

ANNUAL SHAREHOLDERS MEETING

WEDNESDAY 25 SEPTEMBER 2019

CHAIRMAN'S ADDRESS

Turning now to the highlights of the past year, we achieved operating revenue of \$5.8 billion dollars, an increase of 5.3 percent from the prior year. Earnings before taxation were \$374 million dollars, representing a decline from the prior year's result of \$540 million dollars. Despite the reduction in earnings this year, operating cash flow generation was very strong at \$986 million dollars, and we were very pleased to again declare a total of 22 cents per share in ordinary dividends to our shareholders for 2019.

The 2019 result clearly reflects a reduction from the recent level of earnings performance that we have come to expect from our business. However, when considered in light of the significant challenges that the airline faced this year, the \$374 million-dollar result demonstrates how resilient our business can be.

There were three main challenges that we faced in 2019, and I would like to take a moment to discuss them, as well as how we have responded and continue to respond to some of them.

Firstly, we faced a significant increase in fuel price in the year, which drove \$191 million dollars in additional costs. The team immediately worked to mitigate that risk by slowing the planned rate of network capacity growth. Over the long-term however, we know that it is our investment in a fuel-efficient fleet that is the best hedge for rising fuel prices. On top of that, we continue to look at ways in which we can improve efficiency, with things like flight planning tools and weight reduction programmes to ensure that we are optimising our fuel efficiency for the future.

Then if I move on to the issues we faced with the global Rolls-Royce engines which impacted not only the Boeing 787 fleet, but our entire network, as uncertainty around aircraft availability had numerous knock-on effects across the business. Unlike other airlines facing a similar situation, we quickly mobilised to procure 3 dry-leased aircraft to keep our customers moving as much as possible.

We also increased resourcing in customer-facing areas to ensure better operational resilience as our customers navigated changes to their bookings. Those actions came at a cost, but they were the right actions to take for our customers.

Now that the issue with the engines is alleviating significantly, the teams are working really hard to regain the operational efficiencies that we expect from the business which will positively impact the current financial year.

Finally, with the slower demand outlook that we highlighted in January, the airline responded to quickly introduce a comprehensive domestic fare restructure that has helped to stimulate leisure traffic, specifically to regional New Zealand. At the same time, we deferred approximately \$750 million dollars in capex, by delaying and smoothing delivery schedules for our NEO and widebody replacement aircraft. This is really important as it increases capital efficiency and resets the fleet plan to better match capacity expectations in light of the lower demand growth environment.

I am extremely proud of the team and their agility and resilience in adjusting to a number of changing external circumstances. It is a great example of a fundamentally strong business, with a core foundation and structure that is able to withstand and adapt to the challenges that any given year presents.

The airline's balance sheet continues to be in a strong position, with cash holdings of \$1.1 billion dollars and gearing of 54.6 percent. This is higher than last year's gearing of 52.4 percent, reflecting additional investment in new aircraft during the year. We anticipate our gearing will reduce in the coming years due to lower forecasted aircraft capex as well as the impact of the new accounting standard for leases.

Our financial strength is reflected in our Baa2 investment grade credit rating, which ranks among the highest of airlines in the world.

As the result of a positive medium-term outlook, the airline's financial strength and capital commitments over the next few years, as well as the current trading environment, the Board declared a fully imputed final dividend for 2019 of 11 cents per share. That brings our total imputed ordinary dividends for the year to 22 cents per share, which is in-line with the prior year.

Turning now to the outlook for 2020.

At the 2019 annual results announcement, we stated that the airline is targeting earnings before taxation to be in the range of \$350 million to \$450 million dollars. This outlook is based upon current market demand and assuming an average jet fuel price of US\$75 per barrel and also excludes the impact of the new accounting standard for leases. I would note that jet fuel has recently been trading above the US\$75 dollar level, and we continue to closely monitor pricing along with our current fuel hedging profile.

Lastly, as many of you will be aware, this is my last Annual Shareholders Meeting. For the past 9 years I have had the honour of serving this iconic company as a director, with 6 years as Chair. I would like to thank you, our shareholders, for your continued support through the years.

Subject to her re-election, Dame Therese Walsh will assume the role of Chair at the conclusion of this meeting, and shareholders and customers alike can be confident that the significant progress the Airline has made in recent years will continue.

Dame Therese is a highly experienced and commercial leader, with a great understanding and respect for the place Air New Zealand holds in the hearts and minds of New Zealanders. I have no doubt that the future of Air New Zealand is in very capable hands under the stewardship of Dame Therese and the rest of our highly skilled Board.

Dame Therese is leading the global search for a new Chief Executive Officer, and as I think this is a topic that many of our shareholders will be interested in, I have asked Dame Therese to provide a brief update.

DAME THERESE WALSH REMARKS

Tena kotou katoa e hoa ma. Good afternoon everyone. I would like to acknowledge that the full Board of Directors have been involved in the recruitment process and we have been very impressed with the level of interest shown in the position, as well as the calibre of candidates being considered.

While we are not able to share anything today, what I will say is that the search is progressing well, and I would hope that we are in a position to make an announcement sometime next month. Given the nature of the process, I know you will understand that is all we will be able to comment on today regarding the CEO search. As Tony mentioned earlier, we are fortunate to have Jeff McDowall stepping into the acting CEO role during this time.

I would also like to take the opportunity to provide an update on the process to appoint a new Director to replace Tony Carter, which is well advanced. While I cannot provide any more information today, I will say that we anticipate an announcement shortly, and the new appointee will stand for election at next year's annual shareholders' meeting.

As already mentioned, if I receive your support today I will also be taking on the role of Chairman upon Tony's retirement. It is a true honour to be considered for the role of Chairman and I want to give you my commitment that I will treat this role with the respect that it deserves and an utter determination to work with the Air New Zealand team to achieve great outcomes for you, our shareholders.

CHIEF EXECUTIVE OFFICER'S ADDRESS

E nga mana, E nga reo, E nga rau rangitira ma, Tena kotou katoa. Ngai Tahu whanui, nga mihi ki a koutou.

Kia Ora and good afternoon everyone, and thanks for taking the time to join us here today, both in person and online.

Before I get started, I would like to acknowledge and thank Tony for his contribution to Air New Zealand – which has been immense. Tony's tenure on the Board has seen our fleet size increase from just under 100 aircraft to 113 aircraft, including the highly efficient Boeing 787 Dreamliners and NEO aircraft. Over his time on the Board, the airline has declared more than \$1.8 billion dollars in dividends to shareholders and reported more than \$900 million in taxes. Beyond the financials, Tony's has overseen the growth of the airline by around 40 percent and has included a number of new destinations such as Houston, Singapore, Chicago, Buenos Aires and Taipei just to name a few.

Beyond all of that, Tony has always stood behind me and provided sound guidance, for which I will always be grateful - so thank you Tony, and I wish you all the very best for your future endeavours.

Moving on, as Tony mentioned, the 2019 financial performance was solid in the context of the external issues we faced in the year. However, I have always said that we strive for equality of results. That's why inside our business we are constantly talking about the "3 Cs" - customer, commercial and culture, which represent the core elements of our airline and are fundamental to every single thing we do. These three components can often be at tension within a business. You can achieve your commercial results by cutting into the customer experience and saving money there, or by not investing in your

people. But equally we can also go the other way and spend lots of money on our people and our customers while ignoring commercial challenges, which would not be prudent either.

Through continuous reinvestment and focus on balancing customer experience, culture and commercial returns, Air New Zealand has achieved a lot.

Our airline has been in existence for 79 years and in April next year, we will celebrate our 80th anniversary. Over this time, we have built Air New Zealand into a very strong business.

When you think about it, we are a business that connects New Zealanders to 52 destinations across New Zealand and all around the world. We have over 12,500 employees and have been ranked New Zealand's most sought-after place to work for the past three years. We have had the #1 corporate reputation now in New Zealand for 5 years, and we have even had the #1 corporate reputation in Australia for 3 consecutive years.

And all the while growing the value of the company, with an extremely strong dividend yield and shareholder returns.

As I travel the world and speak to many of my peers in global aviation, they often ask me how Air New Zealand continues to be so successful. Our home market has a small population that is very far away from the rest of the world, we do not have a big hub through which hundreds of millions of passengers fly through, and we do not have a large proportion of business traffic. For the typical airline CEO, that combination is a non-starter.

What I tell them is that we have built really powerful, compelling and incredibly strong competitive advantages over time. When you look at our brand, our service quality and our culture we know that Air New Zealand is one of the best airlines in the industry.

We enjoy strong customer loyalty, driven by an unmatched domestic network and our Airpoints programme which passengers truly value. We have an alliance-driven international network, which has given us huge access into key offshore markets with strong partners, helping to de-risk a lot of our growth over recent years.

And finally, we have this simplified, fuel-efficient fleet with an average age of about 7 years. This fleet and the way we have configured it to support the New Zealand market and tourism demand to fly here, has given us significant operating efficiencies over our competition. And we see more opportunity to continue that strategy. As many of you will know, in May, we announced our intention to replace our current fleet of Boeing 777-200 aircraft with the Boeing 787-10 Dreamliner powered by GE engines. Subject to shareholder approval later today, this multi-billion-dollar investment will be a game changer for our airline, offering a 25 percent improvement in fuel efficiency and opening up new opportunities for profitable network growth in the future.

Rest assured, the team will keep improving these competitive advantages – investing in them and reinventing them over time, because they are a strong differentiator for us compared to other airlines around the world and they have translated into very strong commercial success for the airline through the years.

While we don't run the airline worrying about the share price in the short term, in the long run our shareholder return is a measure of the progress we have made over the years. This progress is a function of continual investments, in good times and bad times, to build and sustain those competitive advantages and drive the future opportunities of the airline for years and decades to come.

You can see here in terms of total shareholder return, we've outperformed other Asia Pacific airlines, and also many of the key indices, and I'm extremely proud of that performance.

As Tony discussed in the context of the 2019 result, since late January we have seen a slowdown in the rate of demand growth. Although we are still anticipating solid growth as we look to the current financial year, we expect it will be at a lower level than in prior years, when inbound tourism growth was significantly higher.

Our business is uniquely positioned to observe changing demand trends due to our forward bookings profile and while we were one of the first New Zealand companies to describe the slowing growth environment, in recent months a number of other businesses have echoed our sentiments.

Importantly, while we have not seen any further downward shift in demand, we are taking the necessary steps to adjust our business to perform well in this new slower growth environment.

Those changes were announced in March as part of a broader business review, and include network adjustments, fleet deferrals, initiatives to sustainably reduce our cost base while continuing to reinvest in key areas of our customer proposition such as lounges, digital and inflight experience. We have also overhauled our domestic network fares to make travel more affordable and further supercharge domestic tourism, specifically to regional New Zealand.

Being able to adapt does not mean that we are changing the core priorities that make Air New Zealand a truly iconic company. While both the Board and the Executive team will continue to drive opportunities that will ensure Air New Zealand generates sustainable earnings growth in this new environment, protecting our strong culture and innovative approach to the customer experience will remain vital.

We will continue to grow this year, most notably into new markets that we feel will stimulate additional demand for travel to, and within, New Zealand.

In addition to growing frequency on the Taipei and Chicago routes that we began last year, we are very excited about the new routes we are launching for the 2020 financial year.

A seasonal service from Christchurch to Singapore will commence this December, utilising our 275-seater Dreamliner aircraft. This will provide customers with greater choice, great connectivity beyond Singapore and increased connections into the domestic New Zealand market. It is yet another example of the value of our strong alliance partnerships, as we continue to collaborate with Singapore Airlines to meet growing demand.

We will be further diversifying our Asian network starting in late November with a direct service to Seoul. This is an exciting opportunity to attract new visitors to New Zealand as South Korea is New Zealand's third-largest inbound Asian tourism market after China and Japan. We had close to 90,000 visitors from the country arriving in New Zealand last year and at the same time, we also have around 40,000 Koreans already living here who travel back and forth to visit friends and family.

Then finally, a month ago we launched a direct service between Auckland and Invercargill using our A320 jet aircraft. This is an exciting route, that exemplifies the relationships that we have built with the Southland community and its stakeholders over many years. This route is timed to provide Southland business customers with a convenient service to Auckland that will operate 5 times a week.

Then referencing back to the "3 Cs" discussion, we fundamentally believe much of our success in the past few years has been a result of smart investments in the customer experience. So, you can

continue to expect hearing about a continuation of that theme – whether it be investment in our digital app to allow our customers more control over their travel journey, or free WiFi being rolled out onto our international aircraft. Lounges will continue to be upgraded throughout our network – you will be able to experience significantly more space in the Auckland regional lounge from this November and the Wellington domestic lounge by early next year. We will also be investing in aircraft interior refreshes such as making some adjustments to the business class cabin seat to provide more storage space and providing extended seat pitch within a portion of our long-haul economy class cabin.

These are just some of the areas we are working on over the next few years, then of course with the proposal to purchase 8 Boeing 787-10 Dreamliners which will start arriving at the end of 2022 calendar year, we can bring in a whole reinvention of the cabins, which our team have been working on at our top secret innovation centre, Hangar 22, where we are working on the proposition for future flying.

Then if I could bring us back to the fundamental purpose of our business, which is enshrined in our GoBeyond mission. What this mission means is that irrespective of what point in the economic cycle we are in, there is a core mission that guides our people. Our role is simply to supercharge New Zealand's success, because if New Zealand is doing well as a country, Air New Zealand will be doing fine as well.

Economically, we can do that through driving tourism and trade. That's why we get involved in a range of things beyond our own network, into partnerships such as the Queenstown Resort College, where we are trying to build talent that comes into the tourism industry straight out of high school.

Socially, we aim to do that by building a world-class company, which includes fostering a strong sense of culture and inclusiveness across our workforce. I am so proud that we have advanced the proportion of women on our Senior Leadership Team to over 40 percent, and we are committed to increasing our

representation of leadership who are Māori and Pasifika to 20 percent by 2022. This is important for building an inclusive culture. So are things like the changes we have made this year to our parental leave policy, providing 26 weeks of fully paid leave, placing Air New Zealand amongst the top corporates in the country in terms of our offering.

Environmentally, we are leading the charge amongst airlines globally, by purchasing and surrendering units for 100 percent of our domestic emissions, committing to offset the growth of our international emissions from 2020 onwards, and working in collaborations such as the Dryland Carbon initiative, which involves Genesis, Contact and Z, as we think about various ways to manage our carbon emissions.

Finally, in the months since I announced my resignation and leading up to today, I have spent a lot of time with Air New Zealanders across the organisation reflecting on how far the airline has come in the past seven years. Looking back, it is remarkable how much we have accomplished together and the relationships we have built between our employees, our customers and our communities.

I feel very proud with what's been achieved during my 7-year tenure as CEO and proud of how Air New Zealand and our people represent New Zealand on the world stage. It has been a special privilege to lead such an iconic company, and it is certainly the highlight of my career to date, and I do want to thank a few people.

Firstly, I mentioned Tony already, but it bears mentioning again. Thank you to Tony, Dame Therese and the Directors of the Board for your guidance and support in setting the strategic direction of the company and ensuring it is well governed.

I also want to thank my Executive team – both past & present. It has been a real pleasure to have led what is a team of exceptional & talented individual leaders. I can tell you that we have felt and understood very deeply what this company means to New Zealand and New Zealanders, and we have taken those responsibilities incredibly seriously to steward the company well during our tenure.

And finally, thank you to each of you for your passion, support and advocacy of our airline. You have high expectations of us as you should and that has been important to ensure we are constructively dissatisfied with the business and always looking to continuously improve. Running a small global airline from New Zealand is tough and yet we wouldn't be the world's best airline in my view without your support in your different roles as a customer, stakeholder and investor. Thank you.

I have absolutely loved the responsibility and experience of leading this company. It has been intellectually challenging, people centred and an absolute privilege to do this job.

But it is the right time for a new leader to take over and preserve and enhance the good things from our past, but also to put their own stamp on the organisation bringing their own personality and emphasis to the role as I did.

It is a fast-evolving world and industry that we operate in, and it is imperative we too continue to evolve. There will always be new and evolving commercial and competitive realities to face up to, there will always be more perfection of the customer journey and removal of pain points to deliver, and there will always be the development of a new generation of leaders to re-imagine and lead this great company. The work goes on. It's been that way for the last 80 years at Air NZ and will be yet again.

I sincerely wish Jeff, Therese and the Board and the whole team all the very best in taking this great and iconic company forward into the future.

And I wish each and every one of you all the very best too.

Thank you and mā te wā.