2014/15 Annual review of Air New Zealand Limited

Report of the Finance and Expenditure Committee

Contents

Air New Zealand Limited

Recommendation

The Finance and Expenditure Committee has conducted the annual review of the 2014/15 performance and current operations of Air New Zealand Limited and recommends that the House take note of its report.

Introduction

Air New Zealand is the national airline, and operates passenger and air cargo services domestically and internationally. The Air New Zealand Group in New Zealand consists primarily of Air New Zealand Limited, Air Nelson Limited, Mt Cook Airlines Limited, and Eagle Air Limited. In 2015, Air New Zealand celebrated its 75th year of operations as the national carrier.

Air New Zealand is a public company listed on the New Zealand and Australian stock exchanges. The Crown is a 52 percent shareholder and is also holder of the Kiwi Share. This is a single share that does not carry general voting rights but requires the Crown's consent for certain actions. This is designed to maintain Air New Zealand's status as a substantially New Zealand-owned and -controlled company.

An independent seven-member Board governs Air New Zealand. The chairman is Tony Carter. Christopher Luxon has been the Chief Executive Officer since December 2012.

Financial position

Air New Zealand recorded a net profit of $327 million for 2014/15, which is a 24 percent increase from the previous year. Air New Zealand attributed its strong financial performance to increased customer demand, additional capacity, lower fuel prices, and successful initiatives to reduce costs.

In 2014/15, Air New Zealand generated operating revenue of $4.925 billion. Significant revenue includes a 6.8 percent increase in passenger revenue from the previous year, to $4.1 billion, and a 10.5 percent increase in cargo revenue from the previous year, to $317 million.

Operating expenditure increased by 3.2 percent to $3.764 billion in 2014/15. Sales and marketing costs increased by 8.2 percent to $303 million, as a result of marketing new routes. Aircraft maintenance and overhaul costs increased by 12.3 percent to $320 million, largely because of an increased fleet size. There was also a 3.6 percent increase in labour costs, to $1.2 billion, reflecting increased capacity.

Audit report

The Office of the Auditor-General issued an unmodified audit opinion on Air New Zealand's financial statements, grading its management control environment and financial information systems and controls as "very good".

Regional coverage

Air New Zealand operates flights to 42 towns and cities throughout New Zealand. We asked what factors drive decisions about what destinations Air New Zealand services and how Air New Zealand balances its obligations as the national carrier with its profitability.

Air New Zealand noted that it has maintained its services in some regions at considerable cost. Over the last three years, Air New Zealand estimates that it lost $1 million a month servicing 15 towns.

Air New Zealand said that it has had to withdraw its services from some places, such as Westport and Kaitaia, where the population is too small to sustain the cost of its services. Air New Zealand reported that it is too soon to assess how its withdrawal has affected tourism in these regions. We indicated that we are interested in monitoring this.

As the national carrier, Air New Zealand said it works hard to improve the sustainability of its regional network. It does this by investing in better aircraft that are cheaper to fly and so reduce the cost per seat to the customer.

Air New Zealand also works with communities that it does not service to promote them as tourist destinations. It hopes that this will create an economic platform to which it can link its services.

Although it observed disappointment from communities it had withdrawn from, Air New Zealand believes that it has the best regional network of any country. Air New Zealand services 100 percent of towns with populations of 20,000 people or more. In contrast, Australia runs scheduled air services in only 56 percent of its towns with 20,000 people or more.

Coordination with other airlines to boost regional coverage

Air New Zealand said that it works with other regional airlines to provide services to communities it has withdrawn from. For example, Air New Zealand said it had gifted its ground-handling equipment to the airline now servicing Westport. It also shares its data with the airlines and provides a commitment that it will not compete in the ports it withdraws from.

Contributing to New Zealand's economy through tourism

Air New Zealand described itself as "a good corporate citizen" in how it contributes to New Zealand's economy. Air New Zealand provides employment to about 11,200 people and contributes to trade and enterprise through its exports and cargo services. Air New Zealand said it also drives a lot of economic value through tourism, accounting for about 40 percent of visitors to New Zealand.

Through "mayoral forums", Air New Zealand works with communities to develop visitor platforms. Visitor platforms cover a community's unique selling points that can be marketed throughout Air New Zealand's network to attract tourists. For example, Rotorua's visitor platforms include contemporary Māori culture, spas and wellbeing, and mountain-biking.

As well as promoting existing tourism experiences, Air New Zealand works with regions to develop new visitor platforms. In Queenstown, Air New Zealand created a marathon event designed to drive tourism during the off-season. It estimated that the Queenstown Marathon generated an additional $9 million in tourism revenue.

Reducing airfares

Several factors are contributing to decreasing airfares, including the recent rapidly falling price of fuel and oil. Air New Zealand observed that fuel prices have been unpredictable during the last five years and that it does not speculate on the oil market. Instead, it buys a certain quantity of what it needs at fixed prices, six months out. It said that this policy has served it well.

Air New Zealand observed that a bigger reason for decreasing fares is the growth of the company. A 12 percent increase in capacity, largely because of fleet upgrades and an increase in services, has put more seats on the market. To create demand for these seats, Air New Zealand has discounted fares.

Competition with other airlines is also a significant driver in decreasing fares, and Air New Zealand acknowledged that it acts responsively to the promotional pricing of other airlines. Air New Zealand noted that it is competing with seven international airlines as well as several regional operators within its markets. It welcomes competition from other airlines, because competition forces it to innovate and improve its services. We expressed concern that the high cost of flights in some regions without competition could be perceived as monopolistic behaviour.

We expressed concern that the cost of flights in some regions in New Zealand is still too high and obstructs business growth. Air New Zealand said that it typically used turboprop aircraft to service regional ports. These aircraft are less fuel-efficient and have less seating, which increases the price of the flight.

Air New Zealand said that it is working to replace these turboprop aircraft with larger, more efficient, aircraft to reduce the cost per seat. Additionally, where customers are obliged to purchase last-minute fares between regions, Air New Zealand has introduced capped “Gotta Go” fares to reduce the expense for these customers.

Reinvestment of revenue

As Air New Zealand’s revenue grows, it has to determine what proportion of that growth it passes on to the customers, uses to repay debt, passes to the shareholders, and reinvests back into the company.

Air New Zealand said that it has recently focused on improving its profitability through reinvesting its revenue. This includes $2.6 billion worth of new aircraft, $100 million on lounges, investment in new routes, investment in its people, and investment in improving its customer experience. Air New Zealand said that it expects, as its investment plan nears completion, to be able to reprioritise its revenue to pay off debt and increase dividends to shareholders.

Asian market

The number of visitors from China to New Zealand grew by 138 percent between 2011 and 2015. However, we noted that the revenue Air New Zealand derives from Asia has dropped from 22 percent of revenue generated overseas in 2010/11 to 19 percent in 2014/15. We asked Air New Zealand how it could sustainably capitalise on this growing Chinese market.

Air New Zealand noted that it faces stiff competition from Chinese airlines. However, it is working closely with Tourism New Zealand to attract Chinese demographics that would add better value to New Zealand tourism. By marketing New Zealand as a romance destination and as a place for a great family holiday, Air New Zealand attracts wealthier visitors who stay longer, spend more, and travel throughout the country. Air New Zealand estimates that Chinese visitor numbers are up 30 percent but that their spending is up 60 percent. It also said that it has discontinued some of the business it was doing with travel agents in China that attracted visitors for only a few days and added little economic value.

Air New Zealand is confident that it will see more growth from the Asian market as tourism operators continue to improve their collaboration. For example, Air New Zealand has a joint venture marketing fund with Tourism New Zealand. The marketing venture aims to find people's triggers and barriers for choosing New Zealand as their next holiday destination.

Sustainability framework

In the past year, Air New Zealand established a Sustainability Advisory Panel. The panel develops the company's sustainability strategy and works to anticipate and overcome sustainability challenges. Air New Zealand publishes a sustainability report annually.

Focusing on sustainability has encouraged Air New Zealand to be innovative, driving cost savings that it reinvests back into the company. Air New Zealand hopes to share its innovations with other communities and businesses.

Air New Zealand said that the success of its own sustainability programme is linked to overcoming the sustainability challenges of New Zealand and the wider world. It works to recognise and respond to these challenges in whatever form they take. This means that its sustainability strategy is not just environmental, but also includes social and economic development issues. For example, Air New Zealand seeks suppliers with ethical codes of conduct, such as adherence to the United Nations global compact.[1]

Environmental sustainability

Air New Zealand acknowledged that the aviation industry is a big hydrocarbon consumer and polluter. Air New Zealand tries to mitigate its environmental effects in several ways. It has explored using alternative fuels but says that no commercially usable alternative exists. However, it has committed to moving its company car and ground fleets to electric vehicles.

Although it could buy cheaper carbon credits from other countries, Air New Zealand said it prefers to invest in New Zealand's carbon-offsetting infrastructure. For example, it is collaborating with iwi to regenerate their land as a carbon offset.

Air New Zealand says it encourages New Zealand's "100 percent pure" image in its collaborative partnership with the Department of Conservation. Since the partnership, the number of people doing the Great Walks of New Zealand has increased by 31 percent. The department is able to invest the profit from this in biodiversity projects.

Virgin Australia alliance

Air New Zealand holds a 25.9 percent share ownership in Virgin Australia. It coordinates operations with Virgin Australia through the Australasian Airline Alliance Agreement. The Chief Executive of Air New Zealand, Christopher Luxon, is also a member of Virgin

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1 United Nations global compact: A corporate sustainability initiative that calls companies to align strategies and operations with universal principles on human rights, labour, environment and anti-corruption, and take actions that advance societal goals. www.unglobalcompact.org

Australia's Board of Directors. As an alliance, Air New Zealand and Virgin Australia hold about 51 percent of the market share across the Tasman.

Air New Zealand said that its alliance with Virgin Australia is beneficial because it improves connectivity for its customers. The sales and distribution reach of Air New Zealand is also greatly improved because Virgin Australia staff are able to build Air New Zealand's presence in Australia and market its services using their own infrastructure.

Services out of Wellington

Air New Zealand does not support extending Wellington airport's runway to accommodate long-haul services. Although it actively drives tourism in Wellington through its involvement with tourist events such as the World of Wearable Arts competition and its marketing of Wellington as a holiday destination, Air New Zealand considers that extending the runway would not be profitable.

Air New Zealand said that introducing long-haul services to Wellington would require about $150 million in operating costs, and 200,000 seats to fill, each year. To cover the cost of the flight, Air New Zealand would have to fill about 80 percent of those seats. However, demand from the Wellington population is not large enough to do this. Air New Zealand also believed that Wellington airport would seek to recoup the costs of extending the runway by imposing additional landing charges and passenger fees.

Wellington has good connectivity with Auckland, Air New Zealand reported, so Wellington consumers have ready access to long-haul flights that operate from there. Air New Zealand said that it continues to market Wellington as a regional platform to increase demand for its services.

Future growth

We congratulated Air New Zealand on its strong performance, and asked about its plans for continued growth. Air New Zealand said that it plans to expand services in the Pacific Rim. It noted that economic shifts in the Pacific and a growing middle class of consumers will provide opportunities to capitalise on connections to Pacific Rim cities. Through these tourist connections, Air New Zealand also hopes to open up opportunities for trade and exports.

As well as advancing commercial opportunities in the Pacific, Air New Zealand strives to keep on improving its world-class reputation through enhancing its customers' experience and building the culture of the company. For its customers, Air New Zealand is continuing to improve its loyalty programmes. It has also investing in leadership programmes to develop capability within the organisation.

Appendix A

Committee procedure

We met on 26 January and 9 March 2016 to consider the annual review of Air New Zealand. We heard evidence from Air New Zealand and received advice from the Office of the Auditor-General.

Committee members

David Bennett (Chairperson)
Andrew Bayly
Chris Bishop
Hon Clayton Cosgrove
Julie Anne Genter
Stuart Nash
Rt Hon Winston Peters
Grant Robertson
Jami-Lee Ross
Alastair Scott
David Seymour

Evidence and advice received

Office of the Auditor-General, Briefing on Air New Zealand, dated 26 January 2016.

Organisation briefing paper, prepared by committee staff, dated 18 January 2016.

Air New Zealand, Responses to written questions, received 19 January and 26 February 2016.

Appendix B

Transcript of hearing 26 January 2016

Members

David Bennett (Chairperson)
Andrew Bayly
Chris Bishop
Hon Clayton Cosgrove
Matt Doocey
Julie Anne Genter
Stuart Nash
Grant Robertson
Paul Foster-Bell

Witnesses

Christopher Luxon, Chief Executive, Air New Zealand
Tony Carter, Chairperson
Rob McDonald, Chief Financial Officer

Bennett	Good afternoon and welcome to the Finance and Expenditure Committee. Thank you very much chairperson, Tony, for bringing your team along and Chris and Rob for coming. We've got till about 3 o'clock—we probably won't need all that time. So welcome to Parliament for 2016, and if you want to give us a brief introduction, then we can open up with questions from members.
Carter	Thank you, Mr Chair. It's certainly our pleasure to be able to appear before the select committee today. [*Introductions*] I will handle questions on governance. They will obviously handle questions on operational matters, and Rob will handle any detailed financial questions you have. I am pleased to report that both Christopher and Rob were recognised at the Deloitte Top 200 awards late last year, as CEO of the year and CFO of the year. As you will see from our annual report, 2015 was a very successful one for the airline. We aspire to be a great New Zealand company that creates value for our shareholders while improving the experience for our customers and contributing to the fabric of New Zealand. I am happy to say that I think we continue to do that. We carried 14.2 million passengers this year, including 9.2 million passengers on our domestic network. We earned $4.9 billion in revenue and $474 million profit before taxation. We've paid $89 million in dividends to the New Zealand Government and as well we paid $147 million in company tax to the Government as shareholder. I'm also pleased to say that as part of the improved financial performance, we are able to share a portion of that with all staff who aren't on individual bonuses, and all full-time staff received $1,400 as an ex gratia payment in

reflection of the improved financial performance of the airline, and I certainly, as chairman, am very proud of that.

We continue to invest in our domestic and international fleet. We have improved our customer aircraft and we continue to maintain a wide network throughout New Zealand. For the first time we introduced our sustainability framework, a conscious effort by the business to positively contribute to the economic, social, and environmental well-being of New Zealand. That framework is part of our ongoing commitment to use our airline to supercharge New Zealand's success. I am proud of the growth of the airline and its contribution to New Zealand, and we will welcome any questions from the committee. Thank you.

Bennett Thank you very much, Tony. Grant.

Robertson Thank you, and thanks for coming along today, and obviously it is worth noting the strong performance of the airline, and congratulations for that. A couple of questions. The first is, you mentioned in your introduction that you want to be a great New Zealand company, that you want to contribute to the fabric of New Zealand. I wonder, do you consider yourself the national airline of New Zealand, and what does that mean to the business? And I think you know what I'm alluding to in terms of regional coverage and so on. To what extent is that idea changing—of what it means to be the national airline, and do you still feel that obligation to the service right across New Zealand, to the regions as well?

Luxon Yes, absolutely—that's the answer. We do pride ourselves on being New Zealand's national carrier and the obligation that we feel to be able to serve New Zealand the best that we possibly can. I think we actually are a really good corporate citizen here in New Zealand and we contribute to New Zealand on many different levels. So, yes, we have a network of services that runs to 42 different towns and cities across New Zealand, but, importantly, we also drive a lot of the economic value in this country in terms of tourism, through to trade and enterprise through exports, and cargo in bulk-bay aircraft. Socially, we're running a company of 11,200 people. We try and run a really great, world-class organisation, and that's evidenced by our culture and turnover scores and engagement scores and a bunch of things like that.

We are a part of communities, and we feel very serious about wanting to contribute to those communities, and we do that in a number of different ways. We get a lot of [*Inaudible*] detail on the regions, I suspect. And the third area is we want to help supercharge New Zealand environmentally. We're really invested in making sure our natural environment is as good as it can be, and that we can play a role in that, because it's a tourism asset that we think is in our interest to make sure it's protected. So economically, socially, and environmentally there's a contribution that we make that makes us feel like we are part of the fabric of New Zealand life.

Robertson Yes, and I acknowledge the sustainable development strategy and the group that you've brought together on that. But to go back to the regional point, what are the principles that drive decisions about what destinations are being kept and what aren't?

Luxon I've been quite transparent about that since the middle of 2014, about our decisions around different regional ports we're going to or not going to as the case may be. The situation is this: we fly to 22 towns, and 15 towns, we flew our smallest, highest-cost aircraft into those towns, and we lost a million dollars a month for 3 years in a row servicing 15 towns across New Zealand. The answer for us is not to walk away from 15 towns and actually say we want to try and make that work, but, likewise, not facing up to that reality and actually finding a solution for that is a real failure as well. So what we've decided to do—and it's well announced—is that we have withdrawn services from places like Westport and Kaitaia, with populations of 4,000 to 5,000 people, and we've obviously withdrawn services out of Whakatane, where there are 18,000 people. And in the process we've gone off and invested $300 million in more turbo-prop aircraft. In the latter half of last year we invested another $500 million in more of those aircraft as well, or [*Inaudible*] of them incremental to New Zealand, and our plan to be able to more sustainably deliver ongoing services to regional New Zealand is actually getting ourselves better aircraft at a lower cost per seat. And when we can move small towns and small aircraft to much larger turbo-prop aircraft, you know, we're getting another 15 percent price reduction. That's already happened in Kerikeri, it's already happened in Gisborne and four or five other ports in New Zealand as well have been signed as we do those [*Inaudible*].

So that's the way we're trying to comprehensively face up to the reality, find a way through it, and deal to it. Now, if you take a step back, New Zealand is incredibly well served for a country of this size, with the population we have, with the number of airports we have across this country. So when I look at reports by independent professors, say Tim Hazledine of Auckland University, he would go around the world looking at all regional airports. Without doubt, I have no doubt we have the very best regional network of any country—Australia, Scandinavia, UK, Canada, US—in the world. We service 100 percent of towns with populations of 20,000 people or more. The next best regional network would be Australia, where 56 percent of towns with 20,000 people have scheduled air services in and out of those places. So that's great but it doesn't give comfort to places that I'm conscious of, communities that we've withdrawn from.

Just because we don't fly there doesn't mean we don't do everything that we possibly can to promote their region to the world or to bring tourists to that part of the world. So we promote Stewart Island, we promote Wanaka, we promote Cape Reinga, and we don't fly to those places directly. We are working very hard with those communities to try and create economic platforms and visitor platforms for their economies that we can actually get behind and promote and drive.

Robertson Just one more question on that point, and picking up that point that you're saying you're not abandoning those communities. Can you give us a commitment that you'll work with the regional airlines that might pick up services, to coordinate those timetables so there are better linkages with your services? I'm thinking particularly about Whakatane and getting in and out through Auckland to other places.

Luxon: Yes, and what we've got happening, and the great thing that has happened, is that there is a plethora now of regional airlines that are actually in this country. You've seen Sunair go into Westport, you've seen Air Chathams to Whakatane, you've seen Great Barrier go into Kaitaia—Kiwi Regional Airlines, Originair, everybody else as well. What we did was quite different from how we may have handled it in the past. We first of all signalled to those towns and said Kaitaia we can't service, with 4,000 people. It's very difficult for any airline in the world with 50,000 people or less in the population and with less than 50-seater aircraft to make those economics work. But we can't make that work and we won't be going back to Kaitaia. It's an hour and a bit to get to Kerikeri where we've invested in bigger aircraft, the airport upgrade, and all that stuff.

Westport is an area we're still promoting very heavily but it's very isolated to do much there, apart from the fact that we gifted all our ground handling equipment to the incoming carrier that's came in there, and likewise. So across those three places where we made those withdrawals we shared all the data, we shared all the information, we gave a commitment we wouldn't come back and re-enter into those markets, and I think we've done as good a job as we can in setting those airlines up for as much success as they can.

What you're talking about is an issue called interlining, and interlining is a certification process essentially done by IATA, which is the international airline industry association, and essentially what it means is it's how airlines talk to each other in terms of transferring luggage, check-ins, how the systems communicate. And there are some very high standards around systems and around technology in order to make those work. And in fairness to those regional airlines in New Zealand, those are costs that are quite hard for them to actually meet in order to be able to do an interline agreement. So the upshot for me is I feel like we've honestly done as much as we possibly can, being as transparent as we can about our intention in a route and our handover of data, information, and capital. But going forward we now have a lot of competition in the market place and I think we're best if everybody rows their boat commercially if they see fit.

Cosgrove: Just on the point Grant made; you talked about working with communities in terms of visitor platforms. Can you enlarge on that, and can you also tell us, have you got any data about the impact in respect of tourism post your withdrawal from those areas for those regional communities?

Luxon: Good question. I can certainly talk about what I mean by visitor platforms. I'm not sure I've got the data for those specific communities, but—

Cosgrove: Could you provide it to us post the meeting?

Luxon: I'm happy to do it after the meeting, but I can give you a feel for what's going on. The first thing that's happening is that—sorry what was the first part of the question?

Cosgrove Visitor platforms—can you give us some practical things?

Luxon Visitor platforms—I actually fundamentally believe that a tourist arriving in New Zealand from the top, Cape Reinga, all the way to the bottom could hit a lot of New Zealand and a lot of towns across New Zealand, and each sub-region of New Zealand has quite different platforms that drive the visitor economy or the economics of that region.

So, for example, Rotorua is a very good example, where the stakeholders in Rotorua have got together under a proactive mayor in Stevie to actually say: "What is the platform, and a unique platform that Rotorua will compete on going forward?", and it's contemporary Māori culture, it's spas and well-being, and it's also mountain biking. They've said: "They are the three platforms by which we can actually now build events. We can actually go offshore and promote those platforms around the world." They are unique to Rotorua and unique to that region. So that's the reason for why we have what we call our mayoral forums where we're trying to work with those communities to actually build our platforms that are different for that.

When we're in Marlborough we're talking a lot about wine, we're talking a lot about Abel Tasman, you know, national parks. In places like Stuart's area and Napier, certainly in Queenstown as well, we're working with those communities to say—Queenstown's a good one where we're trying to drive customers or visitors into those regions in offseason times, and we created something called the Queenstown marathon. We've got the Hawke's Bay marathon coming up in May, but it's designed to drive people into the regions at different times. Now, that's something that we create—it's an event we create. In the case of Queenstown we had 6,000 runners. Eighty percent of them came from outside of the Queenstown area, 15 percent of them came from overseas, and the local economy grew over the course of that long weekend, with 31,000 extra bed nights. It was $9 million of economic value created.

That's an example, whereas if a community can't get its act together, essentially sort of clarify what the platforms are, or we can't work together, what we get is it's not clear what we're promoting when we're in Buenos Aires or Houston or LA, around a particular region. So that's that piece.

The second thing I can answer, the stats around tourism, and I am very proud of tourism, because I think this is an industry that's come together as an industry across the country. We've put together our own private-sector growth plan into 2020 to generate $41 billion worth of value. That's now having effect. We've got growth in visitors of 9 percent. They're staying here longer, their spending is up 17 percent, and it's been well disbursed throughout the country. So if I go talk to tourism operators and say: "How have you done over the summer break?" up and down the country, in all parts of the country they're actually experiencing tourists coming through their part of the region.

Cosgrove Could you get—I know you can't find it now, but specifically for those areas you've withdrawn from, if you could provide us some stats after that?

Luxon Yes.

Cosgrove Could I just turn to fuel price and a couple of other issues. You're in the alliance with Virgin. It's created efficiencies. You've got one of the most efficient fleets in the world, and I think the new aircraft have increased efficiency by about 20 percent, yet we look at the fuel price going down at this point and we look at the correlation with dividends to Government going up, and you could make an argument, I suppose—who is sharing the efficiency gains and the profitability? Is it more the Crown or are we going to see some substantial fare reductions on the back of efficiency gains, the reduction in fuel price and all those positive things. I know you're discounting various other things, but substantial shifts in fare prices off the back of those gains.

Luxon The first thing I'd say is that there is downward pressure coming into this marketplace for a number of reasons. Fuel is a big part of that, but just remember, we're not like a service station that's selling fuel 100 percent and just making a margin on it. It's 15 to 20 percent of our costs; it's slightly less than what we pay for labour, for example, across our organisation. So it's an important input cost and it is a significant one. A couple of things about that: so yes, downward pressure on fuel and oil prices is a contributor to downward pressure prices for customers. What is happening there is that it has been incredibly volatile, as you know, over the last 5 years, and since where fuel has gone it has bounced around all over the place. In the last 3 months there's been a rapid acceleration of falling of the price of oil.

We as an airline take quite a prudent and good steward approach to that, which is that we're not going to speculate on where oil is going and take a position on that, so we have a hedging policy that's about buying a certain quantity of our needs at fixed prices 6 months out, and that has served us incredibly well. But the reason for that is that airlines have really come a cropper and needed massive recapitalisation, taking a position on what they thought oil might do and if markets move against them. So there is downward pressure on prices by virtue of fuel as an input cost, but the bigger reason, to be honest, is actually the growth that this company is going through.

This company is growing in the order of 12 percent. We've never grown that fast in the 75 years of our history, and as a consequence what we're doing is we've got 12 percent more seats going into the markets, whether that's regional New Zealand, short haul, Trans-Tasman, or internationally, and that without doubt is a bigger driver, because we've got 12 percent growth but the economies we're going to are only growing at 2 or 3 percent. So in order to fill those aircraft up we're having to discount fares, and that is happening. A good example would be regional New Zealand. Every 19-seater we replace with a 50-seater aircraft or a 68-seater aircraft we have to create the demand in those regions to be able to fill those aircraft to get them above the cost, to fill those aircraft, unless they're low factors, and that's taking us some time. But that is leading us to lower prices as consequence of that. So fuel is one piece of it. Capacity and supply and greater demand is the second.

The third thing that's happening is there's a phenomenal amount of completion being encouraged through low fuel prices. So we now have seven international airlines, big international airlines, that have come into this marketplace, or have announced intentions to come to this market, and another two are rumoured to come. We've got a resurgent, obviously, Qantas, Emirates group here within domestic New Zealand, and we obviously got a plethora of little, regional airline operators coming into the marketplace, as well. So I think the combination of fuel as an input cost, the supply being greater than demand, coupled with the competition will actually drive down the pressure on prices.

What I would say is that Air New Zealand's result, particularly if you look at FY15, $291 million of the benefit was actually in [*Inaudible*] sales and actually growing the top line of our business through better revenue, and $119 million was associated with actually the fuel savings or fuel benefits that we got out of that. So as we do better, and as we've done better over the last 4 or 5 years, the trade-off that we as a board and executive team have to make is really around how much we pass through to consumers, how much do we use to repay debt, how much do we pay to shareholders who actually stuck with us through pretty poor times when it was [*Inaudible*] cost of capital, and then, finally, how much do we actually use for reinvesting back in the airline.

As you guys know, it's a very capital-intensive business. Every time we need a new ATR for regional New Zealand it's $25 million. Every time we need a new Auckland-Wellington A320, $50, million; every Dreamliner to unlock the global market, $200 million. So when you're making $71 million, with $6 billion worth of assets, 4 or 5 years ago—a dog that doesn't hunt. You know, it doesn't work. So we're now in a place where we're actually looking really hard on making sure we're investing like [*Inaudible*] before. So $2.6 billion worth of new aircraft, $100 million on lounges, new technology, big investment in new routes, lots of investment in people and obviously in the customer experience. So that's the trade-offs we have to balance as we think of our improving profitability.

Cosgrove Two brief questions: in a nutshell, I accept all that but is it likely that the consumer is going to see in the near future substantial, insubstantial, reductions—

Luxon Absolutely. How sustainable that will be, you know, as soon as fuel balances up for some of those airlines that really will struggle, whether they'll come and go, who knows, and how sustainable that is for those businesses, I don't know. But, yeah, definitely.

Cosgrove Around Asia you've had some movement south around the revenue from the geographic region of Asia, from 22 to 19 percent. In terms of China's difficulties recently, what sort of risk planning are you guys doing, or what are you projecting forward in terms of where that market's going, and what risk mitigation strategies you've got in place around that?

Luxon It's a good question. We've been in China since 2006—the first airline to have services to New Zealand in mainland China. We've only got profitable in the last year, and that's in the face of actually probably the most aggressive competition we've faced from China. We've got more competition from China to compete with. What we're doing is a couple of things. We have to realise that, you know, there's 103 million people who left China last year for outbound travel. New Zealand had about 300,000 of it, so about 0.3 percent of total outbound travel out of China came to this country. What we're trying to do is work incredibly hard on changing the mix and value of those Chinese visitors, or Asian visitors—and, in fairness, it's not just Asian; it's also North American visitors as well. And so what we've done is work incredibly closely with Tourism New Zealand, we've gone into the Chinese market, we're "NZ Inc.". We think we're big in New Zealand, but out there in the real world of 7.3 billion people, our presence is quite small, and so we're working together.

What we've done is gone after wealthier 30-year-old couples and we've sold them on the basis that New Zealand's a great romance destination, and the second thing we've done is gone after families to actually say: "Hey, listen. We think this is a great family vacation for you to come with the grandparents, the parents, and kids.", and that mix has led to a very different outcome where the growth in Chinese visits is still up 30 percent. Their spend is up over 60 percent because we're pushing value over volume in terms of the types of customers we're going. We've turned off a whole lot of business we were doing with travel agents or customer segments that were people that came to this country, did a 1 or 2-day tour of Auckland, a 1-day trip of Rotorua, and then back out again, adding very little economic value to the sector or to the industry. Those Chinese visitors now coming, for example, are spending as much per day as an Australian, American, or a European visitor, and they are dispersing across this country. They're here for 7 to 10 days; they're getting into all parts of the North and South Islands as a consequence.

So, long way round, the question, Clayton, is that despite the macroeconomics of what's happening in China with some leveraging and some rebalancing within the economy, the reality is our experience was the same in the US with the financial crisis, it was actually the same in Europe over recent years as well, and I suspect it would be the same in China. There are large segments of valuable customers that actually are worth a lot to us that we have to get much cleverer in sales and marketing to find who they are, where they are, what are the triggers, what are the barriers, how do we get them to come here next rather than go to Austria or Brazil or Mexico or Thailand or somewhere else. So, going forward, that's the way we're managing it around our mix and better customer targeting, but I still think there's a world of opportunity. I'm very positive about the proposition for New Zealand in that world.

Cosgrove Just very briefly, can you comment on the profiling of customers. Is the Crown, through its agency, doing enough in terms of in-depth profiling and research to assist you and the industry to sort of unbundle—

Luxon Yeah, I think—I'm really proud of the partnership that we've got with Tourism New Zealand. I think that has just got deeper, better, over the last

3 to 4 years, and, likewise, the same partnership's building with New Zealand Trade and Enterprise as well. I think you've got very good CEOs leading those organisations. They're a working as a partner and collaborate incredibly well.

The challenge is this. In my old life in North America I spent US$500 million advertising Dove to Americans each and every year, and I might spend another US$250 million promoting the brand to Americans—Dove soap, Dove haircare; all that sort of stuff. So if we rock up into these countries as New Zealand and "NZ Inc." with all of our money, it has to compete with this soap brand. We have to cut through and actually—you know, we've got a situation in America: 315 million Americans, 105 million with passports, but the good news is 30 million Americans have seen Flight of the Conchords, *The Hobbit*, or had a friend come fly-fishing and have got us on their bucket list of places they want to go before they die, but in that list is also Thailand, Austria, Brazil, Croatia—a whole bunch of places—and our job with Tourism New Zealand, Trade and Enterprise, is to try and cut through and actually do some creative marketing that actually finds the triggers, the barriers, the obstacles that are stopping people from choosing us for their next holiday and working really hard to overcome that. So, no, I think that's working really well.

The extra resources that have gone into Tourism New Zealand over the last few years—where they've put money in, we've matched it and we've put that into a joint venture marketing fund, essentially. And that's important because what we were critical of in the past was that we would all go off as different tourism operators, all doing our own thing quite individualistically, and actually not collaborating well enough and hunting in a pack as "NZ Inc." offshore, and I think that strategy's been a much more positive one for us over the last 3 or 4 years as we've turned the growth on.

Genter — Thanks so much for your presentation and well done on your results. It's really great. I was wondering if you could elaborate a bit more on your sustainability framework, which you launched this year, and particularly how environmental and social sustainability is going to help your business.

Luxon — Yeah, good question. So the history for us is over 75 years, having had a 75th year exhibition—is it's very clear that our past, you know, is very tied to the success of New Zealand, and our future is also very tied to the success of New Zealand. And so as we go forward it's in our interests to actually be embracing a sustainability framework. And what I mean by sustainability is, in New Zealand it's been misunderstood as environmentalism, and, actually, "sustainable" is about sustainable development, economically, socially, and environmentally, as you've highlighted. So that's the starting point. We've come from a position which is that the world is, frankly, facing some unprecedented challenges. We see it in terms of food security, climate change—a whole bunch of implications that are sitting out there in the world. As a business person and as a business team, we can either choose to do nothing about that or we can choose to be panicked about it, and the sky's falling in, or we can be burying our head in the sand. But I think we should just go forward positively, working with Government, community leaders, to solve this problem. It's actually our problem, as [*Inaudible*] to deal with.

The second thing is we think business can play a role to strengthen civil society—we do have a responsibility to do that—and the third thing is every time we chase down sustainable development we get innovative, and it's good for our business. So when we cut waste in our system, it improves our margin and it improves our profitability and our ability to reinvest.

When we actually talk about sustainable suppliers, it actually gives us business continuity. Our risk is de-risked. Every time we sort of think about innovation, we come up with creative solutions to be able to deal with it. So the case for engaging as a business person in sustainability is actually very legitimate. It's not a political left or right argument; it's about a forward or backward argument, kind of, really. And it needs a coalition and people working together in quite different ways. But the way we've framed it is we have created a framework where we're saying we want to supercharge New Zealand's success economically. That is through tourism—we drive 40 percent of the tourists in this country. If we're not doing our job offshore, as I talked about before, we're at the sharp end of the spear, doing the work with Tourism New Zealand outside of New Zealand to build the proposition and the case, and that creates the downstream benefits. The same happens with our exporting community that goes out, and we also deal with 4,000 suppliers across this country—pay a billion dollars into other suppliers across this country. And we want those suppliers to be working to some codes of conduct—the UN global compact on making sure that there's no child labour, making sure that there's really common standards about our ethical sourcing, and all those kinds of things. So we can have influence economically.

Socially, as I talked about, we take pride in wanting to run a great Kiwi company, and not just a "world famous in New Zealand" company; we want a world-class organisation—a New Zealand company taking it to the world from New Zealand. When you think about the No. 1 places that people want to work, the No. 1 corporate reputation in this country, a 4 percent staff turnover, top quartile engagement scores for our staff, benchmarked against the best companies in the world, we're on the right pathway there. It's really around our communities—how we can actually help our communities more—and I think what Air New Zealand can do as a company out there in the world is actually share some of that learning and that IP that we have, actually, with smaller and medium enterprises coming through the system as well. So we think there's some real opportunities to share what we're learning. We think there's some real opportunities to help provide people with connectivity and access to markets and just share what we learn—whether it's social media, digital sustainability market development there's a whole bunch of themes that we could help educate the New Zealand community around.

And then we get to the environmental piece, and we fundamentally believe that there needs to be justification for our positioning that we clearly use in terms of the "100% Pure", and so it's a great marketing line, but we actually—as an industry, actually—are trying to find ways in which we can put some proof points to that. So we have a public-private partnership with DOC, which we started some time ago. We've extended it out to 2020. We have it with Antarctica New Zealand as well. That's all about our ability to be able to get tourists into the DOC estate, but actually to be able to add some value back in terms of—and since we've got involved, people doing the great walks of New Zealand is up, you know, 31 percent in 4 years. That's good for DOC in terms of income that they get through the huts but it's assets—it's money that is being redeployed back into biodiversity projects in those great walks.

Carbon is the biggest challenge because, there's no doubt about it, we're a big hydrocarbon consumer and polluter. Our global aviation is probably 2 to 4 percent of greenhouse gas emissions around the world, but aviation is good for business, you know, in terms of social, people-to-people connections as well. But we have this environmental problem that we've got to deal with, and so the way through that has been more fuel-efficient aircraft, much better efficiency of flying pathways and routes. We've explored alternative fuels. The sad reality is that no alternative fuel to hydrocarb petrol has really existed or come to commercial scale anywhere in the world, and so the real opportunity for us—we're moving to electric vehicles in our ground team as well as our company car fleet. I'll make some announcements about that shortly.

But the real opportunity is how do we find a way to do really meaningful carbon offsetting and do it in an investment way? So we as a Kiwi company could go out and buy a truckload of cheap Eastern European carbon credits, but that doesn't become mutually reinforcing to the economic—the system in New Zealand. So what we've started in the last 6 to 9 months is conversations with iwi, for example, that have degraded land across the country, and we're working with them to say: "How could we get a carbon benefit through regeneration of that land? How do we get better biodiversity? Can we build a tourism business in that estate?", and actually get a layering of economic, social, and environmental benefits and trying to create an investment model around carbon offsetting here in this country to improve this country's assets, not someone else in another part of the world. So a lot of work to do.

What we've done is we've created a group that we call our critical friend—our Sustainability Advisory Panel has Sir Jonathon Porritt, that chairs it; Dame Anne Salmond; Derek Handley; Brian Pearce, an economist who's another leader in alternative fuels. It's a really good group, and it's there as a challenge every 6 months to Tony and I and the business—are we doing enough on that agenda? Separately, our board review our sustainability practices and our agenda every 6 months as well, and then we're publishing everything, warts and all, once a year with our sustainability report, which our first one was in August. So, more to do, but it's not a "Kumbaya" issue. It's not an issue we should be freaked out and scared about; we should be actually really positively engaging and going forward and trying to solve it in very constructive ways. We won't all agree on every single aspect of it, but we should be able to get a broad coalition of people coming from different walks of life politically, business, community-wise to actually deal with the issue.

Bishop I've got a question about the Virgin alliance—so I think about 5 years ago Air New Zealand said that it was too early to assess the alliance and whether or not the benefits had accrued that you thought it would. So, 5 years on, can you just provide a comment about how the last 5 years have gone for that alliance and how it's delivered for you?

Luxon Yeah, there's three aspects to our relationship with Virgin. One is the shareholding, obviously, up to 26 percent share of Virgin Australia—the largest shareholder. The second aspect is—as you identified—the alliance, and the third aspect is, in the back end of our business there's a lot of operational synergies. For example, we maintain all their narrow-bodied aircraft in Christchurch at our facility there, which has secured good jobs there. We're working with our unions. We've created a facility in Nelson to do similarly on turboprops.

But the alliance has worked really well because, essentially, the problem in airlines is that—alliances work for two reasons. One is to give greater connectivity for our customers. So from Air New Zealand's perspective, sitting in New Zealand, we can't do world domination from here in an airline sense. It doesn't make sense. So we have to find partners to be able to offer that connectivity through for our customers. The second thing, to be honest, Chris, is that we're actually working—the reason we do it is for sales and distribution reach. So, again, you know, Virgin salespeople, who know every point of sale within Australia, and Air New Zealand salespeople, who know every point of sale, travel agents, or people we sell tickets through—we can use our respective sales forces. We could never create that sales and distribution reach on our own if it was us just running around in Australia.

So our view is it's working incredibly well. Obviously, we're up against some pretty big competition. We've got the Qantas group, that's now in relationships with Qantas, Emirates, American Airlines, and China Eastern, but we're more than holding our own and competing very well. Together as an alliance we have about 51 percent market share across the Tasman. So we think it's working well, but it works for connectivity benefits and, secondarily, sales and distribution benefits. You can imagine when you think about alliances with China, we've just signed a deal with Air China that's collaborative—you know, it's a revenue share alliance as well—that's been really important because there's no way that we would have got services from Beijing to New Zealand without us being in an alliance, because I could send hundreds of New Zealanders up to Beijing, but there are thousands—tens of thousands—of travel agents and we would never have any of the reach or in-depth knowledge to sell for us.

So alliances—you know, service agreements open up markets, but the alliances and the airlines operating them actually is what's commercialises it, and I can tell you that we wouldn't be in Beijing, we wouldn't be in

Singapore, we wouldn't be in Buenos Aires, we wouldn't be in Houston without an alliance partner at the other end helping us build our presence.

Foster-Bell Congratulations on a blemishless audit report over the reporting period, but my question comes to, actually—it touches on things that have come out of the previous line of questioning from the Opposition, around sustainability, efficiency, but also around the competitive pressures and whether you think that competitive pressures should—should we see more flights operating out of Wellington, like the recently announced Singapore Airlines Canberra-Singapore link—might see not only a reduction in fares but Air New Zealand perhaps taking on routes which currently are not being operated; and if so, do you have the equipment, with the retrofitting of the 777-200s that would enable you to be able to operate out of Wellington in the same way, for instance, as Singapore is, but perhaps to another destination?

Luxon Yeah, so, is the question specific to Wellington or to New Zealand?

Foster-Bell It is specifically to Wellington, yeah.

Luxon So I mean, the headline, as I said before, is there is a lot of competition. Competition is great; we welcome it. We think it actually makes our business better. We really enjoy the challenge of it. It makes us be innovative and think about what we're doing. It's really good for us. It also means that customers get choice, and they get to choose and weigh up our service versus our competitors', and they get to make the choices they wish.

With respect to Wellington, the challenges in Wellington around long-haul services are quite difficult. So let me be really clear: we are big fans of Wellington; we've invested a lot in making sure WOW stays here in Wellington. We put an exhibition together in Te Papa that brought 400,000 visitors to see the Air New Zealand 75^{th} exhibition. We have massive marketing programmes to Australians to come in here for long weekends, but we are not supporters of extending the runway, and for a series of reasons.

And the first is that the Wellington population hub isn't big enough to actually support the traffic that we would need to make that happen. If you're Air New Zealand—or, frankly, any airline in the world—trying to think about a daily service from Wellington to anywhere else in the world, you need to understand this is a $350 million capital decision. You need two long-haul aircraft. They cost you $150 million just in expenses to run those for the year. And you need to fill—they give you 200,000 seats—we need to get 80 percent of them covered, filled every flight just to cover your costs. So that's the airline economics, and irrespective of airport subsidies, city subsidies, ultimately airline economics trump that.

And so our—and we've been quite transparent about it—is that we don't support the runway, because we fundamentally think that $360 million, whether it's raised by the taxpayer or whether it's raised by ratepayer—under airport regulations, an airport can actually charge that back to travellers through landing charges and passenger fees, and given we don't plan to use it, we don't want to pay for it. And so what we've asked for as a guarantee from Wellington Airport to actually say: "no use, no pay". And we haven't been able to secure that.

The good thing is that Wellington has some really good connectivity—outstanding connectivity—better than any part of the country, frankly, in terms of the eastern seaboard of Australia, and certainly into Auckland, where those bigger population hubs can support bigger international carriers coming in and out of those markets. And our job is—that's the commitment that we're making—is getting trans-Tasman services, getting connections into Auckland working very well.

The opportunity, as we talked about before, around regional platforms, is to think "Well, what does Wellington do uniquely for students, for leisure, for business, for tourists; and, actually, how do we build the platform for this city so that people want to play and study and do business here?". And certainly $360 million would go a long way in terms of building the proposition of Wellington in order to be able to drive that—create that demand. So that's the work that we do with, you know, stakeholders here, but I'm being really honest and transparent about where we see the runway and long-haul services out of Wellington.

Nash — Have you received any direction at all from the Government to specifically provide infrastructure to the regions?

Luxon — No. Do you want to talk about our relationship with the Government?

Nash — No, that's OK. I do note from information I got from the Parliamentary Library—and I'm happy to give it to you; it's what they came up with—that in 2015 your non-current interest-bearing liabilities increased by about $500 million over 2014, and your total liabilities increased by around $800 million, to over $4 billion, but your dividend to the Government increased by about 200 percent. Have you had any pressure from the Government to increase your dividend at all?

Luxon — None at all.

Nash — Because, Mr Luxon, you talked about paying down debt, and yet your debt has increased but your dividends paid have increased.

Luxon — I'll let Rob answer the financials just for you, because you've asked about the piece of it.

McDonald — Yeah, the debt; clearly, we've got a strong investment programme into aircraft, and last year, and even this year, probably the—you know, quite a high spend, heading towards a billion dollars a year; three 787s, A320s, ATRs, all right through. So you're seeing our fleet age come down quite nicely into more efficient aircraft. So as we buy aircraft and large capital assets, we typically will borrow money at that time. That said, we have started to pay cash for some aircraft as well.

Probably the big feature—as you look in the financial statements, you'll notice—is the operating cash flow has moved quite significantly in '15, and that was a very impressive increase. That certainly is, in fact, higher than our

	capital expenditure but allows us to do all those things: invest, repay debt, and pay money across to the shareholders.
Nash	So you do see a debt reduction programme taking place in the next couple of years then?
McDonald	Well, sorry, when we say we're not borrowing as much as we normally would've in the case of bringing this investment plan in, and then when you look 3 or 4 years out, you'll see this investment plan taper off quite rapidly as that whole fleet—the 787 fleet's in there.
Luxon	Rob, do you want to talk about gearing and liquidity ratios for Stuart?
McDonald	Yeah, so just on the gearing—the gearing moved up. There were a couple of reasons for that. One is currency. So, obviously, the New Zealand dollar coming down. We take leases in US dollars, so as we capitalise those, they rise up. And then also, just the investment programme itself raises it.
Nash	I do note that some data sets say that the price of aviation fuel has dropped by around about 250 percent over the last 2 years—and, again, I can give you the information that I've got from the Parliamentary Library. I'm just keen to know, in a rough indication, of how much Air New Zealand's standard airfares, regional airfares on routes without competition, dropped over the last couple of years.
Luxon	Yeah, so competitive sensitive information, but I can tell you that average fares since 2009 have been trending down over that period of time. We don't look at it in terms of lenses of competitive or non-competitive networks. We just—we price for a network and for a proposition going into a town or a city, so—
Nash	Based on whether there's competition or not.
Luxon	Sorry?
Nash	Based on whether there's a competitor or not.
Luxon	Ah, no. We don't look at it that way; we just at the total network, sort of "What does it cost for us to serve that market?" and actually price accordingly for that. So, you know, we're seeing—so for example, in your area, we've got competition coming in with Jetstar. We've actually—it's not you know, we've seen headlined fares that we don't, you know, we don't think that. There's promotional activity, for sure, to get a service up and running, but are we anxious about pricing or think that it's fundamentally changing what we're doing? Not really, no.
Nash	What would you say to people in the regions—and, you know, this isn't my words; these are words of others—who say that on routes where there is no competition, that you engage in monopolistic behaviour?
Luxon	I think that's really unfair. I understand the sensitivity and I understand the feeling about not having a choice, but, actually, that's what I'm excited about—actually having competition—because people will be able to look at our service and proposition versus someone else's and make their own call, versus us having to apologise for being the only person into that region,

because we actually have valued that community, and we've actually valued it by actually saying we will run a service into that.

Competitors—you know, we're dealing with a competitor that's got four times more resources and scale than Air New Zealand, has cherry-picked four of the most profitable sort of towns to fly to, but doesn't service 22 towns across New Zealand and hasn't made that choice to be able to service towns that I said before, you know, 15 of them are unprofitable, and find a way to actually make service work.

So I appreciate that customers feel that prices are high. As I've said, 15 of regional New Zealand's cities, we've been losing $1 million a month for 3 years. People may not like the number, but the number is—you know, it's the structural economics of airline economics. Eagle Air, that's been running those routes, is not a largesse or a high cost-base place. It's really, you know, tapped down in terms of its costs. It's very efficient. I think it's a really great regional airline, and it still hasn't been able to make those networks or those towns work.

Nash But in terms of—you know, the Government has made a bit of a play for the Regional Economic Development Strategy, and I talked to a group of entrepreneurs recently and they said the major barrier to doing business in the Bay, and I'm sure this is the same for a lot of hoteliers, is the price of airfares.

Luxon Yes, so I can tell you that what we're trying to do in the bay, for example, is we've got 29 and a half thousand extra seats coming in this year as we move aircraft from 50 to 68-seater aircraft to get a lower cost per seat to be able to get prices down, and looking to be able to meet that demand. Any other airline is completely free to be able to compete and be able to do that as well, but it's not—it's the structural reality of turboprop aircraft is an issue around the world. And, as I've said, the smaller the aircraft, the higher the cost per seat. It's no different from when you catch a bus from here to Napier with 50 other people it's cheaper than when you drive your car from here to Napier. The scale benefits that. So a turboprop network anywhere in the world, whether I'm in Tribeca or anywhere, is very expensive.

Nash So you—

Luxon What we tried to do, though, Stuart, is a couple of things. One is we have put in place a "gotta go" fare because one of the criticisms, and I think it was a very fair one, was to say "If I'm trying to go from Tauranga to Invercargill and I end up travelling on two turboprop aircraft that's the most expensive proposition that Air New Zealand has to be able to make that work." And what we've said is "If you've got to go, we're making available fares that are capped at $169 for one sector, $249 for two sectors." And then we introduced and sharpened up our bereavement policy. So if there's medical emergency or a bereavement, people are guaranteed a seat on those planes for two sectors or one sector in regional New Zealand at those prices.

Nash	It's all very nice, but you are telling me it's pure coincidence that Air New Zealand has dropped its prices into, for example, the bay at the same time a competitor has entered it?
Luxon	So a competitor has entered, has had very sharp promotional pricing—$9 fares, a lot of them into the bay—has not been able to, you know, it's got 50 percent service levels at the moment. That's not going to be a sustainable place. That competitor is losing a truckload of money in order to be able to build a proposition.
Nash	So once that competitor goes—let's say that they do go, so Air New Zealand—
Luxon	Well, the first thing I'd say is that competitor is a business that's four times bigger than Air New Zealand.
Nash	But if there's no competition, then Air New Zealand racks the price up again?
Luxon	No, that's not the case. Air New Zealand will actually have a, you know—is working really hard to make sure that that fare—we'll react to promotional pricing, which was what we've probably done in the bay as well, but, actually, we'll get back to an organic average price.
Nash	One of the major criticisms was people can see the price of fuel dropping, and you admit it's between 15 to 20 percent of your cost, which is quite high.
Luxon	Yep.
Nash	And your prices just didn't drop at all.
Luxon	I don't think that's fair.
Nash	But in the bay they didn't, I can tell you.
Luxon	Yeah, well—
Nash	And so they might have been in routes where there's competition—you know, your Auckland, Wellington, Christchurch, the big overseas routes—but in routes where there is no competition, you know, my research done by—again, I can hand it over if you'd like.
Luxon	Yeah, I'd love to see it.
Nash	Yeah, it just shows that the headline rate just didn't—you know, every now and again—and we're not talking about your Grabaseat ones, we're talking about the seats that businessmen and women have to buy if they're doing business outside of the provinces. And that is in the bay, until recently, a major barrier to businesses—
Luxon	Stuart, why haven't more people come into the bay? Why isn't there a truckload of airlines in the bay servicing that opportunity?
Bennett	I think Stuart's asking the questions, OK?
Luxon	Yeah, sorry.

Nash — What I'm saying is now there's competition, what we're seeing—and, you know, you can understand the cynicism of people in the bay when, you know, they're paying $500 return from Auckland and suddenly there's competition and the price drops and they're going—you know, it was like when Telecom was the only game in town.

Luxon — Yeah, so all I can say to you is that the evidence that I've got is that promotional pricing is really keen, they've got 2 million fares for under $100 in New Zealand, 600,000 of them are into regional New Zealand. That's up 10 percent than what it was just a short time ago. Average fares that I look at over, you know, back to 2009 are saying that we've trended our average fare down in regional New Zealand. The difference between an average fare in regional New Zealand and a domestic jet isn't that different. So I appreciate the perception, but I can tell you we're not sitting there deliberately thinking about how do we make it tough for regional players in New Zealand to get to the main centres.

Nash — I'm not suggesting that, but what I suppose I am suggesting is what you did is you sit there and thought "OK, these guys have got no options. It's easier for us to charge high rates here. Let's look at areas where there is competition."

Luxon — Yeah, that would be a highly cynical view—you could be sceptical, but cynical is different—and that would not be; that's not what we're trying to do.

Nash — I just have—

Bennett — All right.

Nash — I do have one last question, and this is totally unrelated to anything we've been talking about. I was talking to an international businessman just the other day, and I mentioned I was coming to the select committee. He wanted me to pass on some feedback, to ask you a question. He says that he is allowed to use—and I don't know if this is true, so please confirm it—him and his team are allowed to use satellite phones on nearly every other airline but they're not allowed to use them on Air New Zealand. And he said that means that they simply cannot use Air New Zealand. Now, I do not know if that's true or not. Can you confirm that?

Luxon — Satellite phones—we typically carry them in the cockpit for, you know, for reasons for tech crew to be able to communicate back to our base. A satellite phone's not suitable—

Nash — Sorry, so these are for businessmen who need to be in touch with the market 24/7, they're on the plane, they're flying from here to US. Sat phones allow them to make calls wherever, whenever.

Luxon — Sure, no, I understand. I've used one.

Nash — So are you—are customers allowed to use sat phones on your planes?

Luxon — I'm not sure of that. I can come back and [*Inaudible*].

Nash — OK, that's fine.

Bennett	Do you want to come back? OK. Andrew Bayly, one last question.
Bayly	First of all, thank you for your presentation. It was very good. I'm just wondering, where do you go from here? Because you've made a lot changes to your staffing arrangements and productivity around the labour force, you're benefiting from record-low fuel prices, you've invested heavily into new aircraft and more efficient aircraft and you've committed another $2.6 billion over the next 4 years for new aircraft, and you've achieved fantastic profits. So where do you go from here? Is it just the revenue-growth story from here?
Luxon	So there's three ways of looking at this. One is we think there's a huge opportunity in the Pacific Rim. We fundamentally think that the New Zealand story of we're a long way away, it's very difficult, lots of excuses for not conversing or building up a system in the Pacific Rim is not acceptable. We think there is a massively rising middle class. There is some huge opportunities in the Americas, Asia, and Australasia. So there is more city peers for us to actually build out and create demand and actually link back to New Zealand. And I think, you know, we as a generation are sitting on this on this big shift of power from the Atlantic to the Pacific that's unprecedented, and we've got to convert that opportunity. So that's really the opportunity that we have to drive profitable growth commercially. But what we have talked about internally as a board and executive is saying "We don't just want to be a really good company, we want to be a truly great and world-class one, and that, for us, when you look at the best companies in the world year in, year out, they deliver superior commercial results and, not or, continue to enhance the customer proposition, and, not or, continue to build the culture of their organisations. Many companies can do two of those three, but they can't put all three together year in, year out, and that's our ambition if we're going to be a world-class New Zealand company taking it to the world. So we have big improvement in our customer performance metrics. You know, they're as high as they've ever been. Our engagement with our loyalty programmes is great, but there's more that we can do. There's more that we can do to build our regional economic development. There's more that we can do in terms of engaging with improving the customer proposition. And the same within the organisation. You know, we want to build—we want Air New Zealand to be a talent incubator for really awesome and great business leaders for this country. And so we are investing and taking programmes from around the world and bringing them in to our staff and investing in leadership so that we get better leaders: get better leaders, get better culture, better engagement, better organisation as a result. So on all those three dimensions—culture, customer, commercials—we've got a lot more ambition that we want to reach out for, and we're not prepared to tolerate things as they are. We want to have stretch, and we want to be very aggressive and assertive about it.

Bennett	Chris, with that, that commercial link, you know, you're talking a lot about people and tourism. How do you see your role as increasing exports from New Zealand in goods that may be able to be transported to that Pacific Rim? With opening up in trade in that region, you know, there's potential there for us to really advantage our location for export of food and perishables.
Luxon	Yeah, absolutely. I mean, a good example would be we launched service into Houston in Texas. You know, the reason we're going there is to open up the mid-west and the east coast of America for people-to-people connections, you know, tourism initially, and that's how trade starts. First of all you need the people-to-people flows and the tourism flows and then people start to go "Maybe I could send my business there or do some exporting there." So when we went there, we took you know, leading fisheries, meat, and flowers exporters up there with us in order to introduce them to the market and to think about the opportunities that exist there. So I sort of see it as sort of flows of people, then you lead to flows of capita, flows of data and information, and that's how we sort of get the show on the road. So I'm very positive about sort of, you know, getting our people and our exporters out in the world, through our connectivity and them being able to see the opportunities that they can see in those markets.
Bennett	OK, thank you very much for your time, and well done on the good work.

conclusion of evidence