

**ANNUAL SHAREHOLDERS MEETING**

**THURSDAY 28 SEPTEMBER 2017**

**TONY CARTER OPENING REMARKS**

Kia ora, good afternoon everyone and welcome to Air New Zealand's 2017 Annual Shareholders Meeting at the ASB Waterfront Theatre here in Auckland. My name is Tony Carter and I am the chair of the Air New Zealand board. This meeting is open to the public and is being webcast live for the benefit of those unable to be here, and we have members of the media in attendance. Part of our commitment to shareholders is making our meetings as accessible as possible regardless of location. Today we are very pleased to welcome those of you participating online through our virtual meeting platform provided by our share registrar. We hope that holding a virtual meeting will continue to support greater participation and engagement amongst our shareholders. Welcome to you all.

Before we formally begin, I would like to introduce to you to all my fellow Air New Zealand Board members.

From my far right:

- Sir John Key
- Rob Jager
- Paul Bingham
- Jan Dawson

And from my far left:

- Dame Therese Walsh
- Jonathan Mason
- Linda Jenkinson
- and our Chief Executive Officer, Christopher Luxon

There has been one addition to your Board over the past year, and I will touch briefly on this now. At the beginning of this month we welcomed Sir John Key to the Air New Zealand Board. Sir John brings

considerable international business experience, outstanding leadership skills, and a deep understanding of the tourism sector gained during the years he was Tourism Minister as well as Prime Minister. Prior to entering politics, Sir John had an international banking career for 20 years, which included positions based in Singapore, London and Sydney where he was responsible for foreign exchange and derivative trading, as well as e-commerce.

I would also like to take this opportunity to acknowledge Paul Bingham, who will be retiring from the Board at this meeting after 9 years of service as a Director of Air New Zealand. Paul first joined the Board in 2008 and immediately helped drive a greater understanding of the critical importance of tourism amongst the Directors. In addition, Paul has served as a member of the airline's Health, Safety and Security Committee since he joined the Board. He has played an instrumental role as a Director of Air New Zealand's Board, and on behalf of everyone here today I would like to sincerely thank Paul for his contribution.

Seated in the front row and assisting us today are:

- Rob McDonald, the company's Chief Financial Officer
- Karen Clayton, General Counsel and Company Secretary
- James Gibson from Bell Gully, the company's lawyers
- and Peter Gulliver from Deloitte, the company's auditors on behalf of the Auditor General

We also have several other members of the Executive team and our share registrar, Link Market Services present today.

Before moving on, I would like to acknowledge and thank Rob McDonald, who announced last week that he will be leaving Air New Zealand at the end of this year, to start a new phase in his career that will involve taking up non-executive directorships. Rob has been with Air New Zealand for 25 years, and has served as the airline's Chief Financial Officer for the past 13 years. During this time, he has been instrumental in helping to shape Air New Zealand into the world class airline it is today.

I am incredibly pleased that Jeff McDowall, currently our Group General Manager Corporate Finance, will be promoted into the role of CFO at the beginning of the new year. Jeff is also here, seated in the front row.

Jeff is an exceptional, highly commercial leader who is well respected across the airline as well as by our partners and the investment community. He has held a variety of senior finance and commercial roles since joining Air New Zealand in 2000. Prior to his 17-year career with the airline, Jeff spent six years as a management consultant with PricewaterhouseCoopers in New Zealand, Singapore and the United States, as well as three years with Mobil Oil in New Zealand and the United Kingdom.

Additionally, I would like to thank Stephen Jones, our Chief Strategy, Networks & Alliances Officer, who will be taking up an exciting opportunity in Europe, as Deputy Chief Executive Officer of Wizz Air, an ultra-low-cost airline based in Geneva. Stephen has spent 16 years at Air New Zealand, and has led some strategies that have truly transformed the airline, including developing our strong revenue-sharing alliance partnerships and building upon our sustainability agenda.

Taking over for Stephen in the role of Chief Strategy, Networks & Alliances Officer will be Nick Judd, currently our Group General Manager Commercial. Nick is an outstanding leader who brings strong international perspective to the Executive, having worked for 14 years for Air New Zealand in senior financial, loyalty and commercial positions in China and the United States, as well as in Australia and New Zealand.

Talent development and succession planning are areas that our Board spends a lot of time discussing each year. To be able to promote two world-class internal candidates into the Executive after a global search says a lot about the calibre of talent at Air New Zealand.

I would like to congratulate Jeff and Nick on their appointments and wish Rob and Stephen all the best in the next phase of their careers.

Before we go on, I would like to briefly acknowledge the fuel pipeline rupture at Marsden Point that disrupted refuelling operations at Auckland Airport over the last week. There has clearly been significant media coverage of the incident, but I would first like to acknowledge the amazing efforts of the team at Air New Zealand who truly went above and beyond to ensure that any customer disruption was minimised.

While Christopher will also address this topic during his remarks, today I wanted to reiterate that based upon what we know today, we do not anticipate a material impact to our 2018 earnings from this incident.

Now for the formalities of the meeting - I note that there is a quorum present and I declare the meeting open.

Notice of the meeting was duly given and the meeting has been properly convened. We will turn to resolutions later in the meeting. Please note that only shareholders, proxy holders or shareholder company representatives may vote.

The order of events for this afternoon's meeting will be as follows:

- I will discuss the company's performance for the 2017 financial year and the outlook for 2018.
- Following my address, we will hear from Chief Executive Officer Christopher Luxon on the company's strategic priorities.
- I will then move to the two formal resolutions of the meeting. Shareholders attending this meeting today in person and online will be voting by way of poll. For those of you here in Auckland you will be able to cast your vote by filling out the form you will have brought with you or received at the registration desk on your way in, and which will be collected at the end of the formal part of the meeting. If you are a shareholder and did not register on arrival and wish to vote, please make your way to the registration desk just outside the room and the Link staff will assist you.
- This year, for the first time, we are enabling people who attend the meeting and who are entitled to vote, to do so using their smart phone. Shareholders using their smart phones for voting today will need to have registered with a PIN prior to entering the meeting.
- For those attending the meeting online, you will be able to cast your vote using the electronic voting card that you received when you validated your registration. If you are having any issues, please reference the virtual annual meeting online portal guide that has been sent to shareholders and can also be found on our investor centre website

- Following the voting, I will open the floor to any questions you may have. Those of you present at the meeting will be able to ask questions as well as those participating online through the virtual meeting website.
- We have also received some questions from shareholders prior to the meeting which will be answered during this session.
- Immediately after the conclusion of the meeting, we offer our shareholders who are attending the meeting in person this afternoon to join us for some refreshments in the lobby downstairs.

### **CHAIRMAN'S ADDRESS**

Air New Zealand delivered its second highest financial result for our investors in 2017, despite an unprecedented increase in competition in the New Zealand market. Earnings before taxation for 2017 were \$527 million dollars. That is in line with the updated guidance we provided back in early June, in which we stated we were targeting earnings before taxation to exceed \$525 million dollars. The guidance did not include the \$10 million dollar provision for the Australian cargo case, or the further impairment of the Beech aircraft. The 21 percent decline from the prior year earnings was driven by a significant increase in industry capacity, as a number of international carriers entered the New Zealand market. Also contributing to the year on year decline was a \$112 million foreign exchange hedging benefit that we recognised in the prior year.

As the second half of the financial year progressed, we were pleased to see the competitive conditions start to stabilise. Also helping to partially offset the impact of competitive capacity on our revenues was an impressive unit cost performance, driven by our fleet simplification, productivity and other cost saving initiatives.

Turning to some of the other key financial highlights of the past year, operating revenue of \$5.1 billion declined 2 percent from the prior year on a reported basis.

We continue to generate strong operating cash flow of \$904 million dollars, and our pre-tax return on invested capital was 15.3 percent.

The airline is fundamentally in a very strong position, with cash holdings of \$1.4 billion and gearing at 51.8 percent, which is well within our target range of 45 percent to 55 percent. Our financial strength is reflected in our Baa2 investment grade credit rating, which ranks among the highest of airlines in the world.

As we enter the last phase of a multi-year fleet investment programme, we continue to expect our balance sheet to remain robust.

As a result of an operating performance that ranks as our second best in history, the airline's financial strength and capital commitments over the next few years, as well as the current trading environment, the Board was pleased to announce a fully imputed final dividend of 11 cents per share, which is a ten percent increase from the prior year, and speaks to our confidence going forward. That brings our total imputed ordinary dividends for the year to 21 cents per share, an increase of five percent.

Turning now to the outlook for the year. Our 2017 earnings provide us with a sustainable platform for future performance. As we look forward to the year ahead, we are optimistic about the market dynamics across many of the regions where we fly, and we have been pleased with our performance in the first quarter of trading.

At the 2017 annual results announcement, we stated we are aiming to improve upon 2017 earnings. That outlook stated an assumed average jet fuel price of 60 dollar US per barrel. Whilst we saw jet fuel trading within that level for the first two months of the year, it is currently trading higher and has been volatile over the recent weeks.

Thank you, and I will now hand over to Christopher Luxon.

#### **CHIEF EXECUTIVE OFFICER'S ADDRESS**

Thanks Tony. E nga mana, E nga reo, E nga rau rangitira ma, Tena kotou katoa. Kia Ora and good afternoon everyone, and thanks for taking the time to join us here today, both in person and online.

At the heart of everything at Air New Zealand is our Go Beyond strategy and a strong desire to move from being a really good Kiwi company to being a truly great and world class organisation.

That means we have to do three things at the same time - deliver superior commercial results AND/ not or enhanced customer experience AND/not or strengthen our culture and the development of our people. It is on these three dimensions of – commercial, customer & culture – that we define success at Air New Zealand.

They are three interdependent goals – positively engaged staff lead to happy customers which creates a strong business. Likewise facing up to reality and resolving our commercial challenges gives us the cash to invest in the customer proposition and company culture.

Being able to grow smartly while controlling our costs has expanded our profitability enabling increased shareholder returns to you our investors.

But importantly, it has enabled us to reinvest those profits into new fleet, new markets, new lounges and new technology to further enhance and ensure a more consistent and enjoyable customer experience. It also has seen us step-change our investment in growing the leadership and professional skills of our people meaning we can develop the leaders of the future the business will need going forward.

Let me now take you through how we are delivering commercial, customer and cultural excellence.

I'm extremely pleased with the progress we have been making over the past few years.

Commercially, it doesn't matter which index you look at, our total shareholder return has been extremely strong over the past three, five and 10 years, beating the major indices. We look at total shareholder return, which measures not only the growth in the share price over time, but also includes the impact of the dividends we pay. In the last year alone as investors you enjoyed an 89% Total Shareholder Return – the second-best return of any company on the NZX.

Linked to that is the fact we have achieved 14 years of consecutive profit – which includes remaining profitable through the GFC, and 12 years of consecutive and meaningful dividends – these are achievements that we are incredibly proud of.

We have made significant investments in the customer experience and have seen tremendous gains in customer satisfaction as a result, hitting record highs in a number of areas.

We talk to 4,000 customers per month and benchmark our performance against the very best airlines in the world, and I'm proud to report we have hit record all time high levels of customer satisfaction. There are lots of ways we measure and track the progress in customer satisfaction as you can see here.

However, the ultimate customer satisfaction KPI we measure ourselves on is our corporate reputation – and this year we were thrilled to take out the number one ranking both here and across the ditch in Australia. These achievements are a real testament to the hard work of our people over the past five years.

We have made tremendous progress lifting customer satisfaction and we always want to be constructively dissatisfied so we can continue to improve and perfect the customer's journey from when they dream of a trip, plan it, book, it, do it and then get home talking about it. And hopefully doing so with a sense of fun along the way.

The third pillar critical to the success of our business is internal culture. Everything can ultimately be copied by our competitors – the aircraft, the lounges, the network – the exception is our people, and that is why the health of our culture is so important to us.

We believe better leadership leads to a stronger culture, which leads to higher levels of employee engagement, which then leads to differential effort - that additional extra effort that the same person doing the same job at a competitor won't do. And that results in higher levels of customer satisfaction and commercial performance.

As a timely example, the temporary shut-down of the pipeline at Marsden Point has been unfortunate, but once again, Air New Zealand has shown its resilience and agility.

I am incredibly proud of the way our team pulled together to support each other and our frontline teams over this period, to try and minimise the level of customer disruption. Our efforts ensured we actioned fuel reduction measures swiftly. We had more than 100 Boeing 777 and 787 pilots volunteering to help support crews on flights that needed to refuel in Australia and the Pacific Islands, as well as operate empty wide body aircraft to Wellington to refuel.

We were also at the forefront with our communications to customers and staff impacted by the disruption, and I want to acknowledge our Communications team for all their efforts to keep everyone informed and at ease.

Difficult times can make or break an organisation's reputation, and yet again, the team at Air New Zealand has proven itself to be truly remarkable.

It's clear that continuing to invest our people and developing their skills and leadership capabilities will be critical to our ongoing growth. Importantly as we have seen with the recent movements in our Executive team we have the succession planning processes and talented folk to take on bigger leadership roles.

So, to summarise, across all the main metrics we measure ourselves on – commercial performance, customer satisfaction, and safety and employee engagement - Air New Zealand has had another standout year that we can all be proud of.

Moving on to dynamics for the current financial year, I am very optimistic about the market dynamics today compared to where we stood a year ago facing an unprecedented level of competition in our 77-year history.

From an industry perspective, we feel good about the rational capacity decisions we have observed over the past 4 to 6 months from some of our competitors. Both American carriers have decided to cease flying to New Zealand over the 2018 winter season. We have seen some carriers pull off trans-Tasman routes, and in domestic New Zealand, we have seen our competitor cut some of their regional services.

From a macroeconomic perspective, we continue to see strength in the New Zealand economy, which supports domestic and outbound travel. Inbound tourism is still strong, although growing at a slower level than last year.

Based on these conditions, in this coming year, there are targeted areas where Air New Zealand will be growing.

In the coming year, we will grow our network by 4 to 6 percent, which is a continuation of a network strategy that plays to our strengths. We are making great progress in building new and existing markets and driving profitable growth everywhere in our network – and of course, supporting this growth is a fuel efficient and simplified fleet.

Our domestic network is a key pillar of our strategy as you would expect. Tourism in New Zealand is in great shape – it is currently the country’s biggest export earner, generating \$14.5 billion in export earnings and in 2017 annual visitor arrivals surpassed the 3.6 million.

In 2018, we will grow domestic capacity about 4 to 6 percent, which will be driven by continued strong demand to Queenstown, Christchurch and Dunedin, as well as additional frequencies into some regional markets. In fact, over the coming summer months, we will be adding more than 60,000 extra seats to our regional schedule compared to last year.

The Tasman and Pacific Islands network is targeted to grow between 8 to 10 percent this year. Tasman growth will include more wide-body flying which links to our Australian strategy to link North and South America via Auckland. Last October, we launched our Better Way to Fly campaign in Australia. While Australians really like Air NZ, only 4 out of 10 of them know we fly beyond the Tasman and domestic New Zealand. So, we developed Dave the Goose to educate them about our long-haul network. The campaign has been incredibly well received in Australia and for those of you who are unfamiliar with Dave, you will get to see him on screen shortly.

In the Pacific Islands, we are planning for a 15 to 20 percent growth, driven by increased frequency of our Honolulu and Bali routes which have been incredibly popular with our customers. It also includes more wide body flying on routes such as Samoa and Fiji.

Looking further abroad, almost two-thirds of our planned international long-haul capacity growth for the coming year will be driven by the introduction of a new service to Haneda airport in Tokyo. We have a strong focus on strategically growing the Japanese market, and we were very pleased to have launched our Haneda service in July to complement our existing Narita route.

The remaining capacity growth will consist of increased flying to North and South America over the summer season for total long-haul growth of 3 to 5 percent.

And then following the success of the Dave the Goose campaign in Australia last year, in August we launched our first ever global brand campaign, focused on showing international travelers why Air New Zealand is a Better Way to Fly to New Zealand. Our new character who you can see here, is called Pete the Kiwi, a bird who wants to see the world but is hampered by his inability to fly. If you haven't seen Pete already, you will have a chance to see him shortly.

Finally, I wanted to shift gears a bit and talk about the importance of our Airpoints loyalty programme to our overall strategy. For the past 5 years, the expansion of our loyalty programme has been a core focus. In 2012, we began transforming the programme from a traditional frequent flyer programme into a robust, profitable and data-led loyalty business.

We have also focused on growing our financial partner portfolio, and you will have seen us launch a number of new credit and debit cards across our partners, such as Kiwibank, Westpac and ANZ.

From a programme expansion perspective, we have substantially grown the retailers where our members can shop online using their Airpoints Dollars – we now have about 140 online retailers. We've launched Airpoints for Business and Airpoints for Schools.

And finally, in October last year, we launched our own retail coalition, which has been a big success. We now have more than 60 businesses, such as Mercury, Z Energy, New World, and more, who are partnered with the Airpoints programme.

All these improvements have seen member satisfaction hit record highs as well, and of course, ultimately help make our customers loyal to Air New Zealand.

The challenge now for Air New Zealand is to join that small group of truly great companies like GE, 3M and Johnson & Johnson that master excellence year in, year out and over decades, consistently delivering superior commercial results, continually enhancing the customer experience, and building awesome culture and leaders.

As I look ahead, this is an extremely exciting time for our airline. We have made lots of progress and we still see opportunity ahead. But to shift from a great company to an iconically great company, we must continue to go beyond what is immediately in front of us, and work to propel new strategic agendas to ensure the longer-term future of our business and our country are sound.

That includes our basic mission and purpose – to supercharge New Zealand’s success. To achieve that mission, we must work harder to achieve our goals for sustainability. That includes carbon neutral growth by 2020 and working to intelligently offset our carbon footprint. That means continuing to push digital innovation and finding the opportunities where technology can transform our business. We must strive for even greater employee engagement, and look at all the possible tools that can help support our workforce in the next 3 to 5 to 10 years. That is our mission and our long-term vision.

I want to take this opportunity to thank you all for your attention today, both in person and online, and your continued support of our airline. I hope you all feel very proud of your investment – our recent performance and more importantly our future prospects.

Ends.