

Start of Transcript

Operator: Welcome to Air New Zealand 2025 annual results call. During the presentation, your phone lines will be placed on listen only until the question and answer session. Please refrain from asking questions until that time. With that, I will turn the call over to Air New Zealand's Head of Investor Relations, Kim Cootes. You may begin.

Kim Cootes: Kia ora and good morning, everyone. Today's call is being recorded and will be accessible for future playback on our investor centre website, which you can find at www.airnewzealand.co.nz/investorcentre.

Also on the website, you can find our annual results presentation, annual report and media release, as well as other relevant disclosures. I would like to take a moment to remind you that our comments today will include certain forward-looking statements regarding our future expectations, which may differ from actual results.

We ask that you read through the disclaimer and in particular, the forward-looking cautionary statement provided on slide 2 of the presentation. Joining me on the call today are Chief Executive Officer, Greg Foran, and Chief Financial Officer, Richard Thomson. We'll also be joined by Leila Peters, our GM of Corporate Finance, for the Q&A session at the end.

The structure for today is straightforward. Greg will kick things off with some reflections on the 2025 financial year and what we're seeing as we look ahead. Richard will then step through the financial results. This year, we have also included a section on the longer-term strategic outlook in our pack, which includes our current assumptions around fleet availability and our return to scale. With that, I will pass the call over to Greg.

Greg Foran: Thank you, Kim. Kia ora, and good morning, everyone, and thanks for joining us on today's call. Before we get into the detail of the result, I want to provide a bit of context on the 2025 financial year. Where we've made progress, where it's been tougher, and what we see coming next.

From the outset, we knew 2025 would be hard, and it has been, but we got on with it. We've made real progress in the areas we can control. The transformation program we laid out in investor day last November delivered around \$100 million in incremental EBITDA benefits this year, which I'll come back to shortly.

We remain on track for our FY28 targets. At the same time, we've continued to lift capability in the background, improving the customer experience, strengthening our digital infrastructure, and building more resilience into the operation.

We've armed our people with better tools and that's starting to show up in how we perform. But to be frank, operating a network with up to 11 of your most efficient aircraft out of action at times has been a bit like playing a rugby game without half of your forward pack.

We operated 4% less capacity than the prior year, and the knock-on effects of this lack of scale have been felt right across the network. We continue to work closely with Rolls-Royce and Pratt & Whitney. Compensation is a big part of those conversations, but getting a clear picture on when the engines return to service is just as important. That visibility is what allows us to plan properly.

We expect pressure on capacity to start easing later in FY26, as the first of our new 787s arrive and as more retrofitted aircraft return to service. But we still have to be patient. Richard will take you through the capacity outlook in a moment, but the short version is this. Low single-digit growth in FY26, followed by a more meaningful step up in FY27 and FY28 as the engine constraints ease.

So yes, it's been a tough year, but we've kept moving. We've delivered in the areas that matter, and we're positioning ourselves well for what's next. The numbers on this slide speak for themselves, so I won't linger too long. But a few points are worth calling out.

First, I want to thank our team. What they've achieved this year, in the face of persistent disruption, is nothing short of outstanding. It's a testament to the strength of our culture. Secondly, it's worth noting that in a year where commercial aviation saw some tragic events globally, we were recognised as the world's safest airline. That's not a title we take lightly, and it reflects a safety-first mindset and discipline that underpins everything we do.

We ended the year with earnings before taxation of \$189 million, net profit after tax was \$126 million. That was delivered against some real constraints, not just on the fleet side, but with softer Domestic demand and elevated cost pressure across the aviation system.

It's also, as I said earlier, the first year where we've felt the full impact of engine availability issues over a 12-month period. With the network shrinking 4%, this obviously impacts both the top line and our productivity. Demand in the Corporate and Government sectors was also about the softest we have seen. So to land at the top end of guidance in that context is no small achievement.

I want to briefly acknowledge our loyalty program as well. Airpoints passed five million members this year, and we saw continued strength and engagement and redemption activity. It's a great signal of customer affinity and an important platform for future growth.

Looking across our network, International demand has held up well, but locally, the market is still doing it pretty tough. If we look at the Domestic market first, demand remains soft overall, particularly out of Wellington, where we continue to see weakness in Government travel. We expect this trend will continue for some time yet.

That said, we are seeing some positive signals in pockets of demand. Our New Year's sale also generated some good momentum across shoulder periods, so we'll keep stimulating the market where we can.

On the Tasman, demand continues to be strong. We're adding capacity to existing routes and are looking forward to launching Christchurch-Adelaide in October, A great example of how we're expanding International services from the South Island.

Asia continues to perform well. Outbound demand has remained steady, likely supported by lower on-the-ground travel costs in key destinations. Inbound North America also remains strong, helped by the strength of the US dollar.

We are, however, seeing signs of a shorter booking curve in that market, something other Northern Hemisphere carriers have also noted. We're keeping a close eye on that as we head into our peak summer period.

We're pleased to see that the premium cabin demand is still outpacing economy. We expect this trend to accelerate further as more of our retrofitted Dreamliners return to service and our new premium-rich aircraft start to arrive later this financial year.

While a fair bit of our focus this year has been on managing disruption, we've also made progress in the areas that matter most to customers and we're starting to see the results of that come through.

We've made meaningful gains in operational resilience and digital tools, particularly in how we recover from disruption. That matters because with 11 aircraft out at times and a number of weather events this year, recovery becomes the name of the game.

Our on-time performance improved significantly in the second half of the year, up six percentage points and that's a result of decisions we made to put some buffer into the schedule and more effective disrupt handling. You can see that flow through into customer

sentiment with Net Promoter and in-flight experience scores stronger in the back half of the year.

On the Commercial side, our next generation revenue management tools are giving us sharper insights and are helping us to optimise both yield and load which is especially important in a constrained environment.

On the digital side, we rolled out live chat, automated rebooking functionality, and other customer self-service tools, all of which have substantially reduced manual interventions, particularly at key pressure points like the contact centre and airports.

We also equipped 3,000 of our people with AI tooling this year, which will help our teams' problem solve faster and lift productivity without adding much in the way of cost. There's more to do but the momentum is encouraging, and it reflects a team that's continuing to deliver even when conditions are tough.

Turning to our transformation initiatives. Many of you will recall this was a key focus area we laid out at investor day. These initiatives have delivered \$100 million dollars in EBITDA benefits for the year in line with our expectations.

The mix, however, has shifted slightly from what we expected. With stronger than anticipated performance in ancillary revenue driven by uptake in our seats to suit products and demand in the premium cabins.

Some of our cost-focused initiatives, which made up about one third of the improvements, were impacted by operational constraints, especially in areas where fleet disruption limited our ability to drive efficiency gains, for example, in productivity and labour deployment.

What's important is this, Kia Mau is working. It's helping to partially offset inflation, but more importantly, it's positioning us for incremental earnings growth as the network scale returns.

This slide gives you a sense of how we've navigated the year in what remains a highly constrained fleet environment. The second half was particularly challenging. At points we had up to six wide bodies and five narrow bodies grounded, which is roughly 20% of our jet fleet.

Despite that, we kept flying. The arrival of two new A321neos recently has been a valuable flex option across both Domestic and short-haul International. We also secured additional short-term lease engines, which will help support some targeted growth in the Domestic network.

Importantly, we also baked more resilience into the schedule, which helped protect reliability, particularly in the back half. Looking ahead, we don't expect a big step change in availability in the first half of FY26, but pressure should start to ease from the second half as the first of our new 787s arrive and we reach critical mass on retrofits returning to service.

So yes, it's been a challenging year on the fleet front, but we've stayed on the front foot, kept customers moving, and made smart decisions in a tough environment. As more aircraft come back online, we'll start to unlock more scale, and that's important.

With that, I will hand over to Richard to discuss the financials.

Richard Thomson: Thank you, Greg. Turning to slide 12. I won't spend too much time on this slide, as it's largely self-explanatory. I'd instead direct you to the appendix, where we've included additional detail on the year-on-year performance across both the Passenger and Cargo businesses, as well as updated metrics on capital management, fuel hedging and our aircraft delivery profile.

Turning to slide 13. As Greg mentioned, this year's result of \$189 million was significantly impacted again by ongoing engine availability issues. Our inability to operate our newest and most efficient aircraft has had both direct and knock-on financial consequences. We've estimated that the combined direct and indirect gross impact for the 2025 year at between \$280 million and \$320 million.

That includes suboptimal aircraft deployment, loss of productivity, disrupt management costs and wider network flow-on effects. Against that we've received \$129 million in compensation from engine manufacturers, of which \$107 million related to the 2025 financial period.

That means we're currently recovering around one third of the financial impact through compensation. If you adjust for that shortfall, earnings before taxation could have been in the mid \$300 million, albeit there are some assumptions behind that figure. So while the reported result lands at the upper end of our April guidance range, it's clear that operational headwinds materially suppressed our earnings potential for the year.

Turning now to slide 14, we have our profit waterfall and I'll only touch on three areas. First, revenue and other income for the period is lower as our network capacity reduced 4% compared to the prior year due to limited aircraft availability. This is despite including \$107 million of compensation.

Second, fuel costs substantially reduced in the second half of the year because of price declines and reduced volumes from lower flow-on capacity. Price declined during the year by 12%. Details of both the 2025 fuel movements and our current 2026 hedging profile are provided in the appendix.

Thirdly, labour costs grew \$78 million in the year, with most of that attributable to wage inflation of about 4.7%. This is higher than any new labour rate increases in FY25 but reflects the annualization of new bargains that were settled in the second half of financial year '24.

Within our maintenance and aircraft operation cost lines, price inflation well in excess of New Zealand's CPI continues to provide challenging headwinds, contributing in part to the \$235 million of non-fuel cost inflation for the year. I'll touch more on that in the next slide.

Now on slide 15. When we look at our non-fuel operating cost base in the six years that have passed since COVID, inflation across the aviation system continues to rise at concerning levels. To date, non-fuel operating costs have increased by approximately 30%, which on the face of it is only slightly higher than New Zealand's general inflation rate over the same time period, which is about 27%.

But when we drill into the underlying drivers, the picture becomes much more challenging. Take engineering parts and materials. The global supply chain for aviation remains constrained and we've seen price inflation here closer to 40%. Air navigation charges have risen around 30% since 2019, slightly ahead of CPI, but we know further increases are coming.

In financial year '26, airways charges are scheduled to rise by almost 8%, following a slightly revised path down from the originally proposed increase of 14%. Landing charges are the clear stand out in terms of share price increases, over 55% when factoring in all airports, and we know that further increases are coming.

The pressure is not easing, in fact it's intensifying. From 1 July, new passenger levies came into effect covering CAA, aviation security and other system participants, which together will add approximately \$40 million in additional annual costs.

What's difficult about these cost lines is that there's very limited ability to negotiate or influence them. These are structural changes, not one-offs, and they represent a significant portion of our inflation story, both backward and forward looking.

We're responding to this with a clear three-pronged approach. First, we'll continue to leverage investments in digital systems and tooling to gain better cost efficiencies, including the use of AI, which is only in its very early stages.

Second, we'll be laser focused on maintaining stable fixed cost as our network grows back, which will drive strong economies of scale. Third, we will pass some of these costs on to our passengers where appropriate, but carefully. All three levers are important and it's our job to get the balance between the three right.

Now moving on to CASK on slide 16, I won't spend much time on this as the trends and drivers have already been discussed. Reported CASK increased by 4.2% in the period. Excluding the impact of fuel price, foreign exchange and the residual third party maintenance costs in the prior period, underlying CASK increased by 7.5%.

The ongoing costs of the engine availability issues, combined with a reduced network footprint, are negatively impacting both the numerator and the denominator of the CASK measures. Any compensation received is not helping CASK, as for the most part it's recorded in other revenue rather than as an offset against costs.

Adjusting for the impact of engine availability issues, CASK for the year would have been better if not for these diseconomies and inefficiencies. We expect underlying CASK to remain under pressure until we can get our more efficient aircraft back in the air flying, and this is likely to begin in financial year '27.

Turning now to slide 17 and an update on our aircraft CapEx profile. It's getting quite exciting for us as the first two new GE-powered 787s are expected to be delivered by the end of March 2026, with entry into service into the last quarter of the financial year.

We've recently seen photos of the first aircraft in assembly, so confidence in a second half '26 delivery is rising. This month, the Board also approved the decision to exercise two options for 787s, bringing our total firm order from eight to 10 Dreamliners.

The first five aircraft will be the smaller Dash 9, and the remaining five will be the larger Dash 10. Those additional units are expected to arrive in financial year '28 and '30, respectively, and the chart on this slide reflects that assumption.

Moving on to our existing Rolls powered 787s. The retrofit program is well on its way now with four aircraft completed to date and we expect to have six to seven of these aircraft completed by the end of December this year.

We will soon welcome an additional ATR for our regional Domestic services and have recently taken delivery of two A321neos which will be deployed on the Tasman and Pacific Island routes.

Total forecast aircraft CapEx is approximately \$3.7 billion through to 2030, although that amount assumes an exchange rate of \$0.60 against the US dollar, and that has been moving around a bit. As we get closer to the delivery of the aircraft and work out how we will be financing them, we will also consider the appropriate hedging to mitigate some of that cash flow risk.

Turning to slide 18, we're quite happy that current capital management metrics are in such a strong place as we deal with both the impact of engine issues on our earnings and prepare for increased CapEx over the next two years.

Importantly, Moody's reaffirmed our Baa1 rating in July, which we're pleased about. Liquidity is stronger than our target range of \$1.2 billion to \$1.5 billion, which is partly related to a transition in the second half of the year to a new global payments provider.

This move enabled the release of about \$175 million in cash collateral, which was previously not counted in our liquidity. In April, we purchased one of our leased 777-300s from the lessor, so that now joins our own fleet profile and provides us with more flexibility as we look to leverage that fleet for capital efficient growth, as we've mentioned previously.

Now turning to distributions, we've declared a \$0.0125 unimputed final dividend per share, which equates to about \$40 million. That brings the total 2025 declared dividends to \$0.025 cents per share.

Our share buyback program commenced in early March, until the end of June when we went into blackout. Over that time, we purchased just under \$40 million worth of shares as part of a larger \$100 million program, and we'll continue to execute on that program following the end of our blackout period.

Now, Greg and I thought it would be appropriate to provide an update on the airline's longer term strategic direction, based on our current experiences and the latest forecasts of fleet availability.

Greg Foran: Thanks, Richard. As you've heard this morning, the engine issues affecting both our Rolls-Royce and Pratt & Whitney fleets have had a material impact across our operation, our organisation and our financials.

The question we get asked most often, from both inside and outside the airline, is a fair one. How long will this last? When will you be back to operating without this hanging over you? The honest answer is, we don't know for sure. This has proven to be a much deeper and more persistent issue than what we or frankly the engine manufacturers themselves expected 12 months ago or even more recently at our November investor day.

What we've laid out on this slide is our internal planning assumptions based on what we're seeing in the data and our operational experience to date. We're continuing to share this analysis with both Rolls and Pratts and we're staying close to any updates in their MRO timelines and certification progress.

As you can see, we're assuming no material improvement in grounded aircraft numbers for the next 12 months. That applies to both the A321neo fleet and the Trent-powered 787s. We start to see gradual recovery from FY27 and into FY28, supported by the arrival of two new A321neos and five new 787s by the end of FY28.

There has been some progress though. Rolls has recently certified a new turbine blade design that is expected to significantly increase the time on wing for the existing 787 engines. However, it will take some time before all of our fleet has this fix. Pratt's is expanding MRO capacity across several locations. However, the repair queues are still long and the pace of recovery slower than anyone expected.

We know this isn't perfect. These charts won't be exactly right, but they reflect how we're currently thinking about things and they're the best foundation we have right now. We hope the improvement will be better than this, but we have to plan for what we believe, not what we hope for.

Turning now to slide 21. Because of the slower engine return profile we've just walked through, we've updated our medium-term capacity outlook. This is a shift from what we shared at last year's full year results, and again at investor day.

At that time, we were targeting a return to scale by FY27, but based on the fleet availability we now expect, we've revised that to FY28. The charts here show our current trajectory, still with a steady build, but at a slower rate. To be clear, if the situation improves, if engine return times accelerate, we can move faster.

But we're planning based on what we see today, not what we'd like to see. The takeaway here is that FY26 will still be very constrained, but from FY27 there's more aircraft return and the GE-powered 787s come online, we can see the uptick coming. Back to you, Richard.

Richard Thomson: Thanks, Greg. Moving on to slide 22 and our expectations on unit cost trajectory over time. We've already touched on the headwinds we're currently facing. Some of them are temporary and will improve as we get engines back on wing and scale the network back up.

Our unit costs are reflective of the fact that we've hired back to full network levels but are currently only able to operate around 90% of the capacity we used to fly. Unit costs are further burdened with the short-term carrying cost of leased engines.

Inefficiencies in workgroups like airports and maintenance that are constantly having to adapt is the result of engine constraints. Some of these workgroups take a long time to hire and train. We experienced this pain first-hand post-COVID. So we view carrying the labour cost as important for the medium-term viability of our operations.

As Greg mentioned, there is sufficient uncertainty in the pace of improvement of the engines getting through overhaul facilities and back on wing. We think it would be foolish to try and optimise our labour levels when the forecasts continue to fluctuate as much as they have been.

The second key impact to costs is unfortunately not temporary. Price inflation in the aviation ecosystem, as we have experienced over the past few years, is a lot stickier and in many cases unlikely to reverse. So we continue to combat this by improving operational efficiencies and working smarter through the investment in tooling and training of our people.

The biggest gains we've made this year are savings related to our contact centre from increasing customer service capability, improved airports productivity and some early gains from the rollout of a new catering system. As we begin to scale back our network, we will see the scaling of these costs over greater ASKs. It's hard work, but we're up for it. Some of these costs will also need to be passed along to our customers and we'll manage that carefully.

Looking ahead, transformation continues to be a key part of our story. As Greg mentioned earlier, we've delivered the \$100 million target for financial year '25 and while that's an important milestone, it's really just the start. A big part of the upside sits in financial year '26 through to financial year '28 and that's when we'll start to see more of the scale benefits and deeper cost initiatives come through.

Some of the cost-focused work that was delayed this year, particularly around labour optimisation, digital workflow automation and procurement streamlining starts to ramp up

in the year ahead as the operation becomes more predictable. We also expect stronger contribution from revenue initiatives, including enhancements to our booking engine to get greater value from multi-city complex itineraries, more ancillary opportunities in adjacent products such as hotels, rental cars and insurance and increasing conversion for flexi products to name just a few.

We'll also see the annualisation of initiatives that came online partly through the last financial year, and we'll keep investing in tools and data to support frontline performance. The early returns from AI tooling have been very encouraging and we see more opportunity as we continue to scale that across customer service, engineering and crew operations.

While financial year '25 was about proving that transformation can deliver in a disrupted environment, financial year '26 and beyond is where it becomes a lever for earnings uplift as capacity slowly comes back online and we get more headroom to execute at pace. That's where the confidence comes from. The transformation program is delivering, it's scalable and positioned to keep unlocking value over the next three years.

Finally, I wanted to reiterate that our balance sheet is strong. We've been prudent about ensuring our liquidity and leverage are in conservative positions leading into the next few years of elevated CapEx. We've been systematically building up a robust unencumbered fleet which we can monetise should the need arise. We have the ability to weather this period of significant disruption from the engines but still execute on our plan.

Now I'll turn back to Greg to finish.

Greg Foran: Thanks Richard. To we have enough time for questions, I will skip over slide 26, which provides details on our FY26 capacity expectations by network group. This is self-explanatory.

Turning to slide 27, this year is uncertain, primarily due to engine availability issues. Our negotiations with the engine manufacturers are ongoing, so we aren't in a position to provide much detail on the net impact to the 2026 financial year. When we do know, we'll share at the appropriate time.

There are some other details that we thought would be helpful to provide, including information on our remaining flexibility period travel credits, which expire completely in January 2026, announced price increases across some key cost lines, estimated fuel costs and depreciation expectations.

Aside from compensation, probably the most impactful item to note is our expectation of non-fuel cost inflation of a further 3% to 5%. Within that is incremental price increases estimated at about \$85 million from new passenger levies, higher air navigation charges and increases in landing charges, a substantial combination of increases in one year across New Zealand's aviation ecosystem.

Lastly, turning to slide 28 and our outlook for the first half of the year, the outcome and timing of compensation discussions with engine manufacturers remains uncertain, making it challenging for the airline to provide earning guidance for the full year. In the near term, that uncertainty, combined with sharp recent increases in aviation sector levies and other charges, all set against the backdrop of subdued Domestic demand, is expected to adversely impact the airline's financial performance in the first half.

As such, the airline expects earnings before taxation for the first half of the 2026 financial year to be similar to or less than reported in the second half of the 2025 financial year, which was \$34 million. The airline is well positioned for recovery when the engine challenges and economic conditions start to alleviate, but these issues continue to have a significant impact on current financial performance.

With that, Operator, please open the line for questions.

Operator: Thank you. Ladies and gentlemen, to ask a question, please press star one one on your telephone, then wait for your name to be announced. To withdraw your question, please press star one one again. Please stand by while we compile the Q&A roster. Our first question comes from the line of Andy Bowley with Forsyth Barr. Your line is open.

Andy Bowley: (Forsyth Barr, Analyst) Thanks, Operator. Good morning, guys. A few questions from me. The first of which, just a point of clarification on that 2026 consideration slide 27, talking about non-fuel operating cost inflation 3% to 5%, is that net of the transformation benefits which look like they're going to more than double in FY26?

Greg Foran: Yes, do you want to answer that, Richard?

Richard Thompson: Yes, hi Andy, Richard here. Yes, so the transformation benefits we've got in train for FY26 are around – we're aiming for \$200 million in transformation benefits, split roughly between Ancillary and Loyalty a third, cost efficiency and productivity a third, we will have some wraparound from the benefits we have achieved this year, but we are basically looking at a transformation program that has a prospect of offsetting those non-fuel cost inflation pressures.

Andy Bowley: (Forsyth Barr, Analyst) So if we've got a third being cost efficiencies from the transformation, that's around \$70 million, we shouldn't – if you think about the incremental price increases coming through of \$85 million plus the other labour inflation, et cetera, that 3% to 5% is what we'll see on the face of the P&L in terms of the increase...

Richard Thompson: Correct.

Andy Bowley: (Forsyth Barr, Analyst) ...in non-fuel operating cost inflation.

Richard Thompson: Correct.

Andy Bowley: (Forsyth Barr, Analyst) Okay, so it's net of the benefits of the transformation cost efficiencies.

Richard Thompson: Correct.

Andy Bowley: (Forsyth Barr, Analyst) Okay, great. Then just a couple of questions from a revenue perspective, one from the demand comments, Greg, that you made in your remarks. You talked about pockets of positive demand in Domestic markets. Can you expand on those comments and maybe also expand on comments around the strengths of New Zealand outbound, please?

Greg Foran: Yes, sure. So domestically and, I often say this, averages can be a bit misleading, so there's no doubt that Wellington continues to be tough. Just to put a bit of colour around that, if we look at Government passenger numbers for the first, or for the back half of the year we've just finished and compare that to the same period the previous year, passenger numbers for Government are down 10% on what is already a pretty subdued position.

Corporate is down 5% for the same period and Leisure is down 5%. So those are the averages. What we do see is that there are some parts of the country that are performing better. There is no doubt that Wellington and Auckland are tight. Christchurch is better. Queenstown is okay. But look, it is a challenging domestic environment, and we are not expecting that to move significantly any time in the next 12 months, basically.

In terms of International, let's break it down to Tasman, Pacific and then Asia and the US. I'm actually really pleased by what I'm seeing out of Australia at the moment. We've put in for this year basically 10% more ASKs, both first half and second half. That market's good for us. We want to maintain our performance there and that's reflected in some of the tourism numbers.

There's been about 1.4 million Aussies visit us this year, so tourism from Australia into New Zealand is up 10%, so that's good. That's a plan that the government had and it's working. I'm pleased about that, and we'll get the benefit of that.

The US continues to be decent. We've got some new planes coming in the beginning of next year, a couple of new 787s. We'll get those onto our New York routes and other places, so we're going to see ASKs to the US increase 8% in the second half. They'll be flat in the first as we continue to deal with Rolls-Royce in particular. So happy with how the US is looking.

Asia is down slightly and down about 2%. That's reflective of us pulling out of Korea. We'll get some extra rotation going into Taipei, which will be good in the second half. So that's sort of how that capacity is playing out. I'm reasonably happy with how we are working, Tasman, PI and our International business. Domestic, as I said, it's challenging. What I'd say to you also is flying's a discretionary business. You don't have to fly. We do have to land in an airport, so if you're running a business that you can just pass costs on, it's a bit different than when you're running a business where you actually have to deal with a customer that has a choice. So it's discretionary.

When the economy's tight, which it is, on average, what we see is that people make a decision not to fly or to fly less. That applies to business. I've been running a business for many years and often when it's tough out there, businesses say you don't need to go to Christchurch twice this month, can you cut it back to once a month? So we've got to deal with that and it will come right, I'm confident of that, but that's a sense of how I see things at the moment.

Andy Bowley: (Forsyth Barr, Analyst) Thanks, Greg. Maybe just digging down into those Domestic comments, what are you seeing from a regional point of view? I recognise that you talked about the larger airports, which clearly all have regional services, but they also have trunk services, what about regional specifically?

Greg Foran: Yes look, I'd say it's still generally soft. We are having to work to basically get all those regions operating the way that we do. You can see this in the ecosystem in New Zealand. I follow, obviously, what happens with Sounds Air and then today I see that Originair have pulled out of Hamilton, Palmerston North. Now they've been running that route after we pulled out, before I started, but she's pretty tough out there.

One of the things that's happening is that the ecosystem, which is aviation in this country, has piled on some pretty significant costs. We spoke about it, but to give you a sense of it,

airports – and I'm talking about all airports here, not just New Zealand airports, but all airports – are our fourth-highest cost line and they're going to cost us \$417 million or so this year.

Now the increase in airport fees from 2019 to 2025 was 57%. CPI during that period was actually about 27%, so basically more than double the price of CPI. Because they can. Where else do you land the plane? I stress, I'm talking all airports. Now, we go into this year, and airports, all airports, have increased their costs by \$24 million, or another 6%. CPI is running at 2%, 2.5%. But hang on a minute, we'll increase our prices by 6%, because you can. You can just pass it on.

CAA and Avsec have actually been pretty reasonable on prices until this year. Not much increase, way back to 2017, '18, '19, '20.

But this year, they've had their funding cut, so they've actually increased their fees by \$47 million, or 90%. So, what you're seeing is, you're seeing an ecosystem in the country that is having to digest these costs at a time that the economy is tough. We've got to work really hard, as Richard said, with Kia Mau – and it is working.

We're more effective, we're more efficient, and we can give you examples of that where we've taken costs out through automated passenger rebooking and live chat and various other things. You mitigate what you can, you absorb what you can, and you can see that in some of our result. \$189 million, okay, we can stick on another \$165 million because we couldn't fly because of engine issues, that gets us to circa \$350 million. We really want to be north of \$400 million, and we'll work hard to get the business there.

But we have to think long term about what our customers can face. But really, we're at a point now where some of these costs are going to have to show up in some of the revenue lines. The team are sensibly working through that. We've held prices. I think Domestic, on average, prices only went up about 3.5% last year, on average, which is only 1% above CPI. But I've just given you two cost lines where the inflation is enormous. When you add in airports, you add in Avsec and CAA and you add in air navigation, it's an extra \$84 million, \$85 million that we have to absorb in our P&L this year.

We're very thoughtful about how we're managing this. We're thinking it through. But we can't hold prices down to the extent that our customers would like. Some of those are going to have to flow through.

Andy Bowley: (Forsyth Barr, Analyst) Maybe on that theme, from a RASK point of view, lastly from me, Greg, I recognise that the premiumisation strategy that you talked to at length at the investor day will be a feature in FY26. You talked about 12% more seats in the year to come from the premium cabin. Can you talk about how you think that will be, and should be, manifested in RASK in the year ahead and then beyond?

Greg Foran: I'll get Richard to jump into RASK, but what I'll tell you is that I'm pleased with that as a strategy. I'm pleased that we got on and we did the refurbishments. They're actually coming in a fraction under what we thought they would cost us. But most importantly, we're actually getting them done. There aren't too many people getting planes refurbished because the supply chain is still reasonably busted.

We've got four done. With a bit of luck, we'll get another three done before the end of the year, and then the next seven get completed the following year. We're seeing a 10% improvement in customer satisfaction on those planes, up the pointy end. Customers are really liking the retrofit. I don't know whether you've been on one yet, have you?

Andy Bowley: (Forsyth Barr, Analyst) I've been on one on the ground but not in the air, Greg.

Greg Foran: With a bit of luck, we'll get you on one at some stage. But customers like it, and it's showing in terms of how they're booking and the feedback we're getting in customer satisfaction. Richard, how's that going to play out in RASK?

Richard Thomson: The only thing I'd add to that, and this is an observation over the last 12 months, we've seen long-haul RASK up 4%, and that is entirely attributable to strong premium cabin performance. As you said, Andy, we've got 12% more of this stuff coming, so it's the order of magnitude we've seen in the last 12 months.

Andy Bowley: (Forsyth Barr, Analyst) So, we should expect – I get that 12% is more than what we saw in FY25. Should we expect an acceleration in terms of that RASK growth over the year ahead?

Leila Peters: Hey, Andy, it's Leila. The 12% is the growth in premium seats in FY26 as opposed to FY25. So, absolutely, Richard and Greg are spot on. You should see incremental RASK in those markets where those additional premium seats are being added, which will be predominantly North America into the second half of the year.

Andy Bowley: (Forsyth Barr, Analyst) Great. Thanks, guys. Appreciate it.

Operator: Thank you. Please stand by for our next question. Our next question comes from the line of Marcus Curley with UBS. Your line is open.

Marcus Curley: (UBS, Analyst) Thank you. I just wanted [unclear] point of clarification on the guidance. Could you give us any colour in terms of what you've assumed in terms of breakage and engine comp in that first half result?

Richard Thomson: Hi, Marcus. Richard here. On COVID breakage, year on year, actually haven't split into the first and second half yet – actually it will all fall in the first half, because the COVID-related breakage comes to an end at the end of January '26. 10% less COVID breakage year on year is implicit in that figure. At this stage, a bit loathe to comment on compensation, because as we've alluded to, we haven't nailed it to the ground yet. But at this stage, that first half guidance statement assumes that we're getting \$20 million-odd less in compensation in '26 than we did in the year just concluded, but that is still a work on.

Leila Peters: Sorry, Marcus, just for clarification, the COVID credit is \$10 million less than FY25, not 10% less.

Richard Thomson: Oh, did I say 10%?

Marcus Curley: (UBS, Analyst) That \$20 million less on engine comp excludes the one-off, as you like to call it, compensation that you received this year, so it's off the underlying number or against the total comp?

Richard Thomson: Off – it's the total comp, actually. Total comp. So, it's the \$107 million plus the \$22 million that you see in the analyst presentation there, it's off that. It's more in line at the moment with the underlying position.

Marcus Curley: (UBS, Analyst) Okay, understood. Outside of that, while you're on the mic, Richard, the, as you say, liquidity is good, but when you look forward, the gearing metrics in terms of debt and EBITDA look like they're expanding. How are you thinking about things like buybacks, past what you've already committed to at this stage?

Richard Thomson: We're not looking past what we've committed to at the moment. What I would say is we're \$40 million through the current program. That's going to conclude at the end of the calendar year, for all practical purposes, before we go into blackout. So, we'll complete that. We've got the capital management framework that's been in place now for two years. It sets out the dividend policy, sets out our liquidity and debt to EBITDA

metrics. We'll reassess whether the balance sheet's got more capacity next year for further buybacks, but at this stage, no decision made.

Marcus Curley: (UBS, Analyst) Okay. Finally, I wondered if you could just talk to where you think online performance and customer satisfaction needs to get to. Obviously, there's been an improvement, but how does that compare to your key competitors, and how much risk do you see medium term in the business, in terms of where online performance and customer satisfaction sits at the moment?

Greg Foran: I'll pick that one up, Marcus. I can give you some numbers, and I'll give you some anecdotal comments. If you were sitting in with us right at the moment and having a look at our call centre and having a look at live chat and all those sort of things, you'd be pretty impressed. I can remember a couple of years ago sitting here and we would get 60,000, 70,000 calls a week from customers. By the way, 50% abandonment rates. These days, it's very rare that we get over 20,000 calls a week. I think last week we had about 15,400 calls in total. HVCs get answered in under a minute, and just about everyone else is getting answered in under two minutes.

We have one of the highest live chat usages of anyone, and as we speak, we're in the midst of putting AI into our chat bot. You're probably aware that we have a close relationship with OpenAI, so that will move at some pace.

In terms of CSAT, customer satisfaction, we measure that pretty closely, and we're actually higher than what we were pre-COVID. Customers generally are liking what we're doing. In terms of operational resilience, which is a key part of customer satisfaction, this time last year, we were having some challenges, and a lot of that was due to the fact that we were having to run more AOGs. The engines situation worsened. We're actually running a much better schedule now. We've put some new tools out there, things like Ops Collab. The staff are better trained. We're just trialling new kiosks, which are terrific. What we are seeing in terms of operational performance is pretty good.

I'd say to you, there's a good chance that, providing the weather doesn't go upside down in the next couple of days of what's left in August, we'll probably finish in the top five airlines of a very competitive set for the month of August. So, we're continuing to invest. We're investing heavily online. We've got teams working on the online direct bookings. That's working well in terms of Australia and New Zealand. We continue to grow offshore.

There's plenty of digital investment that's happening in that part of the business as well to get tools up and running.

Marcus Curley: (UBS, Analyst) When you think about next year – sorry, FY27 – as you bring capacity back on and you need to grow your volumes to match that, do you think the customer experience isn't going to be a hindrance...

Greg Foran: No.

Marcus Curley: (UBS, Analyst) To putting more bums on seats?

Greg Foran: I can't wait for it to happen, to be honest with you, Marcus. We did not predict that we would finish the year with minus 4% ASKs. We don't run this business on the basis that we're shrinking it. We've had to deal with really an unprecedented set of engine issues. I'm not really aware of any other airline executives that I talk to in the world that's having to deal with both narrow body and wide body engine issues. I'll talk to people who'll say, I've got a problem with my narrow body, but we've got both.

As soon as you start running a business which is shrinking, all your scale benefits disappear out the window. What I learned from COVID is it takes a while to get started up. So, we're running a business at the moment that should be doing probably about 6% more flying. We've got more pilots, we've got more cabin crew, we've got more engineers, but these are skills and capabilities that take quite a while to train. So, we're ready to go as the engines incrementally come back online and also as the economy improves. Because we've kept close to our customer and have continued to do new things for our customers across many aspects of the business, I can't wait for us to put some capacity back in, because I think the customers will quite quickly go, fantastic. They like what we're doing.

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

Operator: Thank you. Ladies and gentlemen, as a reminder, to ask the question, please press star one one on your telephone. I would now like to turn the call back over to Greg for closing remarks.

Greg Foran: Thank you, everyone, for joining us today. I really appreciate you listening in and for your ongoing support of Air New Zealand. Finally, if you'd like to schedule a call or a meeting for any follow-up questions, please direct those requests through to Kim and our Investor Relations team.

Operator: Ladies and gentlemen, that concludes today's conference call. Thank you for your participation. You may now disconnect.

End of Transcript