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Operator: Welcome to the Air New Zealand 2020 Annual Results call. During the presentation your phone lines will be placed on listen only until the question and answer session. With that I will turn the call over to Air New Zealand's General Manager of Corporate Finance, Leila Peters.

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.airnewezealand.co.nz/investorcentre. Also on the website you can find our Annual Results Presentation, Shareholder Review, Financial Report, Media Release, and relevant Stock Exchange Disclosures.

Speaking on the call today will be Chief Executive Officer Greg Foran and Chief Financial Officer Jeff McDowall. As we do every year, I would again like to remind you that our comments today will include certain forward looking statements regarding our future expectations which may differ from actual results. We ask that you read through the forward looking cautionary statement provided on slide 2 of the presentation.

I would also like to draw your attention to the fact that a number of prior period comparative figures have been restated throughout the presentation to reflect the retrospective disestablishment of aircraft fair value hedges, which we disclosed to the market earlier this year.

The Group has also adopted NZ IFRS 16, the new leasing standard, from 1 July 2019. In accordance with the transition provisions of the standard, comparatives have not been restated. I urge you to read through these statements on slide 3.

Within the presentation there is also a supplementary information section that includes slides that we will not specifically address during the webcast. These slides provide key financial and operational details. We recommend that you take the time to review that information.

With that I will now turn the call over to Greg.

Greg Foran: Thank you Leila. Kia ora and good morning everyone, and thanks for joining us on this morning's Annual Results call. To say it’s been an incredibly challenging six months would be putting it mildly. The result we are presenting to you today is clearly not reflective of the path we were on when we reported our Interim Results to you in February.

Nor is it the result of any decisions or choices that we have made. Rather it is a reflection of the worst operating environment the aviation industry has ever experienced.

I would like to a moment now to thank the Air New Zealand whānau, the large majority of whom have made significant personal sacrifices to help ensure that we can emerge strongly from this crisis. Scaling down our operations, revising our flying schedules on a daily basis and operating in an environment with new regulations and added complexity is a tough ask at the best of times. Let alone in the mists of a global pandemic.

Our people were operating in these tough conditions during a period of national lockdown and significant uncertainty. They have shown a level of resilience that frankly is quite astounding. I want to thank each and every one of them for all that they do. That includes those that have unfortunately recently left us.

I will come to the results shortly. But to provide you with some context, within the course of a few short weeks we went from transporting more than 330,000 a week to various ports around New Zealand and internationally, to transporting just 8000 customers a week in April. That’s just huge. To have an airline that basically can't perform its fundamental purpose of flying people to and from their desired location.

So we find ourselves really with a story of two halves. After a strong start to the financial year and an interim profit of $198 million, we are today reporting a loss before other significant items and taxation of $87 million. This result is better than what we had guided to earlier in June, due to stronger than expected domestic demand and increased cargo flying. However it is still substantially lower than what we were forecasting at the start of the year, and is the first loss that we have reported in 18 years.

Including the impact of other significant items, which Jeff is going to talk to you about in more detail shortly, we reported an overall loss of $628 million before taxation for the financial year. We entered this crisis in a fundamentally strong position, and moved quicker than most in the industry to significantly and structurally reduce our cost base, and to secure additional liquidity in the form of a $900 million standby facility we arranged with the New Zealand government in March.

These actions were important to ensure we’re in a strong position as we emerge from this crisis. Although we have not yet tapped into the standby facility, we expect to do so in the coming days. You can see that even with $1.1 billion in the bank at the start of this crisis significant cost reductions and careful cost management, when you cannot operate significant parts of your network airlines are fundamentally quite expensive businesses to operate.

Our Board is focused on the future capital structure and assessing the options to ensure strong financial resilience as we look ahead. Jeff will go into some more details on that shortly.

With the outlook for future passenger demand clearly uncertain, and highly dependent on the removal of travel restrictions both here in New Zealand and globally, we are expecting Air New Zealand will be a smaller airline for some time to come. That means that our priority for today is ensuring our business is right-sized to deal with the current reality that faces us. Whilst retaining flexibility to scale up when required.

We have seen some green shoots in the past few months, notwithstanding the return to lockdown in August. In July we operated almost 70% of our pre-COVID-19 domestic capacity, and were seeing even higher demand in August prior to the lockdown. Our cargo business, with the assistance of the International Airfreight Capacity Scheme, is also performing well, which I will go into more detail on shortly.

Now I know that at this point it almost goes without saying, but I think the graph on the left really clearly depicts that the magnitude of the COVID-19 crisis far exceeds anything the aviation industry has seen or experienced before. Crises like SARS, the GFC, 9/11 and swine flu, all individually very serious events in their own right, but they quite simply pale in comparison to the impact of COVID-19 on demand for air travel.

To have such a sudden decline in revenue in every market in the world led to a situation that no airline could have foreseen. While no-one really knows what the recovery will ultimately look like, six months into this crisis it is certainly not looking like it will be a V-shaped recovery. Rather at this stage it's looking like a gradual recovery, which may have quite a long tail.

Like many other airline peers, we have benefited greatly from being able to fly additional cargo services in the second half of the year. But the graph on the right-hand side shows that globally this additional flying is quite small in comparison to the decline in passenger numbers.

We know that there are always lessons that we can learn from the past, and while the dynamics of this crisis are still playing out, our experience suggests that demand will come back eventually. We will be ready when it does.

If I think back to late-February when we reported our 2020 Interim Results, we had just suspended services into Shanghai and Seoul and made other tweaks to capacity in a few markets where we thought there might be some small secondary impacts from the COVID-19 outbreak. What has transpired has been far more significant.

Following widespread transmission of the disease our government here in New Zealand initially took the approach of trying to flatten the curve to take pressure of our healthcare system. That plan very quickly pivoted to an elimination strategy, with a very strict nationwide lockdown that lasted around seven weeks.

While the lockdown was very effective at slowly the spread of COVID-19, the impact on demand for air travel was swift and brutal. As you can see on this graph, with the blue representing the 2020 financial year and purple representing the 2019 financial year, from late-March through to the end of April demand reduced to almost zero, which resulted in Air New Zealand operating less than 5% of our total network capacity. Never in our 80 year history have we had to reduce network capacity to this extent.

Once the 14 day mandatory isolation period was introduced in mid-March and the true extent of this crisis started to become clear, we knew we had to act quickly to ensure the resiliency of our airline. We quickly shifted our focus away from capacity and revenue to our cash flow and liquidity requirements as credit markets began to tighten up, even for investment grade airlines such as Air New Zealand.

Jeff and Leila flew down to Wellington to secure a short-term liquidity solution in the form of $900 million standby facility with the New Zealand government. We felt that it was necessary to obtain this funding, and obtain it quickly to maintain continuation of our operations.

But securing additional funding was simply not enough on its own. Faced with such a sudden and drastic decline in demand we took the unfortunate but necessary steps of cancelling the 2020 interim dividend that we had announced in February and initiating a deep review of our entire cost base. This was in the knowledge that at least for a time we would need to be a much smaller airline.

As most of you know, we run a very tight ship here. So believe me when I say, that it was no easy feat to pull out the level of cost and spend that we have done in the past few months. As an example we deferred or cancelled any non-critical CapEx spend, and critical had a very high bar. This will save us $700 million between now and December 2022.

We also reduced spend across all areas of the business, and sadly took some significant steps to structurally adjust our labour cost base to reflect the scenario that the airline will be smaller for a time as we exit this crisis. What I really want to make clear here is that although it's easy to focus on the tough situation we are facing at the moment, we are incredibly focused on the future.

The actions we have taken to date, albeit painful, will set us up for continued success on the other side of this crisis. That is also why the Executive and I have been working to define Air New Zealand's strategy and set a course for our future, in parallel to managing our way through this crisis. As we expected, the results of our strategy refresh show that we are a very strong, very efficient airline.

We are not moving the dial 180 degrees here. We are making numerous tweaks and refinements based on hard data and facts as well as exploring some exciting prospects within the loyalty, digital and sustainability spaces. I am excited to share more with you in a little over a month's time at our Annual Shareholders Meeting.

One of the things that has surprised me the most over this time, and what gives me confidence that demand for air travel will eventually return, is the fact that we saw some really fantastic demand as we emerged from Level 3 on 13 May. We initially intended to put less than 10% of our usual domestic capacity back online during Level 2. Just to get a feel for what demand looked like, given there were still some restrictions in place.

As you can see in blue on the chart, which depicts domestic passenger bookings per day, demand ramped up quite strongly and relatively quickly from late-May onwards. Which resulted in us putting around 20% of our capacity back onto the schedule. In mid-June we even saw a year-on-year increase in passenger bookings, and with incredibly strong demand from customers booking flights to visit friends and relatives and high volumes of leisure traffic as the July school holidays approached.

We ended up putting almost 70% capacity back on the network from early July. Demand was particularly high for jet routes such as Queenstown and Christchurch. With Queenstown in particular performing well ahead of last year. Prior to our move back into lockdown in early August we were also starting to see the return of our corporate customers, at around 65% of pre-COVID-19 levels.

This tells me two very important things. Firstly, that Kiwis still have a fundamental desire to travel. Secondly, and probably most importantly, they feel safe enough to travel with us. This is crucial in terms of our long-term recovery.

The other thing that I think puts us in a comparatively stronger position is the fact that we have such a strong core domestic network. When compared to other countries around the world, you can see that our movement towards recovery really stands out, particularly in Australasia.

Not only were we operating almost 70% of our pre-COVID-19 domestic capacity in July, we had average load factors of around 80%. Meaning not only were we flying, we were flying at or around optimum capacity. We know that this is not necessarily the case with some of the flying that has happened in other jurisdictions.

Like the rest of our business, the cargo story of the 2020 financial year is really a game of two halves. As we spoke about at the interim, the cargo business had faced some significant challenges in the first half of the year. Predominantly driven by trade tensions between the US and China, which led to reduced demand and increased pricing competition, which put pressure on yields.

In the second half of the year, particularly in the early days of the COVID-19 crisis we saw very strong demand for cargo charters. Ensuring that key goods were still flowing in and out of New Zealand. In May we were awarded more than 50 cargo flights a week under the government's International Airfreight Capacity Scheme. Moving crucial goods from New Zealand to Asia, Australia and North America.

This has been a vital source of revenue over a time when much of our passenger network is not operating, and has also enabled us to take a leading role in getting the New Zealand economy back up and running. The IAFC has recently been extended, which will ensure we can continue to operate this much valued service.

In more recent news, we have also agreed terms with the Australian government to run a similar service between Brisbane and the US. This is again thanks to the tireless effort of our cargo and operational teams.

The green shoots on our domestic network and within our cargo business have certainly been very pleasing and important over the past few months, as they have allowed us to generate revenue and much needed cash flow at a time when international travel is almost non-existent. We are even seeing some substitution effect, with Kiwis who would once holiday overseas now exploring our own beautiful country.

However without making significant additional and long-term changes to our business model and strategy, these green shoots are not enough on their own. The number one determinant to our long-term recovery is the reopening of our global borders. There is simply too much uncertainty as to when that will ultimately be.

While we have no control over when our borders will reopen, and in turn when passenger demand will come back, our focus must be on protecting the foundation of our business. By that I mean our people, our customers, our core domestic network, and our cost base. We have to remain as nimble and agile as possible so we can ramp up a network of profitable flying as soon as demand returns.

Between the Executive Team and our Board we have a huge amount of knowledge and experience in this industry. We have been through tough times before. While COVID-19 is in a class of its own, we know what needs to be done and I am confident we will come out of this stronger than ever.

I will now hand over to Jeff to discuss the financial results.

Jeff McDowall: Thanks very much Greg, and kia ora and good morning to everyone on the call. Turning now to some of the key financial numbers for this year. Operating revenue of $4.8 billion was down 16% on the prior year. If you think about the fact that we reported interim revenue of $3 billion a few months ago in February, it's clear that the second half of FY2020 has been very challenging.

You can see in the callout box below the graph that earnings for the first half of the year were relatively strong. Prior to the introduction of mandatory 14 day isolation requirements, and ultimately the closing of New Zealand's borders to all foreign nationals, we had been tracking well to deliver profit in line with the earnings guidance we provided at the Interim Results. That was between $300 million to $350 million.

But overall at the end of the year, we're now reporting a loss before other significant items and taxation of $87 million. So if we look at the statutory result, we are reporting a loss before taxation of $628 million.

As a reminder, in mid-June we provided an update to the market around our expectations for several items that would be classified as other significant items for the 2020 financial year. These items, which total $541 million, are largely non-cash in nature for this financial year. I'll give a breakdown and some more detail on that in the coming slides.

Net loss after tax for the period was $454 million, and we ended the financial year with $438 million of cash.

Now turning to our profit waterfall chart on slide 17. I won't go into each of these, but you can see that the huge dip in profitability is largely a result of the $1 billion decline in passenger revenue, which is only partially offset by cargo and other revenue.

Our labour costs reduced by $154 million, due to a range of things such as reduced headcount, cancellation of incentive payments, as well as the $115 million wage subsidy payment we received from the New Zealand Government.

Fuel costs declined $306 million, driven largely by the 21% reduction in capacity for the year. The average fuel price net of hedging also declined significantly as a fall in global demand for air travel resulted in a drop in the pricing for Singapore jet.

Maintenance, aircraft operations and passenger services costs decreased $132 million, reflecting the 21% reduction in capacity for the year and the resulting decline on variable operating costs.

This next slide shows our other significant items for the 2020 financial year, the large majority of which are non-cash. The actual results of these items are consistent with the guidance we provided to the market in mid-June. Most significant of these by far is the aircraft impairment charge of $338 million on our Boeing 777-200 fleet, which we expect will remain in long-term storage for the foreseeable future.

We've also recognised $140 million from redundancies and other reorganisation costs, as well as $105 million relating to the de-designation of hedges, following a significant decline in expected revenue operating expenditure and fuel consumption.

Now between Greg's earlier slides, and the market updates we've provided regularly in the past few months, much of the information in this slide won't be new to you so I'm not going to go into every one of these areas. I think it's clear that from the very beginning of this crisis, we have taken swift and decisive action to reduce our cost base and preserve liquidity. The most significant of these cost reductions is in our labour cost base, where we have reduced our workforce by around 30%, or more than 4000 people. This is expected to result in annualised savings of around $350 million to $400 million, or approximately

$30 million per month.

Another significant area where we have pulled out costs is in terms of our forecasted capital expenditure, primarily across our properties, digital and infrastructure spend. We have also deferred delivery of some of our incoming fleet, which I'll talk about shortly.

As of 25 August, we have remaining short-term liquidity of around $1.1 billion. This is inclusive of the $900 million standby loan facility from the Government, which as Greg mentioned we have not yet drawn on, but will do so in the coming days.

If we turn now to our operating costs, I think these two charts show that our actions to reduce cash outflows have been very important and significant. Operating costs excluding fuel have decreased 50% compared to the same quarter last year, and 60% compared to July last year. This is compared to reduction of capacity of 75% for the quarter, and 65% for July.

We have also managed to reduce our cash burn from around $175 million per month over April to June, down to $85 million in July. We expect our go-forward rate of cash burn to reduce further, to be between $65 million and $85 million per month. This range includes average loan amortisation of approximately $25 million per month.

It's also obviously prefaced on a number of key assumptions, including that our domestic network continues to operate around the 70% mark that we were seeing in July, and with no social distancing requirements on-board. It also assumes a similar degree of cargo flying to what we have been doing in the past few months, under the IAFC arrangement, and that the cost reductions we spoke about earlier continue. It is also on the basis that we expect to have reduced levels of refunds, redundancies and hedge losses as we move forward.

We have also outlined the key downside risks to this range on the slide, as you can see. As I mentioned in one of my earlier slides, one of the most significant ways in which we have reduced costs is due to the substantial reductions we have made across our labour cost base.

In phase 1 of these reductions, which is now largely complete, we reduced headcount by more than 4000 people, as we structurally reset our cost base. In phase 2, we are pulling out further costs, but only on a temporary basis, given that until global borders re-open we expect to be a largely domestic and cargo business. While the decisions we have made have been very difficult, they are the right ones to ensure that we emerge from this crisis in a strong and competitive position.

One thing I do want to point out is that the cost savings we have made have been achieved via a number of pathways, not just headcount reductions. Every work group across the whole busines shas been impacted in some way. Over 3500 people have lost their roles, a further 600 took voluntary redundancy, and more than 400 others are working reduced hours or taking leave without pay. Others still have purchased additional leave, have been temporarily redeployed or have elected to go on furlough, with the first right to return when demand picks up.

This is why you can see in this chart that our labour costs are expected to be 40% lower in FY21, even though headcount has reduced by around 30%. This has been very difficult for everyone involved. I want to acknowledge the personal sacrifice that has been made by so many of our people across the business.

In the table on the next slide, we have set out a few key liquidity and gearing measures. As you can see, the net debt position has increased due to the rate of cash burn through to June 2020. However, as a result of the actions we took to negotiate the Crown facility, we ended the 2020 financial year in a relatively strong liquidity position.

The Board continues to assess the airline's capital structure and funding needs with a goal of ensuring long-term financial resilience. We are pleased that the New Zealand Government has recently reaffirmed its commitment to maintaining its majority shareholding in Air New Zealand, and the Board is engaging constructively with the Crown in our capital structure and funding discussions.

Now, I know that dividends are a really important topic for our investors. We were incredibly disappointed to cancel the 2020 interim dividend, especially given it was the first time since 2005 that we've not paid a dividend. However, we knew it was a necessary action to help preserve our long-term liquidity through this challenging period. The cancellation of the dividend was also a condition of the standby loan facility agreed with the Government. Due to the financial pressures that we continue to face, the Board has determined that it will not declare a final dividend for the 2020 financial year.

Turning to hedging, the significant reduction in flying due to COVID-19-related travel restrictions resulted in an over-hedged position, which meant that we had to close out a substantial amount of fuel hedges for the fourth quarter and the FY21 period. We did this predominantly in March, but also some in April and May as the fuel price increased a bit, which helped mitigate some of our cash costs.

Our cash cost related to fuel hedges was approximately $95 million, which was partially offset by a $30 million benefit from the foreign exchange hedges related to our foreign denominated debt. The net cash impact was approximately $65 million.

From a P&L perspective, the impact of the ineffective hedging resulted in a $105 million charge recognised within other significant items.

Looking at the current financial year, our hedge profile is not significantly committed. Our hedges are generally around the level of volume flown in the month of July, which reflects domestic volumes and international flying related to cargo. As you can see from the table on the right, we currently are expecting a skew in our hedge losses to the first half of the financial year, which will improve as we progress into the second half.

Given the uncertainty around our network level and subsequent fuel volumes and foreign revenues, the Board has approved a temporary exemption to the defined hedging parameters outlined in our Group Treasury Policy. We continue to closely monitor market pricing, and when it makes sense we may add some new fuel hedges into the fourth quarter and beyond. This would be based on relatively low volume estimate.

In the chart on slide 26 you can see the expected phasing of our updated aircraft capital expenditures through to 2024, which total approximately $2 billion based on an exchange rate of $0.65. We haven't previously shown this forecast out to 2024, which is why that number seems bigger than you've seen in the past, but as you can see it's still substantially smaller than our historical spend.

Based on the action management has taken in the past six months to respond to COVID-19, you can see that we've deferred around $200 million in expected aircraft CapEx across the 2020 to 2022 financial years. We are most focused on the near-term CapEx profile, given FY2020 to FY2022 are really the crunch years in terms of lower expected demand.

From FY23 we get the first of our new Boeing 787 Dreamliners, but depending on the timing of recovery and demand we do have flexibility to amend delivery dates of the subsequent aircraft. At this point we've not made any formal deferrals of the 787 aircraft on order.

You can see that we've reflected some timing changes on our expected delivery of NEO aircraft for the domestic market as well. We've deferred the arrival of five A321 NEO aircraft, each for about one year.

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

Greg Foran: Thanks, Jeff. I want to be upfront about the fact that we are facing a difficult road ahead of us. It feels like COVID-19 and the resulting impact on demand for air travel will be with us for quite some time yet. As such we are focused on those things that we can control, which is structuring our organisation for the current reality that faces us, and building a solid foundation for the future so we are in a competitive position when demand returns, which we know it will.

For at least the first half of FY21, we expect to be a largely domestic airline with a solid cargo business, and hopefully some flying to the Tasman and Pacific Islands. As you know, our domestic business represents about one-third of our total revenue, and although cargo was performing incredibly well, we are not structured to be a largely domestic business. That is why we've worked hard to ensure that every action and decision we have made, no matter how tough, will set us up to emerge strongly and competitively from this crisis.

That is also why we have been working to define Air New Zealand's strategy and set a course for our future, as I spoke about earlier on this morning's call. I will provide further detail at the annual shareholder's meeting in September this year.

Given the uncertainty surrounding travel restrictions and the level of demand as these restrictions lift, Air New Zealand is currently not able to provide specific 2021 earnings guidance. However, each of the scenarios we are currently modelling suggest we will make a significant loss in 2021. With that, can I say thank you very much for listening. I know you will have lots of questions, so Operator please open up the line.

Operator: Certainly. Ladies and gentlemen, if you would like to ask a question, please press star one on your telephone and wait for your name to be announced. If you need to cancel that request, please press the pound or hash key.

Our first question comes from Andy Bowley from Forsyth Barr. Please go ahead.

Andy Bowley: (Forsyth Barr, Analyst) Thanks Operator, and good morning Greg, Jeff and Leila. I've got a couple of questions, the first of which is for you Greg around particularly the outlook commentary and the reference to the various demand recovery scenarios that you're looking at, and all suggesting a loss for the year ahead. I'm really keen to understand how you're thinking about those scenarios, maybe the most optimistic and the least optimistic. Can you give us a sense of what those scenarios look like?

Greg Foran: Yes, good morning Andy. I don't want to get into all the details because as you can imagine we run several, a low, a mid, and a high. All of them would indicate that if they play out there will be a loss next year. The degree of that loss is dependent on what happens initially with short-haul and how quickly we can get something up running in terms of Cook Islands in particular, and the Tasman.

In the immediate term of course we're dealing with social distancing on planes right now, and that has an impact. It's not dramatic, but if it went on for a long period of time it would certainly be impactful.

We're not really assuming that we're going to see anything long-haul any time in this financial year. We're not assuming we're going to be back into America or anywhere else.

For my final comment there, and Jeff may want to add some things in, is that cargo is assisting us. We're doing about 50 flights or so a week with cargo, and the scheme that we've got in place with the Government which has just been extended out to, I think, November is beneficial. It's beneficial because it assists in terms of the cashflow in the business. It's beneficial, because obviously we're doing something good for the Company and moving some freight, and it's also good because we can get some customers moving.

Basically, scenarios are linked around what restrictions we get put in front of us in terms of travel. As I said, we've got a low, a medium, a high, but all of them would indicate a loss.

Jeff, anything you want to add to that?

Jeff McDowall: That was a pretty good summary, I think. I guess the only thing to build on that is that if you look at what we had in July, which was the domestic business operating ballpark 70% of pre-COVID levels, and the international cargo operation going, then that puts us in a position, if you assume that that carries on for a period of time before the international borders reopen, then we're in a position where we've got a positive operating cashflow, when the big chunk of refunds is behind us. That at least gives us a good platform to build from.

Andy Bowley: (Forsyth Barr, Analyst) Gentlemen, maybe if we just stretch out the question to beyond say the next 12 months, and thinking about the full recovery of air travel.

Recognise you've made a lot of decisions in terms of reducing the size of the business by 30% or so for the expectation that would be 30% lower in terms of size and demand in two years' time, what are your expectations in terms of, say, the medium scenario over the medium-term, in terms of full recovery of the business, or full recovery of demand I should say?

Greg Foran: Yes, it's a question we often ask ourselves Andy, to be honest with you. It's clear that not just Air New Zealand, but any airline is operating in the toughest conditions that we've found ourselves in since flying commercially began.

We've made decisions around the 777-220s, taken a write-down on those. By that, you can see that we're assuming we're probably not going to require those aircraft anytime soon. The 777-300s are parked offshore, with the exception of a few that we'll keep here because we've got some maintenance to do on them. We're not assuming at this point, unless there's a dramatic change in border restrictions, that we need those any time soon.

We'll just have to wait and see what happens medium-term. There's a lot of unknown around this virus in terms of vaccines, how effective they will be, the distribution of those vaccines, what will happen in terms of different countries employing different strategies. We are trying to keep our powder dry here.

I often liken it to, I'm driving down the freeway and I'm not sure whether I need to take an exit on the left or the right, so I like to sit in the middle. When I get a bit closer to where I need to make the exit, then hopefully I can know whether I need to move into the left lane or the right lane.

So, we do expect to be smaller, for sure. We absolutely aren't seeing a V recovery, or even a U recovery; it's more like an L. It's just a question of how long that bottom of the L takes to ramp itself back up.

Medium-term, powder's dry, we're in a position to move if we need to. As each month goes by, we learn a little bit more about the virus and we can make some better decisions.

Jeff, what do you want to add to that?

Jeff McDowall: Yes, I totally agree. One thing we've been careful to ensure is, particularly for our wide-body fleet, we've got really good flexibility to recover to different extents as we see demand emerge.

The other thing I guess is worth pointing out is that we were surprised on the domestic network, about how rapid the demand response was once travel restrictions were lifted. Who's to say what that will be like on international. We had previously thought it might take some time and be a fairly gradual recovery, but actually it recovered quite quickly. So, we need to be prepared. We need to have flexibility both ways.

Greg Foran: It was encouraging too on domestic, to see that it just wasn't school holidays. There was a desire, and still is a desire, and we see it even today as we deal with the fact that we've got social distancing on planes, there's a desire by New Zealanders to get out and travel. We're even encouraged by what we're seeing with business. So, we do feel that the domestic network sets us up and as we emerge from this, we should be able to emerge in a good, strong position.

Andy Bowley: (Forsyth Barr, Analyst) Great, thank you. Look, a final question from me is around the cash burn situation. You've done a great job in terms of lowering that cash burn, in terms of the $65 million to $85 million that you referenced in the presentation. In the worst-case scenarios, how long can you persist with that level of cash burn without taking further cost actions? I guess again it comes back to those scenarios which I don't know, you don't know, and nobody knows in terms of how this thing necessarily plays out. At what stage do you have to make further hard decisions?

Jeff McDowall: We've disclosed, as you see in the pack, the liquidity we have available, and the level of cash burn. So, you can sort of see what runway that provides, if you assume that we only operate domestic and cargo for a period of time. The challenge I guess that we would need to balance up is that any significant further changes to cost take longer to build back. So we're trying to maintain a good balance between flexibility to respond when demand does pick up and short term cash - sorry, short term cash burden. So it's a continuous balancing act. As I guess more information emerges, we need to continually reassess it. But we feel we've got the balance about right at the moment.

Greg Foran: Of course that cash burn is dependent obviously on us getting social distancing removed on planes and domestic back up and running well.

Jeff McDowall: Yes, I mean that's a really important point. With social distancing in place on the domestic network, it's very challenging commercially. We can sort of cover our costs at that level but we're not really able to make any meaningful contribution to our fixed costs.

Greg Foran: Correct.

Jeff McDowall: So yes, that is a challenge. But with any luck, that won't be with us for long.

Andy Bowley: (Forsyth Barr, Analyst): Great. Appreciate that guys and good luck for the next six months.

Greg Foran: Thank you.

Jeff McDowall: Thanks, Andy.

Operator: Our next question comes from Andrew Steele from Jarden. Please go ahead.

Andrew Steele: (Jarden, Analyst) Good morning everyone. Just the first one for me is I guess a follow on from Andy's first one. When you look at your scenario modelling, if you were to - I'm just trying to get a sense on the impact of the Tasman market. On sort of a monthly basis, could you get back to a break even profit position under any of your scenarios once Tasman comes online? Or do you need long haul as well?

Jeff McDowall: It's a good question. It depends a bit on the scenarios. So one of the scenarios, for example, that we're contemplating is that if you're in a world where Australasia is open for travel within its borders, it's broader borders. Well, international travel is not available. Then you can imagine - I mean we've seen this flood of Aucklanders wanting to go to Queenstown. You can imagine the flood of Australians wanting to come to New Zealand.

In that scenario, you could see a world where the Tasman is strong enough that we get back to a profitable position under that strong demand from Australia. But as you probably heard from that answer, it's a bit speculative. So it's not something that we can give you any definitive guidance on.

Greg Foran: It helps a lot, getting the Cook Islands open and getting Australia open but there are, once again, a lot of assumptions in terms of how much people will travel and how much they'd be prepared to pay and what the level of competition would be.

So you have to make a whole bunch of assumptions. But we know that we can have a reasonable domestic business here and we know that before 11 August, we were tracking circa 70% of pre-COVID levels.

If you then lay it in, something around the Tasman and the Cook Islands, it would go a long way to assisting the financial position of Air New Zealand.

Andrew Steele: (Jarden, Analyst) Great, thank you. Just on your comments on the strength of the demand you saw, particularly in July, could you give a sense for the bounce back by different customer groups versus a pre-COVID baseline? So I guess that would be leisure travel, corporate travel, and government travel.

Jeff McDowall: Sure. We saw leisure travel recover faster. In fact, when I say recover, it actually got, for some parts of the network and for some weeks, we were seeing more leisure demand than we had seen for the same time the previous year. So it was beyond a recovery really.

Which I think is a sign of people choosing to holiday in New Zealand when they can't holiday elsewhere. The corporate market was - and corporate and business, including government, was a bit slower to recover but got to about two thirds of pre-COVID levels during July. Obviously the other big segment is inbound tourists, which obviously weren't there.

Greg Foran: You know I think another important part of this was that the use of credits during that period. It wasn't as if we saw everyone using credits to fly. I think roughly around about 25% of the tickets were credit. People utilising their credit.

But the other key point is that a lot of those people were actually then buying up on that. So you know, I think once again, that made us feel pretty good about well what's going to happen when we get ourselves back up and running here on level one?

Andrew Steele: (Jarden, Analyst) Just again, to go back to some of the July numbers you presented. If we were to extrapolate out the July operating cost base ex fuel, would that be a reasonable proxy for your cost base in a domestic and cargo only environment if that was to persist for the entirety of FY21?

Jeff McDowall: There was still some labour condition going on during that period. So it's probably not a fair proxy entirely but we can get you a bit more detail of what that looks like after the call.

Andrew Steele: (Jarden, Analyst) Great. Thank you. Just one final one from me. You've provided some comments on how you're thinking about your fleet, just aware that you do have some early lease exit options coming up. I think this year you've got four. Are you going to be looking to sort of flex down some of those leases in this financial year? Or is it sort of too soon before you want to make any major decisions on fleet?

Jeff McDowall: Yes, that's an ongoing conversation with our leasing partners. There's some trade-offs there. There's a surplus of aircraft in the fleet globally so most leasing companies are quite keen not to get aircraft back. So that provides – that's one ingredient to the negotiation.

The other is that the process of returning aircraft requires some reinvestment in their condition. So if you bring lease exits early, then the cost associated with exiting the aircraft comes early as well. So it's just balancing those things up.

Andrew Steele: (Jarden, Analyst) That's great. That's all from me. Thanks guys.

Greg Foran: Thanks Andrew.

Jeff McDowall: Thanks Andrew.

Operator: Our next question comes from Owen Birrell from Goldman Sachs. Please go ahead.

Owen Birrell: (Goldman Sachs, Analyst) Hi guys. Just a quick question. Firstly just thanks for the cash burn numbers. It provides a lot of clarity for us I think in terms of looking at how your outlook plays out.

I just wanted to drill down into that a little bit more. The $65 million to $85 million cash burn for the month you've highlighted going forward, I think you said there was around about $25 million a month in loan amortisation there? I was just wondering of the remaining $40 million to $60 million in cash burn, how much of that is operating losses, how much of that is CapEx? And is there any working capital movements in there as well?

Jeff McDowall: The rough numbers, CapEx would be similar numbers I think as the debt amortisation. Is that fair?

Leila Peters: A little bit more than that for CapEx on average.

[Over speaking]

Jeff McDowall: Then the rest would be - and when you say operating costs, the rest are - it's really our fixed costs. The flying that we're doing, and the way we put that estimate together, it was based on the world in which we operate domestic and cargo.

The costs associated with that operation are well and truly offset by the revenue, we're making a positive contribution there. But then it's the fixed cost base that creates the difference.

Leila Peters: Then Owen, as it's highlighted in the slide deck, our cash burn does include everything. So that includes assumptions on refunds, redundancies, fuel hedging, losses.

Owen Birrell: (Goldman Sachs, Analyst) Excellent. So roughly $25 million at the moment in terms of CapEx per month. Operating is breaking even…

[Over speaking]

Leila Peters: No, sorry. A little bit north of $25 million for investing cashflows.

Owen Birrell: (Goldman Sachs, Analyst) Okay. So the rest is all just the refunds, redundancy and working capital movements?

Leila Peters: Correct.

Owen Birrell: (Goldman Sachs, Analyst) Excellent. In terms of the CapEx looking forward, I'm not sure, did you provide CapEx guidance, I'm not sure if I missed that?

Leila Peters: We provide aircraft CapEx details which Jeff went through in the prepared remarks. As you know, there is non aircraft CapEx as well which includes engine overhauls, so capitalised engine maintenance for our owned engines. Properties and infrastructure spend and digital investments. Those are included in the CapEx deferrals that we spoke about both today and to the market back in May and in June.

The difference with that is that they are quite fluid as it relates to how the network is operating. So things such as engine maintenance will change potentially if our network comes back faster than anticipated or slower than anticipated.

Owen Birrell: (Goldman Sachs, Analyst) Yes, understood. How much of that can you defer - is there a portion of that sustaining CapEx that can be deferred for a longer period of time? So say pushed back into FY22?

Leila Peters: Yes, potentially. I mean a lot of - some of the infrastructure spend, for example, is related to Auckland Airport and other airport spends. As you can imagine, a lot of these areas across New Zealand are thinking through their medium and longer term master plans.

And so that is the best that we know now but it certainly is subject to change.

Owen Birrell: (Goldman Sachs, Analyst) Actually, that's probably a segue into my final question in terms of your relationship with Auckland Airport and whether they've been able to give any deferrals on payments?

Jeff McDowall: The relationship with Auckland Airport has been really open and strong for a long time. If anything, this environment makes that even more so because we've got a very similar incentive to make sure the investment is appropriate for both the environment and the rate of recovery that we see. So you know, that is really constructive. Did you have anything to add on that, Greg?

Greg Foran: Yes, they have been extremely helpful across a number of aspects, from parking planes to rent relief to a whole bunch of things. You know, we've thanked them for that and continued to work well with them.

Leila Peters: Owen, I might also add, and I can take it offline with you. In New Zealand, there was some aviation support bill relief through August, from March to August. Which included the relief of landing charges and passenger levies related to operating flights. So that was also part of the improvement. But not specifically negotiated with Auckland Airport or any other airport per se.

Owen Birrell: (Goldman Sachs, Analyst) That's fine. We'll go through that offline. Thanks a lot.

Leila Peters: Great.

Operator: Our next question comes from Marcus Curley from UBS. Please go ahead.

Marcus Curley: (UBS, Analyst) Good morning guys. Just a couple from me. Yes, when you look at your cash burn, it looks like it increased close to $190 million in August, obviously operating conditions changed. Can you just provide a little bit of colour, what sits in between the target and the $190 million in August? Obviously it's less flying. You mentioned social distancing. How big a component was that and do you expect that to continue under level two?

Jeff McDowall: Yes, so there was a number of moving parts. There was the redundancy and refunds cost as part of the story and they taper quite quickly as you get into the more go forward position that we've indicated.

And as you say, the domestic network was really only operating for half the month in August so…

Leila Peters: Sorry Marcus, I think you're thinking of the 30 June balance to current balance of $245 million. So that's July and August. So just thinking the $190 million number represents effectively two months, not one month.

[Over speaking]

Leila Peters: Because as we stated, July's cashflow was $85 million.

Marcus Curley: (UBS, Analyst) Yes and then I looked at what the cash liquidity position was at the end of August and took the difference being what happened in August, which looks like a significant increase over the $85 million?

Leila Peters: It's about $108 million. Sorry, and the difference, the difference I think Jeff was alluding to is we started getting a slowdown in incoming receipts of cash as the restrictions in Auckland came into being.

Marcus Curley: (UBS, Analyst) So in the situation you're in at the moment which potentially repeats when we are in lockdown and with social distancing on aircraft, what's the downside number on cash burn at the moment as you would see it?

Jeff McDowall: I can't give you a precise number, but sort of what I can tell you is that with social distancing in place for domestic, we can make a small cash profit, but it's not meaningful. Whereas when we were operating before, the domestic margins were similar to pre-COVID levels. So you know, it's a fairly significant difference and one that's really not sustainable.

Leila Peters: Agreed which is why in our cash burn assumptions for go forward, we are assuming level one with no social distancing as per July.

Marcus Curley: (UBS, Analyst) Jeff, can you just talk to when you're looking at your capital options, your first and foremost, but what your target gearing or metrics that you're looking at in terms of where you want to position the Company?

Jeff McDowall: Yes, so sure. If we think longer term, then the capital management framework and distribution policy that we've been working to for a while I think is still – it's still where we'd start and I think it's still pretty valid with the key three metrics in that around [45 to 55 gross debt to EBITDA is 3.31 to 3.3] and the liquidity target which is a minimum of [$700 million]. So I mean that's the framework that we'd start with and I think we would – our view at the moment is that that's still appropriate.

Marcus Curley: (UBS, Analyst) Then secondly, what do you think your approach is going to be in terms of sizing the recapitalisation? Do you think you're going to target a worst-case scenario? I do note this morning that the PM has talked to the fact that she believes a vaccine is not available for two years in New Zealand or do you think you might take an approach of you know, doing one part now and potentially looking at revisiting the capital structure next year if needed?

Jeff McDowall: I mean it's sort of premature to speculate on what that might look like, but I mean obviously, the two halves of the thought process is (1) is what does resilience look like in terms of the capital structure which as I was kind of describing earlier, our thinking on that is pretty consistent with what it was pre-COVID. Then what scenario are you preparing for? I mean it's really a question of what is a reasonable downside case? Obviously, you can't prepare for absolutely everything, but you know, what is a reasonable downside case that provides a prudent level of resilience?

Marcus Curley: (UBS, Analyst) You're still working through that at the moment?

Jeff McDowall: Yes, that's right. I mean the board continues to think about long-term capital structure and as we said in the release, we've been engaging constructively with the Crown on that.

Marcus Curley: (UBS, Analyst) How about in terms of timing? I suppose some people may be surprised we didn't see something today on it, can you give us any view in terms of how long you're willing to leave this before you come to a conclusion?

Jeff McDowall: Yes, well I mean I can just really go back to what was said is that we are continuing to review that, engaging constructively with the Crown. Can't really provide much more comment than that.

Marcus Curley: (UBS, Analyst) Does the election have anything to do with the timing?

Jeff McDowall: Oh, that's not really something for us to comment on. I mean I think I'd have to refer that really to the Crown to answer.

Marcus Curley: (UBS, Analyst) Okay. Then just finally, when you think about flexing your long-term capacity, what's the actual plans for the 777-200s? Will they be exited from the fleet or will they be available in the medium term if demand comes back faster than expected?

Jeff McDowall: Both are available as options. So they can be brought back in if we see a strong return of demand. But we are also prepared for the scenario under which they are not and that's probably fairly likely. So the way we've thought about it is that the 787 order that we made what, just over a year ago was originally designed to be a replacement for that 777-200 fleet, but has significant flexibility within the order which allows us to space out the deliveries further and to substitute 777-9s or 777-10s.

So in a world where we don't need the 777-200s if that's the way it plays out, we can essentially use that new 787 order as 777-300 replacements and pace out the timing of those deliveries with the exit of the 777-300s to give us a really significant degree of flexibility over how that wide-body fleet grows.

Marcus Curley: (UBS, Analyst) So but you're still some time away from making that decision on the 777s?

Jeff McDowall: Well, yes. We've got them in long-term storage at the moment, so there is not a – we've got good flexibility over that. There's not a particular milestone by which a decision needs to be made, so we're just trying to retain as much flexibility as we can there.

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

Operator: Once again, if anyone would like to ask a question, please press star one on your telephone. Our next question comes from Nick Mar from Macquarie. Please go ahead.

Nick Mar: (Macquarie, Analyst) Hi, guys. Just a quick one on the debt side. Were there any kind of other debt options considered between I guess establishing the government loan facility and I guess from when you're going to need to draw on it very shortly? Are there any other options in terms of lower cost that we looked at?

Jeff McDowall: There was at the time that we considered it. I mean when we were looking at the way in which this whole thing played out in what was it, early March I guess, we were actively looking at commercial debt as a solution, but as the border restrictions became more and more strict and a kind of turning point was when all inbound arrivals had to go into their own – well, back then, it was self-isolation, but essentially two weeks of quarantining. That almost overnight, the prognosis changed but from our perspective and from lenders perspective. So at that point, it really became – we really started focusing on the Crown as the lender.

Nick Mar: (Macquarie, Analyst) But as it stands today, do you think there are options available given how the domestic business is running and cargo is kind of giving you a positive contribution there?

Jeff McDowall: It's difficult right now under the way the Crown loan is structured. But as we start to look about our – at what our longer-term capital structure looks like, then certainly, those options open up.

Nick Mar: (Macquarie, Analyst) Okay, no, that makes sense. Then just kind of more broadly, can you give us some colour on how you guys are thinking about kind of running the domestic business? There's always that kind of balance between adding capacity versus taking price and at this point in time, there's probably a bit more price that could be taken around lack of competition and the likes. Can you just talk about how you're kind of optimising there at the moment?

Jeff McDowall: I guess we're - look, we are expecting to see as we were beginning to see in July, really strong demands and also, we would expect to see sort of a competitive position that's not dissimilar to pre-COVID levels. So we had Jetstar flying in July and prior to the lockdown, Jetstar had been planning to and publishing a schedule which is quite similar to their pre-COVID levels, as we were. So we – as of the lockdown we were planning to get to 80% - 90% of pre-COVID capacity quite quickly. So it was just about providing a network that supports the resurgence in demand that we were seeing.

Greg Foran: The mix changes a bit because it's unlikely that you'll see business and corporate return quite as quickly to what it was pre-COVID. So that changes a little bit and we've reflected that in some of our fare structures; a little bit less sale activity and as you said Jetstar were operating at 90% and we hope they do get back soon, but that will be dependent on how quickly we can deal with social distancing.

Nick Mar: (Macquarie, Analyst) No, that's clear. Thanks, a lot, guys.

Jeff McDowall: Thanks, Nick.

Operator: Thank you. We have no further questions, so I will hand back for any final comments.

Leila Peters: I just wanted to thank everyone for joining us this morning. If there are any follow-up questions, please contact Kim or myself throughout the day and have a good morning.

End of Transcript