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Operator: Thank you for standing by, and welcome to the Air New Zealand 2018 annual results call. All participants are in a listen only mode. There will be a presentation followed by a question and answer session. If you wish to ask a question you will need to press the star key followed the number one your telephone keypad.

I would now like to hand the conference over to Air New Zealand's Head of Investor Relations, Leila Peters. Please go ahead.

Leila Peters: Thank you, and good morning, everyone. Today's call is being recorded and will be accessible for future playback on our investor centre website, which you can find at www.airnewzealand.co.nz\investorcentre. Also on the website you can find our annual results presentation, shareholder review, financial report, media release and relevant Stock Exchange disclosures.

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

This morning Christopher will provide a business update on the 2018 financial year, then Jeff will provide more details into the financial results, fleet plan and hedging profile. Christopher will then provide some insights on expectations for 2019 before we open up the call for questions.

In the appendix of the presentation are a number of slide that we will not be specifically speaking to which provide key financial and operational details. We recommend that you take the time to review that information.

With that, I will turn the call over to Christopher.

Christopher Luxon: Thank you, Leila. [Inaudible – Microphone Inaccessible] and good morning, everyone, and thanks so much for joining us on this call.

Before I go into the financial highlights of 2018, which were, once again, incredibly strong, I do want to acknowledge the operational challenges that we have faced this year. While there hasn't been a material financial impact from this in our 2018 results, we do know that these operational disruptions have had an impact on some of our customers, and I

would like to personally thank them for their patience and for their loyalty as we work through these issues.

I also want to thank our people at Air New Zealand here for their resiliency (sic) and their dedication as they've put in tremendous effort to get our schedule on track and to keep our customers moving throughout it all.

This is another example of how important our culture is to our organisation because when you have people who are focussed on delivering the bet customer experience possible in a variety of situations, that is what drives customer loyalty and a sustainable business that then can absorb challenges in the market like those that we've seen this year.

As we look forward we continue to see good demand across our key markets. Despite the higher fuel price, that growth is expected to be profitable and it is aligned with our philosophy that all routes have to perform on their own merits. We have some great opportunities to execute on this year in launching new destinations such as Chicago and Taipei, as well as new fuel efficient aircraft that will be arriving very shortly.

Beyond our fleet we will continue to invest in the customer proposition with enhancements to our in-flight and ground experience, as well as digital channels. It is those investments that we have made historically that have helped us maintain a strong position as we compete against larger global airlines, even now, as we experience the impact of increased fuel and the operating costs on the business.

We continue to work closely with Rolls Royce to limit the impact of the global Trent 1000 engine issues, but we do recognise that we need to deliver greater schedule certainty for our customers going forward. Therefore, we are proactively making adjustments to our schedule which will limit the impact of this issue on our overall network. I'll go into some detail on how that will work later on.

As always we continue to be laser focussed on our operating costs, and you will see that in the results this morning.

Finally, our strong balance sheet has helped us to deliver sustainable ordinary dividends to our shareholders.

Moving to slide 6, I'll briefly touch on the headline financial results before Jeff goes a bit deeper into the details. Our operating revenues were $5.5 billion, which was a record for the airline. Driven by that strength we delivered the second highest profit in Air New Zealand's history, with earnings before taxation of $540 million, up 2.5% from the prior

year.

Net profit after tax grew 2.1% to $390 million, and operating cash flow growth was very strong at 14% to deliver $1 billion. The $540 million profit is in line with guidance that we've provided going all the way back to last August where we said we were expecting this year's earnings to exceed the $527 million level from 2017.

What makes me especially proud is that we were able to achieve this despite a $135 million impact from increased fuel prices in the year. That $135 million was driven by $198 million, or a 25% increase, in the average price of jet fuel in the year, from $60 to $75 per barrel, which was then partially offset by $63 million in gains from our fuel hedging program. If we were to look at our 2018 versus 2017 earnings on a comparable fuel basis we'd actually delivered a 38% increase, which was driven by very strong revenue performance.

Finally, as we stated at our interim result in February, the unscheduled engine maintenance for some of our Boeing 787-9 aircraft has not had a material impact on earnings in the year.

To briefly wrap up my observation about this year's performance, 2018 was most certainly a challenging year with regard to operational disruptions and our efforts to mitigate these issues for our customers. However, these types of issues can arise in an airline, and we know it can be a tough business and that things can happen. It is how we go about managing and absorbing the unexpected issues when they arise that is fundamentally important. There is no doubt that our ability to respond quickly and effectively allowed us to persevere and to deliver our second highest result.

I'll now hand it over to Jeff to discuss the details of the result.

Jeff McDowall: Thanks, Christopher, and kia ora to everyone on the call. If we take a look at the key drivers of the result passenger revenue increased 6.7%, reflecting growth and strong demand, as well the stabilisation of competition in some of our key markets. Demand was up 5.3% on capacity growth of 5%, and RASK grew strongly by 1.6%. Our cargo business also delivered very strong yields and volume growth, resulting in a 9.6% increase in revenues.

Supporting the positive growth in our revenue base was another solid unit cost performance. While reported unit costs grew 4% in the year underlying unit costs improved 0.5%. Once again, efficiencies driven by various cost initiatives and economies of

scale more than offset the impact of price increase and contributed $104 million overall.

Now I'll briefly touch on some of the key movements which affected our performance during the year. To better understand the dynamics of each component we've isolated the impact of foreign exchange. I won't go into the details of every line item, but a detailed profitability waterfall and commentary can be found in the annual shareholder review on the investor centre website.

I've already discussed the strong passenger and cargo revenue performance, but also included in the $362 million revenue growth is $38 million in other revenue, largely from third party maintenance work on US Navy gas turbine engines, some of which is expected to carry over into 2019 as well.

Labour costs continue to show productivity benefits, increasing by only 2.5%, and head count increasing by only 1.7%, which are both much lower than the rate of capacity growth, which is an excellent result.

Christopher has already touched on the movements in fuel costs, and there's a detailed waterfall in the appendix that shows the breakdown of each component contributing to the overall $165 million net impact. It's worth noting that our investment in fleet continues to demonstrate good fuel efficiency, with volume consumption up 3.6% compared to 5% ASK growth.

Maintenance, aircraft operations and passenger services costs increased by $113 million. Increased capacity, passenger numbers and price increases drove the additional costs in our aircraft operations and passenger services. Maintenance expenditure increases were driven by approximately $16 million and third party maintenance activity, as well as higher jet fleet engine costs and growth in the fleet.

Sales and marketing and other expenses increased by $30 million due to higher loyalty activity, commissions and higher property and digital spend, which was partially offset by lower advertising costs.

The net impact of all these movements is an incremental increase in earnings before taxation of $13 million.

Our passenger revenue performance is very strong for the year, with overall positive [unclear] despite the increase in capacity growth to 6.6% in the second half of the year.

As you can see in the table on the right side of the slide, demand in Domestic was particularly strong, exceeding our earlier expectations of performance, with revenue

growth of 8% and RASK growth of 3.5%. This was driven by robust business traffic and continued leisure demand across the network.

The Tasman was another market that saw substantial revenue improvement, which was driven by the exit of a competitor from the Auckland market as well as strong underlying growth with point-to-point traffic. Revenue grew 10%, and RASK grew in the mid to high single digits.

We discussed back in February our plan to increase capacity to the Pacific Islands, specifically in the fourth quarter, with overall capacity growth of almost 20%, driven by increased utilisation of aircraft during our low season. That high rate of growth led to a low single digit decline in RASK for that market, but the longer sector flying to destination such as Honolulu and Bali also drove efficiencies on the cost side.

Moving to Asia, both Shanghai and Singapore saw moderate RASK improvement, thanks to an improving competitive environment from the prior year. Our capacity was slightly reduced in the year, which is largely the result of less double-daily flying to Shanghai during Chinese New Year. Hong Kong RASK remained under pressure, declining in the low single digits due to a significant increase in competitor capacity over the peak season.

As discussed in the interim result, we grew our Japan capacity by 13% in the year, which was driven by obtaining access to flights at Haneda Airport in Tokyo in addition to our Narita service. As expected, the new service drove a decline in RASK for the year, which was primarily seen during the low season, while the peak months were stable.

As Christopher will mention later on, we've seen good forward bookings for Japan for both inbound and outbound traffic into the coming peak season, and will continue working on growing demand into this important market over the next 12 months.

Lastly, our North America RASK result met our expectations this year, driven by both strong demand and a stabilised competitive environment with our competitor adjusting to a seasonal service. Houston in particular saw really good momentum, as new demand continues to come from strong connecting traffic to the Mid-West, South, and Eastern parts of the US.

Turning to Cargo, which delivered another strong revenue improvement this year. Cargo revenue increased 9.6% driven by very strong volume growth of 6.3% as well as yield growth of 3.3%. The volume growth was driven by increased capacity to North America and the Pacific Islands, improved runway conditions at Los Angeles Airport which had an

adverse impact in the prior year, and strong yields driven by higher density cargo.

I would also add that we're continuing to see value from our Alliance partnerships in the cargo space, with increasing connectivity to more destinations, allowing exporters to send their products beyond our traditional network.

Turning now to our operating costs; CASK adjusted for the impact of fuel price, FX and third-party maintenance improved by 0.5%. $104 million of cost efficiencies related to the benefits of fleet simplification, economies of scale and other cost-saving initiatives more than offset the impact of price increases.

As we mentioned at our interim result, we incurred about $5 million of cost from the fuel pipeline disruption in September last year, but we haven't isolated those for the purposes of this chart. Reported CASK increased 4% which was driven by average fuel price increases of 16%.

To provide better clarity on the underlying business we've broken out the increase in third party maintenance costs which are not driven by ASKs and are more than offset by revenue growth.

We've starting getting more questions from investors regarding the Christchurch Engine Centre, which is the only business reflected in the share of earnings from associates in our P&L. This joint venture was formed with Pratt & Whitney back in 2001, and it's a fantastic collaboration. We own 49% of the business, which handles maintenance, repair and overhauls for V2500 engines, which power the majority of Airbus's narrow-body aircraft, including our own.

That business has steadily grown, which is reflected in our share of earnings over recent years. What drives that growth is essentially volume, with the facility currently set up to handle approximately 120 engines in a year. The significant growth you see this year has primarily come from more engines.

Looking ahead to this year, we would expect to see a moderate growth from the Christchurch Engine Centre, albeit it at a lower rate than the 27% we saw last year. That slower rate of growth is due to the facility being near its capacity, although we're currently reviewing options to increase that capacity going forward.

We generated significant operating cash flows of $1 billion in the period, which is an increase of 14%. The increase reflects strong cash operating earnings and in increase in working capital cashflow. Additionally, we had lower cash tax payments related to a

transition tax timing change on the treatment of engine maintenance. The reduction in cash taxes reflects a catch-up as the legislative tax rule went into effect. We entered the period with net cash on hand of $1.3 billion.

As I mentioned in the interim results earnings call, we've updated our liquidity target to be in the range of $700 million to $1 billion, and we'll transition to that level over time. Our plan to start reducing the cash level will be primarily through the purchasing of narrow-body aircraft, some of which will occur this year.

Our gearing at the end of the period was 52.4%, a small increase of 0.6 percentage points from last June, which is well within our target range of 45% to 55%. The increase was largely due to foreign exchange movements in the purchase of new aircraft, partially offset by strong operating earnings.

We continue to maintain a credit rating of Baa2 from Moody's, with a stable outlook.

As the result of a positive medium-term outlook, the airline's financial strengths and capital commitments over the next few years, as well as the current trading environment, the Board was pleased to announce a fully imputed final dividend of $0.11 per share, which brings the total fully imputed dividend declared for the year to $0.22 per share, an increase of 4.8%.

If I move now to our fleet; this month we entered into a commitment with Airbus to purchase A321 NEO aircraft for our domestic network. This is separate from the existing order of NEOs that will be arriving shortly for deployment on the Trans-Tasman and Pacific Island networks. As I discussed at our recent investor day this past June, we've been growing our domestic business very strongly over the past five years. We currently have 17 aircraft operating on our larger domestic routes, consisting of A320 CEOs that were delivered between 2011 and 2016.

Since 2016, we've grown the network almost 20% driven by increased utilisation of our aircraft. To grow further though, we'll be using a phased approach that efficiently and moderately increases the network capacity.

As the new A321 and A320 NEO aircrafts come into our short haul international fleet over the next two years, we'll take some of the freed-up aircraft and deploy them on domestic routes. From 2020 these older leased aircrafts will be replaced on a one-for-one swap with the large A321 NEOs, which will provide efficient grace to up gauging and deliver cost efficiencies as well.

As you can see illustrated on slide 17, this fleet plan will initially grow our domestic jet fleet to 20 aircraft, and then remain at that level but with considerably more seat growth into the network as the proportion of A321s increases. Ultimately through this phased replacement plan, our domestic fleet of 20 aircraft will include seven A321 NEOs by 2024.

In the chart on slide 18, you can see the phasing of our updated aircraft capital expenditures through to 2022, which total approximately $1.5 billion based on exchange rate of $0.66. This figure includes new commitments for the domestic A321 NEOs, but does not include any assumptions on CapEx related to the Boeing 777-200 replacement program, as the aircraft selection is currently in progress and won't be decided until some time in the first half of the next calendar year.

One additional change from the previous forecast disclosed last February is a delivery date for one of the Trans-Tasman NEOs, which has been pushed out now from the 2020 financial year to 2022, reflecting opportunities to increase utilisation of the existing fleet.

Finally turning to the fuel outlook; assuming jet fuel at US $85, the higher price of fuel will be a headwind of approximately $220 million over last year, net of hedging, with a fuel cost of approximately $1.35 billion. To be helpful, we've provided an outlook of estimated fuel costs based on an assumption of jet fuel price in US dollars per barrel. The dotted line represents the unhedged impact of rising or decreasing fuel costs. Based on the make-up of our hedges, we've also provided an approximation of how movement up or down of fuel price would impact our fuel cost to NZ dollars. I would note that while this estimate assumes an FX rate of $0.66, movements in the exchange rate would have a relatively small impact on our bottom line as those movements are offset by FX hedging.

Our largest currency exposure is the US dollar, and we currently have approximately 80% of our 2019 exposure hedged at a rate of 0.7105.

Now, let me turn the call back to Christopher to discuss the outlook for the rest of the year.

Christopher Luxon: Well thanks Jeff, and turning to Slide 21, I'll briefly provide some perspective on the dynamics we're currently seeing across our major market.

While our July operating statistics reflected a tough comparator with the benefits from last year's Lions tour, our forward booking for the rest of the first quarter and certainly leading up to the summer peak season, are developing very well, particularly from the US market.

Now, looking at Domestic first, we're targeting growth to be in line with demand, which is

supported by a strong economic climate which includes robust business traffic as well as domestic leisure travel. Offshore demand for domestic travel has also been growing strongly as we continue to benefit from inbound tourists moving throughout the network.

Moving to the Pacific Islands, after a year of incredibly strong expansion we will see the annualisation impact from last year's capacity growth in the first half, which will then actually moderate to a more typical level in the second half of the year. We're still seeing good outbound demand from New Zealand to these markets, but we note that overall market capacity is expected to increase approximately 10%.

Shifting to the Trans-Tasman market, which has seen significant change last year as the result of a competitor exit, we continue to see strong point-to-point traffic, specifically leisure travel. It is too early to gauge the impact of market capacity growth that will commence in November, but we remain very confident in our strong customer proposition on the Tasman, and we are excited about the growth opportunities including new routes to Brisbane from Wellington and Queenstown.

Then looking to our long-haul network, I'll first touch on Asia where the forward bookings for our new service to Taipei are shaping up well. We will also be launching a second daily service to Singapore, which we'll operate beginning in April, into our fourth quarter.

While our Hong Kong service experienced a strong competitive environment last year, we see stabilising market capacity going into the summer peak.

As Jeff mentioned earlier, Japan, which is our second-largest long-haul market after the US, is performing very well with good inbound and outbound demand.

Touching briefly on Europe, our Los Angeles to London service was under pressure last year from strong Trans-Atlantic competition, and we expect this to continue this year and against the backdrop of Brexit, we would expect some of the softness to continue.

As always, our strategy for this route is based on strong point-to-point traffic between the US and London, but we can utilise indirect flows to and from New Zealand to support demand if needed. This service is also extremely efficient from an aircraft utilisation perspective.

Now in South America, we are seeing some impact on inbound demand from Buenos Aires, due to the weaker peso as the US dollar has strengthened. However, there is still good connected traffic from Brazil, and the outbound demand from both Australia and New Zealand remain strong.

Lastly, turning to North America, we are seeing strong early demand trends going into the summer peak season. Bookings for our new Chicago route are performing really well, and this new destination will provide great stimulation of both point-to-point and connecting traffic between the US and New Zealand.

Vancouver also continues to perform well, following on from last year's strong performance.

Overall, looking across all of our markets, the demand dynamics in most of our key markets appear robust, the competitive environment generally has stabilised, and we are optimistic about the revenue performance this coming year.

Now many of you will be familiar with the issues we've faced since December last year with the Rolls-Royce Trent 1000 engines on some of our Boeing 787-9 aircraft. Over the past nine months we've been working closely with Rolls-Royce as some of these engines have needed to undergo preventative maintenance. To cover for the impacted aircraft, we deployed wet least aircraft over the past summer peak season, as well as in May and June, as we were determined to keep our customers moving.

Now, going forward, we're introducing three dry leased aircraft as a temporary measure to support our network, while we continue to work through the engine maintenance schedule. However, we were recently notified that there is likely to be a delay in getting some of our engines back. Just to be clear, the delay is not in relation to any new technical issues, rather it is because the timing of the engine maintenance program has shifted. We have therefore taken proactive steps to modify our schedule to give greater schedule reliability to our customers.

Our customers have already experienced a series of delays, rescheduled flights and cancellations, largely attributable to the impact of aircraft availability across the wider network. These disruptions do not meet the high standards we set for ourselves and we have determined that going forward we will free up the equivalent of two wide bodied aircraft in order to provide more resilience and certainty to our schedule and for our customers, in addition to the three dry leased aircraft. The schedule adjustments will include frequency reductions on our Taipei and Buenos Aires services, as well as seeking to retime some of our flights to Haneda. There will also be resulting flow on impacts on some of our short haul routes and we estimate these actions will impact our 2019 profit by about $30 million to 40 million.

Now on Slide 23 we have provided our current capacity plans for the year which are fairly

self-explanatory. We have provided some commentary explaining the key capacity drives in each major market and overall growth is expected to be between 4% and 6% for the year, which will be predominantly driven by growth in the Tasman and international long haul networks.

Turning now to the outlook for the year. Based upon current market conditions and assuming an average jet fuel price of $85 per barrel, 2019 underlying earnings before taxation is expected to be in the range of $425 million to $525 million. This excludes an estimated $30 million to $40 million impact from scheduled changes prompted by the global Rolls-Royce engine issues.

So thank you for listening and now operator, please open up the line for any questions.

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

Andy Bowley: (Forsyth Barr, Analyst) Thanks moderator and good morning Christopher, Jeff and Leila. I have got a couple of questions, the first of which relates to some of your comments around demand Christopher. You referred demand dynamics are robust across the portfolio. More specifically the New Zealand consumer is where I am interested and there has been a lot said and written about the health and future health of the New Zealand consumer in recent times. What are your forward bookings telling you about New Zealand consumer, particularly outbound long haul across the network which I guess where the lead time is bigger? Then more specifically within the domestic business to the regional components of the network.

Christopher Luxon: Morning Andy, good to hear from you. Look, the bottom line is that we are seeing really good underlying demand dynamics in the business and so whether I look at New Zealand outbound which was up 7%, whether I look at what's happening in regional New Zealand which is going tremendously quickly, probably double GDP growth, the bottom line as we look out in the next six months we have got a really strong booking profile across all our network to be honest, so that's domestic New Zealand, short haul and long haul. I appreciate there's lots of commentary in the market around business confidence. We see it often early and fast but we are not seeing it.

Andy Bowley: (Forsyth Barr, Analyst) Is there any - in terms of the next six months is

there any difference to the last six months or just very much the same?

Christopher Luxon: No, no, it's just continued strength really, so we haven't seen any change.

Andy Bowley: (Forsyth Barr, Analyst) Great. A second question then. Thanks for that. A second question around the cargo business. So [unclear] numbers show freight has slowed through 2018 year to date and I recognise your revenues have been pretty strong in cargo in both first and second half, albeit volumes have come off a little bit in the second half. What are you seeing on a month by month basis in the cargo business? Can you give us a little bit more input in terms of the changes between volume and yield in particular?

Jeff McDowall: Yes, hi Andy, it's Jeff. As you said we have seen really strong growth in cargo in the past year as well, close to 10% and that was - the biggest single factor there was Pacific long haul where we have seen both volume growth, but we have also been able to tap into markets that we didn't previously access that much including higher density cargo going between Asia and the US, transiting through Auckland, which kind of gets to the point that we can tap into pockets which allow us to grow in a way that's not purely dependent on the underlying kind of level of demand growth.

As we look forward, as I look at August for example, it's a similar picture. The cargo revenue is looking pretty strong. I mean if we think of FY19 as a total we would expect cargo to continue to grow. Whether you would see 10% again is another question but we would expect to continue to see solid growth and our forward profile is showing that.

Andy Bowley: (Forsyth Barr, Analyst) Great. Thanks Jeff, thanks Christopher.

Christopher Luxon: Thanks Andy.

Operator: Your next question comes from Andrew Steele with First NZ Capital.

Andrew Steele: (First NZ Capital, Analyst) Good morning. I guess just the first one is a point of clarification following on from Andy's question. You commented on the demand profile being strong. How does the forward pricing or yield environment look?

Jeff McDowall: Hi Andrew, Jeff again. Yes, good, is the short answer. If you look at domestic in particular, for example, we increased fares there in May and we are seeing both a strong booking profile but also seeing positive yield momentum as well look forward. We are also seeing that across the reset of our short haul business, Tasman in particular, so yes, a positive picture there.

Andrew Steele: (First NZ Capital, Analyst) How does that look in long haul as well?

Jeff McDowall: Yes, so also good. I mean it's a more mixed set of points of sale, so it's a demand picture as well as a yield picture, but yield is looking stable and demand is looking really strong. Actually if I think about our peak season, it is early in the booking curve for that, but the bookings we are seeing, if anything, a little better than we expected and the forward revenue as well, looking at the bookings multiplied by the yield. That's a little bit better than we expected. I mean it's early in the period, like I say, so you can't really bank that yet but we are very positive and optimistic about that period.

Andrew Steele: (First NZ Capital, Analyst) That's great, thank you.

Christopher Luxon: The only thing I would add Andrew is that we have seen a much more stabilised competitive environment and whether that has been some of our competitors from North America only operating over the summer peak, we are starting to see some of the Asian Chinese carriers moderate capacity as well and certainly on the Tasman and even in domestic New Zealand a little bit with our competitor there. So I think the upshot is that as we go forward and across all those sells in all those markets we are actually feeling that we are in a good position.

Andrew Steele: (First NZ Capital, Analyst) That's great, thank you. Just on Rolls-Royce issues, I mean you have had to take on new leasing and there has been I guess maintenance disruption. How should we think about the evolution of lease costs going into FY19 and maintenance on a unit cost basis? I guess also more broadly, if you can tell us, are there sort of any offsets you have with Rolls-Royce for compensation?

Jeff McDowall: Yes, hi Andrew. The relationship with Rolls-Royce, as we have sort of said before is very positive and very supportive. We are not in the position, as I have kind of talked about before, to give you any commercial details of that but the consequence that you saw in FY18 was that there was no material impact. As you look forward there has been some, as you say, we have got three dry leased aircraft in our fleet, or about to be in our fleet, so the cost of that we don't expect to be material. There is a small component of that in the guidance range that we have given for the period to $40 million impact but that is a relatively small component. There is also, as you kind of alluded to, a 777-200 dry lease, for example, has got a higher operating cost base than a 787, so you will see that flow through, but again it is relatively minor.

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

Operator: Your next question comes from Marcus Curley with UBS Investment Bank.

Marcus Curley: (UBS Investment Bank, Analyst) Good morning team. Just a few from me. Could you just talk to what drives the range in the FY19 earnings? I suppose the only thing I picked up Christopher was your comments around the uncertainty around Tasman yields, but anything else that you would highlight which creates the $100 million range outside of normal business volatility.

Jeff McDowall: Yes, you're right Marcus, it's Jeff. It is - revenue by far is the most volatile, well I hesitate to use the word volatile, variable proportion of our P&L, so it's really revenue performance that would drive that range. If we see strong continued demand we would be aiming to be towards the top end of that range but that is really the variable.

Marcus Curley: (UBS Investment Bank, Analyst) On the downside, is Tasman the only thing you would highlight as a key risk at this stage?

Christopher Luxon: Well the other piece is probably Pacific Islands where we have had competition. But otherwise I mean the Tasman, yes, we have got post the Virgin alliance, we have got more capacity going in. A lot of the Tasman growth actually is really around our A321 Neos coming in. There is about two points out of the seven to nine in the Tasman PI sell and we have got some extra growth coming in for Brisbane from Wellington, Queenstown, et cetera. But the bottom line really is when we look at all those sells really it's PI and the level of competition, but the demand is strong in general across our sells.

Marcus Curley: (UBS Investment Bank, Analyst) Okay and then just on the Rolls-Royce estimated costs. It sounds like the majority of the $30 million to $40 million is lost revenue by default.

Jeff McDowall: Yes, that's right. So essentially what we have done is we have designed a series of schedule changes which collectively will free up essentially two aircraft, two lines of flying and we have valued each of those. As you alluded the bulk of the cost there is revenue, so for the flights where, the sectors where we are reducing frequency, it's the revenue that we lose less the cost production from not doing the flying. Then there's a combination of gauge changes as well, particularly on the short haul network, which have both a cost and a revenue implication.

Marcus Curley: (UBS Investment Bank, Analyst) What confidence do you have that this would only be isolated to FY19?

Christopher Luxon: I think based on what we know today Marcus, we expect that we will be able to get our engines through the shops in the next 12 months.

Marcus Curley: (UBS Investment Bank, Analyst) Okay. Then just moving on to the CapEx. I know you are still to make a decision on the 777-200 replacement. Could you just talk a little bit about when the first of those aircraft are likely to turn up? Specifically when you have obviously put your first CapEx guidance out for 2022 one would assume that that's going to be subject to some of those aircraft arriving in that year or potentially earlier.

Jeff McDowall: In the financial year, so Andy it will 2023, the plan at the moment has the first - sorry Marcus - has the first aircraft arriving in late calendar 2022, so FY23. We haven't signed the contract yet, we haven't made a decision yet, but normally there would be some pre-delivery payments so you would expect those to start to flow through between now and then.

Marcus Curley: (UBS Investment Bank, Analyst) Great and then lastly, are you willing and able to provide any comments on dividends for 2019 if you hit the midpoint of your earnings guidance?

Jeff McDowall: Well we are not really in a position to provide dividend guidance. I mean we would sort of reiterate our policy of providing our consistent and sustainable dividends. As you know we are getting towards a period, or getting closer to the period, where we have got a lower level of CapEx and an elevated level of free cashflow, so we continue to see that the Board will have an opportunity there to consider further distributions.

Marcus Curley: (UBS Investment Bank, Analyst) Great, thank you.

Operator: Your next question comes from with Joseph Horbec Goldman Sachs.

Joseph Horbec: (Goldman Sachs, Analyst) Thanks moderator. Just two quick questions. The first one, the team mentioned that there would be no material impact of the Rolls-Royce engine issue in FY18. Could you specify why that's the case and potentially how much it was?

Christopher Luxon: The short answer is no. They are commercial terms and considerations that we have with Rolls-Royce and I think we have been quite consistent around that.

Jeff McDowall: [Unclear], exactly right.

Joseph Horbec: (Goldman Sachs, Analyst) Sure, but the issue has been around for a while so have those costs been taken into FY19 instead of FY18?

Jeff McDowall: I mean what we are providing in terms of the guidance that relates to Rolls-Royce specifically is purely about the impact that we expect to see for FY19. There is nothing in there that relates to the prior year.

Joseph Horbec: (Goldman Sachs, Analyst) Okay. Just the second question, I've been looking at the short-haul and long-haul monthly RASK that the company produces in its operating statistics, it looks like the short-haul is turning negative year-on-year, while the long-haul is turning positive in terms of growth year-on-year. What would be the reasons behind that?

Jeff McDowall: The real reason, to be honest Joseph, is that we had a travelling rugby team with us last year from Britain, the Lions, which was a wonderful rugby series and match, and we don't actually have that in this comparative for July that's just completed. So we're actually lapping the Lions' traffic that came through New Zealand in July last year, and wasn't present this year.

Joseph Horbec: (Goldman Sachs, Analyst) In terms of the positive long-haul growth?

Jeff McDowall: Oh just strong underlying demand, as we've talked about before.

Leila Peters: Yes, hi Joseph, it's Leila. Also yes, it's the lapping of improved competitive environment from last year as well. What I would point out on the short-haul that's important to note, Christopher touched on the Lions, so that really impacted, we saw that very strongly in the first half of July, the year-on-year [is tough to] compare, but then as we moved into the second half we were right back into the strong RASK growth in that 10% range. So right back to where we were in May, June, and looking forward still a consistent dynamic, so it really is a one-off, but yes, it definitely skewed the short-haul numbers for July.

Joseph Horbec: (Goldman Sachs, Analyst) Okay, thanks a lot, guys.

Operator: Once again, if you wish to ask a question, please press star one on your telephone and wait for your name to be announced. Your next question comes from Nick Mar, with Macquarie Group.

Nick Mar: (Macquarie, Analyst) Morning guys. Just within the guidance, are you able to elaborate on what your assumptions are around CASK improvement? You previously signalled a low single-digit for FY19.

Jeff McDowall: Yes, that's right. So we're still seeing positive CASK opportunities in FY19. We've got the economies of scales will come from the growth, which is actually a little

higher than in FY18. We've also got the A320 and A321 NEOs coming in, which will provide a CASK improvement.

Nick Mar: (Macquarie, Analyst) Is there any offset with the disruption and the changes to the schedule that you're having to put through, that may drag on some of that improvement?

Jeff McDowall: The replacement, for example, of a line of flying down by a 777-200 leased aircraft versus a 787, will have some cost impact, but when you see that roll up into a CASK number at the end of the year, it will be relatively small.

Jeff McDowall: Yes, the underlying trend continues from what we've talked about, Nick, in the last few years, to be honest.

Nick Mar: (Macquarie, Analyst) Yes, that's great. Thanks, guys.

Jeff McDowall: Thanks, Nick.

Operator: Your next question comes from Wade Gardiner, with Craigs Investment Partners.

Wade Gardiner: (Craigs Investment Partners, Analyst) Hi guys. A lot of what I was going to ask has been asked, but just a couple of questions. On slide 17, when you talk about the CapEx, can you just clarify what the change is relative to what you disclosed at the June Investor Day? Or is there is no change from that? The other questions were the Rolls-Royce issues, you seemed to imply just before that you had an update around where you were in the slot for the maintenance, can you give an update on timing of when you expect that to all be resolved?

Finally, you mentioned earlier some revenue from I think it was US Navy contract that was in FY18, and moving into FY19, can you put some numbers around that, what are we going to see in FY18 versus FY19?

Jeff McDowall: Hi Wade. So your first question about slide 17, which is the one that describes the domestic growth from A321, that is the picture as we presented it at the Investor Day in June. We've just made it a bit more explicit, but it's exactly the same decision, it's the same number of aircraft.

[Inaudible – Multiple Speakers]

Wade Gardiner: (Craigs Investment Partners, Analyst) Yes, so the CapEx forecast hasn't changed.

Christopher Luxon: Missed that, sorry.

Wade Gardiner: (Craigs Investment Partners, Analyst) So the CapEx forecast really hasn't changed from what we had in June?

Christopher Luxon: That's right. Well, two changes. One is that we've gone out an extra year, so we're showing 2022 now. Previously we've shown up until 2021. The other is there's a little change because of the currency assumption.

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

Christopher Luxon: Then just on the Rolls-Royce piece, essentially what's happening is that you've got a global production and parts backlog as obviously this is [unclear] affecting a global fleet, and as Rolls-Royce deal with that through their production facilities, they've got a throughput issue and challenge, and so when we send the engines up there for their maintenance checks and servicing, it's taking longer for them to get through the shop.

That's ultimately what's leading us to reset now to say, right, we've got three dry leased aircraft coming in, and we're going to free up two wide-bodies of flying, through making some schedule changes. That's an order to actually acknowledge the fact that it has been operationally incredibly challenging this last nine months for our customers, and we want to get back to a really strong schedule as a result.

So we still come back to the idea that based on everything that we know today, and the guidance that we're giving, we expect to be able to get those engines through those shops in the next 12 months.

Jeff McDowall: Sorry, just on your third question, Wade, about the US Navy contract, I can't tell you specific commercial details of that arrangement, but it's a reasonably significant step up from the past year, from FY17, and as we said in the presentation, it delivered a positive margin. So there's more than the cost [unclear] offset by the revenue. As we look forward to '19, it'll be a similar thing, if anything a little bit more, so you'll see a little bit more cost, a little bit more revenue.

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

Operator: Your next question comes from Jason Familton, with Accident Compensation Corporation.

Jason Familton: (Accident Compensation Corporation, Analyst) Morning guys. Just a couple for me, and related - I've just got off the NZR call and they're talking about a return to the

golden age of refining, just wondering about your chart set to be showing exposure to jet fuel price, and how that reflects the changes that may or may not happen to crack spread.

Christopher Luxon: Hi Jason. Yes, so we do still hedge in crude rather than in the refined product, so there isn't exposure there. It's been pretty stable over the past several years. It is something though that we are actively looking at, particularly as you think about the IMO regulation coming in from early 2020, so that is a topic that we're actively engaged in at the moment.

Jason Familton: (Accident Compensation Corporation, Analyst) The other one is clearly we had the pipeline outage in the last 12 months, and there's been a bit of investment at the refinery around jet fuel, tankage and some of the jet fuel suppliers have been talking about trying to recoup some of those costs from airlines. So how is that being reflected, I guess the in-plane costs of putting jet fuel into the planes, and the guidance as well?

Christopher Luxon: Yes, there's impact to that in the guidance. We've got really strong relationships with the oil companies, and we've been working constructively with them. So yes, there's not a story there really.

Jason Familton: (Accident Compensation Corporation, Analyst) Okay cool, thank you.

Christopher Luxon: Thanks, Jason.

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

Christopher Luxon: Well listen guys, can I just say thanks again for listening to us on the call. Thanks for your time and also actually just thank you also for your patience with us over the last nine months as we've dealt with some of these operational challenges. We are working really hard at it.

I am really proud of the result, it's a great financial performance to power through the fuel as we've done, it's certainly been a big challenge operationally as we've dealt with the Rolls-Royce issue, and I'm pleased and very proud of how the team handled that.

What I'd say is if you've got any further questions, or any more detailed questions in particular, please don't hesitate to pick up the phone and reach out to Leila and Kim in our Investor Relations team. Thanks again for your time, have a great day.

End of Transcript