

AIRWAYS



Airways Pricing Assurance Framework

FY26-28

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Independent Assurance Practitioner's Report

To the Directors of Airways Corporation of New Zealand Limited

Scope

In accordance with the terms of the engagement letter dated 7 October 2024, we have undertaken a reasonable assurance engagement to report on the description, design and operating effectiveness of specific controls, as defined by you, within parts of Airways Corporation of New Zealand Limited's ("Airways") price setting process relevant to the control objectives outlined in section 6 to:

- i. Include only costs that relate to the provision of the regulated Services described in the Services Framework, within the Business Plan that is used as one of the inputs to the target revenue calculations.
- ii. Allocate the calculated Air Navigation Services ("ANS") revenue by services and locations in accordance with the allocation rules in the Pricing Framework

In relation to item 'i' above, our scope and procedures therefore do not extend to controls assessing the accuracy of calculating ANS revenue, but is limited to assessing controls that non-regulated costs were excluded from the input into the revenue calculation. The price setting process was conducted by Airways during 1 September 2024 to 15 December 2024 ("the period").

Directors' Responsibilities

Airway's Directors are responsible for:

- The calculations within the Pricing System;
- The processes, procedures and controls within the Pricing System;
- Identifying the control objectives as set out in section 6;
- Identifying the risks that threaten achievement of the control objectives;
- Preparing the description and accompanying assertion in section 3, including the completeness, accuracy and method of presentation of the description and assertion;
- Designing controls to mitigate those risks, so that those risks will not prevent achievement of the identified control objectives; and
- Ensuring the controls are operating effectively as designed throughout the period.

Our Independence and quality control

We have complied with the Professional and Ethical Standard 1 *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)* or other professional requirements, or requirements in law and regulation, that are at least as demanding, which include independence and other requirements founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality, and professional behaviour.

In accordance with Professional and Ethical Standard 3 (Amended) *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance Engagements* or other professional requirements, or requirements in law and regulation, that are at least as demanding, our firm maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

We are independent of Airways. Our firm carries out other assurance services for Airways in the areas of statutory audit on behalf of the Auditor-General, Airway's compliance with the terms of the Student Fee Protection Trust Deed and in relation to the reporting of the Group's Economic Value Added (EVA) performance indicators. The provision of these other services has not impaired our independence as assurance practitioners providing this assurance report.



Assurance Practitioner's Responsibilities

Our responsibility is to express an opinion on the suitability of the design of controls to achieve the control objectives, the presentation of Airways' description of the ANS price setting process and the operating effectiveness of Airways' controls within its ANS price setting process, based on our procedures. We conducted our engagement in accordance with Standard on Assurance Engagements 3150 *Assurance Engagements on Controls* issued in New Zealand (SAE 3150). That Standard requires that we comply with ethical requirements and plan and perform our procedures to obtain reasonable assurance about whether, in all material respects, the description fairly presents Airways' ANS price setting process, the controls are suitably designed to achieve the control objectives and the controls operated effectively throughout the period.

An assurance engagement to report on the description, design, and operating effectiveness of controls involves performing procedures to obtain evidence about whether the controls were suitably designed to achieve the control objectives, the completeness, accuracy and method of presentation of the description of the ANS price setting process and the controls operated effectively throughout the period. The procedures selected depend on our judgement, including the assessment of the risks that the description is not fairly presented, the controls are not suitably designed, or the controls did not operate effectively. Our procedures included testing the operating effectiveness of those controls that we consider necessary to achieve the control objectives identified. We believe the evidence we obtained is sufficient and appropriate to provide a basis for our opinion.

Limitations of controls

Because of the inherent limitations of any internal control structure, it is possible that, even if the description is fairly presented, controls are suitably designed and operating effectively, the control objectives may not be achieved and so fraud, error, or non-compliance with laws and regulations may occur and not be detected. Further, the internal control structure, within which the controls that we have assured operated, has not itself been assured and no opinion is expressed as to its effectiveness.

An assurance engagement on operating effectiveness of controls is not designed to detect all instances of controls operating ineffectively as it is not performed continuously throughout the period and the tests performed are on a sample basis. Any projection of the evaluation of controls to future periods is subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with them may deteriorate.

Opinion

Our opinion has been formed on the basis of the matters outlined in this report.

In our opinion, in all material respects:

- The description fairly presents Airways' ANS price setting process as designed throughout the period 1 September 2024 to 15 December 2024;
- The controls were suitably designed to achieve the control objectives identified in section 6 throughout the period 1 September 2024 to 15 December 2024; and
- The controls, necessary to achieve the control objectives, operated effectively throughout the period 1 September 2024 to 15 December 2024.

Description of test of controls

The specific controls tested, and the nature, timing and results of those tests are listed in section 6.



Restriction on Use of our Report

This report has been prepared for the Directors of Airways, as a body. Under the terms of our engagement our report may be provided on a confidential basis to clients of Airways upon request.

Our engagement was not planned or conducted in contemplation of reliance by any party other than the Directors of Airways, as a body or for any other purpose. Regardless of whether we have provided consent or not, we have not, and will not, accept or assume any liability, duty of care or any other legal responsibility to the clients of Airways to whom this report is provided, or any other third party to whom our report is shown or in whose hands it may come. If the clients of Airways choose to rely on our report, they do so entirely at their own risk.

PricewaterhouseCoopers

Chartered Accountants
24 February 2025

Wellington



1. Purpose

This assurance framework describes the components of the Airways Corporation of New Zealand Limited (“Airways”) pricing calculation process over which PricewaterhouseCoopers (“PwC”) performed an assurance engagement. The PwC Assurance engagement was limited to assessing the design and operating effectiveness of specific controls within the Air Navigation Services (“ANS”) price setting process of Airways to:

- include only costs that relate to the provision of the regulated Services described in the Services Framework, within the Business Plan that is used as one of the inputs to the target revenue calculations
- allocate the calculated ANS revenue by services and locations in accordance with the allocation rules prescribed in the Pricing Framework.

2. Background

The design and implementation of a review or audit of the pricing calculations was one of the improvement initiatives identified by the post consultation review of the 2013-2016 pricing round. During the 2013 – 2016 Pricing Consultation, the Board of Airline Representatives New Zealand Inc (“BARNZ”) submitted that an independent review or audit of Airways’ cost allocation process, and its outcomes, was seen as essential by BARNZ members to give assurance that costs relating to Airways’ non-statutory activities were not being included.

In 2021 Airways upgraded to Adaptive Insights which was used to allocate and calculate the ANS Revenue by service and locations in accordance with the allocation rules prescribed in the Pricing Framework. Prior to the upgrade an Excel Model (Manual DCM Model) was built to ensure rules were successfully implemented in the system. Both Adaptive Insights and the Manual DCM Model were completed for the final versions for the FY23-25 Pricing Cycle.

The same process as the FY23-25 Pricing Reset will be performed. The 2026-2028 Price Reset will continue to run the Manual DCM Model as well as the Adaptive Insights DCM model for completeness.



3. Statement by Airways on the description, design and operating effectiveness of controls over the ANS pricing calculation process

The accompanying description has been prepared to confirm that:

- (a) The accompanying description in section 4 fairly presents the pricing calculation process (“the System”) that Airways operated throughout the period *1st September 2024 to 15th December 2024* as it relates to the scope of the PwC engagement, including:

The process undertaken to ensure only regulated costs are included in the calculations.

Relevant control objectives and controls designed within the System to achieve those objectives.

Information relevant to the scope of the System being described, without omission or distortion, while acknowledging that the description may not include every aspect of the System that users may consider important in their own environment.

- (b) The controls related to the control objectives stated in the accompanying description were suitably designed and operated effectively throughout the period *1st September 2024 to 15th December 2024*, including that:

The risks that threatened achievement of the control objectives stated in the description were identified;

The identified controls would, if operated as described, provide reasonable assurance that those risks did not prevent the stated control objectives from being achieved; and

The controls were operating effectively as designed, consistently throughout the period *1st September 2024 to 15th December 2024*.

Signed on behalf of Airways Board of Directors

Denise Church

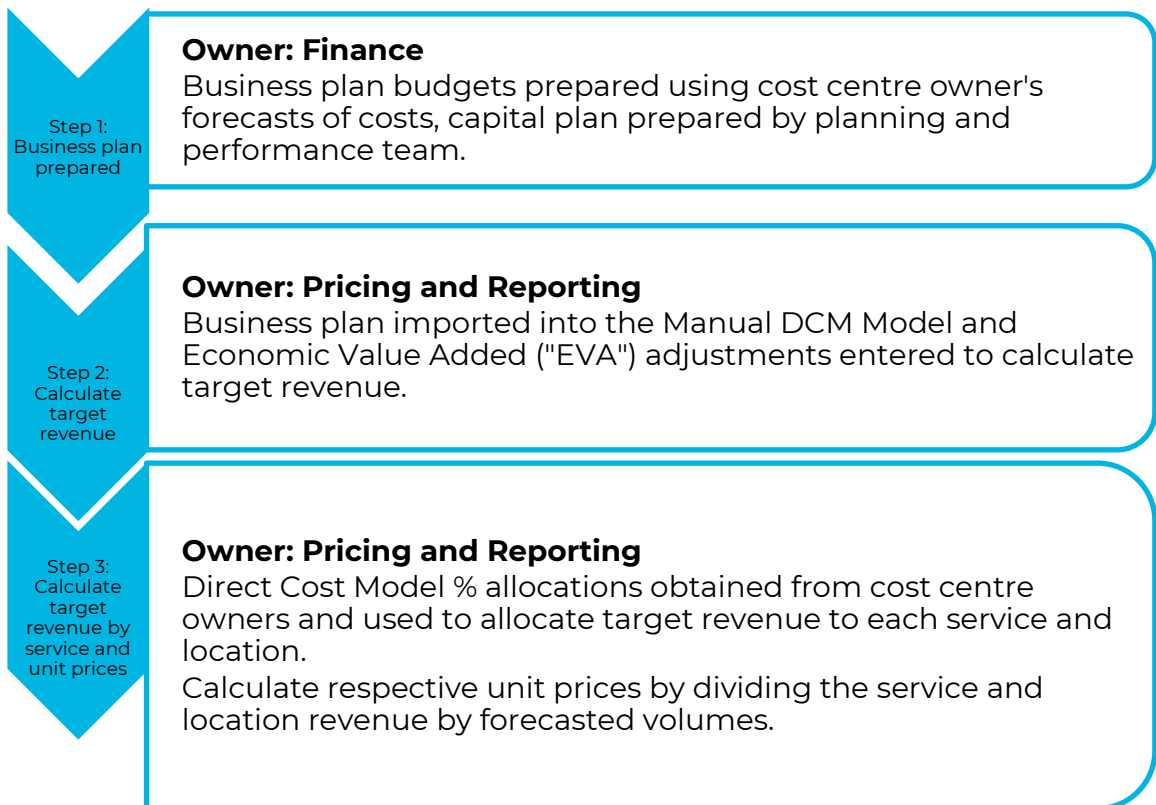
Date: **24 Feb 2025**



4. The pricing process

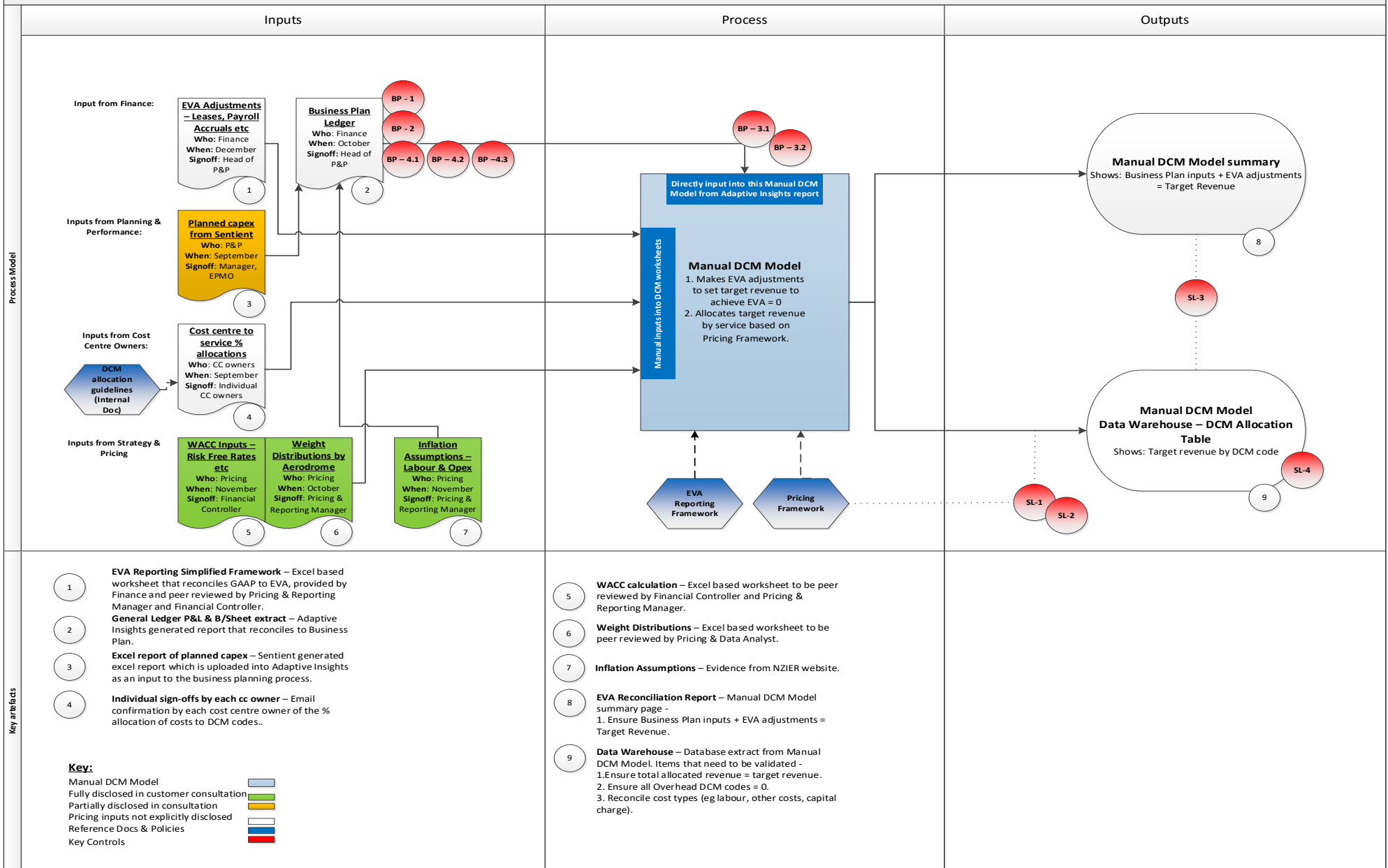
The pricing process is performed with reference to the Pricing Framework dated January 2022, which defines the pricing methodologies that Airways will use to price for services defined by the Service Framework dated July 2022. The pricing process therefore ensures that Airways perform the pricing process to comply with the requirements of the Pricing Framework.

The pricing process is as follows:





ANS Pricing Process using Manual DCM Model

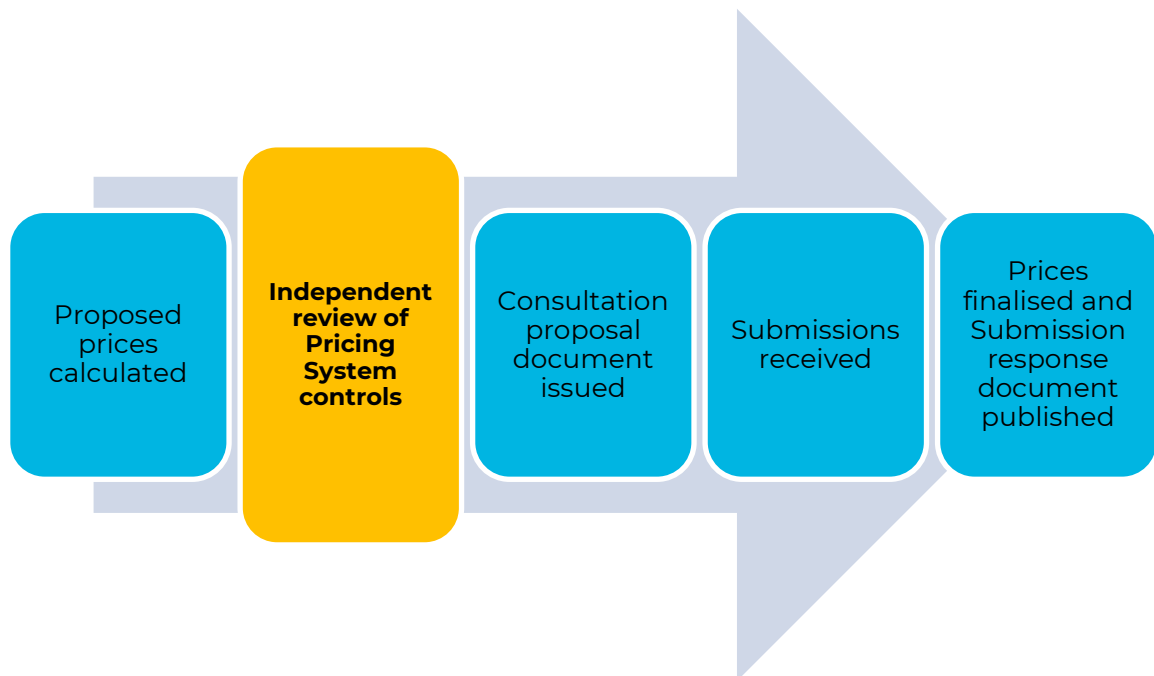




5. The independent review process

The pricing process has been designed to allow an independent review of the control objectives and related controls within the Pricing System to be completed prior to the proposed pricing and consultation document being released. The diagram below illustrates where the review fits within the pricing process.

A secondary review of the finalised price set will not be required because any changes to the proposed price set will be linked to submission feedback and disclosed in the Submission Response Document.





PwC assurance engagement

The objective of the PwC assurance engagement is limited to assessing and expressing an opinion on the suitability of the design of specific controls defined by Airways within the Pricing System, whether description fairly presents Airways' ANS price setting process as designed and the operating effectiveness of those controls during the period 1st September 2024 to 15th December 2024 to achieve the stated control objectives.

The control objectives aim to ensure:

- the Airways' Business Plan used as an input to calculate total ANS revenue only includes costs that relate to the provision of the regulated Services described in the Services Framework and
- the calculated ANS revenue is allocated to services and locations in accordance with the allocation rules prescribed in the Pricing Framework.
- access to the Manual Direct Cost Model is restricted to authorised personnel in line with business requirements.
- changes to the Manual Direct Cost Model are documented, authorised and tested, and access to implement these changes is restricted.

The scope of the PwC work therefore did not include assurance over the following:

- all inputs into the revenue calculation process (other than the Business Plan Ledger), such as EVA adjustments, weight distributions, planned capital expenditure and cost centre to service percentage allocations.
- calculation of the ANS revenue by Airways using all the inputs into the calculation
- calculating unit prices.

The assurance report will be referenced in the Proposed Pricing document.

The actual assurance report will be available to submitters on request, subject to the requestor signing a "hold harmless" waiver.



Definition of testing terms

In the next section below, the control objectives, controls and procedures performed by PwC as part of their assurance engagement, are described. The following definitions are used to describe the nature of testing performed by PwC:

Enquiry:

- Enquired of appropriate personnel.
- Conducted enquiries seeking relevant information or representation from personnel to obtain, among other things:
 - Knowledge, additional information and affirmation regarding the control procedures.
 - Corroborating evidence of the controls.

Observation:

- Observed the application or existence of specific controls as represented.

Inspection:

- Inspected documents and records indicating performance of the controls. This included, among other things:
 - Inspection of reconciliations and management reports that identify/quantify reconciling items to assess whether these items appear appropriate, properly monitored, controlled and resolved on a timely basis, as required by the related control.
 - Examination of source documentation and authorisations related to selected transactions processed.
 - Examination of documents or records for evidence of performance, such as the existence of initials or signatures.
 - Inspection of Airways' systems documentation, such as operations manuals, flow charts and job descriptions.

Reperformance:

- Reperformed the control or processing application of the controls to check the accuracy of their operation. This included, among other things:
 - Obtaining evidence of the arithmetical accuracy and correct processing of transactions by performing independent calculations.
 - Reperforming the matching of various system records by independently matching the same records and comparing reconciling items to reconciliations prepared by management and staff.



6. Controls and testing performed by PwC

The following table provides details of the control objectives, the controls to achieve the control objectives as well as the work performed by PwC over these controls.

Control Objective 1 - The Airways' Business Plan used as an input to calculate total Air Navigation Services (ANS) revenue only includes costs that relate to the provision of the regulated services described in the Services Framework.

Ref.	Control Wording	Testing Performed	Test Results
BP-1	<p>The Chief Financial Officer (CFO) reviews and approves the reporting structure, to confirm regulated service cost centres are accurately identified.</p> <p>The pricing team reviews the CFO approved Airways reporting structure, to ensure that all and only regulated service cost centres are included in the Manual Direct Cost Model ("DCM"). Inconsistencies are investigated and explained. The pricing manager independently reviews and signs off the summary output.</p>	<p>Inspection:</p> <p>Inspected the reporting structure to ensure review and approval by the CFO.</p> <p>Inspection:</p> <p>Inspected that the review of the reporting structure was performed by the pricing team and the summary output was independently reviewed and signed off by the pricing manager.</p> <p>Reperformance:</p> <p>Reperformed the review by the pricing team between cost centres in the DCM and the CFO approved reporting structure and confirmed it was consistent. Where inconsistencies were noted, it was confirmed explanations were appropriate.</p>	No exceptions noted.



Ref.	Control Wording	Testing Performed	Test Results
BP-2	The pricing team compares cost centres per the DCM to cost centres established within the budgeting module of the finance system general ledger. Inconsistencies are investigated and explained. The pricing manager independently reviews and signs off the summary output.	Inspection: Inspected the review of cost centres per the DCM to cost centres within the budgeting module of the finance system was performed by the pricing team and the summary output was independently reviewed by the pricing manager. Reperformance: Reperformed the review by the pricing team between the cost centres in the DCM and cost centres in the budgeting module of the finance system general ledger and confirmed it was consistent. Where inconsistencies were noted, confirmed that explanations were appropriate.	No exceptions noted.



Ref.	Control Wording	Testing Performed	Test Results
BP-3	The pricing team reconciles the detailed budget per the finance system general ledger to the budget within the DCM. The summarised budget per the DCM is agreed to the executive approved budget. Inconsistencies are investigated and explained. The pricing manager independently reviews and signs off the summary output.	<p>Inspection:</p> <p>Inspected the reconciliation by the pricing team between:</p> <ul style="list-style-type: none"> - the detailed budget per the finance system general ledger to the budget within the DCM - the budget within the DCM to the executive approved budget. <p>Confirmed the summary output was independently reviewed and signed off by the pricing manager.</p> <p>Reperformance:</p> <p>Reperformed the reconciliation by the pricing team. Where inconsistencies were noted, confirmed explanations were appropriate.</p>	No exceptions noted
BP-4.1	Certain costs within the regulated services cost centres relate to non-regulated activity. These costs are recovered from non-regulated cost centres ("recoveries"). Recoveries are calculated by Airways finance team and approved by the Executive team as part of the budgeting process.	<p>Inspection:</p> <p>Inspected a summary document of recoveries and confirmed that they had been approved by the Executive team.</p>	No exceptions noted.



Ref.	Control Wording	Testing Performed	Test Results
BP-4.2	The finance team and CFO review recoveries per the finance system general ledger to the recoveries approved by the Executive team. Inconsistencies are investigated and explained. The finance manager and CFO independently reviews and signs off the summary output.	<p>Inspection:</p> <p>Inspected that review of the recoveries per the finance system general ledger to the recoveries approved by Executive team were performed and signed off by the finance manager and CFO and any inconsistencies were investigated and explained</p>	No exceptions noted.

Control objective 2 - ANS revenue is allocated to services and locations in accordance with the allocation rules prescribed by the Pricing Framework.

Ref.	Control Wording	Testing Performed	Test Results
SL-1	The Pricing Framework establishes rules for allocation of overhead costs to services. The pricing team reviews the cost allocation rules within the DCM to ensure consistency of allocation with the Pricing Framework. The pricing manager independently reviews and signs off the output.	<p>Inspection:</p> <p>Inspected that the review of the overhead cost allocation rules within the DCM was performed by the pricing team and the summary output was independently reviewed and signed off by the pricing manager.</p> <p>Reperformance:</p> <p>Reperformed the review of the DCM overhead cost allocation rules to ensure consistency with the Pricing Framework rules.</p>	No exceptions noted.



Ref.	Control Wording	Testing Performed	Test Results
SL-2	The pricing team reviews the actual overhead costs allocated to services per the DCM to confirm the consistency of allocations with the rules established in the Pricing Framework. The pricing manager independently reviews and signs off the output.	Inspection: Inspected that the review of actual overhead costs allocated to services per the DCM was performed by the pricing team and the summary output was independently reviewed and signed off by the pricing manager. Reperformance: Reperformed the review of the actual overheads allocated to services per the DCM to ensure consistency with the Pricing Framework.	No exceptions noted.
SL-3	The DCM allocates all budgeted regulated services revenue to services/locations. The pricing team reconciles the total allocated target revenue per the DCM, to the total target revenue post market EVA adjustments. The pricing manager independently reviews and signs off the output.	Inspection: Inspected that the reconciliation of total allocated target revenue per the DCM to the total target revenue post market EVA adjustments was performed by the pricing team and independently reviewed and signed off by the pricing manager. Reperformance: Reperformed the reconciliation of the total allocated target revenue per the DCM to the total target revenue post market EVA adjustments to ensure consistency between the amounts.	No exceptions noted.



Ref.	Control Wording	Testing Performed	Test Results
SL-4.	A variance analysis is conducted, indicating the movement in total costs by service/location from the last financial year's actual results to the respective total costs by service/location target in the proposed pricing round. Movements more than or less than 10% of the overall increase in total costs are investigated. The variance analysis is independently reviewed and signed off by the pricing manager.	<p>Inspection:</p> <p>Inspected that the variance analysis had been performed and that it was independently reviewed and signed off by the pricing manager.</p> <p>Inspection:</p> <p>Inspected that movements more than +/- 10% in total costs were investigated.</p>	No exceptions noted.

Control Objective 3 - Access to the Manual Direct Cost Model is restricted to authorised personnel in line with business requirements.

Ref.	Control Wording	Testing Performed	Test Results
ACC-1	Access to the Manual Direct Cost Model is restricted to authorised individuals.	<p>Inspection:</p> <p>Obtained a list of users with access to the Manual Direct Cost Model and corroborated through inspection of the organisational chart and enquiry with management, that all user access rights were appropriate based on staff roles.</p>	No exceptions noted.
ACC-2	Access to the Manual Direct Cost Model is controlled through password policy controls.	<p>Inspection:</p> <p>Inspected the default domain password policy settings at a network level and confirmed they were active.</p>	No exceptions noted.
ACC-3	Access to the Manual Direct Cost Model is monitored throughout the price setting period by the pricing manager. Any changes to the access list are approved by the Pricing Manager .	<p>Inspection:</p> <p>Inspected a sample of monitoring performed during the price setting period to ensure that changes to the access list were approved by the Pricing Manager .</p>	No exceptions noted.



Control Objective 4 – Changes to the Manual Direct Cost Model are documented, authorised and tested, and access to implement these changes is restricted

Ref.	Control Wording	Testing Performed	Test Results
Refer to the following controls under Control Objectives 1 to 3: BP-1, BP-2, BP-3, BP-4.1, BP-4.2, SL-1, SL-2, SL-3, SL-4, ACC-1, ACC-2 and ACC-3			