Start of Transcript

Leila Peters: Good morning. Welcome to Air New Zealand's 2018 investor day. We're really happy that all of you could be here with us this morning, and we're especially pleased for those of you that are joining us online on our webcast. For those of you who don't know me my name is Leila Peters and I'm the Head of Investor Relations and Financial Planning.

Before getting started there are some logistics so we can ensure a smooth morning. Safety first. Emergency exits - there's one to my left, in the sliding door that you all arrived in this morning. Then, if you look to the back, to my right there's a door with a green man where you can exit if there's an emergency. If you go around the back, down the hallway, there are rest rooms located on your right.

Today's presentation can be found Air New Zealand's investor centre website at www.airnewzealand.co.nz\investor. The web materials have also been uploaded to the NZX and ASX websites earlier this morning.

I would like to remind you that some of our comments today will include forward-looking statements regarding our future expectations which may differ significantly from actual results. Please take the time to read the forward-looking statement on slide 2 of the presentation.

This morning you will hear from four of our executive team members. You can find some information on their backgrounds in the back of the slide pack. Then we're just going to go through the agenda briefly. In the interest of getting through all the presentations this morning we're going to save the Q&A session for the end.

We'll start off the discussion this morning with a business update from our Chief Executive Officer, Christopher Luxon. Then we'll hear from our Chief People Officer, Jodie King, on some of the strategic focus areas within our talent and professional development areas, as well as some interesting information on how we have been engaging with our unionised workforce, which I know some of you, we've discussed, is a particular area of interest.

Then we'll take a quick 10 minute break to refuel, before returning back to hear about the evolution of our network from Nick Judd, our Chief Strategy, Networks and Alliances Officer. Then Jeff McDowall, our Chief Financial Officer, will round out the discussion with some insights into our fleet planning, including some conversations on what we're thinking in terms of the wide body of replacement program, which I also know is of interest to some of you. He'll also discuss our financial priorities.

We will then invite all four members of the executive team to the stage to take part in Q&A. We'll be taking questions this morning live from the audience using a microphone. Or you can also use an online tool called Slido. Some of you are familiar with that from previous years. On the table cards in front of you there's information on how to access the Slido tool if you would like to ask a question. For those of you that are listening online on the webcast you can access Slido online and enter the event code D488 to ask a question, which, again, we will save for the end of the session.

During the length of this morning's presentations I realise that you may need a caffeine fix. There is also information on the table cards in front of you on how to text a coffee order throughout the presentation, and it will be delivered to you. We do hope you enjoy the presentations we pulled together for you this morning. For those of you that are able to stay afterwards we'll have a light lunch.

Those are all the housekeeping items that I have, but before I invite our Chief Executive Officer, Christopher Luxon to the stage I'd like to kick off this morning with a brief video.

[Video playing]

Christopher Luxon: Kia ora. Good morning everyone. Let me join and say thank you so much for investing your time with us today. We are very grateful for that. We also really look forward to these investor days for a number of reasons. The first is we get to share more of the big picture with you than we do in our individual sessions and, importantly, we also get to unpack and go a bit deeper on some of the key strategic themes that we're dealing with across the business and how we're thinking about running it.

Great to have Nick and Jodie with us in particular to talk about network growth and, obviously, the cultural piece to Air New Zealand, which I think is really important.

What I'd really like to leave you with today is really four key messages. We'll talk a lot about the business. You'll get some new insights and take-aways around that but, really, I want you to leave here understanding four things. The first is that we have spent years building up incredibly strong structural advantage into this business.

Whether you think about our domestic strength and our loyalty, when you think about our alliance driven long-haul network, when you think about the superior culture, superior brand, our fleet decisions, that gives us tremendous ability, agility and resilience to be able to deal with what we need to deal with in any given year and over the long run. We think it's a reason for why we do better than other airlines through the cycle fundamentally.

The second big point I want you to take away is really how important culture is to our organisation. We fundamentally believe culture is not just something we do on a Friday afternoon once a month. It's really ingrained and critical because it's our culture that enables us to deliver our customer experience which, in turn, enables us to deliver our commercial success.

We talk about Air New Zealand being success, being success in those three dimensions. We want superior commercial returns and we want to enhance the customer experience and keep improving it, and we want to build great leadership and culture within our organisation. That’s the way in which we get a quality of result, not just a result.

The third thing I want you to take away is that we really - despite our good, strong mid-single digit growth over the last few years, we still see tremendous growth opportunities in this Company as we go forward. We think it is a world of opportunity and it's up for us to go out there and convert it and to bring it home to the business here.

Finally, I know you get this, but we really have a very disciplined, I think, approach of deploying our capital to make sure that those structural advantages of the Company are really strengthened over time, but also to deliver for you and, ultimately, our shareholders as we go through the cycle as well. There's always noise in airline, but I want you to be able to see through that and actually be able to see that that’s the four big structural things that we think are really important.

I've now been at the airline for seven years, six years as CEO, and I can tell you every single year this industry throws something quite different at you. This time last year I was talking to you about unprecedented levels of competition and how we were responding to that. This year has thrown up a different set of challenges which demands a different set of tactics in the year to respond to those.

If you think about this year for us we've had the fuel pipeline issue, which has been something that we've been raising for many, many years, but the way the Company came together and responded and made the airline work with only 30% of its fuel needs for a two week period was quite phenomenal.

I think the second big thing that we've been wrestling with is really our 787 unscheduled engine maintenance issues. We have made a conscious decision to say we're going to keep our customers moving. We want them moving from A to B. That’s quite a different approach from many of the other airlines around the world have gone off to cancel tens of thousands of flights and to leave their customers high and dry.

We know it's been a bit ropey and a bit sub-optimal at times as we've worked through wet lease aircraft, where we bring in charter operations and also now, going forward, some dry lease options where, actually, our own crew get to fly the aircraft. But we fundamentally believe we've been able to keep the faith with our customers and our staff by being able to say we're going to determine to keep people moving through that period of time.

We've dealt with extreme weather events. If there's any climate change deniers in the room it's time to give it up because when I look back over 20 years we would typically get one to two big storms that would smash our network once or twice a year. Already this year we've dealt with a series of cyclones. We've had a number of states of emergency declared across the country. We've had five or six big weather events through the course of the year. Again, that puts big pressure on our people, on our customer delivery, and we've been able to keep that moving even in the most trying circumstances.

This year, of course, a big theme - and I know many of you are interested in this - about rising fuel prices. We've been here before. We know how this goes. We know what the play book looks like for this, but that’s the challenge that we're dealing with.

I guess the bottom line is every year presents us a different set of challenges and what's thrown at you. Really, it's about your agility, your resilience and your culture that enables you to respond. I think we respond better, [in-year], faster than any of the other airlines that I see to develop the appropriate tactics we need to make sure we deliver customer success, cultural success and commercial success.

In spite of those challenges, as I said, the good thing for us is that our staff and our customers have high trust in us and they’ve certainly stuck with us. If I just take our team and the staff at Air New Zealand, they have been working above and beyond. They’ve been working incredibly long hours. They’ve been giving us differential effort. Our union partners have gone outside the realms of their contractual requirements in order to support the business in responding to those events this year.

That only happens because of the culture that we've built within the organisation over the long period of time. Importantly, for us, what's that’s meant is that we've been able to - and it's an incredible result actually. We've improved our staff engagement further to another record high, at the same time while we've been wrestling with those issues inside the business.

The second big thing is we know that it's been a bit sub-optimal in terms of our customer service delivery, particularly over the last six months as we deal with implications and consequences of the 787 engine issues. But, regardless of that, our fundamental brand health is in incredibly good shape. Our customer satisfaction is incredibly high. We still are the number one corporate reputation company in New Zealand and Australia, high trust, goodwill from our public, and our customers are trusting us to name the challenge, to wrestle with it and to ultimately resolve it and to be able to get them moving through the year.

We've had really good commitment around customer satisfaction. Very high scores through this period. We've also had really high levels of satisfaction with our loyalty program. Despite what gets thrown at you in a given year - and every year, as I said, is different - the good news is that the work that we have done has meant that our staff and our customers are sticking with us as we wrestle with those issues and work our way through them.

In spite of those challenges we feel we've been able to deliver for our shareholders as well at the same time. I'm really proud today to be able to confirm our guidance from earlier, which is that we expect our 2018 earnings before taxation to exceed the prior years' level of $527 million. That's a fantastic phenomenal amazing achievement, because when we set off at the beginning of this year fuel was at $60. I think when we finished this year it would be averaging in at about $75 per barrel. That is just hard work and the play book that we've deployed in order to be able to continue to deliver that outcome.

I've just come back from IATA. IATA is the place where, once a year, all the commercial airlines CEOs get together to discuss what's going on across the industry. Fantastic meeting. A lot of the suppliers to the aviation industry CEOs come in as well. Really, what was quite clear to me is that I think, as we go into this part of the cycle - which we all understand pretty well - that the industry is incredibly - is hitting it much smarter, more rationally and more commercially than ever before.

We started to see that across our business, even before fuel started to rise. If you think about our domestic competition here it's been pretty rationale, here in New Zealand. Certainly on the Tasman we've seen the withdrawal of Middle Eastern carriers. Across America we saw American carriers move to seasonal services to New Zealand. Even out of China we started to see our competition rationalise - particularly into second tier cities - across China as well. Certainly, we are seeing competition behave rationally, and I think the industry is hitting this cycle this time round much smarter, more commercially intense and has been clever.

Of course, our competitors will come and go, but Air New Zealand stays here, as we have been for 78 years. We'll be here for another 78 years. Understanding this market, knowing it better, is really important. I think we're very agile. I think we're very fast. I think we're very proactive. I think we're very disciplined in terms of how we've responded to rising fuel prices.

We know the story well. We have been here before and we know the levers that we get to pull. You have seen it publicly as we take pricing action to recover rising fuel costs. We do that quickly, fast and dynamically. We do that publicly. We do it in our settings behind the scenes as well. We will reduce capacity when we see a need to do that, and we're quite comfortable doing that, and we can do that very effectively through the mechanisms, again, that are pretty dynamic within the business to do just that.

We have ongoing productivity gains and good cost control in this business. We practice it as daily religion. We built the business six years ago to say excluding fuel we expect CASK to be trending down over time, and we've been able to deliver that each and every year just through good cost disciplines and controls that we have around the business.

Then, finally, hedging. You know we don’t take a speculative position on that. All we're looking for is buying ourselves six months of stable earnings in order to be able to choose how to respond to an event that may be happening in the markets that we're facing into.

We know this play book incredibly well. We've got the people that can actually play it and know how to do that and pull those levers very smartly, and I think we do that, frankly, better than any other airline as I observe what happens with the other airlines around the world.

We play a really good tactical game. It doesn’t matter whether we've dealt with high fuel or low fuel. Just remember, when I started fuel was $145, so we know what real high fuel looks like versus where we sit today. We've dealt with high competition, low levels of competition, but it's important that you understand that each year will be a tactical set of things and levers that we'll pull to deal with the situation. Fundamentally, our business is truly differentiated by the structural competitive advantages that we've built up over time.

Our goal has to been to invest really heavily in these structural areas of competitive advantage and to make sure we're putting an armour plate on top of an armour plate on top of an armour plate. When you think about things like brand and culture and loyalty and alliances and our fleet, those are things that we have very deliberately, consciously and intentionally built and protected and enhanced over the long run.

I think this is a chart that I love. It came from Andy Bowley from Forsyth Barr. It is a great chart. I love it for a number of reasons, because it actually underscores our belief that, actually, strong [in-year] tactics, coupled with these big structural competitive advantages, drive really low earnings volatility. I'm a big fan of that because six or seven years ago I said to many of you that we want to run Air New Zealand as a business, not an airline.

We know what business we're in. Don't get me confused. We understand that, but where other airlines seem to deal with the cycle in aviation as a series of stormy seas with big waves and peaks and troughs, we have learned to deal with the cycle. We still [impact] - we still feel it, but we experience it more as a swell that comes through our business because of the way that we have configured it and with the way that we actually choose to run it as a business, not as an airline. Andy, thanks for the chart. I love it, and I'll keep using it everywhere I go.

Importantly, it's paid off for you as the shareholders, or for our shareholders, because that's the ultimate output KPI metric we use for commercial success, is total shareholder return and return on invested capital. Those are the two output metrics that we use, total shareholder return. Doesn't matter whether you look at the New Zealand, the Australian, the US stock market. We've outperformed that.

If you look at the Bloomberg Global Airline Index we've certainly outperformed that as well. We are really comfortable with the delivery that we've been able to demonstrate, hopefully, now over a long period of time and, hopefully, you're starting to see we can do what we say and say what we do over that period.

The challenge for us now is to keep thinking about the strategic agendas that will actually disrupt our business and also propel growth at the same time. For us that always starts in November each year as we take a step back and Nick and his team lead us through a conversation around global macro trends that we see impacting the business. We do that each November.

You can see here that globalisation, demographic implications, digitisation, climate change - these are big things that, when you follow it through in terms of strategy development, become very important to us.

We feel we've done the journey of good to great. We feel like we wanted to be a great Company that could actually deliver superior commercial returns and enhance the customer experience and build great culture, but now our challenge over the last few years to each other as a senior leadership group has been how do we become iconically great.

When you look at all the research it points to the fact that people and businesses need to have a higher order mission and purpose. That's why we've enshrined in our business, some years ago, our role is to supercharge New Zealand's success. Economically, uniquely, we can do that through driving tourism and trade.

Socially, we want to build a world class company, not a world famous in New Zealand one, that other corporates can aspire to say that's the standard, that's the benchmark, and we want to power up the regions. Environmentally we want to be able to reduce our carbon footprint and, obviously, enhance nature, given we trade on that and promote that around the world. We want functional underpinning to the nature proposition here in New Zealand.

We think if we do that job right Air New Zealand will be just fine off the back of all of that. Managing the revenue mix, controlling cost, managing investment, that's the day job. But, actually, if we elevate to the higher order purpose this will take care of itself. We do think we can actually - as business leaders we have a fundamental responsibility to step alongside Government leaders, community leaders, to strengthen civil society, and the way that we think we can do that is through our mission and purpose here.

A good example for me for that would be the recent signing of our agreement in April with Ngati Porou on Gisborne Tairawhiti, where we've actually agreed to work together on actually powering up that region. It has very little tourism product and proposition in place at the moment, and there's a real opportunity to build a premium one from the get go from day one.

We're working together with them on building up the tourism attractions, the proposition. We then also have found areas - because we are both long term committed to the region - of things where we can collaborate. For example, Ngati Porou do awesome smoked fish that we can put on board our aircraft, awesome manuka honey that we can put on board. They also have big forestry assets, and we want carbon credits, so there's conversations around those sorts of areas.

At the same time there's capability transfer happening between both. We need a lot of learning around cultural literacy and fluency from Ngati Porou and, likewise, from a management point of view, we can put our people in to teach them about channel and customer segmentation for their products and services. It talks to a little bit of the depth that we're now going as we start to think about powering up the regions and living this purpose that we're talking about.

The good news is that with rising population, rising middle classes, increasing urban densification, New Zealand fundamentally has what the world wants. There's no doubt about it. We think we're painting this business on a canvas that actually is a long run trend of growth. You can see that in the tourism numbers. We still have 8% inbound tourism to New Zealand. We have 8% outbound, Kiwis travelling and engaging with the world. The world populations are rising dramatically. It's turning into a world of haves and have lots. Despite what you read, it's probably one of the most stable periods of history when you think about the arc of history and the world.

The benefit for us is that we think we have perfectly configured our business to compete in the markets that we face and we have built the right business models for the markets that we face. If you think about domestic New Zealand we have the perfect fleet choices for the markets that we fly. We fly 30 minutes to a maximum of two hour sector lengths within New Zealand, and we've got the right fleet to deliver that. As a result we've got single class cabins and we've delivered 80% market share, going up against a much bigger, larger resource competitor here at home.

On the Tasman and the Pacific Islands, if you think about that, it's lots of friends and visiting friends and relatives. 1.6 million Kiwis going across the Tasman. 1.5 million Australians coming here. It's all leisure traffic. We've built a proposition with our seats to suit where we can compete with low cost carriers with a seat only proposition. We compete with full service carriers with a works deluxe proposition, and then wide bodied aircraft going in and across the Tasman through the day to move high yielding corporate customers.

If you think about long-haul we fly some of the longest sector lengths of any airline on earth. Typically, most of our journeys are 12 to 14 hours to get anywhere, so by cabin we have configured that aircraft and that real estate perfectly to be able to understand business premier is about sleep, premium economy is about space and economy is about entertainment to make the journey go faster.

It gives us tremendous confidence that when we go up against much larger, bigger, more resourced airlines we can compete incredibly effectively as we demonstrated two years ago because we think we've got the right business model configurations because, fundamentally, we know our customer and our markets much better than anyone else coming to New Zealand.

If you think about where we sit today the reality is that we have been through a turnaround situation. We've been through the realignment phase and we're now in sustaining success. Each of those phases as leaders requires a different play book. In a turnaround mode you are making a decision and an action of a hard yes, hard no. It's really important as you get the car out of the ditch and you’ve got to do it within 12 to 18 months and get it on the road and get the business moving again.

Realignment has its different set of challenges, but we are in sustaining success. For us that’s all about planting strategic seeds and agendas now that will propel our growth going further into the future. Things like digitisation. Things like customer experience. Things like culture. Things like sustainability are really important seeds for us to be planting so we can convert those going forward.

It also means that we play really good defence. We have to understand and preserve and enhance the things that have making the business highly successful and make sure we don’t lose the plot on those things. We know what we're doing. We know what - the phase we're in. We talk about it as an executive team. We've changed the gears as we've moved through that and, I think, we can deal with that.

One of the big things, one of the biggest strategic agendas - as I talked to and alluded to before - is really around our culture. We fundamentally believe our culture makes everything else happen. It makes our customers service happen. It makes us punch above our weight. It makes us do better than we should. It makes us deliver superior commercial returns, and it's pretty special.

I think we've built the high performance culture here at Air New Zealand that we wanted to create six or seven years ago. We want to be a talent factory where we have people going up in the business, but also out of the business and contributing in other organisations and lifting their collective performance as well. It's awesome to have Jodie King, our Chief People Officer, here. She's now going to come and talk to you a little bit more about culture.

Jodie King: Thank you Christopher and kia ora everybody. It's a pleasure to be here and it's also very nice to see a few familiar faces in the audience from my very early days at Treasury and at KPMG, when I was probably a little bit more fresher faced than I am now.

I thought what I might do before I launch into the presentation is just to build a little bit about me and about my back story because I think it does actually talk to Air New Zealand's culture and why it's so strong.

There are just two things that I would highlight, that if I was thinking about why Christopher asked me to join Air New Zealand five and a half years ago and then appointed me to the role of Chief People Officer about two and a half years ago I think a large part of that was to do with the experience that I had on an international stage with KPMG as a management consultant and the ability - and the experience that I had looking across a range of different organisations and different sectors.

The nature of the consulting that I was doing was a lot around understanding where the commercial value and culture was for organisations, either when they were making acquisitions or in merger situations or IPO. That is a really strong lens that I bring to this role that I have got as well.

Also having worked in Europe at the time of the GFC and having to undertake some really significant head count reduction and cost cutting transformation exercises, both within KPMG but also for other clients, there are some major lessons that I learned in terms of my people and HR philosophy that I have taken forward from that. One of those lessons is that I think in good times there is the danger that organisations can get a bit fat and lazy.

Part of my philosophy has been, really, to make sure that we have a continued discipline within HR, within the executive, and particularly with my finance partner, Jeff, in terms of making sure that we've got ongoing discipline and scrutiny and that we manage head count and labour models and look for those transformation opportunities where they are and hunts them out.

Why did I join Air New Zealand five and a half years ago? Again, I think that really speaks to the culture of Air New Zealand. I had just returned from London and so I didn’t know Air New Zealand. I didn’t know how strong the brand was and how dear it was to New Zealanders' hearts. When I was offered the role I was very lucky that I had a couple of other roles also on the table at the time.

As you do, you go out and you speak to a lot of your friends and you ask about Air New Zealand. I was hearing really, really positive things about it from an external customer perspective, but then I actually know a few people in the investor community and I asked them as well in terms of the fundamentals of the organisation and what they thought about - in terms of the executive leadership and direction.

I heard really positive things about it. Also, going through the recruitment process, I picked up lots of signals about the culture of Air New Zealand. That was about the time and dedication that Christopher spent with me getting me to understand the business, how much the rest of the exec invested in terms of recruiting top talent into the organisation and just how passionate everybody was about Air New Zealand and how ambitious they were for its future.

That was a large part about the reason why I joined. When I'm talking at our Kia Ora You Induction Days that we hold as an executive for all of the new people coming on board Air New Zealand - and we hold them about every couple of months - I talk about - to people that you are making an investment in your future and your financial security and in your family's financial security so you need to think about that and think about safeguarding your own personal investment in this Company as an employee.

The nature of what I'm going talk about is around culture and around future proofing our success. As Christopher really strongly alluded to I really passionately believe that future proofing Air New Zealand's success starts with our people.

Air New Zealand's strong culture is really evident in our service on board. I hope you do fly as investors with us, which I'm sure you do, and you can really feel tangibly the culture operating on board. You can feel that culture in the airport, on the phone and in the financial performance.

What I would say is probably at some other organisations you do hear culture talked about and it can be a bit of a buzz word out there, but I do think that, actually, at Air New Zealand we really truly value our and understand the sources of value of culture. Our culture is a real differentiator for us. I happened to be at the CIO Awards last night, held at the ANZ Viaduct. I was sat next to somebody who had just joined Air New Zealand a couple of years ago, into the digital team, and he was an Australian.

As I always do when I'm sitting next to somebody in the organisation I ask them about how they're feeling, what their reflections are on the culture. He said he has just been blown away by how much people just love and use the term - and he really emphasised that - loved working at Air New Zealand and how he had never seen anything like it in any other organisation that he'd worked in.

As an executive team the amount of time that we spend talking about culture is really significant. On a Monday morning the executive team regularly gets together for either financial updates, business performance of strategy sessions. I quickly cottoned on, two and a half years ago when I joined those conversations - that all of the decisions and the topics that we were talking about were being framed and discussed within the three Cs of customer, culture and commercial orientation.

It's not just that I am the custodian of culture at Air New Zealand. You are just as likely to hear Jeff, our CFO, talking about some of the cultural implications of some of the decisions that we're making and I might be making some impassioned comments around the customer impacts of some of the decisions that we're taking, so it's a truly executive conversation that we're having around culture.

Also at a board level there are a number of dedicated sessions each calendar year that we have around our culture and our engagement, talent management. We talk about performance and remuneration, obviously. We talk about our union relationships and the strength and the stability of them. We talk about the future of work and strategy sessions and we also talk on diversity.

How are we perceived externally? For the past seven years we have either won the Randstad Most Attractive Employer Award or been allocated into its hall of fame, basically, to enable other organisations to participate and to have a chance of winning at it. We've also made and been recognised for our significant progress on diversity and, in particular, our strong track record on empowering women in the workforce.

The external recognition and the accolades are really important for our brand but, more importantly, our people feel a huge sense of pride in seeing their significant efforts recognised and validated externally.

I'll just quickly touch on our vision at Air New Zealand. Under my people vision we've got four pillars which I consider to be the strategic objectives. The first one is around attracting and recruiting really diverse talent. We are seen externally and internally as a really innovative company. To stay relevant and to future proof ourselves we really need to attract top quality talent.

My aspiration in terms of how we attract and recruit talent is to be the number one employer internationally and nationally of choice for diverse talent. I would say that we punch well above our weight both nationally, but also internationally, in our ability to attract talent that has the choice of any organisation to come and work for. We've seen that in particular over the last couple of years when we have really made some talent decisions in our digital function. Our ability to attract world class talent is second to none in New Zealand and we're seeing the benefits of that.

The second objective is around our diverse workforce. We're very focussed on identifying the potential talent in all of our work groups but, in particular, in our under-represented groups. One of my core set of KPIs is to ensure that there's both gender and ethnicity diversity representation in our senior leadership team, which is our top 80 leaders in the organisation.

Our third pillar there is around creating a culture where everyone thrives. We consciously and deliberately recruit and train the culturally savvy and open minded leaders and employees throughout the organisation. We've got a number of systems and tools and techniques to be able to do that.

The fourth strategic pillar for me is around future proofing. We're really focussing around how we support employees through the transition and the future work environment which means setting ourselves up now to embrace those productivity gains through the adoption of emerging and new technology. That’s a big focus for us both currently and going forward.

Any people strategy needs to start with knowing our people and what drives them. We, as an executive, a really comfortable with our demographics that we've got inside the organisation. I'm really comfortable with our age mix and spread and also the mix of the longer tenure that we have got, particularly in those safety critical IP experience rich roles and also the amount of stimulation that we're getting and the new talent and the fresh perspectives into the organisation. I think we've got that balance really right.

What's a highlight up there for me is that we've got roughly the same proportion of women to men throughout the organisation as we do have represented in our senior leadership team, and that is a shift from previous years. I will talk a little bit more about that going forward.

Something that’s not up on the slide but I think that is worth mentioning is that we have focussed this year on really increasing the ethnicity data that we hold about our people. We've seen a great movement in that from a data set of around 28% to 46% of collected ethnicity data, but we like setting stretch targets. Christopher in particular likes setting stretch targets for me, so we've set a target of collection of data of 70% of our workforce, so there's still a bit of work to be done in that area.

Air New Zealand's talent management practices have really underpinned our commercial customer and cultural achievements. A large part of my role is around connecting the external talent into the organisation and also connecting our internal talent to some amazing career experiences and opportunities.

I think one of the shifts that we have made over the past five years is that we have become a real mix of a buy and a build talent organisation. Again, that is something that we have changed because I think about five years ago we were needing to bring in new talent in particular areas, but now we're having a more mixed model of both buying in and building that talent.

The HR function has a real partnership model with the senior leaders, and that's something that I think, internally, is commented on a lot in terms of the partnership model. We also spend a lot of time really analysing and providing insight into people's potential, so there is a lot of robust succession planning that takes place up to and including the executive leadership team.

In my time at KPMG one of the areas that I did do a lot of consulting in was around talent management. I can say that Air New Zealand is probably the stand-out organisation that I've ever been associated with in terms of taking talent management, talent identification and talent development more seriously than any other organisation I have been at.

As an executive we proactively manage the role rotations and the development of our top 500 people in the organisation, but there are also emerging talent leadership development programs in place in our functional pillars as well. For example, there are programs in the sales area, in the airport space and in the engineering functions. What's pleasing for me to note is that a lot of those programs have been in place for five or six years and we're beginning to see that more junior talent at lower levels in the organisation actually graduating from their talent experience programs and now they are coming into roles into the senior leadership team or across functions.

There was just one example that happened this week where a woman engineer - she's also just finished her MBA. She's been part of the engineering talent development program. She was then put into a project role and strategy, networks alliances around the future of work, and now at the end of here time on that project she's now just been promoted into a role in the alliances team. It's just examples like that that give you a sense of the scale and what we're doing at Air New Zealand.

I'm having a bit of problems with my clicker. Here we go. I alluded to the fact that we had - that we've got good representation, gender representation, in our senior leadership team. I'll just dive a little bit more into that area and into that example. Back in 2013 is when we set the target to have 40% women into the senior leadership team. Back then we actually started out with only having 16% women in our senior leadership team.

We knew, as an organisation, we weren't leveraging that diversity of experience and that diversity of thinking in our senior leadership team sufficiently well. We ran some talent assessment reviews and really took quite a clinical approach to analysing the data, and we found that we did have really good, strong female talent two to three levels below the senior leadership team, but we didn't feel that they were ready yet in terms of some of their skills and some of their experience set that they had.

We set out to really stretch their development with some targeted programs like our Women in Leadership program and some very accelerated and active management and movement of them into different roles to get that breadth of experience or that specialist experience that we considered that they needed. We've had really great success with that program in terms of the percentage of graduates from that program who have been promoted into the senior leadership team.

As you can see from this slide we've got a range of what I would call talent development and leadership development programs. It's my responsibility to ensure that we track the ROI on those roles very closely.

One other example that I think it would be good to bring to the table is that yesterday we announced Carrie Hurihanganui into an executive role. She is a great example of somebody - of a woman in the organisation who had been with Air New Zealand for 18 years in a variety of different roles and had benefitted hugely from all of that experience and also from the development as well and then, after a time offshore, she's now coming back into the Company, into the executive. I think that's just a really strong testament to our approach around both internal and external talent mapping and talent development.

Over the past five years we've also put in place some rhythm and some additional programs that I'll talk about. We've also, over the last five years, put in place some more internships and direct entry recruitment programs into the organisation. That's been a very deliberate move on our part to build a stronger pipeline of newer, different talent into the organisation, in particular areas like digital, like into engineering and with our TupuToa internship to actually really target more Maori and Pasifika graduates and interns into the organisation.

We've also got a large number of employee network groups to make sure that our diverse employee under-represented groups have a voice, get those networking opportunities, get the development opportunities, and we're also really focussed on helping them become activists for change within the organisation.

With some of the more mature employee networks we're actually seeing them take on a far greater leadership role in terms of understanding why they might not be as represented as they would like to be at senior leadership levels and actually suggesting and championing and sponsoring some of the programs for change.

In addition to the leadership and the talent development programs that I have referenced earlier, we also have a really rigorous approach to technical training. Technical training that we offer is for our airport staff, our pilots, our engineers and our cabin crew. These programs are run through our Aviation Institute.

In 2018 we've had over 29,000 individual student registrations and over 110,000 training hours completed - just to give you a sense of the scale of what we do. This level of training does keep ratcheting and is at record levels. The next steps for that Aviation Institute are to really turn it into a learning hub for all employees and to make sure that we are repurposing it so that we are training all of our employees for the skills of the future and, in particular, digitalisation.

Again, I'm really fixated and focussed around the return on investment of our training. I mean to give you just one example in this space we see a direct link with the customer service training that we've been running over the last couple of years, in particular with our cabin crew, with really high and increasingly higher levels of customer satisfaction scores. There's a really nice correlation between the investment that we're putting in in terms of customer service training and what we're seeing on board.

I also think that in times of some of the disrupts that we've had, as Christopher spoke to, and some of the ongoing issues that we've had, that we can see the amazing great customer recovery taking place both on board and on the ground.

I am a bit of an obsessive around employee engagement because engagement does drive that discretionary effort, which Christopher talked about, which drives productivity, which drives performance as an organisation. We started undertaking an engagement survey with Aon Hewitt back in 2014, which was our base year. I'm really proud of the gains that we have made from a high base in the past four years.

In terms of the levels of engagement of our employees I also think different to other organisations that participate in global surveys we have a really high participation level. Over 75% of our employees actually fill in the survey. That’s really high, particularly given the remote nature of a lot of our work groups. In terms of engagement we're in the top quartile of companies in New Zealand and also in Asia and Pasifika.

What I would say about the engagement survey is that it's not just a static survey where we get a lot of information and it's very interesting. We actually do take tangible actions based on the feedback from those surveys. The actions and the insights that we get from that survey really inform and dictate my people plan for the next two years. We're in the midst of doing that for the two years going forward.

Just an example. We heard from our staff that they wanted more flexible working arrangements where possible. We also heard from our staff that they wanted more equity and a better workplace environment in terms of properties and work spaces, particularly in some of our more operational areas. We made - we targeted our property and investment spend in terms of some of our work spaces to those high density operational areas. By doing that that’s gone down really, really well with our employees in our large employee work groups.

The last thing I'd say about the engagement survey, in terms of some of the information that’s from within it, is that there is an area within it that really looks closely at around our manager effectiveness KPIs. They, again, have historically been at high levels compared to other organisations, but they increased by 6% between 2016 and 2018. In essence, our employees are telling us that our managers are good leaders. That’s really important because we know that leadership drives employee engagement.

Leila and Christopher talked a little bit about our union relationships and how important they are to us as an organisation. I'll just spend a couple of slides talking about that now. In 2015 we started working with our union partners in a very different way than had done previously. It's an approach called high performance engagement. What it does is it recognises our union stakeholders as strategic partners that we need and that we want to collaborate with, with a goal of ensuring that they can represent our collectivised work groups effectively and that those same employees - those employees that are the closest to the issues or the problems - should be given the opportunity to resolve them. This is a concept that’s widely described as interest based problem solving.

Back in 2015 we did a lot of joint work our union partners to look at the different models out there internationally and other organisations like Kaiser Permanente in the States to learn from their experiences and to learn from companies that had strong company and union relationships and were successful as organisation and as companies as well.

I think that the success of our approach in creating a stable and constructive workplace relations environment has had the Government publicly acknowledge the ground breaking work that we're doing in this space. Both the Government and other businesses actively seek out insight into how this tripartite approach between management, employees and unions can be replicated both in the private and in the public sector.

There are many tangible benefits which are on that slide that we can point to in terms of our approach around HPE, but the obvious one that I would point to is around the - how much less volatility we have got around our collective contract negotiations and also around how union and management works together to address more sensible working terms and conditions for our employees.

I do think that most unique to us - and a very important example of our strategic employment relationships that work - has been that in May and in June of this year we have now entered into a nine year strategic partnership with the two unions that represent over 98% of our pilots. This is indeed really ground breaking and something that the Board and the executive are incredibly excited about the opportunity that presents us too.

This framework provides for long term stability in terms of our labour costs and it's also a very tangible demonstration of a joint and shared commitment to work together on improvement initiatives. This year's pay agreement is in line with our usual average settlements and future pay increases are linked appropriately to CPI.

Beyond the statistics of the agreement and the details of the memorandum of understanding with the unions what I can tell, and what I can say but I can't represent on the slides, is just the degree of trust and the different feel of the working relationship that we have got with our union partners, particularly in the pilot space.

That is just evidenced in terms of the decrease in issues that get escalated to me or to other members of the executive, but also in terms of the nature of the constructive conversations that are happening across the business when we are working on improvement initiatives with our pilots and our pilot unions. I think that these agreements put us in an incredibly strong position now and future proof us looking ahead.

Having that future focus that I've talked about is really important for my team and for others in the business. We know that to keep attracting the best talent that we need to continue to improve the employee experience of our staff. Something that we're doing which is quite innovative in this space is that we're using the same methodology and the same cross-business approach to looking at our employees in a similar way to how we segment and profile our customers and really look at the customer experience and the customer journey. We're doing the same thing to our employees in terms of their career journey with us.

This sort of approach ensures that we're going to be recognising the needs of the very different segments of our people, be that demographic needs or be that in terms of the different ways that they want to work. For example, having a more agile approach to the way that teams are constructed and put together and how people work in our digital workforce is something that we're making quite a lot of progress on.

Let me wrap up now just by reinforcing that at Air New Zealand people management is not the soft stuff. Rather it's core to our viability as a competitive and productive business, and we know that we can't afford to get the people part of the equation wrong. The direct impact on our customers of our service means that the quality of our team is vital to our success.

We also recognise, as Christopher talked to, that we can't rely on what has worked in the past to determine future plans. We need to continue to improve. We need to continue to invest in our people. We need to continue to innovate and we need to look both within, but also outside the industry for best practice and continue to challenge our people to push the airline further. Thank you.

Leila Peters: Thanks, Jodie and Christopher, for that. Now we're going to have a brief 10-minute morning tea break, rest room break, coffee break. There is some food in the back. I have time at five to 10, so let's try and get back at 10:05 and keep our [OTP] going. Thanks.

[Morning tea break]

Welcome back. Thanks everyone. I have time at 10:10, so we didn’t do that well, but I trust that we can do better next time.

Before we welcome to the stage our Chief Strategy, Networks and Alliance Officer, Nick Judd, I'd like to first play a short video which introduces some cute ambassadors we've dispatched around the world on behalf of Air New Zealand.

[Video playing]

Nick Judd: Kia ora. As Leila mentioned, my name is Nick Judd and I'm the Chief Strategy Networks and Alliances officer here at Air New Zealand; started in the role back in October, so been in there for around seven months. Today I'm going to talk to you a little bit about my background and the 15 years that I've had at Air New Zealand and corporate history. I then want to talk about how our network has evolved over the last eight years and the strength that we have inherent in that network now.

I'm going to touch on how we manage and review our route performance because I think that's very important as we go into a period of higher fuel prices. Then I'm going to talk about what our medium outlook is for growth and how we're going to land that. Finally I'll touch on a little bit more depth around our route groups and what our plans are in regards to that, but also what gives us a competitive advantage as we go forward.

So as I mentioned, I started at Air New Zealand a relatively long time ago actually, 15 years ago and started in Jeff's finance team actually, so he was one of my original bosses. I've been very fortunate in my career at Air New Zealand that I've worked across a number of different locations, but also a number of different commercial sides of our business.

So started in finance, moved to Sydney and had three years based in the management team over there and that was a really, really good learning experience as a young guy coming through the organisation because I sat on the management team over there, while we were going through some tough times, we were obviously still recovering from Ansett and not only did you get a sense of the size and scale of Air New Zealand on a global sense, which made you realise how small we really are and the challenges that we have, but you also had to sort of man up and put your flak jacket on in the early days still over there, while we were recovering from Ansett. So it gave you a good perspective of where Air New Zealand had come from recently and how we were trying to rebuild and reorganise the Company.

I then came back and spent a little bit more time in finance before jumping into the sales side of things and had some roles in both our sales area running the New Zealand operation and particularly the corporate and government side of our business and also in our loyalty area as we were looking to expand that and build that into the commercial arm that it is today.

Then over the last four years, I've spent time in both China and in the US running our China and Hong Kong regions and running our Los Angeles, or sorry, our North American and South American operations out of Los Angeles. So that has given me a really good appreciation of how tough it is for us in offshore markets, but how we can continue to develop and build our sales and market, develop presence to launch new routes and go into new destinations. As Jodie talked about, what I've seen over that four years is a real transition in the talent that we're now bringing into our organisation, not only here in New Zealand, but in offshore as well, as we build that depth.

So I'm going to start by taking you back eight years and taking a look at our route network as it looked in 2010 and there's a couple of key characteristics that sort of underlined how we approached our route strategy and our network strategy at that period of time. You'll see that on that map there are routes like Auckland-Beijing, Hong Kong-London and what I would say is that we were defined at that time by a number of strategic calls that were probably more based on hope than commercial reality. So those routes, we were going up against other competitors, certainly on Hong Kong-London, two home market carriers and we had a hope that we could out-weight them and eventually deliver a strong commercial result and that was unlikely to be the case and as was proven over the years to come.

So from that day, our network has evolved significantly both domestically and internationally. We've got out of some of those routes and we've moved away from thin, narrow routes that we were flying at that time, such as Osaka-Christchurch and we've pivoted the business to more of a focus on making sure that all routes are profitable and commercially sustainable. As you look at the map for 2014, what you notice is actually a little bit of retrenchment that went on in terms of how we pulled back in our network to make sure that we got profitability on all of our network fronts.

The other key change with 2014 you'll notice is the bubbles and it was the start of our alliance strategy. So we built the partnership with Virgin Australia in 2011 and then we brought Cathy on not long after those and they were a really good example of how we not only shored up some routes that were marginal, such as Auckland-Hong Kong and built better flow-through traffic and connecting traffic through those, but also built our Tasman network and really consolidated our presence in what is a core market for us.

We brought back more of an Auckland hub mentality and so we pulled off some of those thin routes through to Christchurch that I talked about and really this was the base that we built over the last four years to springboard us to above-average growth, that we have delivered and the commercial results that obviously we've returned over the previous four years.

As we spring forward to today, what you'll notice is that actually a number of those routes that we were flying, either back in 2000 or shortly before that, have actually come back and the reason for that is that we've now got the right market structures in place to make that work. A really good example of that is Singapore. We exited that market in 2006, we came back in 2015 with the support of Singapore Airlines and we're now obviously looking to continue to grow that market. We built a focus on the Pacific rim and that still adheres today. We won't be trying to fly to new destinations in Europe or UK because that's not our netting and certainly other people can do that a better way than we can and we'll do that through our partnerships such as the Singapore alliance.

But also we built out both our alliance partnerships and our strategic partnerships, so we added Air China, we added United obviously and underneath the mix layer, while we don't have revenue shares and JVs, we've actually built really strong partnerships with some unlikely allies such as Aerolineas Argentinas who have helped us build our Buenos Aires service and continue to grow that and that relationship is incredibly strong given that there's no skin in the game for them, we have no alliance basis such as the Start Alliance relationship, but they continue to assist us to this day and we obviously continue to feed their network into South America. So alliances and our strategic partnerships have really underpinned our network growth over the last four and five years.

The other element that's really important about this network now is that we've got a good balance of inbound and outbound diversification. As Christopher touched on, we can never afford to lose New Zealand and we have to make sure that that core remains very solid, but it's also important that as we look to grow, we know that New Zealand is only a country of 4.5 million people, that we are prepared to go out to new destinations that are predominantly inbound and help build our capability and launch our sales and market development strategies and our brand strategies in those markets to deliver growth as we go forward. This has been very successful for us. We've grown from around a $3.3 billion revenue company to $4.6 billion today and we hope we're soon going to crack that $5 billion mark.

As you look at the map and North America, the other key element to this is that we've extended in to the USA and so that's quite a dramatic change. For any of you that have spent any time in the USA, what you'll know is that USA is a country of 50 states, or 50 countries. So while we had a strong presence to the west coast, we've also had good interline feed with United. What has become important for us is that we reach into destinations like Houston and we actually generate whole new markets and new market opportunities and I'll touch on this in a little more depth when I talk about Chicago later. Underpinning all this has obviously been our domestic network which isn't shown here and so we have grown at much faster rates than GDP growth rates, we continue to see strength in the growth proposition from both New Zealand and inbound tourism and we expect that we will continue to be able to grow at above average rates for a little while into the future.

Changing tack just slightly, I want to touch on how we assess our routes and how we manage those and the reason why I think this graph is important is because as we face a period of increasing variable operating costs, higher fuel prices, this should give you comfort in the way that we will manage that going forward. We regularly evaluate all of our routes and it is built into our business rhythm that we do that from our Board and our executive on a quarterly basis as well. So I have an expectation that my chief or my General Manager Networks, Kate O'Brien, will face strenuous questions from both the executive and the Board on a quarterly basis on underperforming routes.

So the model that you see on the right is how we rate our routes basically. We obviously want all of our routes to be sitting in that top right quadrant, would be ideal, but as you can imagine, there's different characteristics with different markets. If we have routes sitting in that bottom left hand quadrant, then there is an action plan created not only by the networks team, by our commercial team, by our sales and market development team, by our brand team, both ends of the route are looked at and those point of sale regions that feed into that route and we put a timeline around that to turn that route around. This is incredibly important as we see more routes move from that right hand quadrant to the left with increasing variable operating costs.

So you can have, I guess, a confidence and assurance that as we go through this period, we will have a laser-like focus on all of our profit - all of our routes to make sure that they are profitable and continue to deliver the commercial results that we see. In many respects the way we actually review our routes is a little bit harsh because we obviously get a large amount of domestic feed from international routes that we launch as well, so that really is the cream on the crop for us. We don’t take that into account on individual route profitability but it is certainly something that we track, particularly as we look to continue to grow domestic jet and regional feed and connectivity.

I can talk to a bunch of examples where we've exited, obviously regional New Zealand being a good example of that over the last three or four years, but also we've added significant capacity to markets and we continue to look for opportunities to do that. Sometimes we're constrained by governmental and slot times, such as Shanghai, but on the whole we've continued to build capacity in new markets in a really structured and comprehensive way.

We reallocate capacity as we need to and Houston and San Francisco is a good example of that, where we will fluctuate those capacities depending on demand to make sure we get the right commercial result, not only for ourselves, but for United our partners and we are completely comfortable with seasonalisation in our network now. So Buenos Aires is a really good example of that, where we fly five times a week through the northern winter peak season and then we drop down to only three per week during the off-peak season of northern summer. So we've got a comfortable balance that we can still get good utilisation out of our aircraft while also driving the right commercial results through seasonality.

Underpinning this framework is that for every route grouping we have, we have a network strategy that sits alongside that and so to give you an example of that, we refreshed our Pacific Islands network strategy back in October, November of this year and we have now divided all of the Pacific islands markets up in to three tiers. So tier one, our markets that we're looking to grow above the organic growth rates, we think we can either stimulate the market or steal market share off competitor airlines and that's markets such as Honolulu, Bali, where you've seen us put a lot of capacity into in quarter four, Samoa and Fiji are performing really strongly for us and we're putting gauge changes in there to drive better CASK efficiencies and better RASK results.

Tier two are markets that we will continue to grow but they will grow at organic growth rates. Then Tier three markets are those that are strategically important to us, or are profitable but are unlikely to grow in the near term, so we'll continue just to monitor those and hold where they are. So it's a good example of how our network strategy and our principles align with our disciplined route management to make sure we're driving the right commercial results.

So changing tack to the past to look into the future, as we look forward for the next three years, we believe that our growth will be in the range of 5% to 7% and why I say we believe is because obviously this is highly dependent on fuel prices. As I talked about in the last slide, one of the things that we will constantly be doing is assessing capacity and since we did our original cut of FY19, we probably really cut that network plan three or four times as fuel prices have escalated and now sit where they sit today. So we will continue to monitor and track. The number I would say that we've had baked into FY19 at the moment will change if the volatility in fuel price continues to change and that goes for every market.

As we look forward to FY19, we do have a higher end growth rate at the top of that range and the reason for that is as we've come out of the Virgin Australia alliance, it was incredibly important that we built a strong network and a strong customer proposition across New Zealand to make sure we maintained and captured the full customer share that we believe we will. So that is a one-off. We know from previous experience that while the Tasman can be volatile, it pretty quickly corrects itself in terms of capacity changes and we expect that in coming years that growth rate will obviously slow to take account of the impact of the growth that we've had this year.

The other thing that's important in these growth numbers and which Christopher touched on, is that as fuel prices increase, we see more rationality entering the market and Christopher touched on the fact that we're seeing rationality from Chinese carriers. If you see rationality from Chinese carriers, then you know you're getting rationality from the whole industry. So we know once fuel prices hit above $80, it is unlikely we will see more competitors into New Zealand, history tells us that and we know that once the sustained fuel prices of $95 or above, then we will see entrants leave New Zealand; it's not strategically important for them. So the key for us, as we look forward, is that we have flexibility in our fleet to be able to take advantage of opportunities when they present themselves, but also to reduce capacity where we need to so that we can build yields and maintain the commercial results that you've become accustomed to.

We've seen this across the Tasman. Qantas has done a really good job of managing their capacity and making sure they drive the yield results in domestic and that is obviously something that we will be looking to do as fuel prices increase here. We know that we need to increase prices and we've put a couple of price increases through both domestically and international and we have adjusted capacity off the back of that, so a good example of how we will manage our capacity growth within that range, as fuel prices increase and variable operating expenses change.

As we dive down into each of the route groups, I want to start with domestic and you guys will know it, domestic is our key to success. It underpins our profitability. We've been fortunate and done a good job of making sure that we have built our network and grown out our commercial results off the strength of New Zealand's strong commercial and GDP performance over the last seven or eight years. We still have an above 80% market share and we have a really good level of influence over the market here and what we do know is that when we put in price increases like we did less than a month ago, we know that the large majority of that will stick. We will adjust capacity to make sure that we get the right revenue result out of that, but we do have a lever there that we can pull as fuel increases.

Underpinning our domestic success is obviously our Airpoints and loyalty program: 2.9 million members, it grows by tens of thousands still every month, we're represented in over 60% of the households in New Zealand and we've managed to transition that program from just a travel program to something that people can earn and earn on a regular basis. We're now one of New Zealand's largest wine distributors through our program and we have a real everyday relationship with people through the coalition that we've managed to build out over the last two years. So a really strong proposition and one that strategically opens up opportunities in the future as we look at it.

If domestic is the key to our profitability of our Company, then business, being government and corporate travel, is the key to our domestic profitability. Four, five years ago now, we signed the All-of-Government deal and there was a lot of rumours at that time as to what that was going to mean for Air New Zealand and what I can say is that within that time actually our share has grown. We sit with a high 90% market share of the government business. It's an incredibly important account for us. We certainly don’t take it for granted. But also it gives us a level of confidence to continue to build out our domestic network. In conjunction with that, obviously we have a very high share of the corporate market and our New Zealand sales team works and does an incredibly good job of making sure that we continue to focus on those customers and that we grab more than our fair share of market share.

We don’t take it for granted and we will continue to invest in the service offering as we know these customers are at the core of our business and so you'll see more investment going into lounges, both regional and domestic and certainly we continue to look at the digital experience and how we enhance things like our apps, et cetera, to deliver a better customer experience for a large majority of our travellers who are travelling very regularly.

The other thing we've seen over the last 12 and 18 months is that we've seen Jetstar withdraw services and change their regional schedule. All of their fleet are now based in Auckland. That means that they have no first flight out of the day out of any of the regions and so we've seen a swing back to us and we've seen really strong results from those regions and we expect that to continue into the future.

I won't spend too much time on inbound tourism, because Christopher has already touched on it, but you would have seen from that graph that there are five million - there's an expectation and a forecast that there will be five million international visitors hitting our shores in 2024. This is obviously important for our long-haul network, but it is also important for our domestic network. We have significantly grown capacity into Queenstown off the back of the inbound market and we believe that we can do that to other markets such as Tauranga as we go forward. So very important for us, good demand signals in that environment and we believe that will underpin our growth both in regional and domestic New Zealand.

Last but not least, we've had a real focus on domestic and regional business and building our presence in that space and helping develop domestic tourism. So you've seen us sponsor things like the Hawkes Bay Marathon, the Queenstown Marathon, we're involved with things like the Bluff Oyster Festival and the Napier Art Deco Festival. We are strong supporters, even subtly, of concerts like Ed Sheeran coming and going down to Dunedin, but they have driven really strong domestic tourism results for us and we believe we'll continue to obviously help supplement the corporate and business travel and inbound tourism so that we can continue to grow our domestic network and presence.

Touching just briefly as we look to the future, we are evaluating the A321 for domestic use and this gives us two really, really good advantages. One is you look at a market like Auckland-Wellington, we're now flying that market up to 20 times a day. So it's challenging to fit more flights within that schedule and so we can add gauge and capacity while not adding any more services within that timeframe. What the A321 gives us is it gives us a 25% increase in seats for very marginal increase in variable operating costs. So it's a great example of where we'll drive a much better revenue result because we'll have more premium seats at the right time but also driving CASK inefficiencies as we grow our scale and build to greater size.

Jumping across the ditch and touching on Australia, so we've invested heavily in Australia over the last few years and we've done that obviously from Dave, the video that you saw, which our brand team have done an absolutely outstanding job. When that launched, the shift that we saw in awareness of Air New Zealand was quite incredible. That will continue to be a focus for us, as us building our brand presence in Australia, but also not necessarily in behind the scenes, but we've also built our sales presence to help match that brand awareness that we've built. When I was in Australia 12, 13 years ago, we actually pulled all of our states offices out, we retrenched and we moved to just a single head office.

We've now gone back into all of those states that we pulled out of and that is having a really good impact not only in the leisure sales market, but also in our presence in the corporate sales market and our presence overall and how we build our hub strategy through to North and South America. It is amazing how much value you get from having a physical presence in a location and having your staff out in that city or region walking the talk and talking about Air New Zealand. That has been incredibly important for us as we've obviously built up our hub strategy through Auckland and gained more traction with that.

The other elements that underpin that strategy is that we've increased our wide body flying across the Tasman in order to be able to connect up Australians to North and South America and vice versa. Adelaide's a really good example of this where we put a 789 in last year, much higher obviously configuration of premium seats and that has beaten the business case and beaten our expectations of how that would go. So that gives us a lot of confidence as we look to the future about where we can deploy our assets to get good utilisation out of the wide body, but also drive really strong revenue results as well.

Australia and the hub strategy has been working really well for us and a good example of this is South America where close to 40% of that Buenos Aires service is now originating traffic from Australia. That market is growing much quicker than New Zealand to South America and being quite frank, we would not have been able to increase our capacity to South America or probably even land that route successfully without having that Australia feeder traffic. So for us, it will become - continue to be a really strong part of our network plans and we will continue to put a lot of focus on it from a sales and market development perspective to make sure that we drive that hub strategy through Auckland and onwards. On the point-to-point market, that's still important and we have well over 50% share in that market of traffic, which is obviously more profitable, but also underpins our frequency and our schedule across the Tasman.

So connected to the Tasman and obviously touching on what you'll be aware of, we decided to terminate the Virgin Australia alliance back in April and that will end effective 27 October. I just want to give you a little bit of context around why that decision was the right decision to make right now. So I've touched on the infrastructure we've built in Australia and the presence that we have here, which makes us feel very confident that we will retain the majority share of the sales that we have in that alliance. Our share of sales in that alliance far outweighed the ASK share that we had and we have strength now at both ends and both point of sales across the Tasman.

Our regulatory approval was expiring, so we had a decision to make as to whether we were in this for another three years or whether now was the right time to call it and there's another couple of key elements that have changed with Emirates pulling out, the market dynamics have changed quite dramatically with them only flying Christchurch-Sydney and also additionally, we had some options coming up with our fleet with the A321s coming in and the neo deliveries coming, that meant that we could do this with a very minimal capital cost expenditure and no new planes at all. I would say that the circumstances for coming out of the Virgin Australia alliance are completely unique to that alliance and I'll talk in a little bit more depth about our alliance strategy shortly. So we don't see this having any impact on any of our other alliance partners and certainly that's been the case in the discussions we've had with them.

I just want to touch briefly on the Qantas code share, obviously you would have seen that announcement. That, for us, gives us a really good customer proposition into Australia and we are really confident that that will be a much stronger customer proposition that what we've had with Virgin. It has been really well received by our Airpoints customer and our loyalty customers, it gives us great frequency and connections out of our key eight hubs across Australia and also it gives us a really strong lounge position within Australia as well. So a good example of where we've managed to, I guess, come out of an alliance but come out with a stronger customer proposition.

If you look at the Virgin alliance, actually when you look back over the last few years, what you see is that from about 2015 onwards, there was quite a conscious uncoupling of the customer journey. As opposed to all of our other alliance relationships, you can actually see both organisations diverging and putting in their own separate customer experience. We saw this through our customer satisfaction results, it was unlikely to change and so it was quite a key part of the decision to make sure that we give our customers the best proposition and we believe that Qantas domestic Australia connectivity will do that.

Just finally on the route groups, this is basically a continuation slide, so for those of you who have been coming to our investor day presentations, what you will have seen is this slide in various guises over the years and I just want to say that nothing has changed in terms of our long-haul network. We will still be aiming to connect Australian traffic to North and South America and vice versa. New Zealand will be at the core of everything we do, both from a domestic, international and a Tasman PI sense and also we are still looking for opportunities to unlock that Asia traffic through to South America and build frequency off the back of that. So the same holds, it's worked incredibly well for us and we will build our depth and breadth off the back of this strategy.

I'm not going to touch in any depth on revenue share alliances because it could take half a day, but what I will say is I just wanted to - I think there are some new people that haven't been to our investor days before I just want to stress the importance of revenue share alliances for us and how that underpins our alliance network. It allows us to obviously make joint decisions around capacity, pricing, scheduling, growth, other behind-the-scenes operations, et cetera and the customer experience and for us it's really important that our partners have skin in the game. The share of voice that we get with organisations like United and Singapore is far above the ASK share that flying to New Zealand offers them. So it works very well for us, it keeps them focused obviously on the joint venture and making sure we drive the right customer and commercial outcomes through that.

Our network obviously looks very differently compared to eight years ago, as I showed you and that is as a result of our alliance partnerships. I'd probably categorise them into two phases. With United and Singapore, we're definitely still in a growth phase and we see a lot more opportunity.

Nick Judd: Kia ora. As Leila mentioned, my name is Nick Judd and I'm the Chief Strategy Networks and Alliances officer here at Air New Zealand; started in the role back in October, so been in there for around seven months. Today I'm going to talk to you a little bit about my background and the 15 years that I've had at Air New Zealand and corporate history. I then want to talk about how our network has evolved over the last eight years and the strength that we have inherent in that network now.

I'm going to touch on how we manage and review our route performance because I think that's very important as we go into a period of higher fuel prices. Then I'm going to talk about what our medium outlook is for growth and how we're going to land that. Finally I'll touch on a little bit more depth around our route groups and what our plans are in regards to that, but also what gives us a competitive advantage as we go forward.

So as I mentioned, I started at Air New Zealand a relatively long time ago actually, 15 years ago and started in Jeff's finance team actually, so he was one of my original bosses. I've been very fortunate in my career at Air New Zealand that I've worked across a number of different locations, but also a number of different commercial sides of our business.

So started in finance, moved to Sydney and had three years based in the management team over there and that was a really, really good learning experience as a young guy coming through the organisation because I sat on the management team over there, while we were going through some tough times, we were obviously still recovering from Ansett and not only did you get a sense of the size and scale of Air New Zealand on a global sense, which made you realise how small we really are and the challenges that we have, but you also had to sort of man up and put your flak jacket on in the early days still over there, while we were recovering from Ansett. So it gave you a good perspective of where Air New Zealand had come from recently and how we were trying to rebuild and reorganise the Company.

I then came back and spent a little bit more time in finance before jumping into the sales side of things and had some roles in both our sales area running the New Zealand operation and particularly the corporate and government side of our business and also in our loyalty area as we were looking to expand that and build that into the commercial arm that it is today.

Then over the last four years, I've spent time in both China and in the US running our China and Hong Kong regions and running our Los Angeles, or sorry, our North American and South American operations out of Los Angeles. So that has given me a really good appreciation of how tough it is for us in offshore markets, but how we can continue to develop and build our sales and market, develop presence to launch new routes and go into new destinations. As Jodie talked about, what I've seen over that four years is a real transition in the talent that we're now bringing into our organisation, not only here in New Zealand, but in offshore as well, as we build that depth.

So I'm going to start by taking you back eight years and taking a look at our route network as it looked in 2010 and there's a couple of key characteristics that sort of underlined how we approached our route strategy and our network strategy at that period of time. You'll see that on that map there are routes like Auckland-Beijing, Hong Kong-London and what I would say is that we were defined at that time by a number of strategic calls that were probably more based on hope than commercial reality. So those routes, we were going up against other competitors, certainly on Hong Kong-London, two home market carriers and we had a hope that we could out-weight them and eventually deliver a strong commercial result and that was unlikely to be the case and as was proven over the years to come.

So from that day, our network has evolved significantly both domestically and internationally. We've got out of some of those routes and we've moved away from thin, narrow routes that we were flying at that time, such as Osaka-Christchurch and we've pivoted the business to more of a focus on making sure that all routes are profitable and commercially sustainable. As you look at the map for 2014, what you notice is actually a little bit of retrenchment that went on in terms of how we pulled back in our network to make sure that we got profitability on all of our network fronts.

The other key change with 2014 you'll notice is the bubbles and it was the start of our alliance strategy. So we built the partnership with Virgin Australia in 2011 and then we brought Cathy on not long after those and they were a really good example of how we not only shored up some routes that were marginal, such as Auckland-Hong Kong and built better flow-through traffic and connecting traffic through those, but also built our Tasman network and really consolidated our presence in what is a core market for us.

We brought back more of an Auckland hub mentality and so we pulled off some of those thin routes through to Christchurch that I talked about and really this was the base that we built over the last four years to springboard us to above-average growth, that we have delivered and the commercial results that obviously we've returned over the previous four years.

As we spring forward to today, what you'll notice is that actually a number of those routes that we were flying, either back in 2000 or shortly before that, have actually come back and the reason for that is that we've now got the right market structures in place to make that work. A really good example of that is Singapore. We exited that market in 2006, we came back in 2015 with the support of Singapore Airlines and we're now obviously looking to continue to grow that market. We built a focus on the Pacific rim and that still adheres today. We won’t be trying to fly to new destinations in Europe or UK because that's not our netting and certainly other people can do that a better way than we can and we'll do that through our partnerships such as the Singapore alliance.

But also we built out both our alliance partnerships and our strategic partnerships, so we added Air China, we added United obviously and underneath the mix layer, while we don’t have revenue shares and JVs, we've actually built really strong partnerships with some unlikely allies such as Aerolineas Argentinas who have helped us build our Buenos Aires service and continue to grow that and that relationship is incredibly strong given that there's no skin in the game for them, we have no alliance basis such as the Start Alliance relationship, but they continue to assist us to this day and we obviously continue to feed their network into South America. So alliances and our strategic partnerships have really underpinned our network growth over the last four and five years.

The other element that's really important about this network now is that we've got a good balance of inbound and outbound diversification. As Christopher touched on, we can never afford to lose New Zealand and we have to make sure that that core remains very solid, but it's also important that as we look to grow, we know that New Zealand is only a country of 4.5 million people, that we are prepared to go out to new destinations that are predominantly inbound and help build our capability and launch our sales and market development strategies and our brand strategies in those markets to deliver growth as we go forward. This has been very successful for us. We've grown from around a $3.3 billion revenue company to $4.6 billion today and we hope we're soon going to crack that $5 billion mark.

As you look at the map and North America, the other key element to this is that we've extended in to the USA and so that's quite a dramatic change. For any of you that have spent any time in the USA, what you'll know is that USA is a country of 50 states, or 50 countries. So while we had a strong presence to the west coast, we've also had good interline feed with United. What has become important for us is that we reach into destinations like Houston and we actually generate whole new markets and new market opportunities and I'll touch on this in a little more depth when I talk about Chicago later. Underpinning all this has obviously been our domestic network which isn't shown here and so we have grown at much faster rates than GDP growth rates, we continue to see strength in the growth proposition from both New Zealand and inbound tourism and we expect that we will continue to be able to grow at above average rates for a little while into the future.

Changing tack just slightly, I want to touch on how we assess our routes and how we manage those and the reason why I think this graph is important is because as we face a period of increasing variable operating costs, higher fuel prices, this should give you comfort in the way that we will manage that going forward. We regularly evaluate all of our routes and it is built into our business rhythm that we do that from our Board and our executive on a quarterly basis as well. So I have an expectation that my chief or my

General Manager Networks, Kate O'Brien, will face strenuous questions from both the executive and the Board on a quarterly basis on underperforming routes.

So the model that you see on the right is how we rate our routes basically. We obviously want all of our routes to be sitting in that top right quadrant, would be ideal, but as you can imagine, there's different characteristics with different markets. If we have routes sitting in that bottom left hand quadrant, then there is an action plan created not only by the networks team, by our commercial team, by our sales and market development team, by our brand team, both ends of the route are looked at and those point of sale regions that feed into that route and we put a timeline around that to turn that route around. This is incredibly important as we see more routes move from that right hand quadrant to the left with increasing variable operating costs.

So you can have, I guess, a confidence and assurance that as we go through this period, we will have a laser-like focus on all of our profit - all of our routes to make sure that they are profitable and continue to deliver the commercial results that we see. In many respects the way we actually review our routes is a little bit harsh because we obviously get a large amount of domestic feed from international routes that we launch as well, so that really is the cream on the crop for us. We don’t take that into account on individual route profitability but it is certainly something that we track, particularly as we look to continue to grow domestic jet and regional feed and connectivity.

I can talk to a bunch of examples where we've exited, obviously regional New Zealand being a good example of that over the last three or four years, but also we've added significant capacity to markets and we continue to look for opportunities to do that. Sometimes we're constrained by governmental and slot times, such as Shanghai, but on the whole we've continued to build capacity in new markets in a really structured and comprehensive way.

We reallocate capacity as we need to and Houston and San Francisco is a good example of that, where we will fluctuate those capacities depending on demand to make sure we get the right commercial result, not only for ourselves, but for United our partners and we are completely comfortable with seasonalisation in our network now. So Buenos Aires is a really good example of that, where we fly five times a week through the northern winter peak season and then we drop down to only three per week during the off-peak season of northern summer. So we've got a comfortable balance that we can still get good utilisation out of our aircraft while also driving the right commercial results through seasonality.

Underpinning this framework is that for every route grouping we have, we have a network strategy that sits alongside that and so to give you an example of that, we refreshed our Pacific Islands network strategy back in October, November of this year and we have now divided all of the Pacific islands markets up in to three tiers. So tier one, our markets that we're looking to grow above the organic growth rates, we think we can either stimulate the market or steal market share off competitor airlines and that's markets such as Honolulu, Bali, where you've seen us put a lot of capacity into in quarter four, Samoa and Fiji are performing really strongly for us and we're putting gauge changes in there to drive better CASK efficiencies and better RASK results.

Tier two are markets that we will continue to grow but they will grow at organic growth rates. Then Tier three markets are those that are strategically important to us, or are profitable but are unlikely to grow in the near term, so we'll continue just to monitor those and hold where they are. So it's a good example of how our network strategy and our principles align with our disciplined route management to make sure we're driving the right commercial results.

So changing tack to the past to look into the future, as we look forward for the next three years, we believe that our growth will be in the range of 5% to 7% and why I say we believe is because obviously this is highly dependent on fuel prices. As I talked about in the last slide, one of the things that we will constantly be doing is assessing capacity and since we did our original cut of FY19, we probably really cut that network plan three or four times as fuel prices have escalated and now sit where they sit today. So we will continue to monitor and track. The number I would say that we've had baked into FY19 at the moment will change if the volatility in fuel price continues to change and that goes for every market.

As we look forward to FY19, we do have a higher end growth rate at the top of that range and the reason for that is as we've come out of the Virgin Australia alliance, it was incredibly important that we built a strong network and a strong customer proposition across New Zealand to make sure we maintained and captured the full customer share that we believe we will. So that is a one-off. We know from previous experience that while the Tasman can be volatile, it pretty quickly corrects itself in terms of capacity changes and we expect that in coming years that growth rate will obviously slow to take account of the impact of the growth that we've had this year.

The other thing that's important in these growth numbers and which Christopher touched on, is that as fuel prices increase, we see more rationality entering the market and Christopher touched on the fact that we're seeing rationality from Chinese carriers. If you see rationality from Chinese carriers, then you know you're getting rationality from the whole industry. So we know once fuel prices hit above $80, it is unlikely we will see more competitors into New Zealand, history tells us that and we know that once the sustained fuel prices of $95 or above, then we will see entrants leave New Zealand; it's not strategically important for them. So the key for us, as we look forward, is that we have flexibility in our fleet to be able to take advantage of opportunities when they present themselves, but also to reduce capacity where we need to so that we can build yields and maintain the commercial results that you've become accustomed to.

We've seen this across the Tasman. Qantas has done a really good job of managing their capacity and making sure they drive the yield results in domestic and that is obviously something that we will be looking to do as fuel prices increase here. We know that we need to increase prices and we've put a couple of price increases through both domestically and international and we have adjusted capacity off the back of that, so a good example of how we will manage our capacity growth within that range, as fuel prices increase and variable operating expenses change.

As we dive down into each of the route groups, I want to start with domestic and you guys will know it, domestic is our key to success. It underpins our profitability. We've been fortunate and done a good job of making sure that we have built our network and grown out our commercial results off the strength of New Zealand's strong commercial and GDP performance over the last seven or eight years. We still have an above 80% market share and we have a really good level of influence over the market here and what we do know is that when we put in price increases like we did less than a month ago, we know that the large majority of that will stick. We will adjust capacity to make sure that we get the right revenue result out of that, but we do have a lever there that we can pull as fuel increases.

Underpinning our domestic success is obviously our Airpoints and loyalty program: 2.9 million members, it grows by tens of thousands still every month, we're represented in over 60% of the households in New Zealand and we've managed to transition that program from just a travel program to something that people can earn and earn on a regular basis. We're now one of New Zealand's largest wine distributors through our program and we have a real everyday relationship with people through the coalition that we've managed to build out over the last two years. So a really strong proposition and one that strategically opens up opportunities in the future as we look at it.

If domestic is the key to our profitability of our Company, then business, being government and corporate travel, is the key to our domestic profitability. Four, five years ago now, we signed the All-of-Government deal and there was a lot of rumours at that time as to what that was going to mean for Air New Zealand and what I can say is that within that time actually our share has grown. We sit with a high 90% market share of the government business. It's an incredibly important account for us. We certainly don't take it for granted. But also it gives us a level of confidence to continue to build out our domestic network. In conjunction with that, obviously we have a very high share of the corporate market and our New Zealand sales team works and does an incredibly good job of making sure that we continue to focus on those customers and that we grab more than our fair share of market share.

We don't take it for granted and we will continue to invest in the service offering as we know these customers are at the core of our business and so you'll see more investment going into lounges, both regional and domestic and certainly we continue to look at the digital experience and how we enhance things like our apps, et cetera, to deliver a better customer experience for a large majority of our travellers who are travelling very regularly.

The other thing we've seen over the last 12 and 18 months is that we've seen Jetstar withdraw services and change their regional schedule. All of their fleet are now based in Auckland. That means that they have no first flight out of the day out of any of the regions and so we've seen a swing back to us and we've seen really strong results from those regions and we expect that to continue into the future.

I won't spend too much time on inbound tourism, because Christopher has already touched on it, but you would have seen from that graph that there are five million - there's an expectation and a forecast that there will be five million international visitors hitting our shores in 2024. This is obviously important for our long-haul network, but it is also important for our domestic network. We have significantly grown capacity into Queenstown off the back of the inbound market and we believe that we can do that to other markets such as Tauranga as we go forward. So very important for us, good demand signals in that environment and we believe that will underpin our growth both in regional and domestic New Zealand.

Last but not least, we've had a real focus on domestic and regional business and building our presence in that space and helping develop domestic tourism. So you've seen us sponsor things like the Hawkes Bay Marathon, the Queenstown Marathon, we're involved with things like the Bluff Oyster Festival and the Napier Art Deco Festival. We are strong supporters, even subtly, of concerts like Ed Sheeran coming and going down to Dunedin, but they have driven really strong domestic tourism results for us and we believe we'll continue to obviously help supplement the corporate and business travel and inbound tourism so that we can continue to grow our domestic network and presence.

Touching just briefly as we look to the future, we are evaluating the A321 for domestic use and this gives us two really, really good advantages. One is you look at a market like Auckland-Wellington, we're now flying that market up to 20 times a day. So it's challenging to fit more flights within that schedule and so we can add gauge and capacity while not adding any more services within that timeframe. What the A321 gives us is it gives us a 25% increase in seats for very marginal increase in variable operating costs. So it's a great example of where we'll drive a much better revenue result because we'll have more premium seats at the right time but also driving CASK inefficiencies as we grow our scale and build to greater size.

Jumping across the ditch and touching on Australia, so we've invested heavily in Australia over the last few years and we've done that obviously from Dave, the video that you saw, which our brand team have done an absolutely outstanding job. When that launched, the shift that we saw in awareness of Air New Zealand was quite incredible. That will continue to be a focus for us, as us building our brand presence in Australia, but also not necessarily in behind the scenes, but we've also built our sales presence to help match that brand awareness that we've built. When I was in Australia 12, 13 years ago, we actually pulled all of our states offices out, we retrenched and we moved to just a single head office.

We've now gone back into all of those states that we pulled out of and that is having a really good impact not only in the leisure sales market, but also in our presence in the corporate sales market and our presence overall and how we build our hub strategy through to North and South America. It is amazing how much value you get from having a physical presence in a location and having your staff out in that city or region walking the talk and talking about Air New Zealand. That has been incredibly important for us as we've obviously built up our hub strategy through Auckland and gained more traction with that.

The other elements that underpin that strategy is that we've increased our wide body flying across the Tasman in order to be able to connect up Australians to North and South America and vice versa. Adelaide's a really good example of this where we put a 789 in last year, much higher obviously configuration of premium seats and that has beaten the business case and beaten our expectations of how that would go. So that gives us a lot of confidence as we look to the future about where we can deploy our assets to get good utilisation out of the wide body, but also drive really strong revenue results as well.

Australia and the hub strategy has been working really well for us and a good example of this is South America where close to 40% of that Buenos Aires service is now originating traffic from Australia. That market is growing much quicker than New Zealand to South America and being quite frank, we would not have been able to increase our capacity to South America or probably even land that route successfully without having that Australia feeder traffic. So for us, it will become - continue to be a really strong part of our network plans and we will continue to put a lot of focus on it from a sales and market development perspective to make sure that we drive that hub strategy through Auckland and onwards. On the point-to-point market, that's still important and we have well over 50% share in that market of traffic, which is obviously more profitable, but also underpins our frequency and our schedule across the Tasman.

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Our network obviously looks very differently compared to eight years ago, as I showed you and that is as a result of our alliance partnerships. I'd probably categorise them into two phases. With United and Singapore, we're definitely still in a growth phase and we see a lot more opportunity. With Cathay and Air China, it is probably more a retention phase at the moment.

That's not to say that we won't grow, but it's just to say that's not a priority for those alliances or either of us at the moment. So the alliance structure has delivered a really stable, profitable platform for us and an ability to continue to grow at faster rates than we would have been able to otherwise. A good example of this is Chicago. So we would not have been able to do Chicago without United's support. They offer obviously great connectivity and feed to not only Chicago, but all of the four gateways that we fly to. There is a really good level of interest from northeast USA in New Zealand as a destination and travelling here.

What we've seen from Houston is once we put direct services on, we do a really good job of stimulating the market. So the early days in Chicago, we have seen sales in Chicago for the last 10 weeks have actually been collectively ahead of the other routes that we fly to. So the numbers are ahead of the business case. It's really strong point to point traffic, which obviously underpins new routes. But also it's opening up new markets for us or helping protect other markets. So not only do you have Chicago or Chicagoans looking to travel to New Zealand, you also have the state of Illinois, which has a really strong wealth profile to it. We can pull traffic from eastern Canada to help support that service, in addition to our Vancouver service, and we're obviously unlocking that whole Boston, New York, Philadelphia area, which has got incredible wealth in it as well.

So a good example of how our four gateways gives us good coverage across the USA, but is allowing new market opportunities as well. Underpinning Chicago and a lot of our long haul growth actually is a new revenue management system that we put in 12 months ago called PROS. PROS allows us to basically price different O&D journeys, origin and destination journeys, at different levels. So we can price a New York-Chicago-Auckland at a different price to a Chicago-Auckland at a different price to a New York-Chicago-Auckland-Australia. That means that we can stimulate different pockets of the market to maintain a really strong load factor and share in that market. One of the things we did with Chicago, which PROS allowed us to do, was we actually trialled some pricing to see how we could stimulate that market before we launched it.

I've got no doubt that that has helped attribute and added a lot to our success over the first 10 weeks of that operations, because we had some sense about the price points we needed to go to and how we would stimulate that market. So it's a great tool for us. It's fair to say we're still bedding it down, but we see a lot of opportunity for increased revenue on current routes when we fully utilise that tool.

Next new route is Singapore, and it's not a new route, but it's an additional frequency to that route; (1) we wouldn't be in Singapore today without the SQ alliance, and (2) we certainly wouldn't be growing there without their support. When we flew back in 2006, we didn't have SQ's support and even though we were in the Star Alliance, we didn't have connectivity through to Southeast Asia. There were no discussions about how we banked our flights to line up with their connections and it was an incredibly hard market for us. Fast forward to 2015, when we went back in, and they gave up one of their services for us, which already had connectivity established, and now in 2018, we're looking to add the third bank of services. That will help increase our connectivity to both Europe and also to Southeast Asia.

So it's a good example of how actually in a really capital efficient way how we are opening up a whole lot more destinations to New Zealanders and vice versa, opening up inbound travellers to come into New Zealand. That relationship is in a really great place at the moment and I'm not aware of any other joint ventures that actually have a route where they share capacity in the way that we have. It's a really good example of the strength of the alliance and how that will continue to grow in future and the fact that we will fly the northern summer season and Singapore will fly the northern winter season. So great shape, opening up a lot of opportunities in Southeast Asia for us and we will continue to compete really heavily against the likes of the Middle Eastern carriers through to Europe and the UK through that alliance.

Staying in Asia and our last new route, which I'll touch on quickly, is our Auckland-Taipei service. Great characteristics from a population base. It's a about 23 million in Taiwan, which is similar to the Shanghai market, where we have a daily service. There's a strong propensity to travel and also a high wealth population base there as well. The other good thing about Taipei is that it's an inbound market and we're always looking to try and balance that outbound/inbound flow and to make sure that we have a balance across that as different macroeconomic conditions can hit different regions or different countries. So we have a strong faith in this route. We believe that we'll be able to get this up to scale in relatively quick time.

It has an already established market via our one-stop carrier and actually, because we've flown there previously, there's actually a high awareness of both New Zealand and Air New Zealand, so, again, sales have started really well and we're ahead of the business case with how we've started that. So hopefully we'll be adding capacity and frequencies to that market in future.

Just finally, we're no different to any other industry. We are - we do see disruption on the horizon and for us, innovation is quite important as an executive team. So in one element, we're looking at our fleet configuration and some of you would have seen that we have a new business class project underway for delivery with 777-200 widebody replacement program. But also as part of that, my strategy team has a project going on at the moment where we're looking at premium profit pools and premium customer demand to see whether we need to be thinking about different configurations on our aircraft. What we've seen is that our code 2 configuration has worked really well for us into America.

It landed in Houston for a couple of years now, but also what we're seeing is a maturation of the eastern markets and some really high load factors coming through in both business and premium economy as that product gets more aware. So we believe that within time we'll actually be able to put a code 2 configuration into the eastern markets and to drive a better RASK result than what we're doing today. So a good example of, I guess, how we're thinking through different configurations and what that means for us and obviously incredibly important as we think through the widebody replacement programs which are coming in the years to come. The other area that we're looking at is our economy class cabin and we've done a lot of detailed work about our - where our profits lie and where they cut off within that economy cabin.

So I can't say anything at the moment, but all I can say is that we've got a full scale project underpinning that at the moment. We're looking to see how we drive and maximise revenue in that cabin and basically move that line of profitability so that a higher proportion of economy cabin is profitable for us, so better watch this space.

As we look at next generation aircraft technology, we've spoken about it previously. We want to try and get to New York. We want to get deeper into South America and so we're very interested in the shape of the ULR, ultra-long range, aircraft that are coming out. We're interested to see how Qantas lands the Perth-London flight and what they learn from that. Certainly, we're having good discussions and in-depth discussions about Boeing and Airbus about what our needs are for our network as we grow.

Then finally electric aircraft for us we actually believe could potentially be a viable fleet alternative for us in the next 10 years, probably at the end of that range. But as you look forward, that delivers obviously enormous benefits on the carbon offsetting portfolio and hitting our targets in regards to that, but also we believe it will deliver CASK advantages. So while we've all been focused as an industry on biofuels and delivery of that, and that will still remain important, actually, we are really now starting to turn our head to where the electric will go and whether they are a viable alternative for us at Air New Zealand. They - if you look at our route network, more than 30% of our regional flying is under 250 kilometres. If you look at the whole network and more than 75% of our network is under 500 kilometres.

There's actually electric aircraft that are flying that sort of range now. Not on the scale that we need, but we believe that technology is going to advance in leaps and bounds. So quite exciting for us and certainly for myself with the sustainability portfolio that that should drive some really strong carbon reduction results for us in the future. So thank you for your attention as I've walked through this presentation. My aims were obviously (1) to talk about how our network has evolved over the last eight years and to leave you with a sense of the competitive advantage that we have in that network, which is underpinned by our alliance structure. I touched a little bit on our growth expectations for the coming years and what I can say is that we will have a laser-like focus on our commercial performance.

That doesn't change for us and we will make the hard calls where we need to from a network perspective. I hope I've given you an understanding of the process of how we evaluate our routes and also how - the strategic framework that sits behind that. That is built into our business rhythm and is something that we will do constantly. We are really confident in our network and in our alliance structure and the fact that will underpin our growth going forward. We're confident in the fleet flexibility that we have that we'll be able to move up and move down capacity as we need to to sustain our commercial results. I'll pass on to Jeff McDowall, our CFO, now and he will touch on a little bit more detail around some of the CASK efficiencies that I talked about in my presentation. Thank you.

Jeff McDowall: Thanks very much, Nick. As Nick talked about, we've got a great network now, which has been built up over a number of years. You've seen the strength of that as we've faced some really intense competition in the past couple of years. So there's three things I'd like to cover with you today. Firstly, I'd like to talk about fleet planning and that's an area that I've been spending a lot of time on in the past few months. There's a couple of projects that are of particular significance. The widebody replacement that the guys have alluded to, but also a growth plan for our domestic fleet. Then I'll touch on unit costs, which has been a great story for us, the past couple of years.

As I talk to investors, including many of the people in this room, I get a lot of questions about how sustainable that is and particularly when I talk to offshore investors, who are used to looking at and investing in airlines that operate in a very different environment and they see costs going in the opposite direction to what they see with us. So they want to know, well, what's caused that and will it continue, so I'd like to drill into that a little bit. Finally, I'll touch on how we think about capital allocation.

So fleet, so the fleet team looks at a wide range of issues form the technical right through the strategic. Any decision we make, even if it's a small decision, really needs to be made in the context of where we want to be in the long term. I mean, fleet decisions are for the long term typically and we want to make sure that we can have a complete set of options for the future and we have a plan to get to the long term fleet that we want to support our growth strategy. So just touching on the short term, and this is not something that we typically talk about all that much, but it is something that occupies a lot of attention, particularly at the moment. There's a number of components. So, one, for example, you will have heard all about the issues we've had with the Rolls Royce engines. so a key part of our short term focus for the fleet team is getting capacity to mitigate the impact of that.

So we've now signed up an agreement to get a former Singapore Airlines 777-200 into the fleet. That will join the fleet in July. We've just signed a letter of intent with EVA Air for a 777-300. We had a team actually in Taipei the week before last looking at that aircraft. It's a very similar aircraft to the ones we have. So it's similar age, similar configuration, really good quality, really well maintained. So that's going to fit really nicely into our fleet.

Bruce Parton, our COO, our Chief Operating Operator, if you here last year, you would have heard from him. He and I have spent an enormous amount of time in the past few months working with Rolls Royce. They have been very supportive as we've gone through this. The relationship we have is really, really strong, work together really productively. That's part of the reason why we've been able to mitigate the impact of this issue. Other issue in the short term, space, another challenge we've faced as you heard last year is the delay of the A321NEO delivery, so we've been working to mitigate that with leased aircraft.

We're extending the lease exit dates of our existing fleet. Also something you don't see a lot of is we divest aircraft, so [we've been] focusing on divesting the Beech aircraft and the 767 aircraft last year, divesting the old ATR aircraft that we have. We've been focusing on that this year.

So in terms of the medium term, I'll touch on those two projects, the domestic jets growth plan and the 777-200 replacement in a bit more detail. What I would point out though is that we always - the decisions we make in those spaces really need to think about the long term. So if you think towards the end of the decade, we'll then have the opportunity to consider replacement options for the 777-300 fleet. So we need to make sure that any decisions we make right now, think about options that we'll have then, and taking the two together, give us the fleet that we want for the long term. And the backdrop to all of this is some of the things that Nick just talked about with the evolution that we're seeing in aircraft technology, particularly electric aircraft, which is increasingly looking realistic and would just be ground-breaking for our original network.

So before I get into those medium term projects, I thought it would be good just to give you an update on our next kind of fleet step, which is the introduction of the NEO aircraft, the A321s and the A320s. So we'll be getting two variants of those. We'll be getting seven of the larger A321 aircraft and six of the A320 aircraft. The A321s, as Nick touched on just a second ago, they're quite a bit bigger. They have 214 seats, which is 27% more seats than the aircraft we operate on the Tasman today. They come out at only a slightly higher cost to operate. So the cost per flight of one of those aircraft is only a small amount more than the cost of the existing aircraft. So that says that those additional seats come at a really, really marginal cost, which we'll then be deploying on the larger market, as you could imagine.

So you think about Auckland-Melbourne, Auckland-Sydney, Auckland-Nadi would be a good example, Auckland to Rarotonga, one of the features of those markets, as well as being reasonably large, is that they are very competitive. This will give us - this aircraft will give us a really strong competitive advantage on the cost side. We'll be the first airline to operate A321 NEO aircraft in this part of the world and it will come at a material cost advantage over any other competitive aircraft. The A320 NEOs, they come at a lower cost per seat and therefore a lower cost per flight as the existing aircraft, so they kind of do both of those things, which makes them a really good fit for the smaller markets in our Trans-Tasman and Pacific Island networks, so you kind of think Wellington to Australia, Christchurch to Australia would be good examples of that.

The other thing I would touch on is not on the slide, but if you were there for our interim results presentation in February, you would have heard me talk about a change to our liquidity policy. We talked about bringing liquidity down from the balance of around $1.3 billion we have now down to a range of between $700 million and $1 billion. The primary way by which we'll be doing that is by paying cash for the owned A320, A321 NEO aircraft as they come into the fleet. So as well as bringing our liquidity down towards the target range, they'll give us a really marketable pool of unencumbered assets that should we need to raise finance against those in the future, they'll be well placed as security. So talking about domestic.

So as you know, we've been growing this business really strongly, incredibly strongly when you think about it, so the - if you go back to 2012, FY12, between now and then, we've been growing at an average growth rate of 7%. We have 17 aircraft in our domestic fleet. They - 17 A320s. They were delivered between 2011 and 2016. Four of them are leased, 13 of them are owned by us. The leased ones were the first ones to arrive back in 2011. But the last growth plane we got was October 2016, which is almost two years ago. So we have been growing since then, despite the fact we haven't been growing the fleet. We have been growing our capacity since then and we've been doing that by essentially increasing the utilisation of those 17 aircrafts. That's been good, but it's got to the point now that the utilisation has essentially maxed out.

There's not a lot of opportunity to increase utilisation further, except at some smaller kind of off-peak times of day. So to growth further, and as I talked about, we see a strong demand signals that support future growth. We need more aircraft basically. So we have a short term opportunity to grow the fleet in a very capital efficient way and we'll be doing that by - as the A320 and 321 NEO aircraft come into our short haul international fleet, we'll take some of the aircraft that the free up and put those onto domestic. So the plan is towards the end of this year we'll start transferring up to three aircraft into our domestic fleet, bringing us up to a fleet of 20 aircraft. The next step though, eventually those aircraft will - well, they already are aging and they will get to a point where economically it makes sense to replace them.

It will get to that point quite soon. So the opportunity then becomes to provide a measured additional step of growth by replacing those older 320 aircraft with 321s configured for the domestic market, so A321 NEOs configured for the domestic market. They'll give us a really impressive step up in cost efficiency as I've just kind of talked about for the Tasman and it will allow us to grow capacity on markets where we already have a lot of frequency and so those extra seats will be valuable and an efficient way of growing. So that gets you through to 2020. If you think then beyond that, we have, as I said at the beginning, four leased A320s in the domestic fleet and they're the older ones.

So they'll come up for renewals or we'll have termination options in the period beyond 2020, so there'll be two in 2022, two more in 2024, and that those points will have opportunities to replace those aircraft with larger A321, so, again, providing a kind of measured growth step at a very cost efficient way. So that gets you ultimately - could get us ultimately to a fleet of seven A321s for the domestic fleet.

So moving on to the widebodies. As you will have heard, we've got an opportunity and a need actually to replace our 777-200 fleet between the 2023 and 2025 financial years. So we have eight of those aircraft. The diagram gives us a sense of the framework we'll using to evaluate the choices that we have and it starts with mission performance, and you'd expect, the extent to which the plans can fly them where we want them to fly. Then it goes into the operating economics of the aircraft, full financial modelling that takes the operating economics and adds on the investment and the other induction costs and the costs of operating. Then, as well as, that, it considers a range of qualitative factors. So just to give you a sense of the options and the candidates and how we're thinking about them.

The candidates we're looking at are the 787 family, the 777X family also from Boeing, and the A350 family. The interesting thing about these is firstly there's no bad choices. They all provide a significant step up in operating performance compared to the existing 777-200 aircraft, but they're all very different. They all are optimised and are strong at different kinds of missions. Therefore, the choice that we would make would each be deployed in a slightly different way and would cause us to redeploy the existing fleet in a slightly different way. So to give you some examples of how that could look, so if you take the Airbus family, the A350s, a really strong economic performance and a very flexible aircraft, so there's two, the -900s, the smaller one, that's a very similar size and range to the aircraft they'd be replacing, the 777-200s, but with obviously much better economics.

So if we got those, essentially we would be able to just put those where the 777-200 fly today, so it would be a simple as straight swap pretty much. The -1000 is a larger aircraft, so it brings some different options to the table. For example, it could work quite well flying into the US, so you think about places like Houston, possibly Chicago. It could also be good in some of the larger Asian markets, so Shanghai, for example, or Hong Kong. The 787 family is quite a different proposition. So the -9, very familiar to us, a fantastic aircraft. You've seen the effect of having that aircraft on our performance. The -9 is the smallest of the choices. The -10 is, for those of you who aren't familiar with it, it's just essentially the same aircraft. I think it's something like 95% of the parts on a 787-9 are the same parts on a 787-10. So the -10 is just a stretched version.

And by maintaining that parts commonality, they've created a very efficient, extremely efficient, aircraft. The trade-off though, because there's always a trade-off, is that the range of that aircraft is less than you get with a 787-9 and less than you get with any of the other options. However, in the context of our network the range it offers would work well to Asia. So to put it in context, to give you - to bring it to life a little bit, the 767s we used to fly to Asia. So we used to fly them to Tokyo, to Shanghai, Hong Kong. The 787-10 has got about the same range as that, so it suits that part of the network. It has obviously got dramatically better, like two generations between, cost economics than a 787 - sorry - than a 767.

Then the 777X family is different again, also really good economics and are larger aircraft, so they're more of the size range of a 777-300 that we have today. So quite a different set of choices. So where we are? We're now at the tail end of evaluating all the information we got through the RFI process. We'll be issuing an RFP next month and we then expect the discussions, the evaluation of all of that, the negotiations, to wrap up around come March, April next year. Then the first aircraft to arrive late calendar '22 or second half of calendar '22, which would be our financial year '23. The other thing we'll be using this as an opportunity to do is to rethink the business class cabin of the future.

As you may have read in the media, we have an offsite team that's focused on building what they think will be a world leading business class proposition for our next generation of aircraft.

So what does that mean from a CapEx perspective? Well, the graph on the left of the slide is essentially the graph that we showed you at the interim results back in February. At that point, our expected capital spending for the next three years was around NZD1.1 billion. So if we then give you an indication of what the impact of the two programs I've just talked about could be - and I need to reinforce that these are preliminary estimates, it could be around $350 million to $450 million. Why we're being kind of vague about this is that there's some uncertainty still.

For example, with the A320 NEOs, we have choices about whether we would lease or buy those aircraft, so that would affect the number and similarly with the widebody replacement program, what you would - what's included in that range is some expected predelivery payments that we would make when those contracts are secured and the scale and the timing of all of that was really dependent on how those negotiations play out. So these aren't what we know it will be, but we thought it would be useful just to give you an indication of the sort of scale of investment you'd be seeing within the time horizon we're talking here, the three years from '19 to '21.

So moving on to unit costs. This has been a really strong story. Over the past couple of years, you see on the graph there that we have made really strong progress in improving our unit costs. The metric we're using here is cost per ASK, so cost per unit excluding fuel and currency. So that kind of gets you to the underlying operating efficiency of the business. What we said at this time last year was that we set ourselves a target of keeping our nominal CASK flat in FY18. So, in other words, absorbing the impact of inflation on our costs in this year and offsetting those with efficiency gains. What we expect to be able to do when we report our full year results in a couple of months in August is to show you that we have outperformed against that, that we have - we've been able to continue the downward trend in nominal terms and cost per ASK.

So then as we look forward, so as the sustainable [unclear] continue to improve on, we are very happy and comfortable to set ourselves the target of continuing to improve our cost per ASK, both in nominal and in real terms. There's a number of things that give us confidence that we can do that. Firstly, network growth and Nick talked about this, indicated that we are planning to continue to grow. The economies of scale that that has delivered in the past will continue to deliver in the future. There's also opportunities in fleet efficiencies still with the A320 NEOs that I've talked about. So that will be our next sort of structural step in aircraft efficiency. The other key thing, and Christopher talked about this, is we kind of subscribe to the daily diet of a strong cost focus.

So we're not really wanting to go into those big transformation programs that give you a big sugar hit in a particular year, but carry the risk that costs will creep back into the business in subsequent years. So we take more the sort of daily diet, strong cost focus. To give you an example, what we do every year, we set an annual plan and we set a target for efficiency gains. That then becomes a series of often quite small things, which will individually produce sustainable cost improvements through the organisation. Although each one might be quite small, when you bring them together and you do them every year, you get a material improvement in the cost base. Like I say, we're really looking for sustainable stuff, not that kind of one-off sugar hit that then creeps back. HPE has been important in this context. JD was talking about that before.

That's brought more stability to our labour costs. There's a huge contrast to what you see overseas. I mean, talking about pilot costs an example, I mean, some of the better reported ones are things like Spirit. One of the ULCCs in the US had an increase in pilot salaries of 43%. Ryanair are signing up for up to 20%. There's been a number of other examples of similar high double digit pilot cost increases. We're just in that environment.

So you bring all those factors together and what you get then is us committing to a target of continuing to improve our unit cost performance.

So moving on to fuel costs, and as you know, there is going to be a headwind, as we contemplate financial year '19. Christopher and Nick have talked about the tactical changes that we can make to our business to adjust to that. But hedging is part of the mix of tools that we have to mitigate a rising cost of fuel.

So firstly to touch on our philosophy, our hedging philosophy is all about buying the business time to adjust. I mean we can't hedge away the world, hedging comes at a cost, we can't hedge forever and ultimately the business then needs to adjust to the operating environment that we find ourselves in. But hedging can provide us some time to adjust to that new environment and you've seen that this year.

So when we set our guidance for this year, it was back in August, we thought fuel for the year was going to be $60, when we get to the end of year, it's close to $90; it's $88 today and we were able to hold our guidance through that period. Hedging's not been the only thing that's helped that. Really strong revenue performance has been a part of the story. But hedging has helped us.

From a competitive perspective, most of the airlines we compete with, excluding Qantas, are more exposed to increasing fuel costs than us. So that Asian airlines, for example, either hedge less than us or hedge over a long timeframe and so are therefore less hedged in the near term. The US airlines mostly don't hedge at all and you can see they're moving to increased costs - increases prices, rather.

Then on the right-hand side of this graph I've indicated where we sit right now. We're a bit elevated at the moment in terms of the proportion of our fuel consumption that is hedged. We have a policy that sets a maximum and a minimum range and that range diminishes as you get further out from time. For the next six months, the policy maximum is for us to hedge out to 80% and we're almost at that maximum now at 75%, 76%. If you then get into the second half of the financial year, say quarter three, quarter four, we're more in the middle of our hedging range.

So briefly touching on return on invested capital and you would have heard this come up in the presentations from the guys earlier which sort of signals a point that it's very embedded in our organisation as a key metric. The diagram on the left there shows how we talk about internally and also how we talk about it with our external stakeholders. So sort of what we say is with our cost of capital at around 10% pre-tax, then anything below that is obviously suboptimal. Between that 10% to 15% range is a good return. Anything in excess of 15% is an excellent return.

You can see that we've been able to deliver sustainable strong returns for seven of the last - sorry, six of the last seven years and that's been in a really wide range of competitive environments. So we've had low fuel, high fuel, low competition, high competition and through all of those, we've been able to deliver these really strong returns in excess of our cost of capital.

So like I say, it continues to be a metric we focus on internally a lot and we're actually taking a further step to formalise that from FY19, so we're going to take our short term incentive program which has a company and an individual performance component, so it's kind of 50/50 between company performance and individual performance and for the company performance, which is currently measured based on a profit metric, we'll instead, from FY19, be measured purely on return on invested capital. So that will help embed return on invested capital within the organisation as our key metric.

So then finally, turning on to capital allocation and this is something, as I met with investors, so the guys in the room here, but also investors offshore, they're always interested in our capital allocation priorities. So there's really three key things. Firstly we will continue to invest in the long term success of our business and we've talked about that today, talked about the fleet investments that are critical, both for our cost base but also for our growth plans. There's also investment in infrastructure, properties particularly and digital, so continuing to invest in a disciplined way that drives returns above the cost of capital as a key capital allocation priority.

You then get to gearing. So our target gearing range is 45% to 55%. What we would like is if we get towards the 777-200 replacement program, which is our next lump of capex, that we're sort of at or below that gearing range as we step into that program. I'd have to say actually, right now we are within our gearing range and that's a bit of a surprise. We've come to a huge capex cycle with the replacement, with initially the domestic 320s, then the 787s, then the domestic ATRs, all of that coming together and coming through the tail end of that and to still have bearing within our target range of a really, really strong performance and it reflects the strong earnings that we've had in that period. So we're in a great, great position now as we contemplate this 777-200 replacement program.

Then the third thing is distributions to shareholders. We've delivered strong dividend yields over the past several years. Our policy is to deliver a consistent and sustainable ordinary dividend to our shareholders and what we mean by that is, that what we mean by sustainable, is that we look at no just earnings in the current year, but we look at the medium term prognosis for earnings, the medium term outlook for capital, the medium term outlook for gearing and set in the dividend at a level that's sustainable with that perspective in mind.

So then as we look forward, to the extent that we've got cash flow that's in excess of what we need to get gearing kind of at that target, kind of at the bottom or towards the bottom or even slightly below the target range as we get to the 777-200 replacement program, to the extent that we've got cash flow in excess of that, there will be an opportunity for the Board to then look at further distributions to shareholders.

So I'd just like to sum up, I guess, by reiterating some of the comments Christopher made at the very start of the session this morning and also echo the sentiments of Nick and Jodie. As you've seen, we've got a proven track record of delivering strong returns and that's been in a very wide variety of trading environments, both in terms of economic performance, fuel price, level of competition and that's because of the competitive advantages that we've built up over the years and which the guys have described to you today.

The point I'd add, though, is that we can't take those things for granted. I mean none of them are our birthright. We can't just assume they'll always be there and kind of sit back, we can't be complacent about this. So if I give you an example, so the domestic network, New Zealand does prefer to fly in our domestic network, we can't take that for granted. We have to continue to invest in our fleet, continue to invest in our people, continue to invest in our on-ground experience, the lounges, the loyalty program, all of that, to make sure that we can support and continue to have those competitive advantages.

We do see a lot of opportunities for growth; Nick talked about that. But equally importantly, we have a very disciplined approach to making sure that growth is profitable and that means we'll continue to invest so that we can deliver on that growth. But as we've been talking about, we're committed to doing that in a way that provides sustainable returns in excess of our cost of capital.

So I'd like to thank you very much for the investment in time, I know you've put a lot of time into being with us today here today, we really appreciate that. I'd now like to hand over to Leila for the Q&A.

Leila Peters: Thank you Jeff and Nick. We've reached now the time in the session where we're done with prepared remarks and we'd like to turn it over to you, our audience, to have the opportunity to ask any of us questions, questions that you might have had during the course of this morning or as they may come up right now. While the guys set up the stage for our speakers to come up, I just want to make a point again that we are webcasting live. Therefore, for those of you in the audience that have questions, please raise your hand and wait for a microphone to come to you before asking, otherwise we will not be able to hear it. If you also don't mind stating your name and your organisation before you ask your question, that's always helpful to us.

Again, for those of you that have used the Slido tool and I can see there are some very active users, I'm very impressed, we'll also be interchanging between in-person and online questions. I think that's it. So without further ado, if Christopher, Jeff, Jodie and Nick may come up on stage carefully and safely, I will - you guys can have a chance to think of questions. I will jump immediately to the online question while we get warmed up. First question: how quickly can capacity be reallocated between routes if route economics change and how does this compare with, say, five years ago? I'll maybe throw that over to Nick or Christopher to answer.

Nick Judd: Yes, so I think we're in a much better position than we were in five years ago because we have more rigour and structure around how we evaluate our route performance now. So it's not like that we don’t see underperforming routes coming, we track them and monitor them really closely and so then we will adjust capacity through our seasonal changes. So we do that in a domestic sense, we do it on the Tasman and we do it internationally as well.

So at the moment, as we look forward, we're looking for the northern winter season, which kicks off in October and we are still thinking about our capacity through that period. So it's relatively short term if we need to and so we do have a relatively strong and a good amount of flexibility to chop and change as we need to, to make sure we stay strong on our commercial results.

Christopher Luxon: The only thing I'd add is I think Nick's exactly right, because we have ruthless visibility over route performance, we're not in the place that I observe a lot of other airlines being which is they talk about a network effect. So we've been - we've taken our routes and said, that's got to work like an SKU in a fast-moving consumer goods business, it's got to stand up on his own right, rather than being, well we lose money here because we make money there.

As a consequence, what I observe with other airlines is that when a foreign exchange situation changed in Japan a couple of years back, when we were retooling, dealing with earthquakes, we were moving with tremendous speed and most of our competitors never ever changed their network. So that is one of the great advantages we have, is the agility, the speed, because it is quite calcified and I don't think people have a grip on that as much as we do along the way.

So our choices, as Nick put up on the two-by-two matrix are very interesting because actually everything is contribution positive, whereas for most airlines that bottom left-hand quadrant is full of loss-making routes. We've worked really hard to build it in that way and so it's really about the opportunity of being able to move a piece of asset or capital from one route to another route to get a better return.

Leila Peters: I think we have a question in the back.

Unidentified Participant: I just had a question around the Qantas code share, just what regulatory processes you need to go through, if any, for that?

Christopher Luxon: Yes, so the short answer is no, because what this is all about is it's probably misrepresented I think in the media quite a bit, which is that what we're solving for, as Nick talked about, is connecting code share. So this is frankly about me the other day going to see Australian politicians in Canberra, flying Auckland to Sydney on Air New Zealand, having to grab my luggage, not having access to a lounge as I then travelled on a Qantas flight from Sydney down to Canberra. So it's four million journeys across the Tasman we're talking and in Air New Zealand's case of 137,000 customers that actually do onward journeys in Australia to destinations that we don’t fly directly point to point to.

So it is a code share. Just remember that in the airline world there is different structures of alliances, so at the very base level you're getting interline agreement, which we've had with Qantas here in domestic New Zealand for many, many years and that is really just a basic where you can actually put a fare together. Then you get a code share where you can get single ticket, a through-check of luggage, lounge access, you can earn frequent flyer miles. Then you move to revenue share alliances, obviously as Nick has talked a lot about and then up to obviously equity stakes and cross ownership that goes on across the business. So because there is no coordination of pricing, no coordination of capacity, no coordination of scheduling, there is no regulatory involvement in it at all.

Leila Peters: Okay, the next question I'll take from online is: how do you think about leveraging the corporate reputation, our strong corporate reputation into immediate adjacencies?

Christopher Luxon: Yes, so well it works on the existing business in quite a different way. If we think about what we're doing in Australia, we're playing with the existing airline business, but building out a reputation in Australia and standing on our own right over there. Four out of 10 Australians are only aware that we fly beyond New Zealand, they think we're that cool, quirky airline, six out of the 10 of them have no idea we fly on to America, into Asia, into other destinations. So you've seen us build to our corporate reputation in Australia, that's a big deal, right, to be able to be the only foreign company ever for two years in a row to be the number one most trusted corporate brand in Australia is a big, big deal. That's part of them sitting the infrastructure alongside to actually build out that strategy of growth.

But you're right, there is a lot of opportunities to take the brand into adjacencies and we've done that fairly well, if you think about we're the second biggest sellers of rental cars, I think we talked about being a big seller of wine, second biggest seller of travel insurance, those sorts of spaces. I think there is a lot more opportunity for us to go into those spaces. What we're interested in, though, is not - is thinking about how we can apply the brand to new and existing travel tech is quite an interesting area for us, adjacencies around payment systems, around - Nick talked about electric aircraft, there's things like that that are of interest to the core airline but might be better developed outside the system. So we'll keep looking at opportunities to leverage the brand into those spaces.

Leila Peters: Marcus?

Marcus Curley: (UBS, Analyst) Marcus Curley from UBS, three questions if I can.

Christopher Luxon: Nothing less from you, Marcus.

Marcus Curley: (UBS, Analyst) Could you talk a little bit about the fleet age? Obviously it's come down a lot, do you have a think about where that needs to be maintained going forward to remain in the space you want to be with customers?

Jeff McDowall: Yes, I mean we typically talk about having a range of eight to 10 years and we're at the - we're past the bottom edge of that at the moment because of the fleet programs that we've had. As we get through the 777-200 replacement program, we're likely to continue to be at the bottom end of that. So there are choices that we'll make when we get further out into the decade whether the aircraft economics kind of give you a compelling case to replace aircrafts, which would mean that we'd still be at the bottom end to that range, so that's some of the choices that we're talking about at the moment.

I mean the thing at the moment is and one of the reasons why we're at the bottom end of the range is that firstly we've had a sort of pancaking of the fleet replacement programs coming together, which was a consequence of the 787s coming late. Secondly, there's been a once-in-a-generation shift in aircraft economics, which has meant it's made sense economically to have newer aircraft. Whether that will always be the case, I wouldn't be able to predict, so eight to 10 is the range that we would expect in the long term.

Marcus Curley: (UBS, Analyst) Long term, what's the sort of aircraft capital expenditure required to sort of continue to deliver that?

Jeff McDowall: Well the aircraft, I mean one metric for that is the level of depreciation, which is now $500 million a year, so we'll have a gap between the end of the program we're in now and 777-200 replacement, which we'll see it coming a bit below that, then during the replacement program going a bit above that again and then coming back down.

Marcus Curley: (UBS, Analyst) Second question, you've got two new routes starting next year, can you talk about the economics of those? Do you think they'll be break-even in their first year or do you think they're going to be negative contribution?

Nick Judd: Yes, absolutely, so as I talked about in the presentation, we're really heartened by the way that they have launched and we see that they'll be close to break-even of profitable from year one. Obviously that is dependent on fuel price in terms of how that plays out and there's a number of other variables including your sales and market development budgets that you put in to launch and get the attraction that you need. But the dynamics of those markets and how they've started give us a lot of confidence that not only will they be strongly commercial results right from the start, but also that we'll be able to build scale and frequency into them quickly, which helps bring down your variable operating costs associated with that route and drives a better commercial result.

Marcus Curley: (UBS, Analyst) Then thirdly, could you give us any colour on what the competitive capacity, international growth is expected to be in the next season?

Nick Judd: Yes, so obviously I can't talk to what our competitors are going to do, but certainly as Christopher talked to right at the start of the presentation, it's a much different dynamic from where we were 12 months ago where we'd seen all that competition come in. We know from history that at higher fuel prices we see either no more competition come or a lessening of competition, so our expectation is that with the rationality that's being shown by the industry so far, that those characteristics are likely to play through.

Leila Peters: I'm just going to ask one question from online, which I'm going to pass over to Jodie: increasing focus globally and in New Zealand on fast, agile workforces and organisations, so how do you practically do that in an Air New Zealand context?

Jodie King: Okay, good question. So I think you've got to start with thinking about why do you want to move to be an agile organisation and some of the organisations that are doing that are because they are tick organisations or they are in industries which are undergoing really large transformation and they're uncompetitive or they're looking to significantly reduce headcount. Neither of those drivers are at play for us, however saying that, we are looking and we do have agile parts of our business, operating under an agile workforce sort of model. In particular, we've got that in our digital function, which has been operating in an agile way for the last two years and that's bedding in really, really well. We've got a number of agile coaches there.

Also, what we're doing is we're sort of spiking and waving it through other parts of the organisation where it's appropriate. So for example, within my function and the people function, I've roughly got about 250 people that report through to me and about a third of those are working in an agile way in terms of the product management methodology, working more in quick scrums and in neighbourhoods rather than in more traditional ways. So where we have opportunity to take that forward, we will, but agile doesn't work in certain parts of our organisation. So if you tried to get our cabin crew or our pilots to work in an agile way, it just doesn't work, so we need to do it in a very measured way, is how I'd say.

Leila Peters: Question at the front.

Sam Stubbs: (Simplicity, Analyst) Sam Stubbs from Simplicity, could I ask two questions? Could I ask you to put your most optimistic hat on and assume that growth is strong, you're operating in, pardon the pun, a tailwind environment, particularly in terms of availability and cost of capital, what would your priorities be in terms of growing faster or making a better airline? The second one is on your carbon offsets, have you considered building those in to the ticket prices and making yourself a carbon neutral airline?

Leila Peters: Maybe Christopher take the first and Nick take the second?

Christopher Luxon: Yes, so I think the first thing is that from a growth point of view what we're really fixated on is actually we think we can make a much more muscular bit in New Zealand, so we are spending a lot of time in Gisborne, we've spent a lot of time in Northland, I've been down in West Coast, been down in Southland and what we're doing is we're actually signing and creating and heading these partnership agreements or MOUs with all the stakeholders within a region. So if you look at Southland, if you look at what we've just done in Tairawhiti, what we're doing is we're taking the mayor, the council, the chamber of commerce, the economic development agency, the regional tourism organisation and also iwi and ourselves and signing up for joint goals, economic, social and environmental goals by subregion.

So it's a pretty profound and pretty deep approach to regional development that's going on there and we've got great examples of that where we can then go in and, as I said, we're bringing senior managers in to talk and educate around capability on segmentation, we've got joint procurement as we tell more local provenance stories within the offering and product and services; we've got a lot of things going on in that space.

Where would we go faster? I mean it's really just we've got a strategy and we've got speakers and wires and stuff that play that strategy out. It's a question of how much volume we turn up doing exactly that. Would we go faster, deeper, into building out Australia through New Zealand into the Americas north and south? Would we go deeper and faster in terms of China and Asia through New Zealand to South America or muscularising New Zealand?

Then I think, I hopefully I'm trying to give you the impression, but I mean I've said it for many years, but stuff happens in a given year and that's noise and it's tactics and how we respond to it through the culture that we've kind of built and we're very proud of that. I think they've sensed that today and so really it is about the long term stuff that we're thinking about. We are thinking about sustainability, social licence to operate, we are thinking about the next generation of customer experience and how we put more humanity into our products and services.

We are thinking tremendously about digital experience and how we actually use digital technology to transform the customer experience and simplify the operations and improve commercial outcomes. We've got some great examples and a portfolio of that building. So we have I think tremendous, we have a clear strategy, we operate the strategy and we will flex it and turn it up and down, the volume on that, basically on what we're facing in terms of how much we've got to be able to invest in turning that up or turning that down.

Do you want to talk about the carbon credits?

Nick Judd: Yes, that's right, so there's two elements to carbon offsetting, one is obviously the ETS that we're part of and that we bear some costs for, particularly in domestic New Zealand or in relation to domestic New Zealand and we'll have to offset 100% of our carbon costs going forward from 2019. So you can expect us to manage that like we would manage any other cost implication of our business, we'll look to try and recover that wherever possible through fare increases, et cetera and build that in.

But also we have the voluntary offsetting program that we have and so we've made a number of changes in that space over the last 12 months. We've embedded that more directly in the booking flow for leisure bookings, we've seen better take-up, we're also trying to build brand awareness through that and make sure that people understand the quality of what we're actually driving with the money that they contribute for that and how they're contributing to environmental offset programs. Also, in addition to that, Lisa Daniels, our Head of Sustainability, is working on a program for our corporate and government businesses that we will be looking to roll out in the next couple of months that will help increase those rates and make it a lot easier and more simplistic for corporations to offset their carbon and the effects of their travel.

Leila Peters: So if I may risk inundating her, Lisa Daniels is here today, so feel free to talk to her at lunch. Owen?

Owen Birrell: (Goldman Sachs, Analyst) Hi guys, Owen Birrell from Goldman Sachs. Just three questions if I may. The first question is just on the fuel hedging benefit, I mean you have a much longer dated fuel hedging profile than most of your local peers and definitely your international peers and that generically gives you a sort of benefit when fuel prices are rising, and particularly in an environment where your competitors are putting in fuel surcharges. I'm just wondering, with the fleet availability issues that you're facing at the moment, particularly around the 787s, do you think that's effectively an opportunity that you're going to miss this time round?

Jeff McDowall: Going to miss them, sorry, in what sense?

Owen Birrell: (Goldman Sachs, Analyst) In terms of not having the capacity to put in, into those markets.

Jeff McDowall: Well leased aircrafts that we've been able to secure will mean that our long-haul capacity will be restored, so there was a short period over Christmas which we replaced with the wet lease planes and then in April/May, again we had a short term shortage, but beyond that, we're fine on capacity, so we're well placed from that perspective.

Owen Birrell: (Goldman Sachs, Analyst) I guess that leads to my next question which is on that wet leasing options that you've taken, do you have a sense of what the next cost, the incremental cost of that wet leasing will be? So if we look forward and say, well that's a one-off cost for this year, what are we taking out for next year?

Jeff McDowall: Yes, so if you look at this year, what we're able to say in the past, what we'll continue to say, is that there's no material impact on our results of the wet lease or dry lease or any other kind of aspect of that disruption. So I can't talk about the commercial arrangement we have with Rolls Royce, but what I can tell you is the consequence of all of that has been no material impact. So when you look year over year, I wouldn't kind of see a cost this year backing up next year, it's going to be pretty even.

Nick Judd: Yes, the other point that I'd add to that is that when we have spare capacity, we actually use that in a charter capacity and it's often overlooked in our business. But as we've obviously had tighter capacity, we haven’t been able to do that. So if we have spare capacity sitting around, we will look to open that up to charter opportunities and we're constantly getting requests for that, so that demand looks quite strong.

Owen Birrell: (Goldman Sachs, Analyst) is it fair to say that that charter opportunity and that revenue that you would get from that charter is not available this year?

Nick Judd: It's been more of a challenge because we've had less capacity available, obviously, from December onwards as we face these issues, but as Jeff's commented, it hasn't had a material impact on our numbers.

Owen Birrell: (Goldman Sachs, Analyst) Okay and just looking further afield, Chris, you talked about promoting Air New Zealand as a hub for looking at further long haul destinations and you sort of highlight the US as a key opportunity there. Over the coming years, do you think you're going to be outpaced by Qantas' US expansion plans?

Christopher Luxon: I don’t think so. I mean I think what we're really leveraging is the geography, right? I mean fundamentally Australia, represented by Perth, has ultra-long-haul flying that means you can launch into Europe. When you're coming out of the eastern seaboard, frankly it's quite hard to get to the mid-west and you can't get out to the east coast as easily as what we would be able to do. We're three hours closer by virtue of the geography to North and South America.

So far, you know, it's proved to be really successful. We've already got that strategy up and running and Nick alluded to it, but 40% of our traffic to Buenos Aires, the Brazilians and Argentinians, 40% is Australia, 20% Kiwi, anywhere from 20% to 30% is what we're getting of Australians now coming through our services. The first sale we had to Chicago was someone from Sydney. So it's been quite a deliberate thing, because we wouldn't have been able to do the growth that we've got without building our position in Australia, having a really strong brand there and obviously having then the resources and capability to be able to build that out and grow that out.

So I mean we just want to make sure when we go to these new markets, as we demonstrated back in 2015 and will demonstrate again in December this year with Taipei and with Chicago, is that we know which customers we do and don't want on board the aircraft and that may sound rather callous, but we want profitable ones. Secondarily, we know which sales channels we want to be able to work through in order to be able to find the right customer to put them on our aircraft. That's been the drive into premium, it's what Nick was alluding to when he referenced our code two aircraft. They are aircraft that have 55 less economy seats on it and much more richer mix of premium economy and also business premium seats as well.

I think as we go further into the mid-west and also the east coast of North America and ultimately out to the east coast of South America, what we're after is we just don't want anybody on that seat, we need the right profile of premium leisure traveller coming on board our planes. We've done that switch in China. We were in China since 2006, lost tens of millions of dollars typically every year doing it, the planes were always full, but the reality was the mix was all wrong. So now we have 80% of the people from Shanghai spending eight days or more as a free and independent traveller here in New Zealand, almost as much as a US visitor once they are here.

So it's about linking what we're doing through to what we'd want to happen in tourism in general across the country. So we want to turn New Zealand into Switzerland, not Bali or Cancun, right? So I mean we've got to get the right mix of customer here and the right value add and therefore the right productivity into the sector of tourism which is our biggest sector.

Owen Birrell: (Goldman Sachs, Analyst) If Qantas was to launch their, say, direct Brisbane to Chicago flight, what would your reaction be? You're sort of launching the first.

Christopher Luxon: Look, there is a big market there. We're using to operating in a country of 4.5 million people and so we can find big sources of growth in a place, we're expert at digging it out and hunting it out. So if you think about services out of Adelaide recently, we've put a Dreamliner into Adelaide and rather than going Adelaide, Sydney, domestic Sydney, international and then on to wherever, Brisbane, changing in Brisbane, coming through Auckland, international transfer, straight through, very compelling proposition. So I think people will vote with their feet, but we're not worried about it. We've built a business that's really robust, agile, highly competitive and so we're not frightened by any competition.

Owen Birrell: (Goldman Sachs, Analyst) Just looking at the map, South America…

Leila Peters: That's five by the way, that's five, last question.

Owen Birrell: (Goldman Sachs, Analyst) Sorry, can I just ask, South America looks like a very compelling option, yet you've only got really the Buenos Aires option there. What other markets have you explored and what are the reasons you haven't executed on those markets?

Christopher Luxon: Yes, so I think ultimately Rio to Sao Paulo is a really interesting destination for us because we want to hook up the two emerging parts of the world and if you think about the flow of capital, data, information, investment between South America and even Australia and New Zealand combined, those are two parts of the world that have been relatively disconnected with each other. Then certainly the opportunity of a fastest way to get to South America, if you're sitting in Southeast Asia or China is through New Zealand, is a really unique opportunity. Because the business is 35% bigger in a network sense than five years ago, that gives us an opportunity to be able to build that service out really well.

So yes, we're only in Buenos Aires today, but I can tell you already we see a lot of cargo volumes that move between South America, through New Zealand into Asia and vice versa and the challenge is how do we actually get that working from a customer perspective. But Brazil is a great place ultimately for us to think about how we unlock that.

Leila Peters: Okay, Andy Bowley and then Anthony.

Andy Bowley: (Forsyth Barr, Analyst) Thanks Leila. Nick, in your presentation you referenced the increased focus on the Auckland hub over the past four or so years. You've also had quite a few comments from all the speakers around the growth in the business. Can you talk about how you see the Auckland hub strategy evolving in future if that growth continues?

Nick Judd: Yes, so one of the things we've just recently kicked off is a new market scan again and to look at new markets. So while Auckland is our hub, we're always looking at opportunities to grow and that's across New Zealand, whether that's Tasman, international PI as well. So we'll boil the ocean on that and then come down to some specific options and see how viable they are. We've obviously got an alliance relationship down in Christchurch where we have both Singapore and Cathay running really viable services down there that we support as well and so while we have an Air New Zealand brand presence based out of Auckland, we have more than that through Christchurch and Wellington through our alliance partners as well. So it's something that's constantly on our radar in terms of where we grow and how we grow and we certainly don't rule out other ports in New Zealand.

Andy Bowley: (Forsyth Barr, Analyst) Thanks and second question, I'll stick to two, Leila, so Jodie, in your presentation you referenced the future of work and all the work that you're doing around there. You've got a workforce of 12,000 people, can you talk about how you see the workforce evolving over the next five, 10 years in relation to that future of work study?

Jodie King: Yes, it's been a really interesting project that both Nick and I are sponsoring and actually Jeff's on the project as well. So we think we're really well placed to maximise and leverage that, but I do think, like a lot of other organisations, there will be an increasing need for employees to work in a more augmented way with technology. So we're looking at ways to help re-skill and equip our employees, particularly in those frontline roles and the contact centres and also in some of the head office roles as well where there are more data analytical roles to actually work in a different way.

Christopher Luxon: I think what I'd say is, if I can add to that, I mean the future of work conversation in New Zealand is a bit immature in some ways as there's a lot of alarmist nature of it, there's a lot of people using it as a stalking horse for not facing up to legacy costs in their business and a bunch of other things. But actually if you look at the country, I mean we have a low productivity disease in this country, doesn't matter which sector you're in and the reality is half of our growth comes from population - productivity - growth comes from population, the other half from productivity gains So the reality is the world and New Zealand is going to be in a deficit, not in an excess.

So conversations about universal base scheme incomes, all very curious, intellectual and interesting, but not very relevant because we're going to be in a place where we're going to need the productivity out of increasing levels of automation. So the way we're thinking about it is we're looking at it as a means by which we can improve customer service, we can get better accuracy and we can improve our throughput. We can get rid of boring tasks and predictable tasks and free our people up to do other things and how do we together try and build a culture where we actually have people and machines working alongside each other. We know we're going to need to skill and train around more EQ soft skills. We're going to need people who can adapt and work alongside machines.

So it is just taking that view of it's a massive opportunity for our country. If I think about the Germans, I mean they are talking about an extra 0.5% of GDP growth off the back of productivity by enhancing automation and AI and RPA and other things. So for us, we're quite excited about it, because it's really an opportunity of how could we better deliver our customer experience, how can we simplify our operations, how do we commercialise and we're going into it in quite an intentional and purposeful kind of way, with a dedicated team actually working and thinking about it within our business.

Leila Peters: Okay, Anthony and then I have some questions online too.

Anthony Moulder: (CLSA, Analyst) Anthony Moulder from CLSA, just a question around the fare increases to recover fuel, how do you get to that level? How do you find out where is that optimal level and also what are your competitors doing, what's the pricing that they've pushed through on your key routes?

Jeff McDowall: Yes, there's not a major formula for this, but essentially we look at the fuel impact on costs and take a judgment based on the level of fare increase that we think is - can be managed by the market in a sort of measured way, recognising that obviously the bigger the increase, the more likely it is to impact demand. So what we've put in place at the moment, it's around 5% on domestic and international changes that we announced last week were of that sort of order, higher in some, lower in others and that's at the level where it feels about right to us for this level of fare increase.

If you go back to, when was it, 2007, when fuel spiked up to $170, we had much bigger fare increases that we implemented at that point and as a consequence, we had to have an appetite for much more material capacity changes and we're not in that space at the moment.

Anthony Moulder: (CLSA, Analyst) So not expecting too much of the demand response to that sort of 5% move at this point?

Jeff McDowall: You'd expect some response, but nothing - but not - it's designed specifically in a way to mitigate that, so we're not expecting material response. You'd expect growth to come back a little bit, but not a material response.

Anthony Moulder: (CLSA, Analyst) Lastly, how does that compare to some of the competitors that have also pushed surcharge over prices?

Jeff McDowall: Yes we've seen Jetstar, for example, has matched - has followed the approach that we've taken domestically. Remains to be seen what happens elsewhere on the network. We're seeing the US airlines, for example, as I was talking about earlier, much more exposed to fuel in the short term than we are and they've taken quite an aggressive approach to drive fares up. So I guess I'd sort of reinforce, we've been through the cycle a number of times, but this is not big compared to what we've seen before; we've seen much more significant fuel challenges than this in the past that have required much more drastic responses.

Anthony Moulder: (CLSA, Analyst) If I switch to slide 57, there's no scale on the left-hand side, which I think might be purposeful.

Leila Peters: Which is slide 57, I don't have it memorised.

Anthony Moulder: (CLSA, Analyst) It's the CASK reduction that you're expecting over through to 2020, what's the level of inflation that's naturally within the business?

Jeff McDowall: 2%-ish is…

Anthony Moulder: (CLSA, Analyst) Like total quantum, I was looking for hopefully.

Jeff McDowall: Oh, in dollar terms? That would be around $100 million-ish.

Anthony Moulder: (CLSA, Analyst) Right, we can work that out, thank you.

Leila Peters: Happy to be of service, Anthony. I'm just going to throw a question to Jodie that's been up there for a while, so apologies. What are staff turnover trends across various levels of your business?

Jodie King: So overall our turnover on a rolling average basis to the end of May is 7.7% company-wide and what I do on a monthly basis is I look at turnover under a number of different categories, so I look at it by levels in the organisation, I also look at it by employee workgroups and then I look at it by tenure and by demographics as well.

So just to give you a flavour of that by - I think the question was around levels, so in terms of management level turnover, that was 6% for the year to date and at non-manager levels, that was 7% and you have differing levels of turnover with your very different employee workgroups and so I have a sort of tolerance level of plus or minus 1% every month in terms of what I look at. But just to give you a bit of a flavour, you have a 4% turnover in engineering, upwards to around 9% in airports, cabin crew is 7.7% if I remember correctly and revenue is around 11% and they're all broadly tracking to what I would expect.

Christopher Luxon: I think the only thing I'd add to that is that's quite low levels of turnover. If you think about other corporations around the world, you'd expect 15% sometimes even 20%, you know, the staff would turn over every five years on total, so we actually - the challenge we have is we know people love working here and so it's about they say great things about it, they choose to stay here as evidenced by the low turnover and a lot of the cultural stuff that Jodie was talking about was how do we actually get people to strive when they are here. That's why we spend so much time on development investment because we actually do want to be the GE of New Zealand. We want to produce a great cadre of management talent for our own business and obviously outside of it as well.

Leila Peters: John Middleton, thank you for being so patient.

John Middleton: (Mint Asset Management, Analyst) Just a couple of quick ones please. One just on the gender diversity bit, very good on gender diversity, where are we on gender pay?

Jodie King: Actually we published our gender equity pay results last year and so for like-for-like roles in our IEA population, so our non-collectivised population, we have no gender pay gap, so it's 0.4%, which is not significant in the slightest. In terms of our majority of our workforce, because they're under collectivised employment agreements, they are what I would call gender agnostic, so it's more to do with in terms of skills or time involved.

John Middleton: (Mint Asset Management, Analyst) Thanks. Then just on the disruption bit, obviously we're trying to sort out the 787 issues, but what has that done to your on-time or punctuality side of things?

Christopher Luxon: Yes, so that has been really challenging, as I alluded to before. I mean we are really grateful and thankful for the way in which the public have stuck with us, because since Christmas, two weeks before Christmas, we got the first issue and then in early April we got the second issue.

What I would say is I think we've found a frame to handle that, I mean by getting - securing the two dry lease aircraft, that means that we can put them into the schedule. We suspect we'll be running at any one point in time with zero to two aircraft maximum that will need to be on the ground undergoing maintenance and what we've got is a much more regular schedule of maintenance and servicing going on. At the moment, if you ask me today, we've got three engines impacted, we've got one spare, so it's actually two engines, therefore one aircraft on the ground. So we'll restore the schedule and be able to put the stability and the reliability that we want to put back into it.

I think we've managed it really well. I mean we have been best dressed, first in line and we've had deep relationships with Rolls Royce. We also have much deeper engineering and maintenance capability than most airlines around the world. A lot of airlines have actually either outsourced it, run those resources down quite tremendously, so we've very good literacy around the technical issues that's caused around harmonics of blades and all those sorts of things.

So I think we've done a really good job of actually getting it through. Most, a lot of airlines that I talk to in the last week in Sydney, cancelling tens of thousands of flights, deciding just to leave customers stranded and blame it on a whole bunch of things. So we fully appreciate it's been a bit ropey, it's been suboptimal, it hasn't been the Air New Zealand service that we've wanted to deliver as a team, but we all made a commitment early December and we make it each week when we're in here rescheduling the network and reloading aircraft and doing all those things to make sure that we do the very best we can to keep people moving. But we know that's come at some cost.

What's encouraging though, brand health not down, corporate trust really high, customer satisfaction, just had 90% in a cabin crew environment, so people appreciate that we are trying to be as transparent as we can about it and I think they trust us to name the issue, to wrestle with it and ultimately to resolve it. But we're hopeful we can get back to some stability because it would be good for our people too.

John Middleton: (Mint Asset Management, Analyst) Then just on the new capex guidance, so taking into consideration deposit and pre-delivery, are we essentially saying we're putting 150 more each year from 2019?

Jeff McDowall: On average, yes, although it won't be uniform throughout that period, but yes, ballpark. There are some uncertainties, as I talked about, but we thought it was valuable just to give you an order of magnitude.

John Middleton: (Mint Asset Management, Analyst) Then the final thing is just on the new ROIC based compensation, can you let us know, so what do we get for over 15%, what do we get for 10% to 15% and sub-10% in terms of your payment?

Jeff McDowall: Yes so the way it works is the entry point is at 10 and at that point the proportion is relatively modest and it ramps up to a maximum. To get the maximum, you have get - we have to get a return of 19%.

Leila Peters: Wade.

Wade Gardiner: (Deutsche/Craigs Investment Partners, Analyst) Given growth in the global market, to what extent are your route expansion plans impacted by airport infrastructure and the bottlenecks there?

Nick Judd: So we do have some challenges in some airports and Shanghai's a really good example of that where if we could get our ideal second slot timings, we would be flying our second service in there now. We work hand in glove with our government and other governments to try and make that happen. So it does have some challenges and as we look at Australia, there is ongoing challenges as capacity grows in there, but on the whole, we've done a really good job of managing that and making sure that we get the slot times we need.

As we look at the Tasman schedule that we're about to fly, when we put the new capacity in, we got every slot time that we desired as part of that. So it is a challenge and certainly as Auckland has grown, that has become more challenging as well. A lot of our long-haul flights depart sometime between 4:00pm and 9:00pm at night and there's not a lot more space in there, but we're really cognisant of that, we think that through in our network plans and we've managed that through the two new routes we're launching this year and still put the ideal slot times in place for what we want to do and that's in markets such as Taipei and Chicago, which are incredibly congested airports.

Leila Peters: Was that it for you, Wade?

Wade Gardiner: (Deutsche/Craigs Investment Partners, Analyst) Yes.

Leila Peters: Okay great. I'm just going to - I know we have a question in the back, I just want to hit one of the questions that's been up here for a while. What impact do you see the domestic jet fleet upgrade may have on the timing and need for the northern runway at Auckland Airport? I'll give that to either Christopher or Nick.

Nick Judd: So the first thing I'd say is that the domestic jet order isn't confirmed yet, so we're still working that through, but also we're obviously in constant discussions with Auckland Airport about how they plan for the future. Our preferences, goes without saying, is to try and delay that as much as we possibly can and to sweat the assets that we have there, you guy would have heard us talk about that previously. So it's not just in relation to the domestic jet upgrade, we will keep having ongoing discussions with them about how we can utilise the assets in the best way, shape or form. That's not only in a domestic sense, that's also for our hub strategy coming through from Australia to North America and South America as well.

Leila Peters: In the back, yes.

Stuart Williams: (Nikko Asset Management, Analyst) Stuart Williams from Nikko, just following on from John's question, just the degree to which you're sharing with the pilots in the STI sense and I guess I'm interested because of the salary increases around the world that you've already mentioned, so how that comes together.

Christopher Luxon: Yes, I mean we've - I mean, Jodie, maybe you want to talk about that?

Jodie King: Yes. So we're really comfortable that the deal that we have struck with them is really competitive for us and as I said, we're linking - set future increases to CPI in an appropriate way. There will be some gain sharing in terms of any productivity improvements going forward. It's not under the STI arrangement we have with the rest of our staff, but it'll be linked to some improvement, jointly agreed improvement objectives.

Stuart Williams: (Nikko Asset Management, Analyst) Okay, so pilots aren't in it at all, is that what I take from it?

Jodie King: They're not in the formal STI scheme for the IEA population, no.

Stuart Williams: (Nikko Asset Management, Analyst) So just in the pilot cohort then, how does that look for turnover given - I don't remember who it was who talked about 40%-odd pay increases being touted elsewhere.

Nick Judd: Yes and I know Stuart you've got friends who are pilots as well, but the upshot is, really clearly, is we've done a really good deal here, it's been very strategic, there's been a lot of great cooperation between both pilot unions and the Company to get to where we've got to. It's a different way in which we've constructed it, with fixed-end variable components to the arrangements, but I think it gives us long-run certainty, the fact that we've done three three-year deals is pretty unique and special.

We don’t actually - there is a pilot shortage globally, which you'll pick up a lot in different airline coverage around the world. We don't actually feel we've got a pilot shortage here in New Zealand, that actually we've got a number of programs, whether it's from young pilots starting off in training schools or even in high schools at the moment, talking to women in particular because there's a whole bunch of opportunity for us to tap into a different talent pool to be able to bring more women through into piloting and engineering in general. But we've got a number of programs.

We feel we've got that sort of sorted and with these kind of arrangements, I think we're being very cognisant that a lot of the pilots want to live in this part of the world, that work for Air New Zealand. When they come and join us, they are our most - some of our most committed, invested employees because they're here for 35 to 40 years and so they care about how the Company is run, how it's led, what happens with it. So they're making a choice to be based in this part of the world and we want to be able to give them long-run certainty, security from their point of view, but equally make sure that we can get the pipeline and the retention that we want.

But what's happening around the world is not our reality. I mean in terms of ultra-low-cost carriers that have really low-ball sort of deals in place and have had to now right size that with the growth that's happening, our situation is slightly different. We've been - here we've sort of felt the swells of it more than the rough seas of it.

Leila Peters: I think we have time for one or two more questions. I'm going to touch on the last question that we have from online first, if any of you want to think about last questions. Last year it was said that the relationship with Virgin is strong and that you would seek to get blessing again. What has changed between then and now with the decision to terminate the alliance?

Christopher Luxon: So maybe I should take that one, given the way Jason directed it. The upshot there is that that was a relationship we put in place back in 2010 and it worked as well as it could be for the challenges and the environment that we were in at that point in time. We've always had a series of ongoing issues around customer alignment, so if you're sitting in Christchurch and Wellington and the quality of the service and comparability of the service, from the customer experience point of view, we see that very clearly in the customer interactions that we have.

But there are some things that changed in the last year around the dynamics on the Tasman and one was obviously the withdrawal of a Middle Eastern competitor, which was quite profound and quite significant. The second thing is, I think Nick alluded to, is that we've built a very strong business in a brand sense, but also now in an arms and legs and capability sense, distribution sense as well there.

But the bigger issue was actually the tension that starts to happen when we want to drive an Australia through New Zealand to North and South America strategy, so when you want to go put a wide-bodied aircraft into Adelaide, that doesn't make a tremendous amount of sense from a trans-Tasman alliance point of view, trying to optimise the trans-Tasman in a capacity price and scheduling sense, it also doesn't make - it puts at conflict a lot of what a domestic carrier in Australia is trying to do, trying to build its own services to America through direct flying to America. So it just makes sense for us to sit there and say, look now is the time to be able to do it. Capital efficient for us to be able to manage it at this point in time with the fleet and as a result we can power through and manage both ends of the Tasman piece pretty well.

Nick Judd: The other piece I'd add to that is since the last investor day, if that's what's being referred to, there's also been a couple of conscious customer experience decisions on both sides which, as I talked about, have actually led us in different paths. So we started selling our Virgin-only product, rather than seats to suit product on them because of the number of customer complaints we got and so that was a really conscious decision to sell a different customer proposition. Also, they changed ground handlers to Aerocare from us as well, which we knew was going to impact the customer experience.

So in addition to what Christopher talked about, about market dynamics, there is actually a really clear steer on the way the customer journey was going and that was quite important in the overall review of whether we went forward or not.

Leila Peters: Are there any other questions in the audience? Anthony.

Anthony Moulder: (CLSA, Analyst) Just one final one, Christopher, Alan Joyce is probably going to stick around for his 100 year anniversary of Qantas, probably not expecting you to do the same. What are your plans as far as staying on as CEO of Air New Zealand?

Christopher Luxon: Another 22 years, I reckon Geoffrey Roberts did the job for 26 from what I can kind of work out. I'm absolutely thoroughly enjoying the job and really committed to here.

Leila Peters: I think with that, that wraps up the morning for us. I do want to say thank you very much, I appreciate that taking three hours out of your day is a lot to ask. I especially want to acknowledge those of you that have travelled to be with us here today. If I could just on a personal note say that we really do enjoy the interaction that we have with our investors, our analysts, our banking partners and we really appreciate the feedback that we get throughout the year from you all. Always trying to deepen those relationships further and improve upon what we're doing and what we - what information we give to you in the future. So thank you so much for being so open with us.

As always, if any of you would like to schedule a call or a meeting with us, with management, please feel free to contact myself, my colleague Kim Cootes in the back and we will absolutely make that happen. So with that, that concludes our 2018 investor day event. Thank you everyone.

End of Transcript