

**ANNUAL SHAREHOLDERS MEETING**

**WEDNESDAY 7 OCTOBER 2015**

**TONY CARTER OPENING REMARKS**

Welcome everyone to Air New Zealand's 2015 Annual Shareholders Meeting at the Viaduct Events Centre. 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 also. Welcome all.

Before we start the meeting, I would like to introduce to you the Air New Zealand Board of Directors.

From my far right:

- Rob Jager
- Jan Dawson
- Paul Bingham

And from my far left:

- Roger France
- Jonathan Mason
- Linda Jenkinson
- and our Chief Executive Officer, Christopher Luxon

Seated in the front row and assisting us today are:

- Rob McDonald, the company's Chief Financial Officer
- John Blair, General Counsel and Company Secretary
- Gavin Macdonald from Bell Gully, the company's lawyers
- and Andrew Dick from Deloitte, the company's auditors

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

Moving to 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 2015 financial year and outlook for 2016. Following my address we will hear from Christopher Luxon on the company's strategic priorities. You will have the opportunity to ask questions on either the 2015 results or the 2016 outlook following Christopher's address.
- I will then move to the formal resolutions of the meeting.
- Following this, I will open the floor to general discussion.

At the registration desks, on arrival, you would have been given your shareholder voting card. 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 Link staff will assist you.

### **CHAIRMAN'S ADDRESS**

Air New Zealand achieved a record result for the 2015 financial year, with Normalised Earnings before Taxation of \$496 million, an increase of 49 percent. Statutory Earnings before Taxation were \$474 million, an increase of 32 percent, while Statutory Net Profit after Taxation was \$327 million, up 24 percent.

These earnings were driven by total operating revenue of \$4.9 billion, up 6 percent and in line with capacity and demand growth, both of which were up 6.6% in the year.

2015 represents a significant year of growth for Air New Zealand. We have achieved 6.6 percent growth across the network including 10 percent on international long haul routes. We resumed our service to Singapore with our alliance partner Singapore Airlines. We have continued our programme to simplify our fleet with new aircraft enabling better operating economics, an optimised network with

the right alliance partners. We have worked hard to achieve better customer satisfaction, employee engagement and are on the path for a true digital and technology transformation across the business – both internally and for the benefit of our customers.

We achieved strong operating cash flow in 2015 at \$1.1 billion. This puts our balance sheet in a good position, with gearing at 52.4 percent – within our Board guidelines – and cash holdings at the end of June 2015 of \$1.3 billion. Our continued commitment to investment in a simplified, fuel efficient fleet of aircraft results in \$2.6 billion of aircraft capital expenditure in the next four years. This will be funded by continued strong operating cash flows and access to financial markets at very good cost of borrowing. In July of this year, Air New Zealand’s credit rating was upgraded by Moody’s from Baa3 to Baa2 – an investment grade credit rating and one of the highest ratings in the airline sector.

The Board declared a fully imputed final ordinary dividend of 9.5 cents per share, an increase of 73 percent from last year’s final ordinary dividend, bringing the total ordinary dividend declared for the 2015 year to 16 cents per share, an increase of 60 percent on last year.

At the 2015 annual results we said that given the current known operating environment, along with increased capacity and improved operating efficiencies, we expect to achieve significant earnings growth in the coming year. This view has strengthened. We are very pleased with the first quarter performance of the 2016 financial year and the business is on target to exceed profit before tax of \$400 million for the first half of this financial year.

This excludes any equity earnings from Virgin Australia.

Looking ahead, the company is very well positioned with

- buoyant tourism to New Zealand,
- a lower current fuel price environment,
- an increasingly efficient fleet, and
- a company with proven agility in responding to changing circumstances.

As a consequence, we are confident of our ongoing strong performance in the coming years.

I would like to take this opportunity to acknowledge Roger France who is retiring from the Board at this meeting after 14 years of service as a Director of Air New Zealand. Roger first joined the board in 2001

when he was acting CEO in the early days of the recapitalisation of Air New Zealand following the Ansett crisis. Roger has played an instrumental role in Air New Zealand ever since then, and his contribution to the company cannot be overstated. He has been a wise counsel to the board and executive over a very long time. On behalf of everyone here today I would like to sincerely thank Roger for his contribution. You will be sorely missed.

As Roger is not seeking re-election the board has commenced a search for a replacement and an announcement will be made in the coming months.

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

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

Kia Ora and good afternoon everyone, and thank you for taking the time to join us here today.

As Tony highlighted earlier, 2015 saw Air New Zealand achieve a third consecutive year of growth and a record \$327 million net profit after tax.

Our growth ambitions do not stop here. We want to be a truly great and world class organisation that can do three things at the same time – deliver superior commercial results AND continue to enhance the customer experience AND develop our people and build a high performance and engaged culture.

We are now delivering profitable growth which is enabling unprecedented reinvestment in the business to ensure it remains strong, relevant and competitive for the future. And we will continue to propel the business by focusing on the four pillars of our Go Beyond Plan.

We are investing \$2.6 billion in aircraft over the next four years. This will see Air New Zealand build one of the most modern fleets in the world, with the very best and most customer preferred wide-body, narrow body and turbo-prop aircraft available.

We continue to invest in, and focus on, providing a consistent and personalised customer experience. This year we were pleased to receive three awards in the prestigious Skytrax World Airline Awards for our Premium Economy cabin. We are about a third of the way through a four year, \$100 million

investment in our regional, domestic and international lounges. We continue to improve the ways our customers can interact with us, book their flights, check in and enjoy an end to end travel experience.

Across all areas of our business we are undertaking a digital transformation. We live in a world of rapidly changing digital technology and the impact of this on Air New Zealand is a key focus for us. We are exploring how we can better use technology for the benefit of our customers, our sales channels, and to drive efficiencies and improvements to our internal operations so our people are freed up to spend more time with our customers and on value added projects. We aim to be one of the leading digital organisations in Australasia and to be one of the best airlines globally in our use of digital technologies.

Stronger commercial results will be achieved through growing and developing our markets through the use of our own fleet and network and in conjunction with alliances partners to expand our presence in the Pacific Rim. As Tony mentioned, in this coming year we expect to increase total network capacity by 11% on an ASK basis and I will go through this in more detail shortly.

Commercial results will also be achieved through enhanced efficiencies. As I said earlier we are investing in a simplified, fuel efficient and modern fleet of aircraft. As well as being a win for our customers, this simplified fleet is a win for Air New Zealand too due to greater fuel efficiencies, and operational efficiencies that enable us to use pilots and crew across multiples planes and routes, and maintenance benefits of operating fewer types of aircraft.

While our people safety improved 15% in the past year we still have more to do, but are on the right pathway building focus around safety in design, identifying critical risks and developing mindful leadership.

Our people are at the core of our business and we have seen significant development in this area as we roll out a high performance engagement culture. We have made a big investment in leadership development as we believe a significant part of our culture is shaped by the actions of our leaders, a more positive culture drives greater engagement and means our people will give our customers and the business that extra differential effort. We also very proud of the new more collaborative ways of working with our union partners in what we call High Performance Engagement.

The initiatives in this area have placed us in the top quartile of companies in Australasia as demonstrated by our 2015 employee engagement survey – of which we are extremely proud. In the last year we have also paid a discretionary Company Performance Bonus to allow all Air New Zealanders to benefit when we deliver superior commercial results for our shareholders.

Now, let me take you through some of our capacity growth for the coming year.

We are very proud of our New Zealand domestic and regional network and will continue to operate a world class jet and turbo prop network providing the best product for customers with the frequency, service, reliability, reputation and value to respond to any competition.

Last month we farewelled the last of our Boeing 737 jet aircraft. The 737 served our domestic network for 47 years. We now have a simplified fleet with all A320 aircraft on our domestic jet network. By the end of 2016, we will have withdrawn all the 19 seater Beech 1900D and will operate a simplified regional network with ATR and Q300 turbo prop fleets. A simplified fleet allows for cost and operational efficiencies, as well as increased capacity.

We will grow our domestic network capacity by 8 percent in 2016, particularly through the fleet realignment I have just discussed and additional services between Auckland, Christchurch and Queenstown. Pleasingly, demand is filling that additional capacity already, as evidenced by our August year to date performance which saw domestic capacity increase 7.4 percent and domestic demand increase 7.2 percent.

We will see modest growth in 2016 across the Tasman and throughout our Pacific network.

As you know, we have a 26 percent investment in Virgin Australia which gives us additional capacity share on the Tasman, but also reach into the Australia domestic market through Virgin's extensive domestic network. Our alliance with Virgin Australia is going from strength to strength and provides us with 51 percent market share on the Tasman.

We will also see fleet simplification on the Tasman going forward as we replace the Boeing 767s with new Boeing 787-9s – providing additional capacity and giving our customers a greater inflight experience and more choice and flexible fare options in Economy as well as Business Premier and from this month, offering the popular Premium Economy seat option.

2016 will be an exciting year for our international network, where we will see capacity growth of 15 percent. A lot of this capacity growth has already been factored in, as we experience a full year of the Singapore route which started in January 2015. Across our Asian network, we have already seen capacity increase by nearly 39 percent August year to date, against demand increase of 42 percent.

The 2016 financial year will also see the addition of two new routes on our international network with both Houston in the USA and Buenos Aires in South America commencing in December this year. We will begin flying to Houston five times a week and Buenos Aires three times a week. Both of these routes will be operated by refurbished Boeing 777-200 aircraft. The advance sales on both routes are going well, and we are excited about the opportunities these two new destinations will bring to our network.

We will also be in a revenue share joint venture with Air China as we together build the routes to Shanghai and Beijing. So, we are in for a very busy summer!

We have celebrated our 75<sup>th</sup> year with profitable growth, unprecedented investment, and a record earnings for our shareholders and I am proud to report that the company in the best shape it has ever been and ready to seize on the many opportunities in front of it.

But, let me say in closing a big thank you for your support of Air New Zealand. I've discovered in the last four years that there aren't that many four million people countries on earth that have an airline, let alone one that is surviving, or thriving like us.

And we want to be a truly world class company from New Zealand taking it to the world and one that all New Zealanders can be proud of and engaged with. Yet we can't do it without your support – so we really do appreciate it – thank you.