

RE: AIRWAYS PROPOSED PRICE REDUCTION OF 1.2% FROM 1 JULY 2017

Dear Sir/Madam

Airways has completed its forecast of revenues for the year ending 30 June 2018 and are pleased to advise customers that volume growth has exceeded expectations. We are proposing to reduce average published prices by **1.2%** from 1 July 2017. This means that the average price increase for 2017/18 will be reduced from 1.6% to 0.4%.

The proposed price reduction is in accordance with the risk sharing mechanism of Airways' Pricing Framework which was amended in April 2017 following public consultation. The changes to the risk sharing mechanism require Airways to make a forecast of the next year's revenue and make a price adjustment if the expected revenue is more than 2% different from the target revenue set as part of the three-yearly pricing consultation.

The unadjusted revenue forecast for FY18 based on airline schedules is \$188.8m, 3.2% higher than the target revenue of \$183.0m set during the 2016 – 2019 pricing consultation. The table below shows how the 3.2% additional growth has arisen when compared to the initial growth forecasts set as part of the 2016 – 2019 pricing consultation.

Updated forecast growth rates compared to pricing assumptions.

	Pricing assumptions			Updated forecast			Variance
	FY17	FY18	Total	FY17	FY18	Total	
Domestic	6.4%	0.0%	6.4%	8.5%	3.2%	12.0%	5.6%
International	8.4%	1.9%	10.5%	9.6%	1.1%	10.8%	0.3%
Weighted average	7.2%	0.8%	8.1%	8.8%	2.4%	11.3%	3.2%
						Revenue band	2.0%
						Average price reduction	1.2%

The table above shows that the majority of the variance between the initial pricing assumptions and the updated schedule forecasts (5.6%) is being driven by the domestic market. During the pricing consultation we had assumed that domestic growth for FY18 would be flat based on a static domestic fleet. However, airline schedules for FY18 show further growth as domestic carriers increase schedule frequency. International growth over the FY17 & FY18 period is close (+0.3%) to our initial pricing assumptions.

The attachment shows the significant revenue changes impacting FY18.

Airways invite customers to provide additional schedule or fleet information by 15 May 2017. Airways will consider this additional information before finalising prices by 31 May 2017.

If you have any questions about the proposed price reduction, please feel free to contact me.

Kind regards
Jon Stone

Jon Stone | *Pricing Manager*

Airways New Zealand

Level 7 Majestic Centre 100 Willis Street Wellington

PO Box 294 Wellington 6140

t. +64 4 471 5815 | ext. 4815

m. 021 0817 3010

e. jon.stone@airways.co.nz | w. www.airways.co.nz

