to what the key government-related hurdles are that need to be met?

Greg Foran: What exactly are you referring to here?

Marcus Curley: (UBS, Analyst) Oh, you just said if the government's happy. If they're willing to support. Are there specific things they want to see to support the raise?

Greg Foran: Well they continue to talk to us about principles that we're very aligned to such as connecting New Zealanders with each other and running a very strong domestic network. Making sure that we keep cargo flowing. Making sure that we're assisting them with repatriation.

So I'm happy that our principles that we operate in Air New Zealand are aligned with them and subject to the decision that they will ultimately make, we'll get on and get this thing completed by 30 June.

Leila Peters: Obviously, Marcus, we are working really closely with our Board in assessing what's the right sort of quantum and mix of debt and equity moving forward to sustain the airline through the short and medium term.

Those - having the opportunity to have the government standby loan facility in the interim has actually been quite beneficial as things have certainly moved a bit to the right in terms of border openings, at least with regard to this part of the world.

So those are - these are pretty critical questions and we are working through those scenarios very closely with our Board. The government is involved in some aspects and we continue to move forward toward the targeted deadline that we've stated in the materials of June 30. I hope that's helpful.

Marcus Curley: (UBS, Analyst) Yes, it is. Okay, thank you.

Operator: Once again, if you wish to ask a question, it is star one. There are no further questions at this time, I would now like to hand the conference back to Greg for closing remarks. Please, go ahead.

Greg Foran: Thank you and thank you very much for listening. Just before we close off, Jeff, I know that you've got a couple of words you'd like to say?

Jeff McDowall: Yes, I just wanted to take this opportunity to acknowledge and thank Leila and Kim who have just done an outstanding job managing our investor relations and continue to, together with their other responsibilities.

Also the whole Corporate Services Team who have been an absolute pleasure to work with. Who have made my job just so much easier but also so much more enjoyable than it would otherwise have been. So thank you.

Greg Foran: Thanks, Jeff and my final comment, thank you to you. Twenty years of service with Air New Zealand and your depth of knowledge once again on display right now at this meeting. So thank you for that.

If anyone would like to schedule a call or meeting for any follow up questions, then please direct those requests through to Kim and our Investor Relations Team. Thank you again

for listening. Have a good day.

End of Transcript