

AIRWAYS
INTERIM REPORT
2022-23

For the period ended
31 December 2022

AIRWAYS



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Chair and Chief Executive's report



Summary of performance

It is our pleasure to present Airways New Zealand's interim results for the half year ended 31 December 2022.

We are pleased to be reporting positive results across key measures, despite the post-pandemic challenges and uncertainties that remain for our industry. While we are seeing some positive signs of recovery with the lifting of travel restrictions, the Airways Group's financial performance continues to be reflective of our constrained operating environment.

Our primary business priority is safe and efficient skies, both operationally for our customers and where the health and wellbeing of our people is concerned. We consistently achieved this through the period, safely facilitating 232,173 flight movements, with one potential Category A air proximity event recorded within controlled airspace. There were no notifiable safety events involving Airways people at work.

The Airways Group generated a profit after tax of \$2.6 million for the half year ended 31 December 2022, \$9.2 million higher than the budgeted loss. This is primarily due to air navigation services revenue being \$4.8 million higher than forecast, resulting from a slightly higher than expected recovery in both domestic and international air traffic.



Denise Church QSO
Board Chair



James Young
Chief Executive Officer

By December 2022, domestic flight movements reached 93% compared with the same period prior to COVID-19, with international flight movements reaching 73%.

While our recovery is now well underway, Airways will continue to face financial challenges in the near term and until air traffic movements fully return to pre-pandemic levels. We remain appreciative of the support of Government, our shareholder, and we will continue to carefully manage cash flow within the agreed parameters.

Airways International, our commercial subsidiary responsible for exporting Airways-developed technologies and air traffic management expertise worldwide, delivered a profit after tax of \$3.0 million, \$1.3 million higher than forecast. Airways International and the core air traffic control business work together closely for the wider benefit of the Airways Group.

Delivering on strategy

First and foremost, we have continued to focus on supporting the recovery of the wider aviation industry, while laying the foundations for an even better future — an air navigation network that is safe, resilient, more efficient and sustainable.

Building a future-fit air traffic network

Through the first half of this year, much of our focus has been on completing final works to allow for the transition of Airways' air traffic management and control services to a more flexible and resilient operating platform. This includes the transition to our new air traffic management system (Skyline X), moving our air traffic centres into two new seismically resilient buildings in 2023 and a range of hardware upgrades across our towers and centres. Achieving these transitions will deliver increased resilience and functionality, ensuring Airways continues to offer world-leading air traffic control services.

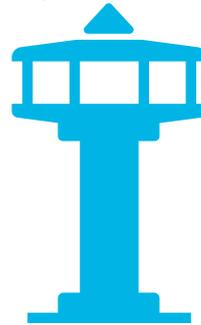
Digital technologies are a core enabler of positive change in the aviation industry, with the potential to allow improvements to our services that boost resilience, improve safety outcomes, and support greater sustainability. We see digital tower technology as key to achieving our strategy of creating a modern and progressive airspace environment.

Beginning in September, Airways sought feedback from the wider aviation industry and our people on replacement options for our air traffic control tower at Auckland Airport, in the context of the future aviation environment (2025-2040). The current tower, which has been operational since the early 1960s, is reaching the end of its life and is in need of replacement.

The consultation asked for feedback on the three replacement options: a conventional tower, a hybrid tower and a full digital tower.

DECEMBER 2022

Flight movements compared with the same period prior to COVID-19



Domestic flight movements

93%

International flight movements

73%

Having considered all feedback carefully, we announced in December that we will proceed with our preferred option of implementing a hybrid tower at Auckland Airport, supported by a remote digital contingency. We plan to reconfirm the decision to proceed with a hybrid tower before physical construction commences, so we can look at the knowledge gained from the digital contingency development to date and assess whether a full digital solution would instead offer a superior outcome. We will continue to work with our customers and stakeholders on this important project.

Running alongside our programmes of work aimed at delivering a future-fit air traffic network is our commitment to continuing to build our safety culture. In 2020, Airways engaged an external provider to conduct an independent review of, and provide recommendations on how to enhance our safety culture. This is a major safety investment for Airways that seeks to strengthen the connection between safety culture and safety outcomes. The results and recommendations identified three areas of focus which were further explored by working groups of people from across the business. Final plans for implementing the recommendations were confirmed in late 2022.

In October, we were also proud to be acknowledged as a world leader in aviation safety reporting and improvement by the Civil Air Navigation Services Organisation (CANSO). Safety performance indicators are a critical tool. They allow an organisation to measure, report on and respond to its safety performance across operational safety and health and safety. Airways' Safety Performance Indicator (SPI) programme was recognised as global best practice and will be incorporated into the CANSO safety information sharing network, made available for use by air navigation services providers worldwide.

Exporting Airways expertise and innovation worldwide

Within Airways, we have two business arms focusing on different markets and delivering different outcomes. Our primary function is to provide air traffic services to New Zealand while Airways International focuses on providing training and technology solutions internationally.

These two business arms reinforce and strengthen each other. Our knowledge and experience of delivering safe air traffic services at home means we are able to develop relevant products and services that can be commercialised globally and generate income that can be reinvested back into the company.

Our work with international customers provides a pathway for further innovation domestically, ensuring we continue to provide world-leading air traffic services within our own airspace.

During the year, Airways International signed a contract with the Civil Aviation Academy of Nepal to deliver air traffic control tower and surveillance simulators to be used for training Nepalese air traffic controllers.

Sustainable outcomes and tackling climate change

Airways recognises it has a responsibility to make a positive contribution to the world we live in. We are committed to achieving our strategic goals in a socially and environmentally sustainable way that works for us, our people, our communities and for all of New Zealand.

Work is underway to develop a refreshed sustainability strategy for Airways that will guide our future approach and initiatives. Over the period, we have been engaging closely with our customers, stakeholders and people to develop a refreshed roadmap that will realise our growing ambition for a more sustainable future and ensure we play our part in tackling climate change.

The success of our sustainability strategy and ability to drive the level of holistic thinking required to deliver the solutions we need relies heavily on the relationships we have with our customers, our communities and our regulators. In late 2022, Airways was confirmed as a member of the Sustainable Aviation Aotearoa (SAA) Leadership Group — a public-private partnership that will provide advice and coordination to accelerate the decarbonisation of Aotearoa's aviation sector.

For a number of years, Airways has been at the forefront of developing and deploying procedures and technology that reduce the environmental footprint of the aviation industry, through our introduction and use of advanced navigation procedures and intelligent flow management tools. These have improved the efficiency of flight paths and reduced aircraft fuel burn and carbon emissions, as well as enhancing overall safety.

Better work and careers

We recognise the importance of having a skilled and diverse workforce and are committed to fostering a culture in which our people continue to feel respected, valued and invested in.

We continue to make positive progress on our diversity, equity and inclusion initiatives so our people feel they can be their true selves at work. Notably, we recently established our first Diversity, Equity and Inclusion Committee. It is responsible for agreeing measurable and meaningful goals for Airways over a three-year period and holding the business accountable to ensure these are achieved.

As part of our unwavering focus on ensuring the safety and wellbeing of our people, through late 2022 we continued the roll-out of our Mental Wellbeing By Design workshops to ensure we are enabling mentally healthy work.

Mental wellbeing is a continuum and all workers are exposed to psychosocial risks, which may build up over time. All individuals respond differently to these risks and to any attempts to mitigate them. At Airways, we use the Protect, Foster, Support and Reclaim model, endorsed by the Business Leaders' Health and Safety Forum, to help identify what we must do to protect our people from mental harm, whilst finding opportunities which help people thrive at work. The workshops have received positive feedback from across business units.

Advancing our Te Ao Māori plan

Airways is committed to incorporating Te Ao Māori into our business.

In late 2022, we unveiled the name of our new Christchurch Air Traffic Centre, due to open in April. In collaboration with Ngāi Tūāhuriri, the name Te Whare Ao Rangī, or The World of the Sky, was selected for the new centre. The name acknowledges the care and protection role those working in this building play for those travelling in our skies, and all the elements that we share the space with.

As part of this, we are on a journey to support our people in building their Te Reo Māori capability. In December, we launched Whakatere – a freely available web app designed to support New Zealand's aviation community with Te Reo Māori pronunciation. Whakatere, which means 'to navigate', is an interactive map offering air traffic controllers and pilots support with pronunciation of Māori place names and visual reporting points (VRPs). VRPs are easily recognisable geographical points that pilots use to navigate and to communicate with air traffic control about their location.



Looking ahead

As we and the wider aviation industry look to recover from COVID-19, it is important that we reassess our broader company strategy to ensure we are well placed to continue delivering on our core purpose, and to deliver on our aspirations to create the aviation environment of the future. In the first half of this year, the Airways Board and executive have undertaken a comprehensive review of the Airways strategy, which will be introduced through early 2023.

Governance and leadership

Terry Paddy joined the Airways Board in November.

Katie Bhreatnach left the company in September and Jamie Gray was appointed General Manager Commercial and Partnerships in October.

| MEASURES OF SUCCESS | FY23 actual YTD | FY23 plan YTD | FY22 actual YTD |
|--------------------------------|-----------------|---------------|-----------------|
| Serious air proximity events | NIL | NIL | NIL |
| Core system availability | 99.99% | 99.98% | 99.93% |
| Group profit/(loss) before tax | \$3.6m | (\$9.2m) | (\$26.3m) |
| Capital investment | \$18.7m | \$33.3m | \$9.3m |

Denise Church QSO
Board Chair

James Young
Chief Executive Officer





Interim Financial Statements

Interim statement of profit or loss and other comprehensive income

(all figures shown in tables are in \$NZ thousands unless otherwise stated)

| FOR THE PERIOD ENDED 31 DECEMBER | GROUP | | NOTES |
|---|-------------------|-------------------|-------|
| | 2022 Unaudited | 2021 Unaudited | |
| Operating activities | | | |
| REVENUE | | | |
| Air traffic management revenue | 98,479 | 54,457 | |
| Government grants | - | 4,322 | |
| Other revenue | 10,815 | 7,899 | |
| Other gains and losses | 857 | - | 4 |
| Interest income | 635 | 87 | |
| Total revenue | 110,786 | 66,765 | |
| EXPENSES | | | |
| Employee remuneration | 66,563 | 59,355 | |
| Employee related costs | 4,246 | 2,169 | |
| Depreciation | 11,170 | 11,694 | |
| Amortisation | 1,937 | 1,930 | |
| Other operating costs | 21,063 | 15,707 | |
| Rental expense on operating leases | 805 | 790 | |
| Finance expense | 1,418 | 1,390 | 3 |
| Total expenses | 107,202 | 93,035 | |
| Net profit/(loss) before taxation | 3,584 | (26,270) | |
| Taxation expense/(benefit) | 1,016 | (7,355) | |
| Net profit/(loss) after taxation attributable to equity shareholders | 2,568 | (18,915) | |
| Other comprehensive income | | | |
| That will be reclassified to profit or loss when conditions are met: | | | |
| Movement in cash flow hedge reserve | 1,132 | 1,149 | |
| Tax on other comprehensive income | (317) | (322) | |
| Total other comprehensive income | 815 | 827 | |
| Total comprehensive income/(loss) for the year attributable to equity shareholders | 3,383 | (18,088) | |

Interim statement of changes in equity

(all figures shown in tables are in \$NZ thousands unless otherwise stated)

| | GROUP | | | | NOTES |
|---|-------------------------------------|------------------|----------------------|-----------------|-------|
| | Attributable to equity shareholders | | | | |
| | CONTRIBUTED EQUITY | HEDGE RESERVE | RETAINED EARNINGS | TOTAL | |
| Balance as at 1 July 2021 | 111,100 | (1,030) | 70,172 | 182,242 | |
| Comprehensive income | | | | | |
| Net loss after taxation | - | - | (18,915) | (18,915) | |
| OTHER COMPREHENSIVE INCOME | | | | | |
| Movements in hedge contracts | | 1,149 | - | 1,149 | |
| Tax on other comprehensive income | - | (322) | - | (322) | |
| Total other comprehensive income | - | 827 | - | 827 | |
| Total comprehensive income | - | 827 | (18,915) | (18,088) | |
| Transactions with owners | | | | | |
| Issue of share capital | 30,000 | - | - | 30,000 | 8 |
| Total transactions with owners | 30,000 | - | - | 30,000 | |
| Balance as at 31 December 2021 | 141,000 | (203) | 51,257 | 192,154 | |
| Balance as at 1 July 2022 | | | | | |
| | 158,100 | 445 | 34,652 | 193,197 | |
| Comprehensive income | | | | | |
| Net surplus after taxation | - | - | 2,568 | 2,568 | |
| OTHER COMPREHENSIVE INCOME | | | | | |
| Movements in hedge contracts | - | 1,132 | - | 1,132 | |
| Tax on other comprehensive income | - | (317) | - | (317) | |
| Total other comprehensive income | - | 815 | - | 815 | |
| Total comprehensive income | - | 815 | 2,568 | 3,383 | |
| Transactions with owners | | | | | |
| Issue of share capital | 13,000 | - | - | 13,000 | 8 |
| Total transactions with owners | 13,000 | - | - | 13,000 | |
| Balance as at 31 December 2022 | 171,100 | 1,260 | 37,220 | 209,580 | |

Interim balance sheet

(all figures shown in tables are in \$NZ thousands unless otherwise stated)

| FOR THE PERIOD ENDED | GROUP | | | NOTES |
|----------------------------------|-----------------------|---------------------|-----------------------|-------|
| | Dec 2022 unaudited | Jun 2022 audited | Dec 2021 unaudited | |
| Assets | | | | |
| CURRENT ASSETS | | | | |
| Cash and cash equivalents | 49,770 | 43,128 | 42,039 | |
| Trade and other receivables | 24,924 | 18,197 | 14,663 | |
| Assets held for sale | - | 10,468 | - | 4 |
| Prepayments | 6,146 | 3,426 | 5,075 | |
| Derivative financial instruments | 208 | 95 | 77 | |
| Total current assets | 81,047 | 75,314 | 61,854 | |
| NON-CURRENT ASSETS | | | | |
| Property, plant and equipment | 160,825 | 152,020 | 206,917 | 7 |
| Right-of-use assets | 67,208 | 68,194 | 68,881 | |
| Intangibles | 63,025 | 63,326 | 14,882 | 7 |
| Inventories | 1,816 | 1,550 | 1,954 | |
| Deferred tax asset | 14,817 | 16,149 | 8,978 | |
| Other non-current assets | - | - | 7 | |
| Derivative financial instruments | 1,997 | 1,214 | 522 | |
| Total non-current assets | 309,688 | 302,453 | 302,141 | |
| Total assets | 390,735 | 377,767 | 363,995 | |

Interim balance sheet CONTINUED

| FOR THE PERIOD ENDED | GROUP | | | NOTES |
|--------------------------------------|-----------------------|---------------------|-----------------------|-------|
| | Dec 2022 unaudited | Jun 2022 audited | Dec 2021 unaudited | |
| Liabilities | | | | |
| CURRENT LIABILITIES | | | | |
| Trade and other payables | 19,044 | 18,617 | 10,907 | |
| Lease liabilities | 6,762 | 6,595 | 6,333 | |
| Employee entitlements | 21,358 | 23,704 | 18,896 | 6 |
| Derivative financial instruments | 384 | 514 | 768 | |
| Liabilities held for sale | - | 655 | - | 4 |
| Total current liabilities | 47,548 | 50,085 | 36,904 | |
| NON-CURRENT LIABILITIES | | | | |
| Loan facility – unsecured | 58,000 | 58,000 | 58,000 | |
| Lease liabilities | 67,384 | 67,926 | 68,239 | |
| Employee entitlements | 8,168 | 8,516 | 8,584 | 6 |
| Derivative financial instruments | 56 | 43 | 114 | |
| Total non-current liabilities | 133,607 | 134,485 | 134,937 | |
| Total liabilities | 181,154 | 184,570 | 171,841 | |
| Net assets | 209,580 | 193,197 | 192,154 | |
| Equity | | | | |
| Share Capital | 171,100 | 158,100 | 141,100 | |
| Reserves | 1,260 | 445 | (203) | |
| Retained Earnings | 37,220 | 34,652 | 51,257 | |
| Total equity | 209,580 | 193,197 | 192,154 | |

Interim statement of cash flows

(all figures shown in tables are in \$NZ thousands unless otherwise stated)

| | GROUP | | |
|---|-------------------|-------------------|-----------|
| For the period ended 31 December | 2022 Unaudited | 2021 Unaudited | NOTES |
| Cash flows from/(used in) operating activities | | | |
| CASH WAS PROVIDED FROM: | | | |
| Receipts from customers | 106,098 | 64,646 | |
| Receipts from government | - | 4,335 | |
| Interest received | 635 | 87 | |
| CASH WAS APPLIED TO: | | | |
| Payments to suppliers | (28,254) | (18,294) | |
| Payments to employees | (73,403) | (64,149) | |
| Interest paid | (1,362) | (1,355) | 3 |
| Income tax paid | (43) | (9) | |
| Net cash flows from/(used in) operating activities | 3,671 | (14,739) | 11 |
| Cash flows used in investing activities | | | |
| CASH WAS PROVIDED FROM: | | | |
| Sale of property, plant and equipment | 10,657 | 18 | 4 |
| CASH WAS APPLIED TO: | | | |
| Purchase of property, plant and equipment | (15,839) | (7,951) | |
| Purchase of intangible assets | (2,822) | (1,358) | |
| Net cash used in investing activities | (8,004) | (9,291) | |
| Cash flows from financing activities | | | |
| CASH WAS PROVIDED FROM: | | | |
| Issue of share capital | 13,000 | 30,000 | 8 |
| CASH WAS APPLIED TO: | | | |
| Principal elements of lease payments | (2,025) | (2,013) | |
| Net cash flows from financing activities | 10,975 | 27,987 | |
| Net increase in cash held | 6,642 | 3,957 | |
| Cash at the beginning of the period | 43,128 | 38,082 | |
| Cash at the end of the period | 49,770 | 42,039 | |

Notes to the interim financial statements

NOTE 1 BASIS OF PREPARATION

These interim financial statements as at and for the six months ended 31 December 2022 are for the consolidated group (Airways), consisting of Airways Corporation of New Zealand Limited and its subsidiaries: Airways International Limited, Aeropath Limited, Airways Training Limited and Airshare Limited. They have been prepared in accordance with:

- Generally Accepted Accounting Practice in New Zealand (NZ GAAP) and NZ IAS 34, Interim Financial Reporting. The interim financial statements do not include all of the information required for full annual financial statements and should be read in conjunction with the Annual Report of the Group for the year ended 30 June 2022; and
- The requirements of the Financial Reporting Act 2013, the Companies Act 1993 and the State-Owned Enterprises Act 1986.

The interim financial statements were authorised for issue by the directors on 16 February 2023.

The interim financial statements have been prepared on the historical cost basis as modified by the revaluation of derivative financial instruments and are presented in New Zealand dollars, which is Airways' presentation currency and the functional currency of all entities within the group. All values are rounded to the nearest thousand dollars (\$'000) unless otherwise stated.

All components in the primary statements have been stated net of GST, with the exception of receivables and payables which include any GST invoiced.

Going concern

The interim financial statements have been prepared on a going concern basis, which assumes Airways will be able to continue trading, realise its assets and discharge its liabilities in the ordinary course of business for a period at least 12 months from the date these financial statements are approved.

The results for the six month ended 31 December 2022 reflect a significant improvement in the operations of Airways. Airways generated a profit after tax of \$2.6 million (2021: incurred a loss after tax of \$18.9 million) and net cash inflows from operating activities of \$3.7 million (2021: net cash flows used in operating activities amounted to \$14.7 million).

However it is still forecast that Airways will continue to incur losses in FY23.

To support the going concern assumption, Airways has access to a number of funding arrangements at the balance date, which will allow Airways to continue as a going concern for the next twelve months:

- \$35 million of undrawn capital facility is subscribed by the Crown and remains available for drawdown should Airways require; and
- Waivers of breach in banking covenants remain until 31 December 2023. Airways has \$32 million of undrawn financing facilities at balance date, which if required, can be utilised.

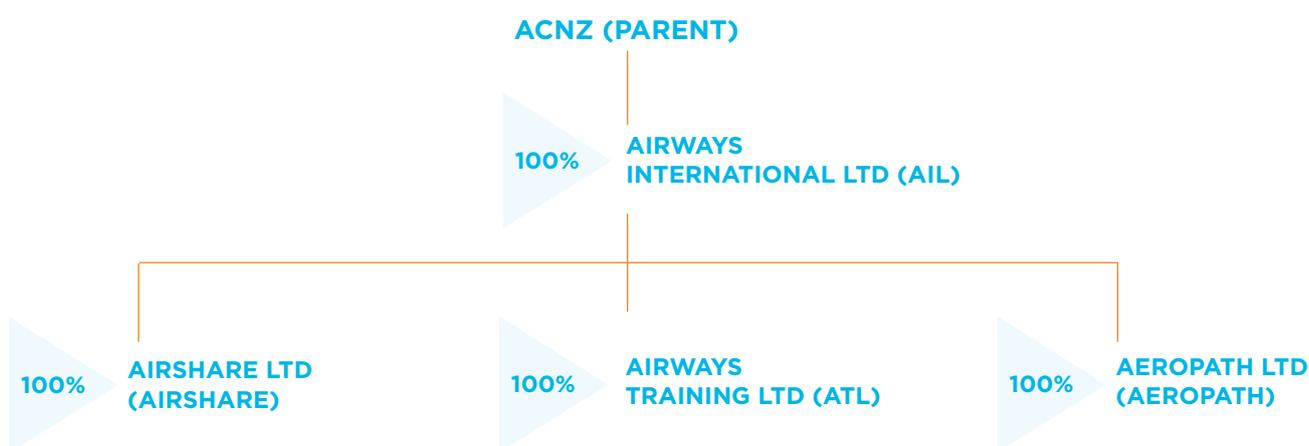
Notes to the interim financial statements CONTINUED

NOTE 2 GROUP STRUCTURE

Airways Corporation of New Zealand Limited is a limited liability company incorporated and domiciled in New Zealand. It is also a State-Owned Enterprise established under the State-Owned Enterprises Act 1986 with shares held in equal numbers by the Minister for State-Owned Enterprises and the Minister of Finance, on behalf of the Crown.

Airways' principal business is the provision of air traffic management services; however, it is also involved in a number of related revenue generating activities, including consulting and training.

The group structure is shown in the diagram below. The percentages indicate ownership.



ENTITY

► AIRWAYS INTERNATIONAL LTD

► AIRWAYS TRAINING LTD

► AEROPATH LTD

► AIRSHARE LTD

PRINCIPAL ACTIVITY

► REVENUE MANAGEMENT, RECRUITMENT AND TRAINING, AND AIR NAVIGATION SERVICES AND MAINTENANCE OF SYSTEMS.

► NOT TRADING.

► AERONAUTICAL INFORMATION MANAGEMENT, PROCEDURAL DESIGN AND DEVELOPMENT SERVICES.

► DELIVERY OF UNMANNED AERIAL VEHICLE (UAV) AND DRONE TRAFFIC MANAGEMENT SERVICES.

On 30 August 2022, Airways Corporation New Zealand Limited sold all its 100 shares in Airshare Limited to its subsidiary Airways International Limited for a cash consideration of \$1.

NOTE 3 FINANCE EXPENSE

Finance expense of \$1.4 million includes interest expense from unwinding lease liabilities of \$1.4 million and financing expense of \$1.4million offset by capitalised interest of \$1.4 million (2021: \$1.4 million net).

Notes to the interim financial statements CONTINUED

NOTE 4 SALE OF AIRFIELD POWER AND LIGHTING ASSETS

On 30 November 2022, Airways sold some of its Airfield Power and Lighting Equipment (APLE) assets for a cash consideration of \$12.2 million (including GST).

This resulted in the following transactions:

- derecognition of assets and liabilities held for sale of \$10.5 million and \$0.7 million respectively, classified in the 30 June 2022 Annual Report; and
- a recognition of a gain on sale of assets of \$0.8 million during the six months ended 31 December 2022 when offset against the impairment loss \$1.4 million on the assets held for sale at 30 June 2022, resulting in an overall net loss of \$0.6 million.

No other significant gains or losses from disposal of assets was recognised during the six months ended 31 December 2022 (2021: nil).

NOTE 5 DIVIDENDS PAID

No interim dividend was declared and paid to the shareholders (2021: nil). Airways does not expect to pay dividends to its shareholders during the year ending 30 June 2023.

NOTE 6 EMPLOYEE ENTITLEMENTS

Employee entitlements (current and non-current) is largely made up of accrued salary costs, annual leave, long service leave and retiring leave liabilities.

NOTE 7 CAPITAL COMMITMENTS

Airways had total capital commitments of \$33.4 million as at 31 December 2022 (2021: \$7.4 million). This programme will be funded through increased capital.

Property, plant and equipment of \$160.8 million (2021: \$206.9 million) includes \$42.0 million of work-in-progress (2021: \$70.3 million).

NOTE 8 SHARE CAPITAL

Airways has capital of \$171.1 million (2021: \$141.1 million) issued ordinary shares, which confer on the holders the right to vote at any general meeting of shareholders. This consists of 171,100,000 (2021: 141,100,000) authorised ordinary shares.

During the six months ended 31 December 2022, Airways called \$13.0 million of its issued ordinary shares from its owners (2021: \$30.0 million shares called).

At 31 December 2022, Airways has on issue 35,000,000 authorised uncalled share capital to its owners amounting to a total value of uncalled share capital of \$35.0 million.

NOTE 9 CONTINGENT LIABILITIES

Airways has contingent liabilities of \$1.9 million for performance bonds (2021: \$0.7 million).

NOTE 10 SUBSEQUENT EVENTS

There have been no significant events occurring since balance date requiring disclosure.

Notes to the interim financial statements CONTINUED

NOTE 11 RECONCILIATION OF THE NET CASH FLOW FROM OPERATING ACTIVITIES TO REPORTED SURPLUS/(LOSS)

| For the period ended 31 December | 2022 | 2021 |
|---|-----------------|-----------------|
| NET SURPLUS/(LOSS) AFTER TAXATION | 2,568 | (18,915) |
| ADD NON-CASH ITEMS | | |
| Accounting (gain)/loss on sale of assets | (857) | 18 |
| Amortisation | 1,937 | 1,930 |
| Depreciation | 11,170 | 11,694 |
| Total adjustments for items in surplus not impacting cash flow | 12,250 | 13,642 |
| ADD MOVEMENTS IN WORKING CAPITAL ITEMS | | |
| Decrease in payables | (1,993) | (8,620) |
| Increase in receivables | (9,154) | (846) |
| Total adjustments for items not in surplus impacting cash flow | (11,147) | (9,466) |
| Net cash inflow/(outflow) from operating activities | 3,671 | (14,739) |

EVA key performance indicators

(All figures shown in tables are in \$NZ thousands unless otherwise stated)

| For the period ended 31 December | Parent Dec 2022 | Parent Dec 2021 |
|--|--------------------|--------------------|
| DEBT AND EQUITY EMPLOYED | | |
| Debt employed | 200,229 | 176,831 |
| Equity employed | 105,532 | 123,033 |
| Total debt and equity employed | 305,762 | 299,864 |
| Charge on operating capital | 9,229 | 9,751 |
| Economic Value Added | (8,207) | (30,131) |
| SUMMARY OF PARAMETERS FOR COST OF CAPITAL | | |
| Risk free rate — three-year Government Stock | 4.14% | 1.61% |
| Market risk premium | 7.5% | 7.0% |
| Company tax rate | 28.0% | 28.0% |
| Business risk factor (asset beta) | 0.60 | 0.60 |
| Cost of capital | 8.89% | 6.55% |

Economic Value Added (EVA) measures the extent to which a business is performing above or below expectations. A positive EVA means the business is adding value after allowing for a normal reward to the providers of capital.

The EVA reporting framework applied by Airways can be found at the following website:

<https://www.airways.co.nz/about/financial-operational-and-safety-performance-reports/>

The cost of capital of 8.89% for the period ending December 2022 compares to a cost of capital of 8.03% used for determining 2023-2025 air navigation services pricing.

The negative EVA for the period ended December 2022 has been driven by reduction in flight volumes due to COVID-19.

RECONCILIATION OF EVA TO NET OPERATING LOSS AFTER TAX

| For the period ended 31 December | Parent Dec 2022 | Parent Dec 2021 |
|--|--------------------|--------------------|
| Loss After Tax | (398) | (21,396) |
| Deduct: charge on operating capital | (9,229) | (9,751) |
| Deduct: non-cash employee costs | 129 | 33 |
| Add back: interest costs | 993 | 983 |
| Add back: depreciation on capitalised interest | 298 | - |
| Economic Value Added | (8,207) | (30,131) |

Corporate Directory

Registered office

Level 2
6 Leonard Isitt Drive
Auckland Airport
PO Box 53093
Auckland
New Zealand

Directors

Denise Church QSO
Mark Pitt
Darin Cusack
Gavin Fernandez
Nicola Greer
John Holt
Mark Hutchinson
Lisa Jacobs
Terry Paddy

Auditors

Christopher Ussher, with the assistance of
PricewaterhouseCoopers on behalf of the
Auditor-General

Bankers

ANZ Bank New Zealand Limited
Bank of New Zealand Limited