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PRESENTATION

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Okay. We'll get started now. Okay. I think we're rolling. Good morning. Hi, everyone. Thank you. Welcome to Air New Zealand's 2017 Investor Day. We're really happy that those of you can be with us this morning, and a big welcome to everyone who's joining on the webcast. For those of you that don't know me, my name is Leila Peters and I'm the Head of Investor Relations.

Before we get started, safety first. Emergency exits are where you came in that way, around that corner and through there, and the bathrooms are down that way and to the right as well. Please feel free to use them whenever. Today's presentation, for those of you that aren't with us live, can be found on Air New Zealand's investor center website at www.airnewzealand.co.nz\investor. And the results of the presentation have been released to the NZX and ASX earlier this morning.

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

This morning, you're going to hear from several of our executives and members of our senior leadership team. You can find more information about them in the bio section in the back of the slide pack. In the interest of getting through all the presentations this morning, we're going to save the questions for the end of the session. So if we look at the agenda, this is how the morning will go. We'll start off with the discussion on the business update and our strategic growth priorities, which will be presented by our CEO, Christopher Luxon, Jeff McDowall and Mark Street. We'll then take a short break for some morning tea, and then we'll return back and go through cost opportunities, featuring our Chief Operations Officer, Bruce Parton and Jeff McDowall, and we'll finish up with financial priorities with Rob McDonald, our CFO.

For the Q&A section, that will be at the very end, we will obviously have live questions. For those of you throughout the presentation, if you don't want to forget any questions you may have, we're this year again using an online Q&A tool called Slido where you can log in on your smartphones or your tablets and ask the question anonymously or not, and feel free to use that tool. Although I hope that you will raise your hands because it's more fun that way. We do hope that you enjoy the presentation we've put together for you this morning.

I think that's all the housekeeping that we have. Before I invite Christopher Luxon to the stage, we just like to play a brief video for you.

(presentation)

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

Well, (inaudible) Good morning, everyone. Thank you for getting through the fog to be with us today. It is a day that I really look forward to because it's a chance for us to unpack and share with you a little bit more about the business than we get to during the results season. I was reflecting yesterday and just thinking as I come to the end of my fifth year as CEO here at Air New Zealand, I actually am proudest about the year that we're just about to complete. And the reason for that is a year ago, we stood here talking to you about how we felt the environment would be a little bit choppier and a lot more competitive as we went forward. And as I think about the year, our business I think has responded incredibly well to what has been a much more challenging environment. And we've ended up dealing with 10 new competitors in the last 12 months. And at the same time, we will deliver ultimately our second-best performance ever in our 77-year history. And so for me as CEO, I'm incredibly proud of our team and the way that they have responded. I think we have built a tremendous amount of resilience, agility and competitiveness into the business, which has been really fantastic to see.

So I think today, we're going to talk a little bit about market dynamics, what we are seeing and what we're actually thinking about and how we're thinking about the business as we go forward with it, and that's what I really want to share with you. The -- sorry, I'm (inaudible) changing slides. Good. Many of you know the story of Air New Zealand but we really are embedded into the fabric of New Zealand life, and it's been really pleasing over the last 5 years just to see how Air New Zealand has continued to grow the breadth of its operations, the corporate reputation, the financial strength and I think we have done an incredibly good job of just enlarging and strengthening what was a great business and making it even stronger.

Many of you will remember back in 2012, and if you think about our business today versus 5 years ago, it's now 30% larger in a network sense. We have a very diversified portfolio of markets that we now fly to and partner with alliance are partners with. But essentially, that growth is the result of firstly, much bigger aircraft coming into our fleet. Certainly, new aircraft coming into our fleet, and then opening up new diversified destinations. And if you think about the launch into Singapore, into Houston, into Buenos Aires, they have been very successful market development exercises for us, and have got us off to a great start to round out our network throughout the Pacific Rim. And likewise, the seasonal services into Ho Chi Minh City and into Osaka. But it's important to register that it's a much bigger business with a much larger and profitable footprint and a diversified set of markets across the Pacific Rim.

A big part of that obviously has been the growth of Air New Zealand has been in concert with the growth of tourism in New Zealand, and those 2 things in my mind are very interlinked. It's no coincidence that Air New Zealand's growth took off at the same time as growth of tourism to New Zealand. And I think we are in -- it's a great macro trend tourism for us at Air New Zealand to build our business against, but also for New Zealand as a country. We're living in a world of 7.4 billion people. To give you a feel for it, last year, 3.6 billion people traveled and it's estimated that 1.8 billion of those people were on holiday. And so the world is getting larger, but it's been getting increasingly wealthier as we see billions of people come into the middle class across the world. And the bottom line is that New Zealand as a country actually has what the world wants, and Air New Zealand is obviously right in the center and the thick of that because with Air New Zealand and our partners, we bring 45% of the visitors to New Zealand here to our shores.

I think the big challenge obviously that sort of I think about in the medium to long term is really our infrastructure in New Zealand to be able to propel and to support that continued growth in New Zealand, and I'm really encouraged by the announcement by the government recently about local mixed-use infrastructure investments that have taken place, more funding for DOC and our national estate, and also our preparedness to work alongside communities where there is local mixed-use infrastructure challenges and be able to solve those independently as well. And I think then, as an industry, we're still continuing to work on how do we get more value and productivity out of the sector, how do we extend seasonality and how do we make sure we're dispersing those visitors across the whole of our network throughout New Zealand.

And just a bit of headline for you, as much as that organic growth is sitting there with tourism, the other big thought for you is that if you look at the value of tourism divided by the number of employees that are in it, New Zealand sits about mid-table in the Western economies in terms of the productivity of our tourism sector. And if we could get more premium, more higher-value experiences, a richer visitor experience and move ourselves to top 10%, there's another $9 billion worth of value add to be created into the tourism sector as it is just today. So there's a lot of scope for us over the next 20, 30 years to continue to build out on a long-run macro trend around tourism. I think we're incredibly well-placed with good knowledge of New Zealand and certainly, the markets that we operate into.

I wanted to talk about the fact that I think we have moved from just being a really good kiwi company to being a truly great and world-class organization. And we talked a lot about that as a new management team 5 years ago. But we now talk internally about the challenge for us is how do we become truly an iconically, enduringly great company as we have seen other organizations around the world that have been great, not just for 1 year or 5 years, but have actually been great for 30 years, 50 years, 70 years. And the difference when you look at the research on how do you move from being from good to great to great to iconically great is really around the ability of your staff and your stakeholders to commit to a mission and a purpose around what the company is actually about. So this company, we think, has a mission and purpose that's much more than just making money. It actually has a role to play in actually building out civil society here in New Zealand. And so for us, we have enshrined that in what we call our Go Beyond plan. I know we've talked about that to you at different times. But I wanted to unpack the 3 big bits that we think are core to the mission and purpose of what this company is about. And our fundamental belief is if we deliver on that mission and purpose, Air New Zealand will be just fine.

And so the first part for us is actually this mission of actually wanting to supercharge New Zealand's success. And we can do that economically through tourism and through trade. We can do that socially by building a truly world-class corporate that can model it out to other corporates in New Zealand, but importantly also build regional economic development in the regions of New Zealand, we uniquely can do that task. And then we think environmentally, there's a lot more that we can do to reduce carbon and obviously enhance nature. We have to substantiate the claims that we're making in New Zealand and really back it up. And therefore, we need to be very committed to advancing the environment here in New Zealand. And we think we've got a role to play in all of that. So I think the point I wanted to make is that this is essentially one part of our promise.

The second bit really is how do we connect New Zealand to the world and bring the world to New Zealand. As I said in a world of 7.4 billion people, 195 countries, we don't want New Zealand to become irrelevant in that global scale and that's been a real part of the whole market of New Zealand -- Air New Zealand over the last 77 years of connecting New Zealanders to the world and bringing the world to us.

And the last part is that we want to be a truly world-class company, and the best companies in the world do those 3 things at the same time. They deliver superior commercial results and they enhance the customer experience and they build culture within their organizations. And so for us, it's about doing that year in, year out, decade in, decade out, and that's the ambition that we have.

So our thought is that these 3 things are essentially what Air New Zealand has been about for the last 77 years, whether we've said it explicitly or not. But I would hope that in 77 years when we show up for an Investor Day and you've got a different CEO talking to you, that they're still talking about these things because this is something in the company that should be preserved and ultimately never change.

I talked a little bit about culture, customer and commercial success. And just touching on that briefly, culture for us is not a kumbaya or motherhood thought. It is actually very real, it's very tangible for us, because many aspects of our business can sort of be copied by our competitors. But the one thing that can never be copied is people. So culture is a really, really important part, as is customer satisfaction, as is commercial success to the success of this business. And we start fundamentally with a view that if we can build better leaders, we end up with a stronger culture, we end up with higher levels of engagement. It means that our people are going to give us the differential effort, that extra 1% or 2% that their peers at our competitors won't do in order to deliver better customer service and ultimately, stronger commercial results.

And so that's very much the link that we actually see sitting there and so we have invested a lot in the last 5 years in our people and the development of the culture and our leadership. And to give you a feel for it, our top 80 general managers, 26 of them now have executive coaches. Just on this last year, we now give all our managers, our manager effectiveness ratings, typically every 12 months, sometimes a bit more frequently. And in the last round, with each individual manager has improved their manager effectiveness in terms of how they are rated by the people -- the team that they're leading by 10 points. So it's a really important thing because it makes a tangible difference if we can build better leadership, better culture.

And the result of all of that is that we are the most attractive employer in New Zealand since 2011. We had 45,000 people apply for 3,000 jobs. We have 60% of kiwis in New Zealand saying they want to work here at Air New Zealand, and that's because of the cultural dynamic that we've been able to create here. And so when you think about that, no other company in New Zealand comes close to being able to actually deliver that level of, I think, cultural performance.

Moving to customers. I mean, you know the story of how we've invested tremendously and made big investments around our fleet, around our lounges, around new markets and certainly, in our people and our service training. But I think we have hit really fantastic record highs across our system. Whether we look at our own internal metrics, where we talk to 4,000 customers every single month, we've had our highest ever customer satisfaction results in 77 years. Whether we look at the Star Alliance rankings of the 28 airlines that are in there and how our performance has been, it's been really outstanding. And certainly, in terms of our sustainable credentials of being recognized now as a company that's taking sustainability and sustainable development really seriously and putting it into the bloodstream of the business. And I think the ultimate output KPI for me is actually corporate reputation and for Air New Zealand to be the #1 corporate reputation again in New Zealand is really fantastic. The most pleasing thing, however, is to be the #1 corporate reputation in Australia and I can tell you that never gets old, right? To be the first foreign company to hold the #1 position. It's fantastic being over there a few weeks ago and being able to talk to politicians and others and say, "Fantastic, we're your #1 company." And we've got koru on there, we've got the fern on there, we've got Air New Zealand. You can't get more kiwi by what the items that we've got on board that aircraft livery. So -- but that is testament, again, to the hard work that's gone in to actually build our reputation across the company -- across the -- yes.

And then I think turning to commercial success, I would hope that you'd sort of recognize and understand, obviously, more than anybody, that our commercial results, I believe, stand on their own and it's quite obvious. And I think it doesn't matter which index you look at, our total shareholder return has been very, very strong over the last 10 years. Linked to that is obviously the fact that we have achieved 14 years of consecutive profit. That is a phenomenal achievement. I can't think of any airlines that have actually been able to deliver that around the world and certainly, to stay profitable through the GFC was a real achievement for this company, but obviously acceleration of profitability has been really important in the last 5 years. And then certainly, in terms of dividends, so again, to be able to deliver dividends in a meaningful way when, again, that's not a norm in the airline industry, and to be able to do consecutively for 12 years is really fantastic.

So I guess, as I said to you at the beginning, it has been a year of unprecedented competitive activity in the marketplace. And we have come through that year, I think, incredibly well. And we feel very good about our performance but more importantly, for the outlook as we go forward. And I think it does demonstrate that a lot of the decisions we've taken over the last 4 to 5 years, whether that be in terms of how we've expanded our network to build out profitable routes and market development, the long-term fleet decisions that we made and our approach to market development and strong cost control discipline, all those discussions have stood us in really good stead to make sure the business is agile, competitive and resilient.

And so we're being very well-served by that. And as you would have seen in recent months through the annual -- the monthly operating stats, our revenue environment has been improving significantly. And so today, I'm really pleased to announce that based on the improved revenue environment, we actually are updating our outlook for the 2017 financial year. And based on the current market environment and jet fuel prices, 2017 earnings before taxation are likely to exceed $525 million, and that obviously includes our share of earnings in associates as well as the $22 million gain related to the divestment of the remaining interest in Virgin Australia. So all in all, sitting here 12 months later from when we spoke to you last in this room, I feel incredibly proud about what we have achieved but also very pleased that we can deliver, in fact, what will be our second-best result ever.

So probably enough about sort of past performance, and if I can move now to our strategic growth priorities and sort of how we are thinking about the business as we go forward, I'd like to spend a bit of time on that and in particular, just sort of how do we leverage our competitive strengths in the years ahead? And there's 3 components to this. The first is that we think there are very attractive sources of profitable growth for Air New Zealand going forward, and I'll spend a bit of time talking about that, but I also want Jeff and Mark to come up and talk about some of the opportunities in their respective areas as well. We then see secondarily a big continued opportunity on cost improvement and we have had a real impact on our unit cost stemming from our own efficiencies and the scale benefits that we've been able to realize through the growth within the company. I think you've registered that in the last 6 months and certainly, over the last 18 months. And so we want to talk about how sustainable that is going forward and how we think about that and I've asked Bruce to come along as Chief Operating Officer to talk about some of those focus areas for you to give a bit more color to that. And then finally, all of those activities and cost fronts won't be possible without the strength and resilience of our balance sheet, including our strong operating cash flows, and so Rob will come and talk a little bit more about our financial priorities and framework and how we are thinking about some of those key metrics.

So if I can talk firstly about growth. What I'd say is growth is really good. It's good for our company. It's good for our people. It's good for our community. It's certainly good for you guys as investors. But I want to be ruthlessly clear as I have been on different results calls, is we're only interested in profitable growth. We're not there to pursue growth at any cost. We're not interested in profitless growth. We expect everywhere we go to be profitable. And that's been a mandate that we've put in place some years ago and we've continued to build out upon.

We see growth opportunities in 3 ways. We see it firstly in the fact that we have a very strong core domestic business and we see more growth opportunities sitting still for us in the New Zealand market -- domestic marketplace. The second thing is that on the back of that tourism growth, we see big opportunities continue to leverage the long-haul Pacific Rim network, and that we think we can get our share and contribute our -- to that rapidly expanding middle class and the growth that's happening in the Pacific Rim region. And then thirdly, I'm really pleased we're able to take some time today to unpack and share with you more about our loyalty program because it's something that we haven't spoken a lot about but has been a tremendous value creator and driver for us over recent years, and Mark will unpack more of that as we go forward.

Before we get into domestic New Zealand, I just wanted to give you an overall view of how we think capacity will shape up in the coming years. And the first thing I'd say is that 2018, we will moderate our capacity a little, and that's very deliberate as we make sure we digest and embed the growth of the previous 3 years. Long-haul will be much more -- we've had rapid growth in our long-haul network, but a lot of our focus certainly in 2018 will be embedding on what we have got and deepening up and muscling up in the places that we already fly to. So expanding capacity into Houston, which has been hugely successful; expanding capacity into Buenos Aires, which has been successful; certainly opening up Haneda within Tokyo, which is a new port that gives us a better access into domestic Japan, will be a very big play for us in 2018.

In terms of domestic, we'll move to mid-single digits rather than high single-digit capacity growth and -- but we still see good growth opportunity there. One of the reasons for the moderating capacity growth, which Rob will go into in a little bit of detail, is the delay of our NEO aircraft program, and Rob will talk a little bit more about that. It's not necessarily a bad thing but it does mean that we will constrain capacity, particularly in the Tasman and in the Pacific Islands, albeit that we do have a better flex in our fleet if we want to make some adjustments through the course of the year. But Rob will talk more about the NEO piece in particular. And then you can see from 2019 to 2020, we do tick up a little bit more in terms of the capacity growth that we see coming in.

So if I can talk a little bit about domestic New Zealand and how we are thinking about that, the thing I'd say is that the strength of our position in domestic New Zealand is quite formidable and strong. It has got stronger and musclier over the last few years and we still see a lot of opportunity there for us in New Zealand. We have the best regional network of any airline in the world. We fly to 21 ports across this country, and we have invested significantly in the last few years in making sure that we have got lounges and terminals and aircraft constantly maximizing the opportunities for growth that we see within New Zealand marketplace. If you just think about it, we have withdrawn and exited our 737s, replacing them with A320s. We've got out of all our 18-, 19-seat Beech aircraft during this period. We have refurbished our Q300s. We spent $570 million on ATR72-600s of which 4 are new which is giving 600,000 more seats into the New Zealand marketplace every single year. And we have invested obviously in lounges regionally but also in terminals, whether you go from Invercargill all the way through to Kerikeri, there's been massive investment across that network. And basically, fundamentally what we have done has been able to add more seats, larger and newer aircraft. We've been able to lower the prices because the structural economics of the seat cost has lowered. And as a consequence, we actually can hunt for that regional growth and stimulate profitable demand into our domestic network. And so fundamentally, the domestic business in New Zealand is a much more powerful, much more sustainable business as we go forward, and we'll talk more about that. And obviously, it's linked very strongly into the loyalty program that Mark will talk a little bit about as well.

I think we've been really good at stimulating, as I said, profitable demand. I could take you through every port of 21 across the country and think about what we've done. I think about Dunedin -- but if I just take 2 examples, Queenstown. Queenstown is a classic where we have added 30% capacity for the last 2 years and yet, we've been able to fill all of those seats at really good yields and we've done that while we've expanded capacity tremendously into the Queenstown market. On the other hand, we look at something like Napier, where we've grown 7%, and we have done that and built profitable demand and growth into the Napier-Hawkes Bay region at the same time while Jetstar launched obviously turboprop aircraft 18 months ago. So we have got, I think, very good at working with regions to be able to stimulate and grow and create profitable demand.

And a good example for me -- hi, Jason, sorry, for the fog. The good example for me would be actually our Northland example with our Northland safety video. We have -- if I take a step back, we have spent the last 2 years working very closely with the Mayors and their CEOs of their councils and their regional economic development agencies. In fact, they all come in for a day typically once a year, into this room when we talk about our regional economic development with them and do those plans together. But our belief is fundamentally that from the very top of New Zealand in Northland to the very south in Southland, that each subregion of New Zealand has a very unique and differentiated tourism proposition. And rather than all of them competing with each other and fragmenting the effort, it's actually the complementarity of it all that adds up to a much richer New Zealand visitor experience, which in turn means that our visitors are actually staying longer because they want to see more of what the country has to offer, and they actually are spending more while they're here. And that's how we extract value out of this industry and out of this sector.

And so we have worked with those councils and with their -- with those regions very closely and we produced what we call a regional brand toolkit. And what it is, is each region has a very well-defined proposition about what its role is and what unique characteristics it has that we promote in our tourism promotion. And equally, we've even gone down to the level of actually testing photographs and imagery online with customers so that we are all using the most iconic imagery that drives the greatest level of conversion of tourism into those regions. And so that's been quite useful. And Northland's a good case and point where we went and visited with Northland and we've worked with them to build up an economic development plan around how we expand tourism into Northland.

We shot the in-flight safety video, Summer of Safety, and we did that in 10 different locations and we've had 10 million views of that, which is pretty phenomenal as a result. And if you think about it, what we've done in that is try to showcase, and in other marketing activity that we have in Northland, really just the core components of their proposition. It's the birthplace of a nation so Waitangi becomes very central in that. It equally is the place where it's a winterless north that you can go up there any time of the year and you can walk in Kauri Forests, do short walks, get on a cycle trail and the other component of it is really around the coastal gems and the great beaches that we have.

And so that's an example where those 3 components of their proposition are showcased in a way that then is different from how we promote Southland like the Bluff Oyster Festival, the car museums and obviously the Catlins DOC estate there.

So hopefully, you get a sense of why we feel really comfortable that there is more market development to happen within the New Zealand ports that we fly to and why we are really proud about the fact that this is a very strong part of our business. I think sometimes, for New Zealand-based investors, they probably don't appreciate it as much as our overseas investors who look at that as a real source of strength for the company, but it is a very important part. And we are confident we can continue to grow it incredibly strongly.

So with that, I'm going to turn it over to Jeff, who's going to come and talk a little bit more about the long-haul opportunities that we see across our international network. Thanks.

Jeff McDowall

Okay, thanks. Thanks, Christopher. And as Christopher said, I just want to spend a bit of time this morning talking about how we're thinking about growth for our long-haul business. And I guess, the first point is that our long-haul network is really, really important to us. It's the mechanism by which we connect the world to New Zealand and New Zealanders to the world. But having said that, if you don't get the right product, the right aircraft, the right network, the right partners, target the right customers, it's a business where you can lose a lot of money really quickly. So it's critical to get that right. And as Christopher alluded to, over the past few years, we've put a lot of energy and focus on getting that right, and that has allowed us to enter a number of new markets and deliver strong profits from those. And it's delivered the growth that you see there around 30% over that period.

But as we look forward, over the next 3 years, I just wanted to give you a sense of the kind of growth that we are contemplating and how we're thinking about how we'll deliver that. So we're looking -- and it's not a precise range but it's a good range to think about of growth in the 4% to 7% range over the next 3 years. It might be a little bit higher in some years, a little bit lower in others but that's a good range to think about.

And the way we approach that won't be radically different to what you've seen in the past. There's 3 elements, and I'll take you through each of these in a bit more detail in a second. But firstly, we still see opportunities to further explore scale opportunities around the Pacific Rim. So from that, you can say, "Okay, so we won't be growing capacity into Europe. We resolutely focus on that Pacific Rim core business that we have." Secondly, we see a lot of opportunities to grow our business faster by increasing connecting opportunities over Auckland. That's an area that we've focused a lot on in the past year and I'll talk about how we're looking to grow that further in the future. And finally, revenue-share partnerships for our long-haul business have become a critical part of our strategy now and we still see further potential to leverage those to accelerate our growth. To give you a sound bite, there's 75% of our long-haul revenue that is now essentially in joint ventures or revenue-share partnerships.

So touching on the first of those 3 elements, the scale opportunities across the Pacific Rim. As I said, we still see plenty of -- potentially plenty of opportunities. I'll talk about a couple of them in a bit more depth in a second, which is Japan, Christopher alluded to that a second ago, but also Houston. Buenos Aires is an interesting one. It's really surprised us to the upside. So we went in there because it was important to our strategy, connecting South America to our network had always been part of our long-term network strategy. And when we looked at the numbers, they kind of looked okay, they looked pretty good. But we knew it was going to be a challenge. It was a market where we had no real presence, so from a market development perspective, that was always going to be a challenge. And it was also a market where operationally, it looked challenging and we had no experience.

So how we tackled that is that we just gave ourselves plenty of time and plenty of focus. We announced that 12 months before we started flying. Even before that, we spent a lot of time -- like, I went there a couple of times just understanding the market there. I'm talking to agents, talking to the regulatory authorities, talking to partners just to get a sense of what the opportunity and the challenges would be. And then when we announced that, that allowed us to have a 12-month period with really, really intense focus on market development, getting a strong team in place in Argentina, building a marketing presence there, building a quality operation, which was always going to be more challenging than many of the other markets that we operate in. And critically, building a presence and awareness of that service in Australia, because Australia was always going to be a big source market for that sector. And by the combination of those things, it's worked incredibly well. We've been really happy with the results. Like I said, it's really surprised us to the upside. So we see a lot of potential to grow that further.

And as always, we're always looking at a range of new destinations. Our experience in the past few years, the sectors that we've launched, including Buenos Aires, over the past 3 years give us a sense that we can execute new markets successfully and profitably. So we're always looking at that. There's nothing specific that we're in a position to share with you today but it's something that we're always looking to.

So a couple of those markets that I said I was going to touch on a bit more depth. So Japan, Japan's a really important market to us. It's really core and profitable market over a long, long period. But if you take a long-term perspective, it's actually been -- it had actually been in decline for a long, long time. So go back 2003, there were 160,000 visitors from Japan coming to New Zealand. Go to 2012, 9 years later, that had dropped all the way down to 60,000. And there are a number of factors driving that including some negative events, we had the Fukushima earthquake, the Christchurch earthquake, all had a quite strongly negative effect on how that market performed.

So from late 2012, we had a really strong and intense focus on returning that market to growth. Since then, over that 5-year period, we've grown from 60,000 up to 100,000, so 60% growth over that 5-year period. The temporary setback late last year was the Kaikoura earthquake, which slowed down bookings for this current -- for this past peak season, but that settled back down now and bookings are coming in strongly. So what that says to us is we've -- firstly, we've proven that it can grow and return to growth; but secondly, that it's still a long way from where it could potentially be. We're still with a lower number of arrivals than we had in the past.

The way we want to execute that growth, and Christopher referred to this, is to access the Haneda Airport. Haneda is much closer to central Tokyo than Narita is. It's also got really strong and better domestic connections with our codeshare partner, ANA. The challenge had been that slots at Haneda are heavily constrained, so we just hadn't been able to get airport slots to be able to operate there. But we have now secured those slots. So from July, we will be operating 3 flights a week into Haneda in conjunction with our daily flight into Narita. One of the conditions by which we get the slots into Haneda is that we maintain our services into Narita, which we're quite happy with because we can, like I say, see the potential for growth there. What you will see in the stats is a big step up in growth, obviously, in July, the extra 3 services a week. But we're really confident that in the long term that market is a strong, strong source of growth for us and a strong source of profitable growth.

So moving to the U.S., and as you know, so historically our focus here had been on the West Coast with flights into San Francisco and Los Angeles. And we've built strong awareness, strong conversion from American consumers on the West Coast. But once you got beyond that, there's a massive pool of population and wealth obviously beyond the West Coast. But our conversion now, our sort of penetration into those demand pools was relatively low. So we saw Houston has an opportunity to unlock that and really get past that tyranny of distance. There's a mental barrier that many visitors have that essentially takes New Zealand off their list that they are deliberately looking at as a place to go for a holiday just because it's so far. Many Americans sort of took 45 hours to get here.

So there's real opportunity to unlock that and to do it in a targeted way. So our approach was to say, okay, so there's 4 key catchments here that we see big and wealthy population bases that we can tap into. One is the Texas market itself; then, there's the Midwest or Chicago particularly; the East Coast, New York particularly; and Florida. And the Houston service was the way of really unlocking that. And it did require a fairly significant change to how we approach the market from a sales and market development perspective. So I guess, what we did is we realigned our focus, which had previously been, okay, play to our strength, which is the West Coast, have essentially a one-size-fits-all approach for marketing the rest of the U.S. and say, that can -- now that we're pursuing these catchment areas, we really need to change that. And realistically, in the scale of the U.S. market, we're a really small player and we have quite finite marketing budgets, quite finite sales team. So we need to be really targeted and smart about how we deploy that resource to get the result that we want.

So we did kind of 3 key things. One is that we realigned our sales force to focus on working closely with the key trade partners that we saw could deliver the most revenue growth for us. Secondly, we ran a series of campaigns and continue to run campaigns in the Texas market, specifically targeting where we thought the value was there, which is Houston, Dallas, San Antonio, Austin, and target those with creative content specifically for those markets and a media strategy to leverage where we saw the strength. And thirdly, we took our media spend in the U.S., which like I say had essentially been a one-size-fits-all approach and focused it deliberately on those 3 catchment areas beyond Texas where we saw the most value, which is Florida, East Coast, particularly New York, and Chicago. And that's delivered really, really strong results. The Houston service is going extremely well. And there's a lot of confidence that we have as a consequence that we can grow that further.

So the second way in which we're thinking about growth is the connecting opportunities via Auckland, and this is a mechanism or tool that we can use to allow us to grow faster than we could if we were just relying on organic growth in our core markets. And as I said before, it's a scenario that we really focused on strongly in the past year but we see further potential. And really, the easiest way to grow those connecting opportunities is just to leverage the position that Auckland has as a hub between Australia and the Americas. So if you take a -- think of it from a customer's perspective, if you want to fly between a city in Australia and say L.A. or San Francisco or Vancouver, between 2 cities that don't have a direct flight, so think about San Francisco-Melbourne, Brisbane-San Francisco, you need to transit somewhere. And if you fly through Auckland, it's a much more pleasant seamless transit experience. You get to have an international-to-international connection in Auckland. You can fly on the same widebody aircraft the whole way, as opposed to say transiting in Sydney where you need to make a domestic-to-international transfer, you need to change terminals, you need to change aircraft. So from a customer perspective, the proposition's quite compelling. So it's really just up to us to communicate that to consumers and to leverage it.

So we've done that significantly. I'll talk about how we've done that in last year and there's a big potential for the future as well. And that's a really effective way in the past year of maintaining our passenger volumes as we've seen the impact of the American carriers growing capacity directly into New Zealand but also has been a really powerful tool for Buenos Aires. I mean there's no direct flight between Australia and Argentina, so the easiest way to get there, really, is via Auckland.

So there's a couple of things we've got to help us deliver on that approach. So one is revenue management. The revenue management system allows us to strike the right balance between carrying our core passengers, which is U.S. to New Zealand, and supplementing that with connecting passengers where we see the opportunity. So to give you a bit of background. Our core market, as you can imagine, is Americans coming to New Zealand directly, New Zealanders going to the U.S. directly, it's biased a bit in the New Zealand summer to Americans coming here, biased in the winter towards New Zealanders going to the U.S. But there's plenty of flights, particularly in the off-season, but to some extent year round where that core market isn't large enough to fill all of the seats on the aircraft that we have.

So it gives us an opportunity to say, well, we can top up that core business with connecting our customers from Australia that can add incremental revenue in certain seats that would otherwise be unoccupied and allow us to grow revenue without diluting that core business. The revenue

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management system allows us to dynamically do that by increasing the availability that we offer into the Australian market based on the demand that we're seeing for the core markets. We've just implemented our upgrade to the system actually what we call origin and destination revenue management, which allows us to optimize that in a much more sort of fine tuned and dynamic way, looking at every individual flight for every individual day that it's available for sale and optimize the mix of core business connecting passengers as demand unfolds.

So what that does is it allows us to firstly maintain our passenger growth as we've seen a lot of extra capacity in the market and as we look forward, grow our business faster and more profitably than we could otherwise. And so the other thing we've been doing is to have a really targeted approach on making the Australian market more aware of our long-haul proposition. There's 2 elements to that. One is we've restructured our sales team in Australia that had previously been focused and resident in Sydney and we've now got a state-by-state approach to our sales force in Australia. And what that's meant is creating physical offices in each state and having a team in each state that's focused on building our presence there and building strong relationships with trade partners that can grow revenue for us.

And the second key component has been sort of breaking through the -- what had been the state where Australians obviously have a high awareness of Air New Zealand but naturally enough see us an airline that flies to New Zealand. What most Australians weren't really conscious of is the long-haul network that we have beyond New Zealand and the way in which they can use that to provide a seamless solution to their travel needs of their ways of going on holiday. So we've launched a brand campaign in October last year which simply had the goal of building awareness of Australian consumers that we are a long-haul carrier, a quality way in which you can get to your destination in the Americas. So I'd just like to show you that ad for a second, then I'll give you some outtakes.

(presentation)

Jeff McDowall

So I think our marketing team did a phenomenal job with that. It's been a really likable campaign. Great feedback from consumers in Australia and has achieved what we set out to do, which is primarily around growing awareness. So we've seen a massive uplift in the proportion of Australians that firstly are aware that we fly long-haul and will genuinely consider us as a way to get to North or South America. But secondly, and it wasn't really the purpose of the campaign, but we have seen a significant uplift in sales, technically, where we've been running the campaign, so it's easily paying for itself.

So finally moving on to the third sort of plank of how we're thinking about growth in our long-haul network, which is our alliance partnerships. So for those of you who aren't familiar with them, if you look at the 5 airlines on the slide there, we have revenue share relationships with them, which commercially work like a joint venture. There are mechanisms by which both partners are commercially incentivized to sell the flights of the other partner as if it was their own. And each of them are supported by regulatory approval in the markets where they reside to allow us to work together on pricing and capacity. So essentially, it's a full joint venture.

And so what that does is it provides us with access to the market presence and distribution power that each of those partners have in those -- in their home markets. And it also, equally importantly, gives us fantastic access to their networks, their domestic or international networks beyond the gateways where we share flights. So that's allowed us to grow much faster and more profitably. But it also provides our customers with better access to a broader range of destinations than we could by ourselves.

The United alliance is a really good example of this. I talked about Houston a second ago. And United's support for that route, both in the sales sense but in terms of also access to their deep domestic network beyond Houston, has been a really important part and contributed heavily to the success of that route.

So I hope that gives you a little bit of flavor of how we're thinking about growth over the next 3 years for our long-haul business. And now, I'd just like to hand over to Mark Street to talk about loyalty.

Mark Street

All right. Thanks, Jeff. Good morning, everyone. It's great to be able to provide some insight into Air New Zealand's Airpoints program and its strategic positioning for the airline. I will say upfront that I won't be providing specific financial detail about the program's performance, but I will be able to give you some insight into key trends for the program and performance against certain KPIs that we monitor.

Airpoints, as Christopher said, is a critical component of the airline's appeal to customers. And for the past 5 years, the expansion of our loyalty program has been a really core focus. In 2012, we began transforming the program from a frequent flyer program into a robust profitable, data-led loyalty business. And that started with the reset of the frequent flyer program. It'd be fair to say there was a degree of unrest amongst our most frequent flyers, which really manifested itself when I undertook a full benchmark survey of our Gold and Elite customers, and more than 30% of them spent more than 20 minutes telling me exactly their views on how the program could be improved.

That engagement from our customers was fantastic. Because it reinforced what we believe were the core issues with the program at the time, and we were able to move really quickly to fix those. That included kind of sorting out the upgrade and seating processes. We introduced more benefits for certain members. We introduced our Elite Priority One program for our very top customers. We created a new online portal to make it easier for members to manage their Airpoints account and use the products and services within it. And soon after, the airline also announced a $100 million investment in upgrading and refurbishing our lounges, which I'm sure many of you enjoy.

For across the wider membership, the reset of the Airpoints Dollar and Status Points accrual process was also very key. Up until that point, we had been providing Airpoints or rewarding customers with Airpoints Dollars and Status Points based on a model mix of distance flown and revenue. We moved that to a 100% revenue-based model, which enabled us to reward the right customers for the right value -- or with the right value.

After we reset the core of the program, the frequent flyer program, we've been focused on growing our financial partner portfolio. In that time frame, we've launched 9 new credit and debit cards across our partners of Kiwibank, Westpac and ANZ, which also included the launch of New Zealand's first debit card to offer Airpoints Dollars. It was with Westpac. And most recently, with ANZ, we've launched our first Airpoints for Business credit card, which is growing strongly.

From a program expansion perspective, the focus has been on improving earn and burn for our members. We now have 140 online retailers that our customers can earn Airpoints Dollars on when they shop online. We've more than doubled the number of redemption products that we have available through our Airpoints Store. And in September '15, we also launched Airpoints for Business. It's been very important for the program because it has rewarded the small to medium-size enterprise owner for the value that they're providing, so that when their employees travel, their employee continues to get their Airpoints Dollars, but the owner also gets Airpoints Dollars on top of that. And we now have 14 partners, ground-based partners, connected into the program, so that SMEs' business spends beyond flying can also be rewarded.

And then finally, around that same time, we also launched Airpoints for Schools. And that provided a really important channel for members to be able to donate their Airpoints Dollars to various schools. We do that each year. We just completed our second year. It's going very well and proving to be something that members really want to participate in.

And then finally, the launch of our own retail loyalty coalition, October last year has been a huge success, and I'll talk about that in a little bit more detail. But we now have more than 60 businesses partnered with the Airpoints program and representing more than 60% of household spend categories that our members can now earn Airpoints Dollars at.

Delivering value is obviously a core to the success of our program. That's about delivering value to our members, delivering value to our partners and then, ultimately, delivering value back to the airline. For our members, it's about giving our members their freedom of flight, the ability for their Airpoints Dollars to take them somewhere. And certainly, our members are seeing the proof in that. We enable them to do that by earnings through New Zealand's best coalition of partners. As I said, we have 140 online retailers, we have more than 60 bricks-and-mortar partners and also Airpoints earning through our more than 40 airline partners.

What they earn is the world's easiest loyalty currency. You're all familiar with it. I'm sure I hope you're earning lots of it. But it's the easiest to understand currency globally. 1 Airpoints Dollar equals NZD 1. Everyone trusts that currency. It's like their own bank account. And it's the easiest to use. There is no complicated restrictions on seat inventory and availability as you often see with other programs. That trust and that belief in the value that members are receiving from the program then delivers value to our partners, delivers value from a better quality and quantity of member buying their products and services, which ultimately delivers incremental revenue to them, often at better margin.

That resulting value translates, for the airline, into the value that we get from the sale of Airpoints Dollars to those partners, but also more members flying on Air New Zealand either paying cash or Airpoints Dollars, and I'll go into that in a little bit more detail. Those -- that effort over the past 5 years has delivered notable success in our -- some -- in our key loyalty metrics, some of which I will share with you now.

The first is our membership growth. So in 2012, we were at 1.2 million members. In the first couple of weeks of May, we surpassed 2.5 million members in the Airpoints program. That means that we now have an Airpoints card in more than 60% of New Zealand households. And a key milestone for us this financial year is that we've been growing, on average, at more than 1,000 new members per day. So as at 30 April, we have 310,000 new members for the year and continuing to grow incredibly strongly.

As I mentioned, we've had huge growth in the redemption store and number of products that we are providing. The revenue going through that store has been growing significantly, but also has been the number of flights being enjoyed by members. And in calendar 2016, as you can see there on the slide, nearly 900,000 flights taken by members are paid for using their Airpoints Dollars. So it's someone every 35 seconds getting proof of that value of that program and that freedom of flight.

And we can see that based on publicly available information from other loyalty and discount programs in the New Zealand market, that we are New Zealand's most rewarding loyalty program by at least a multiple of 2. So that's the ultimate proof. If you come back to all the changes we made to the frequent flyer program back in 2013, it was all about improving customer satisfaction. And in that benchmark survey of 2013, our satisfaction rating for our Gold and Elite was 76%. Pleased to say that a repeat of that survey last year has seen an 11-point improvement to 87%, which we're really proud of.

At the same time, the airline runs a market monitor on a monthly basis that asks customers a variety of questions about Air New Zealand's products and services. One of those had asked people to rate the statement Air New Zealand has an excellent frequent flyer program. And as you can see there, it kind of moved along and kind of 48%, 49%, 50% for a number of years. We've seen an absolute hockey stick improvement over the last 12 to 18 months starting with the launch of Airpoints for Business, but really growing strongly with a very focused and much more present marketing campaign over the last 12 months in the lead up to standing up our own retail loyalty coalition in October. So very pleased with the sentiment from the wider membership base.

If I get into a little bit more detail for a moment. Ultimately, a loyalty program is about making customers loyal to the airline, and so the metric for us is the loyalty effect. Now the loyalty effect is the market share premium we get from members, particularly from our HVCs, or our high-value customers, versus the airline's network capacity share. We're very pleased with how that is tracking. But ultimately, my team's job is that when somebody needs to fly somewhere, the first airline they think of is Air New Zealand.

And so what you can see on the slide is Airpoints as a key decision criteria for those Gold and Elite customers. And on the left, the domestic side of the business, the frequent flyer program is now the key -- the second key decision criteria for members traveling. In 2013, that was #7. Short-haul in 2013, that was the second-most important. It's now the most important criteria for people when they come to travel short-haul international. And second -- maintaining the second place for long haul for our members. So very pleased with how the Airpoints program is creating that stickability of our members to the airline.

Moving away from the air part of the program and into the non-air. Obviously, financial products are critical to our success. Our members have certainly enjoyed the opportunity of earning Airpoints Dollars and Status Points through their credit cards to get them very quickly to their next flight. We have a fantastic portfolio of partners in American Express, ANZ, Kiwibank and Westpac. We now have 12 credit cards on offer. We have 2 debit cards, including OneSmart, which, together, I'm very proud of those numbers, delivered 95% growth in Airpoints Dollar issuance since when we started focusing on this portfolio in 2013.

The other part of our ground element of the program is our retail loyalty coalition, as you know, we launched that in October. This is providing some really unique opportunities for additional growth and really proving value back to the member, to our partners and to Air New Zealand. It's been a real highlight for the team. It was a very bold decision. It took a lot of time, took a lot of effort, took a lot of resource to get there, but is delivering for everyone in the coalition.

Critically, it's easier for our members to now understand how and where to earn Airpoints Dollars in their everyday shopping. And again, the numbers on that are outstanding. The lift we've had is a 96% lift, and unique members are earning at our ground partners for the first 6 months since launch versus the entire 12 months of the prior fiscal year. So that is really turbocharging the program and getting all members engaged.

The big value add here, future opportunity, is around data. And obviously, a way for businesses to truly gain a sustainable competitive advantage is through data. As consumers, and we're all consumers, we want to make sure though that, that data is being used correctly for all of our benefit. And so we spent a great deal of time working with our key partners creating a unique set of coalition database principles, which ensures that partners have access to their own data, that may sound obvious but it doesn't exist in all programs that you see. But it gives them the benefit of their own data, but also, in certain circumstances and treatments, access to the wider data pool so that they can target the right products and services to the right customer at the right time. And as consumers, we all want relevant information.

So in closing, the Airpoints team, we're very proud of what we have achieved to date. Our partners, too, have worked incredibly hard to make the program what it is today, and are ultimately enjoying the benefits of more members buying their products and services. So on this regard, I'd just like to introduce a short video from Mercury's CEO Fraser Whineray, so he can provide his views on being part of the Air New Zealand Airpoints family. Thanks very much.

(presentation)

Mark Street

Thank you.

Leila Peters - *Air New Zealand Limited - Head of IR*

Thank you, Christopher, Jeff and Mark for the insight into our future growth opportunities. We are running a little bit ahead of schedule, so that's good. I have 10:05. We're going to take a 15-minute break, and we'll return back at 10:20. Thank you.

(Break)

Leila Peters - *Air New Zealand Limited - Head of IR*

Okay, everyone. We're going to get started again. Okay. Thank you, everyone. I hope you had a good break. I think we did really well keeping to the schedule, only 5 minutes past. Thanks for your help with that.

Next, I'd like to welcome to the stage our Chief Operations Officer, Bruce Parton, who's had a long and illustrious career with Air New Zealand. He will discuss some of the cost efficiencies that we've been experiencing in the business in the last few years as well as discussing our thoughts on how we expect that to continue on into the future. And then following Bruce, Jeff McDowall will come back to the stage because he had so much fun the first time, and he'll be switching gears a little bit and talking a bit about the fleet efficiencies. And obviously, that's bringing a lot of benefits and opportunities for us in the past and going forward.

So with that, I'll introduce Bruce.

Bruce Parton - *Air New Zealand Limited - Chief Operations Officer*

Thanks, Leila. I'd like to point out that actually on OTP, 5 minutes late isn't actually a good performance, just for everyone here. But anyway, I'm going to take you through the cost at Air New Zealand and how they work.

There's 3 things I really want you to take out of this. First of all is, at Air New Zealand, we target our cost incredibly aggressively and we take this really, really seriously. It's something that's driven huge value for us in particular in last year or 2, and something that we see as -- in combination with our growth and with our revenue increasing, really creating a wedge that gives yield and ultimately profit. So really, really important to us.

Second of all, that includes our overheads. We've got some $600 million of overheads not related to flying more aircraft. So not pilots, not cabin crew. We go after that very aggressively. As an executive group, we talk about it all the time. And I'll touch on that a little bit as well because that's pretty important to us. Because ultimately, that creates economies of scale for us and that gives us a better profitability.

And finally, probably something that's a little different with us compared to other airlines or a lot of other businesses, we target long-term sustainable growth in this area. So we're not after a sugar fix for cost. We're not after a 1-year benefit that 2 years later, the people come back into the business. What we're all about is creating value that just continues to deliver across the years. And I'll show you some examples where we see that happening in the business because that's driven a lot of benefit for us and continues to do so.

So there's 4 key areas that I'll talk to you about. We've made really, really strong investments. So if we look over the last couple of years in particular, incredibly strong investments in the airport, huge in the lounge. We've invested in technology. You've seen kiosks. You've seen mobility really come into the business. We've brought in 787s. We've upgraded 777-200s. If we had not made those investments in the business, I suspect we'd be in a very different position as we've now had a whole lot of competition come at us. So those investments, those carefully designed investments that have created value for us and our customers have really helped us as we've gone forward.

As we go forward, you'll see us continue to do exactly that. We have very balanced discussions within the exec as to what we're going to invest in. We have often quite heated debates about where we should put our money. And it's all about really 2 things: value for the customer and what will they truly value; and second of all, how do we get productivity. And you see a lot of our investments are related to one or the other, and will continue to be so.

If we look across the various areas, if we look into people. You'll see us continuing to invest in our people. Christopher touched upon how important they are to us. But in the end, most people can buy similar planes, et cetera, our people are what's making a difference out there. We've invested very heavily in leadership. You'll see us continue to do that. And on top of that, you'll see a lot of investment coming in about productivity. We're really looking to take our workforce and educate them even more on continuous improvement and how to keep changing our business, so that ultimately our cost base continues to shrink as we grow because that's how we and they will create enormous value for us.

Within digital, you'll see us really push the connectivity piece. Some of it continuing in customer, but we've done a lot of work in that already. Where it'll really become apparent is within our business. So getting our people better connected using mobility and mobile devices is going to be key over the next few years. To give you by way of example, if I take an engineer working for me in the hangar at the moment, right now, what happens is they have work cards, they go back and forth to the aircraft. They try to get hold of Boeing and they do it via various systems that are all quite old.

Where we're looking to land in the next year is a totally mobile-connected system, the engineer will be out there looking at a repair. He will have schematics of the repair itself, all the manuals online. He'll be able to order the parts directly from that position, and that'll come through without the need for any more use of his time. And if the repair itself is too complex or he needs help, he'll simply hook straight into Boeing, he'll talk to the engineers there, and they'll plan and decide on what to do. The difference in time that's either elapsed or our people, which are not cheap people, is massive. And so what we'll see is faster repairs. We'll just see more and more efficiency coming through.

So just a good example of how we can take mobility and connectivity and make it that our people deliver a much better outcome for us as a business. Within airports, we'll continue with a lot of the investment on the lounges. We're just about halfway through the lounges at the moment, I think for most of you who've been through there, you'd agree that it's been an outstanding program of work for us. And 4 of our lounges in the top 20 in the world. The feedback we get from customers is just amazing. It's all about creating that loyalty effect and making sure that we provide a good reason to fly with us all the time, and that's certainly is to say the feedback from HVCs has been that we've got it bang on the money, and we'll continue to expand that across the network.

Airports as well. You'll see us looking more and more in the future at technology. One of the things that we've been able to do really well is bring in technology and use that to enable growth without adding additional people. So when we were a few years ago, we did it with kiosks. We've now put that into Auckland International. We've got automated bag drops. And what really happens is we've been able, at front of house, say at Auckland International to put 30% more people through the check-in area with the same number of staff. And all that does is just drive economies of scale and CASK benefits for us. And from our customer's perspective, they love it as well. They get a fast journey. There's no problems. They hook into it really well. And by making it very design-led, so our customers feel it's very intuitive and taking that feedback on what we should change and make it even better, we're finding we're just getting huge take up and value out of that. And so that's something you'll see us continuing on.

And in the final [book], that's pretty important is aircraft. As Rob has touched on before, and as you know, we've been working really hard on getting to a simplified fleet. The last of the 767s left the fleet in March this year. And we're now just working through getting rid of the inventory in trying to simplify the business from -- the difference between a simplified fleet and a lot of different aircraft is massive for us at a cost level. What we're finding is as we move into a simplified modern fleet with connectivity, the benefits we can get out of our work groups, the ability to strip cost out of our business and just simplify everything is becoming quite pronounced for us and something we see continuing in the future. If we look at the NEO coming in, it has a lot of commonality. Obviously, different engine types. But the vast majority of the parts of the type of plane that is to fly are all common. And so we will continue to get that simplification journey moving to the next and next piece.

And then finally, just -- it's probably worth just touching on some of the exits of the fleets that we've done in the last period. Christopher touched on us getting out of the Eagle fleet. I guess what you saw there was something that we're quite proud of. So on the one hand, it's been fantastic because we've been able to bring in ATR aircraft, much lower cost per seat. That's enabled us to put in cheaper airfares into the market. So fantastic for regional New Zealand and good for us. I guess the other side of that equation that myself and others are probably equally as proud of is because we were growing as an airline, we were able to take pilots, we were able to take ground crew, and we were able to put them into new roles. And so we exited a fleet which had around 300 people associated with it and had very few redundancies out of it. So from us, the commitment that we have to our people to make sure we do the best for them was something we were quite proud of, of being able to make sure that those who wanted to stay had new jobs. So good from a cost perspective, but most importantly, really, really good from a culture perspective.

How we do cost control and how we move forward is pretty simple. We benchmark every part of our business. It's not a part of the cost base that I don't know where it sits compared to other aviation partners, compared to other industries. So that's the first bit that's quite important to know where you stand. The second thing we then do is we work out where the gap is and what we can do about it. We then have a series of projects that go through our business. They're often are quite long projects. They often take a while because we have to take our people on the journey, and we want to make sure we get it right. The executive, every 6 months, goes out and does a series of kind of reviews of the half year and the full year. And one of the things we talk about is where we're at in high-performance engagement, where we're at on the cost base. And that really gives our people a good idea as to where they sit, what's coming and it keeps them fully engaged. And we found that incredibly useful when it comes to looking to change our business, because ultimately, our business, like all businesses in the world goes through a series of changes. And so we have a workforce that's very aligned with what we're doing. And as a consequence, when we look at our labor and how we change it, because a large part of our cost base is labor. We're a service-based industry. We utilize what we call high-performance engagement. And what that enables us to do is to sit down with our stakeholders, work on what we call interest-based problem-solving where we work out what the things we're all aligned on are. And we then use that in order to say how we are now going to achieve those. And I'll talk a little bit later about high-performance engagement, but it has been one of the key changes in the last few years that we've been able to bring in. It means less time for us as a management team, spending time, going back and forth on negotiations, but most importantly, it's now a culture where our labor force and our unions want to improve. They want security of employment. They want to be paid more than other people in the industry, and they get that in order to do that, they have to be more productive. So gone are the days where we try to tell them what they need to do and force them to do things. They willingly try to do it because they know that it's beneficial for them. So really, really good relationship now, therein one that we see adding huge value in the future.

Other example where we've been able to make real step changes in the business is maintenance. So we've done a lot of work there. One of the things you'll see -- you have seen us come out and talk about is 3D printing. So every year, if you buy a part from any of the OEMs goes up about 5% per annum. And the challenge for you as a business is how it is that you buy those parts, hold them in inventory or try not to and try to deal with this constant escalating price. What we've done is we're really at the forefront in the aviation industry on 3D printing. We print at the moment some 280 parts in the interior. And to give you an idea, they get printed for about 1/4 of the cost that I paid for any other part, and we're now down to where those parts that we put in the hinges, the locks or whatever it might be in there. We can print them in about 8 minutes. And so we no longer have to hold inventory, so the balance sheet is much happier for us and, of course, our costs are much lower. And we know that if there's suddenly a change to a part or there's an alteration or we decide to morph our interior, we can just change the design. So really good example of how to use technology to change your cost base quite considerably. And in particular, make sure you don't get left with legacy parts that you write off and give you exit problems when you exit a fleet.

Another good example of what we're doing in maintenance is when we've looked to do deals on outsourced components. So there's thousands of components that get repaired every year on an aircraft. We currently have a whole lot of them outsourced on A320s and on 777s. We've just recently done a series of deals to step change those approaches working with A J Walter and with AAR. And what that's really about is, first of all, being able to know what the cost currently is and what the market is, move to the best in class of that. Then have them take onboard our inventory. So we've exited the balance sheet exposure and obsolescence exposure which has been really helpful for us as a business. It's quite a big issue within the industry. But not just that. What we've also been able to do is then work with those suppliers and say what is it in other deals you have around the world where you can send us those parts, and we can do those for you and create a margin for us. And so what we have is millions of dollars of parts coming in that we didn't make a margin on and offsets the cost to the airline of the overhauls. So it's a great way to get a relationship and a strategic relationship to work where everyone wins out of it, and it's something that we're looking to do more and more across the business because obviously, it has enormous value for us.

If we now jump to CASK itself. So this is looking -- first of all, at historic CASK and where it's sitting. So we've seen really, really good improvements in our CASK across the last 4 or 5 years. It's driven a lot by fleet growth. It's around 5%. Now before you sit there and go, gee, 5% doesn't seem like a lot. That's 5% over a massive cost base. And for us, it's all about keeping on pushing this cost line down. It's been a lot of benefit have come our way from fleet growth, in particular, in long haul where the cost per ASK tends to be lower. The more you get into a domestic environment, the more take-offs and landings, the more airport staff you need, the more check-in and baggage, et cetera, the more the costs are up. So certainly, the situation with long hauls really helped us. But you've seen us exit a whole lot of costs from the business and legacy fleets and manage the way through to where we've got a much lower cost base and one that's very competitive now for our peers that we see in the marketplace. So really good results so far. We obviously, in this we strip out foreign exchange and fuel just to get rid of that as a kind of a confusing item. But this is something we're pretty proud of as far as where we've got to so far now in our process. And then, as we look forward 2018 and beyond, what we see first of all, it's a bit of a flattening of our ability to pull cost out in '18. And what that's really about is a couple of things. First of all, as Christopher touched on and Rob's going to touch on later, we've seen a delay on the NEO, so we had embedded some cost in our business as far as training of pilots, training of engineers, are planning to get aircraft towards the end of this year. Those seats that you see in the back there that I think, like us, you're all pretty impressed with, that is the first time, I think in the world of aviation's history, that seats have arrived what's could well be nearly a year before the aircraft. Normally, seats arrive on the dock the day that you need them. It's never been so early. So that's something that's really left some costs within our business. And we'll have to go through those for FY '18. Likewise, we've got the last of the legacy fleets to get rid of. The 76 has stopped flying for us, but it takes time to turn engineers, get qualifications across same with pilots. So there's a bit of a training bubble for a period of time. As we come out at the end of 2018 and those -- the growth starts to come back in with the NEO coming in, et cetera, we then see us getting back onto a similar costs situation as we've had to date, one where we can chase them, look to offset inflation, et cetera, and that's a pretty positive place for us to be in the business.

One key thing with the cost base, as you see, there's one of the things that we target as an exec group is to try to aim to get 30% of our overhead costs in line with ASKs. So as ASKs growth, we want to maintain that overhead base at growing at less than the total perspective. If we look just at labor. Labor is quite an amazing story for us. So if you look across the last 4 or 5 years, headcount's gone up 6%. Our capacity is up 22%. So just at a straight labor level, not obviously total cost but straight labor level. We've got a 15% improvement in productivity. So from that, you start to see the improvements that we get and more seats on an ATR versus Beech, bringing in bigger aircraft like the 321 NEO will give us in the latter part of 2018. These all drive massive benefits and productivity for us that are pretty helpful. And we'll keep seeing that as we go forward. The NEO 320 and 321 as they come in will operate -- they won't operate like a subfleet, they'll operate just like the current fleet because the pilots and everything is totally common.

I thought I'd just touch on a couple of key groups because people often asked about it, which is particularly a cabin crew and our pilots. They're obviously large work groups for us, a couple of thousand each. They're a large part of the cost base. So it's really important that we have these really well grouped up. And just looks at our where we've gone to with cabin crew over the last 4 or 5 years. So if I take you back to probably 3 or 4 years ago, we sat down and the same process that I described before, we've gone to the market and looked at the cost of our cabin crew, and we were much more expensive than our competitors and that gave us a real issue. We can't afford that situation long term. But of course, the issue for us as a group is we had also signed those agreements. We were as much a part of the situation as our crew were. So we sat down and worked through a process with them by which we, in effect, ring fenced the current crew and continue to pay them at the rates that we've agreed in the past. And then all new crew were coming in at market rate. What that's done as we've grown as a business is it's really created enormous value as times gone on. So as you can see there, the 14% improvement in a cost base. When you have a cost base in the plus $100 million, it's a massive sum of money. And it's around $20 million now that we're better off than we were back in those days. So you see the effect of creating change and growth being your friend and the real value it can create.

If you look in pilots, different situation in pilots. There's often a worldwide shortage of pilots. For pilots, it was all about us getting more and more efficient. So you're seeing what's coming through there as the simplification of the fleet. So pilots take a long time to train. They go from one seat to another and it's a very expensive process. As the fleet simplified, you're seeing less of those seat changes being required, and the associate kind of improvement. So 11% improvement across the course of that, some $25 million.

So just a couple of examples of changes. One in the case of working with the team. The other in the case of efficiency of fleet. Collectively, giving us in the order of $40-plus million of benefit that drops straight to our bottom line, and that's why we chase these so aggressively and so hard.

We talk a lot about high-performance engagement. It's something that 3 or 4 years ago, when Christopher pushed it to us, we weren't quite sure of, but it's something we've really, really embraced. It was very hard for us. It was hard for unions. We had a traditional approach of engaging. It wasn't a great approach. But at the time, it felt like how you had to do things. We've changed now to where we sit in collaborative teams. We all look at what's important to us. And I guess, a key thing that I'll point out here is it would be very unusual for someone like me to put something up here that says what mattered to us is superior wages. But it does. So for me, I don't want to pay the lowest amount in the marketplace. What I want is the best people. And I accept that I'll have to pay more for that. But what I need is increased productivity, so that my total cost is less than my competitors. So by bringing in high-performance engagement, what we've been able to do is to table that. And of course, our union, our partners and our employees also like that. They want us to succeed, they want security of employment and they want to be paid better. And they understand our needs that we need more productivity and they have embraced this to a huge extent. So we have got enormous value out of working closely with our union partners and our employees in order to create a better overall outcome for everyone. And in a marketplace like New Zealand where employment levels are quite traditionally low, being able to hold your people is quite an important aspect.

One example, we're working at the moment is part-time hours. We have at the workforce take it Auckland out there. We have a lot of part-time staff, and part-time staff find it really, really hard. They tend to come in. They do it for a while, and then they find a full-time job. That creates churn for me. We have a big process to find the best people and, ultimately, I want to keep those people because they're the best in the market. So we're working at the moment with our union partners and staff to try to say what we would have to do differently, and what would have to change that we could have much, much more full-time staff because if we can have full-time staff, they get to know our systems, we can train them and they can continue to deliver to the customer what it is that we ultimately want, which is incredibly important. And when you look at our statistics as to -- that Christopher put up there as to how we're going. We're top 2 in every metric that we measure. Star Alliance, IATA, anything our people touch customers, we rate incredibly highly. So anything we can do to make our staff feel better, to act better, to feel more connected to our company, we'll just continue that journey for us. That's absolutely critical. Our staff are a massive part of our brand out there and are really doing the enormous work that's made us so successful.

Just very quickly on the overheads. So as I mentioned, it's around $600 million of nonvariable support cost. We target to have that grow at about 30% of ASKs. It is a tough ask, but it's one that we take very seriously. We've used a lot of the investment in digital to try to target this, and that will continue. We're helped in some way by some of the routes that Jeff mentioned, things like Buenos Aires, things like Houston, we've now put in place. So the big cost to open a route is there. And as we put more and more depth or frequency into those markets, we'll find that we're quite helped there. But our goal is to just keep this as tight as possible. We don't want to become a bloated corporate overhead group because, ultimately, that's just not helping our profitability. So this is a key area for us to stay focused on, and Christopher and myself and the others and the team really work this very hard because it is so critical to our business.

If I then look and go what are some key areas across the operational part of the business, what is there that we're doing. First of all, we have this thing, one way, same way, best way. Quite simply, that's just us trying to find the best way to do something, checking you in, delivering your bag and then ensuring that every person across our business does it exactly the same way. Traditionally, airlines don't do this very well and we're probably guilty of this. So we're really looking to take out all of the differences and then have it that however, we've decided that we're going to check you in. If there's an improvement we can make, we do it using continuous improvement, we do it using work groups and our staff and then having determined what we should change, we then look to change it across our network. So that our customers will see consistency everywhere across our network. And we've got a lot, lot better at this in the last 3 years, but this is now our new initiative that we're really pushing out. It helps our safety, it helps our culture and, ultimately, it helps our company from the customer perspective. So pretty important. We're looking to continue to embed these technologies. I talked about some of the maintenance areas. We're also looking at augmented reality for learning. So if an engineer is looking to learn, if I look -- I was looking at some just the other day. As an engineer, it is incredibly hard to actually know what you do with the landing gear. They're 3 ton of landing gear. There's no ability to just play with them. Augmented reality allows you to do exactly that, to sit there in a room like this and see it on -- see it move, work out how it is that what you do to it and how that affects it. So huge benefits on training for us there. And it also makes training a lot shorter, sharper and easier. So really important those digital technologies continued to deliver to our people because that just means our people are better trained and our cost base is lower.

Also, a lot of work in procurement that we continue to do. Dealing with key stakeholders. So we've worked hard to take our very, very large tail of spend and bring it into large groups, and now we're working very closely with groups to say how is it that we do this better. So a good example perhaps is our catering group, LSG. Few years ago, we cut a deal with them where what we look to do is, say, we will commit to a long-term deal. That allowed them to build a 20-year building. That's state of the art for us. What that gets us is good quality food at a fantastic price. And as part of being the cornerstone tenant, what we also get is as they look to bring in more customers, et cetera, we get a portion of that money as well. So that means that for our airline, our cost continue to stay lower than the market, and we can keep working with them. And so we continue to work on programs with them to take cost out of the business and use their expertise in catering to bring value to us and just easy things where we're working with suppliers in what they have expertise in.

We often look at maintenance. The key with maintenance and I suspect 2018 will be no different. Maintenance is lumpy. Maintenance doesn't flow with ASKs like a lot of our cost do. It's often cycle driven rather than ASK driven. So we'll see '18 with a few lumps in it. Engines come off at a point in time when they have to be taken down. We'll see that come through. The key thing, though, that we're seeing with these new fleets that's incredibly exciting for us is the ability to change maintenance plans to a much higher degree. So the maintenance itself is much reduced. No different to when you buy a new car compared to, I don't know, 30-year-old one. What you find is there is less maintenance to be done. You love it. Your mechanics, not so much. And then what you also find with the aircraft is we can take the maintenance packages instead of having a large maintenance packages, we can split them. And by being able to split them, what we're finding we're able to do is to then position those maintenance outcomes at places when the aircraft got downtime. So maintenance being done overnight in Hong Kong, L.A., is very helpful to us because, of course, every time we take an aircraft out for a couple of weeks, we cannot use it to earn revenue. So what we're seeing in the maintenance world is an awful lot of value now getting created for us by newer aircraft and being able to give the airline the gift of more hours to fly the plane than we have previously with the old aircraft. So quite, quite important for us, and one that's obviously driving a lot of value.

And then finally, I just want to talk through very quickly about some of our joint ventures and where we're going on that. We've got some great examples of joint ventures that we've done. We try to join very closely with very large players. One of our big ones that we did probably some 10 or 15 years ago that Rob leads is with Christchurch at the engine center there. A fantastic collaboration for us, we're a 49% player. But one in which we used to do some engines, and we do very few of them. But we were quite good at doing engines. We have very, very smart engineers. We have a good tap of people, but we could never crack the market. By now working with an OEM, the original equipment manufacturer like Pratt & Whitney, they have a whole lot of engines. They want good people to do it. And so the amalgam of the 2 has created enormous value for us as a shareholder, but also the country as a whole, as far as jobs, so there's now some 100-plus engines going through there that engine shoppers consider the best engine shop by Pratt in the world. And one of the recent things we did and announced when we looked at the NEO aircraft was we look to provide longevity for that shop buy, making sure that when we moved from a V2500 engine, which is the engine down in the engine center to instead a Geared Turbofan engine, that was anointed as going into that engine shop. So what that's done for us is not only as a shareholder created value, which is fantastic, we also have in-country an engine overhaul facility, which gives you enormous benefit on speed of getting engines in and out of the facility and making sure that we need to hold less as a result. So a really good outcome for us. We have similar things that we've now created with I've got an APU shop in Christchurch, an auxiliary power unit, the device that powers all the electrics on board the plane. We've recently signed up with Honeywell and done a similar deal there, and where they bring a whole lot of volume to the shop. And we get a lot of value out of that, which is really useful. And in a similar sense we've also created in a relationship with ATR, who are the maker of the Mount Cook aircraft, we now have a facility in Nelson with some 160 engineers employed where we now do world-class heavy maintenance work on those aircraft. Again, what that's meant for us instead of having to send it to send a heavy maintenance visit to Singapore as the next nearest opportunity, we've got people in house that are doing it. And in the same way as some of our other parts of the business, they have third-party work coming in, they have the support of ATR helping us to deliver that. And that contribution then helps to offset the cost to us as an airline. So again, really good example of us just being clever in what we do, and using that way of doing things to offset the cost to us of the business. So now I'll hand over to Jeff who's going to talk you through fleet. Thank you.

Jeff McDowall

Well, thanks, Bruce. As Bruce touched on, we've now got a really simple and modern fleet, which is really the fleet we've always wanted. Let me get you slide. With 2 -- just 2 wide-body aircraft types, 1 narrow-body and 2 turbo-props, which, if you go back 10 years, 15 years, it's a massive change on where we used to be, where not only did we have multiple aircraft types, each of them had kind of a mixed heritage. So if you look at 747s that we had for example, we had 8 of those. They had 5 different origins. They were kind of all over the place. We have 1 that originated in the Philippines, 1 came from Air Canada, 1 came from Varig in Brazil. We had 2 different aircraft engine types. 3 of them have Rolls-Royce engines, 5 of them had GE engines. So it was a real hodgepodge. And the 737 was somewhat similar, a very mixed heritage. So now every aircraft that we have has come to us fresh from the factory.

And so that means it drives both clear consistency for the customer. Every plane is the same, but also provides massive cost benefits. It's simpler to maintain, much simpler documentation, simpler spare parts, simpler training, everything's just much simpler.

But then in addition to that, there's 3 benefits from the fleet that we now have. I just want to take you through. So one is around customer proposition. One is around the configuration. And finally, the economics. So just on the customer proposition. It's a major benefit that the proposition is both consistent and high quality. So if you get on the one of our wide-body planes now, everything looks the same. The business class is the same, premium economy is the same, economy is the same. Seats are the same, IFE is the same. Now it's a consistent product no matter which aircraft you're on. And it's also very modern product with 777-200s being refurbished at the moment, the 777 -- sorry, having recently been refurbished, the 777-300s getting a refresh right now and the 787s are new as well. And that drives real tangible value. It's not just a nice to have. So to give you some examples if you look at customer satisfaction as a metric, and you look at a sector where we were flying the 76, and we replaced it with a 787 and Tokyo is a good example of that.

If you measure customer satisfaction as the overall satisfaction with the experience, on Tokyo, we saw our satisfaction improve by 8 percentage points when we put the 787 on in place of the 76. And if you look at satisfaction with just the plane itself, and that improved by 17 percentage points. So people are massively more satisfied with that modern aircraft. And that's nice, but they not -- it also translates into tangible dollar value. So if you look at unit revenue, revenue per ASK. On Tokyo, when we made that switch, we saw our RASK improve by high single-digit percentages. And when you look at Shanghai, which is interesting example where we actually operated the 767 alongside the 777 for a while, and the 777 is the same product internally from a customer perspective as the 78. We saw the 777 have a RASK, revenue per ASK 15% better than the 76. And I was running the pricing team at the time and we used to have to discount our business class on the 76 by 25% relative to the 777 that we're operating. And even with that customers had a strong preference for the 777, notwithstanding the price. Another major benefit of a new fleet is that you can design the configuration to suit the markets where we're going to operate that fleet. So to give you a couple of examples, the 787, the 9 that we have at the moment, what we call the code 1 aircraft. When we design the interior of that, we sort of said, well, so where are we going to operate that aircraft? How much floor space does it deliver? And what kind of customers, what's the makeup of demand that we're going to see on the markets where we operate that aircraft? And then we sort of just divide up the floor space based on the markets, the demand in those markets, and the result that we think will give us the optimal outcome, the best sized cabin for each subset of the market. So on that 787 for example, we were planning to operate and do operate it into Asia primarily, with a little bit of flying on the Tasman & the Pacific Islands. And those markets are heavily biased towards leisure travel. There's a business segment as well where we want to make sure we can service that and get value from that. There's also premium leisure segment. And some of whom will choose business class, some of whom will choose premium economy, but the market is heavily leisure and most of those are Asian markets. So that's what you see in the configuration. We've got on the code 1s, we've got 18 business-class seats that only represent 6% of the total seats on the aircraft but works really well for those markets. Sort of a small- to medium-size premium economy cabin and a good large economy cabin. And what that means is we're getting really strong loads and yields in those premium cabins. And we're delivering because of the seat density. We've got 302 seats on those aircraft. And seat density is the biggest driver of cost per seat. We've got a really compelling competitive cost per seat with that large economy cabin that suits the demand that we see on the routes where the aircraft is operating.

It's also quite a significant competitive advantage because we're the only aircraft -- we're the only airline that can design its fleet for New Zealand. If you look at the Middle Eastern carriers for example, that fly here and connect on to Asia, fly here directly or via the Tasman. They optimize their fleet for their network, their overall network, which means that they've got between 16% and 18% of their seats in business class, which is probably fine and works well for the rest of the network, but it's just too many for New Zealand. Whereas we've got 6% and that works really well. Even the airlines into China, slightly different networks than the Middle Eastern ones, but they have between 10% and 13% of their seats in business class to our 6% for those markets. So it's quite a compelling cost advantage that we have over our competitors where we operate that fleet.

But as we look forward and we're looking to grow this 787 fleet, we're going to deploy it in new markets so we're going to deploy it to the North America market, for example and into the some of the Asian markets that have a bigger premium component. So what we're going to do with the next 4 aircraft that we get of that type is have them delivered with a larger premium cabin. So 54% more premium seats, which our understanding of demand in those markets means we'll get the right outcome, the right loads and yields for those markets.

And cost as you'd expect is other key benefit of the new fleet. So taking the 787 for example, it delivers a per seat operating costs compared to a 767. That's between 20% and 25% cheaper. And that range is reflective of the distances that the aircraft flies. So if you look at the longer sectors, so Shanghai and Tokyo for example, it's at the 25% end of the range. So if you couple a 25% cost improvement, the big revenue per ASK improvement that I was talking about as well and a really strong positive reaction from customers in terms of the satisfaction that we see, that's a very, very compelling picture in terms of economics and customer satisfaction.

So the next step that we're taking and Bruce was referring to this is the A320 NEOs. We'll be getting 2 variants of those. It's essentially the same fuselage and wings and so on as the existing A320s but with more -- much more fuel-efficient engines. The variants we'll be getting are the 321, which has got 214 seats and our configurations are 27% more than the existing aircraft, and we'll always also be getting these 320s, which have the same number seats -- same size. So if you take the A321 as an example, it's only slightly more expensive to operate on a per trip basis than the existing aircraft, the 320ceo, but it's got 27% more seats. So what that means is, obviously, those extra seats come at a really, really low marginal cost. And so what we will be doing is deploying those on the bigger leisure markets where there's a strong opportunity to stimulate demand knowing that we've got a really low marginal cost for the extra seats that we're providing to the market. And so some examples you can think about would be Auckland-Melbourne, Auckland-Brisbane, some of the bigger Pacific island markets like Fiji, Samoa, Rarotonga. Those markets are typically also the most competitive. So that lower cost per operation will give us a really strong competitive advantage on the cost side.

Looking at the 320s by comparison. Because they're the same size, they've both got a lower cost per trip and per seat compared to the existing aircraft. And there will be a perfect aircraft for the smaller markets, particularly on the Tasman. So I'm thinking of the Wellington and the Christchurch markets to Australia. So to sum it up, as I said, we've got the aircraft, the fleet that we've always wanted, and we're seeing really genuine and significant value from that in terms of both the commercial results and the customer satisfaction. Now I'd like to hand over to Rob McDonald, our CFO.

Robert Stuart McDonald - *Air New Zealand Limited - CFO*

Thanks, Jeff, and good morning, and welcome. What I want to do this morning is focus on the features and components of our financial landscape. So to give you a really good feel of all of the bits away from the P&L or the bottom of the P&L, more associated with the balance sheet. And -- I just want to bring out the slide that you've seen before. I think we had it last year as well. And the first point I want to make here is -- in this diagram, the most important aspect here is profitable growth, and that's what Christopher, Bruce and Jeff have sort of taking you through. And we don't lose sight of that ever. But what I'll talk a bit about is all the rest of the bits. And really when you think about capital discipline and risk management, the other bits of it, to us, they're like riverbanks that we have developed that guide us in the way we think about the rest of the balance sheet in the lower half of the P&L. Equally, when we talk about shareholder returns and ROIC, we shouldn't lose sight. Those are outputs. They're not inputs.

So the first thing I just want to touch on was the investment-grade rating. Now Moody's focused on a number of things to develop our rating, which is a Baa2 or I guess in S&P's sort of equivalency, it would be BBB flat. And the sort of the core part that they really think about and are looking for in airline is a strong domestic franchise. And I think we have that as much as you could possibly ask for, and the way we develop that in the last 5 or so years and strengthen and growing it is quite impressive. Equally, with our international business, the way that's now developed and grown in the last 5 years with the emergence of a lot more partnership, and also just leveraging our geographic strengths. And I think it's fair to say, and I've been at the airline quite a while is only in the last while have we really began to understand fully where are competitive strengths internationally that can't easily be replicated by others, and we're starting to play that quite strongly. Equally, they look at liquidity, and we sit in the top end of the range for liquidity in the industry. And I'll talk a bit about that later. But probably more than anything else is they look the management in the eye and sort of say talk to us about your financial framework, how do you think about the business. And that's very much what you saw on the previous diagram.

So I'll move on to gearing. And again, per my previous comments, gearing targets are guides, the world doesn't end if we're below or above them. When we are below or above them, what we -- what's important is how we think about the future, and what we see in the future. So the fact we're below, we knew we had a large capital expenditure hill to climb. So we felt that was a good place to be. Equally, where we sit now on the top end of that range, we're on the back end of that hill on the way down so that sort of makes us feel that's about -- we've landed where we should have. So we're not troubled by that at all. And what we can see in front of us, and I've talked about this a lot, is the emergence of -- assuming some stable earnings in there, the emergence of a stronger free cash flow. And obviously that can be deployed in bringing that gearing down a bit and further into the range as well as other things we might look at.

One thing I did want to just mention on the -- how we calculate our debt or our total debt, we use for operating leases 7 times next year's rentals. And we've done that forever. We do see other people use different measures. Done a bit of research on that. And generally, people are pretty close to us. I think most people are in the 7 or 8 times. Moody's, interestingly, a couple of years ago, moved down to 5 times, but you will also read a bit about IFRS 16 coming that will mean that, effectively, this sort of number or proxy for it will jump into the balance sheet at the bottom. We will commence that in July 2019, so the FY 2020 year. Our initial assessment using the numbers we have sort of today would mean the equivalency versus our sort of proxy at 7 times is about the number there, using the accounting standard would be about half. So now in the future, whether the industry starts to use the accounting numbers as the standard we'll sort of, I guess, we'll see over time, but we'll carry on with 7 times in the event the industry sort of does go that way and the IFRS 16 measurement becomes the norm, then we would have to adjust a range to cope with that as well.

Let me move on now, talk a bit about our debt. Sorry. So just talking a bit around our profile. We -- our sort of standard mode of debt is aircraft. So effectively, whether it's finance leases or operating leases or secured aircraft. And when I say secured, that's generally a mortgage. And so the sort of different hierarchy is that when we're owning aircraft, we'll look at the market. Generally, we're looking at either a structured finance or deeply structured finance so that -- and typically, in recent times, that's been Japanese operating leases. So that's what we call finance leases. And alternatively, a lot of recent debt has also been secured debt. And so what we have seen is generally -- and that's been present for a long time is the sort of deals we do, that 12-year deal, average life say 7 years, and the -- it's given you a good maturity profile. In this, we've got a couple of balloon payments coming up in '19 around some 12-year-old 777-200s that we're on Japanese operating leases. But otherwise, you see a very quite consistent smooth profile along what we're able to achieve there. Also, you've seen quite a change go on around secured and movement of aircraft type of debt into a much broader sort of look of recent times.

Let me talk about the cost of debt. A couple of things here that have influenced the cost of debt. One is obviously lower interest rates. Actually, probably not the biggest thing in this period because interest rates came down quite rapidly, quite quickly from the GFC. But we've seen that the recent decline is we've gone into a lot of new debt as we've gone up that capital expenditure hill. Most of it secured or finance lease, and the rates we see on that are way lower than what we had to do shortly after the GFC. So you're seeing a real averaging down now going on, and that debt is becoming a bigger feature of the total portfolio. So what you see and in terms of the benchmark spread is around 87 basis points in the last year. That we are seeing a lower, in some cases, quite a bit lower at the margin for debt that's coming onboard.

One thing I'd say about the debt, it doesn't have covenants, so it's very flexible, and it's with a Baa2. That's a good support. And we get a lot of interest in the marketplace when we've got our name out there.

Let me move on to the NEO, which everyone's talked about as being delayed. We got advised a month or so ago that we would -- the deliveries we were expecting late in the year which were, in fact, already delayed, the aircraft was supposed to come in August this year. We got told last year that, that would slip a few months, and they would be later in the year. And then a month or so ago, we got advice from Airbus that they could see that slipping further into next year. And the issues that are causing delays are more around the durability of the engine. And so the engine -- a number of the early customers are in quite harsh operating environments, and they're having to divert production engines into spares into the field. And so what we're seeing is delays in production. So I guess, with a few experiences of delays in the past, we sat down with Airbus and said that actually given our experiences, we think it's a good idea that we push these a bit further as well, we like to see some of these durability issues mature out. And equally by slipping it a bit further, we then are able to access a new configuration of the A321 which will give us more seats on that aircraft. And so we saw benefits from that. Now it's fair to say that no one wants to have to endure a delay, there's a lot of planning goes on in the organization around a new fleet type. And so that -- that's been quite a challenging process to work through and end up with the right -- the schedule we feel comfortable with. So it's quite disruptive. The -- one of the reasons that motivated us is that we feel absolutely fine about our current fleet, and so that wasn't the case and Bruce talked a bit about and Jeff talked a bit about what it meant to carry on with those 76s longer than we'd hoped. We have no issues on the existing 320s on the Tasman. It was, I think, less than 3 years ago, they got upgraded for the in-flight entertainment so they have very contemporary in-flight entertainment. The product is a very good product. So from that perspective, we feel fine. We've been able to extend some leases to cover this period so that's largely being done now. So I think we just -- we're taking a relatively conservative and cautious view about this. And equally, it's a market that has plenty of supply so, as Christopher mentioned, probably not a market that needs a lot more at the moment. So the schedule will be ending up with -- it means that we'll take the 320 version first before we're going to take the 321 version. So the 320 version will come in July '18. And then the 321 version will come in September '18. And that we'll get that configuration that gives the additional seats.

Bruce did touch on the slightly bazaar thing in all this is that the back of the room. The seats are, if you talk to many people, particularly in the wide-body area that just about every reason for a delay is issues in the interior, particularly seats. And so when we embark on, effectively, what is a new seat by a new manufacturer for Airbus so that's a U.K. manufacturer, Acro, that in itself is a risk. But it's fair to say we've had a wonderful collaboration with them to get to this point. Sadly, we have the seats but no plane, and that's not very usual at the moment. What it will mean is that 2018, the coming year is a pretty uneventful year in the fleet. So we'll get some additional units, 787. Some additional units, ATRs, but they'll add scale but no new fleet types during the year.

What we'll also see, and I think it is a benefit is a bit of a smoothing of the capital expenditure profile. So what you'll see is capital about $12 million lower this year, about $170 million next year lower. And then '19, it will go up about $80 million, and then '20, it will go up $100 million. So see that sort of pretty steep hill will now just smooth out a little bit.

So where we land in 2020 is really a tremendous position with the fleet. Now it's predominantly owned, so that gives us flexibility. By 2020, when the NEOs are fully in, we'll have a narrow-body fleet -- or a narrow-body jet fleet that is very young. So the domestic fleet, while some leased units came in 2010, the bulk of the fleet is 2014 and after. You'll have those NEOs that are next to new.

And so in terms of when we think about new narrow-body fleet type, we won't turn our mind to that till late the next decade. What you will see us turning our mind to and will -- it's an activity we'll start later on this calendar year, will be what we call an RFI, a request for information, around wide-bodies, and that will be looking at effectively the replacement for the 777-200ER, which will probably start from around 2022. So that will be a lot of work around what's a good replacement, but also what's out there of aircraft that could also do stuff that we have growth ambitions around our network and fleet.

So that process takes a little while, but we eventually I expect sometime next year would get to a point where we'll end up looking for an RFP, or request for proposal, which is effectively commercial offers from Airbus and Boeing. And the great thing is both of them have really good offerings.

Boeing with an offering soon to come and then Airbus maturing on their 350. So I think it's a really good time to be looking at that as we think about the 777-200 fleet later. And equally, and maybe before that, a little bit of growth.

So from our perspective, that will sort of be the plan, but largely, in the meantime, we can look at units for early part of next decade, which might add to the fleet we have now if we want to grow as well, and we can do that with operating leases. We do have an option on an operating lease essentially at the same terms as a unit in 2019 for a year later as well. So we're in pretty good shape just to keep the path we want to keep going.

Let me talk a bit about how we think about fleet flexibility. I guess, the easy part on the fleet purchasing team is to go buy aircraft, so we can do that. We can lease aircraft and -- so upscaling and getting access to aircraft is a -- isn't generally a barrier. Actually, the bigger barrier in that mode is actually scaling the organization with it, although I'm bound to observe now that those fleet changeovers, those -- that big amount of growth, that's about as much stress and activity you'd want to put in an organization. As I look forward now, as those growth increments come in, it's a lot more orderly, and it's just a question of scaling the organization and the operating areas.

Taking down the capacity is a much more challenging endeavor in airlines. We have a history of doing that when times had turned against us severely, and the GFC was -- also higher oil prices and then the GFC were one of those times, and it took some period, but it's probably the only reason that you saw that graph with unbroken profitability was our willingness and ability to act. We always keep our mind on that, so you do see sort of escapes in capacity with operating lease retirals or expiries out there. That's as we more -- move more to ownership, we've seen that recede a bit, it's still there though, we do have that ability.

But probably where, if you thought about the near-term and what we'd have to do in the near term if we saw a severe downturn, is in the -- it's a lot easier in the domestic fleet, we just drop the utilization down. In the wide-body fleet, the go-to fleet will be the 777-200 fleet. The reason I say that fleet is it's now heading in a position that means it is the relatively highest cost fleet, so it's higher cost than a 777-300. And it's quite a bit higher cost than a 787, which has tremendous economics.

So if you're going to ground planes, that's the plane to ground. But more as we've seen that fleet go into its later years, what we're seeing is, as we go and just renew leases and things, we're seeing that operator ownership cost come right down. And so from our perspective, we're looking late into those -- into that fleet life, we're seeing very low capital cost at the margin. So what we'd end up doing is effectively grounding fleet that had a very low capital cost but the highest relative operating cost. Now hopefully it never comes to that and growth carries on. But it's fair to say, we don't just blindly go down, we think about our escape routes as well.

Let me move on to hedging. I'll make a few comments on hedging and liquidity. We're very explicit when I talk about hedging or Jeff talks about hedging, we hedge to give ourselves time to adjust. And what we mean by time to adjust is sort of a 6- to 12-month zone. That's how you -- the international business works on schedules and things, it's just not that easy to stop flying somewhere in long-haul business with seasonality and things like that.

Domestic, we can adjust a lot quicker and, frankly, we're out there adjusting every month just for conditions and equally, on the Tasman. So where we have multi-day services are a lot easier to adjust quickly. But those adjustments generally come in 2 forms. They come in fares and capacity. That said, that's sort of easier said than done. And particularly, as you get out into the international arena, it's a lot more difficult, and you certainly have to bear in mind the competitive environment where you're strategically trying to take your network. And in many, many cases across our routes, you're in condemned prisoner scenarios of how you approach those sort of things. So that's something we're quite mindful of as well.

We enjoy very good liquidity, as I mentioned before. It does sit at the top end of that range, even after our special dividend last year. And just in terms of how we thought about that range, it was very much a year ago or prior to that it was -- we had a large investment in Australia and felt that we always needed the ability to support that without -- and pending any other growth aspirations we might have. So it's fair to say we are probably -- we'll look over the next period to bring that liquidity down a bit. The obvious ways are buy some aircraft outright. And we've done a bit of that of recent times as well. We've got a bit of a portfolio of A320s going and also, we can look at as there are opportunities in the debt portfolio as well. Probably not what the bankers wanted to hear.

So just -- I'll just touch on ROIC. ROIC to me is a result of managing our business. It's not a spreadsheet. It is -- we have thousands of levers we pull every day that add up to a week, a month, a year that we're constantly optimizing. We talk about ROIC with you people like we talk with our union. So they saw this diagram a couple of weeks ago, and I talked it through with them. We think our cost of capital, pretax, lives in the sort of 10% range or close to 10%. It's fair to say any returns beyond that are good. But I think as Christopher has mentioned many times, good is sort of nice, but great is way better. And so we aspire to much more than that. And if we want to be a really good airline, then we should be doing a lot better.

And so a lot of effort goes in, in the course of the business, everywhere, through all the operations, through the sales, commercial groups trying to optimize the business. And certainly, where we've been in the last 3 years has been in a very good place. And there's many reasons for that. Many -- some external, but many internal as well. It is an aspirational target. We won't get there every time but, importantly, for us, being above that 10%. And the more we get above it, the more we earn the right to grow. And I think it pins back to that almost very first slide that Christopher talked about, as long as we're doing this, then we're meeting at least one of those foundations.

So let me finish by just touching on our dividend history. And I get asked countless times by investors, "Why don't you just do a payout ratio?" And I don't think airlines are at all really in -- are suitable for a payout ratio mode. We don't have that absolute stability like a, I was going to say, an airport, but I won't. So the way we -- when we talk about consistent and sustainable, I think the diagram tells you everything about consistent. We have been very consistent dividend payer. It's our #1 on the hierarchy of our distribution mode. We have truckloads of imputation credits in the bank so that will always be our mode.

Sustainable is sort of a little more qualitative. Sustainable is about what we see in front of us. And so those sort of things we think about when we think about what's in front of us is particularly the trading environment, where's gearing. Also, importantly, where's the capital expenditure profile as well. One point I made at this forum last year where I said when you think about our dividend, do not think about FY '16. That year is unique. What we know about in front of us, that's what's hitting our dividend. And so I was surprised -- people were surprised we kept $0.10 at February. That should not have been a surprise given what we had said. So how we think about it is very much looking at those peaks and troughs and trying to sort of project that in a medium-term basis and as I say, sustainable.

It doesn't mean we wouldn't reduce it. And as the diagram shows you on 2 occasions, one, the GFC and the other, the Christchurch earthquake, what we saw in front of us was so unclear that we were -- didn't feel we should have been paying at the level we were previously. So [we'll not] try to do that if things change dramatically but everything we see in front of us, as Christopher has talked about.

So I'll stop there, and I'll hand back to Christopher.

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

Excellent. Well, thank you, Rob. And again, thank you for your time listening through the presentation today. I hope you get a sense that we are constructively dissatisfied, and we think that there's a lot more for us to still do in the business. But importantly, that you'd actually leave here today with a good sense of fundamentally what do you think actually differentiates us, what actually we think sets us apart from other airlines and from other businesses and what helps us actually punch above our weight in terms of delivering strong commercial returns, outstanding customer service and ultimately, very strong internal culture within the business as well.

So the big 4 takeaways, I hope, that you leave with is first and foremost that we have an incredibly strong, muscular, resilient core domestic business, and we have an unmatched network, we have unmatched market share, we have as Mark alluded to, a very strong loyalty proposition, and that is all bound together to give us that muscular stance that we want here at home.

I think the second big point is the Pacific Rim focused network, our decision back 5 years ago to really reorientate our network around the growth that we see in the Americas, Asia and Australasia, has stood us in tremendous stead and as we're dealing with the growth of tourism, as we deal with a rapidly rising middle class and population growth in general, we are really well-positioned now with a diversified set of markets that are all profitable. But importantly, we have built skills and ability in those foreign markets to unlock that market growth and build more market development into our business. And I think also with that, we've actually de-risked a lot of our business by actually being able to partner with other outstanding airlines to be able to offer greater connectivity around the globe. We're very clear about what we are and what we are not, but we can have a very big and an important footprint certainly in the Pacific Rim region.

And the third thing, I hope you got a sense from Bruce and from Jeff, is that we just have this relentless daily practice and religion around cost control and discipline. It's a very important part of our business. I think we've been very good at just keeping our heads down and chipping away year-on-year at our cost base, doing so intelligently. It's not a boom-bust, it's actually just daily practice as we deal with our cost. And as a result, we're seeing a lot of those benefits now coming through with that simplified fleet, the scale economies that exist within our business and just good internal discipline and mindset about how to think about our cost base in light of the growth.

And then lastly, as Rob touched on, I hope you leave with a good sense that we have a very strong investment grade financial strength. The strong balance sheet is very evident. We work really hard to buy aircraft well. We certainly finance that aircraft with low cost debt as you've seen, as Rob has explained a bit more of that.

So all in all, let me just say thank you very much for all of your support. Let me also say I hope you leave with a little bit more understanding of the business by being able to take some time today to unpack and I really appreciate you making time for us to be able to that. And I think what we'll do now is close with just some Q&A that you might have and then we can move to lunch and feel free to ask any other questions. And if I can ask Bruce and Rob to come up with me as well and we can take the questions, and Jeff and Mark are here as well to take any from the floor as well.

Leila Peters - *Air New Zealand Limited - Head of IR*

Great, thank you. I hope you all found that informative and I hope you still have some energy to ask some questions now. Before we start, I would just like to say because we're webcasting, if you have a question, please wait for the microphone to come to you and then just if you wouldn't mind stating your name and what organization you're with, that's always helpful for us. As Christopher said, please, all questions are welcome. And if there's anything specifically for Jeff and Mark, they're also here to answer. Does anyone have questions? Andy Bowley.

QUESTIONS AND ANSWERS

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

Andy Bowley from Forsyth Barr, I've got a couple questions. The first one in that, Christopher, you talked about profitable growth and you mentioned 3 categories or focus areas. You talked about the domestic business, you talked about long-haul and you talked about loyalty. There's no mention of the Tasman. It's still a pretty important part of your business. I'm conscious that the Virgin arrangement expires next year. I'm also conscious that you've instigated new state-by-state sales teams across Australia. Can you talk about how you see the Virgin relationship progressing, bearing in mind that we are coming to an end of the current arrangement next year? And if for whatever reason that arrangement stops next year, what impact is there on Air New Zealand?

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

Yes, well, I think the first thing I'd say is that the relationship with Virgin is very strong. We want to continue that relationship with them going forward. Obviously, we have blessing from both competition authorities and will seek to do that again on the Tasman. And so that relationship's in very good heart. What I would say is that you've got to get used in the airline industry that your partner is also your competitor at certain points in time as well. And so for sure, as we drive our traffic from Australia through New Zealand up into the Americas, north or south, obviously, we're competing with Virgin for that North American traffic. And -- but yet, we learn to compete in one part of our business and we learn to cooperate in other parts. And that's very normal if I think about our other alliance structures that we have as well. But suffice to say, on the Tasman, we think it's a good arrangement and it works very well and we'll look to continue to extend it.

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

Second question, last year, if we turn the clock back, you talked about the operating environment or the competitive environment normalizing after a fair few number of very good years. How would you characterize the competitive environment now? Has it normalized? Or have we swung past -- in terms of the pendulum, past the normalization type level? Can we expect competition levels to increase further?

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

Yes, look, I think it's been unprecedented competitive activity, an abnormal year in many ways, because we ended up actually having 10 new competitors come in, in a 12-month period. But as you've seen in the monthly operating stats, we feel that we have got through that competitive battle pretty well. We obviously are encouraged by the improving revenue environment that we're seeing improve half by half by half. And obviously, we're annualizing some of those competitor entries as we go forward. The encouraging thing is that we're starting to see an environment where those competitors are settling into the market here. And so if you look at the American market, we've seen very good rational behavior from competitors. We've certainly seen it from Australia. And you would have seen the announcement last night about the withdrawal of capacity, with Emirates suspending its services between Auckland and Sydney. That's a rational decision from the Middle East carriers finally. And we've seen some rational behavior certainly from our Chinese competitors as well where they are flexing capacity into seasons and managing some flights. So net-net, I can't tell you for sure there's going to be whole bunch of new airlines show up. We don't get a sense that there is having absorbed 10 in 12 months, but we certainly see an improving revenue environment for ourselves as we cycle through.

Leila Peters - *Air New Zealand Limited - Head of IR*

Does anyone else have a question? Marcus?

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

Marcus Curley from UBS. Christopher, you spoke a little bit at the beginning about the impediments with the in-market capacity infrastructure. What are your partners in-country, in China and other places, saying about the cost of travel to New Zealand at the moment? Is it really becoming a big impediment?

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

The short answer is no. So we survey our visitors to New Zealand on leaving, as does Tourism New Zealand, and I can tell you without a doubt, there is no diminution of the visitor experience while they're here in New Zealand. So we're not hearing any negative feedback from our customers. Having said that, it is a topic of conversation within the tourism industry specifically, and it's really hitting us in tourism pain points. And it's particularly in places where we have low number of residents, high number of visitors where certain tourism infrastructure is under pressure. And we can see that across the country. And so as an industry, we came together with local government last year and put a proposal to government centrally, and we've had very good engagement from Paula Bennett and others in the government around that, and they have recognized that need and have now announced the $100 million investment in local mixed use infrastructure, along with the $78 million investment in the Department of Conservation, along with an ability to be able to work with some of those regions that have that low resident and high visitor mix. So I think now the challenge is to get on and get that infrastructure deployed and get that money flowing through on an annual basis and make a case for even more money to be invested in the infrastructure. So not a big issue. I mean it is a -- it's an important issue, but in the medium term, it's the single issue that I think the most about. I'm not that worried about Air New Zealand in terms of our ability to deal with the environment or competitors or challenges within our business or opportunities that we have. The biggest thing is that medium to long-term perspective of can New Zealand grow its infrastructure to support the growth that we can see. A big part of it, though, as I said to -- alluded to, was that even today, if we could just move the business we have today with the same volume and visitors but to extract more value from them through higher visitor quality experiences, innovation on our tourism operations and experiences that customers have, we've got $9 billion worth of value to extract. And I can tell you, as an industry, we're very, very fixated on greater productivity out of tourism. So I think that will be continuing to be a big focus. So long story short, customers still think the New Zealand experience is outstanding. We get consistently rated incredibly highly when they leave after their visit. And I think in the medium term, while that is a concern, I think we've got these tracks with government funding and the way we change our mix of customers to get to higher-value customers that can get us through.

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

And Rob, you've obviously given the CapEx guidance out to 2021. How quickly does it ramp up to a more normalized level? Obviously, you referred to starting to replace 777s at that point in '22 onwards.

Robert Stuart McDonald - *Air New Zealand Limited - CFO*

Marcus, I don't think we'll see the sort of hill we've climbed in the last 3, 4 years by next year. Again, frankly -- I mean, in that, lives 13 787s, a whole lot of 320s and they're all replacement. And it shouldn't have been like that if the 787 had turned up when it was supposed to, so it all got (inaudible). And so I think where we go is pretty well this decade, we're sort of nowhere that as -- I didn't mention but I should have, was the domestic business can -- will be accessing growth units out of Tasman business. Those aircraft are relatively physically quite young because they run low cycles as Tasman aircraft but to become a domestic is not a big challenge at all. So we have -- I think we own 6 of them now. We won't use all those, but they're available then sort of to add increments domestically in '19, '20, '21, whatever. And then really, it is -- it gets you back to the replacement of the 777-200 fleet, that's not the same as replacing your domestic fleet and your 787s as well. So that's -- we'll do that over 3 or 4 years as well. So I think leading up to that, we'll be underneath normalized depreciation versus replacement. How we grow and what the opportunities are, we'll be able to access that up to then. And then after that, that will probably be a period where we're a bit above the normalized, but not like it was back in '14, '15, '16, '17, '18.

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

And following up on that, so when do you turn your mind to what you can do with the free cash from '21, '22?

Robert Stuart McDonald - *Air New Zealand Limited - CFO*

So I think as I've talked about gearing, the first thing I think which is a bit weighted to that gearing, to bring that down in front of that next tranche of capacity that we have to bring in as replacement. But we'll have to turn our mind to it. And I think as you see that gearing come down, I think we'll have opportunities for looking at other things such as other distributions and things.

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

Acquisitions?

Robert Stuart McDonald - *Air New Zealand Limited - CFO*

Sorry?

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

Acquisitions?

Robert Stuart McDonald - *Air New Zealand Limited - CFO*

Sorry, I can't...

Leila Peters - *Air New Zealand Limited - Head of IR*

Acquisitions.

Robert Stuart McDonald - *Air New Zealand Limited - CFO*

Acquisitions? No, I think we're done on that. Are you suggesting third time lucky?

Leila Peters - *Air New Zealand Limited - Head of IR*

John?

John Middleton - *ANZ New Zealand Investments Limited - Head of Australasian Equity Research*

John Middleton, ANZ. A couple of quick things. One, just on the guidance. So given you've raised it, what's gone better than you thought?

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

Good question. I mean, the key thing and the difference from the half versus where we sit today is there's about $7 million of fuel benefit in there. But obviously, the vast majority of it is purely the improvement in the revenue environment as we have gone forward through the course of the year, and that's the major, major driver of it.

John Middleton - *ANZ New Zealand Investments Limited - Head of Australasian Equity Research*

And just a question on the revenue sharing position. You said 75%. Is that the right number? Is that where you think it's going to be longer term? Or does that evolve?

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

Yes, look, I think we've got the right set of partners so there's not like we drastically have white spaces across the global map that we need to find new partners with or for. But I think for the foreseeable future, that will be essentially the composition that we have. And I think that's a -- if I look at all of our relationships, that's something that we have built great expertise in, in the business because each of those partners that we partner with, each have different cultures and different modes within them and so we've learned to work with a very diverse set of partners, and I have to say, the health of all those relationships is really very, very good.

John Middleton - *ANZ New Zealand Investments Limited - Head of Australasian Equity Research*

Okay. And then just finally on the NEO, I mean, obviously we get the benefit from deferred CapEx. Is there any short-term benefit? Or I mean, do you get compensation? Or is that only for launch customers?

Robert Stuart McDonald - *Air New Zealand Limited - CFO*

Yes, we don't talk about that. It's fair to say, we'll -- as we do this delay and change in schedule, we have a discussion and we have -- we change the terms and conditions by mutual agreement.

John Middleton - *ANZ New Zealand Investments Limited - Head of Australasian Equity Research*

And that deferral, does that mean you're sort of back of the pack and you'll get it when it comes? Or is that a firm date now that you've...

Robert Stuart McDonald - *Air New Zealand Limited - CFO*

Well, I'd like to think it's a firm date. But having been through the history of the 787...

Unidentified Company Representative

(inaudible)

Robert Stuart McDonald - *Air New Zealand Limited - CFO*

Yes, yes, that was 4 years late. But these are out there operating now, and the durability issues are well-known and being worked on and solutions are there and they're just coming through. The great thing about the plane though is -- the one thing you always find in new aircraft types, particularly with new aircraft engines, they always come up short on their fuel burn promise. And this is going really well, it's slightly exceeding its promise. So that's a very, very pleasing aspect of -- something to look forward to.

Leila Peters - *Air New Zealand Limited - Head of IR*

Any other questions? Anthony, in the back.

Anthony Moulder - *Citigroup Inc, Research Division - Director and Head of Transport and Infrastructure Research*

Anthony Moulder from Citigroup. Just a few questions on that, on that improved revenue environment. Is that -- can you talk whether or not that's more leisure-driven, business-driven? What particular markets you're seeing that come through on?

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

I mean, predominantly we are a leisure-based airline obviously and we're trying to move from leisure to premium leisure with a lot of our configurations and the customers that we're targeting and going after. But increasingly, it's largely across the leisure base, yes.

Anthony Moulder - *Citigroup Inc, Research Division - Director and Head of Transport and Infrastructure Research*

The CASK profile, obviously every airline in the world is trying to reduce their CASK in a similar way. Do you look at the relativity of your CASK profile to others in the region and how do you think about where you need to be relative to many others?

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

Yes, I'll let Bruce answer that.

Bruce Parton - *Air New Zealand Limited - Chief Operations Officer*

Yes, we do exactly that. So when we benchmark individual items, take cabin crew or anything, we benchmark it against all of our competitors. That's the only place to benchmark it. And then that ultimately builds up obviously to a total CASK position.

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

And what I would point out is that if you look at our unit cost improvement over the last year and look at other airlines around the world, that is quite a different story, from my perspective.

Robert Stuart McDonald - *Air New Zealand Limited - CFO*

Yes, one thing I would say is -- I mean, with unit cost comparisons, it's a bit fraught and it really comes down to what does your network look like, and what's the makeup of the network. And we have a very diverse network. We can take you from Auckland to Whangarei in 30 minutes, and we can take you to London as well on a 777-300. So all those things they -- one comment I think Bruce made was the biggest influence on unit cost is seats and seat density. And I think when you look at our competitors, that real advantage we have is being able to build our aircraft configurations for New Zealand inbound, New Zealand outbound. And when you look at and stack our aircraft up against our competitors, you'll see generally much better seat counts.

Anthony Moulder - *Citigroup Inc, Research Division - Director and Head of Transport and Infrastructure Research*

That's a fair point. On loyalty, obviously, we see the earnings coming out of loyalty from both Qantas and Virgin across the other side of the ditch. Will we ever see loyalty being broken out by Air New Zealand?

Robert Stuart McDonald - *Air New Zealand Limited - CFO*

Let me answer that one. No is the short answer. And saying no, that puts us with a vast, vast majority of airlines in the world that basically see loyalty as an integral part of the business of being an airline. It's, I think, as Mark talked about a lot, there's a lot we can to do to take that further, increase its scope, that drives further loyalty. And equally, in doing that, we continue to build our data about our customers as well. So that's -- and we're getting much better at that as well. So -- but if we turned up and showed you profitability of our frequent flyer, it would be largely determined by me who signed off what the transfer price was, and Christopher. And I'm not sure that's that helpful. And the idea that you can have a frequent flyer that you can spin-off, I think -- yes, no, I think, you have that sort of 20-year contract and if you're Air Canada, you want it back.

Anthony Moulder - *Citigroup Inc, Research Division - Director and Head of Transport and Infrastructure Research*

Lastly, related to that, how do you get comfortable with the breakage rate with this push for greater partnership. Because obviously we hear breakage rate pretty low across Qantas. I would think it's a lot higher for you guys. How do you drive that customer engagement, the partnership engagement with the high breakage rate?

Robert Stuart McDonald - *Air New Zealand Limited - CFO*

I don't think that's -- what you just said is not correct. Our breakage...

Anthony Moulder - *Citigroup Inc, Research Division - Director and Head of Transport and Infrastructure Research*

What is your breakage rate?

Robert Stuart McDonald - *Air New Zealand Limited - CFO*

Our breakage -- well, I think it's more like [teen]. So that's -- we would see that still drifting down a little lower over time as well.

Mark Street

And for us, that speaks to the engagement of the program, right? So the lower breakage rate just says that we've got a highly engaged membership base there.

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

And we'll be doing things such as part pay is launching shortly I think, Mark, and I think that will bring it down a little further.

Leila Peters - *Air New Zealand Limited - Head of IR*

Stuart?

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

Stuart Williams from Nikko. One for you Bruce. I think just in terms of long-haul pilots, could you just talk about how competitive it is holding on to your guys and girls? And I guess, I noticed a little while ago even ads in the local paper saying come and meet us, we're here and we'd like you to fly us.

Bruce Parton - *Air New Zealand Limited - Chief Operations Officer*

Yes, the problem you talk about obviously is very real. We've got a lot of competitors in the market looking for pilots. To be honest, the targeting isn't really been in our jet pilots because they are paid well and so the benefit in jumping is not that great for them. We pay them at market rate similar to others. The real challenge for us is in the regional fleets in bringing through and maintaining our pilots. That said, we don't quite honestly, lose that many pilots. We bring them in. They have a process of coming in and being interviewed once for the company. And they then see a career path that they go through. And so whilst some will choose to go off and work for a competitor, they see that for what it is, which is a pretty short-term kind of opportunity as against being based in New Zealand and having a long-term career with Air New Zealand. And so we do really well. But it is obviously an industry issue. There's a shortage of pilots. And we do see some effects of it.

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

We can't see your sort of I guess aging profile of your pilots. I mean, do you -- is this -- it's not an issue right now, but it may become an issue where you have a bunch of pilots sitting at a -- waiting to get to that next level and no seniority movement, I guess. Is that an issue that we need to watch out for? Or is that not important?

Bruce Parton - *Air New Zealand Limited - Chief Operations Officer*

I've seen a lot of talk in overseas media about the issue of, in particular, America on over 65s flying in. We've dealt with that over the years, and we don't have a -- we don't have a massive aging problem coming down the track at us. There's nothing that we're looking at that's kind of getting us spooked or concerning us. Yes, and our pilots are really impressive guys, they're really engaged, they're good bunch of people, so we're pretty proud of them.

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

I think where they get the most anxious or angst is when we're not growing. And when we're not growing, they're not moving. And so we -- prior to where we really started to grow, people had sat in the same seats for quite a long time. And so in the last 4 years, people have moved miles ahead on the seniority list and gone from first officers to captains in literally the same planes in 4 or 5 years.

Leila Peters - *Air New Zealand Limited - Head of IR*

Any other questions? Shane?

Shane Solly - *Harbour Asset Management Limited - Director, Portfolio Manager, and Research Analyst*

Shane Solly from Harbour Asset Management. Two questions. First one, is could you just expand a bit on the routes that you feel are under-serviced that you could develop, obviously, servicing them profitably? I'll leave you with that, the first one. I'll be back for the second.

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

Yes, I won't mention specifics, but I can tell you we see pockets of -- I mean, across the board -- I mean, in terms of certainly we've seen opportunities in Houston, we've seen opportunities in Buenos Aires, we're obviously seeing those big opportunities in Japan. But I would say, even closer to home, throughout the Pacific Islands, even -- certainly, Pacific Islands and then certainly some domestic spots as well, that probably are the spaces to look at but nothing specific, sorry Shane.

Shane Solly - *Harbour Asset Management Limited - Director, Portfolio Manager, and Research Analyst*

Okay. Second is in terms of developing connectivity in the Pacific Rim, can you talk about how you work with Auckland airport to develop that in terms of connectivity -- where you've called out the hubbing effectively out of Auckland as being a key component to your growth. Can you talk about how they help or otherwise in that process?

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

Yes. No, I mean, it's a very constructive relationship because I think we've got a very common vision of where we think the master plan needs to be for Auckland as we build out that hubbing strategy of connecting Australians through Auckland to the Americas and then likewise, China through -- and Southeast Asia, through Auckland to South America. Clearly, we're going to need an airport that actually can accommodate multiple lounges, seamless transits, cargo movements as well. So we have people embedded in the Auckland airport. A team working with them on actually what are those needs and how do we see the shape of our business changing and growing over the next few years and trying to give them really good quality inputs into that so they can actually build up the planning of that. So that has been very positive in terms of how we approach, certainly, what kind of asset we're going to need here in Auckland.

Shane Solly - *Harbour Asset Management Limited - Director, Portfolio Manager, and Research Analyst*

So they -- are they investing enough?

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

Well, that's something that has been a topic of conversation, as you could well imagine, for some time. I'm not going to talk too much about our relationship in terms of conversations around pricing or other things that are ongoing with Auckland airport at the moment. But I think there is a strong recognition that they clearly need to go through some capital investment to get to the asset that we all collectively want for the country and for tourism in general. So...

Leila Peters - *Air New Zealand Limited - Head of IR*

Jason, right up front?

Jason Familton

Jason Familton from ACC. Just a couple for me. First one, you talk about profitable growth in itself and sort of to me, can you broaden that out a little bit and think about it in a ROIC context? So are the growth opportunities you're looking at and fleet plans likely to be accretive to ROIC? Or are they likely to be lower than the ROIC you're achieving today? Or do you look at it in that context or just on a profitable basis?

Robert Stuart McDonald - *Air New Zealand Limited - CFO*

Yes, I mean, it's all of the above in the sense that we've model out our growth and what that takes in -- when we say profitable growth, we include -- we're thinking about, if you go to buy a plane then you've got [a dollars] capital, but -- and it shouldn't be seen as one individual route in itself, although it's about the network as a whole. So when we talk about profitable growth, when we talk about growing Houston or growing Buenos Aires and Haneda as -- it's essentially adding, and that in itself gets momentum on that route. So we're moving now to daily, and that brings a whole lot of -- in Houston, a whole a lot of features that suddenly it's the go-to place to get from New Zealand or from the East Coast of America. And so to us, it's very much around how we model that network out and making sure that the sort of capital that's being deployed in the network, the additional amounts of growth that we're putting in are getting the results. Now I mean, sometimes when we model out, you'll see fuel price change or whatever. And so is 15% always there? It might not be. On the other hand, it will be because we may have gone into a growth spurt that we see some good opportunities that could be really excel after 5 years. And I think when we reflect on that 16% growth on the international and where we landed that, and what it's doing to us now in terms of really strong margins and things like that, much better margins than we would have anticipated simply 18 months into these routes. So when we talk about profitable growth, it's quite a narrative underneath what it means, but it does dial itself back to believing that you've got to be between that 10% and hopefully even 15%. And then equally, every quarter we sit down and say, well, we're the -- I don't want to sound like BCG, the stars, the cows and the dogs, but where are the dogs? And what are we going to do about them? So we're still very conscious about underperformers as well.

Jason Familton

Okay. And the second question, just -- and you sort of touched on a little bit to Shane's, but Auckland airport have talked about investing quite a significant amount of money over the next 5 years or so. Clearly, you're going to be looking for customers to contribute to that. [What is the thinking] in the context of the CASK improvement, you sort of outlined today, how much of that [did you] increase in charges is reflected in those numbers?

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

So we're in the middle of a pricing conversation with them and I appreciate you want a different answer than I'm going to give you, which will be that we have had very constructive, very productive conversations with them. Rob and I have been involved with both those conversations with their Board Pricing Committee, and those conversations are ongoing. But -- and let's wait and see.

Leila Peters - *Air New Zealand Limited - Head of IR*

Marcus for a repeat.

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

Can you talk a little bit about how you think Jetstar is performing in the domestic market and whether you think there is any likelihood of them expanding their business -- sorry, specifically, I mean, on the regional side of things.

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

Yes, really difficult for me to comment on their business obviously, but suffice to say, over the last 18 months, I think our business regionally has performed very, very well and we're very, very comfortable even when we're in competitive locations with Jetstar that we've been able to compete very, very strongly. So no further insight around that suffice to say that we are extremely happy with the performance of our regional business head-to-head against theirs.

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

And secondly, just a quick one. Can you give us a little bit perspective on how much of the Airpoints or loyalty dollars comes from third party or external sources and where that's come from? What level it was a few years back?

Robert Stuart McDonald - *Air New Zealand Limited - CFO*

Just in very broad terms, when we think about the total revenue base, more than half of it actually comes from third party. And the predominant part of that is financial partners.

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

And what was that number 5 years ago? Or do you have a perspective on that?

Robert Stuart McDonald - *Air New Zealand Limited - CFO*

I think Mark gave you sort of percentages that it's increased, so we're very pleased with the way that, that number has increased. But it's also increased for flying as well. We did a number of changes back about 4 years ago where -- our previous model on the Tasman and domestic didn't really accrue any Airpoints and what we found is we just didn't -- people just didn't give us the data about themselves without some incentive. And so we have given back more. Now clearly, there's a bit more cost of sale in that, but it has proved quite valuable. So we've seen both the flying bit expand and then the nonflying. And Mark gave you the sort of the growth trajectory for the financial partners.

Leila Peters - *Air New Zealand Limited - Head of IR*

Andy Bowley -- sorry, did someone else have their hand up too? Andy Bowley in the back?

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

Anthony asked the question previously around the revenue surprise through the second half with regards to either leisure or business, et cetera, but could you answer the same question geographically? So what's really surprised across the various regions that you fly to? I assume, given the operating stance, that it's been domestic. But if you could give us a bit of flavor, please, Christopher.

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

Yes. So very good improvement in the domestic environment obviously in the last 6 months, and you would have seen that by the month-to-month operating stats. Obviously, as I alluded to, places like Queenstown, but even places like Dunedin. We have grown services into Dunedin, in part, by working with the city in that market development model that I've talked about. So domestic, very, very strong in terms of the improving revenue environment, has been very encouraging. I think if I look at the Americas, that's been another place you will have seen some of -- our competitor, American announced that they're suspending services for 2 months. We have also, obviously, in our JV with United, we're managing capacity together as an alliance, I think, very effectively and very rationally. So that's been very good to see as well. And the real challenge for us has been, as we alluded to in the last half and at the full year last year, was really what we were seeing in the Tasman environment. And obviously, we're seeing some rational behavior starting to take shape there as well with last night's announcement, which is really encouraging. And then with respect to the Chinese carriers, clearly, that's been a place where capacity was [less than] the low season last year and we're seeing pretty good rational behavior from our key competitors out of China as well. So all in all, Andy, I think the upshot was that I might have spoken to you guys at the half saying we thought most of the theaters we operate within the Tasman was without a doubt the most challenging. That's looking like it's becoming rational and certainly, the Middle Eastern competitors and the Chinese competitors, I think, are becoming increasingly rational in addition to the Australian and American ones that are already there.

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

And just expanding on China, I recognize the visitor levels coming into New Zealand, we've been in decline in the last few months. Can you talk about the Chinese demand for your business specifically in terms of loads and yields?

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

Yes, I think it's a good question. I mean, the Chinese visitor numbers are trending -- softening and it's evident by the monthly visitor stats we see in a tourism level. As to what's driving that, I mean I don't have a good enough feel for that and it's probably a bit early to say. But what I would say is that our business is really fixated on Shanghai. And Shanghai is a catchment area in its own right separate from, say, secondary or tertiary cities where you see other Chinese carriers coming in from. And you really got to think of China as break it up into multiple countries, really, and that's the way we kind of think about it. Four years ago, we talked about the fact that we've been in China all that time, we hadn't been able to be profitable, and we retooled our whole business to go after wealthy 30-year-old couples. We have been selling New Zealand as the most romantic destination on earth so you're very lucky living here. And in the second piece, was really after upper middle-class families that were then free and independent travelers. And so today, 80% of the customers that are coming from China on Air New Zealand's plane from Shanghai are actually those premium free and independent travelers that are spending 8 days in the country, getting out and exploring it. So I think there's something going on with the China slowdown. As to exactly what those drivers are, I'm not quite sure. But I think our position in Shanghai and certainly, the way we've positioned the business is incredibly strong to get through that.

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

But any pressure on loads or yields from Shanghai?

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

No, no. I mean, our business has been really strong and robust out of Shanghai.

Leila Peters - *Air New Zealand Limited - Head of IR*

Any other questions? No questions online. Okay. Well, thank you very much. We do appreciate the fact that you were able to take 3-plus hours out of your day. I know you're very busy and it's very difficult to do that, especially for those of you that traveled to be here, we really appreciate it. I would ask that as always, if you have questions, if you have follow-up, if you would like to reach out to us, we're always happy to talk to you. We like talking to our investors and our bankers, and we appreciate getting the feedback whenever you're able to give it to us. So please feel free as always, to reach out to myself, and we'll make it happen. So with that, I'd like to conclude the Investor Day, and thank you very much. And for those of you that are here with us, please join us for some lunch.

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

Thank you very much.
