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Operator: Welcome to Air New Zealand 2026 Annual Results Investor Briefing. During the presentation, your phone lines will be placed on a listen only mode until the question and answer session. Please refrain from asking questions until then. With that, I will turn the call over to Andrew Familton, General Manager Corporate Finance. Please go ahead.

Andrew Familton: Good morning everyone, and thank you for joining us for Air New Zealand's 2026 Annual Results Presentation. Today's presentation is being webcast and recorded, and a copy of the presentation and associated materials are available on our investor centre website. Just a reminder 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 disclaimer, and in particular, the forward-looking cautionary statement provided on slide 2 of the presentation. Joining us today are our Chief Executive Officer, Nikhil Ravishankar, our outgoing CFO, Richard Thomson, and our new CFO, Kris Cudmore. We'll begin with an overview of the year and the progress we've made since outlining our strategy reset in June. We'll then take you through the financial performance in more detail before finishing with the outlook for 2027. Following the presentation, we'll open the line for questions. With that, I'll hand over to Nikhil.

Nikhil Ravishankar: Kia ora everyone, and thank you for joining us. When I took on the Chief Executive role late last year, I set five immediate priorities for the business. First, improving operational reliability and punctuality. Second, getting grounded aircraft and engines back into service as quickly as possible. Third, accelerating the cost improvement the business needed alongside resetting our executive portfolios and organisational structure. Fourth, developing a new strategy and aligning our operating model behind it and fifth, stepping up our advocacy for a fair, affordable and future-focused aviation system for New Zealanders.

We have made significant progress against each of those priorities, but recognise that progress needs to translate into stronger financial performance. Financially, FY26 was a very difficult year. Our financial performance was significantly and adversely impacted by high fuel prices. This came on top of the ongoing impact of engine availability issues and maintenance and aviation system cost pressures. We are not satisfied with that outcome and our attention is firmly on improving it.

First, the operational performance of the airline in terms of reliability and punctuality improved significantly throughout the year with on-time performance in the top decile amongst global comparable airlines. This is the result of an extraordinary effort from Air New Zealanders across the business.

Second, our team has worked relentlessly with Rolls-Royce and Pratt & Whitney to return grounded aircraft to service earlier than expected, and aircraft availability improved by the end of the financial year. There are still residual risks and costs to work through, but we enter 2027 in a considerably more reliable fleet position than we had in the last two to three years.

Third, we continue to make progress on the things we can control and are accelerating the cost improvement at pace. We have delivered $94 million of incremental transformation benefits during the year, and we now have identified an additional $135 million of annualised savings, including both direct and indirect costs, which will accrue from the 2027 financial year to improve our overall cost base and offset expected inflation. This is an increase from the $100 million identified annualised cost savings previously announced in May, and this work is ongoing.

Fourth, we reset our strategy around three strategic pillars; customer first, targeted growth, and resilient and future fit, to deliver sustainable returns to shareholders over time. The fifth will be a longer journey, but we continue to advocate for an affordable aviation system for all New Zealanders. New Zealand aviation costs have risen at more than twice the rate of inflation since 2019.

Air New Zealand and our customers' share of these aviation system costs across New Zealand and the offshore ports we fly to was $1.2 billion in 2026, a price increase of $142 million on 2025. 2026 was difficult financially, but it was also a year in which we rebuilt our fleet, materially improved our operations and reset our strategy.

Moving to slide 6, and I'll provide a financial year 2026 review across key categories, our financial performance, the key impact on the result and our revenue drivers, operational improvements, and loyalty and safety. We recorded a loss before tax of $336 million compared with earnings before tax of $164 million in the prior year, and slightly better than the guidance range provided to the market in May 2026.

Approximately $465 million of the profit before tax impact came from three areas, namely the ongoing global engine availability issues, which had an impact net of compensation of approximately $190 million, fuel price, which had an adverse impact of $135 million in the

year. From an initial fuel price impact of $328 million, our hedging protection recovered $123 million of this cost increase and through adjusting capacity and fares in response, we've been able to mitigate about a third of this post-hedged fuel impact.

An increase of $139 million in maintenance costs, excluding FX, driven by additional lifecycle maintenance and maintenance costs on leased engines. Richard will go through each of these in more detail shortly.

We carried around the same number of passengers as last year at 16 million passengers, while passenger revenue increased 4.8% to $6.1 billion. While RASK increased 3.4%, it was not enough to cover the significant increase in fuel cost, with about 30% of increased fuel price recovered through mitigating capacity and fare activities from March through to June.

Given the price sensitivity of air travel, airlines globally have not been able to recover the full increase in fuel costs. We took quick and decisive action through fare adjustments and capacity reductions to balance affordability for customers and maximise recovery and will continue to do so. Capacity increased 1.3% and while above prior year, second half capacity was about 5% below our original plan as we adjusted to the sharp increase in the jet fuel price from March.

Thanks to a range of initiatives we're putting in place and our team's dedication, our customer and operational metrics continue to move in the right direction. Our on-time performance increased to 84% in the second half of the year, up from 77.5% in 2025 and in the global top decile amongst comparable airlines.

Our rebranded core loyalty program and the new multi-tier membership are resonating well with our customers with 5.4 million loyalty members up 8.3% on 2025. Safety will always be our utmost priority. We are proud to be awarded airlineratings.com Seven Star PLUS safety rating in 2026.

Moving to slide 7, and the step change of what the return of grounded aircraft means to the airline. At the peak of the engine disruption, five of our 14 Boeing 787s and six of our Airbus A320 and A321neo aircraft were grounded, almost 20% of our total jet fleet. This created disruptions for our customers, operational complexity and significant financial cost. We carried the fixed cost of aircraft, people, infrastructure and systems, and we incurred additional costs through leased aircraft and engines to protect the network and schedule.

We missed out on the cost per seat efficiency of these newer aircraft types, which are about 10% to 20% lower than the older generation aircraft despite incurring the costs of

owning these new aircraft. While we received some of the compensation from engine partners, this was not enough to offset the financial costs incurred.

Today, the picture is very different. The last 787 was returned from long-term storage in June, an incredible milestone and a huge thank you to our teams around the business who persevered to make this happen sooner than expected. On our narrow body fleet, we expect the last of these to return to service during calendar year 2027. There are still residual risks to availability through 2027 and we're still carrying the cost of temporary leased aircraft and engines in the system. It takes time to bring returning aircraft fully into the selling and operating schedule.

We are in continuous discussions with both Rolls-Royce and Pratt & Whitney on extending compensation. While risk remains, the fundamental point is that the fleet constraint which has shaped this airline over the last three years is materially reducing and the airline enters 2027 in a considerably more reliable fleet position. This gives us more options around capacity, network deployment and operating efficiency.

When we announced Our Future in June, we set out three strategic priorities. First, customer first, providing safe, reliable and punctual service for our customers, delivering unique Kiwi service and innovative products and increasing customer reach and sales with smarter, more relevant offers. We are expanding on our operational and resilience driven review of clean sheet scheduling onto our Trans-Tasman, Pacific and long-haul networks to further improve reliability and punctuality.

We are investing in our service proposition and lounges grounded in our unique Kiwi hospitality, improving disruption management and continuing to modernise the way we market to customers and how they buy from and interact with Air New Zealand.

Second, targeted growth, targeting profitable network growth, transforming our loyalty program in line with industry leading practice and diversifying our revenue streams. This includes inbound premium leisure on our long haul markets with new 787 and A321neo aircraft that are fit for mission, strengthening our hub and alliance network, growing our SME corporate and enterprise position, particularly on regional and domestic networks, transforming loyalty and expanding flight adjacent revenue.

Third, resilient and future fit. That means removing cost and complexity, improving labour productivity, transforming engineering and maintenance, developing a financially sustainable regional network, unwinding the temporary inefficiencies created by fleet disruption and delivering on our capital management metrics. We are well underway with

our ongoing cost transformation program alongside work to build a financially sustainable regional network and deliver against our capital management metrics.

Onto slide 9, and pleasingly, the customer first strategic initiatives we are putting in place are already delivering benefits for our customers. Before a customer experiences a new seat, a lounge, or a digital feature, they need to trust us to get them where they need to be safely, reliably, and on time. Our on-time performance increased from 77.5% in 2025 to 84% in the second half of 2026.

Customer satisfaction increased from 83.6 to 84.5 and controllable cancellations reduced from 2.2% to 1.3%. These are very significant improvements and have been the result of a detailed operational and resilience-driven review of our schedule that included a focused program of initiatives across our team and the rollout of new digital tooling in support of operational communication and decision making.

We continue to invest in this area with the goal of being one of the top five airlines in the world for reliable and punctual operations. We have retrofitted nine out of 14 of our Boeing 787 fleet, and the new interior product is resonating very well with our customers. The remaining 787 fleet fit out will be completed by November this year, slightly ahead of schedule.

Finally, our automated passenger rebooking technology is transforming how we re-accommodate passengers when disruptions do occur, taking most re-bookings from hours to under 20 minutes, even on our largest aircraft. Customers get certainty and control over their journey much sooner, enabling our people to focus on complex journeys and those who need extra care. There is more to do, but the direction of travel is encouraging and our customers are noticing.

The demand picture across the network was mixed, but we're seeing solid inbound volumes continuing the trend of 2025 and the first half of 2026. Across Asia, overall passenger growth was flat, but with higher inbound passenger volumes. Premium cabin mix and revenue growth was particularly strong in the fourth quarter. Passenger capacity and cargo volumes were impacted in the second half of the year, and we managed capacity and RASK to mitigate the surges in fuel price.

North America also delivered flat inbound volumes, although outbound New Zealand sales remained softer, in part reflecting the weak New Zealand dollar. Capacity held flat during the year, up 1%, but was lower than planned for the second half and with softer yield and RASK recovery.

Tasman and Pacific Island passenger volumes grew, mainly supported by strong inbound volumes out of Australia. Domestic demand remains challenging. Passenger demand was down and the New Zealand economy remained soft. We have been disciplined in matching capacity to demand and where appropriate using yield to respond to the higher fuel environment.

More generally, we continue to see encouraging trends in product and cabin mix with premium cabin revenue increasing by 14% and ancillary revenue by 12%. In 2026, we delivered transformation initiatives generating an incremental $94 million of EBITDA benefits in 2026 against 2025. That has come from a broad range of initiatives.

Next generation revenue management is now operating across the network and we've increased direct ancillary buyups. We've improved contact centre efficiency, including through AI-powered live chat. We've re-platformed and rebranded our loyalty program to Koru, renewing our successful longstanding strategic partnership with Westpac, continuing to deliver great value to our customers and providing ways to accelerate their Koru rewards through banking.

We have introduced automated disrupt rebooking and improved cargo revenue management. We're building on this program of work under Our Future, which applies a sharper lens around customer first, profitable growth, cost, and capital. Before I hand over to Richard Thomson, who will run through the financials, I'd like to take a moment to thank him for his nearly six years at the helm as Chief Financial Officer.

Richard was instrumental during the airline's post-COVID recovery, managing the recapitalisation of the airline, the response to the various fleet availability challenges, and most recently a response to the fuel crisis. Richard, you are deeply respected across the Company and will be truly missed.

Richard Thomson: Thanks, Nikhil, and good morning everyone. I'll start with the financial summary on slide 13 before talking to the major movements in the result. Operating revenue increased 3.9% to $7 billion with revenue up 4.8% to $6.1 billion. Cargo revenue was broadly flat at $484 million. RASK increased 3.4% for the full year, but part of this reflected the impact of the Middle Eastern conflict on fuel prices and in turn the capacity and airfare responses in the second half.

These actions were not enough to recover the 31% increase in fuel cost in the second half versus the second half of 2025. The significant increase in costs including fuel, the cost of

engine availability issues, increased maintenance costs and aviation system costs all materially impacted the bottom line.

Despite the loss before taxation of $336 million for the year, operating cash flow remained positive at $819 million compared with the $940 million in the prior year, with cash flow in the second half of the year boosted by improved transportation sales in advance. We finished the year with $1.6 billion of liquidity, slightly above our target range of $1.2 billion to $1.5 billion. Net debt to EBITDA increased to 3.8x, higher than our target ratio of between 1.5x and 2.5x, reflecting a combination of lower EBITDA $511 million in 2026, compared to $939 million in 2025 and higher net debt compared to the prior year due to increased capital expenditure particularly in the first half. I'll talk about net debt in more detail shortly. In consistent with our capital management framework, no final dividend has been declared.

The waterfall graph on slide 14 shows the biggest impacts on this year's result compared to 2025. Revenue and other income were better overall, including the benefit of higher RASK. But this really only increased in the second half of the financial year as we managed capacity and fares in response to the higher fuel price environment.

This was partially offset by $39 million less in engine-related compensation in 2026, within other income. However, the overall increase in revenue was more than offset by significant increases in fuel, engine availability, maintenance, and aviation system costs. I'll go through each of these in turn on the next few slides. But as you can see from the graph, fuel price was the single biggest impact.

Non-fuel costs experienced modest general price inflation, but as discussed earlier in the year, aviation system costs increased at a much faster rate. The transformation benefits Nikhil discussed are already included in these numbers. Without them, the result would clearly have been weaker still.

Slide 15 details the three major transitory impacts on 2026, which we expect to unwind progressively in the coming years. Together, the impact of engine delay issues, the Middle Eastern conflict and fuel crisis, and increased maintenance costs had an adverse impact on earnings of approximately $465 million.

We estimate that the engine delay issues contributed approximately $190 million of that additional cost, net of compensation, compared to $165 million in the prior year. We expect a financial impact of between $70 million and $90 million in 2027 from a

combination of continuing lease commitments related to engine issues and available aircraft not able to be fully utilised due to the fuel crisis.

The Middle East crisis increased our fuel bill by approximately $328 million compared to what we expected going into the second half, and by $205 million after the benefits of fuel price hedging.
We reacted quickly and decisively, adjusting capacity and fares in response, mitigating about one third, or $70 million, of that impact, resulting in an estimated Net Impact of $135 million on the pre-tax result compared to expectations.

As indicated this time last year, 2026 was a higher than normal year for aircraft maintenance. The cost increase of $139 million excluding FX was attributable to increased activity, the timing of life cycle maintenance events and additional maintenance on leased engines in particular. We expect aircraft maintenance costs to be between $50 million and $100 million lower in 2027 than in 2026.

The fourth impact during the year and one area that is concerningly not unwinding, is aviation system cost inflation. While price inflation is moderating across most line items, the cost of operating within the New Zealand aviation system continues to increase materially faster than general inflation.

Air New Zealand and our customers, share of these aviation system charges across New Zealand in the offshore ports we fly to was $1.2 billion, a price increase of $142 million on 2025.

Of this amount, approximately $720 million was recognised as a cost in our own financial statements, a price increase of approximately $83 million in 2026 compared to 2025. That aviation system cost inflation was approximately 14% for the year compared to all other non-fuel cost inflation of around 3%.

In particular, price-driven CAA safety and AvSec security levies increased by more than 90% in the current financial year. While CAA and AvSec levies will not keep increasing at the same rate in 2027, landing charges are expected to continue increasing well ahead of CPI, with some airport charges expected to increase by upwards of 10% during the 2027 financial year. We continue to advocate for an affordable and efficient domestic aviation system and pricing structure in New Zealand.

Moving to slide 17 and looking at these costs in more detail on a unit cost basis. The adverse pressures I've just mentioned are visible in all unit costs. Overall, reported CASK increased 10.4% compared to a RASK increase of only 3.4%.

A significant component of the CASK increase was fuel price which contributed $0.52 per ASK. Underlying CASK, excluding fuel and foreign exchange, increased 4.8%. The increased maintenance activity I just discussed represented roughly a fifth, or $0.32 per ASK of the increase, and aviation system costs represented much of the balance.

This is That's why restoring aircraft utilisation matters so much. Scale economies matter. As the fleet availability normalises, we can restore scale, remove temporary lease and engine costs, simplify the operation and spread the fixed cost base across more productive capacity.

Turning now to slide 18 and looking at net debt. Net debt increased materially in the first half of the financial year from $1.1 billion at 30 June 2025 to just under $2 billion at 31 December 2025. You can see from the graph that this was as planned and driven by a step up in capital expenditure on aircraft, aircraft interior retrofits, and capitalised engine maintenance.

Operating cash flow was solid in the second half, despite the reported P&L loss. While EBITDA was soft, we have seen forward booking strengthen since late May, increasing sales in advance.

As a result, we ended the second half with net debt at approximately $1.9 billion, slightly less than at the half year. Our leverage metrics are clearly above the target range and the Board and management are committed to restoring our capital management metrics.

The key driver will be returning the airline to profitability and improving EBITDA. That reinforces the approach we are taking to aircraft deliveries and capital allocation. We will continue to adjust investment with demand, returns, balance sheet capacity and operational readiness.

With that, I will hand you over to Kris Cudmore, the airline's new CFO, and Nikhil for some closing comments on the outlook.

Kris Cudmore: Thank you very much, Richard. First, I'll discuss our future fleet investment profile, our capacity expectations, fuel and FX hedging, then financial outlook, before handing back to Nikhil for closing remarks.

Turning to slide 20, fleet investment. A key decision we have taken is to smooth the aircraft investment profile in the near term and to bring it down medium term. The delivery profile of the new GEnx powered 787s has been fluid for some time.

Following the most recent delays of two of these 787s from earlier this year to later this year, and a quicker than expected return of grounded wide-body aircraft, we are in active negotiations with Boeing to rephase the delivery profile, to smooth capital investment and realign fleet deliveries with our targeted capacity growth.

We want the right aircraft, but we also want them at the right time. The program also includes completion of the remaining Boeing 787 retrofit by the end of calendar year 2026 and the commencement of the 777-300ER cabin refresh in early 2027.

The remaining investment across those two cabin programs is approximately $200 million over the next two years. In the 2027 financial year, we expect to see incremental depreciation of between $110 million to $130 million compared to 2026, and this is also subject to our Boeing negotiations.

Turning to slide 21, capacity outlook. Our 2026 capacity was approximately 10% below pre-COVID levels, but as aircraft return and new aircraft arrive, capacity begins to recover in 2027.

We currently expect group capacity to increase between 2% and 4% year-on-year. Domestic capacity is expected to be broadly flat year-on-year, with the first half affected by fuel-related reductions, balanced with the expected delivery of two A321s later in the financial year.

Tasman and Pacific Islands capacity is expected to increase between 3% and 5%, with the increase in wide-body aircraft availability, and supported by new route development, particularly Christchurch to Perth and Auckland to Western Sydney.

International long-haul flying is expected to increase around 2% to 4%. This reflects returning wide-body aircraft and new 787 deliveries offset by completion of the retrofit program and the lower levels of profitable utilisation due to the fuel crisis.

Some additional capacity will be deployed into new services, including Christchurch to Tokyo and to Singapore. This new lower cost Christchurch hub option for Air New Zealand is something we're very excited about.

Now on slide 22, fuel and FX. Fuel remains the single largest area of uncertainty in the outlook. Our hedging program provides some nearer term protection, but it is far from a complete solution.

As of 14 August, approximately 80% of our estimated '27 first half fuel volume was hedged on Brent Crude and 38% for the second half of '27. Across the full year that represents approximately 60% of expected volumes.

Similar to many airlines, we have traditionally hedged almost entirely through Brent Crude instruments. But now we have an overlay of approximately 20% of Crack spread swaps to help partially manage basis risk in the first half.

The chart illustrates the sensitivity of our total fuel costs to changes in Singapore jet fuel prices. Assuming an average jet fuel price of USD$130 per barrel, our 2027 fuel cost would be approximately NZD$2.1 billion. Foreign exchange is also partially hedged, particularly our US dollar exposure, and we are 60% hedged for the 2027 financial year at USD$0.59.

Now turning to slide 23 for our outlook. Prior to the Middle East conflict, the airline expected, in its central case, to return to profitability in the 2027 financial year, reflecting the underlying improvements in the business.

Given the continued uncertainty surrounding the conflict, the volatility of jet fuel prices, and with jet fuel currently in the region of $140 to $150 per barrel, the airline is not in a position to provide earnings guidance for the 2027 financial year at this time.

Beyond fuel, the major factors that impacted the 2026 financial result are expected to continue to have some impact in the '27 financial year, albeit to a lesser extent. Disruption from engine availability is reducing substantially as aircraft return to service.

However, there remains an estimated financial impact of between $70 million to $90 million in 2027 for a combination of continuing lease commitments related to engine issues and available aircraft not able to be fully utilised due to the fuel crisis.

We expect maintenance costs to be $50 million to $100 million lower in 2027 than in 2026. Aviation system costs continue to rise well above inflation, with airport charges expected to increase by upwards of 10% at some ports during the 2027 financial year.

The airline expects the 2027 financial year to be both a transition and a recovery year, with operational performance continuing to improve even as elevated fuel prices weigh on profitability. We also expect the range of initiatives we have implemented in response to the currently elevated fuel cost, will contribute to offsetting a larger portion of the elevated cost of fuel compared to the prior year. With that, I'll now hand back to Nikhil to close the call.

Nikhil Ravishankar: Thank you, Kris. This has been another demanding year for Air New Zealand, and our people have continued to rise to the challenges we have faced. I'm incredibly proud of the commitment, professionalism and care they've shown for our customers and for each other.

There is more work ahead, but we enter the new financial year with a clear strategy, a strong operation and confidence in the future of Air New Zealand. We're seeing encouraging inbound demand with strong forward bookings into New Zealand.

This is a positive signal for tourism and for the country more broadly. It is pleasing to see the work we've been doing to stimulate demand in our key international markets, contributing to that momentum.

New Zealand remains a highly desirable destination and our investment in our onboard product and unique Kiwi service and hospitality puts Air New Zealand in a strong position to bring more international visitors to our shores.

Our customers remain at the heart of everything we do. We will continue to work hard to maintain and improve our operational performance while delivering the exceptional product and service experience our customers expect from Air New Zealand.

We have one of the most valuable brands in New Zealand. We have the strongest loyalty program. We're consistently ranked one of New Zealand's most attractive employers, and we are back to commanding strong customer preference.

We remain focused on executing our strategic priorities, improving financial performance and positioning the airline for long-term sustainable returns. Thank you. With that, we'll open the line for questions.

Operator: Thank you. If you wish to ask a question, please press star one, one on your telephone and wait for your name to be announced. If you wish to cancel your request, please press star one, one again. Just a moment for our first question, please. First, we have Andy Bowley from Forsyth Barr. Please go ahead.

Andy Bowley: (Forsyth Barr, Analyst) Thanks, Operator, and good morning, guys. Thanks for the presentation. A few questions from me. The first of which I'm just curious around slides 22 and 21 in the pack, around the overall fuel cost guidance, I guess the $2.1 billion, and then the capacity growth that we're anticipating in 2027.

The question really revolves around, I think, Kris, you made the comment that in the first half, domestic, we'll see fuel-related reductions. I'd imagine that there's other fuel-related reductions across the capacity backdrop, particularly for the first half.

But I guess the question is, are the two slides consistent? Is that capacity backdrop that we're anticipating for 2027 and predicated on the $2.1 billion in terms of fuel costs?

Kris Cudmore: Hi, Andy.

Nikhil Ravishankar: Thanks for the question. Kris, Andy wanted your response. I'll let you go.

Kris Cudmore: Thanks, Nikhil. Hi, Andy. Yes, I mean, it should be. We are taking down capacity versus what we would have done because of the fuel crisis. So yes, I mean, and we're continuing to evaluate that as you expect.

It's not something that changes on a dime. We reviewed the northern winter schedule this morning, and we are in the middle of reviewing the northern summer schedule with an initial view today. So what we have given you is as close to hot off the press as we can.

Andy Bowley: (Forsyth Barr, Analyst) In terms of then splitting that between first and second half for 2027, can we assume that the plus two to plus four for group is going to be lower in the first half?

Richard Thomson: Andy, Richard here. I think the slightly lower in the first half than the second half, although I am conscious of the fact that we've got a number of these new long-haul routes launching in northern winter. So we'll see the pretty constrained capacity from now through to the end of October, mid-November. December we're flying quite a bit more.

We've sort of kept our powder dry. I endorse the comments Kris has made. We'll see where this fuel crisis is heading. To Kris's point, re-evaluate what we're operating, if need be, in the fourth financial quarter of the year, probably later in the first half.

But at the same - for the purposes of your modelling assumptions, it's sort of a 50/50 split, really, between the first and second half.

Andy Bowley: (Forsyth Barr, Analyst) Great. Maybe just on fuel, I recognise that the fuel crisis is only six months in or so, but how are you thinking about fuel cost in a strategic sense?

You know, what is normalised from a cost point of view within the wider business model? What's that business model predicated on? I guess how do you - so far, we've seen tactical

changes to date, but at what stage do you anticipate that they would become structural or what would need to change for those to become structural within the business?

Nikhil Ravishankar: Yes, thanks, Andy. I think it's worth thinking about it this way, this is how it's playing out, and we don't have years of data, of course, but in real time, when there is a fuel price spike, the amount of fuel price that we can recover in the first instance is - teeters around the 20% to 30% mark.

The longer that fuel price stays there, i.e. there's a degree of stability, then our ability to recover more increases and shifts either in fuel price in either direction means that cycle starts all over again.

We are looking at calibrating the operations for fuel price somewhere between $120 and $160. The measures we're taking, though tactical, are balancing maximising recovery with demand elasticity. But we're also thinking about what we would have to do if the fuel price went north of that, say, north of $160, $170.

Of course, it's hard to tell what fuel price is going to do at any point in time, but what's encouraging to see is the approach that we're taking is consistent with what's happening around the world.

We are recovering fuel price at the same levels as what we're seeing others manage to recover in their respective markets. If you think of fuel price recovery at this moment, we're recovering anywhere between 40% to 60% of the current fuel price. As I said, as those fluctuate, the recovery rates fluctuate with it.

Andy Bowley: (Forsyth Barr, Analyst) That's helpful. But maybe on that $120 to $160 level that you're calibrating the business for, can you be profitable with fuel prices even as high as that $120?

Nikhil Ravishankar: We're in a situation now where if that were to persist, there are actions that we can take to get to profitability at those levels. But for everyone's sake, we're of course hoping that fuel price returns back to some semblance of normal.

Andy Bowley: (Forsyth Barr, Analyst) By that, do I take that you mean there needs to be some further structural changes in the business to be able to manage that?

Nikhil Ravishankar: Too early to say, Andy. We're working through it. If there are - if fuel prices remain elevated, then we do have to look at the capacity lever quite seriously, and we are. Sorry, Kris, do you want to add anything?

Kris Cudmore: Thanks, Nikhil. I think it's sort of a shape and [vol] thing, Andy. So if the market was to stay at $120 for all time from here, I think the market just adapts and we'd be profitable again, as quickly as you'd expect us to be profitable, given the other things that are going on in the business.

It's the upwards of all, in particular, that hurts us, as you know. You know, at fuel prices of $200 or more, you've got a different situation. But we're nowhere near there at the moment, thankfully. So yes, we'll continue to adapt.

Andy Bowley: (Forsyth Barr, Analyst) Okay, that's great, guys. Let's just tack to the comment, Richard, that you made around forward booking strengthening from late May, and I guess we were deep in the first part of the fuel crisis at that stage.

Could you talk to forward bookings where they are today on a sector-by-sector or business segment-by-business segment perspective, and particularly against the prior year, please?

Richard Thomson: Yes, I can give you - at the risk of giving you generalisations on that, just reinforcing some of the comments that we've made. Domestic demand. Two things in domestic. In the early part of the fuel crisis, to reiterate the points Nikhil made, we put prices up in immediate response to the fuel price increases.

We saw almost, in some cases, more than unit elasticity, we saw volumes drop off as fast as we were putting prices up. Since May, that has stabilised significantly. Although we're flying fractionally more now and planning to fly - sorry, we're flying fractionally less now, and planning to fly flat 2% less over the course of the financial year, we are seeing fares starting to stick now.

So the recovery rates, back to Kris' point, are improving very much domestically. For outbound international, long haul international, the market is still very soft. So we are seeing some price increases working their way through, but volume is flat, in some cases down.

We're particularly exposed to that at this time of year, where the inbound market, [unclear] seasonal market for tourism, the inbound market is smaller seasonally than it normally is, as you well know. We normally look to New Zealand outbound demand to fill the aeroplanes in the fourth or third trimester, fourth quarter of the year.

Having said all of that, we are seeing some very encouraging signs. So out of Asia, we are seeing very strong increases in RASK, on slightly reduced capacity at the moment. The same is true for North America, and the Tasman is holding up.

We put quite a lot of capacity into the Tasman, particularly over the last 12 months. Probably haven't seen as big a RASK improvements as we'd like, but the market has absorbed that extra capacity. We feel good about that.

So without putting specific percentages on it, inbound, we're seeing strong demand, domestic and outbound New Zealand travel, flat down slightly. Overall, we're seeing RASK improvements now in a broad range, but sort of between 4% and 6%, 7% depending on the market, which is very encouraging.

Nikhil Ravishankar: Andy, maybe two data points if you're interested, in terms of sales momentum. This latest week, sales have been 12% ahead of the same time last year. Over the last four weeks, sales have been about 15% ahead. So it feels like we're carrying a little bit of momentum into this FY.

Andy Bowley: (Forsyth Barr, Analyst) That's good and encouraging. Could I just dig down into domestic New Zealand point of sale demand in terms of the various customer sets that you've got? How does that look in terms of current bookings or however you look at it at that level with regards to leisure, with regards to SME, corporate, government, et cetera, please?

Richard Thomson: Year on year?

Andy Bowley: (Forsyth Barr, Analyst) Yes, and trend in terms of how that's progressing.

Richard Thomson: Certainly over the last three or four months, we've seen - before Iran, actually, we were seeing some encouraging signs domestically. The Middle Eastern crisis put a pause on that. But we are continuing to see a small but encouraging improvement in corporate and SME demand that is flowing through. Leisure, volumetrically, relatively flat, but as I said before, we're starting to see some encouraging signs in terms of yield on domestic, even with leisure.

The challenge is volume. We are starting to see customers become accustomed to the sort of domestic airfares we need to charge to recover these costs.

[Aside discussion]

Richard Thomson: We’re seeing some improvements year on year in corporate and SME. Leisure volumes year on year are relatively flat, but we're seeing some improvement in yield.

Andy Bowley: (Forsyth Barr, Analyst) Great, okay, and government?

Richard Thomson: Government, slightly up.

Andy Bowley: (Forsyth Barr, Analyst) Okay. Great, that's it from me from a question point of view, but to echo Nikhil's words on you Richard, it's been awesome interacting with you over the last six years or so, and best wishes for your next journey. Thank you, guys.

Richard Thomson: Thank you, Andy. Much appreciated. Thank you.

Operator: Thank you. Just a moment for our next question. Next, we have Nick Mar from Macquarie.

Nick Mar: (Macquarie, Analyst) Morning. Just following on, on the PBT side, if we took the ‘26 numbers and added back the $465 million, you're at circa $130 million. You've obviously got a bit of cost saving to annualise, by the looks of it, about another, the odd $1 million plus whatever else you start to dig up further. Can you just talk about what the next bridge is to get back to [circa $400 million] number and cover your cost of capital?

Kris Cudmore: Hi, Nick. Thanks for that question. We're not in a position to give that sort of specific guidance at this point in time. I think the maths that you're doing is good. What I would say is that a lot of the cost-out work and productivity improvement that we're doing now has to offset inflation. We can't just bank it at the PBT level. This is going to take a period of time.

We describe FY27 as a transition year, and that's the oil crisis, but it's not just that. We’ve got the engine item, and that's reducing, and we'd hope it to be significantly better in FY28. But one thing that we're going to try and do later this financial year is have an investor day, and that's somewhere where I think we're going to try and give you much more information about this bridge.

Nick Mar: (Macquarie, Analyst) Okay, no, that's helpful. Then, just on the net debt number, that was a bit better than expected, given the degree of challenges in the second half. What were the main other working capital movements? Obviously, transportation sales was one bucket, but the [upper] number, which was [$331 million], was there anything one-off or specific in there?

Kris Cudmore: Nothing specific.

Nick Mar: (Macquarie, Analyst) Okay, no, that's good. In terms of some of the wash-ups that might come through in ’27, previously talked about trying to get some recoveries on the [unclear] engine issues that you've had, and [it says you’re] renegotiating with Pratt and Rolls on serious things. Could they be material on a positive basis in ‘27?

Richard Thomson: In terms of additional compensation?

Nick Mar: (Macquarie, Analyst) Yes, and [also getting back from that maintenance on those jet engines that blew up].

Richard Thomson: I don't think so, Nick. At this stage, we still have compensation agreements in place. The compensation we're getting obviously abates pretty rapidly now with the aircraft or the engines becoming serviceable. There are some elements of this cost that we will still look to recover, but the short answer to your question is, I don't see it being materially improved on what we've got currently.

The biggest single challenge we've got going into FY27 is the compensation will now abate quite quickly. We are exiting some of the additional costs that we've incurred on engines and dry-leased aeroplanes as quickly as we can. One of the three dry-leased aeroplanes is out of service now, about to be returned to the lessor. There are two dry-leased 777s and still a handful of commercially leased Pratt & Whitney 1100 engines that will take another 12 or 15 months to extract from the system.

So, we are expecting, it was $190 million of headwind this year, net of compensation. We expect there still to be a $70 million to $90 million headwind in the year ahead as we progressively retire some of those residual costs. I'm not sure we're going to get too much more out of the lessors, but the team will keep working hard on it, I'm sure.

Nick Mar: (Macquarie, Analyst) That's helpful. Just lastly, any interesting observations on what competition [are doing out there]? I see [unclear] wanting to get back into the market from March next year, I think. Anything else going on that's good or bad for you guys?

Nikhil Ravishankar: Thankfully, Nick, what we're seeing is competition behaving rationally, which is what we would all hope to see in dealing with a crisis like this. That's across all of our markets. So, long may that continue.

Nick Mar: (Macquarie, Analyst) Okay, thank you.

Operator: Thank you. Just a moment for our next question, please. Next, we have Marcus Curley from UBS.

Marcus Curley: (UBS, Analyst) Good morning, team.

[Aside discussion]

Marcus Curley: (UBS, Analyst) Could I just start with the balance sheet? Can you provide a little bit of context in terms of how much flexibility you've got to wait for the EBITDA to

improve, given the debt to EBITDA covenant is below target? I'm just keen to understand what you're managing there.

Nikhil Ravishankar: I'm not sure it's a covenant, but let me pass it on to Kris to respond in the first instance, and then jump in, Richard.

Richard Thomson: I'll jump in first, Marcus. I think everybody's clear on this, we have no covenants in any of our borrowing, secured or unsecured. (1) I think that's important. (2) We do have still considerable balance sheet flexibility. You will have noticed in this half and in response to the fuel price crisis, we are taking advantage of our very significant unencumbered aircraft [pool] for some very affordable, flexible financing.

We have the secured revolving credit facility, US$400 million, at our disposal. We've used half of that. We've got 60-odd, I think it's 61, unencumbered and re-encumberable aircraft in the fleet. We've re-encumbered 15 of those. So, we've got a lot of flexibility there.

The key thing really in all of this is just to make sure, as we get EBITDA back to where it needs to be, that we retain the investment-grade credit rating with Moody's, and we're in regular communication with them around the expected trajectory around that. So, plenty of balance sheet flexibility, no covenants. We're in pretty good shape, Marcus.

Marcus Curley: (UBS, Analyst) The discussions with Moody's? Could you give us any colour in terms of what they're looking for from the business?

Kris Cudmore: Marcus, Kris here. Thank you for the questions. I'm going to be meeting Moody's with the team on 8 September, so I'll go through all of that with them then and follow up once we've got that. Richard, I think, has covered most of the other points, which is strong balance sheet, need to return to profitability.

Marcus Curley: (UBS, Analyst) Secondly, can you just provide a little bit of colour in terms of how much crack spread coverage you have in the hedging book at the moment, just as a percentage of your total requirements?

Kris Cudmore: It's about 20% in the first half, and that's it.

Richard Thomson: Marcus, Richard here. The only other thing I'd add to that, the crack spreads we've got in place are about US$39, so much more than we'd normally pay but less than the spot at the moment, and because it's a less liquid market, they're in the form of swaps, they're not optionated. That’s probably the only other thing worth noting.

Marcus Curley: (UBS, Analyst) Okay, thank you. You mentioned in the release a further expected 10% increase in airport charges. I don't suppose you could quantify that in terms of dollar headwind for the business in ’27?

Kris Cudmore: Marcus, it’s Kris again. I think what the release points to is a number of airports which are increasing charges at double digits, whether in FY27 or into FY28 and onwards. There's just a theme of airport charges going up, both recent history and into the future, really way above inflation or what passengers would want to be paying. It's something, as you know, we're working on very hard.

Richard Thomson: Aeronautical charge is our fourth largest cost line, and we [pay a bit] over $400 million a year in those as a business.

Marcus Curley: (UBS, Analyst) Okay. Finally, I just wondered if you could look forward to FY28. On the basis of having the fleet where you'd want it, and obviously removing any of the leases that you don't need, what does capacity likely look like?

Nikhil Ravishankar: Maybe, Marcus, let me answer it this way. We've got two wide-bodies and two narrow-body orders that we're expecting in FY27. We are looking to exit one of the 777 dry leases in the same period, and we will further exit two of the 777 dry leases in FY28, and we're expecting two additional wide-bodies and two additional narrow-bodies to be delivered in the FY28 timeframe.

So, the capacity movements are there, but we're also taking deliveries of some new aircraft. Actual capacity we end up deploying into the market will depend heavily on what fuel is doing at any point in time.

Marcus Curley: (UBS, Analyst) Okay. No, I appreciate that. But if you were back in a fuel environment that you were comfortable with, I'm just trying to get a feel of where the capable capacity of the business could be on a normalized basis. So am I right in assuming that you've got, broadly speaking, an equal match of what's coming in in the next 12 months with what's exiting through leases.

Richard Thomson: No, capacity increases overall Marcus. So net of retirements or sort of end of leases, we are expecting to grow capacity between 3% and 4% percent, I think, annually over the next couple of years. We've got plenty of flexibility, as you know, in the forward order book. The key thing, at the moment, is actually how we moderate it through the next 12 or 18 months, just depending on how this Iranian situation [calls] out, because of course, we've got a lot of virtual capacity coming back, with the AOG situation righting

itself, and then we've got additional aircraft joining the fleet, as well. So, I think our ability to respond to a materially lower fuel price, I [have few concerns] about.

Marcus Curley: (UBS, Analyst) Well, it was there for a while, wasn't it? It was just - wasn't long. Okay, thank you.

Operator: Thank you for the questions. This concludes our Q&A session. I will now turn back to Nikhil for closing remarks.

Nikhil Ravishankar: Well, thanks, everybody, for joining, and appreciate those questions from Nick, Andy, and Marcus. As Kris said, we're hoping to host an investor day later this year. So, we'll make sure that you get ample advance notice for that. Thank you. With that, we'll close the call.

End of Transcript