Media Release

Media release
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Air New Zealand announces earnings before taxation of $374 million, maintains final dividend

Air New Zealand today announced earnings before taxation for the 2019 financial year of $374 million, compared to $540 million in the prior period. Net profit after taxation was $270 million and operating cash flow was $986 million.

The result was driven by operating revenue growth of 5.3 percent, which was offset by a $191 million increase in the price of fuel, as well as a temporary increase in operating costs as the airline sought to improve network resiliency for its customers in the face of the global Rolls-Royce engine issues.

Shareholders of Air New Zealand will receive a final dividend of 11.0 cents per share, taking the total ordinary dividends declared for the year to 22.0 cents per share, in-line with the prior year. The dividend will be paid on 18 September, to shareholders on record as at 6 September.

Chairman Tony Carter said the result represents the relentless focus and hard work of more than 12,500 Air New Zealanders, who have risen to the challenges this financial year has presented.

“While we are disappointed that we did not meet the expectations we first set for ourselves at the start of the financial year, the fact is we are operating in a different demand environment than we were 12 months ago. To have achieved a solid result despite these headwinds speaks volumes about the extraordinary dedication and commitment of our people.

“When we first saw signs that demand was slowing, we took immediate steps to review our network, fleet and cost base, to position the airline for success in a lower growth environment. While we have made progress, this work is still ongoing.

“I am very confident in our strategy and our experienced, world-class executive team who are focused on driving our business back to earnings growth, while ensuring that we maintain the airline’s strong customer-centric culture.”

Chief Executive Officer Christopher Luxon noted that as the airline navigates a more challenging demand environment, delivering competitive fares and a superior customer experience remain a top priority.

“While the New Zealand market has seen foreign competitors reduce capacity or withdraw completely this year, we have continued to grow both domestically and internationally and to adjust our domestic fare structure to keep New Zealanders connected to each other and the world.

“In a society with rapidly changing customer expectations, we know we need to continue to lift our game. We invest a huge amount of time understanding what our customers value and how we can improve their experience, which is why we introduced free Wi-Fi onboard our long-haul flights earlier this year and announced changes to our Economy product offering. We can’t wait to share some further exciting product developments and enhancements in the coming months, which we think our customers are going to love.”

Mr Luxon went on to say that as the airline looks to the coming year, it is in a fundamentally strong position and will target further growth that taps into new pools of demand.

“We were very excited earlier in the year to announce that we would begin flying to Seoul in November 2019. A new seasonal service from Christchurch to Singapore will begin in December 2019, which will provide greater choice for visitors and locals alike. We will also launch additional frequency into both Chicago and Taipei, as these routes continue to outperform our expectations.

"Another important milestone will be the return of our remaining Rolls-Royce engines back into service, which we are expecting to happen in the coming months. This will enable us to bring further reliability back to our flying schedule and to utilise our most efficient aircraft in the optimum way."

Mr Luxon acknowledged that while the outcomes of the business review announced in March will provide some clear benefits to the airline in the coming year, there were still further cost efficiencies that needed to be realised following the conclusion of operational and overhead cost reviews.

"We are focused on ensuring that Air New Zealand is fit for the new lower growth environment and part of that involves identifying ways that we can deliver meaningful, sustainable reductions in our cost base. We know we already run a tight ship and that any further cost savings will require exponential effort.

"That is why we have selected a respected external consultancy to assist with this process. They can provide us with an outside perspective and are able to benchmark us to provide a clear understanding of how our processes compare with global peers."

Mr Luxon also stated that the airline remains committed to delivering on its sustainability strategy and initiatives.

"We know that sustainability is a critical global issue and we risk losing our social license to operate if we do not genuinely address climate change. That is why you will see us continue to invest, whether that be further reducing single use plastic items on board our aircraft or making it easier for our customers to voluntarily offset their emissions with our FlyNeutral tool."

The airline will also take delivery of six ATR aircraft and three Airbus A320/321 NEO aircraft in the 2020 financial year, which will provide continued growth, fuel efficiency and cost benefits on the Tasman and Pacific Islands network. An additional Boeing 787-9 Dreamliner will also join the fleet this year.

Air New Zealand's investment grade credit rating and strong operating cash flow have enabled it to continue to invest in the most innovative, efficient and comfortable aircraft on the market to deliver on its commitment to grow sustainably. Earlier this year the airline announced that it would replace its fleet of Boeing 777-200 aircraft with the Boeing 787-10 Dreamliner, subject to shareholder approval in September. These aircraft will start to be delivered from the 2023 financial year and will be a game changer for the airline, offering a 25 percent improvement in fuel efficiency.

Outlook

Based upon current market conditions and assuming an average jet fuel price of US$75 per barrel, the airline is targeting earnings before taxation to be in the range of $350 million to $450 million. This outlook excludes the impact of the new accounting standard for leases.

Financial Highlights

- Operating revenue of **$5.8 billion**
- Earnings before taxation of **$374 million**
- Net profit after taxation of **$270 million**
- Operating cash flow of **$986 million**
- Fully imputed final dividend of **11.0 cents per share**, resulting in annual ordinary dividends of 22.0 cents per share

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