THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

AIR.NZ - Air New Zealand Ltd Corporate Analyst Meeting

EVENT DATE/TIME: MAY 27, 2019 / 1:30AM GMT

CORPORATE PARTICIPANTS

Cam Wallace *Air New Zealand Limited - Chief Revenue Officer*

Carrie Hurihanganui *Air New Zealand Limited - Chief Ground Operations Officer*

Christopher Mark Luxon *Air New Zealand Limited - CEO*

Jeff McDowall *Air New Zealand Limited - CFO*

Leila Peters *Air New Zealand Limited - Head of IR & Financial Planning*

Nick Judd *Air New Zealand Limited - Chief Strategy, Networks & Alliances Officer*

CONFERENCE CALL PARTICIPANTS

Andrew James Bowley *Forsyth Barr Group Ltd., Research Division - Head of Research*

Anthony Moulder *CLSA Limited, Research Division - Analyst*

Craig Brown *ANZ New Zealand Investments Limited - Portfolio Manager of Australasian Equities*

John Middleton

Marcus Curley *UBS Investment Bank, Research Division - Executive Director and Head of New Zealand Research*

Nick Mar *Macquarie Research - Analyst*

Shane Solly *Harbour Asset Management Limited - Director & Portfolio Manager*

Stuart Williams *Nikko Asset Management New Zealand Limited - Head of Equities*

Wade Gardiner *Craigs Investment Partners Limited, Research Division - Senior Research Analyst*

PRESENTATION

Leila Peters - *Air New Zealand Limited - Head of IR & Financial Planning*

Good afternoon, everyone. Welcome to Air New Zealand's 2019 Investor Day. Thank you for those of you joining us here in Auckland, and a very big thank you to those of you joining us online on our live webcast. So my name is Leila Peters, and I'm the Head of Investor Relations and Financial Planning here at Air New Zealand.

Before we get started, safety first. Emergency exits are located to my left, your right as well as behind you down the hallway over there, and bathrooms can also be found down the back. As we're always trying to improve our sustainability, this year, we do not have presentation packs printed out. However, you can download today's content on Air New Zealand's Investor centre website right now. You can also find it on the NZX and the ASX website.

As always, I would like to remind you that our comments today will include forward-looking statements regarding our future expectations, which may differ from actual results. This afternoon, you're going to hear from 5 members of our executive team. You will be able to find more information on them in the biography section towards the back of the slide deck.

Okay. So the way we've structured this afternoon is as follows: Christopher will provide a business update, and then you'll hear about our network and revenue growth opportunities from Nick Judd and Cam Wallace. Following that, we will have a brief Q&A section -- session for those speakers before taking a short break for refreshments. Afterwards, we'll come back, and we'll hear about the opportunities on driving sustainable cost improvement as well as our financial framework from -- and we'll hear from Carrie Hurihanganui and Jeff McDowall. Then we'll have a final Q&A session with those speakers as well as Christopher joining us back on the stage.

As always, we'll be taking questions from the audience in both sessions as well as through our online tool called Slido, where you can use your smartphones and submit questions throughout the session. At each of your tables is information on the website and the meeting number, so that you can log in and submit your question. There's also WiFi information for logging in on the table as well. We do hope that some of you are brave enough to ask questions in person, otherwise, it will not be a fun afternoon. And we will conclude the event with some refreshments and some of our fine Air New Zealand wines for those of you that are able to stay.

So before I invite our Chief Executive Officer, Christopher Luxon, to the stage, I'd like to play a brief video.

(presentation)

Christopher Mark Luxon - *Air New Zealand Limited - CEO*

Okay. Well, good afternoon, everyone, and thank you so much for joining us here this afternoon. As you can imagine, already, it's been quite an exciting morning for us because we've ended up announcing that we're going Boeing 787-10 and GE GEnx engines. I think it might've been one of the worst-kept secrets in the history of mankind or aviation, I suspect, over the last week or so, but awesome to have it confirmed and a really great set up and a great configuration as we'll talk about later on into our future growth as we go forward.

We really do, however, look forward to these Investor Days. These are really important days in our calendar because it's a chance for us just to go that little bit deeper with you to unpack some of the thinking that we have around how we manage this business, which is incredibly exciting but incredibly complex, and you get some big deeper, richer insights around that, and obviously than we can do in our one-on-one sessions. It's awesome today alongside Jeff later and myself to have Cam, Nick and Carrie with us, who'll be able to unpack some of these things a little bit more as well.

However, the 4 big things I really want you to take away are these: The first is that I think we have built an incredibly agile and adaptable business. When we think about what we have achieved and built over the time, we have demonstrated even again in the last 12 to 18 months that we can adjust to changing circumstances incredibly well and incredibly quickly. The second big thing is that our team is really focused on regaining earnings growth, and you're going to hear a lot more about that and get a sense of that through the course of the afternoon. But we've already implemented some of those key metrics or measures or actions, whether that's been deferring some of our CapEx, freeing up $750 million worth of cash flow, or whether it's some of the cost programs that we've got going on and revenue-enhancing initiatives, we think we're on a great track pathway to be able to upgrade and improve on our earnings growth.

And thirdly, we really are, despite doing all of that, we want to make sure that we are doing or achieving results in a really high-quality way, and that's why you'll continue to hear us talk about the importance of customer, cultural and commercial excellence, not just one of those 3 but all 3 together. We want to achieve great results, but we want to do it in a high-quality way, not just doing whatever it takes to crash and burn and maximize our profit and loss. We want to build a really great world-class business here in New Zealand.

And then lastly, you'll hear from Jeff a little bit around how we build on the strong financial foundation that we've got. How do we fundamentally withstand the changes and the challenge that we've got within our environment. But importantly, how do we work on our revenue and cost initiatives to drive that strong free cash flow that we want to see continue to emerge in the business going forward. So they're the big 4 messages, the big 4 takeaways that I hope that you will get out of this session this afternoon, and with that, I'll carry on.

The thing I'll say is that the business now after 79 years in existence, in April next year, it'll be 80 years that we've been going strong, has really built itself into a very strong business. And it doesn't matter which dimension you look through. I think we should be incredibly proud of those results. When you think about it now, it's a business that goes to 52 destinations in New Zealand and all around the world. We have 12,500 employees. We have been the #1 corporate reputation now in New Zealand for 5 years. We've been the #1 corporate reputation company in Australia now for 3 years. I still love that. It still doesn't get old. It's just awesome, as I've said before, rocking into those Australian politicians and giving them a dirty, great, big model of an Air New Zealand plane. And I'll continue to do that for as long as we possibly can.

And then we're being delivering consistently good commercial results. For a small airline from this part of the world, we have some really awesome structural competitive advantages that have enabled us to build out, I think, a really enviable track record of commercial success now over a long, long period of time.

In terms of our Go Beyond strategy, that is still unchanged. That has been the mantra. It has been the organizing force that has helped us link our stakeholders and our people together and unify them around a common mission and understanding of what this company is all about.

There are the 3 components to it: Firstly, what we call our purpose. That is all about how we supercharge New Zealand's success economically, socially and environmentally. It's not just a bumper sticker. It's the reality of our business. We need New Zealand to be strong, and New Zealand actually needs a very prosperous and successful Air New Zealand to support it as well. And so our 2 futures are inextricably linked. If we do that job well, Air New Zealand will be just fine at the end of the day.

Our promise, which is about how we connect New Zealanders to the world and bring the world to us. We are 5 million people on 2 rocks in the South Pacific Ocean, trying to link into 195 countries and 7.6 billion other people. And so the airline is the bloodstream of New Zealand and how we connect to the world and bring the world to us.

And then finally, the objective is that we're not interested in being a world-famous give-it-a-go, Kiwi-battling company. We have an ambition to be world-class New Zealand, and that means that we want to build cultural excellence, commercial excellence and customer excellence along the way.

So that's why we get involved in a range of things. That's why we've got involved with things like the QR -- Queenstown Resort College, and where we're trying to build talent that comes into the tourism industry straight out of high school amongst multi-Pacific students. That's why we get involved in the Dryland Carbon initiative that we've got involved with, which has involved Z and Genesis and other companies as we think about how we can manage our carbon emissions. But that's what leads us into those decisions is really very much our mission and our future.

And what I'd say about that is I know you've heard it all before, but we keep talking about it inside our business because every year, we have new employees join us, and we want people to understand the mission and purpose and to get it into their DNA as well. And when eventually I go to my retiree function at the ASB showgrounds in 30 years' time, I want to hear the then future of Air New -- CEO of Air New Zealand stand up, he or she, and actually express that the mission and purpose of this company has remained unchanged as it has for the last 79 years, as it will for the next 79 years.

So if I can take each of the 3 components. As I said, we really want equality of result. That's why we talk about the 3 Cs inside our business of customer, commercial, culture. I know all of you sort of understand this, but these 3 aspects are often a tension within a business. You can hit your commercial results by digging up your customer experience and saving money there, not investing on your people. But equally if we don't -- and we can invest in the people and not face up to legacy commercial challenges that we've got as well. And so we have learned that our finances enable us to invest in our customer and cultural experience. Investing in our people leads to customer experience and often, the commercial results as well.

So if I can just take the customer component of it, what I'd say is that my observation from my past life has been that businesses that are in turnaround mode have lost the voice of the customer, and that businesses always get into trouble when they lose the voice of the customer, particularly at the top of management and with the top team. So for us, everything starts with the customer, and we're measuring our customer satisfaction constantly. Mike Tod and his team probably talk to 4,000 customers a month in some form or another, and we can -- we have got everything dashboard. We've got a powerful set of data analytics that can tell us right down to our lounge in a regional port what that level of customer satisfaction looks like right through to the quality of a seat on a narrow-body plane flying to Kallaroo. So there's a dearth of information we get around customer satisfaction. And that's useful because as we try and invest in that customer proposition, we're able to see what's working and what's not working, what's a good investment, what's a good return on our money.

Over the last 12 months, despite all the challenges that we've had operationally over that period of time, what's been amazing to see is that our customer satisfaction has remained at record-high levels. Importantly, as I said, we've become the #1 company still in Australia and New Zealand and be able to maintain that in what has been a challenging operational year has been really fantastic.

And importantly, our Net Promoter Score, which is a measure of customer satisfaction, an externally benchmarked industry comparator, has been really exceptionally high and has continued to grow. And just to put it into a little bit of context, Air New Zealand's Net Promoter Score is probably 6x the global industry average. It's 3x the average for the average Star Alliance airline across the 28 airlines that are within the Star Alliance network. So we know we have probably the highest Net Promoter Score of any airline on earth, and with that comes tremendous satisfaction, obviously, for our customers, but with it also comes tremendous expectations. And that is that thing that actually propels us forward because our customers are incredibly demanding of what they expect of Air New Zealand in the standard that they actually hold us to.

If I can think about our people, if I move to the cultural piece, we have 12,500 Air New Zealanders. It is, as we've said before, a business that's all about flying people, not planes. And therefore, we know we have to have fired up and engaged people. We do that by investing in leaders. If we invest in our leaders, we believe we build a better culture, we get high levels of engagement, and then we get differential effort. And if you want to see an example of that over the last 12 to 18 months, the differential effort that's come in from Air New Zealanders across the whole of our system has been profound, and that only happens because of the culture that we have built over subsequent years, and that people are actually so attached to the organization, they want to go above and beyond than the same person doing the same job at one of our competitors. And so with that differential effort comes really great levels of customer satisfaction. With that, in turn, comes really incredible levels of commercial performance. And so for us, we will keep investing in our culture. It's not something that we do qualitatively. It's not something that we think of as a nice-to-do on a Friday afternoon. It's actually a must-do for us, as important as the other 2 aspects of the 3 Cs, as we call them. And I know Jodie spoke a lot more about that last year, to give you a little bit of a sense of how we build great leaders and great culture from within the organization.

But it's a good place to be. Air New Zealand is New Zealand's most attractive employer. It's a lovely named designation. I'm not quite sure. I think that just means people like working here. But since 2011, it's been New Zealand's most attractive employer. We had 45,000 people apply for 3,000 jobs in the last year, and 60% of Kiwis say they want to work here. So we have a huge responsibility to make it a really special place, and clearly, that's happening by evidence of the low levels of staff turnover that we actually have within the company as well.

So there's a lot more for us to do. We want to keep building this culture. We want to keep improving it and perfecting it over the coming years together. And if I just think about 2 things, the first is we made a very big commitment this year to make sure that our parental leave policy was the best that we could possibly build and probably the best in New Zealand. And we've been able to launch that out into our staff, into our market. Even on a tough year, it's the right thing to do by our people, and we won't shy away from doing that.

The second thing is that the focus on the future of work is something that we're really starting to get our heads around. We are facing this fourth industrial revolution and this big technological revolution, and with that comes tremendous amounts of change, great opportunity for New Zealand and Air New Zealand, but great challenges as well around that. And we want to make sure that our people are set up to manage their transition to a world of greater levels of automation. And so we have committed to what we call the future of work reskilling pledge, which is that by 2025, we will have doubled the number of hours that we spend reskilling and retraining our people, so that they can make those adjustments as we bring automation into the business and we can retrain our employees.

Why do we do that? It's because it's much easier for us. It's 2.5x cheaper for us to take an existing employee and retrain them for a new skill that emerges within the business than actually to exit that employee, go out and hire a new one and bring the new employee with those skills into the business. And so that's the sort of thing that we're committed to doing in order to build the culture.

I talked about this before but -- and I've talked about it in past years as well, but many times people will say Air New Zealand and global aviation -- and I'll go to IATA in Seoul at the end of the week, and I'll meet with 150 airline CEOs that are represented there. And many of them often say, "It's amazing how your airline does so well coming from your part of the world. You have a low level of commercial customers. You don't fly through New Zealand to go to many places. You can fly for 4 or 5 hours and maybe hit some Australians on a good day." And the upshot is that we have built really powerful, compelling and incredibly strong competitive advantages. When you look at our brand, our service, our culture we know that,

that is so important to us. We have to know New Zealand. Air New Zealand is better than anyone else on earth, and we're going to keep improving on that.

We have a great customer Loyalty Programme, which Cam and his team are leading, and we're getting people into the ecosystem of New Zealand, Air New Zealand within New Zealand. We've got an alliance-driven network, which has given us huge access and derisked a lot of our growth over the recent years. And finally, we've got this simplified, efficient fleet that we've talked about and reinforced again today with the decision that we've made around fleet.

And our job, as I've said before, is we're just putting armor plate on top of armor plate on top of armor plate on those 4 dimensions. And we're going to keep improving them, reinventing them, improving them, reinventing them because they are really strong differentiators and very strong competitive advantages for us.

Importantly, for you guys and for our investors, those competitive advantages are really translating into very strong commercial success. And it doesn't matter, they serve us well in a range of different environments and through different phases of the aviation cycle. And you can see here in terms of total shareholder return, how being an airline, we've actually outperformed many of the indices across our region but certainly, other Asia Pacific airline results. We're very, very proud of what we've achieved now for over 10 years, and we're going to remain very, very focused on making sure we build strong, sustainable shareholder returns for our shareholders going forward.

Now having said that, no doubt about it, we've had some real challenges over the course of the last year. There's 2 big components to that. The first is really the Rolls-Royce engine issue, which I know we've spoken at length about through the half year and at the reset in the beginning of the year. But it has had a huge impact on our customers over the last 12, 18 months. And many of you will have been impacted and affected by that yourselves.

Secondarily, it's had a huge impact on our staff because all the people involved in load planning and rostering and scheduling of aircraft. When we have 3,600 aircraft flights a week, often each week, we've had to replan quite dynamically as we've dealt with up to 5 aircraft on the ground in the first half of this year. The good news is that, that situation is improving. We've gone from 5 on the ground to 2 to 1 on the ground. Eventually, we hope to come out the other side of it and through the -- as we head into FY '20.

And then the second piece is, as we talked about at the beginning of the year, is that we've seen a slowdown in the moderation of growth, and that's really due to the slowing inbound tourism market that we're starting to see, which has gone from 8% growth over the last 5 years now down to about 2% to 3% growth. And of course, every international visitor takes up to 2 flights domestically on our network as well. So that would be the 2 big challenges that we've been dealing with, but our mission and our purpose has still served us well through those in-the-year challenges.

And more importantly, when I look at the 2019 outlook, our outlook has not substantially changed over our expectations that we talked to you about back on March 28 when we did our business review announcement. At that time, we had assumed a range of $340 million to $400 million based on an expectation of fuel being at $75 per barrel for the second half of the year. That fuel price has come up a little higher, and that's resulted in a $25 million headwind. And despite that impact, we are updating our outlook for 2019 for earnings before taxation, which we now expect to exceed $340 million.

I think what I'd say is we are still, however, not clearly very pleased with this level of earnings, and we have, I think, shown tremendous agility. We've been very quick to respond to the changing environment that we've seen, and we've talked a lot about certainly over the January, February, March period. And I appreciate that for many of you in the room, you thought that we were being overly pessimistic with our view -- our forward outlook and our view. But I have to say since January, February, March, April, May, that view has been validated, and it certainly has held over that period of time. And I think for some of you covering other organizations, you will have sensed that others are now starting to talk about the slowdown and see the slowdown that we were referencing and talking about.

What's important to me is that we actually face up to our reality in the year, and we make the adjustments we need to make. And we do that intelligently to rightsize our business to the growth that we've got going forward. Otherwise, what happens, and many of you who cover airlines will understand this, you get cumulative challenges that just build up and not addressed and not dealt with, and they just build up over time until more fundamental restructuring and change is needed. And that's not the way that Air New Zealand rolls. We deal with what we have to face with in year whether they're operational, revenue or cost challenges. We'll make the adjustments in year, deal with what we've got to deal with and make sure the business is always on point and is in as good a shape as it possibly can be. And Carrie will talk a little bit more about some of that drive around our efficiency base later on.

So if you remember back in March, we took 4 sort of decisive actions around our network, our fleet, our cost base and our customers. And I wanted to touch base, touch quickly on each of those 4 components. And the first was really around our network. We've talked about moving from an environment that was 5% to 7% growth over the next 3 years to one that narrows about 3% to 5% growth. And as you look at our projection going into 2020, we expect capacity growth in the order of about 5%. Now it's quite important to strip it out because there is quite a big message in here that I really want you to understand.

The first is that what we have done here is, if you look at our existing long-haul routes, you'll see that there is very little capacity growth at all, if any at all. And really, all of our growth in our long-haul network comes from the new markets of Chicago and Taipei, which we originally launched as 3-times-a-week frequencies that will build at times in the year up to 5 times as we expand that. We are finding that there is profitable, new sources of growth from these new markets and that they can be very attractive even over existing markets. And so we'll continue to grow Taipei, Chicago, the third bank to Singapore, that's the driving of the new long-haul route growth that we're talking about. Otherwise, rest of the long-haul network, essentially flat.

If you move to the blue bar, the Tasman & Pacific Islands. The Tasman has some growth but a function of sort of growth coming out of Brisbane to Wellington, Brisbane to Queenstown. But importantly, the A321neo aircraft, being larger units, are coming into that network. Very little growth on the Pacific Islands and in fact, a pullback of capacity out of Honolulu, so that helps keep that pretty flat, but most of it's Tasman-related growth.

And the key thing really is that our domestic capacity will be slightly down around 1% in the coming year as we make frequency adjustments into Queenstown, Christchurch and Wellington. And the reason for that is that we've had phenomenal growth into those markets over recent years, and it's really important that we actually now digest that growth incredibly well and actually -- and adjust to that. We'll have some growth, obviously, with our jet services going from Auckland to Invercargill, but net-net, our total domestic network, we expect capacity to be down about 1%.

And so the focus is really on existing markets, will be about RASK improvement and strengthening in what will be a constrained capacity environment. And that's the key message that I wanted you to understand and take away from our capacity growth assumptions as we go forward.

The second big challenge was really around our network. As we've talked about, we have deferred up to 6 aircraft in our narrow-body and our wide-body fleets, resulting in about $750 million worth of CapEx deferral. And I think we have now got our -- the CapEx proposal and our fleet plans incredibly well aligned for this lower level of 3% to 5% growth, and I absolutely stand by that decision. I think we made a good call. And again, the growth is tracking in line with what we talked about when we made the call to defer the aircraft.

We are expecting tourism to be continuing to grow but maybe at a slower rate. As I alluded to before, the previous 5 years, tourism's averaged about 8% growth. Currently, it's somewhere between around about 2% for the 12 months ending last month, but it will be somewhere in the 2% to 3% and be themselves sort of -- project that it'll be around about 4% growth and a down tourism as they go forward.

But regardless of all of that, what's most important is that Air New Zealand builds in tremendous amounts of flexibility and agility. That's the reason we have been able to survive. If the market takes off, we've got a great ability with the growth options that we put into the deal with Boeing and GE today to be able to participate in upside growth. And equally with an ability to substitute those aircraft for smaller -9s, our ability to go to early termination. And the fact that we have a lot of unencumbered aircraft with low ownership costs means that in a down -- if there is a slowing -- a further slowing, we can adjust just as quickly and just as well. And that's been a hallmark of Air New Zealand's success over the last 7 or 8 years. We want to have that maximum amounts of flexibility to be able to get to our business as quickly as possible and certainly quicker than our competitors.

The last bit or one of the big bits has been really around cost, and I want to spend a little bit unpacking this because I just want to be clear about what we're talking about. So it's that every year, we focus on generating around about $50 million worth of cost savings, and we do that because we've had an ambition for the last 5 years to offset the inflation price increases we see across the business. We know that's a pretty ambitious challenge, and I have to say that Carrie and her team largely have to deal with that challenge in the supply chain and throughout our operations. It's a really tough challenge each and every year, but as we've demonstrated hopefully over the last 5 years, we are really good at cost control. And we've built that discipline as daily religion and practice into our business.

We talked about the Rolls-Royce inefficiencies. We really want to get as much of those into the FY '20 year as possible. There is an emerging issue on these TEN engine issues. It's not the same magnitude of what we've been dealing with on the Package C engines. And we think we've got good visibility over -- and with a lot of time and a lot of experience over the last 12 to 18 months, we think we can handle that pretty effectively. But it may be that some of those inefficiencies recovery actually spill over into 2021 as well.

The third bucket around the operations review is still very much work in progress, and so we won't be talking about that today per se, but we will definitely do so into the future. But the second area around this 5% overhead cost reduction is the area that I wanted to focus on a little bit here. Because the sum of these 3 things, we want to generate an additional $60 million over 2 years in addition to the regular annual $50 million cost out to offset inflation piece.

And what we're doing here on this overhead reduction is this isn't going to be a classic sort of brutal cost out program that I've observed happen across many New Zealand-based companies in the last 2 or 3 years. We want this to be a really intelligent piece of work that actually helps us reimagine what's the right processes, removing of duplication that we need in our business to set it up for the next 5, 10, 15 years.

And with that in mind, we've brought onboard Oliver Wyman, who are a great global consultancy. They can help us benchmark our cost. We've got a good visibility over it, but we want some more visibility relative to other airlines and certainly relative to other industries outside of airlines as well. And together, we want to sort of intelligently go through identifying better ways of working, smarter ways of working, remove the duplication and find operating efficiencies in a really clever, sharp way.

It's not an organizational-wide review because we're not in that kind of situation, but we are looking to be able to generate about $40 million of savings over the next 2 -- over that 2-year period or about 5% of our overheads. So that work's just kicked off in recent weeks, and we'll keep you informed as to how that's progressing. But hopefully, you get a sense of the 3 big pieces that we're driving around the cost, particularly the overhead cost reduction piece.

Finally, as I said, we are not going to do -- we don't have an -- we're not going nickel and dime and trash the customer experience. We fundamentally believe a lot of our success in the last 5 to 7 years has been making sure that we have a big investment in customer experience, whether it be a modern, efficient fleet, whether it be a big investment in lounges, whether it be continued investment in our digital tools and processes. And the reason we do that is because it all builds to justify the revenue premium that Cam and his team can extract from the market. And so we're going to stay really invested in our digital app. We're going to stay very invested around refreshing and building out our lounges. I think in the next 2 to 3 years, we've got 9 more lounges to refresh and refurbish. WiFi, we've talked about that being rolled out onto our aircraft over the next coming years, but being free and available to all our customers. And we certainly talked about a range of aircraft interior refreshes that start at the end of this year and obviously go through to 2022 when we bring in a whole reinvention of all the cabins associated with the entry of the 787-10. So it's really important that we continue to stay super, super invested in our customer experience, which drives such a good revenue premium for us.

And then today, as I talked about earlier this morning with media, a lot of what we've been doing is that commitment to purchase 8 787-10 Dreamliners with GEnx GE engines. We think we've made a really good decision there around our fleet again. We think it's the perfect aircraft and perfect combination for where we want to go, and Nick will talk about some of our network growth opportunities as we go forward.

But these aircraft had been -- we think it's just setting us up really well for the next 20 years or so. And I want to say a big thank you to Baden Smith in particular, and Jeff McDowall, who have led their business and the Board and the executive team through a big decision like this. It's not every day you get to make -- spend billions of dollars on -- and sort of shaping the business out to 2030 and beyond by virtue of a decision like this. But we think we've made the right call around mission performance. We think the operating economics are really outstanding. Certainly, the sustainability benefits are fantastic. 25% more fuel-efficient than a 777-200, 190,000 tonnes of carbon avoided each and every year on this fleet versus the one that it's replacing. It gives us huge flexibility across crew, parts and maintenance. You think about pilots that can operate -9s and -10s. If you think about 95% of the components being common between our -9 and our -10 fleet, it's pretty special in terms of that. And finally, it also just gives us some supplier diversity, particularly given the growth in our fleet that we can now -- we've got critical mass and scale benefits out of our subfleets, but it just also gives us the right level of diversity as we go forward.

So I hope that sort of helps sort of have a little bit of context for what you're going to hear from the rest of the day. There's -- with Nick here, we're going to talk a little bit more about network growth. With Cam, we'll talk about some of the initiatives that we've got to power up our revenue and to optimize and maximize our revenue. With Carrie, we've obviously got quite a lot of levers to pull around maximizing and optimizing operational performance but certainly controls. Carrie controls a lot of the cost base of the business. And then finally, Jeff will talk about how we want to maintain a really disciplined approach to capital deployment and obviously make sure we continue to invest and make sure we deliver you strong shareholder returns.

So with that, I'll pass off to Nick. Thank you very much.

Nick Judd - *Air New Zealand Limited - Chief Strategy, Networks & Alliances Officer*

Thank you. Great to be back in front of you again. I'm going to talk about 4 main areas in my presentation today. I'm going to start by touching on the competitive dynamic and the changes that we've seen over the last 12 months. I want to reiterate how we evaluate our network, and how we review that, and the action plans we put in place in regards to that. And then I want to touch on in a bit of detail the 3 principles that will underpin our network management in the medium term and over the next 3 years. Finally, I just want to briefly touch on obviously our alliance partnerships, the strength we have in those and on the Tasman post the Virgin Australia breakup.

So the map that you see ahead of you is a very familiar map, I'm sure. I think in every network presentation we probably done for the last 10 years, it has been there. But it's a very familiar slide, and it shows how we've built out our network over the last 10 years. What it shows is our network as it stands today and going into FY '20, and so there has been some changes in the last 12 months, and there's obviously a few new additions coming on during the year.

Our network has evolved significantly over the last 8 years, particularly as we've put in place our alliance structures to help support our long-haul growth. But we're still incredibly focused on the Pacific Rim and building out our network in both the domestic sense, Tasman & Pacific Islands, and on a long-haul basis, and that was actually solidified when we went through the business review process most recently, in which Christopher announced the results over a couple of months ago. We still see significant opportunities for profitable growth, and we'll be looking to enact those in the next 3 years.

I think this time last year or maybe a couple of months earlier, I sat and talked to you about how when we see fuel prices rise, we see this natural tipping point in competition leaving New Zealand, and that's exactly what we've seen play out over the last 12 months. So not only have fuel prices stayed at a relatively high level, we've seen global macro uncertainty out in the global stage, and we've also seen a strengthening U.S. dollar that has kind of caused issues for the airline industry in general. And so globally, we've seen a number of airlines go into redundancy. We've seen the airline landscape change, and that's actually played out in New Zealand as well, where in addition to that and connected to that, we've seen a slowing of inbound tourism, as Christopher talked about.

So what we know is that when we see these dynamics play out, we see a changing landscape in the competitive environment in New Zealand, and so those competitive -- competitors of ours with the wrong strategy, the wrong product offering or the wrong cost structure leave the market. We've seen in the last 12 months some signs of real rationality out of Asia. So we saw Hong Kong Airlines leave this month. We've seen AirAsia come off the Tasman with their wide-body that they had on Coolangatta to Auckland. And in the last 2 weeks, we've seen China Southern announce that they're cutting services from 10 per week down to 7 starting in July through to October.

So some really positive signs out of Asia in terms of how the capacity's changing, and that's actually flowed into the Tasman as well. So Virgin Australia has just announced some cuts to both their Auckland and Christchurch services, and we've seen LATAM drop down from flying 7 times per week to 4 times per week later this year. And that obviously has a dual benefit for us on our South American services as well as across the Tasman as well.

We have seen Air Canada into the market, and I'll touch a little bit more in detail on this under our alliance and code-share partnerships, but they're coming in at 3 per week in the middle of peak season. We know there's strong demand there. They're a good home market carrier and a Star Alliance partner and certainly, they've come into the market in a very rational way.

What this slide underpins is that to succeed in that New Zealand market, you absolutely have to have the right tools, and we're really confident in our ability to defend our own home turf. We think that that's playing out. And while it hasn't been a surprise to us what we've seen in the competition dynamic over the last 12 months, it's definitely been incredibly pleasing, and we hope to see more signs of this come through.

Again, this will be a very familiar slide to you, and I spent some time talking through this model 12 months ago. But I just want to reiterate that we are ruthlessly focused on driving profitable outcomes from all of our routes and making sure that we get the best commercial return from our fleet. In addition to our monthly network reporting, we regularly evaluate our routes on a quarterly basis with both the Board and the executive doing deep dives on that. For routes that are not performing, we have action plans in place, and this is a process that we make fundamental decisions on how we drive the best commercial outcomes from the fleet that we have at our disposal.

In addition to that process, we also have strong fleet utilization reporting, and we target to make sure that for all of our fleet types, we're at the top end of the range of utilization versus our peers in the industry. So both of them run in parallel with one another. Both are very strong focuses for the executive and the Board as well.

As I mentioned, the bottom left-hand quadrant is the review quadrant. And when we have routes that sit in that space, both our revenue management, our commercial, our market development teams spend a lot of time working through how we get them back into a better quadrant on the grid. And a good example of this is the Vietnam route that we exited earlier this year. We tried for 3 seasons to get that to where we wanted it to be. We had really strong targets for that route, that we wanted it to continue to grow in profitability. We tried a number of tactics, including increasing our marketing spend, working with the trade on new and innovative ways to sell the product. We put a different aircraft type on that. But when that action plan ran out of time and the time line was expired, we made the tough call to pull out of that route. Not something we wanted to do. We don't like taking network spots off the map, but it was something that was actually had to be done in order to get a better return from that aircraft. So we're well up for making those decisions when we have to.

The other element that I want to leave with you from this slide today is it's not actually only about profitability that drives our focus and our decision-making. A key focus for us is the relative profitability compared to other parts of the network. And so one of things that we do, and I think we do really well is that we have a look at routes that are performing really well, and we try to understand the dynamics that make that perform well, and then we look to copy those tactics and tell us the routes that aren't performing as well.

And a good example of this is actually Japan. Japan doesn't sit in that review quadrant, but we knew that we could drive better profitability from that route. And so our [RN] team have done a great job in the last 12 months of actually cutting down the number of sales that we have in that market. They've dropped the lead-in fare and as a result, we've seen a big stimulation of traffic from New Zealand end and an overall much stronger commercial and revenue result.

The second example that I want to touch on is Buenos Aires. Completely different market, completely different dynamics, and it has been a bit of a challenge for us, particularly with the economic environment that we've seen over there in the last 9 months: a lot of political uncertainty, the peso has significantly devalued against the U.S. dollar, there's elections coming up later this year with Macri seeking reelection. That means the whole environment is quite uncertain there. We've also had to fly our 777-200 there when we want to fly 787 because of some of the Rolls-Royce issues we've had. And so that market has been challenging over the last 12 months, but our teams have worked together on that. We've made the capacity adjustment we've had to by trimming some schedules and shortening the peak season. And we've actually built our sales in markets like Brazil and Australia to help counter some of the slowdown that we've seen out of Argentina. So a good example of a route that we're managing on a real day-to-day basis at the moment to try and improve performance.

When we announced our business review results a couple of months ago, one of the big changes that we made was moving Hong Kong from an overnight service out of Auckland to a daytime service. And you might sort of say, "Why does that matter? It doesn't sound like a big deal." But it's a good example of how we've driven much better utilization through that business review process and how it continues to be a focus for us.

And so I just want to jump into a little bit of detail as an example to give you the context around this. So it previously operated as an overnight flight out of Auckland. It flew up to Hong Kong. The plane sat on the tarmac for around 11 hours, and then it would turn around and come back to New Zealand. By retiming that flight to a daytime flight, it now means that we have that aircraft only sitting on the tarmac for 2 hours a day, and it's actually enabled us to go launch a whole new route in Seoul or to add more reliability into our schedule without the capital investment that comes with buying a whole new plane. So it gives us better crew efficiency. It gives us more flexibility and adaptability in our network. Yes, there's some customer challenges in terms of moving from a nighttime flight to a daytime flight. But actually, we hit different banks in Hong Kong, which means that the customer mix changes slightly. And we're confident that within 12 months, we'll be back to the same connectivity traffic that we had previously.

I use this as an example because I think it highlights the confidence that you should have in us to continue to be flexible and adept as we face a lower-growth environment and a changing global economic environment. We are prepared to chop and change as we need to. We won't stick to the current network plans. And probably the only certainty is that with uncertainty, we will continue to look to change our network and make sure we deliver the best customer and commercial returns over the next 36 months.

Christopher touched on the fact that over the next 3 years, we're looking to grow between 3% to 5%. And that compares with what we talked about last year, which is originally, we were going to grow between 5% and 7%. When we spoke about that last year, we talked about the fact that we were going to grow a lot of our existing routes in addition to launching new routes, and that's probably the biggest change that we're standing up here to talk to you about today. We are not looking to grow a whole lot of frequency into existing destinations. Some of the new markets, we will certainly try to get to daily. But actually, a lot of our growth as we go forward over the next 3 years and certainly in the next 12 months will come from us launching new markets.

It's important to remember within that context that we are actually going to be growing. So it's not a complete slowdown. We're not going backwards. The overall network will continue to grow, and there's 3 principles that will underpin that growth.

The first is that we're aiming to stimulate new markets, and you would have seen the announcement around Seoul, which we brought forward, and I'll touch on in a bit more detail. But in addition, we've also launched Chicago, Taipei. We have Christchurch, Singapore launching later this year, Seoul obviously later this year, and we've landed the third bank of services with Singapore, which started in Northern Summer.

The second element is that we're going to obviously continue to upgauging our aircraft, which is the introduction of the new A321s and the cost reductions we see with the A320s. And then thirdly, and just as important, but this is where the change has come, is that elsewhere within the network, we're actually looking to maintain or constrain capacity to make sure that we improve our RASK in line with some of the CASK increases we've seen as fuel prices have escalated.

As I mentioned, we expect to continue to be nimble and flexible over that 36 months, and we're certainly going to focus on making sure that we're delivering both customer and commercial outcomes through that period. So just to unpack those principles a little bit more, I want to start with our new growth.

As Christopher showed in his graph, the majority of our capacity growth, around 4.5% next year, comes from long-haul new route growth. We're entering Seoul in November, and we think that, that will be a highly profitable market for us. We've landed a bunch of new capacity with Singapore, and we've annualized our Chicago and Taipei services, which were launched in November last year.

For the first time in a long time, we're launching a new jet route with Auckland, Invercargill and there's already a really well-established market on that route. We're trimming our capacity on Christchurch to Invercargill to make sure that, that route lands successfully. But based on the demand we see, we think that, that will go really well. And it's a good example, when you link back to that fleet utilization piece, where we have used some off-peak flying to provide a customer benefit and that the customers down there can get a full day of business done up in Auckland, along with the commercial benefit, because it will drive really strong returns for us.

We heard Christopher talk about a 3% to 5% growth rate over the next 3 years. You can expect obviously to be at the upper end of that next year. And then for the following 2 years, we're more likely to sit at around that 3% mark, particularly if market conditions persist as they are today.

So why Seoul? And why now? Seoul is a really interesting market for us and one that we've had on the radar for quite a while with our network planning team. As a result of the business review, we actually brought this forward by a year in terms of our network plans to launch. But what we know about this market is that it's a really strong, existing market that actually has really strong links to New Zealand already. We have a GSA based up there that's been selling a large number of passengers on our Japan services. There's over 90,000 visitors a year that travel down from Korea to New Zealand already. And actually, if you step back to before the Asia bubble -- dot-com crisis, this market used to be around 150,000 to 180,000 visitors a year. So it's had a history of being in the top 2 of New Zealand visitor arrivals.

It's the third-largest Asian market currently, and over 50% of those 90,000 people come via one-stop options today. So there's a captive market there for us to go into in addition to the stimulation that we expect to be able to drive.

There's really good yields on this market. There is a competitor there that's already -- that has been constraining that route for a number of years, and we are really confident that we can go head-to-head with them, and both of us will sustainably succeed.

One of the things that was most pleasing to me was that when I down at TRENZ 2 weeks ago and just walking the floors, the number of people that came up to me from the industry and said they were just absolutely overjoyed that we've gone back into Korea. And they said that they've been up investing obviously in their sales teams and their sales presence in that market, they were really confident that there was much more demand to be built out of that market, and they were also really confident then -- or they were telling me that they are actually planning on investing more into that market this year to help make sure our services were a success and that, that market grew from where it was today. And so in conjunction with Tourism New Zealand and the tourism industry, we're really confident that, that market will go very, very well for us and continue to build.

I think this slide is very straightforward in terms of in relation to the benefits that the neos give to us in the coming year and years to come. A321, 27% more seats, small marginal cost increase on the plane, obviously lowers our CASK, lowers our cost per seat and as importantly, lowers our carbon footprint. A321, considerably lower cost per seat and cost per trip -- sorry, the A320neo. And so we will see the full benefits of this coming through in FY '20. We only saw a part-year benefit come through because obviously they were delayed during FY '19 and the rollouts come through, and so we'll get a full year benefit of this that will come through with another delivery to come.

Cam will talk a little bit more to our domestic network and revenue management philosophy in his presentation. But I did want to touch on the domestic network and the changes we've made there because I'm sure that stood out to you in Christopher's graph. We've seen really good stimulation from the low fares that we put out there 3 or 4 months ago. We've seen good demand, but we've also balancing this with a slowing inbound tourism market, and so that has led to us trimming domestic capacity.

We've made some targeted changes to our network, and we've actually taken out flights which were at the lower end of the profitability spectrum. And we expect that, that will drive increased RASK across our network and particularly our domestic network. We've had success with this in the last 12 months, and we've been using this in the PI and some long-haul routes. A good example, which Christopher has already alluded to, is in Honolulu, where we've trimmed some capacity over the last 12 months. We've pulled back our growth ambitions for future years, and we're driving better RASK results out of that market. So a good example where we've given this -- or used this tool to effect, and we believe that this will be a really good tool for us to continue to match our RASK with our CASK expectations for FY '20.

Airline structure, as I mentioned, has helped underpin our long-haul growth, and I might be biased because I look after alliances, but I can certainly say they are in great shape at the moment. The Singapore relationship is one that we continue to grow. And as I've touched on a couple of times, we're launching the Christchurch, Singapore service in November. We have the third Auckland, Singapore service, which we're sharing, which is pretty much unheard of in JV relationships around the world. So Singapore flew the Northern Winter season. That went really well. We're flying the Northern Summer season, and we couldn't be happier with how bookings are going. So a really strong focus in that alliance on growth, and we're landing that growth really successfully.

And then aligned with that with our United partnership, we obviously launched Chicago last year. We took some very minimal cuts to other destinations in America to enable that to happen, and that's obviously gone successfully for us with the partnership as well. So that whole market strength of 2 carriers at either end helping support JV services has worked really well and, hence, why we feel confident in adding capacity to that service later this year.

I want to touch on a couple of our code share partners that are represented up there, and the first being Air Canada. So as I mentioned, they're coming to New Zealand later this year in November in a 3-per-week service just seasonally. We've had some really positive joint venture discussions with them, and they're progressing well. We certainly believe that there's good customer benefits that will materialize if we can enter a joint venture relationship with them. We obviously have to convince the regulators of that, which we'll be attempting to do later this year.

And then the other one, which -- since we caught up, which might have surprised a few of you hopefully, it's not often you get in a surprise in the industry, but I think we managed to get that one through, was the Qantas partnership. And we had an exec-to-exec catch-up a few weeks ago. That relationship is working very well. We're extremely happy with the customer side of things in terms of the way that their customer journey is linked between Qantas and Air New Zealand, and we're looking at ways in noncompetitive areas that don't require regulatory approval that we can continue to build synergies between those companies. And so an example of this is in the sustainability field. We're looking at biofuel areas we can work together. We're looking through plastic and waste initiatives, et cetera, that the 2 companies can work together and either further the agenda for the industry or actually bring better benefits to bear for both companies and the environment.

This time last year, we had just announced pulling out of the Virgin Australia alliance, and I think what we would say, without a doubt, is that we're very happy with the way that, that has played out. It has played out the way we expected. Post the original flurry of capacity that was announced when we pulled out of that alliance, we've actually seen very rational behavior from all competitors. As I touched on, there's been some recent changes from Virgin to their structure. We've seen our market share and our capacity share grow through that alliance. And when we look at publicly available data, we see that both Qantas and ourselves have very similar load factors to what we've had last year from the November to February period, which is available. What we have seen is that Virgin's struggling in terms of -- so their February performance was a 66% load factor on the Tasman.

And so we -- it didn't come as too much as a surprise to us again that they made those changes to Auckland and Christchurch. They have announced that they are undertaking a network review, and we would expect that there would be some potential Tasman schedule changes that are likely to come out of whatever announcements come from there. But there will be a bit of a wait-and-see for us.

So just to wrap up and in summary. What you can expect from us over the next 3 years is market -- or capacity growth in that range of 3% to 5%, weighted slightly higher to the front end and dropping down closer to the 3% for FY '21 and '22. We will focus on these 3 principles of network management, which -- that we're going to launch new markets to stimulate growth and we'll land the markets that we've announced in FY '20. We'll continue to upgauge our aircraft obviously where we can to drive better CASK benefits and make sure that, that delivers a bit of a margin return for us. We will be looking to maintain or constrain routes to make sure that RASK is increasing in line with some of the CASK increases we've seen.

But overall I think, as I said previously, the one thing that you can take from this today is that we'll continue to be very nimble and flexible in our approach to the network, and we will respond to conditions as they play out and as they have done over the last 12 months. Thank you.

I'd like to invite Cam Wallace, Chief Revenue Officer, to the stage.

Cam Wallace - *Air New Zealand Limited - Chief Revenue Officer*

Thanks, Nick. Okay. I'm third cap off the ranks, so that's always a bit challenging. A gap after me. Well done, Nick, thank you.

Now following on from Nick's presentation, I hope you have observed how well the network is configured for the next 12 months to give my team, the revenue team, the best possible opportunity to deploy the tactics to get the maximum profitable revenue growth. And as you'd expect, we have tremendous collaboration and communication between the networks team and the revenue team.

So what I want to talk to you about today is some of the strategies and some of the tactics and some of the tools that we use to maintain our market-leading position. And I want to talk to you about the future and some of the potential new opportunities for us to drive even greater revenue performance. And I want to dig deeper into our domestic business, which is a source of huge value for us.

So firstly, our domestic business. Nick talked a bit about this. 82% is a great number, it's a really, really compelling and commanding number. But actually the numbers that we are more focused on is our share of the revenue pool. Now share of the revenue pool is close to 90% in New Zealand, and then even greater important to us is the share of the profit pool. And Air New Zealand's share of the industry profit pool in domestic New Zealand is 100%. So that's a very, very compelling number and it's something that we are very, very proud of.

Now as we scan the world and look at other network carriers in Europe, in the U.S.A. and in Australasia and even in Asia, we can't find another airline that has 90% revenue share. So it's a huge source of competitive advantage for us and it underpins our business, the domestic market. Quite clearly, we have considerable resources deployed in this market, so it's incredibly important that we convert and extract the revenue premium from all of our customers.

Now I'm going to dig a lot deeper into the domestic market. And the way we look at the domestic market is in 3 segments. Firstly, the domestic business market, and I'll talk about that a little bit later. But we spend a lot of time, effort and resources in maintaining our market-leading position there. Second is inbound tourism. And to give you some sense of scale, half of the tourists that come to New Zealand end up connecting on to an Air New Zealand plane. But doesn't matter if it's a Star Alliance or JV partner, it can be American Airlines or China Southern, we still connect them to Invercargill in the future or Dunedin or Queenstown.

Our domestic tourism is another big part of what we call local traffic. And local traffic is the likes of yourselves traveling from Auckland to Dunedin or Auckland to Queenstown. It's New Zealanders traveling for visiting friends and relatives or for events or for tourism activities. That's a big part of what we do at the moment.

So if you look at the relative growth of all those sectors, business travel still growing at about 6.5%, so pretty robust. And then inbound tourism and domestic tourism growing just over 4%. And obviously we've seen a bit of a slowdown in the last 3 or 4 months in those 2 segments, and that's why we reorganized the domestic fee structure to restimulate that elastic travel at the bottom end. And that's been really, really successful for us.

So I haven't spent much time talking to you -- or Leila doesn't really let me talk to you. But talking to you about domestic business traffic. This is about half of our market, so the market is about $1.5 billion, and half -- around half of it's business. And the way we think about business travel is we have 3 sub-segments. So obviously, SMEs in the New Zealand context make up about 90% of businesses. And for us, we have about 87% share of the SME business in New Zealand. And we facilitate SMEs through 2 products. One is Airpoints for Business and one is Above Beyond and what those are is business-linked Airpoints schemes so we can reinvest in products and services for our customers. And that's a really, really successful way to manage that part of the business. We also have account managers, phone account managers, who facilitate the relationship.

In our corporate segment, this is about 250 customers who spend over $150,000 a year on corporate travel up to $12 million, so between $150,000 up to $12 million, and those are facilitated by dedicated account managers. So we have people who tailor a solution for an individual corporate account. There will be discounts, there will be soft benefits like koru memberships. There will be market share targets, there will be revenue targets. So we spend an awful lot of time, money and effort tailoring a solution to an individual corporate customer, and the length and term of those contracts are anything up to 5 years. So we try and establish a long-term partnership with corporate New Zealand, the big end of town, right up to a very, very, very small number of the CEOs of the largest-spending organizations get a personal invitation from Christopher to join Elite Priority One.

Our third segment is government, and government is facilitated through MBIE in what's called our all of government contract. That's a big part of what we do. It's a very profitable part of our business. And whilst the AoG is an important contract, the overarching deal, the most important part of that relationship is what we call service supplements. So our government team based in Wellington have service supplements for 50 of the largest-spending government organizations. That will be government departments like education, like MBIE themselves, like economic development; but importantly, organizations like defense and New Zealand police.

These organizations have unique requirements that only Air New Zealand can deliver them. So whether it's a special tactics unit, whether it's the dogs, whether it's, say, the dive squad needing to get to events and issues around the country, we have a number of contracts right across the government segment which means our moving average market share as part of government New Zealand and government expenditure is 97%.

We also facilitate and offer booking channels for all these different segments of the business travel services market. So for the SME market, they can book online, on Grabaseat or via a travel agent, same for the corporate market. But in the corporate market and in the government market, we also participate in the travel services market by owning a company called Tandem Travel. Tandem Travel is a wholly owned subsidiary of Air New Zealand; it represents 21% of the travel distribution services market. So we carry the customers onboard, we service them in the lounges, but we also book their travel. So that acts as another -- as what Christopher would say, another armor plate around our business travel.

And we've spent a lot of time, a lot of effort and a lot of focus, because we're in the middle of it, looking at the way Virgin attempted to integrate themselves up that hierarchy of value in the Australian domestic market. Spent a lot of time on that analyzing what Qantas did and what Virgin did. So we're absolutely fixated on ensuring that no one moves up the value chain in New Zealand.

If I pivot now a bit to our international market, and Nick talked about market development offshore. And Air New Zealand is a really unique carrier in the global scenes. One is we're small and two is we carry a disproportionate amount of inbound leisure tourists. So when we open up a new market, there's a couple of things which are different to an organization like United or American. One is we do a small amount of new market entry, so usually 1 a year. Secondly, we don't have a mass amount of business or corporate traffic. So when United started a new market, a lot of their traffic will come from existing large corporates. We don't have a lot of -- or hardly any multinational organizations based in New Zealand, so we don't have a lot of corporate traffic.

So what we need to do is participate up the funnel. So we participate with Tourism New Zealand and our alliance partners at the dreaming phase. So the first thing we do is stimulate the demand, not for Air New Zealand, but for New Zealand as a country because we're competing with Canada and with Europe. So we try and bring to life the proposition of New Zealand, then we try to convert our customers to travel on Air New Zealand. So we're using our alliance partners, we use regional tourism organizations but obviously we work in a really collaborative way with Tourism New Zealand. That's been a deeply successful thing for us because we now have, when we go to Korea, we had it when we went to Houston and we certainly had it when we went to Chicago, our transferable model. So the model was set in place and we just deploy it.

So this is an example, a case study of Chicago. So few of you might have lived in Chicago, but there's not a great awareness of Air New Zealand or New Zealand in Chicago. So we ran a series of events. We drilled into the data which airlines partner United gave us in terms of the frequent flyers and what we call the active considerers, people who have Googled New Zealand or had been on Facebook and were researching New Zealand. What they call in Tourism New Zealand active considerers: Who has the propensity or need or will to travel to New Zealand? We had trade events with our travel agency partners, we had consumer events with United.

So we spent a tremendous amount of energy and effort making sure we built to life the proposition of New Zealand. And then we started up our services in Chicago, they have been exceptionally successful. And in fact, when we did the analysis in terms of where the traffic would come from, we thought it would be about 35% from the local Chicago area, it's actually up to 70%. And that's a by-product of really great stimulation of demand.

So like most organizations, we're spending a lot of effort, a lot of time on our market segmentation. And the market segmentation for my part of the business is really fixated on doing 2 things; one is stimulating demand and the other really important thing is selling the right-priced seats to the right passengers. So over time, we want to make sure that we're targeting the right customers, and if you look at on the top right, the way-of-lifers. Those individuals are a small percentage of our customers but they present a large percentage of our EBIT because they participate on the ground buying Air New Zealand products and services, participating in our Airpoints scheme, but also flying in premium cabins. So we're dealing with them in a very, very different way.

And you'll see in the future, you'll get less communication from Air New Zealand because it will be more targeted, and this is our first step towards what we call hyper-personalization. We've been trialing it for the last 6 months, and it's working. We are communicating in a much more strategic way.

So I want to talk about products and how we see the market. So the Tasman is an incredibly important market for Air New Zealand. Nick talks about the relative performance of participants on the Tasman, about 21% of our seats from the Tasman. And we've had a high-profile event today with seeing the new aircraft. We will talk about Hangar 22 and the new seats. But in the last decade, one of the best -- or in my belief, the best product innovation in our business has been Seats to Suit. Because Seats to Suit has been transformational in terms of making sure that Tasman is secure and is profitable. And if you look at our market share on the Tasman post Seats to Suit, it's gone up. If you look at the percentage of customers who are buying the seat and seat and bag product, it's 44%. So customers are telling us through their purchasing habits that they want a hybrid product.

Now if I give you some reference points, the Trans-Tasman about 2 to 4 hours in terms of the stage length, the journey length. That is a market ripe for low-cost carriers. In the U.S.A., that would be about 30% of a journey of that length with your low-cost carrier. In Europe, it would be about 50% of the seats on a journey between 2 or 3 hours. On the Trans-Tasman, because of a high taxation as well as our product, only 10% of the seats are captured by low-cost carriers, and that's because Seats to Suit. So we've -- since we launched Seats to Suit, Jetstar have not increased their capacity. It hasn't gone up at all. So the market dynamics are different, but we believe that, that product has been quite transformational for our business.

So we talk about disaggregation of our product in economy class. And we say, "Okay, what kind of innovation could we, should we bring to our long-haul economy product?" Because at the moment, other than Skycouch, economy is the same product.

And we looked at it through the lens firstly of, there was a growing trend emerging a couple of years ago about long-haul, low-cost carriers. And fundamentally for us, we think there's a low probability or likelihood of any low-cost carrier coming long haul -- coming to New Zealand on long-haul routes. And that's because we're on a unity ticket with United Airlines in this. Nick and I believe the business model for long-haul, low-cost is flawed. It doesn't work. The aircraft are really, really expensive to buy, as we've seen this morning. Widebody is a very expensive to purchase. And without the premium seats to offset the yield, the business model is flawed, it doesn't work.

So our view is we don't actually face an imminent threat from ultra low haul -- long-haul, low-cost carriers. But what we wanted to do was look at our model and say could we make it more flexible? Could we take into advantage this growing premium desire for customers? So we will be launching a product and we will start selling it in the first quarter of next year. I don't have a name for the product, but I've named it economy plus or economy comfort or economy something else. Anyway, it will be in the front of our economy cabin. You will have more personal space and there will be soft products. And we believe there's going to be a significant market for that. We think it's the right way to go in terms of how it fits into our brand. So we're very excited about that product innovation we'll bring to the market next year.

And I'll talk to you about premium traffic. And we are seeing this move towards premium. The move is happening, I suppose, because people are living longer through health benefits, they've got more discretionary income and they're traveling longer and travel experiences are becoming more and more part of everyday life. So that's shaping our thinking as we look at the layout of passenger amenities, for one, our existing planes, but obviously in the future for the 787-10, the new planes as well.

And when we think about hard product, we think about 2 things. Firstly is making some incremental changes to our business seat at the moment. So we're making some small changes to enable our customers to see they have more personal space and more storage. And then in the medium to long term, what we're seeing is this integration between digital and the physical environment. So we believe we have the best sleep in the sky and what we want to do is to retain the best sleep in the sky but then focus on personalization, creativity, making sure as you approach the seat, your phone triggers a digital enactment and making sure all your preferences from your Airpoints actually connect to your seat. So there's a lot of work going on at Hangar 22 to transform the business class experience of the future.

Okay. I want to talk a little bit about a real source of competitive advantage that exists. Now I talked a little bit about our domestic business, and this is our loyalty business. So as Christopher and I travel around a bit, quite a few people, as he said, talk about how does Air New Zealand succeed. How does it thrive? Why you win business? And they ask us, what is the recipe, or what is the ingredient for our ongoing commercial success.

And if you're looking for a special sauce that exists at Air New Zealand, that is it. It's our Airpoints loyalty scheme. This is a fantastic scheme, an unbelievable product in terms of driving extraordinary attachment to the brand and our products and services. A lot of big decisions are made at Air New Zealand which have long-lasting impacts. Once again, the one we've made today is a big impact that Jeff and the team have made.

But 15 years ago, a small team of people talked to literally thousands of customers about our loyalty program, in those days, our Airpoints program. And they talked about what was good about it and what was bad about it. And ultimately, what Jeff and that small team of individuals went for is they each chose transparency over confusion and they went for Airpoints Dollars.

And Airpoints Dollars is the source of competitive advantage of this loyalty program. It is driving tremendous attachment. We've got 3.2 members, 90% of all the Airpoints Dollars are actually used on the flight's purchases. And it is driving great engagement. Our customers love the product.

And for us, it's about the 4 Fs. It's about fuel, it's about financial services, it's about food. But some of you today, some of you today, would have left your house and that house would have been purchased or sold by a real estate organization where you could accrue Airpoints Dollars. You would have jumped in a car which could have been purchased from a car dealer and accrued Airpoints Dollars. You would have stopped at Z Energy and filled up that car and accrued Airpoints Dollars. You would have then got to work, done a couple of hours of work, gone to the optometrist, accrued Airpoints Dollars. Had a couple more hours of work, flexible working at Air New Zealand, we're big into it. 2 hours at work and then gone to the dentist, accrued points on your fillings. Gone home, stopped at a New World, accrued Airpoints Dollars. And when you got home, booked a trip away with your partner using either Grabaseat or airnewzealand.co.nz, and you would have been able to gain any seat on any flight at any time. And that is a really compelling offer, of which our customers love.

So we have been issuing more and more Airpoints Dollars in the marketplace. We have market-leading partners with us in terms of food, in terms of fuel and financial services and we believe there's tremendous potential for growth in this project -- program.

So lastly, what I'll say about Airpoints is it's also, as you'd expect, driving our premium cabins as well. So as people are moving up the hierarchy from silver to gold to gold elite, as you expect, they're actually flowing into the premier cabins of our aircraft. So all components of this proposition really excite us, and it means that we've got some great opportunities in the future.

This is a less high-profile part of our business but really super important. Direct ancillary flows straight to our bottom line. We do over $100 million of direct ancillary. And obviously the cost to produce that product is very, very low. So fare families, our seat select, more and more airlines we focusing on ancillary revenue and you can see the growth there. But we think there's further growth to come. Some of that will be enable direct with our websites, but in the future, there's an IATA-based digital program rolling out called new distribution technology. And that would give us the capability to sell more and more ancillary products, not only through our own websites and our own digital channels, but also through the third-party travel agents.

And this is my last slide, and it's one I get quite excited about, actually. Now this is our revenue management. So revenue management is the engine that supports the airline. It's the way we price the 500 flights we have every single day.

And revenue management has been facilitated historically through algorithms and software, global programs which look at historic demand patents and then forecast forward what we believe the market will do. Now in the future, this is ripe for a disruption, and we've been working with a company called Fusion RM based in the states. And they will take all that historic data, but they will also look at polling data from the GDSs which travel agencies use, our websites and all other websites to actually give us a much greater understanding of future demand. So there's some really, really exciting pieces of work which are going to drive our thinking in terms of revenue management and how we can extract better returns using the capital and the assets that we have.

And this will mean real dynamic pricing. So instead of our fares being layered and laddered using letters in the alphabet, we will have a different price point for every different customer, for our Airpoints members for our golds, for our gold elites. So that's a tremendous opportunity for us and something that we will start a proof of concept on a couple of city pairs by the end of this calendar year.

So hopefully, that's given you a bit of clarity on some of the structural advantages that Air New Zealand has, particularly in our home market, and also given you a bit of an opportunity to understand what opportunities exist for us to enhance our revenue performance in the medium to long term and how confident we are about the future, the digital tools and the competitive advantages we have in the New Zealand market.

Okay. Questions, is it? Goes downstage.

Leila Peters - *Air New Zealand Limited - Head of IR & Financial Planning*

Thank you so much, Cam. If I can invite Christopher and Nick to join Cam on the stage. Now is the time for the first set of Q&A from you all. So just as a reminder, because we are webcasting live, if you could please wait for a microphone to come to you. And before you ask your question, if you could please state your name and organization before you ask the question. Thank you. And of course, the first question goes to Andy Bowley.

QUESTIONS AND ANSWERS

Andrew James Bowley - *Forsyth Barr Group Ltd., Research Division - Head of Research*

The first question here is for you, Cam.

Cam Wallace - *Air New Zealand Limited - Chief Revenue Officer*

Oh, great.

Andrew James Bowley - *Forsyth Barr Group Ltd., Research Division - Head of Research*

You mentioned that you are absolutely fixated that nobody moves up the value chain in New Zealand. Can you kind of talk around how you see the broader competitive backdrop and the potential for anyone to do so?

Cam Wallace - *Air New Zealand Limited - Chief Revenue Officer*

Yes. It's really a great question. I mean, if you look at our domestic competitor, their capacity has been rolling back over the last 12 months, so they have what we would refer to as lazy aircraft. So their utilization is down. And actually, they attempted to move up the value chain by configuring their network would start aircraft around Wellington. That was an attempt to get into the corporate and government market which is based in Wellington. They've pulled back from that strategy, so they reduced the capacity of their network and their frequency, and most of the aircraft now have start operations from Auckland, which is more the leisure travel. And they travel or fly at times of the day which are more relevant to leisure passengers rather than business.

Obviously for us, koru is a huge level of investment. We've got a great attachment to that program as well, over 60,000 people in that program. So we keep a really, really close eye on the operating performance, what they're doing with their schedule in the network and what they're doing around the marketplace. But our fixation is always to have long-term agreements with our corporate and government customers and to make sure we're not leaking passengers to our competitors. So through -- whether it's SME, whether it's corporate, whether it's government, we are all over it. Christopher is involved in it, we're all involved in it. And I -- what I was trying to get across is we have our large team who are working across all the different segments to ensure that we have it solid.

Leila Peters - *Air New Zealand Limited - Head of IR & Financial Planning*

Any other questions? Hold on one second. Marcus?

Marcus Curley - *UBS Investment Bank, Research Division - Executive Director and Head of New Zealand Research*

Marcus Curley from UBS. I got 2 questions, one's sort of long. With the aircraft decision today, just wondered if you can give a little more color on where you thought you got a good deal on the price, just under $2 billion, I think if added this up right, for 8 aircraft, given the issues that Boeing have had. Yes. Secondly, can you give us a little bit of feel in terms of where you can take those aircraft, to what countries in the future? And then finally, what sort of growth -- network growth does it provide you from a long-haul perspective, stretching out that sort of 2023 to 2026 time horizon?

Christopher Mark Luxon - *Air New Zealand Limited - CEO*

Marcus, why don't I answer the first 2 and then I'll get Nick to answer the last one. From our perspective, we're relatively a small airline globally but I think one of our real sources of competitive advantage over the last 10, 15 years, certainly with Jeff and Rob before him, is I think we've negotiated at really exceptional deals. And I think our strong financial position, the strong investment-grade rating, just our position in the market and the way that a lot of these partners want to work with us has been really important.

The last 2 years has been all about creating maximum contestability between Airbus, Rolls, GE and Boeing. And for us making sure that in that process, we can work our way through to get a good deal. So personally, from what we do around benchmarking and getting a sense of what we think others are paying for it, we think we've done exceptionally well in getting this deal signed up and across the line. I do want to give a big thanks to Baden, as I've said publicly, because he and his team, we've got some real rocket scientists on that because it's a bit -- you have to digest a lot of information from all suppliers and actually then determine what we want to do with the aircraft in a mission sense and an operating economic sense and really form our own views around that.

And so, one, as I think we're buying well; two, it gives us tremendous flexibility obviously to get into Asia. But we also believe that we can fly the missions that we can fly with the 777-200 with that aircraft as well. And so that therefore enables us to get into the West Coast as well.

As to Nick, what it means for long-haul capacity growth and how we're thinking about that.

Nick Judd - *Air New Zealand Limited - Chief Strategy, Networks & Alliances Officer*

Yes. So the majority of the order, obviously straight replacements for the 777-200. So it's an 8-for-8 basis. But we do have flexibility in that order to be able to bring more aircraft in. And so that is the great thing about that order, is not only does it give us flexibility in the number of aircraft that we can buy, it gives us flexibility in the type as well. So we can buy -9s or -10s. Obviously, the bulk of the order, as we detailed today, will be -10s which we're mainly phasing into Asia. Good aircraft, perfectly placed for slot-constrained airports in Asia. But we have enormous flexibility with that. So if the world goes through the same sort of growth period like it has over the last 6 years, we're incredibly well placed actually to get new orders, buy a new aircraft and actually build out our long-haul network off that basis.

So if you look back I guess 10 years ago and what our long-haul network looks like now, it's a big call to say what it will look like in 10 years' time. And so that's why we need that flexibility in that order because we know things can change quite dramatically. And we're really well set up now with a really good aircraft type that's the most fuel-efficient aircraft type in its range, that opens up ultra long-haul destinations if it's a -9 or mid-haul -- mid-to long-haul destinations if it's -10 in slot-constrained airports. So perfect order for that.

Leila Peters - *Air New Zealand Limited - Head of IR & Financial Planning*

Jeff will get into some preliminary CapEx projections related to the program -- the new program when he comes up on the stage.

Marcus Curley - *UBS Investment Bank, Research Division - Executive Director and Head of New Zealand Research*

Does that mean you've sort of moved away from South America and more focused on Asia when it comes to new destinations, long haul?

Nick Judd - *Air New Zealand Limited - Chief Strategy, Networks & Alliances Officer*

No. So we continue to look at the Pacific Rim in terms of -- and so we've made no secret that in the longer-term horizon, we would love to have Sao Paulo on the map. But there is some challenges getting there, into a market that has both technical challenges in terms of the runway and how it works, and it's obviously got some of the same economic challenges that we see at varying times from Argentina. So there's no commitment in terms of going towards South America, but we haven't ruled it out as a destination. And we will continue. My team and the network strategy team have anywhere from 8 to 10 destinations that they're constantly monitoring. Some will never launch, some will launch in the next few years and some will launch in 7 or 8 years time. But we're constantly monitoring them and they are collected through South America, North America and Asia.

Marcus Curley - *UBS Investment Bank, Research Division - Executive Director and Head of New Zealand Research*

Second question. When you look at...

Nick Judd - *Air New Zealand Limited - Chief Strategy, Networks & Alliances Officer*

Fourth question, mate. But that's fine.

Marcus Curley - *UBS Investment Bank, Research Division - Executive Director and Head of New Zealand Research*

When you look at the capacity withdrawals from your competitors, how does that feature into next year's sort of view around growing profit? Is there a reasonable component to think that long haul or international yields are going to start heating up again for yourselves?

Nick Judd - *Air New Zealand Limited - Chief Strategy, Networks & Alliances Officer*

We certainly hope so. Andy (sic) [Marcus], look, I think that there's been some speculation in the Australian media over the last week to that effect in terms of lev. It's not just a New Zealand thing we're seeing. It is an Australasian change. And actually, there's a global change going on. And so you saw a high watermark probably in terms of around 2017, when you look through industry data, about the level of growth that was coming in. With increased fuel prices, with the U.S. dollar where you see it now, it's not surprising that you're seeing the competitive tide come back. We've had -- all as an airline industry, we've had a significant increase in CASK, and so all airlines will be trying to increase RASK to offset that. And they haven't done it through -- so much for FY '19, and so it will continue to be a focus for the industry through FY '20, I'm sure.

Christopher Mark Luxon - *Air New Zealand Limited - CEO*

I think what you got -- what do you got a sense from Nick around was that we are seeing much more rational competition. So we're seeing, if you think about the different theaters of war that we're engaged in, whether it be in Asia, China, Middle East, Australasia, the Americas, we're seeing increasingly rational behavior, and that's a good thing for the industry, it's a good thing for Air New Zealand obviously.

Leila Peters - *Air New Zealand Limited - Head of IR & Financial Planning*

I'd like to move to a question that we received online. This one, I'm going to...

Christopher Mark Luxon - *Air New Zealand Limited - CEO*

Marcus says we've got a sixth question.

Leila Peters - *Air New Zealand Limited - Head of IR & Financial Planning*

Well, he can -- we can absolutely come back to Marcus. We'd like everyone to have all their questions answered, Christopher.

So for Cam. I'm going to direct this to you, Cam. What's does moving from GDS to new distribution system mean? And when is this likely to be implemented? I think it's a really fair question for those of you that are not necessarily living and breathing airlines every day.

Cam Wallace - *Air New Zealand Limited - Chief Revenue Officer*

Yes. So the GDSs are what -- there's 3 large GDSs generally around...

Christopher Mark Luxon - *Air New Zealand Limited - CEO*

Global distribution...

Cam Wallace - *Air New Zealand Limited - Chief Revenue Officer*

Global distribution systems. And they drive the engine that travel agencies use, whether it's an online travel agency, a travel management company or just a retail travel agent.

And they have set prices for airlines. So we put our inventory into a GDS and then they distribute it to literally tens of thousands of travel agents. And that's been quite frustrating in terms of being able to get the right price of GDSs over time but also to get the quality of product distributed. Because actually, if you walk into a travel agency in San Francisco and they're putting an availability display to Air New Zealand, you don't see what you see on the Air New Zealand website. You see a whole bunch of leaders and a whole bunch of numbers and they actually extract out a price.

And what more airlines are wanting to do is actually show ancillary products like Skycouch or economy comfort or economy plus or our Business Premier product. So in the future, we'll be able to direct connect between ourselves and the travel agent through API links which will mean they will get rich content.

Now some of that will be done through GDSs and some of that will be done direct. But ultimately in the next 18 months to 24 months, you'll see a world where Air New Zealand will negotiate what we call override payments to travel agency groups, we'll have some commissions in the marketplace, we'll have some net fares in the marketplace. But the biggest single thing that will change is we'll be our negotiating on content. So we have some content that we have via our APIs via travel agents, some content that goes to our travel agency partners through GDS and some content that we have directly on our own websites. And this will be the single-biggest structural change in travel distribution services market in decades.

It's taking some time because there's a level of resistance from GDSs because as you'd expect, there's been this tripartite relationship where airlines have paid GDSs for access, GDSs have been paid travel agencies, and so have airlines. So it'll take a while to structurally break that down but this is a transformation which is happening. And we are participating, at one, through differential pricing; but two, through creating API links with ultimately the end users which are, for us, an offshore markets travel agent. So a lot of work to go, but quite an exciting opportunity to increase our ancillary products and reduce our costs.

Leila Peters - *Air New Zealand Limited - Head of IR & Financial Planning*

One more question from online. And if any of you have any questions that you'd like to give in person, please think about them now before we move to a break.

Once you make a decision to leave a route, how quickly can you reallocate resources?

I'm going to give that to Nick, but I think Christopher and Cam, if you want to jump in, because it is an executive decision overarching, so please feel free.

Cam Wallace - *Air New Zealand Limited - Chief Revenue Officer*

Well, certainly in the case of Vietnam, it was immediately because we had a small 787 issue that meant we were looking for as many planes as we could get. But actually, it is pretty much immediately because we work on 2 seasons, Northern Summer and Northern Winter. And so you don't normally pull out of a route in the middle of a season. Depending on how it operates, when we fly seasonal routes, they're normally there for a reason because they're profitable seasonally. And so normally, you tie it into the start of a Northern Summer, Northern Winter changeover or vice versa. And so that means not only have you been tracking the performance of that route, but you're working out -- worked out what your options are so that when you come out with the announcement that you're pulling it and you make that decision, then you pretty much have it lined up for the next season coming off the back of it, that you'll reallocate that resource.

In the industry, we get a bit of time because you don't -- and while it's very, very rare, anyway, that you announce that you're coming out and 1 month later you're out of that route because of the lead time for sales and everything else that goes on. So normally, we announce up to 6 months before we're coming out of a route that it's going to happen, which gives us the ability to reallocate that asset.

Christopher Mark Luxon - *Air New Zealand Limited - CEO*

I'd say that's one of the things I think we've got really good at over the last 7 years. I mean, I've seen airlines sit there with market conditions that have changed in Japan, whether it was someone watching the yen fall and rising fuel prices and nobody changed their configuration to Japan at all. And you'll hear of cumulated losses for years, decades where people have stayed in a market, just carrying on doing the same thing. And we are just going to be ruthless commercial animals and have been because we'll take those aircraft and that mobile capital asset and we're going to deploy it to where we can make the most amount of money.

And so for us as Nick said, we do a quarterly review. He and his team provoke us; he and Kate would sort of challenge us around that network and then we can sit there as an executive team representing all the different functions across the business and we all hold hands and we say, "Right, let's go do it." And we'll take that aircraft and point it to somewhere we can make more money.

And that would be the thing I think Nick was alluding to a little bit as we go through this part of the next 3 years, is that you should expect to see us try new things. And if it's not working, we're going to bug out at a moment's notice and ho do something else, and likewise. So just expect there will be a little bit more trying to find new sources of growth and us moving that network around in order to do that as we go forward.

Leila Peters - *Air New Zealand Limited - Head of IR & Financial Planning*

One question from the floor. Wade?

Wade Gardiner - *Craigs Investment Partners Limited, Research Division - Senior Research Analyst*

Yes. Just elaborate on Andy's question. Given you've got 100% of the domestic profitability, what do you...

Christopher Mark Luxon - *Air New Zealand Limited - CEO*

Slightly more than that.

Wade Gardiner - *Craigs Investment Partners Limited, Research Division - Senior Research Analyst*

Slightly more than that. Well, what's your sense of their sort of desire to stay in this market, then, given -- particularly given your deal with Qantas?

Christopher Mark Luxon - *Air New Zealand Limited - CEO*

I mean, Cam, you can talk about it, too. But I mean, my sense is that they are committed to this market. I think it plays an important role for their brand presence in this market. You've got to remember in the context of their total result, I suspect it's something that they can live with and are living with. But I think it feeds into the Trans-Tasman proposition, the Australasian proposition in general. So I think our working assumption is that they will be in the market in some form, albeit with capacity adjustments. But we don't get a sense that there's a desire to leave the market. Would that be our view? I don't know. What would you say, Cam?

Cam Wallace - *Air New Zealand Limited - Chief Revenue Officer*

Yes. I mean, I think because it's an adjacent market, given their scale and competitiveness with Virgin's boosting on the Tasman, I think they perceive it as a good part of their overall value proposition. And if you look at the markets they are participating in, those are the larger markets. So they're probably -- if you look at their network, they're configured around those markets where there's a level of density and traffic that they can get an amount of business. So we haven't seen anything that would lead us to believe they want to double down on the business, but the reality is we haven't seen anything conversely say they're getting out of it either.

Nick Judd - *Air New Zealand Limited - Chief Strategy, Networks & Alliances Officer*

And sorry, the other point I'd add to that is that they obviously have a network mentality, as you'd expect, in regards to this. So when we talk about domestic, we talk about it in isolation. It's incredibly important for us, but they will see network value in having Jetstar and the Qantas brand here and what that feeds into their long-haul network onto Asia and to other places as well. So different -- not different measures, but just in terms of different ways of looking at it, and when it's our home market, we need to make sure that domestic stands on its own 2 legs. I've got a slightly different metric and measurement for what success potentially looks like.

Leila Peters - *Air New Zealand Limited - Head of IR & Financial Planning*

Any other questions? Anthony.

Anthony Moulder - *CLSA Limited, Research Division - Analyst*

Anthony Moulder from CLSA. How's the customer changing? Because we've seen adjustments to your capacity, Virgin, I think last week or the week before. Is the customer becoming harder to read as far as their desire to travel?

Christopher Mark Luxon - *Air New Zealand Limited - CEO*

No, I don't think so. I mean, I think we're seeing still tremendous consumption of air travel all around the world. It's been a great democratizer of -- we've had 800 million people reach the middle class in the last 10 years. I mean, it's been a phenomenal thing, and I think we still see that. Certainly in our case, we see a more discerning customer with higher expectations for sure than what we saw 7 years ago. I think there is a rising consciousness around sustainability, which is why our drive into more fuel-efficient fleets and starting to think about how we will ultimately address the 2% to 4% of global greenhouse gas emissions. And that's a difficult thing to wrestle with, and we don't have any obvious solutions, but we are wrestling with it. We are engaged with it. We are supportive of net 0 carbon legislation coming through and have been for a number of years. So we got to keep working with that. But fundamentally, no, I think the customer is still this huge demand for what we're saying. What would you say?

Cam Wallace - *Air New Zealand Limited - Chief Revenue Officer*

Yes, and we're -- I mean seasonality is a big part of our business, inbound, outbound. And we -- it's been great to embrace things like flexible work not only in our business but in other business because that ultimately gives people more personal freedom and time to take more trips. So big changes for us over the last decade. There have been things like 4 terms in terms of the school years, which gives us more opportunity. If you have a 4-day working week, some people taking more trips more often.

I think there is a move to our people wanting to purchase segmented products. So they're actually asking us for disaggregated product, which is leading us to the disaggregation of our long-haul economy products. So we are seeing people pick and choose more often and they're becoming more sophisticated in terms of Airpoints and loyalty, understanding what unlocks the value, where they should purchase, what credit cards they should use on their everyday travel to get either Status Points and/or enough dollars to go somewhere. So a lot of our Airpoints members, as an example, are accruing a lot of Airpoints but then buying the lowest possible fare as well. Which we're happy with because that feeds this kind of unbelievable ecosystem.

So yes, we're just seeing customers ultimately getting a lot smarter about their purchase happens -- habits, where they use travel agents vs. where they use our online tool. So yes, it's becoming more and more sophisticated in terms of purchasing habits.

Anthony Moulder - *CLSA Limited, Research Division - Analyst*

[And we get a lot of you] you're capturing a lot of that data through Airpoints. Is that the key distribution channel that you're getting that data set from?

Christopher Mark Luxon - *Air New Zealand Limited - CEO*

35%.

Cam Wallace - *Air New Zealand Limited - Chief Revenue Officer*

Yes, a combination of our coalition partners. So the coalition of the willing. And as well as our credit card partners, our retail partners as well as our core Airpoints. So we have -- own a data analytics company. And more and more, we are diving deeper into that data which feeds our customer segmentation, which then feeds the way we hyper-personalize and market to people in the future. So you'll see us get more active in that space. We probably had too much data historically, now we've seen that, yes, this is how we operationalize the data, this is how we get a bit of sales. So we'll be communicating more frequently with a smaller number of passengers with very, very bespoke offers. So we've made giant strides in the last 6 months because we've had the labor focused on it. So you'll see a lot of different things coming out from Air New Zealand.

Christopher Mark Luxon - *Air New Zealand Limited - CEO*

I think I'll just say Jennifer Sepull, who's joined our team. It's week 4 for Jennifer. Do put your hand up, Jennifer. Joined us from the states as our Chief Digital Officer. And under Jennifer, one of her major direct report teams is the data and analytics team. And we've got a great data scientist and it's been transformational even in the last 12 months. Because if you go back 5 years ago, we didn't actually know you as a person, as a whole person. We knew you as a series of transactions that have taken place. And now we can actually thread you together as an individual and actually have one view of you as a customer. And so that data, again to that point, has been a major achievement with a bunch of legacy systems underneath supporting all of that. But it's actually the insights that we're getting out of it that actually help us on the customer revenue side. But actually more importantly also help to simplify our operations. And so we're trying to use the data analytics piece to really get into streamlining our operations, removing duplication, improving processes, which gets back to some of the cost challenges that we've got going forward as well. So I think that is -- that's the way of the future. If you think 5, 10 years out from now, digitally transforming this business so that we can maximize revenue and outcome, simplify the operations and improve the commercial outcomes, I think it's critical in terms of how we can do it.

Anthony Moulder - *CLSA Limited, Research Division - Analyst*

Last one around fleet, the 787-10s. How do you think about those relative to an ultra-long-range aircraft, obviously that Project Sunrise, within that sort of time frame of fuel delivery for these. But obviously not waiting for an ultra-long-range product.

Christopher Mark Luxon - *Air New Zealand Limited - CEO*

Yes, I think -- I mean, Jeff can talk more about that decision and reach out to him and Baden over the break. But I mean for us -- and Cam alluded to it. It's really we feel we've made the perfect fleet decision. And now it's all about getting that configured perfectly and then it's also about optimizing the route and network choices that we use it for.

As you think about something like New York, which we want to do, from Auckland to New York, we can do that with an existing 787-9 today. It just has to be reconfigured. And that's where this drive to premium is really important because the weight of the fuel, the weight of the cargo, the weight of the passengers and the sheer number of passengers that drive that weight is actually what limits our ability to make that destination or not make that destination.

Our segmentation and our sales and marketing excellence, so then when we get to New York, as we have in Chicago and Houston and Buenos Aires, is to unearth wealthy high-value customers. We don't just want anybody on that seat, we want a high-value customer on that seat. Because when we bring them here, we bring 45% of the visitors in and out of the country. With our partners, we need to be able to make sure we're then creating that value downstream for the rest of the tourism industry.

So to be honest, yes, a lot of airlines have gotten aircraft fleet decisions wrong, and that's been a real problem for 10 to 15 to 20 years. I think we've got this decision perfect, and it's a really good one that will set us up well. The challenge now is to get the configuration right, get the premium mix right, and have confidence that we can get the high-value customer that we want out of those longer-haul destinations. So it sort of becomes less of an issue, we can work with the fleet that we've got currently and what we've signed up for today, I think, really well.

Leila Peters - *Air New Zealand Limited - Head of IR & Financial Planning*

Great. So with that, we're going to take a 10-minute break. There's refreshments in the back. We are also really lucky today, we have quite a number of senior leaders from Air New Zealand here, so feel free to mingle with them and chat with them. They come from all different aspects of the organization. And we'll come back here in about 10 minutes. Thank you.

(Break)

PRESENTATION

Leila Peters - *Air New Zealand Limited - Head of IR & Financial Planning*

Okay. We're back. Thank you. I'm glad there was so much good conversation going on during the break.

Next up, we'll hear from our Chief Ground Operations Officer, Carrie Hurihanganui. But before she comes to the stage, we wouldn't be Air New Zealand if we didn't play a short video for you.

(presentation)

Carrie Hurihanganui - *Air New Zealand Limited - Chief Ground Operations Officer*

(foreign language) It's great to be with you this afternoon. In particular, this is the first opportunity I've had since joining in the role of Chief Ground Operations Officer to present to you, so I thought I'd start with giving a very brief overview of my background.

So I know the cliché's overused that time flies by, but next month for me is actually 20 years with Air New Zealand, so a very apt description of that time. And I actually joined Air New Zealand as international cabin crew in the very beginning while I was in university study. And so after spending time in the front line, I had the opportunity to go through a number of roles across Air New Zealand and ultimately to a lead through a majority of our operational areas across the business, including global airport operations, our international cabin crew here in Auckland and offshore, our 3 regional airline businesses and also have the opportunity to work alongside Mike Tod as part of the customer experience transformation agenda. So operational excellence and customer excellence are ingrained in my experience, what I do and very much ingrained in Air New Zealand.

So what I want to do today is talk about that link between operational excellence and customer excellence and how that plays through to strong unit cost performance. So as we look at this, there's 3 key elements that have historically and will continue to drive CASK improvement that fits in the realm of efficiencies, economies of scale and productivity.

But first I want to touch on cost control. And over the past few years, we've been very focused in regards to our unit cost performance. That 5% when you look at that, that's directly. That underlying savings goes directly to our CASK -- sorry, the underlying CASK then that goes directly to our bottom line. And so getting and keeping those efficiencies is key for us in regards to the impact it has on our profit.

Now ways that we've achieved that over recent years has been the efficiencies that we've gained through exiting our older and smaller fleet. So if you think back to the 767 and the Beech 1900 and replacing that with larger, more modern aircraft. And we've seen substantial improvement come across in regards to fuel burn and cost per trip.

From scale economies. As you've seen our network grown over that period by 30% through increasing our breadth across key Pacific Rim markets, by entering into new markets in Asia and Americas as well increasing or building the depth that we have by increasing the number of weekly services.

And finally in productivity. What we have seen by virtue, we've leveraged the upside of that by being really vigilant in regards to our support cost as we've seen that growth. And that continues very much on a day-to-day basis. Just recently or earlier this year, we were able to agree with our unionized workforces in airports around making some changes to their rosters and hours of work because they have that demand within the airports. We were finding that we were driving significant overtime. By getting that agreement -- or variation to that agreement, that meant we had facilitated over 9,500 hours at ordinary time rather than overtime. So those are the key things that we will continue to track down and create those opportunities.

Now looking forward, we see a good pathway in our underlying unit cost performance. Now given the slightly lower network growth in the medium term that we've talked about, we will see a slightly flatter indicative curve to what we've seen in previous years as well as 2 headwinds that we're currently working through.

Those headwinds, the first being labor agreements. So no surprise to many of you that, that's a heightened environment that we're currently operating in. And we still have very strong relationships with our unionized workforce and our partners. We still believe in HPE, or high-performance engagement. And very much, that roster and hours of work that I was just talk to about, that was off the back of an HPE project that we did together. But we are cognizant of it, we recognize that as we go forward.

The second area is around price increases. And what we are seeing is that our suppliers are facing rising cost environments of their own. Now whether that be through the pass-through of minimum wage, changing regulations. And we're also seeing some key changes in the areas that we would normally sit outside our addressable spend bucket. So that sets some things like AVSEC charges, or aviation security charges, and also landing charges. So we have an environment in the Airports Authorities Act that allow airports to price as they see fit.

So while we're cognizant of these headwinds, we're also very confident. We know how to drive cost improvement in difficult environments. And if I think about my time in Air New Zealand in operational leadership roles, there is a strong discipline in regards to that daily diet of ongoing cost and annual improvements that we continue to look at.

Now historically, we have focused on incremental cost improvements. And by no means am I saying incremental cost improvements are a bad thing; we will continue to unabashedly chase those. Every cent counts, and we know that. But we are looking to step-change by virtue of thinking the model and how we want to operate and do better business going forward. And as Christopher mentioned earlier, we will be bringing in external consultants to support with that as we go forward.

So there's 3 -- the 3 main components I've talked about driving CASK improvement before, which is efficiencies, economies of scale and productivity, I just want to call out that, actually, the contribution of these aren't necessarily going to be equal or consistent from one year to another and it's very much because they are influenced by the environment we are operating in. So you'll see that come to life as we go through this presentation.

But first, I want to talk about efficiencies. As you can imagine, every year, we have numerous projects underway within the business to drive out inefficiencies from the business, very much what I would call bread-and-butter of operational excellence or even a ticket to the game, some might say. But with that, we have strategic multiyear projects that my team is working on to say how do we continue to build on that momentum that we've had to date. And so what I want to talk to you about, in particular, right now, is the work that we're doing in supply chain and in fuel optimization.

So overall, our supply chain organization has proven that it can deliver against our performance goals and do so against high-risk exposure and also against the back of complex global logistics. With a $1.3 billion addressable spend bucket each year, supply chain is wide and varied and touches all facets of our operation. It is literally pens to planes in regard to what sits in that space.

Now with 4,200 suppliers, interesting enough, that's dropped down just a couple of years. We were well in excess of 6,000 suppliers, so there's been some good simplification and consolidation over that time. But we believe there is plenty more that we need to pursue across that supply chain going forward.

So that $1.3 billion in addressable spend that I talked about, that's significant. And I've said, supply chain has delivered well, but we are looking to step change how we run that business by virtue of ensuring that we have end-to-end integration.

We -- look, we know that we have some silo activities across the value chain, so we're moving to a center of excellence, which we did earlier this year, provides us to ensure that we can make more rapid decision-making and that we are getting that end-to-end integration that I am talking about in real time. And along with it, we're looking and we've really focused in on leveraging the strategic partnerships we have with our suppliers.

We think there's opportunity for not only improved efficiencies, but also better sustainability. And interestingly enough, and Nick, I know, has these conversations a lot, they're often positioned as mutually exclusive topics. Now our view is that's not necessarily the case, but we do need to structure ourselves, so that we can maximize the performance in those together.

If we talk about the supply relationships, obviously, there's all sorts of good reasons that we build those strategic partnerships with our suppliers. But in particular of interest is innovation, and the reason I say that is if we have the right relationships and the depths on it, we can pursue innovation that provides better outcomes for our customers and it also provides the opportunity to drive efficiencies. And a piece that I'm really excited about at the moment is we're working alongside ST Engineering Aerospace in Singapore. So they currently undertake the heavy checks on our wide-body aircraft, and we're trialing drone technology. So as part of those heavy maintenance checks, we have a specially designed drone. It has a particular path that's been mapped out, the circuit that it needs to follow. It has high-definition video in it and takes and sends through to the engineer who's analyzing that in real time.

Now there's all sorts of benefits that actually that drone technology can provide us. You think about things like health and safety and that our engineers are in a position when they have go up higher to do that. It takes care of that. But a particular interest for me is also the time saving. So we're looking at those inspections are being done in 1 to 2 hours as opposed to up to 6 hours depending on the aircraft type for that same inspection under traditional means. And so really exciting space there and something we will continue to pursue.

The other element in regards to working with our suppliers and the role of supply chain obviously is to mitigate risk. Now that's not only supply risk. It's also in terms of our sustainability goals and our positioning on key objectives that we have in that space. So if we think about waste, one of our key goals is to reduce waste. We kicked off a project in 2017 called Project Green. And what that enabled, and some very exciting stuff that we could reclassify, 35 in-flight products to non-biosecurity risk. And at face value, you think 35 items, wow, that's exciting. That's actually equated since the launch of that to 20 million items that we've been able to recover and reuse. So we are now looking to roll that out across Wellington, Christchurch and Queenstown. And we expect in the next 12 months that we'll see another 2.5 million to 3 million units that we can recover and reuse. That equates to 57,000 kilograms being diverted away from immediate disposal and 50 ton of glass bottles being recycled. So some great stuff in that space. So if we look at supply chain, we will be continuing to push through that end-to-end integration that I'm talking about, alongside the opportunity to leverage more strategic relationships with our suppliers.

Efficiency. So we've been talking about efficiencies within the supply chain. As we move into a fuel perspective, clearly, a key focus for us is we have invested in more modern and fuel-efficient fleet over the years that's clearly demonstrated results. As you can see here, as fuel efficiency, as estimated by virtue of ASKs per barrel on jet fuel, there's been a 13% improvement over that 9-year period, which is a great result. And as we look to continue to have the NEO continue to roll out into 2020, we will continue to see those efficiencies. Although we will see, over time, a slightly lower rate as opposed to the period when we transitioned from the 767s to the 787s over that previous period.

But I really want to call out that, whilst we love multibillion-dollar investments in fleets, as announced this morning, there are other ways that we will absolutely be tracking and hunting down opportunities for fuel burn optimization. And the first phase comes in regards to flight planning. So we've initiated -- recently initiated a project to replace our flight planning tools and platform that we use, and that's very clearly in regards to planning our flight routes with reduced fuel burn in mind. And not only are we confident that we'll get further fuel savings from that, we also think there's upside in regards to productivity as we'll decentralize all of our flight planning across all of our fleet. That means we're taking time out of the cockpit and, ultimately, the ability to reduce duty time.

Another area is around weight reduction, and we are constantly looking for opportunities to take weight off the aircraft by virtue of the impact it has on fuel burn and our sustainability agenda. A couple of areas that we've looked at, obviously, as we're transitioning from paper-based manual systems in the cockpit through to electronic versions, we will continue to see the efficiencies of that come through, but also virtually continuous improvement mindset. Captain Dave Morgan and his team are working alongside my operations team as we look at opportunities to reduce across the network. And in December last year, we looked at, again, another very exciting topic, potable water. But actually, you'd be amazed across Tasman, when we looked at the amount of water we're carrying, what we needed to carry and the data we had, we had the ability to reduce that by 25%. That goes straight to fuel burn. So we will continue to track and hunt these opportunities out.

And the final is ground power unit, if we think GPU as opposed to the APU. The aircraft has the auxiliary power unit which, in essence, keeps the lights on when it's not plugged in. By simple SOP, change for us by virtue of saying, actually, at the soonest possible opportunity you plug in and at the last possible opportunity you unplug has seen, over the last 12 months, 2,500 ton of fuel savings and 7,900 ton of CO_2 emissions reduction. So that's in Auckland alone. So we will continue to revise and refine those processes in Auckland, but look to also roll it out to Australian ports, starting with Sydney and then also looking to use that in Chicago.

So we move from efficiencies into economies of scale, and there's been lots of conversation that we've had on that already in regards to what's been a significant driver for us in the past few years is that network has grown considerably. Now during that time, we've been really focused to ensure that our support costs remained flat. Now if you look at the chart on the right, what that's saying is if you actually assess and adjust it in inflation terms, it's actually a 25% reduction in costs. Now for us, that contribution benefit we get from economies of scale is obviously directly relevant in any given year in regards to how much growth that we have. Now next year, we're looking to grow at around 5% and much of that in the longer sectors. So as we move forward into 2021 and 2022, that's likely to reduce off the back of, obviously, Nick talking earlier. But going forward, we're likely to be closer to moderating to about 3%.

So as I said before, these 3 levers are not equal or consistent every year. We have made the most of those economies of scale. We will continue to do so where possible, but it means also our focus in regards those opportunities will tip to efficiencies and productivity as we go forward.

And finally, as we talk about productivity, there's some really exciting things happening in the space as -- if you think about -- and they were talking in the question-and-answer session around data and analytics. If you think about our ability of how we can use that going forward, if you think about things like mobility tools, automation in regards to RPA and artificial intelligence, we've got tremendous opportunity to not only enhance the customer experience, but also look to shift the dial and release opportunities in the productivity space.

So I'll start by talking about the customer-facing element, and we know that technology is a key enabler for us to not only enhance that experience, but it's something we've invested considerable time and resource to continue to build out at Air New Zealand. Anyone here I don't know, just by chance, ever had a disruption or a canceled flight? I'm thinking you're going to say, "No way." So as you know, the process when that happens from a customer's perspective is, a, draw out that anxiety that you get since the customer gets concerned saying, "Hey, am I going to get to my meeting? What's happening? What is my alternative flight?" They lose control by virtue that they are waiting for the outcomes. And what we're trying, actually behind the scenes, and what you wouldn't necessarily see or know, that it also drives increased manual processes and manual interventions for us to be able to get that network back on track. So we introduced a tool that provides an algorithm in the cases of mass disruption or cancellations. And what that meant is it goes around, looks at all the possible combinations, spits out the preferred options you would have in that rebooking process. What that has allowed us to do is reduce that anxiety by letting our customers know sooner where they're going, what their alternative option is. But unfortunately, it hasn't reduced the manual process behind the scene. So a step in the right direction, but we still have more work to do. And what we have seen, although it is a step in the right direction, is that we have reduced staff hours by 12,500 hours since we commenced using that tool. And we, also since the 1st of July last year, had over 90,000 passengers that we've rebooked using that.

So that's today, improving, on the right track, but quite frankly, I'm more interested in tomorrow. And tomorrow, as we look at the next phase, is to say that we're using -- we're planning to use artificial intelligence to not only take those options, and let's take that disrupt example as one example, that will come up with the flight options that it will have. It will serve it up to the customer directly in regards to fast, easy and personalized options. What does that do from a customer's perspective? It goes back and says, "You reduce my anxiety. You put the control back into my hands by giving me choice." Now the additional benefit of that is by driving that decision channel for the customers through the app, that also reduces manual interventions, manual processes, ultimately freeing up call center and airport staff.

So this is a multiyear journey. So sorry to say it's not going to be done in 2 months, but we do have a roadmap by virtue over the next 2 to 3 years of what that will look like, starting with digital front-end development, obviously, in regards to our customers, but really critical and we recognize the holistic solution as saying that we have a cohesive, integrated solution behind the scenes for our customer-facing and operational staff.

Good segue as we move into that integrated solution, which is to say we want to link that customer strategy that we've been talking about into an operations mobility strategy. That will allow our crew, our airport staff and engineering and maintenance to have real-time, relevant and contextual information. That means an integrated and proactive operational delivery becomes a reality, which is better for our customers and better for our people. And also having a conversation with a couple of you before we started today around the importance of culture and that's a key piece, our tools -- our customers -- our staff, sorry, having the right tools to do the job.

And I want to talk to you by mobilizing staff, and actually, if we think future state allows them to largely undertake their roles wherever they are. If they've got the right information, they can make better decisions. What does that mean? That means reduced training costs, reduced labor costs, reduced paper-based systems and all the related costs that go with that.

And the example I'll talk you through would be the hangar. So take an engineer that has to come into work and has a chip they need to do that evening. Yes, all the paperwork is done in advance. They've got their work package. They go to undertake that work. The reality is, hangar 2 in Auckland is in excess of 10,000 square meters. So even the most organized paper-based system is saying they're still going to have to go to the dock office. They're still going to have to move forward to look at manuals and processes. They're going to have to go to the central-based computer system to do that work. You think about the view that we put an iPad in the hands of all of our maintenance engineers that have update -- updated information in regards to manuals, processes, they can submit their reports and close that work card, the time and distance in the hangar alone of what that will provide.

So similar here, we had a journey over the next 2 to 3 years that we will line that up, and it's one that we're really confident will not only deliver across airports, crew and engineering and enhance customer experience, it will also drive sustainable productivity benefits.

So in summary, we have a great track record of cost improvement and we will continue to do so. We see a number of great opportunities across the airline that we cannot only continue to improve that cost performance through operational excellence, but also continue to enhance the customer experience through customer excellence.

So thank you. Really appreciate your time today, and I look forward to catching up with a number of you are at the end of the event today. But in the meantime, I would like to hand over to our Chief Financial Officer, Jeff McDowall.

Jeff McDowall - *Air New Zealand Limited - CFO*

Thank you, Carrie. And as you've heard from Carrie, but also one of my other colleague today, we're all really super focused on returning to sustainable earnings growth. But I'm going to change the subject a little bit from that and talk about capital management, how we think about our capital management framework. And although a bunch of this stuff will be somewhat familiar to you, we have, over the past few months, reviews -- reviewed and refreshed our capital management, primarily, for a couple of reasons.

Firstly, I've been the CFO 18 months or so now. And during that time, I spent a lot of time talking to investors, including many of you in the room here, but also investors overseas. And pretty much, every time I get a question about how we think about capital management and, particularly, actually, as we contemplate the period where our CapEx will be lower over the next 3 years or so.

So we thought, well, again, while the questions would be good to make a bit more clear, a bit more explicit and set it out in a framework that is a bit more open. So we're doing that. The other motivation actually is that, as you know, IFRS 16, the new accounting standard, is taking effect for us in FY '20 and that will have an impact on our gearing. And the way that will work is that when we work out gearing at the moment, we put our aircraft on there at 7x the annual lease rate. With IFRS 16, they'll go on at a lower rate, so our gearing will come back a bit. So we needed to think about how we would change the framework, if we did change the framework knowing that was coming.

So with those 2 thoughts in mind, when we think about -- just take a step back, when you think about how we communicate capital management today, we do 2 things. We talk about gearing. And for a long time, we've talked about 45% to 55% being our target gearing range. And secondly, we publish a distribution policy on our website, which communicates our commitment to paying consistent and sustainable dividend. So those are the 2 ways in which we communicate it formally today.

So what we're sharing now is a somewhat more explicit framework, which reaffirms those elements, but takes it a little bit further and has these 3 components: firstly, ensuring long-term resilience; secondly, investing wisely; and thirdly, returning excess cash. And you can take about -- you can think about those as a hierarchy. So the foundation of it all, as you can imagine, is ensuring resilience and the other 2 sit on top of that. Where this will end up is that we will publish a capital management framework incorporating these elements and that will replace and supersede the distribution policy that's on the website today.

So just touch a little bit on each of these 3 uses of structure for the comment I'll make this afternoon. So firstly, resilience, the most important part. This -- I guess, 2 things I want to call out here that we're changing. Although one is we're now explicitly recognizing in our framework our focus on maintaining an investment grade credit rating. And in support of that, we are articulating a debt ratio, which supports that investment-grade credit rating. So you could kind of reasonably argue that the way our balance sheet is funded doesn't rely heavily on unsecured debt. So you could say, "Well, why are you focused on having an investment-grade credit rating?" And if you look on the chart on the right there, a bunch of our peers, high-quality businesses don't have an investment grade credit rating.

But for us, it's important for 2 reasons. One is it gives us diversity of access to funding sources. So if we want to access unsecured credit, we can. And secondly, given the criticality of resilience, and that being the foundation of our framework, an investment grade credit rating provides a really good independent metric to demonstrate resilience.

The other component of our resilience is the gearing range. And as I see it, that is about what we've communicated in the past and that's been the sort of foundation of how we've talked about our balance sheet strength. We talked about 45% to 55% as a target, known as a straitjacket, and we've talked about how, at the peak of our CapEx cycle, with the tail end of the peak of our CapEx cycle, we'd be happy to be a bit above that. And actually -- and that's what you see there with 56% at the end of December. That's a little bit above the range, actually a little bit above it by a smaller amount than we had expected. So that -- we're completely comfortable with that as we look forward, and you'll see in the shaded graph there, it does come down quite a bit.

So the question is, though, what do you do with IFRS 16. So IFRS 16 will reduce our gearing by around 3 points initially. The amount will vary a bit as time carries on, but initially about 3 points. So what do you do about that? Well, so we sort of went back to first principles and said, "So what should our gearing level be?" And you can make actually quite a good argument that if our gearing level was 60%, we would still have an investment grade credit rating and we'd have a lot of cost of capital. So you could say, "Well, maybe it should be 60%." But where we got to is while we did have gearing at 60% and you have some kind of internal shock, I know, yes, a classic example would be a unilateral reduction on the New Zealand dollar value or an increase in the U.S. dollar strength. That would drive up the value of our debt in New Zealand dollars and push us above the range. And when you're above 60 -- 60 is fine, but when you get far beyond 60, that investment grade credit rating, or the metrics that support it, get a bit stretched. So if you want to have a target that has a bit of -- that's a target on a straitjacket, then it needs to be a bit lower. And focus -- our focus on resilience and prudency is it should be a bit lower, so they got us to sticking to the 45% to 55%.

But having gone through that thought process and knowing that IFRS is coming along and it's going to reduce the reported gearing a bit, we thought actually be very comfortable explicitly not changing the gearing ratio. So in other words, allowing IFRS 16 to give us a de facto increase in gearing by 3 points or so initially. It reduces over time. And we're very comfortable with that given our capital management framework.

So moving on to the composition of our data, I mean, the only point I want to make here really is that we have a really low cost of debt, and that's supported by a highly competitive and diverse portfolio of lenders and the longstanding presence that we have in offshore financial markets.

As you well -- the first things I did when I took on the role as group GM, corporate finance back in 2017 was to meet a bunch of our lenders, particularly in Japan, actually, where they have an enormous attraction to Air New Zealand's credit. So you sit down with a bunch of bankers in Japan and it's just immediately apparent how drawn they are to our credit. And I think there's a number of reasons for that. The brand itself is attractive to them. The investment grade credit rating is attractive to them, particularly since if you're in the aircraft financing market, there's not that many airlines that have that.

And thirdly, our strategic position is really resilient. I mean Cam talked a lot about our domestic business. And yes, you have to go a long way. I'm not sure that there is any way you go where you find an airline with a stronger domestic market position than we have, which gives you a level of strategic resilience that's attractive to a lender, I think, in the same way as it's attractive to an equity investor.

So the consequence of all of that, we get some very, very good credit margins. And as many of you were at the INFINZ Awards last week, you would have seen us being nominated for a -- the best deal of the year, didn't win it unfortunately, but nominated nonetheless. And that, yes, we're getting some super good deals at the moment. And yes, the same we did last year was an example of that and we have opportunities to do that again.

So moving on to cash flow. At the interims last year, so a little over a year ago, we did a conversation around our liquidity level. And back then, I think we had about $1.4 billion in cash. And we've done some work to say, well, what is the right amount of cash to have and communicated that we were targeting a range of $700 million to $1 billion. And we talked about that in a bit more detail at this event last year. We've since been transitioning to that, and that's been going well. We're just a fraction above $1 billion today. And the way in which we've been doing that is paying cash for the narrow-body aircraft that we've been receiving. And that's been going really well. We are taking a balanced approach to this. However, in that almost INFINZ winning deal that I talked about a second ago gives us an opportunity to fund the next couple of narrow-bodies that come in and say given the super low cost of that debt, that just seems like a sensible, balanced thing to do. So we've got 2 coming in, in the next few months and we'll be debt financing those.

So the other point to note that I just -- I would point out is that as the guys have been talking about earlier today, yes, we are in a changing demand environment. And so in the interest of resilience, we will be targeting the -- something closer to the upper end of that range than the lower end of that range.

So the final element of resilience is hedging. And the main thing I'm saying here is, actually, I'm not really saying anything, which is that our position isn't changing. Yes, we are focused on buying ourselves time to adjust. We're not focusing on speculating on the price of oil. So we are following our policy, which provides an immediate level of hedging and a decline as you go into the future as we expect the business can respond to a different environment. So we're quite fully hedged for the next quarter and then it tapers off to -- until you get to about 42% hedged in the third quarter.

The thing we have changed and we lived this previously is that we are now hedging, for a period of time at least, our budgeted jet fuel itself rather than crude through our Singapore jet hedges and crack spreads. And that's because with IMO 2020 coming in at the end of this calendar year, that has a risk, at least, of significant volatility in the crack spread. So having a hedge for that is, we think, prudent.

So moving on to the second hurdle, which is around investing wisely, as you know, our investment profile, our spending -- investment spending profile, rather, is diminishing quite considerably as you get into FY '20. So the gray bars there, the narrow-body fleet deliveries we essentially have during that period, so significantly less that you -- than you have seen. I would point out just before I move off this slide that there will be some predelivery payments for the wide-bodies. I'll show you the details of that in a minute. That's not shown on the slide. This is just the narrow-bodies. We utilize a considerable reduction spend and it's also been smoothed a bit as we -- and pushed out as a consequence of the deferrals that we announced back in March.

So the 787 -- this will be about the 15th time you've heard about the 787-10 today, but still we can't help talk about it. We're just so excited about this deal. It's a fantastic deal for us. This -- I won't dwell on that because others have. But 2 points I would make. One is the business case is really compelling. I mean when you look at the efficiency of the aircraft, they're 25% more fuel-efficient than the aircraft it replaces, which means the business case for replacing it is compelling. And it's not just that you have to replace it because the old aircraft are getting old. It's -- the business case is compelling to replace, irrespective of the age of the aircraft.

The other point I'd make is this is a really kind of simple and flexible order. Simple in the sense that the capability that we have with the 787-10 that we've ordered, very similar to the 777-200s that we'll be replacing. So we can put it straight into the network in the same way as we operate that fleet today.

The other element of simplicity is that it's pretty much the same from an operational perspective as the 787-9s. So it doesn't add any operational complexity at all. So it's a simple order and the flexible nature of it is, as others have talked about, we can exchange some 10s for 9s if we choose to. And we can bring some planes early and later if we choose to. And as Christopher was talking about in the Q&A, I think that's one of the things that has differentiated us as an airline over the past 7 or 8 years or really since the GFC, which is that we can move nimbly when circumstances change. And a critical component of this order was continuing that.

So what does that look like in CapEx? So this sort of sets out the CapEx for the wide-body program. The first aircraft arrives in calendar '22 -- September '22, so that's our FY '23. You see some predelivery payments there creeping in mainly in 2022. The couple of things to point out here. Now that we've made the deferral announcements, which we did back in March, there's no more than 2 aircraft in any 1 year. So the peak of this is substantially less. The 2 bars on the right are kind of a good way of illustrating that, which is the blue-y one is the average spend during this period and the black one is the average spend that we've had over the past 5 years. So you can see it's considerably less. One caveat, this doesn't include some small number of narrow-bodies in this period of time. There's 2 NEOs coming in FY '24, but this is the vast bulk of it.

So what you get from that is a sense that if and when we're in the middle of this fleet replacement program, the amount that we will be spending on aircraft CapEx is almost the maintenance level of CapEx. This is not a peak level of CapEx, even though we're doing a fleet replacement program. So the consequence of that, we don't expect that to put any pressure on our gearing.

And then finally, on the invest wisely elements of the framework, I would just like to reaffirm our commitment to ROIC as one of our key metrics. It's very well embedded in our organization. At the moment, as you've heard today, we're all very committed to delivering stronger ROIC. And as people have a great understanding of this internally now partly because, as I think I mentioned to you this time last year, we have changed our short-term incentive scheme with a company proportion of someone's bonus as dependent on the company's ROIC performance. So that gets people really, really focused on it, really focused, including Cam. And so -- and which means people ask questions about it, which means they understand it better, which means that they're focused on improving our performance against it. And actually, it's hitting home right now because as people contemplated the guidance -- the earnings guidance that we provided in January and that we reaffirmed today, people are saying, "That means my bonus for this year is way less than it was last year." So we'll say, "Okay. We'll want to -- we need to work together to solve this. We'll need to work together to get to earnings growth." So it's having the desired effect.

So notwithstanding the earnings per share, we are reaffirming this -- both this framework and these targets, the targets being that we think our cost of capital is around 10%, so we want to exceed that. But actually, we want to deliver excellent returns, not just good returns, so that means 15%.

So then the third element is around distributions. So first thing to note is we remain committed to consistently paying a sustainable level of ordinary dividend. And we're really proud that we have been able to pay $2.2 billion in dividends over the past 14 years. The thing I wanted to point out, though, is that when we talk to investors, and I talked about that at the beginning, particularly offshore investors, they sort of want to know what we mean by consistent and sustainable. So when we publish this new framework, we will actually conclude definitions of those terms.

So firstly, by consistently pay, we mean -- what we mean by that is simply that we seek to pay a dividend every year. By sustainable, what we mean by that is that the amount of that dividend is not a short-term focus thing. It's looking at our medium-term financial projections of earnings, CapEx and gearing. And so it's not based on a payout ratio of the earnings in a given year.

The second element of our returning cash is you would've seen on the first slide, but repeated here, is that when we have excess cash or where our gearing is much lower than it needs to be that we're not just going to sit on that cash. So we could go and engage in a bunch of M&A transactions and go and buy another airline in Australia, but we can't afford that. So we won't be doing that. So if not doing a bunch of M&A transactions, we're not just going to sit on the cash. That means that we will be looking to return excess cash to shareholders. And we're calling that out explicitly now in the framework. And the manner in which we could do that would be determined at the time based on our market conditions, including the share price. That could be either share buyback. It could be a special dividend. We have an agreement in place now with the Crown, which enables us to undertake a buyback in a way that keeps the Crown's investment constant.

So I hope that provides you with a bit of an insight both in terms of how we're thinking about capital management, how the new framework essentially reaffirms the existing elements and make some of that a little more explicit.

So I'm more happy to take more questions on that when we get to the Q&A. But in the meantime, I'll just had over to Christopher. Christopher, do you want to wrap up?

Christopher Mark Luxon - *Air New Zealand Limited - CEO*

Well, thank you, Jeff. And can I just say I hope you got a sense just from the 4 executive members that you've heard present today, 3 of which actually have come through the executive in the last 12 to 18 months, that we have a really brilliant executive team. And the renewal and the transition that's taken place over the last 2 years has worked incredibly well. And I think you're seeing that we've got really smart, intelligent, highly capable leaders that understand this business really well and can keep rolling it forward as we've been doing.

I just wanted to close out where I started, really, which is to say, again, I hope that you take away the 4 key messages that they really are, first and foremost, we are a business that has built tremendous nimbleness and agility into what we're doing. We're going to continue to do it that way. It's the -- we want to be able to survive in a global aviation world, and we're going to continue to do exactly that.

The second thing is that we are really focused on improving earnings growth in the coming years and hope you got a good sense about how Jeff and all of us are conceiving of doing just that.

Thirdly, we're going to make sure the quality of the result stays, thereby building excellence in a customer, cultural and commercial sense.

And finally, as Jeff alluded to, we really want to make sure we deliver and build upon the strong financial foundation that we've got, improving earnings growth, certainly building out our revenue and cost initiatives and making sure we deliver free cash flow.

So you've -- I think those are things that are really big markers, coupled with these last 4 competitive advantages. And as I said, we will continue to be just ruthless at making sure there is no way anyone gets through those competitive advantages, and that we build them out and we make them stronger and better as we've been doing for the last 7 years, and that's what we'll continue to do going forward.

So with that, I think we'll open it up for some Q&A with Carrie and Jeff as well.

QUESTIONS AND ANSWERS

Leila Peters - *Air New Zealand Limited - Head of IR & Financial Planning*

Thanks so much. So we'll do our second part of Q&A right now. Carrie and Jeff are going to join us on stage with Christopher, but Nick and Cam are not off the hook. If anyone has questions for them, they'll be able to answer. They're more than happy to. Again, we'll be taking questions from the floor as well as through Slido. I think our first question is from Nick Mar. And if you don't mind, again, please state your name and organization.

Nick Mar - *Macquarie Research - Analyst*

Cool. Nick Mar from Macquarie. Just first one on the CapEx. With the new wide-body aircraft, you're now retrofitting the older aircraft with the same cabins. And is there quite a cost associated with that?

Christopher Mark Luxon - *Air New Zealand Limited - CEO*

Jeff, you go.

Jeff McDowall - *Air New Zealand Limited - CFO*

The -- we talked about the program to create a new premium experience a while ago. The process of installing that, we still need to work through. But the aircraft need a cabin refresh at some point in their life. Typically, if you have a wide-body for 18 years, say, that cabin will be refreshed at some point around the midpoint of its life. So that would be the target, is that you -- it needs -- it need to be refreshed at some point and that's when you put the new product in there.

Christopher Mark Luxon - *Air New Zealand Limited - CEO*

And to give you a feel for it when they're coming, when we refreshed the 777-200s, it was 8 aircraft and it was about $120 million to completely rebuild those 8 aircraft. And so once we get the new product in place from 2022, we'll roll it out across the rest of the fleet. It's quite an efficient, I think, a really good fast payback kind of investment for us to do. And we probably have realized we've always been great at not and we've been running older aircraft out, actually not having refreshed it earlier. And so Jeff's right. We'll try and look at the midpoint of the life of the aircraft as we go forward.

Nick Mar - *Macquarie Research - Analyst*

That was great. And the second one just on the business overall. How do you guys feel about how your competitors are going on things like you've discussed around customer proposition, cost base or if you hit recovery, reducing CASK and your ability to stay ahead of that to make sure you hold on to those benefits rather than being competed away in the market?

Christopher Mark Luxon - *Air New Zealand Limited - CEO*

Yes. I mean I don't think that's any different than it's been over the last 7 years, right? That's all a relative game in terms of our cost versus our competitors, our product and service offering versus our competitors. And so part of why we're going again and actually with these new aircraft and with these new interiors and work at Hangar 22, as Mike Tod and his team who are very aware of what's happening with our competitors are also improving their products quite significantly, and it's time for us to go again and make sure that we maintain that head space over our competitors to justify that revenue premium. So yes, you -- we're benchmarking a lot. We're traveling on other airlines. We see our competitors' products. We're well aware of what's going on. And it's partly why we want to stay really invested in that customer experience to keep stepping it up.

Leila Peters - *Air New Zealand Limited - Head of IR & Financial Planning*

We have a question from online, asking how should domestic customers feel about Air New Zealand having about 100% of the domestic profit pool. Should you manage some of that profit away?

Christopher Mark Luxon - *Air New Zealand Limited - CEO*

It says sorry for a prickly question as well, which is so Kiwi, isn't it? I mean it's so typically polite. Look, I mean, I think the bottom line is from a customer point of view, we're really clear, and I would say, Jeff, jump in, that I think if I even look at L.A. and our services to America over the last 7 years, again, the same on the domestic, we're really conscious of making sure we're doing the right thing by the customer for the long run. And so I can look at our domestic network offering of regional services and the scope of those cities and towns that we fly to, and I think the customer in New Zealand is getting an outstanding deal. And so I think we're using our market position in a really appropriate way with our customers. We're making sure we're passing on the benefits to our customers, go back as I said in Hamilton last Thursday, what's the price of milk 7 years -- 10 years ago, what's the price of a house, what's the price of a Toyota Camry, and I think the value that actually Air New Zealand's had would offer its customers is really superb, while also obviously managing our commercials in a way that means that we can reinvest. So I get the sentiment, but I actually think we've been very mature and very responsible with the way that we've been going about building the position in New Zealand.

Leila Peters - *Air New Zealand Limited - Head of IR & Financial Planning*

Any questions from the floor? Marcus? Hold on.

Marcus Curley - *UBS Investment Bank, Research Division - Executive Director and Head of New Zealand Research*

Marcus Curley, UBS. Just 2 questions.

Christopher Mark Luxon - *Air New Zealand Limited - CEO*

Are you sure it's 2 or another 6?

Marcus Curley - *UBS Investment Bank, Research Division - Executive Director and Head of New Zealand Research*

Positive, positive. First one is on labor. Could you just -- you touched on a more challenging backdrop at the moment. Could you give us a little feel in terms of, if you can, expectations or recent deals, what sort of levels are currently being agreed or sought after?

Carrie Hurihanganui - *Air New Zealand Limited - Chief Ground Operations Officer*

Yes, absolutely. I mean as I mentioned, we are seeing increasing pressure in that space and a heightened environment. We have seen an increase just recently in regards to probably our latest deal has 3% in the first year, but lower in the second. As we continue to work through those relationships, there's been a number of meetings that I've had, and in fact, Christopher and I have also had with union organizers, to understand kind of HPE and that -- the relationship going forward by virtue of we share the environment that we're in and been pretty open about the need for us to continue to build into organizing drive change in the business. So it's been a very transparent kind of conversation piece that we've had going forward.

Christopher Mark Luxon - *Air New Zealand Limited - CEO*

I think there's no doubt about it. If you look at labor relations in the country, it's been quite agitated by the public sector positions and expectations that have been sitting there. Having said all that, you've got to remember, we used to -- we've probably driven 30% of the industrial relations law of this country through the precedence over the previous 30 years. And we've had a really benign and very constructive labor agreements and arrangements over the last 7 or 8 years. Despite all of that, what we're really observing in the unions is 2 things. One is within unions is often splits between delegates and the management of those unions and tensions within a union. There's often competition between unions. And then you get to the company interaction. And so as Carrie said, yes, it's manifesting itself in deals that we're managing to get away around 3%. We've just signed off our long-haul cabin crew agreement, which was ratified at 77% on Saturday night, which is now 1,000 workers on contract. So yes, there's pressure there, but we've got a good sense to manage that. And importantly, by virtue of the relationship with the unions, they understand the realities of the business. And therefore, their expectations, I think, are appropriate.

Marcus Curley - *UBS Investment Bank, Research Division - Executive Director and Head of New Zealand Research*

And secondly, Jeff, could you give us a little bit of color, if you can, about how you made your surplus capital, so the difference between how you're going to measure the amount that possibly will exist in the future over and above what you think you need?

Jeff McDowall - *Air New Zealand Limited - CFO*

Yes. Sure. I mean it will be more of an art than a science. But essentially, it's looking at the -- where we sit from a gearing perspective rather than a cash perspective through the next investment cycle. So as we -- if you asked the -- me that a year ago, we're contemplating the fleet replacement before we smoothed it. We would be saying that we need to get gearing below the range so that it stays within the range as we go through that phase. Now that we've stretched it out a bit, it will put less pressure on gearing, very little pressure on gearing. So that effectively, it's reduced the bar in terms of how much gearing we need to get through that. So I can't tell you the precise sense, but the thinking is, is that we want to make sure that we own it fully, possibly in the 45% to 55% range as we contemplate the next CapEx cycle.

Leila Peters - *Air New Zealand Limited - Head of IR & Financial Planning*

We have another question from online before we go to John. What is the biggest operational, I think, function to sustainably reduce CAS? Is what I'm guessing the question is meant to be. Carrie, maybe I'll hand that to you.

Carrie Hurihanganui - *Air New Zealand Limited - Chief Ground Operations Officer*

It's [American] if we're looking very much as I was talking about before, fuel burn, optimization and we achieved that through all sorts of things, whether it be waste, weight and those other elements, but that is overwhelmingly our largest agenda item. But there is the opportunity in that waste space and a good diversion from landfill, the opportunity from supply chain and what we're investing in, but those would be the 2 primary areas that we're focused in as far as driving reduced CASK.

Leila Peters - *Air New Zealand Limited - Head of IR & Financial Planning*

John?

John Middleton

John Middleton from Mint Asset Management. Can you talk a little bit about pilots? A lot of what we've been focusing on is being rank and file clause changes. But I was just wondering 2 things really. One, if moving to a 787 fleet benefits in terms of pilot cost. And then two, are the pilots sharing in the cost reduction programs? Or are they slightly sort of apart from the rest of the business?

Jeff McDowall - *Air New Zealand Limited - CFO*

So well, in terms of 787, it certainly increases the efficiency of the pilot the way we can use the pilot folks who have become essentially use the same pool as we use for the -9s. The other thing we talked about, when John Whittaker was here, a multiyear agreement that we have with pilots, which has a 3-year agreement, but with an MOU that extends that for a further 3 terms, which we think as a great, both the reflection of the maturity of the relationship, but also the arrangement that provides some certainty to both and provide some sharing of benefits and some sharing of guidance. So it kind of locks in a rate that has some inflation indexing, but then it's got some mechanisms around productivity gearing.

Leila Peters - *Air New Zealand Limited - Head of IR & Financial Planning*

And John, our Chief Pilot, Captain Dave Morgan, is in the back, so you might want to check with him during the wine part -- portion of the event, and he can give you some more details.

Christopher Mark Luxon - *Air New Zealand Limited - CEO*

He's just a fascinating guy to talk to on any occasions, on any subjects. I'd just do that anyway.

Leila Peters - *Air New Zealand Limited - Head of IR & Financial Planning*

Other questions? Stuart in the back. Right behind you.

Stuart Williams - *Nikko Asset Management New Zealand Limited - Head of Equities*

Stuart Williams, Nikko Asset Management. The reference to external consultant for the cost-out program, I'm just interested in how you're going to remunerate them. Obviously, you've seen some real shockers in the New Zealand market in terms of $2 for you and $1 for me sort of thing. So maybe you could just talk about...

Christopher Mark Luxon - *Air New Zealand Limited - CEO*

It's not that model.

Stuart Williams - *Nikko Asset Management New Zealand Limited - Head of Equities*

Yes. I appreciate it. Just to get your attention. Just how wide the agreement is, when it starts. Yes.

Jeff McDowall - *Air New Zealand Limited - CFO*

I mean I couldn't agree with you more. So we have got a very simple fee-for-service model for this arrangement. And in terms of the scope of it, it's what we'd call wider support, which essentially is the functions that aren't operational. So it could be my team, HR, it's -- there was marketing. It's any -- it's digital. It's any of those support functions that aren't frontline operational. And really, what we're looking for the consultants to do is to bring some benchmarks, to bring some experiences from other organizations, to look at the organization in an independent way to see how we can make the operating model more efficient. And given, I think Carrie showed the graph that showed our overhead cost trend, which just shows that in nominal terms, it's pretty flat and capacity-adjusted terms, it's actually down 25%. So we don't have a fat overhead base, which is why we're looking to inject a bit of an independent set of tools. But it's also why the target isn't a mix of focus in reduction in overhead, that says it's a decent amount of money. It can be managed without significant organizational change. It's attrition-type level of change, but we think it -- it's important and valuable and goes straight to the bottom line.

Christopher Mark Luxon - *Air New Zealand Limited - CEO*

It is a pretty big philosophy of ours, which is we don't use consultants. And so I think this is the second occasion in my 7 or 8 years that I've been here that we've done so. The trick is we come with a really ruthless and tight brief about what they're here to help us with. It's time bounded. And more importantly, we steal what they do with great pride and their processes as an approach to it and actually educate our own people, so that we can build that capability into how we go about it. I agree with you. I think some of the involvement of consultants has been just obtuse and not very smart at all. And we know how to do a lot of the basic cost-out stuff. What we're looking here is for a smarter, more intelligent provocation to us about how we could potentially organize on global best practice. And so very tight brace, well managed. Nick Judd and Dave Page from our strategy team are just excellent at just making sure there's no mission creep. And the kind of people we want to work with want to get -- fit with us culturally and also have to be prepared to share the way they think about things, so that we can understand and build our own education.

Leila Peters - *Air New Zealand Limited - Head of IR & Financial Planning*

Shane?

Shane Solly - *Harbour Asset Management Limited - Director & Portfolio Manager*

Shane Solly from Harbor Asset Management. Just wondering whether you could talk about your relationship with the government as your major shareholder and just picking up on a comment about the ability to return capital, while you're maintaining the shareholding and how that works. So just how are you going with your relationship?

Christopher Mark Luxon - *Air New Zealand Limited - CEO*

Why don't I talk relationship and I'll let Jeff talk about the share buyback piece. On the relationship front, it's actually been very, very constructive. I know you hear a bit of stuff in the news. And there's some politics that sort of is populist at times and designed for different reasons. But the reality is, from our perspective, we found that a very constructive relationship. And so our relationship with the shareholder, Minister Grant Robinson, our relationship with the other Ministers, which is our normal -- we don't -- we're not seeing any influence over the operations of the business and the way someone could comment on in-flight safety videos. We tend to think they're just -- the controversy is fantastic for us in a marketing sense, so the more the merrier. But apart from that, I mean, it's been a very reasonable transition and as we've expected. And frankly, as we manage with Helen Clark's government and John Key's government and now Jacinda Ardern's government. So I think it's been a pretty seamless sort of transition and process. Did you want to talk about the shareholder?

Jeff McDowall - *Air New Zealand Limited - CFO*

Yes. So just briefly, the agreement's actually published and it's the same one that's in place with the mix management model of companies. And so the mechanism is described there. Actually, [Aaron Gill] from Treasury is here, so he can take you through it. But the -- but essentially, the Crown just sells into a buyback, so that their proportional few holding remains the same.

Leila Peters - *Air New Zealand Limited - Head of IR & Financial Planning*

Andy?

Andrew James Bowley - *Forsyth Barr Group Ltd., Research Division - Head of Research*

Andy Bowley from Forsyth Barr. So Carrie, you mentioned the airports authorities and the fact that airports can set charges as they see fit. Now the government, in light of the last question I thought I'd bring this up, have proposed changes to the airport authorities act in terms of removing that component. How do you think that's going to change the relationship between you and the airports and the broader consultation process for them to set charges?

Carrie Hurihanganui - *Air New Zealand Limited - Chief Ground Operations Officer*

Great question. Thank you, Andy. First, I think there's 2 things. One is obviously as far as what's proposed, we're working through and providing feedback on what's the process. We actually worked very hard in regards to having a collaborative relationship on an ongoing basis because the -- if you look at the infrastructure and the impact that has across our network, we need to get that right. So we will continue with that collaborative approach. But obviously, the dynamics would change if that was successful by virtue of how we engage and how they think about future infrastructure, how that's planned out over the price increase and otherwise. So we're fascinated to see over the next couple of months how that continues and rolls out. But I would say that we've taken a collaborative approach and we will continue to do so.

Andrew James Bowley - *Forsyth Barr Group Ltd., Research Division - Head of Research*

Does it realistically give you any -- does it give you more power in terms of that price setting process?

Christopher Mark Luxon - *Air New Zealand Limited - CEO*

Well, I think, I mean from my perspective, I mean the new civil aviation bill, it's in draft format, we'll get feedback by July 6 on that. But clearly, removing that anomaly, which was for airports to set prices as they see fit with the airport authorities, which actually this replaces, for us, that's all a good thing. And it's the direction that we've been wanting things to move into for some time, as you well know. I think it just leads -- ultimately, we're very clear we want that, the airport authorities, that clause removed. The [axe] is going to be dismantled and put into the civil aviation bill. Secondarily, we know we won't negotiate arbitrating and just be able to have a conversation in a commercial basis. And as Carrie said, we have a number of mechanisms. I talked to top meetings between our Boards and our executive teams. Carrie manages the relationship directly with Adrian Littlewood and see Auckland Airport, meets regularly with him to understand the infrastructure challenges. So we -- we're able to -- in our world, we're able to compartmentalize the operational challenges around the infrastructure from the regulatory pieces around what's the right framework to get the right incentives in place to drive future investment going forward. So I feel we've got that balance right. Obviously, airports might have a different view.

Leila Peters - *Air New Zealand Limited - Head of IR & Financial Planning*

Any other questions? Craig?

Craig Brown - *ANZ New Zealand Investments Limited - Portfolio Manager of Australasian Equities*

Craig Brown from ANZ. Jeff, the flexibility you get in the new aircraft purchases, how much does that cost? And how do you weight up? I understand you need that flexibility and it's a great thing, but the cost of not having it, I mean, would it be a material difference?

Jeff McDowall - *Air New Zealand Limited - CFO*

It was for pilots. It's hard to say what the [comp effect] to us because we negotiate that as part of the deal. I don't think it's a material cost as long as you set up the deal in that way in the first place. So the -- I mean, we think -- there are actually other -- and Christopher touched on it on his presentation, there's other mechanisms we can use to get flexibility as well, including the leased aircraft that we have. So we didn't have to rely just on this fleet replacement to create the flexibility, but it's a valuable thing to have, so -- and very, very little practical cost.

Leila Peters - *Air New Zealand Limited - Head of IR & Financial Planning*

Thank you, Craig. Any final questions before we move to the refreshments? No?

Okay. So with that, I think that wraps up the day for us. I do want to say thank you for spending a good amount of your time, beginning of the week, invested in Air New Zealand and our management team and allowing us to tell some of the stories that we have to tell you. I acknowledge that you're all very busy, and so we really do thank you for letting us spend this amount of time with you.

On a personal note, we're always looking for feedback on how we can improve these sessions and our interactions with investors, analysts and our banking partners, so please feel free to let me know.

And as always, if any of you would like to schedule any follow-up meetings or calls, please contact myself or my colleague, Kim, in the back, and we'll definitely set that up. As a reminder, we have a number of senior leadership -- members of our senior leadership teams here across strategy, sustainability, revenue, network, so please feel free to mix and mingle with them.

And with that, that concludes our 2019 Investor Day. Thank you.
