

Media Release

Media release
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Air New Zealand Business Review Update

Air New Zealand has unveiled a series of initiatives to improve its financial performance and customer experience over the next two years.

Chief Executive Officer Christopher Luxon says the outcome of the review, which followed the airline's revised profit guidance for the 2019 financial year, will positively impact revenue growth, capital efficiency, operating costs and the customer travel experience into 2020 and beyond.

"The actions we are announcing today are focused on re-aligning our business to ensure a return to earnings growth in the lower growth environment. Air New Zealand is experienced at adapting to changing macro environments, and the actions outlined in the business review today will ensure the business is more dynamic, increasingly competitive and financially resilient for the future.

"I want to be clear that although there will be changes to our business, Air New Zealand has always and will always keep the customer at the core of everything we do. As such we have some exciting developments in the customer space to announce in the coming weeks and months, and we remain unequivocally committed to creating an exceptional travel experience that is the envy of airlines around the world," says Mr Luxon.

The key outcomes of the review are:

Optimising network to maximise and diversify revenue

Air New Zealand is focused on continuously optimising its route network to ensure that the right aircraft are flying on the right routes, at the right times. Changes to the network include:

- Planning for network growth of 3% to 5%, on average, over the next three years, revised from 5% to 7% to reflect a slower demand growth environment.
- Network growth focused on stimulating tourism to, from and within New Zealand, by tapping into new markets of demand with the launch of additional destinations and increased frequencies across the network, including:
 - The launch of new direct services between Auckland and Seoul from late November 2019.
 - Increased frequency on Auckland-Taipei services from November 2019 and Auckland-Chicago services from December 2019.

- Amending the timing of the Auckland-Hong Kong service to free up one aircraft from late October 2019.
- A moderate rate of growth is expected across the existing route network.

Increasing capital efficiency through retiming of fleet orders

- Aircraft capital expenditures of approximately \$750 million will be deferred to ensure capacity growth better reflects the slower demand growth environment, including:
 - Deferring by one year the delivery of three A321NEO aircraft planned to operate on the domestic network.
 - Deferring by two years the delivery of one A320NEO aircraft designated for trans-Tasman services.
 - Deferring by at least four years the delivery of two long-haul aircraft as part of a widebody fleet programme to replace the airline's B777-200 fleet, thereby decreasing the level of capital expenditure expected in the 2020-2023 financial years.
 - No change is planned for the delivery date of the airline's 14th B787-9 aircraft, which will be leased from October 2019.
 - As part of the airline's focus on fleet flexibility, the new widebody fleet replacement programme will include provisions that allow for an acceleration of growth, should market conditions change.

Improving efficiencies across the cost base

The airline is focused on improving its operational cost base to set the airline up for success in the current lower revenue growth environment.

- In addition to the ongoing cost saving initiatives of more than \$50 million per annum, which have enabled Air New Zealand to largely offset inflation over the past three years, the airline will embark on a two-year cost reduction programme.
- This programme is designed to deliver more than \$60 million in additional savings on an annualised basis, and will be formed around three key pillars:
 - Removal of inefficiencies incurred in the 2019 financial year to mitigate network and passenger disruption related to the global Rolls-Royce engine issues.
 - A reduction in overhead costs by approximately 5%, which will be delivered through a combination of reprioritisation of spend, process efficiencies and automation.
 - A targeted review of the operations cost base.

Continuing to invest in the customer travel experience

Air New Zealand remains committed to elevating the customer travel experience, with a number of enhancements planned over the next two years. The airline will soon begin revealing a series of exciting new developments across its in-flight and on-the-ground product offerings, including:

- The progressive introduction of an enhanced Business Premier experience on the long-haul fleet from the end of calendar 2019.
- A new, more spacious, Economy product offering on the long-haul fleet from mid-calendar 2020.
- Free Wi-Fi offered on all enabled international aircraft from today.
- The upgrade of 9 lounges across the network over the next two years for approximately \$50 million, as part of the airline's previously disclosed lounge upgrade programme.

Mr Luxon is confident in the airline's ability to successfully adjust its operations to reflect changing market conditions.

"Our confidence in Air New Zealand's long-term strategy, customer proposition and financial performance remains strong. The steps we are taking today will provide a strong foundation for future earnings growth. We are deferring aircraft deliveries and related capital expenditures, adjusting our capacity growth plans and driving sustainable efficiencies throughout our cost base to better reflect the slower demand growth we are seeing in the market."

Chairman Tony Carter says the Board fully supports the recommendations of the review and the management team's ability to deliver stronger results for the airline's staff, customers and shareholders.

"Both management and the Board have proven their ability to re-position the airline for success across different external environments, and this time is no different," says Mr Carter.

Mr Luxon says the airline sees strong potential to grow revenue and profitability by tapping into new markets, even in a lower demand growth environment.

"We continue to see exciting growth opportunities that enhance our Pacific Rim strategy, including entering new markets such as Seoul."

Mr Luxon says a key focus for Air New Zealand is ensuring that each of its international aircraft are directed at strongly profitable routes.

"On this basis we are putting extra effort into lifting the performance of some routes that we feel are not meeting their potential, while refocusing our assets on those routes which are performing ahead of expectations. Our number one priority is optimising our network mix to maximise profitable growth. Therefore, it is terrific to be able to announce today that we will be increasing frequency into Taipei and Chicago. Frequency on both routes will increase to up to five services per week from December 2019. I'm also excited to announce that we will start flying from Auckland to Seoul up to five days a week from late November 2019."

Mr Luxon says the deferral of delivery times for the four A320/A321 NEOs and two widebody aircraft will have a positive impact on the airline's free cash flow and return on invested capital. The new delivery schedule reflects changes made to the airline's network to improve its profitability and will better support a lower rate of growth for the coming years. The airline also maintains flexibility to adjust its fleet orders in the future should demand levels increase.

"I am confident that the actions we are taking, along with the continued dedication and focus of our phenomenal people, will support a return to earnings growth in this lower demand growth environment."

In addition to offering customers exciting new destinations and modern aircraft, the airline has a series of product innovations in its pipeline that will further enhance the customer travel experience in-flight and on-the-ground.

Mr Luxon says that Air New Zealand will begin fitting an enhanced version of its existing Business Premier seat to its widebody fleet towards the end of the 2019 calendar year and the rollout is expected to be completed by December 2020.

"We have undertaken considerable customer research and testing over the past 12 months to come up with enhancements to the existing award-winning seat as well as a new food, beverage and service offering that reflects the essence of who we are as a nation. We are confident our Business Premier customers will love their Air New Zealand experience more than ever."

A new, more spacious Economy cabin product is expected to be in service on long-haul aircraft by mid calendar 2020 as well.

"Air New Zealand's customers are at the core of our business success and we are acutely aware that in a world of rapidly changing expectations we need to be surprising and delighting them more than ever, whether it be at home here in New Zealand or in the international markets where we operate," Mr Luxon says.

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About Star Alliance:

The Star Alliance network was established in 1997 as the first truly global airline alliance to offer worldwide reach, recognition and seamless service to the international traveller. Its acceptance by the market has been recognized by numerous awards, including the Air Transport World Market Leadership Award and Best Airline Alliance by both Business Traveller Magazine and Skytrax. The member airlines are: Adria Airways, Aegean Airlines, Air Canada, Air China, Air India, Air New Zealand, ANA, Asiana Airlines, Austrian, Avianca, Avianca Brasil, Brussels Airlines, Copa Airlines, Croatia Airlines, EGYPTAIR, Ethiopian Airlines, EVA Air, LOT Polish Airlines, Lufthansa, Scandinavian Airlines, Shenzhen Airlines, Singapore Airlines, South African Airways, SWISS, TAP Air Portugal, THAI, Turkish Airlines and United. Overall, the Star Alliance network currently offers more than 18,800 daily flights to over 1,300 airports in 193 countries. Further connecting flights are offered by Star Alliance Connecting Partner, Juneyao Airlines.

For more information about Air New Zealand visit www.airnewzealand.com and for more information about Star Alliance visit www.staralliance.com and/or follow Star Alliance on [Facebook](#), [Twitter](#), [Youtube](#), [LinkedIn](#) or [Instagram](#).

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