

AIRWAYS CORPORATION OF NEW ZEALAND

FY24 Price Reset

April 2023

Airways' proposed prices 1 July 2023 to 30 June 2024

Airways has completed its revenue forecast for the period 1 July 2023 to 30 June 2024 in accordance with our Pricing Framework. Airways' forecast revenue for the period is within 2% of the target revenue set as part of the three-yearly pricing consultation. Therefore, **Airways is proposing no changes to the published prices for the period 1 July 2023 to 30 June 2024** that were set as part of the three-yearly pricing consultation in June 2022.

Background

In June 2022, Airways set prices for FY23-25 (three-year pricing cycle). Following consultation, the average price increase in FY24 was 11.3%. During the three-year pricing cycle there can be unforeseen variations in the volume of air traffic, which will affect the amount of revenue Airways receives.

Airways has a risk-sharing mechanism in place to share this volume risk between Airways and its customers. This mechanism requires Airways to make a forecast of the next year's revenue. If the forecast for the following pricing year indicates that revenue will lie outside a range of +/- 2% of the Target Revenue set during the pricing consultation, then prices can be reset to bring revenue back to within 2% of the target revenue.

With the support of our shareholder, Airways limited price increases in FY23 to FY25 to the extent reasonably possible to stay within our equity and funding parameters. Airways did not seek full recovery of revenue across the FY23-25 period, buffering the effects of inflation and rising funding costs.

Key changes

Airways forecasts revenue to be 1.85% of the Target revenue and therefore are proposing no changes to the FY24 prices published in June 2022. Figure 1 outlines our revised recovery rates by region comparing current forecasts to the forecast set during the pricing consultation.

Figure 1 – Assumed annual volume growth as a % of Pre-Covid-19

Region	FY23 Forecast	FY24 Forecast (April 2023)	FY24 Pricing Consultation Forecast* (June 2022)
Domestic	91%	99%	99%
Australia	74%	87%	91%
Pacific	75%	77%	89%
Asia	50%	69%	66%
North America	81%	105%	78%
South America	126%	140%	70%

Domestic

Airways continues to forecast domestic travel to recover to an average of 99% of the pre-pandemic level in FY24. This is in line with our June 2022 forecast.

International

Australia

Recovery in the Trans-Tasman routes is lower than expected. In June 2022 we forecast the Trans-Tasman to reach 91% of pre-pandemic levels in FY24. We are now forecasting the Trans-Tasman to reach 87% of pre-pandemic levels in FY24 due to fewer flights by Virgin Australia.

Other International

Other international travel has started to recover faster than expected. In June 2022 we forecast the international flight count to be at 75% of the pre-pandemic level in FY24. We are now forecasting other international to be 78% of the pre-pandemic level in FY24.

Pacific flights were initially forecast to reach 89% of pre-pandemic levels in FY24. With the absence of Virgin Australia and Samoa Airways, we are now forecasting the Pacific region to be at 77% of pre-pandemic levels.

Flights to Asia are expected to recover faster, reaching 69% of pre-pandemic levels in FY24 with China opening its borders fully. The increase is mainly due to increased flights to China, Singapore and Malaysia.

North American flights were forecast to reach 78% of pre-pandemic levels in FY24, however we are now assuming greater than pre-pandemic levels. This is driven by increased direct flights to New York and San Francisco.

South American flights were forecast to reach of 70% of pre-pandemic levels in FY24 but we are now forecasting more flights to Chile via Lan.

Guide to providing further information

The key changes impacting our revenue forecast from 1 July 2023 to 30 June 2024 are summarised above.

Airways invites customers to provide any additional information about their schedules by 14 May 2023. Please send this information to submissions@airways.co.nz.

Further information provided will be carefully considered by Airways prior to finalising prices by 31 May 2023 with new prices taking effect from 1 July 2023.