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Operator: Good day and thank you for standing by. Welcome to the Air New Zealand 2022 Interim Results Investor Briefing. At this time, all participants are in a listen only mode. After the speaker's presentation, there'll be a question and answer session. If you wish 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.

If you require any further assistance, please press star zero. I would now like to hand the conference over to our first speaker today, to Ms 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.airnz.co.nz/investorcentre. Also on the website, you can find our Interim Results Presentation, financial report and media release. Speaking on the call today will be Chief Executive Officer, Greg Foran and Chief Financial Officer, Richard Thomson.

I'd like to take a moment to remind you our comments today will include certain forward looking statements regarding our future expectations, which may differ from actual results. We ask you read through the disclaimer and, in particular, the forward looking cautionary statement provided on slide 2 of the presentation. I will now hand the call over to Greg.

Greg Foran: Thank you, Leila. Kia ora and good morning, everyone. Thanks for joining us on today's call. Earlier this morning, we released Air New Zealand's Interim Financial Results for the 2022 Financial Year. We reported a loss before other significant items and taxation of \$367 million. The statutory loss before taxation was \$376 million and the statutory loss after taxation was \$272 million.

These results are a reflection of the substantial impact the COVID-19 pandemic continues to have on the airline. As we reflect on the past 24 months of COVID, it would be easy to believe those first 12 months would be the hardest on the airline financially. However, when you look at the figures and timing, only the final quarter of the 2020 financial year was impacted.

During the 2021 financial year, lockdowns were more sporadic and we had the advantage of the trans-Tasman and Cook Island bubbles. The domestic network was also making a strong recovery and we had significant relief support from government. This financial year has and will continue to be different again with the effect of COVID impacting across all quarters, suppressing domestic demand.

This first half saw the airline's operating revenue decline 9% to \$1.1 billion as passenger flying was substantially reduced by 26% compared to the same period last year. Our cargo operation has continued to play an essential role in connecting New Zealand to the world with revenue increasing by 29%, supported in part by the continued government Air Freight Connectivity Schemes in New Zealand and Australia.

We're now in the early stages of our battle with the Omicron outbreak, something we knew was coming and have prepared as much as we can for. It's led to softening of domestic demand. The government's announcements of border openings to allow Kiwis to come home and travel again later this year is a solid step towards our revived stage, as we start to build back. We are very excited about welcoming home our fellow Kiwis from next week and have already started bringing back cabin crew and airport employees and pilots to scale up the operation.

We've also continued making great strides with our strategic priorities, setting us on the right path for the future. Kiwis love travelling and the recent holiday period was no different with more than 1.3 million of them taking to the skies to explore New Zealand. A number have also taken the opportunity to visit the Cook Islands since its re-opening on the 14 January.

The resilience, agility and dedication of our people continues to be our key to success, as we face into these challenges. I'm acutely aware of the sacrifices they have made. We wouldn't be here without them and I couldn't be prouder of all they have achieved. So, thank you Air New Zealanders for your exceptional efforts.

Richard will talk more about liquidity later on. But top line, we have liquidity of approximately \$1.4 billion, which includes \$500 million of additional liquidity support from the New Zealand Government, which was announced late last year. To date, we've drawn down \$760 million from the Crown's Standby Loan Facility.

As you are aware, the decision was made to postpone our capital raise until early in the 2022 calendar year, due to the continued uncertainty in Australia with a Delta variant of COVID. The Crown has a long standing commitment to maintaining a majority shareholding in the airline and as such - subject to Cabinet approval - will participate in the capital raise plan to be launched by the end of March 2022, or shortly thereafter, subject to market conditions.

The national alert level restrictions and subsequent extended Auckland lockdown had a huge impact on our domestic performance following high levels of demand early in the

financial year. The graph on this slide paints a vivid picture. It highlights domestic passenger revenue numbers from pre-COVID to now. You can see the drastic drop when COVID first hit in March 2020, followed by more dips with the next lockdowns. Then another more significant drop last August covering an almost four month period.

As you can see, the first half of 2022 performed lower than the same time last year and was around half of what we would experience pre-COVID. However, it was fantastic to see the holiday period pick up quickly once Auckland opened up. I'm particularly proud of the way our teams – in record time – developed the vaccine pass and seamlessly integrated it into the Air New Zealand app, enabling these customers to travel safely.

We also reinstated our domestic credit flexibility for customers in anticipation of the Omicron variant and the likely impact on people's travel plans. We are starting to see a softening of travel demand, as Omicron is becoming more widely spread in the community and people are having to self-isolate. Bookings have seen a reduction in business purpose travel, as well as leisure. Although, I would note that we are seeing demand for travel into the April period, which is encouraging.

Cargo has continued to achieve strong results for the airline, contributing \$482 million of revenue. This represents nearly half of our total revenue for the half year. It's been a privilege to continue moving essential exports and imports around the globe, keeping our economy running and our country connected. Our cargo team has gone above and beyond and I want to thank them for their incredible effort and the outcomes they have achieved for the business.

It is amazing to think about the many thousands of tonnes of food we carry in our cargo holds, including 12,200 tonnes of fresh produce, 6300 tonnes of chilled meat and 10,700 tonnes of seafood in the 2021 calendar year. We still have support through the government Air Freight Support Schemes, including the New Zealand Maintaining International Connectivity, or MIAC scheme, and the Australian International Freight Assistance Mechanism Scheme.

Through these schemes, we've been able to add new cargo routes, including direct flights from Australia to North America. The MIAC support scheme - as it is currently structured - concludes at the end of March. Rest assured, we haven't wasted any time while we have been flying less. We've spent our time preparing for the future and laid out a clear path for our recovery.

From a health and safety perspective, we've been proactive in our approach to protecting our customers and Air New Zealanders. This includes taking a leadership position with our vaccine mandates for customer facing employees and the no job, no flight policy for international travellers, which came into effect on the 1 February.

We have made rapid antigen tests available for our front line teams, so they feel confident to come to work. This also supports our ability to keep flying by removing the requirement for isolation for close contacts of those with COVID, as agreed with the government.

In addition to recalling approximately 250 crew and pilots, we've brought a Boeing 777-300 back into service to support our cargo business and started reactivating some of our overseas airport operations, so we're ready to welcome customers.

In the customer service space, investments continue to enhance the customer experience. The improvements made last year to our customer proposition were an exciting start and we've continued to build on this. As mentioned, we updated the Air New Zealand app so customers can easily upload vaccine passes for domestic travel and also, put mobile devices in our people's hands to enable them to support customers better.

We introduced a new tool for our customer service team to make it quicker and easier for customers to connect with them. We've also reinstated our credit flexibility for domestic customers and extended it for international customers. These are just a few of the many preparations we've been making over the past six months to get us in good shape to recover.

It is heartening to see that in other regions where travel restrictions have been reduced or removed, demand is picking up. This gives me confidence that once the Asia Pacific region sees restrictions relaxed, people will choose to travel again. Or be it we might see that demand build back slowly as travellers navigate how to travel again in the post-COVID environment where rules and restrictions differ and are changing in various markets. We would expect to see – based on the experience from overseas – the domestic and short-haul markets to recover first as our customers look to reconnect with family and friends.

Our Kia Mau strategy has continued to guide us. We're focused on delivering our three profit drivers, growing domestic, optimising international and lifting loyalty. These are underpinned by our enablers of brilliant basics, being serious about sustainability, digital dexterity and prioritising people and safety. Some great work has taken place to bring this to life and head us in the right direction.

We've trialled working in new ways to drive and speed up innovation. You will have seen some of this in our trials with the new food and beverage offerings on domestic flights. Our digital team has been making great strides, starting with getting digital tools in the hands of our crew and employees on the ground.

We have a number of new platforms to streamline processes and improve the customer experience, including our new customer service tool and supplier chain system, as well as the latest cybersecurity tool to protect our data and systems.

And we're introducing flight keys, a new way to route an aircraft that saves time, money, and reduces carbon emissions. And don't forget the vaccine pass that was developed at pace and integrated into the Air New Zealand app. All amazing digital advancements to take us into the future.

We are investing in our hangars and airport properties. We're confident about our future so will continue investing capital in and for our people. We announced late last year we're launching our own Airpoints credit card. We've also had record sales on our Airpoints store as we introduced new partners and Flexipay.

We've optimised our long haul networks, focusing on the routes that make the most sense. Working closely with our large partners for when borders open. We are lucky we have had a head start on this with our cargo flights keeping our international connections warm.

We're looking forward to reintroducing more flights to the USA and most excitingly, commencing flights to New York city later this year. And from our top secret bunker in Auckland, we're putting the finishing touches on a new plane fit out that I'm sure customers will love. It's incredibly exciting.

We've entered into partnerships to look at how we introduce sustainable aviation fuels and next generation aircraft into New Zealand. This will go a long way with our net zero emissions by 2050 goal.

We were pleased with the government's recent announcement highlighting its commitment to border reopenings. And as I mentioned, we're thrilled to be able to welcome Kiwis home MIQ free from next week.

So although we're not expecting a swift recovery of pre-COVID international demand in the near term, we are confident that when demand returns, Air New Zealand is well positioned with the right strategy to succeed.

I'll now hand over to Richard to go through the financial results.

Richard Thomson: Thank you, Greg, and Kia ora to everyone on the call. As Greg mentioned, operating revenue for the first half was \$1.1 billion, down 8.8% on the prior year, reflecting the impact COVID continues to have on the airline.

Passenger flights were significantly reduced, down 26% on the prior year and down 84% compared to pre-COVID levels. Overall, we're reporting a loss before other significant items and taxation of \$367 million and a statutory loss before taxation of \$376 million.

The statutory net loss after taxation for the period was \$272 million. Due to ongoing financial impact from COVID-19 and the restrictions of the Crown facility, there will be no interim dividend for the 2022 financial year.

Turning now to slide 12. Looking at the profitability waterfall chart on this slide, and I won't go into each of these, you can see quite clearly the decline in profitability this year is driven by the reduction in revenue, increased labour cost, and reduced level of supports from the government versus the prior period.

Sales and marketing and fuel costs also increased during the period. We had some gains with reductions in aircraft operational costs, maintenance, and passenger services costs, reflecting the reduced flying. Ownership costs decreased due to the impairment in the prior year of some 777 aircraft and reduced utilisation of engine maintenance assets due to less flying during the period.

Turning now to slide 13. A series of government support programs, including wage subsidies and the government's MIAC, maintaining international air connectivity scheme, contributed to the 2022 interim result. Although not at the same levels received in the corresponding 2021 period.

In this first half, the support from these schemes was \$241 million across both revenue and cost line items compared to \$259 million in the previous corresponding period. This support is expected to reduce as borders start to reopen.

Overall reported CASK on the next slide increased by 3.7%. Driven largely by higher fuel prices, the absence of aviation support packages, and diseconomies of scale as we maintained operational readiness through the national and Auckland lockdown.

Excluding the impact of fuel price movements, foreign exchange, third party maintenance, and the discontinuation of the aviation support subsidy, CASK increased marginally by 0.2%.

While we have traditionally reported CASK in the current COVID environment, we have seen some significant effects on CASK in the domestic network and also a distortionary effect caused by a pivot towards long haul cargo flying which comes at an inherently lower CASK.

In the domestic network over the past six months, we've carried surplus capacity to enable a return to more normal operations. The effect of this is around a 9% cost increase on a per ASK basis at the Group wide level. However, this has largely been offset by the change in the mix of flying toward cargo, as I mentioned earlier.

As we look forward to the second half, we expect the level of flying on the domestic network to increase which will utilise that surplus capacity. At the same time, the proportion of cargo flying will reduce as the international passenger network is expected to start ramping up which will reverse much of the effect on CASK of the change in flying mix.

Turning now to slide 15. The first half cash burn increased compared with the second half of financial year 2021. This is due to reduced bookings related to the suspension of the Trans-Tasman bubble and the recent domestic lockdown, as well as recommencement of PAYE and fringe benefit tax payments.

I'd also note that includes approximately \$280 million in debt amortisation repayments on our secured aircraft and lease payments on operating leased aircraft and property. This level is not dissimilar from prior period financing payments which we have estimated in other results calls as being approximately \$45 million per month on average.

While it is difficult to provide guidance on expected levels of cash burn in the second half of the year, I would remind people that we will have repaid approximately \$300 million between January and March of this year related to deferred PAYE and fringe benefit tax payments.

And while we are seeing domestic bookings currently impacted by the Omicron outbreak in New Zealand, we are encouraged with the increase in international bookings that have occurred following the government's five phase announcement on 3 February.

Turning now to page 16. Assessment of our capital structure and funding needs is well advanced as Greg already has touched upon. As at 23 February, \$760 million of the Crown standby facility has been drawn down, resulting in approximately \$1.4 billion in cash and available liquidity.

This includes \$240 million, remaining from the \$1 billion Crown standby facility and \$1 billion from non-voting redeemable shares negotiated with the Crown in December 2021, as well as current cash balances.

We have continued to engage with the Crown and it remains committed to maintaining its majority shareholding in Air New Zealand and has indicated it will participate in the equity capital raise.

As mentioned earlier, the interim dividend remains suspended due to the financial performance of the airline, as well as restrictions of the Crown standby facility. As such, there will be no interim dividend for the 2022 financial year.

Our fuel hedging approach remains the same. Where we continue to assess the best way of managing fuel price risk using a mix of fixed prices and optionality. The amount we have hedged has reduced compared with pre-COVID levels as we have based it on cargo and domestic uplift only.

So essentially, we're at around one third of our pre-COVID hedging levels. It is difficult with the current environment to provide specifics on what percentage of fuel consumption is hedged. But based on our current expectations, we're approximately 60% to 70% hedged over the next few months.

The increased fuel prices we are seeing have been mitigated somewhat by our hedged position but we expect to see fuel costs rise in the second half. Although the level will depend on our flying schedule which remains somewhat uncertain in the current environment. Our hedge portfolio has been structured to allow full participation to downward pricing movements through to June 2022.

Turning now to slide 18 and looking at our expected fleet CapEx. You can see that the expected phasing of our aircraft capital expenditures through to 2028, with no commitment at this stage beyond then.

We welcomed two A320neos for Tasman and Pacific Island operations, along with our final ATR72-600 in the first half. We also entered into an arrangement to sell our four owned Boeing 777-200s which you may recall were permanently grounded and impaired in the fourth quarter of the 2020 financial year with the onset of the pandemic.

We have managed to maintain a degree of flexibility over the timing of our aircraft capital expenditure with a minor deferral of one A321neo domestic aeroplane from 2022 to 2023.

Given the young age of our fleet compared to our peers, we have the ability to allow the fleet age to grow.

We anticipate an interiors refit program for our existing 14 Boeing 787 aircraft will take place beyond 2023. But the timing has not been confirmed as we consider our longer term maintenance schedule. The additional CapEx required for this program is therefore not reflected here.

Turning now to slide 19. We've shared this slide in the past but it's a good reminder of the journey we've been on to strategically simplify our fleet. Moving from eight aircraft types with 10 different engines in the 2011 financial year, to four types with six engines expected in the 2028 financial year.

Our fleet will comprise the best in currently available technology and allow us to significantly simplify our operations. We're well on track with this and already starting to see the benefits and economies of scale generated by this.

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

Greg Foran: Thanks Richard. We have some clear areas of focus in the second half to ensure we stay on track to build back better once those borders open and tourists start visiting our shores again.

First and foremost is protecting the safety and wellbeing of our people and customers. We've proven we are leaders in this space with our international no job no fly policy, our domestic job or test policy, as well as the many processes we have in place to maintain onboard safety and support the wellbeing of our team.

Maintaining and strengthening our operational agility and flexibility will allow us to continue adapting to changes. From a resilience and readiness perspective, we've started recalling some cabin crew and pilots to strengthen our domestic network and prepare for international borders to reopen.

And our modern fuel-efficient fleet optimise network that leverages the strengths of our cargo business, enhance loyalty program and right-size cost base will support our long-term ability to generate sustainable levels of earnings.

We have talked about our intention to launch a capital raise shortly, and the Crown's commitment to participating in this to maintain its majority shareholding in the Airline. Once complete this will give us financial strength and flexibility as we head into 2023.

Over the past six months we have continued to refine and deepen our strategy. We will continue executing our strategic priorities, controlling what we can, to speed up our recovery and be ready to face the future. I believe we are in a strong position to compete and win once travel opens up again.

Thank you again to our customers and shareholders for sticking with us through these turbulent times. Thank you also to our people who remain resilient and dedicated to our customers. As we head into the second half I am optimistic about our future and believe we will have a clearer picture of how borders and international demand is looking by the end of the financial year. We know COVID-19 will run its course, and we are ready to welcome back customers and crew when it does.

Looking now to our outlook for the financial year 2022. There remains a large degree of uncertainty on the impact of the Omicron variant on demand for domestic travel for the remainder of the financial year. Additionally, while recent clarity on the phasing of border openings for New Zealand is very helpful, the timing of reduced or removed self-isolation restrictions remains unclear. Driving continued uncertainty in the level of demand for international air travel.

The Airline does not expect international demand to recover substantially until self-isolation restrictions are removed. Air New Zealand's current expectations are that the 2022 financial year will incur a loss before taxation and other significant items for the full year that exceeds \$800 million.

Thank you for your time today and listening as we shared our results. I know you will have questions, so Operator, please open up the line.

Operator: Thank you very much. We will 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.

There are multiple questions in the queue. Our first telephone question comes from the line of Andy Bowley from Forsyth Barr. Andy, please ask your question.

Andy Bowley: (Forsyth Barr, Analyst) Thanks Operator, and good morning Greg, Richard, Leila. I'll kick off with a couple of questions here, the first of which is around cargo income, which was clearly the stand-out of the result as government support increased the volumes that you managed. But with both the MIAC and [IFAM] schemes ending at least 31 March at this stage, and Richard, your comment that overall government support will

fall as the recovery continues. How do you see cargo income evolving from both a volume and pricing perspective over the next year or two?

Richard Thomson: Hi Andy, thanks very much for the question, Richard here. So yes, the current MIAC arrangements are in place until the end of March. Capacity, or cargo air freight capacity into and out of New Zealand has clearly been sort of constrained through the Covid period. That is likely to remain the case until we see self-isolation restrictions lifted. As Greg mentioned in his opening comments, a sort of a resurgence or a recovery in international passenger travel.

Our sense, and it is just a sense at the moment, is that it will take the remainder of this calendar year for the passenger recovery to start to emerge. We are unclear currently on when self-isolation requirements might be lifted, albeit the government has put out their sort of five-step border reopening plan. Which sees the New Zealand residents, and non-residents from visa-waiver countries, allowed to leave and enter the country without MIQ from July. So it will be a relatively long slow recovery.

I think maintaining air connectivity, particularly air freight, is very important to the government. I suspect what we'll see is a sort of a tapering of that arrangement as air passenger services start to recover. So I don't know whether that answers your question adequately, Andy, or not, but we would be surprised I think if the MIAC arrangements, or current air cargo connectivity arrangements, sort of stopped dead in their tracks in March.

Greg Foran: I think that's right, Richard. Hi Andy, Greg here. The bits that I would add into that is that, for sure the subsidy scheme has been a massive tail wind for us and our business, and we acknowledge that. I agree with you, Richard, that it will be a tapering effect most likely.

But I'd have to say it's also renewed I guess our thoughts around cargo, and we've built that into our strategy and Kia Mau. Looking at investment in this area in time. That would be a combination of facilities and digital capability. But as recently as last weekend I was out around the business, spend quite a bit of time in cargo, and there's opportunities that we can take and are taking, and can continue to take to ensure that cargo continues to be a good addition to the business.

Even today with our Dreamliners operating doing cargo, and we've obviously got the 777 back doing a bit at the moment, we still have capacity to do more. Not every single plane that's going out is full. There's an ability for us to grow this business.

I think as the subsidy comes off we'll see that impact. But I don't want to go back to where we were in 2019. I want us to actually have cargo as a good additional revenue source into the business. Obviously some of that will depend if the competitors have come back. But some of it also rests in our hands in terms of how good we are at improving our business so we get more.

Andy Bowley: (Forsyth Barr, Analyst) Great, thanks. I appreciate that, very thorough. From a pricing point of view though, can you provide any sense of how it may evolve and how market rates into play with the government subsidies?

Greg Foran: Yes, it is, like a lot of things, averages can be quite misleading on this one, Andy. Look, and as I say, averages are misleading. But on average people are paying sort of circa 50% more at the moment. But some people are paying 100% and some people are paying nothing. But there's no doubt that if you are exporting at the moment you're paying more generally. As the subsidy waves works its way out, we'll have to see what happens with pricing.

There's moving parts here, it depends on what happens with shipping lines. Are they going to open up capacity as Covid winds its way out? The ships are there, but they're not necessarily all sailing. Obviously I keep across what's happening with little brown boxes in terms of e-commerce and retail that are moving around the world. Increasingly customers are demanding things quicker. We're bearing that in mind as we think about our cargo business and the role that we can play in that.

So it's really hard to look into the crystal ball and say, all of those moving pieces, what happens with pricing. But I would expect that over a period of years the pricing will come back a bit. But it may not come back to the extent that it was in 2019, but there's lots of assumptions upon assumptions.

Richard Thomson: Yes, I think, just to add to that Andy...

Andy Bowley: (Forsyth Barr, Analyst) Yes, and the clear message being...

Richard Thomson: Yes, it's sort of the classic, high prices cure high prices I think. So over the medium-term, to Greg's point, I'd just reiterate the point that Greg made on that.

Andy Bowley: (Forsyth Barr, Analyst) The message being that kind of come a sustainable place and time, and a point in time in the future, cargo will be a bigger proportion of overall business than what it was pre-COVID?

Richard Thomson: Correct.

Greg Foran: Yes, so look, at a high level, I can't remember whether I said this, about 60% of the planes go out not full. Now that doesn't mean that there's 40% extra capacity. But there is plenty of opportunity for us to grow our cargo business, both domestically and internationally, by filling the bellies of our planes.

It also plays completely into the sustainability piece, because one of the prizes to get to 2050 is not just going to be doing SAF, which is half the equation. Or doing hydrogen, green hydrogen, or hydrogen-electric planes. It's also, how do you fly efficiently? Which is a combination of having a reasonably young fleet internationally, with really efficient engines. But most importantly, having those things full with passengers and with cargo.

So it is integral to the way that we think about Air New Zealand and what we want to do going forward.

Andy Bowley: (Forsyth Barr, Analyst) Great, time to move onto next question. We've got a pretty tight labour market in New Zealand at the moment. You're a pretty big employer. I recognise that a large part of your workforce is unionised. What are you experiencing currently in terms of, (1) churn, and (2) labour inflation?

Greg Foran: Yes, so churn at the moment, and I was just looking at this last week actually at the Board meeting with our PRDC. It's actually almost exactly the same as what it was pre-Covid. So it had dropped during the effectively the last two years, and it's now come back a bit. It varies a bit across the business. We get literally no churn in pilots, it's like 1%. We've got higher churn in digital. But the average, averages can be misleading, is we're about where we were.

We're seeing pressure just like every other business, by the way, and the world is seeing in terms of the labour market. Inflation is putting pressure on us in terms of labour costs, and also input costs and fuel no doubt will come up some point during the discussion. All of that means is that we've got a really interesting pricing matrix in front of us.

We're not going to sit on our hands here and say, there are no increases for our staff. We're in the middle of negotiating nine CEAs at the moment, Collective Employment Agreements. We're being very sensible about how we negotiate that. We're trying to thread the needle of doing what's right for our people and keeping them engaged in the business. Ensuring that we've got good productivity.

At the same time we recognise that we are going to lose over \$800 million this year, and next year is also going to have a period of bumpiness. So we are trying to thread this

needle of ensuring we've got a great business going forward, but we keep our costs relatively in control.

You're seeing our costs increase at the moment because we've got to begin to get organised to open to fly. So there's 600-to-700 people that have come back since we took a significant head count reduction two years ago. Three hundred of those are sort of cabin crew, and 200-plus sitting in airports, and 50 pilots. There'll be a few people in Head Office positions. But we're trying to meter it in.

It will be ahead of when revenue comes back, but hopefully not too far ahead. We'll have to deal with inflation, and we'll have to deal with the labour market, we'll have to deal with what's going to happen with the mix in our planes. I can't predict accurately what's going to happen with business travel.

But as we start to see that evolve we'll have to include all of these things into our pricing matrix and work out how we ensure that we get a return on the investment. So interesting times ahead for us.

Andy Bowley: (Forsyth Barr, Analyst) Great, thanks, much appreciated.

Operator: Our next telephone question is from Andrew Steele from Jarden. Andrew, please ask your question.

Andrew Steele (Jarden, Analyst): Good morning everyone. The first one for me is on your comment in the outlook statement about the ongoing impact of self-isolation, and I take that this might be quite difficult to answer, but could you give us a sense about how you are thinking about the impact of ongoing self-isolation requirements for international travel? And if you could provide some sort of numbers if that's possible? Are you thinking sort of down 90%, down 80% versus FY19 for Tasman and long haul?

Richard Thomson: Hi Andrew, Richard here, that is a very complicated question to answer. I'll put [unclear] and I don't say upfront – we're not in the business of speculating when those self-isolation restrictions will be lifted and exactly what the pace of the recovery will be beyond there.

What I would say is that we find ourselves in a slightly different situation to where we were at the very beginning of the half in July where we essentially had a domestic business without Omicron and sort of a cargo business that was largely unimpacted by the pandemic. So it was largely international travel that was affected.

The challenge we've had in the first half, as Greg mentioned, is we've had, well Auckland, which is about 60% of our domestic flying, in lockdown. And the remaining 40% of the domestic business, south of the Bombay Hills, was running at 90% of pre-COVID capacity, so it was quite strong.

I guess the advantage of the traffic light setting, if you want to call it an advantage, is that we've got the whole of the network operating. So as opposed to having 90% of 40% going and 0% of 100 in the first half. It will be better than that in the second half under the red light because we have got the Auckland domestic network running.

But of course over the next month or two, there's a lot of uncertainty about the extent to which either the red light setting prohibits people from travelling because they're obliged under the rules to self-isolate, or actually people just choose to act more cautiously regardless of the setting over the next couple of months. So very hard to predict domestically quite how the next 6 to 8 weeks is going to play out.

Internationally, to my earlier point, we don't know when those self-isolation restrictions are going to lift. And unless and until they do, we will get an influx probably of VFR travel initially, as Kiwi residents that have been stuck overseas in particular look to come home. But the precise timing of that self-isolation requirement lifting is not yet known. and the recovery profile from there we will have to wait and see what happens.

What I would say is that based on what we've seen in the northern hemisphere and based on what IATA has observed is, they are expecting international travel to get back to pre-COVID levels by as early as 2024. So that's not our view necessarily, but it is an independent view based on what's been seen in other markets on the road to recovery. We're 2022 now, IATA thinks it's two years before you're back at pre-COVID and quite what the path looks like between now and then remains to be seen.

Greg Foran: Yes I think that's right Richard. Like we've done right through this, we have a look at what we think is a base plan and then we will run scenarios or sensitivity analysis on either side.

We can see when we look at the data that countries can sort of broadly fall under three buckets. There can be countries that have very low friction, countries that are medium friction, countries that are high friction. We're in the high friction bucket at the moment and you don't really get up and operating until you get in the low friction bucket. The low friction bucket is effectively you've got to do a COVID test before you go and when you come back.

As soon as you start putting more things on the customer, and importantly any concerns that maybe the rules could change while you're away, you begin to stifle demand. So we're looking forward to a point, which we think will happen, where that friction is reserved. And sure there may be some COVID testing, but maybe it's as simple as a rapid antigen test you buy at a supermarket. Then we really will start to open up.

As Richard said, when we talk to people overseas in the US and Australia and even IATA themselves, it varies a bit by country. But we're pretty confident that, and I'm not sure exactly on timelines, that, give or take, 70% to 80% is a realistic figure at some point that we get back to. As I said, we run sensitivities on when those sort of things can occur.

Leila Peters: Sorry, just for clarity, Greg was referring to demand being impacted 70% to 80% decline while self-isolation remains in place and that's obviously just an estimate.

Andrew Steele (Jarden, Analyst): Thanks team. Just a couple questions on balance sheets. Your lease liabilities on balance sheets have shrunk over the last six months. Should we be expecting a similar decline through to the end of the year and in terms of revenue and advance liability, I would have thought just a modest pick-up from here or - and how you're thinking about that balance sheet item as well by year end?

Richard Thomson: Yes, I think just on - I'll answer your second point first, Andrew, which is the TSA balance. Look, I think that will creep up, clearly, as the five point plan for re-opening the borders is implemented. So the first stage of which, I think we're leaning into on 28 February, from memory.

So I think you'll see TSA drift up and in the short dates, that will be tickets purchased in anticipation of travel later in the year. So the TSA'll be coming in but we won't be operating the flights for a period so that will be - or should be supportive of working capital tailwinds in the short dates.

In terms of the lease liabilities and the reduction in that, I think the primary contributor to that was a reduction in the right of use assets. We had a 777-300 that was part of a Japanese operating lease structure that came to its natural conclusion during the course of the first half, which involves us effectively buying that aircraft out of the Jolco structure.

So that comes out of right-of-use assets but goes into fixed assets. So I think that is the question you were asking and the answer to that. So it was very transaction-specific.

Andrew Steele: (Jarden, Analyst) Okay, so in terms of the lease liability through to the year end, that should remain relatively stable?

Leila Peters: Correct.

Richard Thomson: Yes.

Andrew Steele: (Jarden, Analyst) Just in terms of the balance sheet more generally, other than the well-flagged capital raise, that should be - there should be no sort of particularly unusual changes to any of the other line items?

Richard Thomson: No, I don't believe so, Andrew. We took delivery of three new aircraft - four new aircraft, in fact, in the - three new aircraft in the first half. We're not anticipating taking delivery of anything else in the second half of the year.

Andrew Steele: (Jarden, Analyst) Okay, that's all from me. Thank you.

Operator: Once again, if you do wish to ask the question, it is star one. Our next telephone question is from Marcus Curley from UBS. Marcus, please ask your question.

Marcus Curley: (UBS, Analyst) Good morning. I just again wanted to go back to the demand or capacity outlook. I just wondered, Richard, if you can give us some colour on what capacity you've committed for the winter schedule at this stage? So you know, I know that obviously it can be subject to change but just to give us a feel in terms of what you have budgeted?

Leila Peters: Sorry, Marcus, are you referring to northern winter '22? The next peak season?

Marcus Curley: (UBS, Analyst) No, I'm talking about, I suppose, our winter, I suppose.

Leila Peters: Our winter, yes, okay. Good.

Marcus Curley: (UBS, Analyst) Yes, so - and specifically I'm obviously referring to international here so some sort of reference in terms of how much capacity you're planning on bringing back?

Leila Peters: Sure. I'll start and then Richard will probably flesh it out because he's the networks expert. I think the schedule that's probably for sale now, if you were looking at it, Marcus, would show maybe about 50% to 60% of our pre-COVID capacity for Australia and Pacific Islands.

As you can imagine, that's where we would anticipate more of the demand coming in the near term. Then the long haul market's probably more in the 15% to 20% of pre-COVID levels.

Richard Thomson: I think that's right, Marcus, the only thing I'd add to that, I know you're focussed on international but just to complete the circle. Domestically, certainly for the next three months, we are running at sort of 65%, 70% of normal capacity, domestically.

I'll just support the comments later made on international, it is somewhat fluid, clearly and will be influenced, as we've said many times on this call, ultimately by the timing of any self-isolation restrictions being lifted.

Marcus Curley: (UBS, Analyst) Sure and when do you have to make a call on our summer?

Richard Thomson: Well we're evaluating that currently. So the slots conference, if you like - not that we design the business necessarily around that but when our team, our Network Team, goes cap in hand to the Slot Committee internationally, asking for landing rights at the various airports, that activity typically happens in May each year. So it's two or three months away.

We are selling a schedule at any particular point in time out to 12 months but it - the pointy end of the assumptions we're making that dictates the slots and frequency timing, of which we we're asking for, is typically a decision we make around May each year.

Marcus Curley: (UBS, Analyst) Okay. So obviously some colour from the government on home isolation before May would be pretty important for you?

Richard Thomson: It would be very helpful indeed.

Marcus Curley: (UBS, Analyst) Secondly, I just - with regard to probably the Tasman, can you talk a little bit about your approach to airfare pricing? I suppose maybe even just directionally in terms of I suppose would we be expecting to see airfares start significantly above what we used to have pre-COVID? To cover potential additional costs?

Richard Thomson: Yes, well there's sort of two...

Greg Foran: Yes, I was going to say, you can't tell until actually everyone gets up and operating to get a sense of what's going on. I was looking at pricing in Australia yesterday and Jetstar a couple of days ago, decided to run a whole bunch of flights for \$22.

Initially as Qantas were trying to get capacity up on international routes, they dropped the heck out of their pricing. Equally today, there's people in there bitterly complaining about the price to get from Longreach down to Brisbane. So I think it's hard to tell exactly how this will play out.

Generally, what happens is that as the flights go on, there'll be some capacity to be met. So probably pricing will come down and then over a period of months, you'll get some adjustment of pricing to reflect the fact that a lot of the input prices have gone up.

So I think it's going to be bumpy for a period and of course fuel is what, \$107 or something at the moment so we'll just have to see what that - what happens there.

Richard Thomson: Yes, so Marcus...

Greg Foran: What do you think?

Richard Thomson: No, two other comments. I think when the Tasman bubble was operating, it feels like a distant memory now, but nine months ago, what we did see in the recovery there is that pricing was very - or yields were very similar to what we'd experience in a pre-COVID environment.

So I think the starting point is to expect that as the starting point for the resumption but just picking up on the comment Greg made and has been asked about twice this morning, fuel prices, at least in the short-term, are high and there's inflation cost pressure running across not just our business but sort of many businesses around the world.

We have reflected the impact of those cost increases in a modest increase across our international fare structure, which we have put in the market relatively recently. As I say, it's modest increase on average. It's around 5% but just in an attempt to ensure that we have a fare structure that reflects the realities of the current fuel price in inflationary environment.

Greg Foran: One of the differences that I think we'll see this time as we open up is back in April, I think it was the 19th last year that we opened up to Australia, that was the only destination you could go to for a few weeks and then there followed a couple of weeks later with Rarotonga.

So you only had a choice of two. Not likely to occur like that this time, probably, so therefore I think that some of the experiences we saw as the green travel lane opened up to Australia won't necessarily play out quite the same but who knows?

It'll be an interesting period as people think about what they do and one of the things that crosses my mind consistently is China remains shut. China is such a big market for many carriers and so therefore, are there - is there some capacity that other people have got that they may say, well if China's not going to open, do I use planes elsewhere? Hard to tell.

Marcus Curley: (UBS, Analyst) Okay, thanks and then just finally from me, you've given earnings guidance or I suppose the \$800 million number but you haven't given cash burden guidance. I suppose again for you, Richard, what's the moving piece in there that stops you from giving a cash burden number for the second half?

Richard Thomson: I think there - well there's two or three elements to it, Marcus. So you would have noticed in the first half, operating cash or statutory operating cash flow, I think it was positive \$40 million. That benefit - so it was - that was marginally positive. That did benefit from a \$46 million, \$47 million wage subsidy.

So if you normalise for the wage subsidy, which we're not expecting to see any of in the second half, you've got operating cashflow at or around break even. We expect that to improve, certainly, by the tail end of the first half but over the next couple of months it'll remain - likely remain around that level, point one.

Point two is, we are now two-thirds of the way through a \$300 million PAYE deferral repayment program so the three equal instalments of just under \$100 million. We made the first of those on 14 January, second of those on 14 February. We've got one to go.

So that is a one-off, if you like, [\$3 million] drag on cash flow that will find - that we'll experience in the second half that we saw the benefit of back at the beginning of the pandemic when we were offered that relief.

Then the third point I'd make or reiterate, in fact, we've got no aircraft-related CapEx in the second half of the year. There'll be some PDPs through that period and then non-aircraft related CapEx around digital and property and infrastructure. So it'll be the usual sort of non-aircraft related CapEx through the second half.

So three elements to it. Operating cashflow, balancing around break even, adjusted for \$300 million of PAYE. That's obviously a significant, albeit one off, drain. Then that sort of very typical run rate on non-aircraft related CapEx. Hope that answers your question.

Marcus Curley: (UBS, Analyst) Yes, I think it does. Yes. But if I put all that - if I add all that up, Richard, it sort of sounds like \$300 million.

Richard Thomson: Plus non-aircraft related CapEx.

Marcus Curley: (UBS, Analyst) CapEx?

Richard Thomson: Correct.

Marcus Curley: (UBS, Analyst) Which will be relatively small?

Richard Thomson: We don't typically split it out. Leila, I don't know whether you want to make any comments on that?

Leila Peter: It'd probably be a bit less in the second half than in the first half in terms of investing cashflows, Marcus. That's just normal phasing for us in terms of our properties and infrastructure and digital spend is typically skewed to the second half.

Then I'll just add on, the last bit I would say is in terms of the lack of cash burn guidance is previously when we do provide it, is when we have a somewhat stable domestic operating environment and I would say that we are in this period, most certainly not in that situation.

So that's what's foregoing the cash burn guidance but we've tried to give you some sense of elements that are going to be moving in and out of the cashflow in the half. There are some chunky ones, notwithstanding, of course, the capital raise that we've discussed in our release announcement. But happy to take any of those offline with you if you need.

Marcus Curley: (UBS, Analyst) Okay. Sure. Thank you.

Operator: Our next telephone question is from the line of Jason Familton from ACC. Jason, please ask your question.

Jason Familton: (ACC, Analyst) Morning, guys. I just want to focus back on the cargo business, if I can? Can I - just got two or three - so I just focus back on the cargo business, if I can? Just two or three questions.

The first one, can you just give a little bit more detail and perhaps be great to see some increased disclosure with the greater strategic focus on cargo but can you just talk about volumes and price in this half, perhaps, versus last half? What the volumes are from price up?

Just trying to get a little bit more detail.

Leila Peters: I mean, the volumes were significantly up, Jason, as we mentioned. The flights in at least the second quarter of the half almost doubled. So I don't have the particular tonne volume at hand but can get that for you. As Richard and Greg both said, the pricing, they yields did increase. I can take that with you - up with you offline. I just don't have those numbers at my fingertips.

Greg Foran: It went from about 55 flights a week up to basically around 100.

Jason Familton: (ACC, Analyst) Okay. Secondly, just how are you thinking about competition in that cargo space and I'm thinking to and from New Zealand...

Greg Foran: I think it will depend entirely...

Jason Familton: (ACC, Analyst) ...[unclear] over that period?

Greg Foran: I think it's going to depend entirely on how the border, home isolation piece plays out and what competitors are seeing and how - what sort of routes they're going to fly back to New Zealand. So it's a little bit unknown at the moment, to be honest with you but clearly, we intend to be up and running and clearly we will continue to be competitive on our pricing.

So if we see a lot of competitors re-enter New Zealand with passenger flying and they're looking to fill their bellies up with some cargo, then we're going to have to review pricing. And equally, if there's not going to be quite so many come back so quickly then there could be a period where we're allowed to keep pricing a little bit heavier than what might otherwise be the case. So until we see what actually eventuates and so much of that's going to be driven on (a) home isolation and (b) how quickly airlines might pivot to come back, it's hard to tell.

Jason Familton: (ACC, Analyst) Okay and then thirdly just from my understanding, can you just talk to just the relative attractiveness from a cargo perspective of 777s versus the 787 fleet decisions you've made? Just thinking from a more longer-term strategic perspective.

Richard Thomson: Yes. No, a very good question. The 777-300s are a fantastic cargo aeroplane. You've got below-the-wing 40 tonnes of cargo, typically, with a full passenger load. The 787-9 is a smaller aeroplane than that. It's still got significant cargo capacity and we're very comfortable with it.

I think just to reiterate or underscore some of the comments Leila and Greg have made on cargo, we can offer cargo, particularly when - or especially when the passenger business is operating normally, at very effective rates. It's a by-product of our operation so they're both the 787 and 777 offer very competitive cargo cask, which we are able to offer to our customers.

I think we're comfortable going forward, continuing to be a below-the-wing cargo operator. We've got no intention of operating dedicated cargo freighters. Back to the comment I made earlier, high prices will cure high prices and certainly we're aware internationally of a lot - of some of the 777 aircraft and others that have been retired early through COVID, going through cargo conversions.

So we remain very comfortable. I don't know if it answers your question but very comfortable continuing to offer cargo as a sort of a below-the-wing cost competitive product to New Zealand importers and exporters.

Greg Foran: We also see some benefits of going to a single fleet. So it - all these things become trade-offs. The 777 is great for cargo but is it good enough for cargo versus taking a fleet to a single fleet? Our view is, we see our business as being a mix of passengers and cargo and the benefit of heading to a single fleet outweighs the benefit that you get out of a 777 just on its own in terms of cargo.

Jason Familton: (ACC, Analyst) Okay, thanks for that. That's all I had today.

Leila Peter: Thank you, Jason.

Operator: Great, there's no further questions at this time. I would now like to hand the call back to today's presenters for closing remarks. Please continue.

Greg Foran: Well thank you, everyone, again for joining us today and we appreciate your listening in and for your time and interest and all your support of Air New Zealand. If you'd like to schedule a call or a meeting for any follow up questions, please direct those requests through to Leila and the Investor Relations Team. Thank you again, everyone, have a great day.

End of Transcript