AIRWAYS

# Response to requests for additional information

Airways Pricing Consultation for the period FY26-FY28

# Contents

**Version History:**

| Version | Requests | Date published |
|---|---|---|
| Version 1 | Request 1 to 13 | 14 March 2025 |
| Version 2 | Request 14 and 15 | 20 March 2025 |
| Version 3 | Request 16 to 18 | 27 March 2025 |

# Purpose

This document provides additional information in response to requests for information from submitters as part of Airways New Zealand's consultation on its proposed prices, for the three-year period from 1 July 2025 – 30 June 2028.

# Requests and Airways' responses

## 1. PWC Report

**Request:**

Please provide the PWC Report.

**Airways' response:**

The Independent assurance practitioner's report is available to view in the link on Airways' website.

## 2. Pricing comparison calculator

**Request:**

Please provide the FY26-28 Pricing calculator.

**Airways' response:**

The Pricing comparison calculator has now been updated for FY26-28 proposed pricing and is available to view on Airways' website.

## 3. More detailed breakdown of the capex plan

**Request:**

Capex plan by project, spend per annum, commission date, value, useful life and investment rationale e.g. maintenance, new equipment, replacement, growth

**Airways' response:**

The Capex plan by project, spend per annum, investment rationale and estimated commissioning date were included in Appendix B.2 of the consultation document. We've added the useful life and refined investment rationale category further as requested in the table below:

- Strategic: aligned with the strategic priorities of Airways
- Lifecycle: end of life, including planned maintenance and end of life upgrades
- Maintenance: something is broken, repair is needed outside lifecycle or planned maintenance

**Table 1. Capital investments with investment rationale and useful life**

| Project | Investment Rationale | FY26 | FY27 | FY28 | Total | Est Comm. Date | Useful Life (in months) |
|---|---|---|---|---|---|---|---|
| **Projects with Commissioning dates within this Price Plan period (FY26-FY28)** | | | | | | | |
| **Auckland** | | **10.2** | **1.2** | **0.2** | **11.6** | | |
| Auckland Tower - Pier A1 Mitigations | Strategic | 1.5 | - | - | 1.5 | Apr-26 | 120 |
| Main Trunk Surveillance Systems (PSR/MSSR Lifecycle)_AKL | Lifecycle | 5.2 | - | - | 5.2 | Aug-26 | 120 |
| Auckland Tower - Building Maintenance | Maintenance | 1.0 | - | - | 1.0 | Various | 120 |
| Rua Building Replacement and Comms Tower | Lifecycle | 1.4 | - | - | 1.4 | Jul-25 | 240 |
| Minor capital works | Maintenance | 1.1 | 1.2 | 0.2 | 2.5 | Various | Various |
| **Christchurch, Wellington, and Queenstown** | | **13.0** | **14.4** | **10.0** | **37.4** | | |
| Main Trunk Surveillance Systems (PSR/MSSR Lifecycle)_WN Hawkins Hill | Lifecycle | 4.5 | - | - | 4.5 | Jul-25 | 120 |
| ILS Replacement WN | Lifecycle | 2.3 | - | - | 2.3 | Sep-26 | 180 |
| Wellington Contingency Tower replacement | Lifecycle | 0.4 | 1.2 | - | 1.6 | Oct-26 | 120 |
| Southern & Auckland surveillance upgrade (MLAT QN) | Lifecycle | 0.8 | 12.4 | 9.7 | 22.9 | Dec-27 | 120 |
| Main Trunk Surveillance Systems (PSR/MSSR Lifecycle)_CHC | Lifecycle | 1.2 | - | - | 1.2 | May-25 | 120 |

| Project | Investment Rationale | FY26 | FY27 | FY28 | Total | Est Comm. Date | Useful Life (in months) |
|---|---|---|---|---|---|---|---|
| Christchurch CCR replacement | Lifecycle | 1.0 | - | - | 1.0 | Jun-26 | 120 |
| Runway Edge lights Replacement (CH) | Lifecycle | 0.9 | - | - | 0.9 | Jun-26 | 180 |
| Minor capital works | Maintenance | 1.9 | 0.8 | 0.3 | 3.0 | Various | Various |
| **Enroute** | | **5.0** | **5.2** | **1.7** | **11.9** | | |
| DVOR / DME at Tauranga | Strategic | 2.7 | 0.2 | - | 2.9 | May-26 | 180 |
| DVOR / DME at Hokitika | Strategic | 1.6 | 1.2 | - | 2.8 | Nov-26 | 180 |
| DVOR / DME at Kaitaia | Strategic | 0.1 | 1.5 | 0.2 | 1.8 | Aug-27 | 180 |
| Enhanced Contingency, Hot Standby Stability | Maintenance | - | 1.0 | - | 1.0 | May-27 | 120 |
| Minor capital works | Maintenance | 0.6 | 1.3 | 1.5 | 3.4 | Various | Various |
| **Network and supporting assets** | | **24.6** | **19.8** | **14.5** | **58.9** | | |
| National ATM System Enhancements | Lifecycle | 1.6 | 1.7 | 1.7 | 4.9 | Various | 84 |
| Oceanic Hardware Refresh | Strategic | 2.5 | 0.7 | - | 3.2 | Nov-26 | 120 |
| Constant Current Regulators (CCR) Rollout Phase 1 | Lifecycle | 0.7 | - | - | 0.7 | Jul-25 | 240 |
| AAOC, AAQ7, ADC and ADC ext Network Lifecycle | Maintenance | 1.0 | - | - | 1.0 | Jun-26 | 180 |
| IT & SM Desktop Refresh | Lifecycle | 1.4 | 0.8 | 0.8 | 3.0 | Various | 36 |
| IT & SM Infrastructure and System Lifecycle | Lifecycle | 0.4 | 4.5 | 0.4 | 5.3 | Various | 36 |
| WAN Network Equipment Lifecycle | Lifecycle | 6.1 | 0.4 | - | 6.5 | Jan-27 | 60 |
| Replace Seagrove Mains Transformer | Lifecycle | 0.6 | - | - | 0.6 | Jun-26 | 120 |
| Aeronautical Information Management (AIM) replacement | Lifecycle | 1.3 | - | - | 1.3 | Jul-25 | 120 |
| Enterprise Network lifecycle | Lifecycle | - | 1.2 | - | 1.2 | Jun-27 | 60 |
| National Maintenance (Ongoing) | Maintenance | 0.5 | 0.5 | 0.5 | 1.5 | Various | 120 |
| Modern Data platforms | Strategic | - | 0.8 | - | 0.8 | Jul-26 | 60 |
| IPVCS OS Upgrade | Lifecycle | 0.7 | - | - | 0.7 | Jun-26 | 60 |

| Project | Investment Rationale | FY26 | FY27 | FY28 | Total | Est Comm. Date | Useful Life (in months) |
|---|---|---|---|---|---|---|---|
| Flight Inspection equipment replacement | Lifecycle | 0.3 | 0.3 | 1.6 | 2.2 | Jun-28 | 120 |
| Distribution Board Upgrade for Communication and Navigation Sites (Sites 5-8) | Lifecycle | 0.1 | 0.5 | - | 0.6 | Jun-27 | 60 |
| Distribution Board Upgrade for Communication and Navigation Sites (Sites 9-12) | Lifecycle | - | 0.5 | 0.1 | 0.6 | Jun-28 | 60 |
| Lighting works - Medium/low priority works from FY26 | Lifecycle | 0.1 | 3.2 | 4.9 | 8.2 | Various | 60 |
| Enhanced Collaborative Arrival Manager (eCAM) | Strategic | - | - | 0.8 | 0.8 | Jun-28 | 120 |
| Demo Recorder upgrade for OCs and Airground | Maintenance | - | 0.3 | 0.6 | 0.9 | Jun-28 | 120 |
| Other capex works within this category | Maintenance | 7.3 | 4.4 | 3.1 | 14.8 | Various | Various |
| **Regional aerodromes** | | **5.2** | **4.2** | **4.0** | **13.5** | | |
| Remote Aerodrome Advisory Service (RAAS) - Milford | Strategic | 0.5 | 0.5 | 0.5 | 1.5 | Sep-27 | 120 |
| Electronics Flight Strips, including Digital Clearance (DCL) | Strategic | 0.4 | 0.6 | 0.4 | 1.4 | Jul-23 | 60 |
| Regional Tower Cab Refresh | Strategic | 0.8 | 1.0 | 1.2 | 3.0 | Jul-28 | 120 |
| REIL replacement at PM, GS | Lifecycle | 0.5 | 0.5 | - | 1.0 | Dec-26 | 180 |
| Invercargill Tower – window replacement | Maintenance | 0.5 | - | - | 0.5 | Jun-26 | 120 |
| Dunedin ILS Building power cable upgrade | Lifecycle | 0.4 | - | - | 0.4 | Jun-26 | 240 |
| Minor capital works | Maintenance | 2.1 | 1.6 | 1.9 | 5.7 | Various | Various |
| **Unattended** | | **0.2** | **0.1** | **-** | **0.3** | | |
| Whanganui Airport Beacon Replacement | Lifecycle | 0.2 | 0.1 | - | 0.3 | Dec-26 | 120 |
| **Other Capital Investments** | | **2.6** | **3.0** | **3.2** | **8.8** | | |
| CALNI Unmanned Sites Security Upgrade | Maintenance | 0.6 | - | - | 0.6 | Apr-26 | 96 |
| Intl Towers MET and NAV to ATM display | Strategic | 0.4 | 0.1 | - | 0.5 | Jul-26 | 120 |
| Miscellaneous Capex – Manned buildings | Maintenance | 0.1 | 0.1 | 0.1 | 0.3 | Various | Various |

| Project | Investment Rationale | FY26 | FY27 | FY28 | Total | Est Comm. Date | Useful Life (in months) |
|---|---|---|---|---|---|---|---|
| Miscellaneous Capex – Property | Maintenance | 0.2 | 0.2 | 0.2 | 0.6 | Various | Various |
| Miscellaneous Capex - Phones | Maintenance | 0.2 | 0.2 | 0.2 | 0.6 | Various | Various |
| NR Alternate VHF | Strategic | 0.1 | 0.1 | - | 0.2 | Jun-27 | 120 |
| ADC Refit | Maintenance | 0.1 | 2 | 2.1 | 4.2 | Jul-27 | 240 |
| Minor capital works | Maintenance | 0.9 | 0.3 | 0.6 | 1.8 | Various | Various |
| **Projects with Commissioning dates outside this Price Plan period (FY29 onwards)** | | | | | | | |
| **Auckland** | | **3.7** | **14.1** | **18.7** | **36.5** | | |
| Auckland Tower Replacement | Strategic | 3.7 | 14.1 | 18.7 | 36.5 | Sep-28 | 240 |
| **Enroute** | | **-** | **-** | **1.5** | **1.5** | | |
| Replace HF Transmitters at Wairoa | Lifecycle | - | - | 1.5 | 1.5 | May-29 | 120 |
| **Network and supporting assets** | | **3.8** | **9.7** | **9.3** | **22.8** | | |
| Airspace Architecture | Strategic | 3.8 | 7.6 | 6.2 | 17.6 | Jun-29 | 120 |
| System Wide Information Management (SWIM) Delivery | Strategic | - | 2.1 | 3.1 | 5.2 | Jun-34 | 120 |
| **Regional aerodromes** | | **6.9** | **1.8** | **-** | **8.7** | | |
| Voice Switch rollout for Regional Aerodromes | Lifecycle | 6.9 | 1.8 | - | 8.7 | Jul-28 | 120 |
| **Total - Projects with Commissioning dates outside Price Plan period (FY29 onwards)** | | **14.4** | **25.6** | **29.5** | **69.5** | | |
| **Total - Projects with Commissioning dates within Price Plan period (FY26-FY28)** | | **60.8** | **47.9** | **33.6** | **142.4** | | |
| **Grand Total** | | **75.2** | **73.5** | **63.1** | **211.9** | | |

## 4. Pricing asset register and allocation

### Request:

Pricing asset register and CAPEX transfer to pricing asset register breakdown

### Airways' response:

We have provided the opening position assets capitalised overtime until date. Please refer to the table provided below.

**Table 2. Price asset register**

| Pricing Asset Register (PAR) $m | FY25 NBV | FY26 NBV | FY27 NBV | FY28 NBV |
|---|---|---|---|---|
| Plant | 61.9 | 51.6 | 43.2 | 35.6 |
| Intangible Assets | 52.6 | 46.3 | 40.4 | 35.1 |
| Buildings | 42.0 | 40.1 | 38.3 | 36.5 |
| Computer and Equipment Software | 16.1 | 11.6 | 8.9 | 6.7 |
| Other | 5.3 | 4.5 | 3.8 | 3.2 |
| **Total** | **177.9** | **154.1** | **134.6** | **117.1** |
| | | | | |
| $m | FY25 | FY26 | FY27 | FY28 |
| Opening Transfer to PAR | - | 37.7 | 119.1 | 172.5 |
| Capex Transfer to PAR | 39.1 | 90.9 | 72.5 | 57.3 |
| Transfer to PAR Depreciation | - 1.4 | - 9.5 | - 19.0 | - 25.5 |
| **Closing Transfer to PAR Book Value** | **37.72** | **119.06** | **172.48** | **204.30** |
| | | | | |
| **Closing PAR Book Value** | **215.6** | **273.2** | **307.1** | **321.4** |

## 5. Further breakdown of OPEX cost

### Request:

OPEX cost broken down line item, and including but not limited to headcount type, salaries, respective enterprise agreement assumptions, utilities, software costs etc.

### Airways response:

A breakdown of operating costs into categories has been provided under question 7.

## 6. Passenger forecast and key underlying assumptions

### Request:

Passenger forecast and key underlying assumptions.

### Airways response:

We do not undertake passenger forecasts as our pricing methodology is based on flight volumes. Details of our flight volume assumptions have been provided in section 8.3 in the consultation document.

## 7. Historical and forecasted P&L performance

### Request:

Historical and forecasted P&L performance from FY22 to FY28 (set out by line item)

### Airways response:

Table 15 in our consultation contains a breakdown of the Building Blocks used in the EVA. A breakdown of Operating costs – other has been provided below along with the inclusion of FY22 and FTE numbers.

**Table 3. Breakdown of operating costs**

| | Actual | | | Forecast | | Plan | |
|---|---|---|---|---|---|---|---|
| | FY22 | FY23 | FY24 | FY25 | FY26 | FY27 | FY28 |
| Operating costs – labour | 115.9 | 129.9 | 143.9 | 152.1 | 156.6 | 164.0 | 170.9 |
| FTE | 678 | 712 | 746 | 769 | 769 | 774 | 779 |
| | | | | | | | |
| Equipment costs | 16.5 | 16.7 | 21.1 | 22.6 | 24.1 | 25.9 | 26.5 |
| Student Costs | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Travel costs | 1.3 | 2.9 | 3.3 | 3.7 | 4.1 | 4.3 | 4.4 |
| Occupancy costs | 3.5 | 3.3 | 4.6 | 5.4 | 5.0 | 5.3 | 5.5 |
| Information costs | 4.4 | 5.2 | 6.8 | 7.1 | 7.5 | 7.9 | 8.1 |
| Professional services | 3.6 | 5.1 | 4.3 | 6.1 | 10.2 | 10.5 | 11.0 |
| Corporate costs | 1.7 | 0.9 | 1.4 | 1.1 | 1.5 | 1.6 | 1.6 |
| Intercompany charges (net) | 6.1 | 8.0 | 9.5 | 9.4 | 11.4 | 13.4 | 13.7 |
| Asset impairment | 1.4 | 0.4 | 2.3 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Total operating costs - other** | **38.6** | **42.6** | **53.3** | **55.4** | **64.0** | **68.7** | **70.7** |

## 8. CAPEX reconciliation and asset base overview (FY20-FY25)

**Request:**

Reconciliation of prior CAPEX, opening and closing asset base, CAPEX additions, useful life for FY20 to FY25 period

**Airways response:**

This information has been provided under question 4 above.

## 9. Substantiation of CAPEX programs and benefits

**Request:**

Substantiation of CAPEX programs and benefits including operational consequences and project alternatives

**Airways' response:**

The substantiation of Capex programs including benefits are included in section 6.1.1 and 6.1.2 of the consultation document. Further information is also provided in section 4 of the consultation document.

## 10. Current capital and debt structure

**Request:**

Current capital structure, including level of gearing, amount of government funding/ COVID support and debt maturity profile.

**Airways' response:**

**Capital Structure Overview**
On 28 February, Airways announced its interim results for the half-year ending 31 December 2024. As disclosed in footnote 2 (EVA key performance indicators) of the interim accounts, on 31 December 2024, Airways had the following capital structure:

**Table 4. Capital structure**

| For the period | $000s |
|---|---|
| Debt employed | 194,050 |
| Equity employed | 142,108 |
| **Total debt and equity employed** | 336,158 |
| **Gearing ratio** | 57.8% |

### Government Funding and Covid19 Support

As a state-owned enterprise, Airways is fully owned by the NZ government, which has historically provided financial support when needed. Based on the interim report, for the six-month period to 31 December 2024:

- Total government support (including COVID19) – $nil
- Dividends to the government: $nil

### Debt Maturity Profile

As of 31 December 2024, Airways debt maturity profile is as follows:

| Debt ($000s) | Within one year | Greater than one year | Total |
|---|---|---|---|
| Loan facility | - | 55,000 | 55,000 |
| Leases | 6,216 | 64,330 | 70,546 |
| Long Service Leave | - | 10,342 | 10,342 |
| Intercompany* | 58,162 | - | 58,162 |
| **Total** | 64,378 | 129,672 | 194,050 |

*This intercompany loan is classified as payable on demand; however, both parties have an understanding that repayment will be managed in alignment with the group's internal funding strategy and liquidity needs.

## 11. Accounting standards for tangible and intangible assets and changes in application by Airways

### Request:

Accounting standards applied to tangible and intangible assets (software costs), changes in accounting application by Airways and when these changes were introduced.

### Airways' response:

The accounting standards applied to tangible and intangible assets (including software costs) by Airways are disclosed in the company's Integrated Report under the financial statements section. This includes the recognition, measurement, and amortization policies in accordance with the applicable financial reporting framework.

Airways adopts NZ International Financial Reporting Standards (NZ IFRS) as appropriate for for-profit Tier 1 entities. They also comply with International Financial Reporting Standards (IFRS).

Any changes in the accounting application related to these assets, if relevant, are also detailed in the notes to the financial statements within the Integrated Report.

For a comprehensive understanding of the accounting treatment applied, we recommend referring to the latest Integrated Report for the year ended 30 June 2024.

## 12. Government mandates on Airways' profitability and return on objectives

### Request:

Government mandates on Airways' profitability and return objectives, including dividend policy, returns hurdle and targets.

### Airways' response:

As a SOE, Airways operates under the governance and financial expectations set by the NZ Government. These expectations are outlined in the NZ Treasury's "Owner's Expectations", the company's Statement of Corporate Intent ("SCI"), and the broader SOE performance framework.

**Profitability and Return Objectives**

While the government does not set specific profitability targets, Airways is expected to operate as a commercial entity, generating sustainable returns while fulfilling its role as a critical infrastructure provider.

**Dividend Policy**

Airways' dividend policy is aligned with the NZ Treasury's Owner's Expectations and requires consultation with the government shareholder.

Dividends are declared in line with Treasury's guidelines for SOEs, balancing shareholder returns with the company's long-term capital and investment requirements.

**Return Hurdle and Financial Targets**

As part of the Owner's Expectations, Airways NZ is required to achieve a commercial rate of return, assessed against:

- Weighted Average Cost of Capital (WACC) as a benchmark
- Industry-specific financial performance measures
- The company's risk profile and investment needs

For further details on profitability expectations, dividend policies, and return targets, we recommend referring to:

- The NZ Treasury's "Owner's Expectations"
- Airways Statement of Corporate Intent (SCI)
- The company's Integrated Annual Report

## 13. Confirmation of date when pricing would come into effect

**Request:**

Confirm any subsequent pricing will not come into effect for 3-4 months from the final pricing decision and not 1 July 2025.

**Airways' response:**

This feedback is best provided as part of the response submission.

## 14. Inter-company charges

**Request:**

Can Airways shed more details about the Inter-company charges and their breakdown in the OPEX table.

**Airways' response:**

Intercompany charges shown in Table 3 (Request 7) represent the cost of critical services provided by Airways International Limited (and subsidiaries) to enable the provision of air traffic management services by Airways. These costs are allocated in line with our pricing framework and include the cost of:

- Development and maintenance of instrument flight procedures
- Recruitment and training of air traffic controllers
- Provision of simulators for operational training and their associated running costs

The intercompany charges shown in Table 3 are net of the costs recharged from Airways to Airways International Limited (and subsidiaries), such as an allocation of corporate services costs, again this is in line with our pricing framework.

The main driver of the increase from FY25 to FY26 is the expected contribution by procedure design experts into the airspace architecture future services review.

See section 5.2 of the consultation document for further information on this review.

## 15. Income Tax treatment and calculations

### Request:

More information about the income tax treatment and calculations particularly the fluctuations i.e. FY24, FY25.

### Airways' response:

The fluctuations in tax expense across these periods are driven by both profit movements and one-off legislative changes impacting deferred tax. These are further described as follows:

- FY24 Tax Expense Increase – As disclosed in Airways' year-end financial statements for the year ended 31 December 2024, in March 2024, the New Zealand Government removed the tax deduction for depreciation on non-residential buildings, effective from the 2024/25 income year. As a result, Airways had to eliminate the tax base of commercial buildings as of 30 June 2024. This legislative change directly increased the FY24 income tax expense.
- Lower Tax Expense in FY23 and FY25 – The lower tax expense in these years reflects lower profitability, which is also evident in negative Economic Value Added (EVA) noted in Table 15 of the consultation document.
- FY26 to FY28 Profitability and EVA Considerations – the forecasted profit is higher in these years, although this is necessary to achieve an EVA of zero, ensuring a fair return on capital without over-recovery. The increase in tax expense in these years aligns with the improved profitability required to reach EVA neutrality.

## 16. Commissioned CAPEX

### Request:

Could you share further information relating specifically to the level of commissioned CAPEX in the FY26-28 pricing period that results from CAPEX spent (issued) in the FY22-25 pricing period?

### Airways' response:

The table below provides the level of commissioned CAPEX in the FY26-28 pricing period that will result from CAPEX spent (issued) in the FY22-25 pricing period.

| Airways Assets | $' (000) |
|---|---|
| Airways Work in Progress (WIP) and forecast 30 June 2025 | 102,750 |
| Transfer to fixed assets in FY25 (i.e. commissioned during FY25) | (39,100) |
| Less projects commissioned outside FY26-28 | (4,267) |
| CAPEX to be commissioned in FY26-28 from Capex spent (issued) within the FY22-FY25 pricing period | **59,383** |

The above commissioned capex values alongside the proposed new capital spend to be commissioned in FY26-28 detailed in our consultation document, drive the calculation of depreciation across FY26-28.

## 17. Further breakdown of FTEs cost and numbers

### Request:

Can you provide a further breakdown of FTEs cost / numbers by role category, i.e. Air traffic controllers, management, admin, etc

### Airways' response:

The below table shows the FTE by division which is in line with information provided in the last consultation for consistency.

| | Forecast | Plan | | |
|---|---|---|---|---|
| | FY25 | FY26 | FY27 | FY28 |
| Air Traffic Services | 454 | 454 | 454 | 454 |
| Technology | 226 | 226 | 229 | 233 |
| Corporate Services | 65 | 63 | 63 | 63 |
| Safety & Assurance | 26 | 26 | 28 | 29 |
| **Total** | 771 | 769 | 774 | 779 |

## 18. Collective Agreements

### Request:

Could you elaborate if there are any enterprise bargaining agreements (collective agreements) or contractual wage agreements in place for specific FTE groups and what wage escalation rates have been assumed?

### Airways' response:

Airways has three collective employment agreements in place: two with NZALPA and one with AMEA. The NZALPA agreements cover air traffic controllers and flight service which expire on 31 March 2027 and 22 October 2026 respectively. The AMEA agreement covers a variety of technology roles and other specialisms and expires on the 31 August 2025.

There is also a Memorandum of Understanding and Strategic Partnership agreement in place regarding the NZALPA air traffic controllers collective employment agreement. Further detail on this is in section 5.6.2 of our consultation.

The current collective employment agreement settlements have been linked to CPI instead of LCI. Therefore, CPI from the New Zealand Institute of Economic Research's (NZIER) September forecast was used for the prices in the consultation document.

The inflation rates, along with salary and wage expectations, will be updated to reflect the current forecast and market conditions at the time of setting the final prices.

See section 5.6.2 for further details.