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Operator: Welcome to the Air New Zealand 2019 Business Review Update Call. During the presentation your phone lines will be placed on a listen only mode until the question and answer session. If you wish to ask a question please refrain from asking until that time. With that, I will turn the call over to Air New Zealand's Head of Investor Relations, Leila Peters. Please go ahead.

Leila Peters: Good afternoon everyone and thank you very much for joining us today at short notice. Today's call is being recorded and will be accessible for future playbacks on our investor centre website which you can find at www.airnewzealand.co.nz/investorcentre. On the website you can also find a copy of the investor presentation that we will be referencing today.

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

Christopher and Jeff will provide a brief update on the business review that was discussed at the interim results in February. Those of you on the call will then have the opportunity to ask any questions you may have. I will now turn the call over to Christopher.

Christopher Luxon: Well thank you Leila, kia ora and good afternoon everyone and I want to say also thanks for joining us on today's call. As Leila mentioned, the purpose of the call is really to provide you with an update on the outcome of the business review that Air New Zealand has undertaken.

Just to recap, in late January this year we communicated to the market that we were observing a slowdown in the rate of demand growth as we looked at our revenue performance for December as well as our forward booking outlook for the remainder of the financial year. We reiterated that view as we announced our interim results in February with a further months’ worth of data supporting the slowdown that we had identified earlier in the year.

As I mentioned back then we were seeing a slowdown primarily in the domestic leisure customer segment and to a lesser extent in the inbound tourism growth into New Zealand. That slowdown prompted us to notify the market of a revised guidance outlook on 30

January and at that time we also communicated that a comprehensive business review of our network, our fleet and our costs base was underway.

Now the purpose of the review has been to determine what action and adjustments are needed to ensure that Air New Zealand maintains its financial resilience and positions itself for a return to earnings growth in this much lower demand growth environment.

I have to say our confidence in Air New Zealand's long-term strategy, customer proposition and financial performance remains very strong. The steps we're announcing today are really focused on realigning our business to ensure we maintain a strong foundation for future earnings growth. We will be adjusting the pace of our capacity growth plan to optimise out network, securing aircraft delivery and related capital expenditures and driving sustainable efficiencies through our costs base to better reflect the slower demand growth that we see in the market.

At the same time we remain very committed to improving the customer travel experience and we will be investing in some exciting innovations across our product offering over the next few years. That's important because that helps support our revenue premium.

I'll start off I guess by discussing the adjustments we are making to our network growth assumptions over the medium term. Firstly, let me say, we expect that our rate of network growth will moderate from previous forecasts to about 3% to 5% on average over the next three years. While that level of growth is still actually quite good it is a bit slower than previous estimates obviously at 5% to 7% and reflects the slower rate of demand growth that we are seeing.

We still however see good opportunity to grow revenue and profitability by tapping into new markets and creating new demand even in the slower demand growth environment. One such market is Seoul where we've actually commenced direct services of up to five times per week in the peak from Auckland beginning in late November this year.

Inbound leisure demand from South Korea is very strong. It is New Zealand's third largest Asian market with close to 90,000 visitors from the country arriving in New Zealand in 2018. At the same time we also have 40,000 Koreans based in New Zealand who travel there to visit friends and family.

It is a market that we are fairly familiar with. We have previously operated in the region and we still actually maintain a sales presence in country. It really is our intention to further stimulate this inbound growth while also growing demand for outbound travel from

New Zealand to South Korea.

As a result of entering Seoul and also the annualization impact of a Chicago to Taipei route launched this year, as well as the additional frequency on those sectors that we have announced today, our initial estimate of capacity growth for the next financial year will likely be closer to 5% than 3%. The growth rate for the following two years is likely to be lower than that.

For our existing route network we are focused on lifting the performance of some routes that we feel are not meeting their full potential while also refocusing our assets on those routes which are performing ahead of our expectations. Our number one priority is to optimise our network mix to maximise profitable revenue growth. To be very clear, all of our routes, as I've spoken about before, are profitable, however we feel that the relative performance of some routes can be improved with increased focus on market development.

There are also some markets we will be looking to lift demand into New Zealand and as an example of this we will be increasing frequency into Taipei and Chicago. Both of these routes have been performing ahead of their business case and we will be increasing frequency, up to five services per week from December this year.

Other routes may see some schedule adjustments to ensure we are optimising our aircrafts as efficiency as possible and a good example of that is our Auckland to Hong Kong service which is currently an overnight flight and to increase utilisation of our widebody aircraft we will be looking to retime that service to a daytime flight from October 2019. That will effectively free up one aircraft for additional flying by reducing the amount of time the aircraft spends on the ground in Hong Kong. Jeff will get into the details of our fleet plans very shortly.

Then when it comes to our existing markets to better balance the level of total capacity we will be moderating the level of growth for our existing routes with the focus there on RASK strength in a more constrained capacity environment. The combination of growth from new markets and RASK improvement on our existing network will help drive and improve revenue outlook. Of course our fleet plan is linked to our networks and as a result of revised expectations to our capacity growth over the next few years we have adjusted our fleet plans.

With that in mind I will now pass you over to Jeff to discuss some of the details around the fleet plan.

Jeff McDowall: Thanks very much Christopher and kia ora to everyone on the call. As Christopher mentioned, to better align with our current growth expectations we have made adjustments throughout the network that will allow for better utilisation of our fleet. We have also moderated growth in the areas where we feel that makes sense. As a consequence of these actions we have deferred the delivery dates of some of our narrow body aircraft that are currently on order and we will also defer the delivery of some widebody aircraft that will form part of the 777-200 fleet replacement program.

As illustrated on the slide in total we will be deferring the delivery of six aircrafts over a number of years representing a total deferral on CapEx of approximately $750 million. This in effect increases capital efficiency and resets our fleet plan to better match capacity expectations in light of the lower demand growth environment.

Domestically the three A321 NEO aircraft, new aircraft, originally intended for delivery next year will now be received a year later towards the end of our 2021 financial year. This will allow our domestic jet fleet plan to better match the lower rate of demand that we are seeing in that market. With that deferral we would expect the domestic network capacity to grown on average in the low single digit range over the next few years.

We have also deferred one of our A320 NEO aircraft for the Trans-Tasman and Pacific Islands markets by approximately two years to better reflect anticipated capacity growth in these markets. As we come off the back of two years with a very significant additional capacity in both of these regions.

Then as we get into the widebody fleet, some of the network changes that Christopher has just referred to, such as the retiming of our Hong Kong flights and the lower level of expected growth, will enable us to effectively free up aircraft over the next few years. As a consequence of that we will require fewer replacement aircraft for the 777-200 in our 2023 financial year when we originally anticipated.

Just to avoid confusion, I can confirm that we haven't yet selected the replacement aircraft or engine at this time. That decision is expected in the next few months. However, based on the slower demand growth so far we are expecting in our network we are comfortable that the total number of aircrafts required in the 2023 financial year will be less than we originally planned.

Essentially, we will be taking two of the planned deliveries out of financial year 2023 and moving them to the end of the program in financial year 2027 and 2028. As a result of that shift we would expect a significant portion of CapEx in the 2020 to 2023 financial years, including the pre-delivery payment for widebody replacement will be shifted off to the right.

As a result of these deferrals we have illustrated the changes to our committed CapEx through the 2023 financial year on slide 7. The smoother CapEx profile that you see in the revised chart on the right-hand side of that slide reflects the committed CapEx for the deferral of the four NEO aircrafts that I discussed on the previous slide. This CapEx chart does not include any pre-delivery payments that we would expect to incur once we select the widebody replacements for the 777-200 aircraft later this year and this only shows committed CapEx. However, given the deferral of the first units of that program that level of pre-delivery payments will be lower than our previous expectations.

Moving now onto costs. As I talked about in our interim results call in February our non-fuel cost performance in the first half of the year was adversely impacted by inefficiencies around the network schedule, as well as timing related to the setup of new routes and getting the NEO aircraft into service. We are dissatisfied with this performance and recognise that while some of the additional costs are temporary, given the disruptions associated with the Rolls Royce engine issue, other parts of our costs base need to be reconsidered given the slower pace of capacity growth we are now expecting over the medium term.

With that we are implementing a two-year cost reduction program that will leverage the good work our teams continue to perform with regard to the daily culture of cost savings and efficiency and will also drive more than $60 million in additional annualised cost savings across a number of areas.

That program will be formed around three key pillars. Firstly, we are looking to remove the inefficiencies that were incurred this financial year to mitigate the network disruptions resulting from the Rolls Royce engine issue. As we mentioned on the interim results call there has been a significant amount of indirect costs spread through our costs base associated with things like making changes to aircraft type late in the planning cycle which is really inefficient from a costs perspective. We are actively holding additional staff to make our schedule more resilient. We expect inefficiencies like this to be largely removed from our cost base by the first quarter of financial year 2020.

Secondly, we will target a sustainable reduction in overhead costs of approximately 5% which will be achieved through a range of initiatives. To give you some examples, we are looking at reprioritisation of spend, process efficiencies to drive further improvements and utilisation of automation to improve productivity in some areas, just to name a few.

Thirdly, we will be undertaking a targeted review of the operation costs base to ensure the airline is set up for success in the lower growth environment. This will involve some supply chain consolidation as well as improved labour utilisation and optimisation of our facilities. All together we feel that these actions will right size our costs base to the appropriate level given the rate of growth we expect over the medium term.

With that I will hand it back over to Christopher.

Christopher Luxon: Well thanks Jeff and I am going to comment very briefly on our continued commitment to ensuring that our customers have the best travel experience possible today and into the future. Over the coming weeks and months we will actually be announcing a series of new developments with our in the air product offering across the widebody fleet. I don't really want to go into too much detail around that today but we are very excited about these investments which do go hand and hand with our continued efforts to enhance the airport and inside the lounge experience for our customers.

Fundamentally we recognise that our customers are crucial to our success. In a world of rapidly changing expectations we need to constantly keep stepping up our game in delivering an exceptional travel experience and that is why we want to be really clear with you today that the business review and the resulting actions and outcomes will not have any implications on the customer travel experience. We remain really committed to investing in our product and our brands, whether that be in terms of our superior customer service and I think our incredible people, our fleet proposition and our ability to keep customers connected throughout their journey.

Now all of the initiatives that we have spoken about resulting from the business review will commence immediately. However, we do not expect there to be a material financial impact in the current financial year, rather these actions will set the airline up well for earnings growth in the coming years.

For the 2019 financial year our outlook remains unchanged from what we announced at our interim results at the end of February and that is that we expect earnings before taxation to be in the range of $340 million to $400 million. That assumes an average jet fuel price of $75 per barrel. Just as a reminder, our interim results material covered a good breakdown of how changes in the fuel price might impact our fuel cost given our hedging portfolio and we do recommend that you refer back to that material if you need further information about it.

Putting it all together, many of you will be familiar with the image I've got on this slide which is what I like to call the virtuous circle. This is something that we talk a lot about internally, particularly as we travel all around the business and discuss our performance and strategy with the many different teams that work at Air New Zealand.

We spend a lot of time ensuring that everyone here is really aligned on how we can continue to ensure a sustainable business commercially for today and for the long term. We need to ensure fundamentally that we have a really positively charged model of profitable and disciplined growth, as well a reasonable and sustainable costs control. That of course enables strong profits which also drives sustainable shareholder returns to many of you as investors.

However, we are not only focused on shareholder returns, but also on reinvesting those funds back into the business to ensure that we can propel that flywheel further with more growth, a strong culture and a superior customer experience.

I guess in summary and just in wrapping up, I hope you feel as I do that this I think has been a very intelligent and a very smart response to a lower growth environment that we're now facing. There's four key actions. We've optimised our network firstly to maximise our profitable revenue.

We have deferred $750 million worth of CapEx to match the growth that we're seeing and also to protect our cash flow and our dividends.

Thirdly we've got a good cost focus and a smart one I think to ensure that we're right sized for the new lower growth revenue environment. Importantly we're continuing the investment in the customer experience to fundamentally support the revenue premium that we enjoy.

So I just want to say thank you for listening. We know you'll have some questions. So operator please feel free to open up the lines.

Operator: Thank you. If you wish to ask a question please press star one on your telephone and wait for your name to be announced. If you wish to cancel your request please press star two. If you are on a speaker phone please pick up the handset to ask your question. Your first question comes from Andy Bowley from Forsyth Barr. Please go ahead.

Andy Bowley: (Forsyth Barr, Analyst) Thanks operator. Good afternoon Christopher and Jeff. I've got a couple of questions here particularly around the growth backdrop and outlook. The first question is around the demand outlook from today. It doesn't look as bad as perhaps we all feared back in late January when you came out with the warning. I say that on two counts; one that the January and February operating stats look pretty good. I'm estimating revenue growth at 7% or thereabouts in both months.

Secondly the capacity growth outlook for next year, i.e., fiscal 2020 you're suggesting now it's closer to 5% within that range. Now that tells me that demand doesn't look that bad from where we stand today. So can you talk about where you are now from a forward-look point of view and how that may differ in terms of your broader view on demand from late January?

Christopher Luxon: Hi Andy. How are you? Good to hear from you. Look I think the reality for us since we revised our forecast I think we feel very much that our revenue and forward bookings have been tracking pretty much in line with that. We've had a bit of a different March naturally in regard to the tragic event in Christchurch. We estimate that that will have an impact to us of around about $5 million in March.

Of course the thing that we're watching there and monitoring quite closely is what does inbound tourism demand from Asia look like in particular to New Zealand. I have to say that this point - appreciate it might still be early days - but from what we've seen from past events that they're largely tracking as normal for us. We've actually had very little impact and visibility to any slow-down from those markets. So long may that continue.

Then obviously two or three weeks ago we launched our new domestic fare restructure. What I'd say is that's doing what it's intended to do which is really to stimulate the regions and particularly those domestic leisure travellers that are much more price sensitive. So it's still early days but we're really encouraged by how that's gone on.

So yes, I hear what you're saying. I think yes for us we just think that as we look forward it's very much in line with our expectations.

Jeff McDowall: Andy it’s Jeff here, I totally agree with Christopher. The only thing I'd add when you were talking about the outlook going a bit further out and looking like 5% for next year. What you're seeing there is something of a shift in impetus from us to focusing on new markets for growth while moderating capacity in our existing markets.

So the bulk of the growth that you see next year will be coming from things like Korea that was announced today, from additional frequency on Chicago and Taipei where although those are existing routes we can see the potential to unlock a lot of new demand by increasing the frequency of the Christchurch Singapore routes.

Even in domestic although it's a mature market we are seeing pockets of new demand that we can tap into. A great example of that is the flights that we're about to operate from Invercargill to Auckland. So when we look at domestic growth it's going to be quite stable on existing markets. But it's routes like Invercargill – Auckland, Dunedin-Auckland actually which we grew quite a bit last year will carry on.

So the impetus we've seen is quite a considerably moderated growth rate on core markets but in that lower environment getting revenue growth through new markets and new demand.

Andy Bowley: (Forsyth Barr, Analyst) I'm kind of reluctant to draw you into the monthly stats. But if I think about them, you know March being a challenged month, April should be a bit better I'd imagine in light of the fact that you've got a combination of school holidays and Easter and Anzac Day all within a couple of weeks. Are we expecting the April through June period at a step down from what we've seen thus far in the second half?

Jeff McDowall: Yes, so March and April will be choppy as you point out. Tasman Pacific Islands market for example will perform very strongly in April with having that week of Anzac Day and Easter Monday in the same week. Conversely domestic will be much more leisure oriented in that week. So [unclear] lower. You've effectively got lots of moving parts. So it will be hard to draw a trend as you go through January, February, March, April. Even January, February is a bit different because Chinese New Year was earlier this year.

So you'll get a clearer idea as you get to May and June. I guess the only - I can't get into specific details but what I would say just to reinforce what Christopher said is the forecast that we provided was the basis for our earnings outlook in January. If we were to do it today our view on revenue would be almost exactly the same as it was back then.

Andy Bowley: (Forsyth Barr, Analyst) Okay, fair enough, thank you. So then - lastly from me - in terms of the capacity growth outlook from next year, 3% to 5%, I recognise you referenced particularly in fiscal 2020 that we will see some new routes come through or expansion of those new routes come through. What kind of capacity expansion can we see in domestic and short haul?

Jeff McDowall: For domestic it will be lower - low single digits. I guess what I was alluding to earlier, that will be lower even than that on the core markets. It will be things like Auckland Invercargill, the full year effect of growing Auckland Dunedin, some high growth markets like Tauranga which is doing really well from Auckland down into Wellington.

It'll be those things, the underlying growth will be very low - not negative. It will be growing a little bit but it will be very low.

Again the trans-Tasman the things that you will still see there is the induction of the A321. So there will be two things really driving Tasman growth. It will be the A321s and there will be the full year effect of a couple of sectors that we started to operate following the termination of the Virgin alliance being Wellington Brisbane and Brisbane Queenstown. But other than that the core future will be quite stable.

Andy Bowley: (Forsyth Barr, Analyst) Okay, that's great. Thanks guys.

Operator: Thank you. Your next question comes from Andrew Steele from First NZ Capital. Please go ahead.

Andrew Steele: (First NZ Capital, Analyst) Good afternoon. The first one from me is on the cost out program. I was wondering if you could just call out how much of it relates - of the $60 million relates - to the Rolls Royce inefficiencies.

Jeff McDowall: Yes, Jeff, that $60 million can be spread roughly evenly across the three buckets that we indicated, so a third, third and a third.

Andrew Steele: (First NZ Capital, Analyst) Okay, then just in - how should we think about the phasing of the profile. You've highlighted that the Rolls Royce should be very much in the - FY20 year. How do we think about the balance of that $60 million being phased over FY20 and FY21?

Jeff McDowall: Yes, that's right. We're taking steps now to get the Rolls Royce inefficiency costs out of the business. So the goal is that once we get to the next financial year we're kind of hitting it at a full run rate. For the other two buckets, that's broadly evenly distributed between the two years.

Andrew Steele: (First NZ Capital, Analyst) Okay, that's great. Just on the aircraft deferrals, I would have thought that this will trigger some level of cost escalation or price escalation in the contracts with the suppliers. Is this correct? Could you give us some sort of indication as to the potential quantum of this in maybe percentage terms and any potential offsets?

Jeff McDowall: So you're right. There is an escalation component to aircraft purchase deals. But essentially the escalation is a CPI inflation adjustment. Although the cost will escalate in real terms the costs are very, very - the escalation in real terms is very, very small.

Andrew Steele: (First NZ Capital, Analyst) That makes sense.

Christopher Luxon: Much less than you'd think Andrew.

Andrew Steele: (First NZ Capital, Analyst) Okay, thanks for that. Just one final one from me. You called out whilst all the routes are profitable there are some that I guess in a relative sense require increased market development. Could you just highlight a couple of these routes which you are looking to invest more from a market development perspective and in particular what new actions you're taking to stimulate demand which you weren't previously in these markets?

Christopher Luxon: Yes, I won't go into specific routes for obvious reasons. But suffice to say we've got a pretty developed market development playbook where we actually go back talking about the product, the price, the place, the kind of distribution we want to go through, the key messages that we're pushing. Clearly on the back of Christchurch we're working very, very closely with Tourism New Zealand to keep building destination attractiveness for New Zealand in general. But we will keep going through.

For example as we go into a market like Chicago we've got a lot of Americans there and the key barrier that we've got to communicate is firstly that we're in the market, secondly tell them about New Zealand. It might sound like it's a really basic thing but actually a lot of people don't know where we are in the world. Just doing some education on what's actually here.

Then overcoming the biggest barrier they have as a potential visitor to New Zealand which is the perception that it's 41 hours away. So it's that sort of very technical marketing that is really around dealing with the triggers and the barriers that have got a potential traveller making New Zealand their next trip rather than putting it on their bucket list of one of four or five places to go to.

So just to give you a feel for it. Even yesterday we had a joint board meeting with Tourism New Zealand and Air New Zealand. It's something that we do on a very regular basis just to make sure that all of our promotional money offshore coupled with theirs is very much joined up, working in synergy, in joint venture, really promoting New Zealand and our placement. So I know that's not specifics but I hope it gives you a bit of a flavour of it.

Andrew Steele: (First NZ Capital, Analyst) That’s great. That's all from me. Thank you very much.

Christopher Luxon: Thanks Andrew.

Operator: Thank you. Your next question comes from Wade Gardiner from Craigs Investment Partners. Please go ahead.

Wade Gardiner: (Craigs Investment Partners, Analyst) Hi guys. Just a couple of questions from me. First of all can you just confirm with the 777-200 replacement program, so the timing of the exit of the 777-200s is not being pushed out any further. So we're still looking at around FY23 there. You've deferred two aircraft you say from, say FY22, FY23 into more like FY27, FY28. But will we - how big was that replacement program anyway? I mean if it was more than two aircraft are we still going to get some in around FY24, FY25?

That's the first question. I'll come to the others in a second.

Jeff McDowell: So there's eight aircraft in the 777-200 fleet at the moment. So the plan was to replace them one for one with the exit dates of the old aircraft coinciding with the entry dates of new ones. With the changes we're making to our network we don’t have to have such a tight correlation between the exit and entry date.

So there will be periods where the fleet count goes down slightly as the 777-200s go out a little earlier than - at least on the first replacements. The order size likely to be similar, likely to still be eight aircraft but the timing a little different.

Wade Gardiner: (Craigs Investment Partners, Analyst) Okay. You mentioned the economy product, more spacious on the long haul. Is there any impact there in terms of capacity or is that just - are we talking seat design rather than number of seats?

Christopher Luxon: Well, we will talk a little bit more about that in coming months. But in essence, Wade, where that’s coming from is a recognition that we are after premium travellers and visitors in all three cabins, ultimately. When we talk to our customers, we a recognising that an economy product with enhanced space and leg room is something that would be desired by quite a few of our customers. That’s the sort of product that we’re starting to think about and put together now. What I’d say is, as of yet, unsure of the direct capacity seat implications of that but not likely to be huge.

Wade Gardiner: (Craigs Investment Partners, Analyst) In - just in terms the of roll-out of the new Business Premier product, starting from the end of calendar 2019, how long will that go for? What should we assume in terms of the CapEx on that?

Christopher Luxon: Yes, so, really again, that's coming out of the Hangar 22 exercise and that's taking the existing seat and reinventing it so that we can create more storage and more space. It kicks off at the end of this year and will be completed by December 2020. Over the course of the year, we should be able to roll that across our fleet.

Wade Gardiner: (Craigs Investment Partners, Analyst) And CapEx up?

Christopher Luxon: Yes…

Leila Peters: It's quite nominal.

Christopher Luxon: It's quite small, quite nominal and nothing that you should be concerned about.

Leila Peters: Sorry Wade, just to be clear, this is a bit separate from the overarching Hangar 22 new Business Class seat of the future works that we are still currently working towards. This is a tweak of enhancement in the current Business Class seat that you see in all of our widebody fleet. I just don't want you to confuse…

Wade Gardiner: (Craigs Investment Partners, Analyst) Oh, okay. So, this isn't the - oh, okay, right.

[Over speaking]

Christopher Luxon: [Unclear] from today till 2022, end of 2023 when the new aircraft start flooding through, we want to make sure that we have a contemporary product that actually supports the revenue premium.

Wade Gardiner: (Craigs Investment Partners, Analyst) Right and then from about '23 onwards, when we start getting in new aircraft, we might have a whole new product all together?

[Over speaking]

Christopher Luxon: … brand new introduction of everything which we'll then roll-out everywhere again.

Wade Gardiner: (Craigs Investment Partners, Analyst) Okay.

Operator: Thank you. Your next question comes from Owen Birrell from Goldman Sachs. Please go ahead.

Owen Birrell: (Goldman Sachs, Analyst) Hi guys, I just wanted to drill down into the cost base savings a little bit further. In addition to the $50 million of savings that you're targeting every year anyway, you're targeting another $60 million so we're talking about $110 million over all in terms of cost savings that you should expect for the next however many years. Is that correct?

Christopher Luxon: Sort of. So, it's $50 million every year, which will be - which potentially is initiated around offsetting the costs of inflation and so it will be $50 million in 2020 and then in 2021 and '22 and then so on. The $60 million that we've talked about, that's more of a one-off kind of structurally lowering of the cost base and we're expecting that to take two years to be fully identified and implemented. It sort of supplements, if you like, the $50 million that occurs every year.

Owen Birrell: (Goldman Sachs, Analyst) Okay, so, yes, an annualised $50 million over the next two years. You talked about here the removal of the inefficiency incurred with the Rolls-Royce engine issues, is that different to the $30 million to $40 million that you've previously guided to in terms of additional costs? Is that in addition to that cost coming out?

Jeff McDowall: Yes, the - so, the $30 million to $40 million we guided to was the costs we could directly identify at the time and would be able to then track which included things like the costs of additional lease aircrafts at the time, the cost of sub-optimal aircraft appointments around the network as we had 787s unavailable and had some leased aircrafts in there. We have sort of mitigated that quite a bit and that's the reason why we're no longer calling it out in our guidance. Although - because of the confidentiality of the arrangements we have with Rolls, we're not being precise about the extent to which we've mitigated it, but it's around half of that $30 million to $40 million.

So, that's a direct - but the amount that we're talking about at the moment being a third of that $50 million series of cost initiatives is in addition to that.

Owen Birrell: (Goldman Sachs, Analyst) Okay. Can I ask with the overhead cost reduction of around about that 5%, so essentially, you're talking to a $20 million saving. Are you able to tell us which, I guess, categories that's coming out of in terms of that cost - those cost buckets?

Christopher Luxon: It - well it's across our support functions and although there's more work to do, specifically where the costs will be and what the line items will be, the biggest proportion of it, I would think, would be in the labour lines in our support functions.

Jeff McDowell: It'll be in the labour lines, be some [end] package of services, some other aircraft operations et cetera. But yes, that's what I think will be as well.

Owen Birrell: (Goldman Sachs, Analyst) Okay. In the end slide there you've talked about a bit more automation, have you got a sense of what the CapEx associated with that will be?

Christopher Luxon: No, short answer. We have a team working with us at the moment, actually, to start doing some prototypes and start implementing automation in some specific processes. But equally importantly, develop an internal team that have the capability to then carry that forward. So, the CapEx proportion of that is quite low.

Owen Birrell: (Goldman Sachs, Analyst) Just finally, talking about that last category, that targeted review of the operations cost base. Is that essentially just the ongoing savings initiatives that you're targeting each year that's bringing a large number of those forward?

Christopher Luxon: No, it's in addition to those. It's a more specific thing that we're targeting around rationalisations, around labour utilisation around the use of facilities. So, that's on top of the kind of normal cost efficiencies.

Owen Birrell: (Goldman Sachs, Analyst) That's great. That's all the questions from me. Thank you.

Christopher Luxon: Thanks Owen.

Operator: Thank you. Your next question comes from Marcus Curley from UBS Investment Bank. Please go ahead.

Marcus Curley: (UBS Investment Bank, Analyst) Good afternoon team. Just a few from me. Just starting with Korea. Is there any ideas around partnerships or - yes, with this route, are you planning on going it alone?

Christopher Luxon: Yes, so, I mean, to be honest, Marcus, Korea we actually are really excited about because, as I said, there's 90,000 inbound tourists, there's 40,000 here on the ground. To give you a feel for it, about 80% inbound and predominantly about 48% comes on direct competitive services today and 52% of that traffic comes through other ports. So, there's a really big opportunity for more capacity in that market from a market [distributing] point of view. We have initiated conversations with our Star Alliance friend Asiana. We've already met with them, obviously, and we'll announce more about that in due course. But yes, that is part of our thinking of our thinking at this point.

Marcus Curley: (UBS Investment Bank, Analyst) You mentioned five services in the peak season, likely to be less than the off season?

Christopher Luxon: Yes, we're going to kick-off with three. We move to five in peak and then I think we'll either look at either coming back to four or three at that point.

Marcus Curley: (UBS Investment Bank, Analyst) Okay. Secondly, and I'm just putting two things together here, but on the aircraft engine issue, am I right in sort of suggesting to you that you've sort of got circa $20 million of directs costs still to come out next year and now you're adding another circa $20 million of indirect costs? So, on a sequential basis, will this result in a $40 million improvement in costs for you once the engine issue is fixed?

Jeff McDowall: Well, it's a little than that. It's certainly the second $20 million you mentioned, plus the proportion of the $30 million to $40 million we originally announced that we haven't been able to mitigate. Apologies for being vague about that. It's got to do with the arrangements that we have with Rolls-Royce. So, directionally you're going the right way, it's just a smidge lower.

Marcus Curley: (UBS Investment Bank, Analyst) Okay. Then finally, you're - obviously some questions about the 777-200 replacement program, can I just draw you on how many replacement aircrafts are you now expecting to be delivered in 2023? Obviously, you've said that two were the third, I assume that there is still some coming in 2023?

Jeff Mcdowall: That's right. The current plan would be one aircraft in 2023.

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

Christopher Luxon: Thanks Marcus.

Operator: Thank you. Your next question comes from Nick Mar from Macquarie. Please go ahead.

Nick Mar: (Macquarie, Analyst) Hi Guys. You know who I am. Just a couple more on the cost side. Was the kind of previous outlook you talked about forecast improvement hitting kind of 1% to 2% per annum, are you guys still looking to achieve that? Or is flat then new kind of outlook, given lower capacity growth?

Jeff McDowall: So, yes, Nick, our - look, our goal is to essentially restore the trend that we talked about at the last investor day. So, as you saw at the half year '19, creeping up a bit. We'd expect to see that back out in FY20. We're really - we're not backing away from the positioning that we described back at the last investor day. But what we would like is when you look back on it a few years from now, you see some bumps as we go through this period, but the trend is what we intended it to be

Nick Mar: (Macquarie, Analyst) Yes, no that's cool. Then just on some of the cost improvements, are there any one-off costs around redundancy - and I think you were expecting to go through as you work through that process?

Jeff McDowall: We wouldn't have said that to be significant. There will be some - clearly, we talked about labour costs as being one of the areas that we expect to be able to reduce but the proportions that we're talking about, relative to our - the size of our labour base, are quite small. So, the vast bulk, we expect, of changes will be managed through attrition.

Christopher Luxon : Yes, and to give you a feel for it Nick, I think attrition over the last few years is pretty low in Air New Zealand, believe it or not. Everyone's - somewhere between 5% to 9% in any given year. So, it gives us quite a lot of capacity through sinking and other ways that - to go about this in a smart way without impacting culture too much.

Nick Mar: (Macquarie, Analyst) Yes, that makes sense. Then just lastly, obviously, there's no numbers out there for next year but in terms of what you're putting in place, how much does this go towards getting a - towards some of your target numbers around that 15% mark?

Jeff McDowall: Yes, so no, as you say, we're not in a position to provide guidance at 2020 year and will be, as you can imagine, a lot of factors will impact that. But these will impact it positively and would - in a meaningful. We wouldn't be doing them if we didn't think they were meaningful. We have - we've kind of done what we think we can and in terms of providing you with specific guidance on that, in terms of the cost components and as well the CapEx components. The revenue - obviously, the revenue result of the new route, the capacity expansions and the other key components. But that being sort of route related, we're not in a position to go into that in detail. But we're confident they'll be successful and they will provide a meaningful kind of tail wind, going for next year.

Nick Mar: (Macquarie, Analyst) Okay, thanks guys.

Christopher Luxon: Thanks Nick.

Operator: Thank you. There are no further questions at this time. I'll now hand back to Mr Luxon for closing remarks.

Christopher Luxon: Well, can I just say, thanks to everyone for listening on the call and again, thank you for your time, interest and support of Air New Zealand. As you well know, if you'd like to schedule a call with any of us or follow-up, then please direct those through our investor relations team with Kim and Leila would be awesome. Thanks so much to you for your time. Have a great day.

End of Transcript