Air New Zealand Limited NZSE:AIR

Investor Day

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Presentation

Kim Cootes
Head of Investor Relations

Kia Ora, and good afternoon. Welcome to our 2024 Investor Day. Thank you to those of you joining us here in Auckland in person. It has been a little while since we've had one of these events, so we're really excited to have you all here today.

I would also like to extend a big welcome to everyone on the webcast today. My name is Kim Cootes, and I run the Investor Relations team here at Air New Zealand. I'll be popping up every now and again over the course of the day.

Before we get started, safety first. For those of you with us, the emergency exits are back through the door from which you came. Once you're out in the foyer, our events team will direct you further. Bathrooms can be found at either end of the foyer, but you do need to go through the security gates so make sure you grab a pass on your way out.

You will also find Wi-Fi and text a coffee details on the little signs on your table. So if you need either of those throughout the day, make use of it. And if you get peckish during the event, we've got a whole host of our amazing onboard snacks available on the table at the back for you to go and grab.

As always, we'd like to remind you that over the course of the day, you will hear comments with forward-looking statements that may differ to actual performance. And so please take a read of this and make sure you bear it in mind as we go through the day. Next, we have our agenda.

You're going to hear from several of our Executive team and senior leaders. And you can see more on their bios at the back of the presentation. In order to get through the session today because there's quite a lot of content, we will save the Q&A for the end. Leila is going to facilitate the Q&A. As many of you who know her in the room will know she runs a tight ship, so make sure you're ready and waiting to go when she comes up.

Unfortunately, for those of you on the call, we don't have conferencing capability, but if anyone on the call has a question, please do get in touch with me after the event. And for those of you that are here, we hope that you can stick around for some refreshments after the event concludes. There will be lots of people from both the exec and other members of the Air New Zealand team here.

And with all that housekeeping taken care of and before we welcome Greg to the stage, we'll kick off with a quick video.

Greg Foran
Chief Executive Officer

Kia ora, and good afternoon, everyone. And maybe just before I do a few opening remarks, I might just get a few of the team who are presenting just to sort of stand up so everyone can see who you are. So Mike, can you just stand up? So Mike is going to take us through our network strategy. Where is Jeremy? There he is. He's going to take us through commercial. Kate? Thanks, Kate. Loyalty. Nikhil? Nikki? Great. You're going to take us through our people and culture. And Richard? Well, the good news is they've all turned up. So I'm relieved about that.

Therese, can you just quickly stand up? I'd like to introduce Therese. She is the Chair of the Board, thanks for coming today.

And if I can say, first of all, thank you to all. I know that you've got a lot on, and hopefully, we've been able to schedule this around your busy schedules as well as ours. And thank you also to those who have joined online.

And just before I do kick off, I just want to say thank you to the team for putting this together. So we've heard from Kim, but Leila down here, many of you will know, she's been instrumental in pulling this together. Jan, you had your share of work to do, and there's been plenty of others all across the Air New Zealand team that have pulled this together. As you know, we haven't done one for a while. To Olivia and all of your team, there she is, thanks for running yet another event for us. Terrific.

So why don't we jump in and get underway? A few weeks back, we were voted the best airline in the world by customers, 30,000 of them actually. It wasn't our survey, it was totally independent. And I thought it was worthwhile beginning with this and just pausing on it for a minute because it's not as if we haven't had our share of sort of disruptions in terms of fleets and how that's played out with customers. But dealing with product, particularly on our wide-body, which is over 20 years old, many of you travel on those, and we'll talk about the refresh of that later on today.

But here we are getting that type of award. And I think it says quite a lot about Air New Zealand and its culture. And I am a supporter of someone like Peter Drucker, who says culture does indeed eat strategy for breakfast. As part of our DNA, Nikki will share some more about that with you later on today about our people and what makes us different. And I would say to you that it creates real, sustainable, competitive advantage. And we're going to guard that fiercely. And it's why I'm very confident that Air New Zealand can deliver on the plan that we're about to go through.

Drucker also said there is nothing so useless as doing efficiently that which should not be done at all. And I like that one, too. So not only is he telling us that it's pretty important to have good culture, better have a darn good plan. And importantly, you better know how to execute it. So you're going to hear quite a lot today about what the things that we're doing, how we feel about the business and where we see it going. Importantly, you're going to meet many of the leadership team in Air New Zealand.

Richard is going to close out today, and he's got a fantastic set of slides that are going to lay out the future financial opportunity. So in plain English, you're going to see where we're going to play and how we're going to win and in that order. You're going to see a plan that's going to deliver strong free cash flow and returns for our shareholders. And you're going to see some talent and depth and attributes in this team that are going to give you confidence that actually we can deliver this.

It's back. Travel is back. It seems a strange thing to say, but I can tell you for the first 2 years I was in this job, I wasn't quite sure what was going to happen. I started on February 3, 2020. On February 2, 2020, which was a Sunday, I got a telephone call telling us -- me that we were no longer going to fly to Shanghai. Good news is I didn't know how often we flew to Shanghai. It turns out that it happened to be every day of the week.

What was interesting is that 6 weeks later, the only flying we were doing was repatriating Kiwis, bringing some cargo. So I can tell you now, if there was ever anything that was going to stop the airline industry, it would have to be something like this. Well, it hasn't. We ended up doing -- this is actually a good fact for you, out of 400 scenarios during about a 2-year period, as we worked hard with Justin and his team in treasury to pull together the wherewithal to do a capital raise.

And you'll see from Richard's presentation, we've got a really good balance sheet now. But let's be clear, demand is back, and we can fulfill our promise of connecting people. And not only that, but we can do it sustainably, and we'll talk a little bit about that soon.

About 5 weeks ago, Therese and I and a couple of others actually caught up with Kelly Ortberg, who is the new CEO of Boeing. He was in the middle of a strike at the time, and I'm very pleased he's back at work. So he had his hands full, but he gave us a day, and we chatted about a whole bunch of things. One of the things he shared with me was he said, we got about 2,000 aircraft that have not been built over the years since COVID. So we've got an order book which is pretty full.

And I can tell you that Airbus have got the same issue and so have ATR and so have all the engine manufacturers. So I think there's no question in my mind that we've got any issue here with demand. And Mike reasonably soon is going to share with you what our growth looks like, and the headline there is it's between 3% and 4%. We think that's a pretty good number.

I've had plenty of wise counsel in my time of being a CEO in various different countries and businesses. One piece of advice I've got I've never forgotten was the 3 rules of the strategy, maintain market share, maintain market share, maintain market share. Sounds simple, but people move away from it. So you can see how important domestic is to us. That's how we set it down. And guess what we're going to do in domestic, maintain and grow market share.

Inbound tourism is also a pretty important part of that. We'll make sure we get our share of that. And we're an interesting business because we have to be a bit ambidextrous, don't we? We're not the biggest around. So domestically and across the Tasman and into the Pacific, we're a pretty egalitarian business. We don't get too caught up with business class and all the traffic and nor should we.

So we have to maintain that approach. And at the same time, we're very clear that on our long-haul international routes, we're a premium leisure airline. And we understand that well. And through this afternoon, you're going to see how we have adapted our offerings to basically play in those particular markets.

Over 40% of international travel to New Zealand is on us. Jeremy will talk some more about that. So global demand is strong. We expect it to stay that way, tick. And New Zealand, demand is strong, and we also expect that to stay tick.

It doesn't mean that we don't have a few headwinds to deal with today, and these are pretty well documented, aren't they? Whether you're talking about engine issues, whether you're talking about trying to get new aircraft, supply chain or even chasing down some engineers, a key role for us, we're still having to work hard at all those things.

Quick story. About 18 months ago, these are all the things I've had to learn in this gig, I found out that there were about 40 parts that required your Dreamliner to be AOG, aircraft on ground, before you could order them. So in other words, you just couldn't go out there and fill your distribution center up with reverse thrusters or whatever the part happened to be, simply because you thought you might need one. You actually had to demonstrate to the OEM that the plane couldn't fly. I think one of those, David, was a windscreen at one point. Toilet seat was another one. Go figure.

Anyway, that number was 40. About 12 months ago, it changed to 80. About 2 weeks ago, the number was 794. It keeps us on our toes, I can tell you that. But we stay close to the issues, and we need to. This time next week, Richard, we'll be getting close to getting off a plane and catching up with our good friend, the CEO of Rolls-Royce. He's a good friend because I've got to know him closely.

So Richard and I will enter yet another discussion on Trent engines with Tufan. The next day, we'll be shooting over and catching up with the CEO of a company called Safran, probably the biggest part supplier because parts are a challenge. Next day, we'll be catching up with the CEO of Airbus and ATR.

Why do you have to do those things? Well, you got to do them because when you're not the biggest and you don't have that leverage, and I have worked in a company that used to be quite large, so I had quite a bit of leverage, I've worked out relationships are really important. And how might that play out? Well, here's a good example of it. Baden -- who's Baden? He is Baden. Baden had to go and find us three 777s the other day because we needed it.

And the reason for that is that we've got four 707s that we can't fly at the moment because we haven't got any engines. Now I can tell you that there are a lot of airlines out there looking for 777s. Why do they want a 777? Because the 777 is a bit like a 1986 Toyota Corolla, likely going to start every time. These GE90 engines on them are something to behold.

You don't have to take them off wing every 750 cycles. You can leave them on there for several thousand. We like them. How did we end up getting 3, really good ones? Relationships. Now it also helps when you've got a good balance sheet, and it also helps when you have a good engineering and maintenance department that look after these things, but that's one of the ways that we've been able to keep this thing moving along.

Most of you will have caught up with the fact that we've gone out with an update to the market. I'll tell you how I feel about things at the moment. I feel pretty good. If you would have asked me on the 1st of July, which was the beginning of our new financial year that we could put our guidance this morning saying we'll be between the $120 million and $160 million, I would have taken that every day of the week. And the reason for that is that I knew and so did the team, it's going to be pretty tough domestically.

We've got to spend out a government, which is about minus 25%, and I'll give you a hint, that isn't going to improve anytime soon. They're going to keep the screws on their expenditure. And that represents a reasonable portion of our domestic business. I can tell you that corporate spend is down about 12% and will gradually start to improve.

And we've got plenty of competition still coming in, in various markets, the U.S. for one. And I won't bore you with the geopolitical issues that we're dealing with there. Suffice to say that I think traffic between the U.S. and China are still only operating at 19% of pre-COVID levels. So they've got a few extra aircraft that they don't mind sending to Australia and New Zealand.

So you add all that up and to come in with the sort of guidance that we have, I'll take that every day of the week, especially when you consider that you've got over $1 billion worth of your aircraft sitting on the ground that you can't fly. I think it's a credit to the team. They've delivered the result that they have. I'm proud of them.

So here's what I would say to you, like us, be patient, stay focused, hold us to account to get stuff done. And I hope that when you finish today, you see that we actually get stuff done. And just as importantly, make no regretful decisions.

I've been in plenty of businesses when I see they get into tough times, they do short-term things. We don't do that. We think long term. We're building hangars that are going to be really good for another 50 years. We're investing in Christchurch engine centers. Why? Because it's a good business, and it's one we should be in. We'll retrofit planes because we know it's the right thing to do.

And the good thing is we've got 85 years of legacy. Boy, did I inherit something pretty good? 85 years of goodness. And you'll hear some more from Jeremy about how he's thinking about our brand and Nikki about how we're thinking about people, a loyalty program that just gets stronger and stronger. But we now have re-platformed it so we can do some pretty exciting things. You'll hear about how we're continuing to simplify the fleet, and you'll also get a sense of how these numbers start to play out.

As I said, we haven't been sitting on our hands. We have a bit of a saying in the place, which is you got to be able to walk and chew gum. So yes, I get the fact that we might have to deal with a Trent engine that didn't come in or Pratt & Whitney instead of having 5 AOGs on the 321s, we've got 6.

I want us to make sure that we are doing lots of things to build this business. So it is something that not only we are proud of, but the country is proud of for the next 10, 20 or 30 years. And this list is by no means exhaustive. In fact, if we would put everything on it, and you'll see some lists and some of the other slides that are coming up, the font would be incredibly small.

As I said, we know how to get stuff done at pace. Some of these are going to drive revenue, some of these are going to reduce costs, some you're going to see and some you won't even see, it's going to happen behind. I'll give you one example. I just came out of a meeting an hour ago, and we just turned on Apple Tap to Pay, so we can do a better job of collecting excess baggage fees.

We've worked out how to do 100 things 1% better. I'll quite often get out around the business. Why? Because actually, that's where the truth is, the unvarnished truth. It's kind of when you're talking to an engineer or you're talking to someone checking someone in. I worked out the other day. I think I've checked 20,000 people. Kate is often with me. We're a great buddies, often on a Saturday out there, checking people in.

We've worked out how to lay the floor out better. We've worked out how to improve the speed through kiosks. Even when you use your app now and you're checking in for a flight, how many buttons you have to check? One, thank you, Nikhil. So we're doing a good job on that. You'll hear a bit more about all the things we're doing with people.

I was at a key Kia Ora Youth induction day with Nikki a couple of weeks back. We had about 250 new starters. We do 1 every 6 months, but really low turnover, and she'll tell you about that. But gee, I get excited about the talent that I see coming in the business.

This retrofit that we're doing on the Dreamliner. Fingers crossed, we get it back in from Singapore, circa 10 January or something like that. We're literally chasing parts every day from all around the world, relationships matter. But I think you're going to really like what you see on that plane. Do you know we are the first airline in the world to do a major retrofit on a 787? Not only that, we're having to do it using what we call an integrator.

So it's not just us being able to work with Boeing. Boeing are so far in the swamp filled up with alligators, they haven't got time to be doing all these retrofits. We've had to work out how to teach them to partner with NAT to get this retrofit done, but the team are doing a terrific job.

And then you're going to hear some more from the team about some of the operational work that's getting done. And to Alex, stick your hand up, Alex, over there. She runs our operations. David, you'll all know David. They're into that absolute detail in this business around what's happening with getting flights in and out in time. And Nikhil will share some of the terrific work that he's got underway in terms of the digital pieces to make that operate well.

Every business needs a plan on the page. Here's our one. You will hear through the afternoon as the team follow me. They'll take you through each of these pillars, and they'll show to you, we know how to grow domestic. We think we've got a great vehicle there, great aircraft in the A321, the most efficient around. They'll talk to you about better regional connectivity and routes, fleet utilization.

Jeremy and Mike will talk to you about premiumization of our long-haul fleet, and you'll get into some detail there around why we know we can drive more revenue in those areas. We'll talk to you about some enhanced product offerings. We'll get into loyalty in a new way. You'll see new ways to earn and burn. We'll introduce something to you called variable redemption. Take note on that one. It's a really interesting one.

And then, of course, we've got all the aspects down below, whether it's the brilliant basics or our people and our culture, sustainability and all of it wrapped up in a digital cloak that gives us competitive advantage.

Here's another interesting point. I think Nikhil raises it, but I'll do it, so it will really sink in. Think about 95% of our information is now in the cloud, 95%. So 3 years ago, we're still running servers all over the place. In a world where AI is coming at us at 100 miles an hour, you need access to data, and you need it accurate and fast.

Maybe one of the most important slides in the afternoon, Mike thinks he's got a pretty good one as well. He's going to show you where we're #1 in the market in a whole bunch of areas. This is an important one because it really says, okay, so you got a plan to deliver, I get it. But let's be clear that what we've got on this page is above and beyond steady-state business.

And I would say to you, we're not in a steady-state business at the moment. We've spoken about sort of $100-odd million worth of hard costs that we deal with because we've got to lease planes, and we've got to change things in call centers and all the other stuff. This is what we believe we can deliver above and beyond state business.

Now one thing I've learned in this business, get ready for the next side swipe. So there will be things that will come our way. But there's also some aspects in our plan, where probably we will over-deliver. We've probably been a bit too conservative, but this gives you a sense of how we're thinking about the business. Lots of exciting things that the team will get into now with details around that.

And just as I wrap up, last one, the reason why we're focused on delivering these transformational benefits is pretty simple, it drives sustainable competitive advantage. We know we're a cyclical business. We'll have our ups, and we'll have our downs. We won't be immune from getting the bumps, that's for sure, but I can tell you, I am 100% confident that this is a team that understands how to structurally improve the CLI and build something to last because that's what we're doing.

I often say to the team, you get 1 point for talking, 9 for doing. That's the execution part. But we developed a muscle, and you'll hear some more about it around our ability to do just that. Our word is our bot. We've got a solid foundation. We're digitally led because we believe that's where the future is going to be. And most importantly, we have a culture that's going to allow us to deliver this.

So, Mike, it's over to you my friend. All yours.

Mike Williams
Chief Transformation & Alliances Officer

It's been now 5 years, we've been waiting for this. So I'm very excited to be able to have a bit of time to talk with you today, and as the slide says to share a bit about our network strategy, I do have, as Greg mentioned, a good slide coming up. I'll make sure you see that one.

But I wanted to really touch on 4 points through the next 20 minutes or so. The first is that we play in an attractive market, and you'll see that. The second that we've got clear advantages, and it's the combination of those 2 that translate to us winning in the markets that we choose to play in. And the third being that we have some exciting opportunities for [indiscernible] as well. I think this is interesting.

Before we get into all of these advantages that I've been talking about, we really have this good combination between a purpose that really drives a lot of the decisions that we make day to day, week to week, and that's enriching New Zealand, and we do that by connecting each other. New Zealand is with each other, but also between New Zealand and the world, and as Greg showed on one of the earlier slides, we are a nation that likes to get out. We're also a nation where people like to come and visit.

So we have a really clear role to play, and it's an important job that we do. And then our location as well just reinforces that and put some meat behind the purpose that we have. That point there about the 2,000 kilometers, we can travel 2,000 kilometers in any direction. And we haven't quite reached anywhere. We're almost at Australia, I think. And I was looking over the weekend that if you put that same circle, a 2,000-kilometer circle over middle of Europe, you cover the whole lot. You get all the way, including Moscow. You've got almost Iceland in the Northwest down to Turkey in the Southeast and then even to the south.

So we're in position where we're isolated from the rest of the world, but with a country that loves to travel and the world that loves to travel to us. So we've got an important role to play. And we can look at that whether it's cargo or connecting passengers, it's all the same.

So one of the things I want to take you through over the next few slides are the features of our network. And there's 5 here that really stand out. I'm not going to touch on them all on this page, but you can see that together what they create is our strong right to win. And the first of those is regarding this diversified network. The best for us is in a few forms. It's not just about where we operate, be it domestically or short-haul or long-haul, but that's important.

It's also about the customers that we serve, and Jeremy is going to spend some time really unpacking that, and it's also about the way that we think of the network in totality. So we've got new markets such as New York, JFK, but we've also got markets that we've been operating for many decades. Of course, those close in the home, but even Hong Kong has been I think in the network. Richard knows all of these stats, but I think it's 1978 or so.

So we've got this balance of network, of destinations, of customers, and that really provides both balance, but with that balance comes opportunity. Obviously, during COVID, we had to quickly pivot towards our role as a cargo connector. And New Zealand, again on that last point, is a nation that trades. 20% of the value of all of our imports and exports is by air freight, and Air New Zealand has about 40% of that value. So that's an important role that we play.

But even more recently, what we've been finding is, again, Greg touched on the point that the traffic as an example between China and U.S. at the moment is only close to 20%. So Air New Zealand is actually stepping in and being able to connect these 2 markets from an airfreight perspective, carrying a lot of e-commerce goods between China and the U.S., just as one example.

So this is our network. I think you know it well. Many of you probably used it today to get here. If not, I think there'll be many New Zealanders using it over the next few months as we get away for a bit of a summer break, and we know it well. And one of the reasons that we perform so well is because we know these markets intimately, and there's opportunities in each.

I think one of the most important pieces of this is the fact that when it comes to the market that we know the best is our citadel, it's domestic, we've put an 80% share. And that's something. Again, it's a bit like our purpose. We're constantly referring back to that understanding not only how we protect that, but also how we can grow it. And it's not just about looking at competitors domestically, it's also thinking how do we actually do a better job of connecting customers, both in the way that we serve them on the ground and the way that we connect them with our network. I mean, in some cases and in the future, in particular, that could be even taking traffic off the roads and finding more opportunities to connect in a better way, in a more productive way through the year.

I'll tell you a quick story as well regarding opportunities on long haul. Recently, I was with some colleagues visiting our partners in Asia. And I don't know if many of you have been to Shenzhen recently, but it is a megacity, one of China's Tier 1 cities. I actually used to live when I was young. I lived on the border -- in Hong Kong, but on the border with Shenzhen. Now this is going back some decades.

It was a fishing village at that point, but today, it's a mega city, unrecognizable clearly from when I last saw it. And we actually checked in for our Air New Zealand flight in Shekou at the Ferry terminal, took a 30-minute ferry ride to connect right into the heart of Hong Kong International Airport using this ferry. And then on the airside connection directly transited to our Air New Zealand flight within about 1 hour transit time once we arrived at Hong Kong Airport.

Now that experience not only was it great, but it's important, and it touches on the opportunities that we have to really develop the network that we already have existing. And that's because Hong Kong has got a population of 7 million, using this example. But within that 2-hour radius of Hong Kong in that Greater Bay region, there's a population of 87 million.

Now that's just 1 example. We could talk about New York, and the fact that when we fly direct, we stimulate this new wealthy catchment that otherwise wouldn't have really thought that New Zealand is a place that they can get to in 1 sleep. But the point being that we know our network well. There's opportunities for growth.

When we combine this real, strong position that we have in the markets with these clear advantages, what we have is a winning recipe. Now I think this is the slide that Greg was referring to. Thanks, Greg. This is the #1 slide. And what we're talking about here when we're talking about #1 is the passenger traffic share that Air New Zealand has connecting, for example, Australia and New Zealand and New Zealand and the Pacific Islands, et cetera.

So no other airline connects more people, more passengers between these destinations in New Zealand than what Air New Zealand does. And that's not through luck, that's through sheer hard work and all also the advantages that we have. It's through understanding our customers and making sure that we've got a product fit with the markets that we're operating.

And Jeremy, again, is going to talk a bit about Seats to Suit. Seats to Suit is a product that we've had in the market on domestic and short-haul markets for 10 or so years now. And then more recently, others in markets across the world have figured out that this is something that's interesting, it's something that Air New Zealand has been doing for many, many years.

We'll talk in a little bit about the fact that on our long-haul network, we're really focused on our premium leisure product. And that, again, translates to a winning proposition and then winning results. Interestingly, if I just talk to Asia for 1 second, our geography, again, plays to our advantage. We're not so close to many of our Asian markets that we can be reached with a narrow-body aircraft, which is typically what's used by lower-cost carriers. So we're slightly out of reach, which means that wide-body has become the primary aircraft to connect New Zealand and Asia, which again introduces the need for a more premium experience, which Air New Zealand has an advantage.

Interestingly, what this all means down the bottom is that between New Zealand and these international destinations, we actually have a 45% share of that traffic. I'll touch on shortly, but there's also room for growth there, so the top 20 largest origin and destination markets, Air New Zealand is directly serving 13. And we look at that and say, that really means 2 things. One is that we can do an even better job servicing those 13 such as that Hong Kong example, and secondly, the 7 that we haven't directly served in a nonstop sense, which means there's opportunities for further profitable growth.

So I mentioned the 5 features of our network. We're now on #3. This is our cost advantage and the real focus that we have on making sure we compete aggressively from a cost perspective, both domestically and on short-haul markets. There's a few features to this. Let's just touch, first of all, on the fact that we are transitioning. We've now got 8 321neo aircraft, which is the bottom aircraft. You can -- for those Hawkeye planes models, you can see, it's got a slightly different engine type versus the ceo at the top there.

But what it needs to bring it to life is if you were traveling between, say, Wellington and Auckland on a 321neo, there'll be an additional 46 seats on that aircraft versus the 320. And together with better engine technology, we can operate those 46 seats with very, very small additional trip costs. But of course, with the 46 seats, we can do either serve a lower-yielding passengers, make sure that there's opportunities for that domestic growth as part of our strategy by offering cheaper seats, for instance, in the middle of the day.

And on peak time flights, we can make sure that we're not spilling very high-yielding demand, so really catering to both ends of the market in that single aircraft, and we're very excited. The numbers on the spreadsheets would say that we get about a 1.5x contribution margin using the 321neo aircraft. When we're operating them, and clearly, we've still got some work to do to bring them into the fleet as much as we'd like. But when we do operate them, we're actually seeing closer to that 2x contribution margin.

But it's not just the aircraft type itself, it's also the fact that we value the simplicity of a single cabin, again, to that egalitarian point that Greg mentioned. We've got the ability on these shorter-stage lengths, so shorter duration flights to provide a differentiated experience, but without the complexity of having an economy cabin in the back end of the business cabin at the front.

Then we're talking about premium leisure. So now we're really thinking more long haul and the way that we're developing that long-haul international network. Premium experiences isn't just a feature of airline travel. I think in any industry that you look at, whether it's events or consumer products, there's this shift towards premiumization. And it's something that we picked up on in some strategy work that was being done in 2018 or so. So well prior to COVID. It actually came through a question we asked ourselves about how do we best position Air New Zealand to win in this long-haul space.

Now it turns out that what differentiates Air New Zealand already is the fact that we can offer those premium experiences. It's not all about the hard product, the seats, the lounges, for example. It's also about the way that we service customers, and that's what makes Air New Zealand special, and Nikki will touch a bit on that later.

And so you could see that back then, we placed a bet, and we said, we think that there's going to be growing demand for premiumization, and we need to make sure that we can provide customers ultimately what they're looking for, which is that premium Air New Zealand experience, and so we started to reconfigure our aircraft. We introduced what we call economy stretch, which is some more leg room within the economy cabin. And I think, again, Jeremy will share some of the stats we're seeing on that as an ancillary opportunity.

But right now, if you're in Singapore at the airport, there's a hangar, it's a SASCO Hangar, where we get some of our wide-body maintenance done. One of our 787s is in there, and that's actually undergoing a retrofit. This is the one that Greg spoke to, and we hope by mid-January to have that back into Auckland with our new product on it. Not quite down the Skynest, but that will be coming in the future when we get the new aircraft from Boeing. So you can see that we have made a decision years ago to head down this premiumization path, and we're excited about the benefits that, that will provide.

Relationships are key. Greg spoke about that. We're also having amazing relationships with really the best airlines in the world, and they allow us to connect New Zealanders with parts of the globe that we don't serve directly. So you can see here, it doesn't matter which region we've got some of the strongest partners. In Australia, we have a co-chair agreement with Qantas.

It's a co-chair agreement. It's a very common type of agreement that allows us to connect into their domestic network. North America, we work with, in many respects, the world's largest airline, being United, and we've got an extremely close relationship with them. And then towards Asia, U.K., Europe, we're working very closely with Singapore Airlines, and of course, Air China and Cathay, rounding up those Asian destinations.

In addition to that, we've also got co-chair partners, as you can see down the bottom right, which provide further connectivity options. And what this all means is that, first of all, customers get more choice and access to more destinations. Secondly, that we can have capital deployment efficiency in terms of where we deploy our own aircraft when thinking about the sales support and distribution and marketing support from these large airlines who have strengthened the home market.

So translating this into some facts and figures for you. On the left there, this is what I was referring to when I said that customers have more choice. So Air New Zealand can directly travel to 50 destinations. That's where we fly to ourselves with an Air New Zealand aircraft. But if you actually look at where an Air New Zealand ticket with an Air New Zealand flight number can get you, that increases to 320.

So recently, we -- some of us in India, we were meeting with other Star Alliance partners. I could fly on Air New Zealand to Singapore and then seamless connection at Changi Airport in Singapore to connect to a Singapore Airlines flight to Delhi, for example, but that whole flight has got an Air New Zealand flight number and the benefits of flying with Air New Zealand such as lounge exits.

From a capital deployment perspective, an example to bring this one to life, we work very closely with Singapore Airlines. Right now, actually, we have 3 to 4 daily flights between Auckland and Singapore. Now interestingly, the airlines would struggle about how these sorts of things could be divided between the various airlines. The depth of the relationship that we have with Singapore Airlines means that we can actually share that third bank. So we each fly 1 daily flight, and then, depending on the season, either Singapore Airlines or Air New Zealand.

And again, that brings to life the sense that we can make the best capital deployment decisions as it relates to our aircraft and our network, but working collectively with these partners. And then in the case of Cathay Pacific, again, recently meeting with them in Hong Kong, Cathay actually sell about 1/3 of all the passengers on our Auckland-Hong Kong flights. And reciprocally, we sell a very large share of passengers onto their Auckland-Hong Kong flights. So the power together means there's benefits not just for each of the airlines, but the customer and also New Zealand as a whole in a sense.

We're excited, excited because, as I mentioned, there are 7 of the top 20 destinations that we don't currently connect to directly ourselves with an Air New Zealand flight. And we see that as opportunity. There's 2 that I can touch on briefly here, one being London. And you would have seen, I think, there's been some discussion and commentary about the fact that we've got an interest in London. It's been a while now since we haven't been operating directly.

And one of the things that I think we hear about from customers more than almost anything else is when are you going to go back because it's great as it is to be able to connect there with your alliance partners. There's something special about Air New Zealand flying into London, and we'd love the chance to be able to fly there with Air New Zealand.

And we listen to all of the feedback, not just on network decisions, but it has made us consider when a possible return could be and what that could look like. So at the moment, clearly, with aircraft challenges and engines not being available as we'd like them, we're in a position where we can't quite firm up the decisions, but it's one of those areas where I think we could be looking to share more news in the next months, maybe in the next year or so.

Another market that we're really interested in is India. I mean it's one of the largest growing markets. Air New Zealand, together with Singapore Airlines, already served that market incredibly well. In fact, I think about 50% of all the customers traveling between New Zealand and India transit via Singapore. But as that grows and develops further, together with Singapore Airlines, we're really excited and interested about what we could do to serve that market even more efficiently in the future, so more to come in that space. But obviously, our ambition, it's high but tempered by the fact that we need to make sure that we do a good job servicing the existing network first.

And bringing it all together, really, from a longer-term capacity growth perspective, here's what we're expecting to see. It's -- the headline is 3% to 4% capacity growth over that next period. But really, we need to think about this as a different story really domestically from what we see internationally. So domestic, it's around 2% to 3%.

And many of you have been close working with Air New Zealand for a while now, and that's probably a little lower than what you've seen in the past. And it's reflective of, in the short dates, that more difficult trading environment that Greg has referenced with corporate and government spend behind where we'd want it. But it also reflects into the structurally higher cost base that we're going to be working to offset through things like emissions trading scheme, costs, higher aeronautical charges, et cetera. So as we look to grow, which we will be looking to do, we'll be obviously calibrating those growth aspirations with the need to make sure that RASK is growing in the way that we'd like it to. And we do have some new aircraft coming in the form of ATRs and, ultimately, new 321s, and that can be used to support some of this domestic growth as well.

And then internationally, clearly, again, we're a country that likes to explore. And as we add new destinations and grow existing destinations, that will support some of this capacity growth that you'll see. Slightly higher range, 3% to 5%, probably weighted a little more towards long-haul international, but again, making sure that we maintain the share and the passenger share premium that we have on those short-haul markets.

So that's this network section. There's obviously the chance to have some questions and a bit of a discussion later. But maybe I'll just wrap this bit up by saying with what I started, that we operate in a market where there's a real need for air travel and strong connectivity. We've got clear advantages across those 5 features of the network that I talked about, and that translates to winning results. And that's exciting, but also what makes us excited is the fact that we've got clear opportunities to support future [indiscernible]47:47.

So thanks for your time, and I think Jeremy will follow me.

Jeremy O'Brien

Thanks, Mike. Kia Ora, everyone. I'm Jeremy. I am the GM of International here at Air New Zealand. And as Mike just alluded to, our network and fleet is one of the fantastic foundations we have for our commercial success. But it's not the only foundation we've got, and I want to take you through a little bit of why I believe you can be very confident in the commercial returns we're going to be providing as a business in the years to come.

So we've got 3 other kind of core foundations to our commercial success. First and foremost, we've got this unenviable high market position. I kind of think of New Zealand to Air New Zealand like Eden Park is to the All Blacks. We're really bloody hard to beat at home. And there's a bunch of reasons why that is, and I'll talk to you about that shortly. Secondly, as Mike alluded to, we are #1 for travel to and from New Zealand internationally. And that sets us up really well to take advantage of growth in international as we go forward and a great source of long-term sustainable earnings. And thirdly, we have this appeal across quite a substantive and diverse range of customer segments. We've got, in each of our domestic and international markets, 3 big segments for based on reason to [travel]. And each of them have unique characteristics so that we're not beholden to or reliant on any given [indiscernible].

So let's unpack these bases for our commercial success really quickly. If I think about us at home, there are 3 key reasons why we're unbeatable at home, and the first of them is that iconic Air New Zealand brand. Our brand is well known, and it's loved. We have over 97% of spontaneous awareness amongst New Zealanders. Pretty much every single New Zealander knows who we are. Not only do they know us, they love us. 82% brand in the New Zealand market.

Now that doesn't mean we're perfect. There's 80% -- 18% customers who think maybe we're not so great. And so we need to continue to work on that. We need to always lean into it in terms of developing better product, being better at customer satisfaction, being good with our communications. But that is a very unenviable position for our brand to be in and actually one of the leading brands consistently here in the New Zealand market, regardless of industry or category.

Part of the reason we've got a great brand position is that we invest ongoing. We invest around about 2% of Air New Zealand point-of-sale revenue every year on our brand and into our marketing activity. That's around about $40 million worth of investment year after year for us to be able to have that strong sustainable brand position, and we're going to continue to do that.

The second reason we're really strong at home is this unrivaled distribution footprint. Based on Google Analytics data, airnewzealand.co.nz is the single largest travel retailer in the New Zealand market. On a monthly basis, on average, we generate around 7 million unique user sessions. Those sessions translate into around about $181 million worth of sales, on average, on a monthly basis, and it represents around about 62% of all of the revenue we generate here out of the New Zealand market. And that's up from 55% pre-COVID. So we had this incredibly strong direct business-to-consumer channel that's unrivaled in the market.

But it's not just that channel that's important to us. Our trade partners are really important. They represent around about 38% of the revenue that we generate here out of our New Zealand market. And we have strong enduring partnerships with all the leading trade partners in market, and we do a huge amount of co-branded and co-marketing activity to stimulate travel, both within New Zealand and between New Zealand and the rest of the world, with those trade partners.

The other big thing we've got is really strong business-to-business relationships. We have over 270 contracted corporate clients. Those corporate clients have an entry level spend of around $350,000 on their domestic travel and about $150,000 on their international travel. So that provides a great sound base for which we can build our revenue across the course of the year. And you can't talk about the market here in New Zealand without talking about small businesses. And across that above and beyond and at Airpoints for Business program, we have over 40,000 small businesses who are a part of one of those programs transacting with Air New Zealand.

So we've got this really strong iconic brand and unrivaled distribution footprint, and then we have this amazing loyalty program. Now 5 years ago, I was fortunate enough to lead our loyalty program, and it was a good program. Kate O'Brien took it over, and she's going to talk to you shortly. But what I can say in the last 5 years, she's taken it from a good program to now a great program. And she'll talk a lot about the value that we're going to drive out of that loyalty program going forward.

The bit that's important from a commercial success perspective is the scope and scale of that program. Around 4.6 million members now across the Airpoints program, 3.2 million of them being Kiwis. That's 2 in every 3 Kiwis over the age of 18 are a member of that program. And as I go a little bit more into the builds we're going to be making from a commercial perspective, I'll explain why that's so important. So we've got this really strong home market advantage.

But as Mike talked about, we're also really strong internationally and, in fact, [indiscernible] for travel to and from New Zealand. From a New Zealander perspective, 55% of Kiwis who travel internationally do so with a koru on the tail of the aircraft they're flying in. And the reason that we were able to get that position is based on that home market advantage I talked about upfront.

But that's not the only place where we have preference. In all of our offshore markets, we also have significant brand strength and purchasing intent from customers. 35%, so just over 1 in 3, of every single visitor who comes into New Zealand comes so -- comes to us on an Air New Zealand aircraft. So you combine those 2, that's where you get that 45% that Mike talked about. 45% of all travel to and from New Zealand is on Air New Zealand. And based on last financial year's visitor numbers of about 13 million, that's 3 million more customer journeys than the next biggest airline that services international travel out of this market.

And so why do we get that from an international perspective? If I look at our offshore markets, one of the things we've always done is we've invested for the long term. So we don't launch a market, do a big song and a dance and walk away. We build sustainable strategies to build long-term demand and partnerships in market, and we invest in people in each of those markets we operate within. So in every single one of our direct markets, we had Air New Zealanders employed by us on the ground, salespeople, marketing people, commercial people. And in the front of house in our airports, Air New Zealand is who are servicing our customers.

We do that because no one knows Air New Zealand better than any Air New Zealander. No one cares more about inspiring travel to New Zealand than an Air New Zealander. We put it into our training. It's in our brand. We talk about share our [Foreign Language]. Having those Kiwis and those people who think like Kiwis in market in all of our offshore locations means that we become the partner of choice for selling Air New Zealand and New Zealand.

We also have this amazing brand offshore. So if I think about the global brand that we have and our innovation, the likes of safety videos. The one we've just launched with Steven Adams has had over 40 million views globally already. So that's helped us to cut through and resonate in all of those offshore markets and kind of differentiates us and helps us stand out from the crowd.

The other partnerships that are really important to us are our marketing partnerships with the likes of Tourism New Zealand. We have a joint venture partnership with Tourism New Zealand, where in all of our key markets, we're pulling resources and taking a New Zealand [ink] approach, again, to get the awareness of destination New Zealand up but in a long-term pipeline and funnel of people who are interested in coming to travel to the country and, then through our salespeople and our marketing activity, converting them for travel to our country.

And finally, I can't talk about what we do in those international offshore markets without talking about our alliance partners. So Mike has talked about the fact that the incredibly strong

[Audio Gap]

perspective. They bring about 14% of the customers who come into our international network off those alliance partners. But they're also really important for us from a distribution perspective. If I look at United Airlines, Air China, Cathay Pacific and Singapore Airlines, in each of those markets, they increase their distribution footprint by about 10x versus if we were there on our own. So again, they enable us to have that really strong international presence when we're looking to encourage travelers to come to this country.

The third piece I want to talk about in terms of those core pillars, those core foundations for our commercial success are the customer segments that we have that are varied. So here in New Zealand domestically, around about 65% of all passengers we carry across all of our network are passengers who fly domestically with us here. That generates around about $2 billion of revenue on an annual basis. And there are 3 quite distinct customer segments based on reason for travel: one being the leisure segment, which includes VFR, so visiting friends and relatives. That's around about 50%; 30% is business broadly and can be broken down at the subsegments of corporate, government and SME; and then 20% is either international connecting traffic into our domestic network or a traveler who has booked, from an offshore location, a domestic flight here in New Zealand within New Zealand.

Now the reason that it's important that we've got these substantive and quite varied customer segments is because it can help us withstand some of the changes in demand that any one of those segments might get. And we've alluded a little bit to the slowdown in government spend over the last 12 months, and that's trickled down through into corporate and SME as well. And we've had to pivot our approach and look to stimulate a bit more of that leisure market to be able to backfill some of that demand that we've lost from the market.

We do that really effectively, and part of that is because of the data we get out of our Airpoints loyalty program. Those Airpoints customers are twice as likely to convert because we're able to put relevant and contextualized our offers in front of them. And so when we put a leisure campaign in market to stimulate the market here in New Zealand, we see at least a 40% uplift in bookings versus a noncampaign period. And from a marketing investment perspective, we have a return on marketing investment of about 20:1. So we can move between customer segments and stimulate demand, particularly in leisure, incredibly well, particularly here in our New Zealand market.

Now internationally, that represents around about 35% of all the passengers we carry. It's $4 billion worth of revenue. So it's a good business. It's high-quality business. And again, we've got these 3 distinct segments. Around about 50% of it is leisure. 38% of it is visiting friends and relatives, and particularly, we're strong there in our short-haul network, Australia and the Pacific Islands. There's a huge catchment of expat Kiwis coming back to New Zealand from those countries, but also from Pacific Islanders and Australia that are traveling back home to visit friends and family and relatives as well. And then around about 12% of our international passengers are business travelers.

One of the things to note that's important as part of what you take away from today is also the mix of cabin that those international passengers are flying in. One in 5 of our long-haul customers who arrived here in New Zealand on an Air New Zealand aircraft are now arriving in a premium cabin. It's 20% of customers who are coming in from long haul who are in a premium cabin. And that's a green shoot that we've seen since COVID, and that's something that we believe is here to stay and we're going to really double down on. And you can see that in some of the investment we have in our fleet, and I'll talk about that again shortly as well.

The other bit that's important to note around customers is we just don't kind of sit on our laurels and do nothing. We're constantly seeking customer feedback in order to see how we can meet their needs better, but also commercially find ways in which we can optimize the different products that we sell and market. And Mike talked about Seats-to-Suit. And so those of you who've followed Air New Zealand for a long period of time will know that, over a decade ago, we introduced Seats-to-Suit as a way to segment the cabin and appeal to a wider range of customers. And part of the reason it was introduced is we were really coming under attack from low-cost carriers and fifth-freedom carriers. So we needed to find a way that we could compete at the very price-driven end of market, and that's when we introduced the Seats-to-Suit product and a seat-only product. That was a very much buy the seat, and that was -- anything else, you had to add on.

What we've found in the last couple of years is that customers were starting to give us feedback that the seat product may be -- could be a little bit more generous based on where pricing was in that and based on what the equivalent offerings were for the -- across market. So we did a whole lot of rebundling and repositioning around our Seats-to-Suit product. Seat got the addition of our IFE, a snack and also food and beverage, but it still enabled us to keep it at a really good price point so that we could still compete against those low-cost carriers and fifth freedoms. We dropped second bag, and bag became a buyer for seat customers, or alternatively, they could just go into the full service Works product.

One of the major changes we made, though, was to introduce an add-on and affordable flexibility product. So on our short-haul network, you're able to buy up and add on flexibility, and we've seen a huge change in customer behavior off the back of that. First and foremost, around about 30% more customers are now buying up in value to the Works product, and between 10% and 18% of customers, depending on the cabin, are buying into flexibility that gives them assurance that they can book early and, if their plans change, they can get a full refund. And so that changed in the Seats-to-Suit portfolio. It's been received by customers in a way that they're buying up into higher value bundles. The other thing that it's doing is we've seen a lift in our customer satisfaction. So we put it into market in July. And on the short-haul network, we've seen a 2% increase in CSAT on both the Tasman and the Pacific Islands since we introduced the Seats-to- product.

The second product on there Mike talked about, which is our premium upsell in the Economy cabin, Economy Stretch. Now again, there was a group of customers that said to us, "We're prepared to pay for a little bit more comfort and a little bit more space, but we don't want to buy up into a Premium Economy cabin. So can you find us something that kind of sits nicely within the middle?" And again, it's classic segmentation, fighting where the sweet spot is with different value products in the market. So Economy Stretch gives a customer an extra 5 inches of legroom, about 39% extra space, and the customer also gets a little bit more comfort. They get premium head phones. They get a soft pillow. And they enter that product at about $150 buy up from standard Economy.

So we've retrofitted Air's 777 aircraft. They all now have Economy Stretch seats in them. The aircraft that's currently up in [Cesco], the first of the 787s, has got Economy Stretch being fitted within it. And in the next 2 years, we'll have it across our entire wide-body fleet. And we think that that's going to give us between a $15 million to $20 million increase in revenue by that new product being a premium upsell within that Economy cabin.

The reason I share both these case studies with you is you're going to hear a lot more from us today about things we're either in the process of doing or we're going to do. And both of these products have been introduced in the last 12 months and a proof that you don't only get the one point for saying, but actually, this is us doing the things that you're going to see for the rest of the day that we're planning to implement through our strategy. So that's why we're sharing it, so really good base foundation for commercial success, a really good platform.

And then the exciting thing for us commercially is we've got these 5 key growth accelerators or opportunities that we're working on in the business right now, in the middle of implementing or about to implement. Those 5 accelerators are: long-haul premiumization. So Mike talked a little bit about that. We're going to be increasing the premium seats across our cabins by 30% by 2030, and there's a lot of benefit we can get from that. And I'll talk to that shortly; we've invested significantly in next-generation revenue management to enable us to get the most we can out of our existing inventory; we've also got this really exciting opportunity with low-capital, high-margin growth through ancillary, but we're going to need to invest a little bit of modern retailing to realize that potential; within loyalty, Kate will speak a lot to what we're going to be doing to extract additional value and provide better value to customers through our loyalty program. And I'll touch a little bit on the data and personalization side of that; and then finally, we're doing a transformation in our cargo business. They're substantive, and it's going to drive significant productivity and efficiency.

So if I look at our retrofit program, this is what the new cabin will look like across -- actually, this will be our ultra long-haul aircraft. And the only difference in this versus all the other aircraft that have been retrofitted is the Economy Skynest, which you can see in the corner of there, and I encourage you to try that out midway through decision today. So $0.5 billion worth of investment and retrofit. First aircraft already up in [Cesco], going to be back here in mid-January flying by February, 7 products across the wide-body cabin.

Now having 7 products gives you a couple of opportunities. One is it gives you an incredible breadth of customer needs that you can satisfy, a huge wide range of customers you can satisfy with that one aircraft. It also gives you a huge opportunity to upsell and cross-sell through modern retailing, and we'll talk a little bit about that shortly.

But if I look at the cabin here, the first big product we're really excited about introducing is our new business Premier Luxe seat. So that seats right at the front of the business Premier cabin. It has extra space, extra comfort and extra privacy. It has its own sliding door, has a number of amenities that are special to that seat. And that will sell as a buy-up product at $820 for long-haul flight and $250 for short-haul flight. So that's a cabin buy-up product that's coming into the fleet. Not only are we introducing BP Luxe, we're having fully new Premium Economy and Business Premier seats.

And then when we go to the Economy cabin, we make sure that we've got different value segmentation across that cabin. So not only have you got the likes of the Skycouch that we've had for a number of years, we're introducing, as I said, Economy Stretch. And then for long haul, you'll be able to get a session of about 4 hours, we can have a lie down and a sleep on an ultra long-haul flight in the Economy Skynest.

And so a huge range of product that enables us to appeal to a wide, wide range of customers, lots of cross-sell and upsell opportunity. And we believe across our premium cabins, that we can get between a 10% to 15% RASK uplift in driving that premiumization, both increasing the density of the cabin by 30% by 2030, but bringing in to play these 7 different products that we can sell up customers to over time, so kind of quite exciting from a commercial perspective.

Secondly, kind of the bread and butter of airlines is revenue management. And Air New Zealand has always been an innovator. And around about 2018, we sat down with a start-up business called FLYR, and we worked with them to invest in a new revenue management system called Cirrus.

Now the advantage of this revenue management system is it's powered by machine learning. And so machine learning is where an analyst can put their knowledge and their data on what's happening in market, same with inventory, and they can teach the machine to adjust its forecast in order to keep learning when they see different stimulus inputted and then respond to changing market conditions, be that extra capacity that's been added in, some surge in demand that's happened. And we can put a whole bunch of parameters around our system that teaches the machine to optimize our inventory settings and our pricing settings at -- in any given point in time around where demand is sitting, where capacity in the market is sitting.

So the great thing about the system is it's highly intuitive, and it's got this awesome user interface so that each of our revenue management analysts who previously will be trying to manage every single flight every single day at every single time point on every single market, they can actually set and forget a few parameters within some guidelines. And then if anything falls outside of those guidelines, the system will raise a flag and it will tell them that, that market needs attention. But what it will also do, it will go -- I've seen this before, and actually, here are 3 ways in which I think you could respond to those changes in demand or those changes in capacity.

We believe that the introduction of this new system will deliver us between 1% to 2% RASK improvement across the entire network. It's been implemented across domestic and short-haul already, and we are 2 weeks away from putting our last 2 long-haul markets onto the system. And 1% to 2% RASK uplift on a $5 billion business , you're talking between $50 million and $100 million of optimization that you can get out of this new system. And so we're pretty excited about that, and that's driven by better yield and big load factors.

The third growth opportunity we've got is this really great capital-light, high-margin growth that we can get through ancillary. And we've always had some good ancillary product, particularly a direct product where you can buy into the likes of Skycouch. You can add a bag. You can choose a seat. But we're going to be introducing some new products into our ecosystem as well, as I said, the likes of Economy Stretch, the Skynest, and we'll be looking at neighbor-free seating on short haul.

And the way in which you get the most out of these new ancillary products is through modern retailing. Nikhil is going to talk to you a lot more about how we're transforming retailing at Air New Zealand. He will talk about offer and order management. So rather than having this very analog kind of approach to the customer buying journey, we'll actually be able to almost do a bit of a pick in a mix, where a customer can personalize the type of flight product that they want through a range of portfolio of options that we can provide them with. And so that, in essence, is modern-day retailing with offer and order management. And it's going to be critical for us to be able to get the most out of both our current ancillary products, but those new products we're bringing in as well.

Our aspiration is to grow that twice as fast as we have in the last 10 years over the next 4 years and deliver around about 40% growth and turn that business into $0.25 billion revenue business for us. So a big growth aspiration, but we firmly believe we've got the ability to bring it to market and to achieve that.

The fourth growth opportunity we've got is within loyalty, and Kate will talk a lot more about this. I want to talk about data and personalization.

So loyalty is important. Why? Our loyalty members has spent, on average, 50% more than a nonmember with us. They convert -- 2x more likely to convert. Why are they 2x more likely to convert? Because of the information we have to personalize and put relevant offers to them. Information like what their preferences are, what are the destinations that they most often buy, do they have a aisle seat or window seat, do they add insurance to their flight more often than not.

What about what the Airpoints balance is? That might sound kind of really basic, but actually you can avoid a whole lot of wastage by not putting Airpoints redemption offers in front of a customer who doesn't have enough points to redeem, now very simple 101 kind of a marketing perspective. But the ability to have that data can mean that you can put the right level of offer in front of a customer who has the right Airpoints balance to be able to convert. And we also understand a lot about interconnectedness within our Airpoints ecosystem. So the Shairpoints product, where you can add family members and friends to your Airpoints account, gives us an indication of people who are more likely to respond to package offers or travel together. And so there's so much data that we can use to personalize and provide relevancy of offers.

And if you think about kind of all the different products we're going to be offering over time, having proprietary first-party data in order to do that segmentation is critical for us, particularly when, around the world, we've seen the demise of third-party data and the ability for companies to be able to access data pools from outside of their own ecosystem. So Airpoints becomes a critical weapon for us in terms of that personalization and the relevance that we're [indiscernible].

And then our fifth growth opportunity, and it's a really exciting one for this business, is our cargo growth. We're investing in cargo for the first time in a while. We've always had a great cargo business. It's always been driven by people who work incredibly hard to meet the needs of customers. But -- and we saw that over COVID actually, where our cargo business, we maintained connectivity between New Zealand exporters in the world but also brought critical medical supplies in that we needed from a New Zealand perspective. But that was driven by people and the culture here within the airline.

The reality is we haven't invested a lot in that business, and it's going to change over these next 4 years. And we're underway already with 3 key transformation projects within cargo. The first of those is an end-to-end front of house to back of house analog to digital transformation. If you walk out to the cargo building today, you'll see streams of paper printed out on every flight, where people are checking off a load manifest and trying to balance up the belly of the aircraft in terms of the inventory that's going in right up until an hour before the flight goes out. That will soon be fully digitized. And that's going to give a huge amount of efficiency and productivity to those people to be able to do their job a whole lot quicker but also for us to be able to optimize what we're doing in terms of where that inventory goes within the belly of the aircraft.

We're also investing similarly to what we've just done in our passenger business, into modernization of revenue management. So we're going to revenue manage the belly of the aircraft, in the inventory in the belly of the aircraft. So again, great efficiency gains that we can get through better yield through our cargo business and implementing that new state-of-the-art revenue management system.

And finally, and really exciting, in about 2 years' time, we're going to start construction of a new purpose-built state-of-the-art cargo facility within our Auckland International Airport cargo hub. And it's going to be incredibly exciting in terms of the ability for our cargo team to be able to have this modern facility at biggest transit point for cargo into and out of New Zealand. We think that, that investment and that focus and the productivity we get from it is going to, over the next 4 years, improve our average revenue streams by about 20% and build cargo to around $0.5 billion business for Air New Zealand.

So in summary, from a commercial perspective, we've got these really strong foundations that provide us with real confidence in terms of sustainable earnings for the business. But on top of that, we've got these 5 growth opportunities: long-haul premiumization, premium cabin that's going to be increased by 30% by 2030, and we think that, that's going to drive us between a 10% to 15% RASK uplift; we've got next-generation revenue management, and the implementation of that tool, we believe, is going to drive us a 1% to 2% RASK improvement; we've got low-capital, high-margin growth with our ancillary product and offer more to management, and we think that ancillary will become $250 million per annum revenue business for us; loyalty is going to continue to enable us to personalize and provide relevant offers so that we can be confident as we look to upsell and cross-sell product. We can put the right offer in front of the right customer at the right time; and for the first time in a number of years, we're investing in our cargo business, and that's going to drive significant productivity and efficiency gains and build that business to upwards of $0.5 billion business for Air New Zealand.

So huge opportunity for growth, and that takes us from what would be underlying 2% to 3% growth to actually what we are targeting as 4% to 6% growth from a revenue perspective in the years ahead. I hope that's been helpful.

I'm now going to pass over to the better O'Brien, Kate O'Brien, and she's going to talk to you about the loyalty program. [Foreign Language]

Kate O'Brien

That's very kind, Jeremy. Hi, everyone. I'm Kate O'Brien, and I look after the Loyalty business here in Air New Zealand. So we have a fantastic opportunity to grow our Loyalty business by between $40 million to $60 million in EBITDA by 2028. The opportunity is in 4 parts of the business, so sales of Airpoints Dollars to third parties, our products portfolio, flight redemptions and our frequent flyer offering. This will drive benefits to our partners, our members and Air New Zealand and is really underpinned by investment in digital, data and personalization.

So as Greg said earlier, loyalty is 1 of the 3 key pillars in the Kia Mau strategy. And the reason that we're choosing to invest in loyalty is for 3 reasons. Firstly, it's capital and carbon light. The second is it's a source of stable external revenue generation. And then the third is it's a driver of share shift and yield premium to our airline.

So our Airpoints program is quite unique in that our currency is pegged to the New Zealand dollar, which means that customers can redeem their Airpoints on any seat, any flight or through the Airpoint Store for the equivalent of the cash price, and we know that this drives a lot of trust and utility with our program.

So this goodwill that we have, partially driven by our program structure, has given us this really strong foundation on which to grow. So we can see here -- firstly, we've seen really strong member growth. So we have more than 4.6 million Airpoints members now, and that's grown at a rate of 11% CAGR over the last 10 years. Our Airpoints members drive a revenue premium to the airline. And so you can see as members move up tiers, that shows how much more engaged they become with the airline.

And thirdly, the program generates strong and stable cash flows. And this really illustrates the breadth and strength of our program on the ground, so beyond flying and how our members are engaging on the ground.

So there are 4 parts to our Loyalty business and 4 opportunities for us to grow. And I'm going to go into each of these in a bit more detail in a minute. The first is sales of Airpoints Dollars to third parties. The second is our proprietary products portfolio. The third is Airpoint Dollar redemptions on Air New Zealand, and then the fourth is our frequent flyer program.

So all of this is underpinned by investment in digital, data and personalization. We have recently replatformed the Loyalty business, so this was quite a significant 3-year transformation for us. We now have this brand-new platform to power loyalty. And this is really important because it gives us the capability and to be able to do a lot of the things that I'm going to talk to you about today.

So in addition to our new platform, as Jeremy has already spoken to, we have this really rich data set. And we can use this to better drive loyalty to the airline, to provide our members with a more personalized service and to give them more relevant [indiscernible] offers. So this investment in personalization is really important for us. We've got this really strong member base of over 4.6 million members. This will help us increase or continue to increase the leveling of engagement that we see with our members.

So the first pillar of our program is the sale of Airpoints Dollars to third parties. So we've got a really broad range of partners that we sell Airpoints to, and we're looking to accelerate this growth further. So we've got 2 sets of partners or 2 types: financial partners and retail partners.

Close to 70% of Airpoints Dollars that are issued are issued by third parties, and 70% of those are issued by 4 financial institutions, so primarily through card payment products such as credit cards. Airpoints members spend more than 3% of New Zealand GDP on the Airpoints Dollar eligible cards. And our benchmarking shows us that this is strong compared to peers, but there is still an opportunity for us continue to grow in this space.

Interchange regulation in 2022 did impact sales of points to third parties, and we do expect there is any further regulation for that to have an additional impact. So there are 3 things that we're looking to do to mitigate this. The first is we're looking to expand our partner network and bring on new Airpoints partners. The second is we're looking for -- we're looking to give our members new ways to earn Airpoints Dollars, so moving away from the traditional spend X get Y concept. And then the third is to grow our products portfolio, which I'll talk a little bit more about in a minute.

On the retail partner side, we have more than 35 retail partners covering more than 85 brands, and this gives our members lots of opportunities to earn Airpoints Dollars on their everyday spend. So we've got partners in the key retail categories of grocery, fuel, DIY, and home and living.

One thing that we're always looking to do in this space is to grow and bring on new partners. And one thing we do is we utilize these data to understand where our members are spending and therefore, which categories we might want to bring new partners in on. One thing we noticed during COVID and coming out of COVID was that by babies and pets became quite large spend categories for our members. So as a result of that, we've added 2 new partners recently, Petdirect and Baby On The Move.

Everyday Rewards is our newest partner. So that now goes live on the 2nd of December, which is very exciting. This is quite a big deal for us, this relationship, for a couple of reasons. The first is it gives us -- whilst we've already got this really broad partner network, it gives us really strong coverage in a couple of the key spend categories. And a good example of that is grocery. So at the moment, our members can earn Airpoints Dollars when they shop with New World. That will still be the case, but from the 2nd of December, our members will also be able to earn via the Everyday Rewards program at Woolworths, so it gives us much greater coverage in the grocery category as well as a couple of others.

So the other reason why this is a really interesting relationship for us is it is a move away from the traditional earn setup that we have had. So traditionally, we've required members to show their Airpoints number at point of sale. This relationship doesn't require that. So it gives our members new ways to earn, new partners to earn at, but it also opens the door for us to grow our coalition in new and different ways.

So we have an aspiration to double the earn that we get from this retail partner network. And in order to do that, we are actively, at the moment, exploring partnerships in insurance, utilities, wealth management and experiences.

So the second way that loyalty generates value for the entity is through our proprietary products portfolio. So currently, that consists of the Airpoints Store, our OneSmart travel card and Koru memberships.

The Airpoints Store has grown quite materially since FY '19. It was traditionally a redemption site for our HVCs that had a small number of products. We have now grown this to a $50 million-plus e-commerce platform. We now have the ability for customers to earn and spend Airpoints dollars. We have over 14,000 SKUs available now. So this provides relevance to a far larger portion of our members.

At the moment, 4% of our member base interact with the store, on average, 1.5x a year. So if we can grow that to even just 6% interacting, on average, twice a year, we can double the turnover that we get from the Airpoints Store.

So there are 3 opportunities to grow in the product space. The first is to grow the existing portfolio set, so the store, OneSmart and Koru. The second is to launch and to grow further into the Airpoints-branded or white labeled space. So that could be things like payments products, insurance, wine. There's quite a few things we could do in that space. And then the third is partner services, so selling data insights and marketing services to our partners. Growth in this space is also a really good way for us to mitigate any further interchange impacts.

The third pillar of the Loyalty business is Airpoints Dollar redemptions on Air New Zealand. So Airpoints can be redeemed on any flight, any time with no blackouts. And we know that this transparency creates a lot of value for our members. They tell us frequently how much they value this utility that we give them, and you can see that our members have been increasing the number of Airpoints that they have spent with the airline over the last 10 years. As you would expect for an airline loyalty program, Air New Zealand flights are our most popular redemption choice with 80% of Airpoints that are redeemed being redeemed on Air New Zealand.

Redemptions are as valuable as a cash sale. So because the redemption price is the same as the cash price and that moves based on demand, we do get a yield from a redemption that mirrors a cash sale. So this pegged currency concept where a point equals a New Zealand dollar is quite unique in the airline loyalty program world. And we do periodically review whether we should move to a more opaque points-based system like most of our competitors use.

Now there are pros and cons to each of these structures. But the pros of our current system that it's -- that creates a huge amount of transparency for our members. And as I said, they constantly tell us that they really value that.

What the current structure doesn't offer us so, is it doesn't offer us the ability to move the price of a redemption seat below that of the cash price. And there's a couple of reasons why you might want to do this. One is it helps give a reward back to a member sooner. So it helps reinforce the value of the program by getting a member to a reward faster that in turn creates loyalty and gets that loyalty flywheel spinning. So that's the first reason.

The other reason is it gives us another tool in the revenue management toolkit to help us optimize load factors. So what the team are working on at the moment is a redemption offering that allows us to preserve the dollar-for-dollar concept, meaning any Airpoints Dollar will always be worth at least NZD 1, but it gives us the ability to make Airpoints Dollar offers to customers.

So that means, for example, if we know Richard likes to go to New York and maybe we have a soft period coming up on our New York flight, we might decide to send him an Airpoints Dollar offer. That helps to speed up the loyalty flywheel with Richard, and it gives our analysts another tool to help manage our loads.

And then the fourth pillar in loyalty is our frequent flyer program. So we have a really good opportunity here to improve the benefits that we offer our HVCs and further drive loyalty to the airline. So there's 3 things that we're doing in this space. The first is we are going to add a new tier above Elite. So what we know happens is at the top end of the Elite spend, our members reach the ceiling of our program, and we know that they split their wallet between our airline and others. So creating that aspiration for the top end of Elite helps drive loyalty back to the airline.

First new tier will be -- for our very top end of Elite, all around providing a seamless travel experience for these members. So the second thing that we're working on at the moment is refreshing the benefits that we offer our Silver, Gold and Elite members.

So just to give you a couple of examples, things that have tested really well, which the team are now further exploring, are mid-tier rewards, so giving members rewards within their current tier to keep them engaged, a status point top-up option. So essentially giving members the ability to self-save if they don't happen to -- if they just miss out on maintaining their tier in a particular year. And then access to an Elite and business class only lounge at Auckland International.

The third part of this tiers and benefits refresh is just ensuring that the benefits we already offer today are offered in a really efficient manner. And a good example of that is our recognition upgrade process. So we know that there's more that we can do to make that process more seamless, and that's something that the team are actively working on at the moment.

So in summary, we have a really strong loyalty program and a great foundation on which to grow. We've got these 4 clear opportunities for growth, and we believe we can get an additional $40 million to $60 million in incremental EBITDA by FY '28.

To finish off this section, we're going to hear from one of our Airpoints partners, American Express, as to how they value the loyalty partnership.

Unknown Attendee

American Express and Air New Zealand have a long-standing and valuable partnership that is united by the common fact that our customers love to travel and have unforgettable experiences. And together, we have created the fastest Airpoint Dollar earning Platinum card here in New Zealand. It really helps Kiwis get on their next adventure sooner with Air New Zealand.

I love speaking to our customers, who have been able to take their family on an overseas holiday, explore our beautiful backyard here in New Zealand or even pick up something from the Airpoints Store simply by turning their everyday spending into Airpoint Dollars with their Amex card. And with Airpoints being such a sought-after loyalty program, our partnership helps us to tack new customers as well as ensure that the existing ones receive extraordinary value and benefits from American Express and Air New Zealand.

Well, there are many reasons American Express enjoys working with Air New Zealand. We share a commitment to delivering exceptional customer experiences through our customer-first approach, and both brands have a global presence, and that presents a unique opportunity to partner in the many countries that we operate in. Our team also enjoys the collaboration and commitment to excellence that comes with working with the Air New Zealand team, and that includes the pursuit of innovation in the Airpoints Program, which benefits our mutual customers.

While there are so many exciting opportunities on the horizon for our partnership, ultimately, our future is guided by the shared values we have and our commitment to customers, our dedication to providing exceptional customer experiences and the integrity in how we work together to build meaningful relationships for our customers.

Kim Cootes
Head of Investor Relations

All right. Thank you to all of our presenters so far, and thank you, everyone, for your attention. We are now going to take a break. I make it is roughly 20 to 3. So we'll come back here for 3 on the dot. So please have some afternoon tea. It's out the front or there's snacks, go to the bathroom. Do your thing, and we'll see you back at 3. Thanks.

[Break]

Nikhil Ravishankar
Chief Digital Officer

Good afternoon, and welcome back. I hope you're well snacked up. This was a section that needed to come after the break because it all things digital. And if I followed Kate, you'd probably fallen asleep. So I'm glad you all had a break and have caffeinated yourself.

Look, it's my great pleasure to be able to share Air New Zealand's digitalization journey with you. It's an area of the business where we've got some great momentum. And some of the positivity you're hearing from all of my colleagues is really underpinned by the success we've already seen to date in this program of work and the plans we have ahead.

As Greg mentioned, digital is one of our core pillars in the Kia Mau's strategy. And our ambition here is quite genuinely to build the world's leading digital airline, and we're dead set serious about that. And we're well along the way of doing that. But there's 3 things I'm going to cover today. I'll share with you sort of our approach. I'm going to use a couple of analogies to try and make this interesting, but bear with me. It didn't quite work with my wife. So I'll give it a go anyway. And I'll also share with you some progress we've made to date. Secondly, I'm going to talk to you about our plans ahead for the next 2 to 3 years building on this momentum. And finally, I want to highlight the importance of this program to the fundamental performance and profitability of this airline. So let's get into it.

Speaking of our approach, our approach is based on sort of 4 high-level principles. First of which Greg spoke about. He referred to it as walking and chewing gum. We really need to be ambidextrous, have needed to be and continue to need to be ambidextrous as we execute this program. Secondly, we have a program here that necessitates us to lean into the complexity that we face, and I'll talk about that in a second. The other thing is we can't fix what we can't see. So a large part of this program has been about improving our situation awareness. And as an airline, we generate terabytes of data every day. And finally, about 2.5 years ago, digitalization at the airline became a team sport. So every Air New Zealander has a role to play. It's not necessarily outsourced to me and my team in the digital department to get this work done, but rather, we've all sort of stacked hands and we've said that the ship has sailed. We're already a digital enterprise, so we might as well all play together to try and execute on this program.

Using that approach, we have 4 focus areas. The first one being strengthening our digital foundations. Look, this is where our need to be ambidextrous comes into play. We've had to solve for this while we've been delivering outcomes in the other 3 focus areas to its right. And we've had to do that in a way where we deliver thousands of little changes while we also focus on executing very large complex multiyear transformation programs of work. I'll give you a bit of a sense of that in a second.

The next focus area is winning on customer experience. This is where our approach of sort of meeting complexity head on has come into play. Pre-COVID, not just at Air New Zealand, but airlines around the world, the focus was around digitizing the happy path or the sunny day scenario. And when the proverbial hit the fan, we relied on our frontline staff to come in and save the day. They were there to deal with the exceptions. Post-COVID, when volatility and changes are new normal, we can't get away with that. We really have to lean into the complexity and start digitizing the exceptions as well.

The third focus area is maximizing revenue potential. This is where Jeremy's 4% to 6% of revenue growth comes from. This is a mega transformation of the industry, and we have some structural advantages that puts us in a very good place to take advantage of it. And I'll share a bit of that also.

And finally, last but not least, unlocking operational efficiencies at pace, not as once and done. But now that it's a team sport and we have digital, data, design people embedded in all parts of the airline, this could be one where the flywheel continually rotates. So we aren't just trying to find one-off efficiency gains but continuous improvement across all parts of the airline. So that's a bit of a sense of the recipe.

Now let's get into the dishes themselves. So this is the analogy coming up. Strengthening our digital foundations, the best way to think about this is the pantry. This is what allows us to cook the dishes in the other 3 focus areas, and the pantry needs to be well stocked. The first 2 bits, the top 2, think of it as the more basic ingredients in the pantry, the salt and pepper. It's not working, is it, [Jan]? I'm in now. So keep going.

So as Greg mentioned, 3 ago, only 30% of our infrastructure, the storage and compute that we build everything off was in the cloud. Today, that's 93%. That's industry-leading stuff. And we've done that with great work internally but also alongside some global partners like AWS and Microsoft. The reason that matters is, a, it makes the boat go faster; b, it gives us the agility and adaptability we need; and three, as you've been hearing these snippets of digital transformation from my colleagues, it allows us to execute a program concurrently across all parts of the airline. The airline is 9 key domains, and each 1 of them has the technology size of a large enterprise in the New Zealand context. So there's a lot of moving parts. So that matters a lot.

As far as connectivity is concerned, again, there's a lot to talk about there. But maybe the one thing I would say is low earth orbit or Starlink plays a really interesting role for us as an airline. A, on the ground, it allows us to improve resiliency. So 18 of our 20 ports by the 9th of December will be Starlink enabled, not just to access the Internet but also our all core internal systems. So if they are cut out from the physical network, those airports can operate in isolation. As a lifeline service provider, that's a pretty big deal.

In the air, it allows us to give our customers access to ground-like internet capacity while they're flying with us. That allows you to access your favorite media streaming service. Obviously, the relationship with the IFE changes over time and maybe our domestic A320s now can also fly Trans-Tasman, et cetera, but also allows you to do work like you do on the ground, except maybe take those pesky video conference calls. Maybe you might want to avoid that. But 2 of our aircraft will be Starlink enabled by February this year -- next year.

The bottom 2 are the more exotic ingredients and as a sort of critical infrastructure player and a lifeline service provider, cyber and identity is one where we have to be in the top quartile. We get this externally assured regularly, and we have an extensive program in place. And our teams are doing a great job, and it's based on some industry best practice and so on.

And finally, I'll butcher this again. Maybe this is not the exotic ingredient in your pantry, but this is the cooking oil. There's no dish that you can cook without data and analytics. And here, again, great momentum over the last few years.

Lot of enterprises generate a lot of data, but you can't really use that data because they're trapped in the applications that generate them. Mike Parsons is here, our Head of Data and AI. Him and his team, along with a lot of our colleagues across the airline, have been busy freeing that data so that it can be used to, a, improve situation awareness; but b, also improve the quality of decision-making, either by humans or by the numerous bots that we have running alongside our staff across the airline. 75% of all the data we generate is now available for inside generation and decision-making.

Just so as it happens, when we started this program, GenAI was not a thing. Now it is a thing. And the thing that gets GenAI going is data. These LLMs, large language models, are trained on the Internet, but they don't quite understand Air New Zealand. And it's the same data that makes them useful in our context. So these 4 pillars of our foundations are in pretty good shape. And under the covers of any enterprise, large or small, these are the same 4 key pillars that are the sort of unsung hero of digital -- heroes of digital transformation programs.

So with that as the [package], we'll start cooking some dishes maybe. No 3-course meal goes well if the entree isn't very good. And winning on customer experience is our ticket to the dance. Our Chair is absolutely having a ball at the back there.

So winning on customer experience for us matters because that creates loyalty to the brand, and it allows us to monetize that loyalty obviously. And for us, customer experience has 2 components to it. Number one is to not just meet but exceed our customer expectations. And in the digital realm, our customers' expectation isn't just benchmarking against -- us against another airline. That said, the United app is very good, and we keep a close eye on that, but actually, benchmarking us against their most favored experiences. And that bar is much higher. And the teams have been doing a phenomenal job in that space post-COVID. We've got a lot of momentum.

The second aspect of winning on customer experience is self-service. As far as we're concerned, an airport is a means to an end. And the more we can get you to do outside of an airport, the better, and so a lot of investments have gone into enabling self-service through our digital assets. This, again, [is not] an exhaustive list, but it is a list where we've either delivered these initiatives or we're working on delivering them as we speak.

Maybe the best way I can bring this to life is through the case study of our app. 1.6 million users use this app on a monthly basis. It's got a rating of 4.7 on the App Store versus 3.5 the App Store rating that our old app had.

We decided to build this app as we were coming out of the second lockdown in Auckland. And one of the reasons we did this was to create an ability to communicate in real time with our customers. The old app was much loved, but it was not a channel for communication. We needed to get customers to download the app every time we needed to make any change to it. Obviously, when you have a couple weeks to open the Trans-Tasman border, that's not flexible enough.

So we built this app using a framework called back end for front end. What that really means is your app is just a blank canvas, and every time you open it, we paint over it. So it gives us great flexibility to do a bunch of stuff around communication. But one of the other thing it allows us to do is to deliver features at a great pace, great frequency. And here's some of the sort of phenomenal stats that we've seen that we've been able to sort of deliver through this new app.

The first one is around disrupt management. As I said, the need of the hour post-COVID was to lean into exceptions management, the complexity. Today, the app allows you to self-serve in the context of a disrupt 65% of the time. So 65% of all disrupts we have can be managed through self-service. Three years ago, you would have to queue up at the airport or call a contact center to be able to do that. The benefits obviously are pretty -- are significant for us as an airline but also for our customers.

The other stat maybe worth paying attention to is the number of calls into the contact center. Only 12, 18 months ago, we were consistently getting 90,000 calls into the contact center, 45,000 of which we would abandon. And if you did get through, you would wait on average about 40 minutes to speak to us. Today, we get 25,000 calls into the contact center. Some of those calls have vaporized because of schedule surety, but we've still got our fair share of disruptions. A large part of those calls have disappeared because of the self-service capabilities we have enabled.

Not only do we only get 25,000 calls into the contact center, most of which we answer under 5 minutes, a lot of which under 2 minutes actually, 40% of those contacts are non-voice. And a non-voice contact to us is 3x more productive. That stat is industry-leading. No other airline in the world can claim that. So just one digital asset, of which we have many, is proving to be a very valuable tool for us to win on customer experience. And we'll continue to do a lot more in this space.

Now the main course, maximizing revenue potential. This is a mildly complicated story, but let me give it a go. Look, the airline industry digitized itself quite a way back. So one of our pieces of software here went live in 1973. And we created an airline retailing marketplace quite a long time ago. We called them the GDS systems, the Sabres, the Amadeus, the Travelports, Navitas, et cetera. But since sort of digitizing the airline retailing paper-based process, so rather than getting a sort of 3-copy paper ticket, we now send you a PDF in the -- in your inbox or through our app, so the focus has really been about digitizing that paper process. And we've sort of plateaued out after that.

We haven't really taken advantage of the new e-commerce capabilities that are available today. So that's really the sort of revolution that's happening in the airline industry, moving from a digitized paper-based process to real digitalization of the airline retailing space. We internally refer to that as next-generation retailing.

What does that actually look like? We're all familiar with the left-hand side process. It doesn't matter on our website, at expedia.com, if you go to your favorite travel agent. Apparently, people still do. You essentially follow -- Jeremy is giving me -- we essentially follow that same linear process. We search for a flight. We pick the dates. We enter the number of passengers that are going to be traveling, and we go through that process, and we end up booking a flight. That happens during the booking flow. And once that's done, you'll now -- we shift you into a travel part of the process. That process, as I said, is digitizing the paper process that we have.

Going forward, we are taking advantage of the Internet and the e-commerce capabilities that we have all taken for granted when we shop online, sort of the amazon.com experience. So we're introducing in the airline industry, the concept of a -- it's not revolutionary, but it is for the industry, a shopping cart, which allows us to do a few different things we haven't been able to do. And that's being -- and that's very much focused around being customer-centric.

The first thing it allows us to do is to generate dynamic offers. So dynamic offers beyond just the airline seat into airline ancillaries, which we've done to an extent but taking it to the next level and also extending it into first-mile, last-mile transportation, hotels and other non-airline ancillary products.

The second thing the shift to that model allows us to do is hyper-personalization. And Jeremy and Kate have talked about that, our 4.7 million members and the data we have not just about your travel preferences but also how you interact with your ground partners. Using all of that, we can generate offers that makes sense to you. Rather than a more ubiquitous sale to Hawaii, if we know you're a road warrior between Auckland and Sydney, we can generate offers that is more -- that are more meaningful to you, a 6-flight package, for example.

And finally, what it also allows us to do is the ability to cross sell and upsell more effectively. This process on the left-hand side is typically done ahead of travel and we leave a lot of value on the table by not being able to cross sell and upsell either at the airport or in the air.

So just to bring this to life with a couple of examples. For the road warriors amongst us, especially if you're going back and forth between the same city pair, regardless of how many times you've traveled with us, we still put you through the same process each time you want to [indiscernible]. You might also have a favorite hotel. You might use Uber at both ends of your trip. What we can do with the new model now is, with a click of a button, clone the previous trip; and 2 clicks, and book that travel for you. And that would include also the hotel stay that you've got. And the teams are busy prototyping this on the back of some of the early investments we've made.

The other thing it allows us to do is to -- the entry point to booking can be very different to what it is today. So if you're a family of 4 looking to go on a holiday, rather than start with the destination you want to go to and search for your flights, you can start with the budget you have for your holiday, and we can auto generate a set of holiday options, including the experiences in each of those destinations. So that's the type of stuff that we've been able to prototype, and we're starting to work on productionizing, if you will, over the next 2 to 3 years. This is what really helps us unlock that 4% to 6% revenue growth that Jeremy has been talking about.

Here we go. Now to the third course, the dessert course, unlocking operational efficiencies at pace. There are 3 components to this. The first for us is about making sure that our staff are given the right tools to do their jobs more efficiently. The second aspect to that -- to this program is ensuring that we improve our situation awareness. And third is to either remove steps in the process or reimagine the entire process through the lens of automation.

In terms of tooling itself for example, we're one of the only airlines in the world where we've issued an iPad or an iPhone to almost every employee. The only 2 groups where we haven't done that is baggage and ramp. And Kate and I are very busy working through the business case to make sure that they're also tooled. And we're not doing that to make sure that they can take selfies while they're on shifts but rather to use that as a platform for innovation. We have put out about 2 dozen apps that our staff use today to facilitate air travel either to deliver a better service onboard or on the ground in terms of our airport staff. And I'll share one of the examples with you in a second. But in the flight deck, this has also had a very interesting impact.

So we're, again, a world's first, the only airline across all our fleets to have a paperless flight deck. So across our widebodies, narrow bodies and turboprops, pilots now carry a single iPad. And on that iPad is some crucial apps that they need to do their jobs effectively.

Now that's been great in terms of improving operational efficiency, our on-time performance. From a sustainability point of view, we've taken paper the height of the Sky Tower out of our operations. But also going forward, what that allows us to do is what we call dynamic flight planning. And this is something that Richard, I think, will talk about as well in a second, but this allows us to really optimize how much fuel we are using by, in real time, adjusting our flight plans either on the horizontal or vertical axis.

One other tool that I want to share with you that's having a really big impact in our operations is what we call Ops Collab. I've just recently come back from Austin, Texas, where we got to present this to a bunch of our airline peers and Apple and some of the partners. And this app was the talk of town. And the reason for that is this is having some quite significant impact on our on-time performance stats since we've started to introduce it.

This app here, Ops Collab, is used during a turn. A turn for an airline is our version of a Formula 1 pit stop. So as you guys all -- as one of our planes pulls in and we dock it at the gate and you start to disembark, grab your bags and hit to your next airport, there are dozens of teams at the airline executing about 2,000 to 3,000 tasks, in the case of an A320, in 45 minutes to execute a turn. That needs to be executed with precision for us to have a chance for that aircraft to take off on time for its next flight. This is the tool that we've built to help facilitate that.

Before this tool, our staff relied on 2-way radios and a hub-and-spoke model where message would go to an airline operations center, which then would get broadcasted to the various different parties. And we lost a lot of time in not getting the right messages and situation awareness to the right people across the airline. This tool allows us to do that more effectively. Think of it as a WhatsApp for every flight. And anyone who's involved in the turn of that flight gets to subscribe into that WhatsApp group, and they can communicate with each other in real time.

There are 3 benefits that we've seen from this app. One, obviously, is improved communication and coordination to execute that turn precisely. Two is it's had a massive impact on the psychology of the turn. The turn historically is a penalty-based sport. If the flight is delayed, we try and find the team that's -- that we can pin the blame on. So is it catering that was late or was it fuel that was late, et cetera?

What this app allows us to do is actually flip that on its head and turn it into a reward-based sport. So we've taken some inspiration from gaming. And, we've spent a lot of time designing in micro rewards. So if the cleaners finished 30 seconds ahead of time, they can gift that to the next group. We can celebrate that. At the end of a successful turn, imagine with virtual high fives flying. So people are enjoying the fact that they've now got a way of celebrating each other's success and being very being -- sort of moving away from it being sort of a high-stress penalty-based sport. So more serotonin, less cortisol is what we want when we are executing our turn.

And finally, situation awareness. Every step of every turn now is a data point that we can collect, and this is important because then we can use that information to fine tune our -- what we call our precision time line, the macro process that defines the sequence of activities that executes a turn.

This is an area where we are under stress obviously with the aircraft issues, the engine issues and so on. So having it [indiscernible] has been a bit of a game changer for us. We're targeting 2% to 4% on-time performance improvement using this capability. And we're already starting to see progress towards that, particularly in our turboprop fleet. It's been quite a successful launch, and we've just launched this on domestic a couple of months ago, and it's going to be rolled out into our international fleet as well.

Look, it's very hard for me to get through every example of -- or every initiative we have in our digitalization program. But I wanted to give you a sense of how we're approaching it and sort of the key focus areas for us and the momentum that the teams have been building in this space.

In closing, the reason this audience should care about this is because 70% to 80% of all of the incremental EBITDA benefits that we've been talking to you about today, and Richard will talk about it a bit more, comes from our ability to execute these programs well, and what we've now got is a track record for delivery. So we've been scoring a lot of these 9-point tries that Greg talks about, 1 point for talking, 9 points for doing. And we have a very solid plan and momentum to continue to score those 9-point tries. And this is a big success area for us, and we expect it to continue to be so.

All of these are impossible without some fantastic talent. Air New Zealand, as Nikki will talk to you about in a second, it's been the employer of choice for many, many years. And so we get to attract some fantastic talent not just in the operational parts of the airline but also in my area, in digital. 35% of our staff are brand new with contemporary skills, but we also rely on some global partners who help us execute programs like this.

The other thing that's really been helpful for us is our new ways of working. And I think that's a good segue actually for me to stop butchering my kitchen analogy and hand over to Nikki Dines, who's going to talk to you about our most important asset, our people and these ways of working I've been sort of alluding to. Thank you.

Nikki Dines
Chief People Officer

Hi, everyone. It's great to be here today talking to you about our people here at Air New Zealand, which, as Nikhil has said, we consider to be our most important asset in delivering on our strategy.

So you heard Greg talk earlier about the importance of culture, having the right team. So I'll talk to you today about why that is important to us. I'll talk to you also about our union relationships and why they're important and why we invest in them. I'll also talk to you about our operating model. So what we've done to change the way that we work and the way that we plan for our business and how it's helping us to deliver value faster.

So put simply, we think our people are what differentiates us in the market. If you look at those awards that Greg talked about, winning the airline of choice, the Condé Nast award that we -- were announced a couple of months ago, first and foremost, that comes down to the people that we have. So we think you probably all have had this experience or know of people who say when you step on a plane overseas and you're greeted with a kia ora at the door, feels like you're already in New Zealand. So that is really what we think gives us that competitive edge in the market.

We're often asked [indiscernible] what makes it so strong and how we've sustained it through some pretty challenging times, particularly through COVID, and that's not something that we take for granted. It is something that we really actively invest in because we think, with a strong culture, we can attract the best talent. And you'll see there on the screen there that we have over 1,700 jobs last year and 68,000 people applying for them. And that's pretty standard for us. I've been here for 11 years, and we tend to get to those kinds of rates of applications each year.

It also helps us to retain our great people. And again, from the screen, you can see our turnover rates. So in New Zealand, you're up around the 17% mark. Here at Air New Zealand, we're at 6.4% [indiscernible] we're at less than 5%. So that's really important to us to be able to really bring in great talent and keep them here and have them highly engaged.

We've got a really diverse workforce. You can see that from the screen. We're a very heavily unionized workforce. We've got people located around the globe. We've got quite a range of tenure for our staff. We've got particularly long service in those safety sensitive areas like in cabin, pilots and engineering. We've got other parts of the organization where we're building back our workforce after coming out of COVID.

Now our view is that regardless of people's union membership, where they're working, how long they've been here, if we treat them fairly, pay them a fair wage, we give them opportunities to develop, that's going to translate into a really strong employee experience, which then translates through into our customer experience. And we see that. We see in our frontline workforce. We have scores of over 86% in the airports for customer satisfaction, 91% onboard the aircraft. And we know that, that is one of the things that impacts the most on our customer satisfaction, is that experience that they have with our people, particularly when they're in flight.

It also translates into loyalty. So what we saw through COVID was we unfortunately had to let 3,500 people go as we've kind of head into COVID. We've built back very rapidly, and we saw over 1,000 people come back and rejoin us. So for us, it was excellent to get there, that loyalty and that experience back into the organization.

You'll see there on the screen, we have employee engagement at 71%, and you might ask why it's not higher than that? We have an aspiration. We used the Glint employee survey tool to measure engagement here. The global top quartile benchmark is 78%. Now we are -- that includes all sorts of businesses. We are obviously a very heavily unionized, very heavily operational business. So 71% actually scores pretty well when you look at those types of businesses, but it is something that we want to continue to work on. And it does remain a real focus for us.

And one thing that's been great to see is actually that's held pretty steady. And the last few years have certainly come with their challenges through the significant ramp-down and ramp-up out of COVID and some of the challenges we're experiencing now. So we're really pleased to see engagement holding steady for us.

Something that's important to us is that we really understand our workforce. So we know what skills we have -- we need to have in the organization right across the business now and into the future. We also want to make sure that we don't get caught short because we know that there are some types of roles where it's pretty hard. There's a global shortage of talent, areas like pilots, engineers, digital. So we're making sure we did a piece of work around strategic workforce planning, very detailed piece of work that every part of the organization did earlier this year.

We know we have got some challenges in terms of the global shortage in pilots. So we have introduced -- you might have seen in the media, a cadetship program, our Mangopare program. We've just sent 12 people offshore to get a type rating, their first type rating. We're sending another group off shortly. And the idea is that, ultimately, we will bring that program back onshore and run that ourselves, just to really broaden out that pipeline of talent that we have through the existing channels of getting people into flying.

We've got a really long-standing engineering trainee program, and we've really beefed that up in recent years. So again, we're making sure that we've got a good flow of future talent coming into that workforce.

And we've also set up a digital intern and graduate program so that we can really tap into the greatest talent coming out from universities but also on the wider workforce where we're seeing people potentially re-skill into digital roles. So we want to be able to make sure we can capture that talent and bring them into Air New Zealand.

As well as looking at our talent pipeline, we invest significantly in development, so leadership development. We think our leaders play a really critical role in terms of driving productivity and driving engagement. So we have leadership development programs right from the frontline workforce through to our senior leaders.

We bring in -- we partnered with TupuToa, which some of you may know about, it's a Maori and Pacific intern program, so that we can make sure that we're bringing in some really diverse talent. We have a real focus on customer service trading.

As I said, that's really what differentiates Air New Zealand as an airline is that strong customer service. And we've also set up a digital academy, and there's 3 parts to that digital academy. One is around upskilling those grades and interns that we bring in. Another one is continuing to build the skills of people who currently work for this organization and digital role, so that we're really continuing to grow and develop their skills. If you heard from Nikhil, we've got a really ambitious agenda around what we want to do with our digital workforce.

So the third one part of the Digital Academy is actually upskilling the wider workforce. So every single person in this organization knows how to really make use of the tools, the technology that we're giving them. We've given all of our frontline staff mobile devices and access to data that they've never really had access to before. We want to make sure that they can really optimize the use and drive as much value as we can out of using those tools and that data.

From diversity, equity and inclusion perspective, why is it important to tell us or we serve a diverse customer base. So we need to make sure that we have a good understanding of what those customer needs are. We think it leads to be the decision-making as well to have diversity of thought sitting around the table. We've got 11 employee networks who are very active. We partner with Pride Pledge. We have the general accessibility tech that enables us to audit ourself and to benchmark to see what else we need to be doing.

And I'll share a little story with you, for those of you who have got a coffee here today. That's from our cafe up there, which is our Flourish cafe, and we've done that in partnership with Project Employ, and it's an opportunity for young adults with disabilities to have employment, get their first job. So that's just one of the things that we're doing to make sure that we really bring it to life within the organization.

From a safety perspective, as an airline, the most important thing and what we -- is very much front of mind for us in everything that we do. We take a lot of focus on driving a really robust safety culture. So a lot of emphasis on safety training and safety reporting. We have a very extensive and robust safety reporting process. And those efforts in terms of safety saw us recognized as the world's safest airlines this year by airlineratings.com. And if we ever going to win an award, that's the one we want to win most as an airline.

In terms of union relationships, we have a real focus on making sure that we can build really strong and constructive relationships with the 5 unions who represent people here in New Zealand, because we think that, that can either contribute to enhancing or eroding the long-term value of this business. And you can see that from events around the world, things that have played out for many years now across many sectors when you don't have those strong [indiscernible] relationships, you can end up in a lot of problems from a cost, a culture and an operational disruption perspective. So we do prioritize investing our time and our efforts in building those relationships.

For those who have been here before, we've talked about our high performance, high engagement model that we use. It's pretty unique actually in the aviation sector. I think we're the only ones doing it. We got it from the U.S. health care sector about 10 years ago. And we just had a look at that earlier this year, we refreshed it, and we've put in place something called a strategic engagement charter. Now we as an organization have signed up to that and so have all of the lead teams of each union.

And we have a set of core agreed objectives in that charter that we all have agreed are going to be the way that we govern how we act towards each other. And they're around things like superior returns, superior world-class productivity and return for things like greater job security and superior terms and conditions because actually, at the end of the day, our unions and we have the same interest. We want the business to do well over the short term, but we also wanted to stick around and to do well right into the future. So the strategic engagement charter sets us up to be able to work together on productivity initiatives, change, et cetera, in a way that's really constructive.

One of the things that's really key to our union relationships is around transparency. We have a lot of points of engagement with the unions. We engage with them on a day-to-day basis at business unit level, there are structured monthly catch-ups. We, as an executive team, catch up with the senior members of each union on a quarterly basis. Actually, we've got one later on this week. We will share this kind of information we're sharing with you today, this is what we share with the unions, because it gives us a share degree kind of platform. They all have the same knowledge that we do in things, whether it's the challenges that we're facing or the opportunities that we want to go after.

We have partnered with the unions to pursue something that we call sustainable jobs. So that's jobs for people that are sustainable both for the business and for our people. That means that we look at the way that we pay our people. So all of our people are at or above the living wage from a total [indiscernible] perspective.

It's also about the tools that we give. You heard Nikhil talk about giving our people mobile devices. It's making sure that they've got the right tools that they need to do their jobs really efficiently and safely. We also take the same approach to collective bargaining, because that's kind of where the rubber hits the road often with your union relationships, and it can be a quite a disruptive experience going through collective bargaining or it can go quite smoothly.

So we're really transparent in our collective bargains around our pay offer. We don't hold it to the union and then pull it out. We tell them from to start what we believe is an affordable pay increase for the business. And we base that both on how the economy is doing and how the business is doing. Any pay increases over and above that are funded by productivity gains. So we have a very upfront kind of conversation with the unions right from the outset on that. And that has really enabled us to get through what could be quite disruptive times in the organization in a pretty streamlined way.

Simplification is really important. We are a legacy airline. There are plenty of areas where we are looking really hard at how we can simplify, it's right across the board. And we've been able to partner with the unions to achieve much simpler terms and conditions in parts of the organization and also working on things like roster and conditions and look at how we can work together to simplify those things.

We also have got -- we've been simplifying processes in the way that our staff is knowledge. And a great example of this is in our contact center. So you probably -- you've heard a bit today about what we've been doing in the contact center and you may know that we've had some real challenges in the past, and now we've really managed to deliver a quite exceptional service throughout our contact center in recent times. We have a situation where our contact center agents can face really complex queries.

So they have some -- a family of 4 that wants to travel to London via L.A, Houston, and they want to grab Grandma on the way, and they've got -- some of them have got core membership, some of them don't, really kind of complex queries. So when they ring the contact center or go on to chat, that can take our agents quite a lot of time to look at different sources of information to get the answer to the query. So we have built a GenAI chatbot called [TUI] and the contact center, and that enables our agents to have their complex information at their fingertips straightaway.

And what we've seen from that we're seeing 95% daily utilization of that in the contact center. So people love it. They're using it. We have seen response rates for chats go down by 2 minutes in voice goes down by over a minute, and we've seen savings already of over $2 million annualized. So those are the kinds of things that's really simplifying how we give people access to the right kind of information to improve customer satisfaction, cost and employee experience as well.

And just finally, our operating model. So another significant step that we've taken to really unlock value in this business is to change the way that we operate and play in our business. So we were traditionally a kind of a top-down functional operating model. As we came out of COVID, we knew that we needed to have an operating model that allowed us to move really quickly because as I know you'll all know, this is an industry that requires it's got a lot of change. It's got a lot of things happening all of the time. We need the ability to respond really quickly to those things.

So we took the opportunity to reframe how we work and put in place a more agile operating model. So that's all about having hundreds of cross-functional teams working together to solve problems or go after opportunities. And a good example that you heard Nikhil talk earlier about some of the changes we've made to our app. So we've got a team of people that are made out of a number of digital skill sets, could be airport staff, design skill sets, all working together to go run of the highest priority things that we need to solve for and you've got all the skills there together to be able to do it.

So we've got hundreds of these teams working across the organization. We've also changed as well as changing the way that we work, we've changed the way that we plan. So we have a really rigorous quarterly business planning process. We call it our QBR process. So every quarter as an executive team, we come together, we have a couple of days together where we sit down and we look at what have we learned over the past quarter, what do we say we're doing have we done it, what have we learned from that, and what are we going to do for the next quarter, and we tied it into value.

So we look at what are the things that are the highest priority for us that are going to help us deliver our strategy within share that with the organization and they set their priorities based on that. So quite a change for us. And what we've been able to see through making these changes to our operating model is that we can get things done faster. We can unlock value faster. We've seen teams being able to deploy at 7x the rate that they have been previously.

So to summarize, why do we invest in people? Well, quite frankly, it's just good business. Our people are our highest operating expense. They have such a significant impact on the organization and on our profitability. It makes sense for us to really make sure we invest in our people. We've got a volatile industry. We really want to make sure we have a stable and high-quality workforce and you can see there on the slide, higher engagement means that we have higher discretionary effort.

We get a great customer experience from our people, strong retention, lower trading costs, greater productivity, again, greater customer experience and then also increased wellness means we get a strong focus on safety outcomes. So for us, that is really why we focus on driving the culture of this organization and investing in our people.

So I'll hand now to Richard just to bring us home.

Richard Thomson
Chief Financial Officer

Welcome, everybody. Good afternoon. That's the final session. We're almost there, almost there. Just by way of introduction, it is a really tough operating environment at the moment. It is hard to understate the operational and economic impact of these. But listening to my colleagues this afternoon or certainly this afternoon session is a really good reminder of the incredible work that's going on in the business at the moment to develop and maintain a very strong foundational core. So I take great heart from that. It will pay dividends literally in figuratively over time.

I want to cover 3 things this afternoon. There will be other things that sort of crop up. But one is we are in a strong financial position as interline and that is underpinned by 3 fundamental planks. We've got an investment-grade credit rating. We've got a formal capital management framework, which is critical to that. And we've got a large unencumbered portfolio of modern aircraft, which is not something we've had before. We've got a modern young increasingly simple, not as simple as we'd like it, yet fleet with capital-light growth opportunities, which I'll cover in a bit more detail.

And I want to finish just by reiterating our medium-term financial ambitions as an organization, which include top line revenue growth over and above what we might expect just from capacity growth and the commitment to sort of flat nominal declining real CASK.

Strong leverage with plenty of flexibility in the business. We do continue to have very modest leverage, particularly given the average age of our fleet relative to a lot of other players. Our leverage ratio at the moment is very low, probably too low, but that is a function of the delayed new Boeing aircraft deliveries, which we now expect to take the first of just over a year's time in early 2026, and we'll get back into the target leverage range, a range that we've occupied with a great deal of consistency actually in the post-GFC environment ignoring the cover.

The supply chain remains very difficult and the engine challenges are well publicized. But when we do get the aircraft, we've already bought back and operating the fleet and the new aircraft coming online at the start of 2026, we will see very strong benefits associated with that. I'll come back to those soon.

But I think one message on this slide that I'd like to leave you with above all else is that we have kept replacing our fleet along the way. So we've got strong leverage, young fleet. We've kept replacing them. We're up to date. Therefore, we're in a pretty good position relative to many peers in terms of that fleet age to leverage ratio, which gives us wonderful flexibility as a business.

Investment grade credit rating. The key point here is we are committed to maintaining it. It gives us really good access to global funding markets. We're the only airline and thank you, Justin, probably with some of your assistance in this a few bankers in the room that helped us through this. However, we're the only airline to avoid a downgrade or a negative watch since March 2020, which is fantastic, and we benefit as an airline from a long-standing presence in the international secured aircraft funding markets.

More recently, we're in the unsecured markets as well be aware we've got a relatively modest since the New Zealand retail bond. But in the last couple of years, we've diversified into the unsecured funding markets, particularly the Aussie medium-term note market. But in a nutshell, we've got great access to the funding and just as importantly, really good pricing on net funding, particularly for an airline our size.

Capital management framework. I assume many of you have seen this, we issued this in the middle of last year. quick summary of the targets. We've got a liquidity target of $1.2 billion to $1.5 billion, which we are toward the top of at the moment as I sort of stand here today, and we've got liquidity just under $1.5 billion. I think we're at $1.45 billion as of this morning. And a net debt ratio to the EBITDA ratio, as I mentioned before, of 1.2 -- sorry, 1.5 to 2.5x, which we trading under at the moment, but again, expect that to normalize as we take new fleet into the system.

This framework is foundational to maintaining the investment-grade credit rating. The dividend payout ratio is linked to earnings deliberately so. We're in a cyclical business, although we do smooth that somewhat by approaching the 12-month impact calculation that we use in that on a rolling basis. But we have opportunities to distribute excess cash. Those opportunities exist today. We assess them separately from the dividend payout ratio based on leverage, liquidity and where we think we're setting in the CapEx cycle.

Growth CapEx is subject to a 10% post-tax nominal hurdle rate. And I'll give you a good example of that and reselection very shortly. And return on invested capital ROIC, we do expect to increase as the average fleet age floats up. As I mentioned before, we've got relatively low gearing relative to our fleet age. And we do think that we can comfortably float the average fleet age from sort of 8.5, 9 years up to 12 years over the course of the next 5 or 6 years, particularly given that we don't see major -- with some exceptions, major advances in current aircraft technology, the 350, the 320, 787, the Boeing MAX for those buying it are sort of the cutting edge of current aviation technology. And so we don't feel like we're going to be forced into the need or suffer a disadvantage by continuing to operate the technology we've got for some time yet.

Unencumbered fleet, the third part of the financial flexibility formula. Just a quick comment on this. If you go back sort of pre-COVID days, we had relatively few unencumbered aircraft, about $400 million with typically older 777-200s, ATR 72-500s for those that sort of follow that and our older 320s. Fast forward to now, we've got $1.6 billion worth of unencumbered aircraft, so a significant change, and they're all modern. So ATR 72-600s, new version of that, 787s A320neos. So we're in good shape there. And they do form part of contingent liquidity.

We don't include them in our liquidity number. But effectively, they do. And you will see, as you probably picked up from the guidance note that we issued this morning, we're taking advantage of a little bit of it at the moment, although for different reasons. We are in the advanced stages of sale and leaseback transaction on 4 of our mid-life A320s, taking advantage, one of the very strong market values of those aircraft at the moment. And secondly, using that as an opportunity to retire some of our residual value risk on those aircraft further down the track.

So that will be an introduction of additional liquidity if the transaction settles before Christmas. That sounds easy. The aircraft have actually got to sort of end up flying out over international waters to avoid GSD problem. But assuming we can manage that, we'll get that transaction completed in the first half of the year.

Fleet simplification, we've made a bit of this of -- teams made a bit of this in the talk today. We've gone from 8 different types of the aircraft 10 years ago to 5 on our way less than that without compromising the mission fit and flexibility of the fleet. The A321, which we've got, we can't fly at the moment and the 787-10 when we get it, have the best unit costs in Aviation but nothing else. They are the most efficient aeroplanes in the year, and we're getting them. Some of the benefits on the 321, in particular, being covered by Mike earlier in the presentation.

As I said before, fewer new aircraft programs being rolled out by the aircraft manufacturers. And as a consequence of that, no major improvements on aircraft technology, at least over the next decade from our perspective. So we're happy to flip the fleet age up over time.

787, a brief update on this. So the new aircraft are late to arrive sadly. I rejoined the business. I've been here -- I joined first and sort of early 2004, rejoined in very early 2021. And at that point, we were expecting to get the 787s in September of that year.

What are we now? November, going December 2024. We're still waiting. But they will be excellent aircraft when they arrive. So the GEnx powered. It's a lighter, more efficient engine. So we're going to get 1% to 2% improvement in fuel burn when those aircraft arrive. And as I think I've mentioned to some of you in the room before, the aircraft come with an increased maximum takeoff weight, which is about 6 tonnes of lift to the existing aircraft, roughly half of which we can use for revenue-generating activities, the rest of the capabilities used to carry the aircraft around -- or sorry, in fuel, rather.

We have, over the course of the last 6 months, made some or 2 significant adjustments to the fleet plan over the next 5 or 6 years. The first of those is a decision to retain our fleet of 777-300 aircraft out until the early -- intention was to retire those by the end of FY '28. The reason we're keeping them is because they are very efficient, reliable, capable ubiquitous aircraft. And secondly, it will help us to mitigate some of the vagaries of the widebody new aircraft delivery program as well. So it's capital -- very capital-light growth and also gives us a bit of resilience over the next couple of years.

We made a decision -- the board met last week. We've made the decisions as an organization to invest and modest some money, but some significant enough in the premium cabins on those plants to ensure that we've got a really good customer proposition to get us out into the early 2030s. The other part of the fleet plan that's still a work in progress is the Q300s, which are an older aircraft now that 16, 17 years old now, but actually a very rugged aircraft despite some of the unreliability we've seen recently on the regional network. But they are quite capable with the right investments of operating in the fleet for longer, which will serve 2 purposes.

Again, it's capital-light retention of capacity than the regional network, which is fantastic. But it also allows some of these new aircraft manufacturers, who are typically starting with smaller aircraft and developing the gauge over time, gives them a bit more of a runway so we get to the point we need to make a decision on the Q300s replacement. So we'll watch the space or provide you with an update on the Q300 shortly. We have had a team in the room, Greg, a couple of others. I think Alex in the room have been up to the OEM of the Q300 and I bought them to get some confidence in their ability to maintain fleet over the long term and come back from that particular trip with a great deal of confidence and the ability of the [indiscernible] to do that.

So really, the only critical fleet replacement, if you like, that we've got in front of us over the next 5 years are out to the end of 2030 as a sort of 777-200 replacement program effectively. After the event, we retired the 200s during COVID. But as we get the new 787s, they're effectively going to be growth CapEx units for us rather than replacement. Beyond that, into the early 2030s, there was some fleet replacement that we'll need to lean into the older A320, A321 -- A320ceos will be -- need to be replaced in the early

2030s. Again, reiterating comments I've already made, we're not going to not required to do a lock stock and barrel replacement of that narrow-body jet fleet.

Again, we expect the technology to be incremental advance on what we've got at the moment. So we'll be able to replace some of those older aircraft unit by unit progressive, which will help the CapEx profile. And in the Q300s, I've mentioned sort of briefly earlier. I'll cover what all this means the long run maintenance CapEx in a more detail at the moment.

Lastly, this slide, I'll keep it short because it's somewhat artistic. But the point I did want to make here is that we've got a lot of flexibility within the current fleet once Boeing starts to deliver new aircraft. And on the Boeing order, just a reminder to everybody that order was placed in 2019. We've got 8 year firm order at the moment, but a lot of optionality within that order book to add aircraft should the need arise. And the important thing about that is as we -- if and when we exercise options out of that order book, it's on the same terms and conditions as the deal we struck in 2019 including all the clauses that pertained price escalation of those aircraft, which I think is pretty important in an environment that's become as inflationary as it has in the intervening period.

CapEx, we've got a bit going more than usual going on at the moment in the space as mentioned, we've got some important investments going on with the 787 retrofit currently, the 777-300 interiors hot off the press. [Hangridge] at Auckland Airport, Auckland Lounge redevelopment at our key hub. And Jeremy, I think, mentioned before, an investment in both cargo systems, in physical infrastructure at the airport over the next 5 years, although the new cargo facility at the airport is not expected until financial year '29 for commissioning.

What that means in our sort of average CapEx terms is between now and 29, we think both aircraft and non-aircraft-related capital expenditure in the round, we track around $800 million, $850 million a year over that period. I mean once the [Hangridge] in the cargo facilities are being commissioned, which is one-off ground capital investment was enduring benefits over many decades. We expect maintenance CapEx to drop down at that point to more like $600 million, $700 million a year, which will obviously contributed to very strong free cash flow over time.

Unit cost improvement. So as mentioned several times today, we've got transformation initiatives with between $300 million and $400 million out between now and FY '28. Roughly 1/3 of those, roughly, are attributable to larger programs targeting specific efficiencies in the labor cost base. And there are too many to mention in a session. Not this. We're happy to take some of those off-line, but I didn't want to kind of cover some of the more topical ones right here right now. Nikhil discuss the investments being made in tools and systems, driving lower costs of contact center in particular at the moment, we wove carry a lot of additional resource as we've come out of COVID and floods and various other disrupt events. That includes the live check functionality that Nikhil mentioned before and automated disrupt recovery tails.

And the engineering and maintenance, we're restructuring the aircraft maintenance packages to improve alignment between those and the sort of rosters and patterns of activity in the engineering and maintenance hangars that will improve labor productivity.

In cabin crew, we have cross-trained or in the process haven't quite completed it of cross-training cabin crew on both wide-body fleet types, so the 787 and 777, so they can move between those 2 aircraft seamlessly, that's already quite apart from the efficiency improvements that delivers. It's provided some practical benefits to us over the last 6 years, particularly as we've had to juggle the schedule and the deployment of different aircraft types in light of the Rolls-Royce engine challenges.

And pilots right now, there's sort of a lengthy program of work there, but we are reviewing our domestic regional network and schedule at the moment, again, to make sure that our commercial and operational planning parameters are better aligned, which will deliver much improved reliability and more efficient bolsters. And in the airports, Nikhil talked about the ops collab tool, but we're looking at precision time lines. We have looked at them in detailed standards. Again, both those things will better inform airport labor demand.

For those of you that were watching Nikki's slide, you will have seen that the FTE in the businesses is just seeing just over 11,500 was as high as 11,750, I think. So over the course of the last 3 to 4 months we've taken 220-odd FTEs out of the business. Quite obviously, a very painful exercise to go through as anybody that means cost exercise -- cost out exercises know but that has been completed very efficiently and well. We've had to do some reprioritization of some of our activities that is done. And just to put that in numeric terms it's about $28 million of annual sort of labor cost, not all of which will hit the P&L, some of it's what we call OpEx or capital costs that are capitalized to parts of the business. But in the P&L sense, it's $19 million to $20 million of labor efficiencies that come through there.

None of these things we're talking about in the $300 million to $400 million include the efficiencies that we are going to gain by getting the aircraft we've already bought back into service. So the scale efficiencies that come with there, and there are fuel costs and other efficiencies that come with that. So that is separate.

So we just -- I may note so we step back a little bit from all of this. We've got, from a fleet perspective, 787s and 320neos returning to service over the course of the next 18 months. We expect to see the worst of these engine issues over come in early calendar 2026. And we've got additional A321 as I mentioned new 787 GEnx technology on the way.

Labor and nonlabor overheads, again, we'll get the scale benefits, economies of scale of growing the network without growing materially the indirect labor cost base. And just on the procurement side of things, I mentioned some labor cost savings in the last 6 months, but every year, we target roughly that can even flow $20 million to $25 million of procurement cost benefits. And the most recent example of that is in the sort of domestic hotel space where our crew we've seen tens of millions of dollars a year on accrue accommodation across the network in a chunk of that's in New Zealand. We've taken the team and managed to take $2 million out of the hotel budget just in New Zealand over the course of the last couple of months. So those sort of productivity improvements are happening all the time.

So the practical effect of all of these 2 things, and I'll come back to this in my closing comments, is we're expecting over the next 3 years to keep CASK as a business flat or very close to flat in nominal terms as a consequence of those improvements. And for the purposes of that statement, we're assuming CPI of 3% next year, 2.2% year following and 2% the year following that.

The single biggest challenge we've got, was alluded to earlier this morning or this earlier this afternoon are the increases that we're seeing in aeronautical charges coming through, which we've called out specifically the chart here. What we've done here, they will be what they will be, and we're doing our best to manage them, but they will have an impact on what might have otherwise we could have achieved on the domestic network, in particular. So we've taken that into account. And the figures Mike quoted before, about 2% to 3% compound and domestic growth going forward.

Sustainability, very important topic I'm going to comment on it briefly here. As you all know in the room, we reluctantly withdrew from the science-based target a few months ago, is it became part that we were too reliant on a lot of external factors in pursuit of that target that we had relatively little control being met. We do still have the World Economic Forum's Clean Skies target, which is 10% SAF uplift by 2030. And in financial year 2025 will be 1/5 of the way there on that. And just to put the sort of cost of pursuing that target in monetary terms, we're spending USD 10 million, USD 12 million extra over and above what it would have cost us to buy non-SAF aviation fuel this year to achieve 1/5 of that target.

The BETA ALIA airplane that you see in the middle of the screen there, which we've talked about some time delivers into New Zealand, I think, in April next year. That's not far away. It's 4 months away. It's a small aeroplane, just to put this thing in context, several hundred kgs of payload, I think it probably carry 4 or 5 passengers. So clearly, we're not going to be able to build a commercial airline around sort of an aircraft of this size.

But what it does for us is allows us to get them a really good understanding of the developments that have got to occur in the regulatory environment to support an aircraft of this type or technology of this type and also allows us to learn a lot about what we need to do from a sort of engineering and operating support perspective to operate new aircraft technology going forward. So while the aircraft itself is not big enough to replace the Q300, it may scale over time. It's an opportunity for us to get familiar with the regulatory and operational requirements of very new technology like this.

Lastly, I can't remember who -- also before I get to this, lastly, 2 things I did want to mention just around fuel burn, which aren't included in the $300 million to $400 million of sort of big rock targets. But they were mentioned earlier, one of them was. There are 2 developments, tech developments that will help with fuel burn. So this is where we spend a lot of money.

On the 777-300 fleet, there is a new, the call it the [shark skin] technology being developed sort of a dimpled service that you can apply to the aircraft, which include, I think, [Dave], the laminar flow, I'll get my terminology right of the aircraft, which have done well can produce fuel savings on the 777-300 fleet of up to 1%. We haven't signed off the business case on that yet, but the technology is rapidly developing.

And Mike had mentioned new flight technology available on the 787, which allows the pilots in flight to modify what's called cost index on urban. So normally that happens as part of the flight planning process before you leave the ground, do the flight plan, you sort of capture what you think the ambient conditions on the route, they're going to look like, plug that in and come up with a cost index, which dictates sort of how high the plane will fly and how fast you're going to fly it for a given payload given those ambient conditions. But there's no ability to update that on route if those ambient conditions differ to the ones that are in the flight plan.

So that's on the cusp of changing so you can make those updates in flight, sounds small, but it's a huge cost and again, on the 787 with that properly implemented there's the opportunity to clean up to another 1% of fuel burn efficiencies on that particular graph type as we roll out that technology.

So I think Greg mentioned it right in his earlier comments and the $300 million to $400 million we've taken a kind of a middle-of-the-road view on that. There'll be some things as part of that, that don't deliver all the benefits envisaged. Equally, there are a bunch of things in that like those, the 2 I've just mentioned that are not included in those calculations provide a bit of upside. So watch this space.

Investments in -- or our sort of growth hurdle rate, as I mentioned before, 10% plus post-tax nominal. And as I mentioned earlier, we are interested in investing in earnings diversification, particularly if we can stay focused on our core capabilities and provider that meets those hurdles.

The crisis engine center is a good example of this. We were down there a couple of weeks ago launching the GTF capability down there. Just for those sort of background, that's a facility, we have been in parts with Pratt & Whitney with since 2001. In 2004, it became the V2500 capable, that's engine on the A320ceo, which is a hugely popular engine internationally. And over the course of the last 20 years, the Christchurch shops developed a reputation as being one of the best, if not the best shop in Pratt & Whitney's V2500 engineering and maintenance universe. So much so that in 2014, the facility down there doubled in size. And while the DTF is not going to -- the V2500 is not going away, I don't know how many are in global service at the moment, but it's likely to continue flying out to late 2030s, early 2040.

There was an opportunity here to both come up with a product replacement platform for the V longer term, but also do something that can supercharge the earnings or the economic value we get out of the center. So the GTF geared turbofan, that's the engine on the neo, the PW1100 to 1500 as well, USD 140 million getting invested down in Christchurch between us and Pratt's to make that facility GTF cable and we'd expect the first engine to go in early calendar '26. The whole program is sort of self-funding out of the CEC, out of the free cash flow down there in the IRR comfortably, comfortably exceeds the hurdle targets that we've spoken of.

So quite apart from being aligned to it it's a great New Zealand Inc. story. It's a real testament to the regard that Pratt's hold the shop. And it's a great investment, we believe. And as a sort of cherry on top, Air New Zealand will be able to get its own PW1100 engines maintained in that shop, which improves our turnaround times and saves on a lot of freighting costs. So it's a really fantastic outcome, we're excited about.

Medium-term financial ambitions, just sort of bringing all this stuff together. So $300 million to $400 million of big rock transformations plus the benefits of the aircraft we've already got coming back in the networks going back more generally. So we do expect that the portion of those transformation benefits that pertained to cost plus the other fleet benefits that not included in that are going to help us with the nominal flat, nominal CASK, declining real CASK objective.

Well, 4% to 6% revenue growth annually as part of those targets 3% to 4% we're going to get through capacity growth. The additional 1% to 2% is going to be delivered as a practical consequence of many of the things you've heard about from Jeremy and Kate and others today attributable to long-haul premiumization in the New Zealand domestic business, up-gauging aircraft 321 over time and growth in ancillary and loyalty revenue.

As I mentioned, we've got a very young fleet with strong balance sheet metrics. So we've got a lot of flexibility in terms of growth and capital management. We can and will return excess cash, expect us to take a thoughtful and measured approach to that.

Tough environment. But just to reiterate, everything that's been said today, starting with Greg, we've got a high-performing customer-focused team with really strong values. We're not operating at scale right here right now, 16% of the jet fleet is grounded. But I hope you leave the session this afternoon with a strong sense that we've got a detailed plan, and we're continuing to invest in the business foundations, whether it be fleet, ground infrastructure, simplification and modernization of the digital estate, which Nikhil talked passionately about in people and processes, Nikki again talked pertinently about. As I mentioned, revenue growth will be underpinned by premiumization and further new fleet in the international part of the business, upgauging domestic jet and loyalty.

Capital management opportunities exist that I think in the round, we've got real confidence despite the current challenges, real confidence in the platform and the core foundations that we've built and continue to build as a business. And on that note, will conclude.

[Presentation]

Leila Peters
General Manager of Corporate Finance

Could I please invite the whole leadership team to come up to the stage and Jeremy and Kate. I'll just do some quick intros as well to those that didn't speak yet today. So really excited to do Q&A, and we will not rush it, but I would just like to let everyone know that after Q&A, we have drinks and refreshments at the flight deck and actually some pretty cool things for you to see. I think we've got some touch and feel things that have surprised us with.

So just to round out the introductions, for those of you that haven't yet met, Alex Marren, over to my left is our Chief Operating Officer; David Morgan, who I think everyone here knows, he's our Chief Operational Integrity Safety Officer, also Chief Pilot. Kiri Hannifin, I think most of you have actually met before our Chief Sustainability and Corporate Affairs Officer. So welcome, and thank you.
And just briefly, could all the Air New Zealanders in the room raised their hand? Okay. So just so you know, we can throw questions to you, too. And we will because it's a team sport, as Greg said. Good? Okay.

Question and Answer

Leila Peters
General Manager of Corporate Finance

Now it's time for questions. We're really excited to hear from all of you and see what's on your minds. Could you just raise your hand and just wait for a microphone to come to you because otherwise people on the webcast won't be able to follow what you're saying. And when you wait, we'll start with you since you're brave, please just introduce yourself with your name and where you're from, just so everyone knows. Thank you.

Wade Gardiner
Craigs Investment Partners Limited, Research Division

Wade from Craigs Investment Partners. Given to more premium in the long-haul cabins. What does it do to maintain in market share in the economy space? Or is this about maximizing revenue market share rather than seats, if you like?

Leila Peters
General Manager of Corporate Finance

Mike or Jeremy, would you like to take that?

Jeremy O'Brien

Yes. I'm happy to start on that. But ultimately, we've got to choose where we think we can best win. And so -- and a short answer to your question, it's absolutely going after where we believe the best revenue this year is for us. We now going to be the largest and we'd probably be going to have the most capacity. And so therefore, it's about giving us customers that we most want to win and doing the best job against that. And we think that premium customers of where the growth is going to be and we believe, based on the investments we're making, we're best positioned to win that market share. So the short answer to your question is, yes, it's going to be about going after ultimately the best of revenue share that we can get out of that cabin.

Gregory S. Foran
Chief Executive Officer

Can I add a bit to that and Baden get yourself ready. It's a discussion that we have because you got to be careful you don't pivot 2-way and then you lose market share, market share, market share. So one of the things the team did before I got here is I think they negotiated an incredibly smart deal with Boeing in terms of options on other planes. And I don't know how much you can say about that Baden and Richard because you've got no notice of this question, but say what you think you can.

Richard Thomson
Chief Financial Officer

So the flexibility, as Greg said, that we have on that deal with Boeing that we struck in 2019 as some of the people at Boeing sort of suggest that the most flexibility that they've ever put in their deal. I'm not sure that that's 100% true, but it is a lot. And one of the things that we can do with the order is we can make choices aircraft by aircraft as to whether it's a -9 or a -10. So where we have the opportunity to play in the premium market where we want to protect that premium market. As Jeremy was saying, we can choose [indiscernible] because it might meet our operational requirements quite nicely, and we can fill it with a quite high premium sort of mix.

But equally, there might be markets where we're a little more predictive of just outside market share. And an example of that might be Los Angeles, for example. So -10 in the long run, once the 777-300s finally retire might be the right aircraft for that market. We might be able to use that or we will be able to use that then to be able to maintain that market share more economy seats down the back. But then we can have the flexibility of intermixing that aircraft depending on the season with the more premium -9s.

So I think it's a nuanced story. I think the general story is we are wanting to play in the premium space because we have the right to win, but we will look at market by market and define our aircraft deployment based on that.

Leila Peters
General Manager of Corporate Finance

I think Liv we have a question right up here.

Unknown Analyst

Great. Thanks, Leila. So just maybe sticking on that premiumization theme. You're not the only airline in the world pushing premiumization on front of cabin in particular, segmentation of products, getting more out of what you've got on each aircraft, particularly on long haul. How do you see this impacting the industry profit pool?

And in particular, the retention of that over the longer term? Do you -- in essence, do you see it getting competed away? Or is this a broader supply-demand issue in light of the fact that we don't have sufficient supply across the industry at this stage?

Gregory S. Foran
Chief Executive Officer

I might say a couple of words and then hand people who know a lot more than what I do about it. I guess I see this playing out in other industries, to be honest with you. I see it play out in retail that I'm recently reasonably familiar with. And you're not all retail analysts. But if you were, you would say, well, who's doing really well. And I would say to you, well, people like Costco are doing well, people like Aldi are doing well and the discounters. And I think what I see happening in the world is bifurcation and wealth. Richer getting richer, poorer getting poorer. Why did Trump do so well in the election because there's a hell of a lot of people in America who were worse off after 4 years than what they were in the previous 4 years. And they may -- we may sit here and say Trump this and Trump that. But at the end of the day, if they're worse off, they say, well, it's I don't want to continue where ongoing.

So what do I see happening in the airline space? I see growth was -- Michael O'Leary in Ryanair and I've met him and got to know him. And that's a pretty simple model, and he's playing that hard and fast. Interestingly, I look at someone like Southwest to sort of getting a little bit core in the middle there. But I see the discount is doing well. I see the full service carriers doing well. I think as the world bifurcates in terms of wealth, which I suspect will continue providing the premium market doesn't become too oversaturated then you're probably okay, and you can see both United and Delta playing in that space. American trying to catch up, our Qantas playing in that space. I deliberately use the words. We're a bit ambidextrous in this country, and you need to be. We're 1.5x the size of Arkansas with 5 million people.

So let's be clear that domestically, we should continue to be very egalitarian in our approach. Short sector lengths, it actually plays to the culture of the country it works pretty well into the Pacific, works pretty well across the Tasman. We can put a little bit of premium in there because we've got spare aircraft time when you're flying back from the States, you can use it in the middle of the day, good aircraft utilization. Long haul, most of our flights are over 12 hours. We're really playing here into a market of, I think, premium leisure travelers.

And whilst you don't discount the economy person sitting down the pack, you have to decide who your core customer is, and you've got to do a great job with them. And a good example of that is McDonald's. McDonald's -- everyone goes to McDonald's but who's a core customer. It's a mom with young kids who eat chicken nuggets. And be pretty clear, don't leave your core customers.

So our core in the long haul has to be the premium traveler and do a damn good job with that, with wine and food and a nice entertainment screen and get those business class seats changed out, so they're a great feature but we still will do a great job with economy. And I like what we're doing with SkyNest, a bit of innovation, better DNA in the organization, that's what we're good at. But not only that, but improving the entertainment with SBI now in terms of in-flight entertainment. So we've moved away from Panasonic. We're doing something there that not many other airlines have done. We think it's a better system. Nikhil had, I don't know, 6, 7 people up there working with them for the last couple of months to get them up to speed. So that's how I think about it.

Unknown Analyst

Good answer, Greg. Can I just have another question, Leila? Just it's refreshed here the return on capital desire in terms of exceeding WACC at some stage over the coming years. Can you talk about return on capital in the context of domestic in terms of Tasman PI, in terms of long haul, how it applies, how we should think about your ability to generate that desired WACC type or WACC-plus type return across each of those business segments?

Richard Thomson
Chief Financial Officer

We don't -- it's a system. It is a network and my old boss, [Rob Donald] used to describe it, is sort of a pyramid, if you start chipping away the bottom of the pyramid sinks or you build on it. So we're not sort of breaking it up by segment. and won't do that. So the ambition is, obviously, as an enterprise to exceed those return on capital targets. And the best way to describe it. I think the international business, the long-haul business arguably has a slightly higher cost of capital. It's sort of an inherently more volatile business than domestic in a very capital-intensive business. The domestic business is the opposite of that.

Although having said that, that's essentially a New Zealand dollar revenue business with a chunk of U.S. dollar cost. So it's not without volatility. But the targets that we've described today are enterprise-wide targets in the round and won't go much further than that.

Unknown Analyst

Just following on from that. The return on capital outlook and how far you should exceed the sort of 11% by. Has that moved up a lot with the $300 million to $400 million target. You were talking about that prior to all this transformation and other digital benefits. Is this -- should this all be additive?

Richard Thomson
Chief Financial Officer

It's a good question. And I will have a sort of initial chat that we'd like. So just to again put this in a bit of context. So it's you shouldn't review it as additive relative to the current position. We're not in a normal position, 16% of the jet fleet not operating. So it's additive provisor around that in a moment to what we would expect in a normal operating environment.

Having said some of that, as I mentioned before, 1/3 of those benefits relate specifically to labor cost improvements in relation to improvements. And they are part in part of ensuring that we maintain flat nominal cost going forward. So it's part of that formula. And there may be, particularly on the revenue side, some of those transformational benefits may or may not get competed away. So it's a roundabout answer, but I wouldn't take a necessarily a $400 million normal EBIT operation environment and simply add $400 million of it, it's more nuance than that. But it is certainly incremental to our normalized sort of EBIT performance subject to the vagaries of competition.

Leila Peters
General Manager of Corporate Finance

Just the other thing I would just add to that is, of course, the denominator or the invested capital base certainly will be improved with the extension of the 777-300s, enabling the 3% to 4% growth ambition, but also very, very capital-light way to deliver that. And so as we look towards the end of that 4 year horizon and even beyond, I think you're right, Nick and saying sort of that really starts powering up, at least in our internal estimations.

Unknown Analyst

No, that's great. And just on the net debt-to-EBITDA forecast you provided to be back in range. Does that assume a lot of those EBITDA benefits come through? And does that also assume capital management to get you there? Or is that purely the fleet investment?

Leila Peters
General Manager of Corporate Finance

Questions, Marcus over on this table.

Marcus Curley
UBS Investment Bank, Research Division

Is there any reason why you haven't converted it into a long-term aspiration around profit? [indiscernible] converted your EBITDA uplift into absolute exploration. The second part of that question is, how are you going to measure success? If you don't give us a proper number to benchmark against?

Leila Peters
General Manager of Corporate Finance

There's a few reasons and then please maybe Mike or Richard join in. One is we wanted to -- this is something internally that we, first of all, have rolled out for quite some time now, so about 18 months and when we talk to the business internally, we think in terms of EBITDA because we think in terms of the underlying business performance, separate and above from capital structure and financing decisions. So that's kind of the first thing.

So we wanted to share with you how we think about things internally, and so that they are aligned because not just talking to you about our plans, our detailed plans and aspirations is important. But having internally 11,500 Air New Zealanders aligned in marching to the same drumbeat is critically important for delivery. Mike, do you want to touch on the other?

Mike Williams
Chief Transformation & Alliances Officer

Maybe taking a bit of a step there. We've always had profit improvement. We invest in the basis that we think it will deliver. I think the thing that's changed and hence that now, and Nick you touched on this quarter business review cycles every quarter we sit down to look at what's on the plate. That will based on longer-term road maps or plans that we want to deliver.

And so ultimately, what we're sure they started with internal conversations over the past year or 2 where we've started to place a lot more emphasis on where we're going to be focusing in order to drive the performance that we're seeking. And when we're having those internal conversations, we've actually now really rallied the organization around the EBITDA improvement target. So every -- again, Nick mentioned there's hundreds of things teams set up to look after a particular part of the business. They are all calibrated as well to go after improving EBITDA performance. In some cases, it's CSAT or operational performance. So that's what we wanted to share.

I also think that we catched it as this is the medium-term aspiration. We know just looking back in the rearview mirror, that there's so many uncertainties that we're constantly managing. What we're sharing is what we view as the controllable elements of this plan. Greg also mentioned that there'll be things where we haven't anticipated something or maybe even some of those initiatives don't deliver at 100%. There are other things that because they're so recent or they're still in this case base, they're not even included in that 3 to 4. So we're looking at that and actually feeling really confident about it. And quite likely, I think in the future, you'll hear us talk about both how we're performing against that 3 to 4, but also what the road map looks beyond that.

Richard Thomson
Chief Financial Officer

[Marcus] I don't know whether that answers your question or not. But I think Mike raises a key point, which is in a business that's subject of pretty significant externalities. Big difference between control and uncontrollable of $300 million to $400 million is sort of a reflection in areas where we can make a real difference from a controllable perspective on outcomes. So I think given the influence that macroeconomic factors, including fuel changes in policy settings, sort of CPI is on the business of time. I think it would be a very, very brave sort of management team to put an absolute dollar number on sort of a profit target in 3 or 5 years' time.

But all things we've talked about today, I think, sort of hold us in very good stead. And we are confident that we will see sort of ROIC improvements over time, profitability improvements over time. And these are tangible initiatives.

And the separate part of your question is, so how do you measure them? And what we can measure them, we can and do measure them. And so I would expect going forward as we present sort of interim and annual results sort of announcements to the market, we'll put some energy and effort and to specifically identifying the progress we think we've made in those key transformational areas.

Leila Peters
General Manager of Corporate Finance

Jason in the front.

Jason Familton
Accident Compensation Corporation

Just a follow-on from -- Jason Familton from ACC. Just following from the same conversation. I was just wondering, how are you flowing this into management and symptoms like TIs or LTIs and how are you guys all going to be remunerated for delivering what you see you going to deliver today?

Unknown Executive

We have some [indiscernible] perspective, we have a balanced scorecard. We moved to this coming out of COVID actually, we used to have a 50% basically financial company performance metric and a 50% individual. We've moved away from individual and put it entirely on a balanced scorecard. So 50% of that scorecard is based on financials, so return on invested capital and controllable cost out of revenue and then the other half is based on operational sustainability and customer metrics. So there's kind of a clear line of sight between financial performance and hitting on those key parts of our strategy. From an LTI perspective, it is based on benchmarking against [indiscernible] and to the airline index outperforming those.

Jason Familton
Accident Compensation Corporation

So you can just -- just a question on loyalty. Just can you give us some sort of context what, $30 million to $40 million means in terms of growth on raters today?

Unknown Executive

Sure. So we don't report separately on loyalty performance, which I'm sure you know. We view loyalty in the airline as inextricably linked, and we don't separate them out like some others do. The components of that $30 to $40 we haven't split out, but there are 3 parts to that. The first is growing the sales of Airpoints dollars to third parties. The second is growth in our product portfolio. And then the third is benefits from offering this new redemption offer. So being able to manage loads and yields better through Airpoints dollars offers and the flow on loyalty effects of that.

Jason Familton
Accident Compensation Corporation

Okay. So a couple more.

Kate O'Brien

Can just quickly add to that just to. How about there are other airlines who do report this separately and one thing I'd probably say is when we benchmark ourselves against them on a sort of normalized equivalent basis, we perform as well or better.

Jason Familton
Accident Compensation Corporation

A question for Mike. I mean obviously are based in Wellington. If we look at Wellington Newport market share, 60% Qantas and 40% Air New Zealand. Obviously, the airport itself talked about potential for long-haul flights last week. Can you talk about the rest of New Zealand that potentially not just Auckland?

Mike Williams
Chief Transformation & Alliances Officer

Rest of New Zealand from a international...

Jason Familton
Accident Compensation Corporation

In network and transdermal competition.

Mike Williams
Chief Transformation & Alliances Officer

I think -- and David will probably want the mic in a minute to talk about runways and lengths and things like this. But look, we serve all of New Zealand that's the first thing. And we do that again with the pyramid structure that Richard talked about. The network is designed -- when we're designing the domestic network, we're thinking as much about how that connects with the international network, obviously, largely out of Auckland, but also Wellington and Christchurch. Just touching on Wellington first, and I'll look at some others.

Again, this is one of those frustrations that we don't quite have the fleet that we initially had expected. There's aircraft that will come in the future, the ones which have been delayed and others because of the engine issues, which would have been placing really Wellington that will come right. And we think when that happens, we will get that market share back in places like Wellington. Same thing really goes with Christchurch on that short-haul perspective.

Long haul and this is probably the second most frequent question we get after when you're going to go to London and things like that. Long haul out of places ex-Auckland. This is where Alliance has come to play a big part in the way we think about things. I mentioned capital efficiency and making sure we're deploying those aircraft in the way that makes the most sense. Ultimately, I know we're spending all of our time here. We like to think and would want to see long haul route service out of crisis, for example, it's just too small. And it comes at a cost because we wouldn't be able to have that long-haul widebody aircraft based out of Auckland, where more of that demand is.

The other thing is we don't have things like pilot hubs or bases in Christchurch. But of course, we could partner with alliance partners. So Singapore, Cathay and United are all flowing into Christchurch and that's not by chance, that's because we're working with them and supporting them from a sales and marketing perspective on the ground and Christchurch in that instance to make sure that their flights work. And where is incentivized to support them on those markets as we are our own flights on Auckland, for example.

So I think that's a really good example about how we get benefit in working with alliance partners.

Maybe a final point, just prior to COVID, we were operating long haul ex-Christchurch to Singapore. That signals may be a longer-term intent. And it worked went well for us. It took quite a bit to get it to the point where it was working and we have the network organized. We could look at getting back and it's something that's on the longer-term road maps. It all again comes back to fleet and making sure we've got the right capital deployment decisions in terms of the network choices were in. Does that answer that?

Unknown Executive

Using the accepted international aircraft performance methodology, repaving the runway in safety area with a frangible surface, which is designed to stop the aircraft in the event of an overrun does not materially increase the runway length. And therefore, Air New Zealand is struggling to understand how that can be interpreted as an ability to operate widebody aircraft off that runway.

Leila Peters
General Manager of Corporate Finance

I think Paul in the back. And then Jason, if you have more questions after we'll pass it back.

Unknown Analyst

Thanks, Leila. Just so thinking about pre-COVID, there were tens of millions of Indians and Chinese and other Asian economies getting into the middle class and 4% to 6% revenue growth sounds like normal GDP if I'm lucky, is that an ambitious enough target?

Gregory S. Foran
Chief Executive Officer

Yes, I'll kick off to begin with, and others can jump on. Yes, we think it is, actually. Otherwise, we wouldn't be sitting up here and building a plan around it. There's all kinds of things that you have to deal with in the industry, and one of them is what you believe you can deliver based on the aircraft that are available. I'd have to tell you that -- we sort of have got, if you like, a trifecta that we're having to deal with at the moment. It doesn't apply to every airline. There's plenty of airlines out there with Airbus. A320s and A321s, but not everyone's got a PW1100 on them. And frankly, if you've got the older engine, which we have on a bunch of them, that's just great. But unfortunately, because we've got a modern fleet, we've got the new one. Not everyone who's got a 787 has got a Trent, you have a choice. You can put a GE engine on that one if you want. And in fact, the new ones will have that.

I can tell you that if you're running an A350 at the moment, you don't have a choice as to what engine you put on it, you put on a XWB on it. And here's what I'm hearing about the XWB engine, which happens to be a Rolls-Royce engine as well. They're down to 2,000 to 2,500 cycles. That's under half of what they expect to get right, Baden? And there's a few people out there now with A350s that are going kind of low, maybe we've got a bit of a challenge on our hands.

Probably with the trend once they get new blade approved, which I would think probably 6 months' time. It's not actually a new blade. It's the same blade they run on another engine. They just have to get approved by the FAA as those engines start to go through shop visits, we may well find that actually the Trent 1000 starts to come right. Who knows? I'm not smarter. But at least there's a sole for some of that.

So what's happening is that these things aren't shared equally across the industry, and you've got to deal with that. In terms of the 3% to 4% growth, we think that's pretty sensible. My lesson in this is you're better to be a little bit under and work the assets hard then to be a little bit over and try and come up with interesting places to fly to. This is a highly capital-intensive business. You measure our success on return on invested capital. So what are going to do? I've got to work with this team down here to get these planes of their wide-bodies flying 14, 15, 16 hour a day. If they're the Airbuses, we want them flying 11, 12 hours a day. So good utilization of those assets make sense.

So at this stage, we're comfortable. As Baden shared with you. We need to add a little bit more in we've got some flexibility. We've made a deliberate decision to extend the 777 for a couple of reasons. Number one, I can't guarantee you that Boeing is going to deliver and neither can [indiscernible]. Secondly, they are a damn good aircraft. That's Toyota Corolla in 1986 that just keeps on going. So we think we've got about the right amount in there, to be honest with you.

Richard Thomson
Chief Financial Officer

You're right. I mean it's what we're interested in is profitable growth. In some of these markets, I'll pick on China. It's not always profitable growth. There's lots of volume. That doesn't mean that it makes any money. And so you need to be somewhat selective about what you're doing and just sort of a longer-term context for decades, sort of areas of any sort, domestic or international have sort of tracked in flat nominal terms declining real terms over a long time. I think actually, we've reached an inflection point, given where aircraft technologies got to where you're actually now starting to plan for real -- sorry, nominal growth in yields and some of it is not related to the [indiscernible]. We've talked today about some of the other things we're doing to sort of help drive that. But I think it is an appropriate target, and it is a distinct difference from where the industry has been for a long time.

Leila Peters
General Manager of Corporate Finance

Shane. And then John.

Shane Solly
Harbour Asset Management Limited

Shane Solly from Harbour. I've got a couple of questions on there. Firstly, can you just talk a bit more about the economics of flying as London and potentially pick up India. I want to understand were your customers in a broader sense, the more -- will I get more loyalty, a little bit more ancillary because it's a hard haul. Is it your products and rise I know a thing to say.

Unknown Executive

I'll start and then others will come. It's not a Project Sunrise. 2 things if I talk about London, we get a bit of a quick touch on India. I mean, both of these are not announcing a new root today just start there. And you know that these sorts of discussions often come [indiscernible], we're always looking at new opportunities. Look London has changed for us in two respects, which is why it makes good sense just to go back and look at it again. The first is we used to operate that with 777s, which was a big aircraft. It still is a big aircraft. And we didn't have the benefit at that point of putting 787 on. Okay.

So we've got the opportunity now to operate that if we decide to do it with the 787, which is a better size, better configured, better operating economic aircraft to get to London. Yes, exactly. And it's ready to go. It doesn't require modifications. So that's one big change.

Second thing is, like I mentioned, we -- when we exited -- of course, we had a lot of work done to look at the impacts of that and where we've recaptured that passenger flow buyer. Look, a lot of that work as we expected. Some going by Singapore with Singapore Airlines, some going via the U.S. Obviously, some has gone by the Middle East as well and actually quite a few New Zealand that want to fly to the U.K., somewhat to Europe as well, travel by the Middle East. We want to reclaim some of that. And some of the assumptions around how much would trouble by Singapore in the U.S., but it's just not playing out because, as I mentioned, customers want to fly with their New Zealand. So our job is to give them that choice. So those are two big changes that have really prompted our thinking.

In India, it's simply a growth story. It really is booming. And I know there's so many ways if you look about that, looking at trips per capita in the U.S. and how that -- sorry, in India and how that's tracked versus similar markets like China. Some of us have been there quite recently monetized actually in the last couple of years and seeing that the growth in that market, not just from a total population perspective, but where that growth is the trade links between New Zealand and India, the increased economic ties, cultural ties, there's a big Indian expect community in New Zealand as well.

And so coming out of COVID, there was this absolute explosion of travel. Some of that via France, visiting friends and relatives, but a lot of it increasingly is more trade related. So as we look ahead and we look at government wanting to double exports and a lot of that being length with India, we look at it as a medium to long-term play with the -- again, aircraft that are suited to that sort of -- was kind of a [border] around an ultra-long-haul mission that we've got the technology now and the economics to make it work.

Richard Thomson
Chief Financial Officer

Mike, one other factor as it relates to London. And Kate, maybe you want to add to this, but we did see the loyalty effect be material. So Kate mentioned that when high-value customers hit the top tier, then they're making decisions to go to on the European [indiscernible] west bound, and the loyalty effect of that matters. So it's not the deciding factor, but it is one of the key factors. We want our HPCs to remain flying on us beyond when they hit gold elite.

Shane Solly

Harbour Asset Management Limited

Just a second question of your CapEx spend, you talked about for the next 5 years. Can you break out how much is digital? And is it enough?

Richard Thomson
Chief Financial Officer

Well, Nikhil's probably best to answer that question. We've given them, we've given them, I think, it's $70 million a year or thereabouts in CapEx. Obviously, the digital budget in the [realm] between OpEx and CapEx is bigger than that. But actually, the team has done a remarkable job of actually working with an envelope. In fact, often we've got the reverse problem if you want to describe it as a problem, which is we don't quite sort of spend what we've set aside in the budget over the course of the year. Nikhil?

Nikhil Ravishankar
Chief Digital Officer

A combination of the right levels of investment, but also the right type of lever of capability to deliver with precision, the outcomes that we want to deliver. And there, we've got a fantastic internal team. I mean, for example, our app team is 13th the size of the United app team, even though complexity doesn't necessarily scale down based on size. So we've got some fantastic talent in the organization, and we've recently signed partnerships with Accenture and TCS. And between them, they've got 1.35 million staff. So we're using them as sort of elastic capacity to scale up and down as we execute more of these large big rock transformation programs -- well-supported program here.

Leila Peters
General Manager of Corporate Finance

John and then Grant.

John Middleton

John Middleton from Mint Asset Management. Two quick things for me. One, I thought the owners lease slide was helpful. There's not one any focuses in on it. But I think the comment I'd say there is we've got no context for what all the other airlines do, which makes you look a lot better. But your comment you made about essentially selling down some of those aircraft to generate cash. Why do you want to generate cash now?

Richard Thomson
Chief Financial Officer

We'd want to generate cash now, particularly. We're just taking advantage of strong market values for those aircraft and retiring residual risk on net fleet because we wake up in 5 or 6 years' time. It might not be strong in the market. And what we do with the cash is an entirely different question. It sort of relates, its caught up in the capital management discussion we did.

John Middleton

And so what do you intended to do?

Richard Thomson
Chief Financial Officer

What we intend to do? Watch the space, well, I'm not sort of announcing any capital management initiatives today. But as I mentioned before, we're looking at liquidity, which is strong. Leverage, which is strong. We are at in the CapEx cycle, which is -- we're spending a better money on 787 retrofits and as 787s deliver. Obviously, there's a bit of capital associated with that. But as I mentioned in my comments, we've kept up with replacement CapEx, particularly around aircraft, pretty consistently over time. So we're in a good position. I think we've got a bit of balance sheet flexibility. We didn't say yes, we haven't even sold the aircraft to sort of accumulate more liquidity.

John Middleton

And then just I'm assuming that the new 787s will be the new configuration?

Richard Thomson
Chief Financial Officer

Yes, they will. Yes, there's 2 configs, just to be clear. So we've got a 219 seater that was mentioned in the [indiscernible] today, which will turn up next year with the new aircraft, the first 5 aircraft [indiscernible] 219 seats 787s. It's basically for those trying to imagine that, that's a 777-300 size business in premium economy cabin and then the rest is sort of a smaller economy class.

The retrofit aircraft, which is being done at the moment is a 272-seater plane a very similar configuration to scale for aircraft size to the old 777-200 that we used to operate. So we have 2 fleets and time of 7 and 8 the sort of higher premium configuration and then the more you put a configuration that we can fly into just about any market. And then to the Baden's point before, after the fifth new aircraft is delivered, we need to make a decision, but we have the option of taking 787-10 and the configuration of that airplane, it will be the same seat on the aircraft. So we're not developing anything new but the seat and cabin mix may well be different.

John Middleton

And what -- I mean, given you're sort of doing 2/3 of the 777 going forward in the new configuration. What does that mean for medium-term growth expectations? It feels like you pared back your cap your capacity growth quite a lot. Does that mean there's more 787 to buy or not?

Richard Thomson
Chief Financial Officer

It may well do. When we say sort of power capacity growth, we've got 3% to 5% capacity growth on wide-body international as part of this plan, so which we think is a senseful starting point. And if we see the need or opportunity presents itself to do more than that, we've got enough flexibility within the sparing order we've talked about to add grow units to that should we desire.

Gregory S. Foran
Chief Executive Officer

Keeping the 777 has not only given us a bit of an insurance policy about where the Boeing delivers on time. but it also adds some more seats to the network. So it sort of makes sense to do what we've done, which is to hold them a bit longer. Thanks, John.

Leila Peters
General Manager of Corporate Finance

Grant?

Grant Lowe
Jarden Limited, Research Division

Grant Lowe from Jarden. Surprise doesn't come up here. But just in terms of today's guidance, just to take a step back to the very short term. At the full year, the clear message was that first half as there was an expectation that the difficulties at that time would continue through the first half. We've seen what is effectively an underlying upgrade today. Where has been the improvement relative to what you might have seen 2 or 3 months ago?

Richard Thomson
Chief Financial Officer

I'll answer that one. So I think the -- on the cost side, as I mentioned before, the team has done some pretty good work on extracting some labor costs sort of improvements from the system. As Jeremy mentioned, seats to suit on the Tasman has been rolled out and actually delivered some good tangible benefits there. And then we've made some incremental improvements in the ancillary revenue space, which is sort of help drive a modest improvement over the course of the 6 months.

I think the domestic environment has not changed a huge amount. We've seen -- you mentioned this morning, there are some initial green shoots, I think, around SME, corporate travel and domestic. But we're just -- this is a game of ventures, not miles, and we've just done a whole bunch of things a little bit better in the last 6 months than we thought in February.

Gregory S. Foran
Chief Executive Officer

Basically, what you're seeing is you're seeing the parts of the transformation beginning to play out. And you haven't got the full year benefit of them at the moment, but it's exactly as Richard just said, A lot of the things that got discussed today are actually already happening. We just haven't presented. This is what we intend to do on seats to suit or this is what we intend to do on ancillary income.

So for example, if you went on to our site today and you try to attach a rental car, it is a completely different process now to attach a rental car booking. And in fact, correct me if I'm wrong, but I think we increased the attachment rates by literally double?

Unknown Executive

Yes, doubled.

Gregory S. Foran
Chief Executive Officer

So it's 100 things and 1% better the beginnings of all that revenues bit better, costs are a bit better. Sure, we got a little bit better fuel than what we thought. And then there are those other components that we've called out, such as the sale and leaseback and some compensation. But the underlying business, as I sit here. I actually think it's a pretty darn good result for what we've had to deal with. I haven't been in this business forever. But when was the last time government spend was down 25% and showing no sign of immediate recovery. Now very good if you're the government because that's doing exactly what you want to see happening. But those guys book late by flexible tickets and drive good margins. When was the last time you had at the same time that happened, corporate spend down 12%.

So the fact that we're driving some revenue growth says that the work with Flyer, for example, is actually working. And that's why we've got enough confidence today to actually put that slide in front of you and say, all right, that's what we think is going to happen. We control some of those. I can't control spare parts. It's bloody hard. If I can't get seat actuators to fix the business class seats to keep breaking down, and we get charge basically $50,000 each motor and there's 2 of them in there. We're the only ones in the world, by the way, who have that particular part. It's really hard.

Now next week will go and see the Chief Executive of Safran, and I'm going to try a full core press on them and say, hey, either drop our price or give us the drawings because these are basically back in cleaner motors. Not that I'm an engineer or anything, but they're about that size. You'd find an Electrolux.

Unknown Executive

It's a very expensive [indiscernible]

Gregory S. Foran
Chief Executive Officer

And you getting charge $50,000 a piece. So I can't control that. And that's one of the reasons why we will take these 777s that we're now going to extend, and we'll wrap out those business plus seats. And we'll put in something because we're going to keep those planes to 2030, 2031. And who knows, maybe even a little bit longer. I don't have to make that call now. We'll do it on 6 of them. Jeremy and team are going to be able to sell all the seats because at the moment, we can't sell all the seats, and it's just not a great customer experience when you get on there and it went then into a bed or the trade table breaks.

Grant Lowe
Jarden Limited, Research Division

So just with that, like there's some green shoots there, you're talking about a lot of positive things, which obviously to annualize. I know you don't give guidance at this stage of the year for the full year, but I'm hearing a degree of confidence that the business is potentially on the bit of continuing that good momentum of the second half, would that be a reasonable characterization?

Gregory S. Foran
Chief Executive Officer

Really hard thing to answer the way that you want me to answer that. What I -- what I will tell you is that I hope you go away from this particular session with a couple of thoughts that are in your mind. Number one, these guys have a plan and is it believable? Did you see stuff today that you go I get it. I can see how they can increase revenue. Jeremy went through as 5 points what we're going to do. And Kate's explained what we're doing with loyalty. So can I believe that? Number two, do I think they can execute it? Because you get 1 point for talking and 9 for doing.

And trust me, I've been around the place long enough to know plenty of businesses, don't. Take North bot, and I shared it with the business today. The Swedish battery maker. What are they running at, at the moment, 1% production compared to where they expected to do. So Goldman's have had to take what a $1.4 billion write-down.

So nothing matter with the plan, it's just I couldn't execute it. We're pretty obsessed here with, if you say you're going to do it and we sign off on it, do it. So I hope you go away going is a sort of way of working in Air New Zealand, which is coming across as being the synced up. There's not an internal competition that's going on in this business team. Number two, they've got a plan and it's believable. And number three, I think they're executing it and they will. And that's why I have confidence in it. Now I can't tell you what other site swipes coming around the corner. We're going to get another issue with the Trent engine. Are we going to find out that Boeing actually can't deliver the 787s despite all the work that we're doing, I can't control that, no one in the team can. What we try and do is build in enough of insurance policies so we can deal with it.

And then we hold ourselves to account for the stuff that we can do. And we are building something here which is going to work really well for a long time. That's why we're doing the hanger. It's why we're doing the Christchurch Engine Center. We've probably spent $40 million, $50 million, Alex, on ground service equipment this year. So if you're out at Auckland Airport, you can see new pushback tugs. You can see new pallet loaders, you can see -- what else? [indiscernible] New water trucks, stuff we haven't spent money on for a long time, like years and years and years, but it works now, and that's going to help a whole bunch of things in the business.

Leila Peters
General Manager of Corporate Finance

I could not have scripted a better close. So I think that I will take the opportunity to thank everyone for the formal conclusion of the Q&A. But just to remind you all that the team is here for the next while, and I really, really urge you to ask them all of your unasked questions in a more intimate setting.

Again, I just wanted to say on behalf of the Air New Zealand team, thank you so much for spending your afternoon with us. We know that a lot to take out of your day to listen to a whole bunch of presentations. I'm sure they're much snazzier than others, but still a whole bunch of presentations is a lot and to absorb a lot of information, and we don't take that for granted, and we really, really appreciate those relationships. As Greg said, it all comes down to relationships.
So with that, I'll formally conclude the Investor Day, and we will see you in the flight deck for drinks. Thank you.