

AIRWAYS



Contents

▶ Introduction and nature & scope of activities	3
Vision, purpose, and values	3
Airways' strategy	3
Safety	3
Sustainability	3
Diversity and inclusion	3
▶ Economic and strategic context	4
Recovery	5
Reshaping our operation	6
Future regional aerodrome services	6
Optimising controlled airspace	6
Air traffic management systems	6
Supporting the drone industry	7
Exiting airfield power and lighting	7
Harnessing international opportunities	7
▶ Airways' business units	9
▶ Key strategic workstreams	10
▶ Measures of success	11
▶ Financial forecasts by unit (\$NZm)	12
▶ Accounting policies	13
▶ Dividends	14
▶ Reporting to shareholding Ministers	15
▶ Policy for share acquisitions	16
▶ Compensation from the Crown	16
▶ The Crown's Investment in Airways	17
▶ Appendix A: Financial Performance Metrics (\$NZm)	18
▶ Appendix B: Core Business Economic Value Added (EVA) (\$NZm)	19
▶ Appendix C: Group Structure	20
▶ Directory	21

▶ Safe skies today and tomorrow



Introduction and nature & scope of activities

Airways Corporation of New Zealand Limited (ACNZ) is a state-owned enterprise (SOE) established under the State-Owned Enterprise Act 1986 (the Act) and is a public company registered under the Companies Act 1993.

The shareholders are the Minister for State-Owned Enterprises and the Minister of Finance, each of whom holds 103.5 million fully paid shares of \$1.

Airways' core role is as New Zealand's air traffic management (ATM) provider, facilitating safe and efficient air transport through New Zealand's flight information region (FIR). ACNZ also has four 100% owned subsidiaries – Airways International Limited, Airways Training Limited, Aeropath Limited and Airshare Limited (refer Appendix C for further detail on the Group structure).

This Statement of Corporate Intent (SCI) refers to the Airways Group (Airways), including ACNZ and our subsidiaries. It is prepared in accordance with the Act and sets out Airways' business goals and objectives for the period 1 July 2020, to 30 June 2023.

AIRWAYS' STRATEGY

We will work with partners to provide global aviation customers with safe, integrated airspace management through our proactive safety culture, expert knowledge and technology enabled solutions. Our aim is to return to profitability in 2023.

SUSTAINABILITY

Airways recognises it has a responsibility to make a positive contribution to the world we live in. We're 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. We aim to utilise technology and innovative thinking to encourage more efficient air transport in the future that reduces fuel burn, saves money and avoids unnecessary greenhouse gas emissions. We're committed to enabling our customers, partners and industry to grow and recover. Our goal is to become a zero waste, zero emissions organisation.

VISION, PURPOSE, AND VALUES

Airways has established the following vision, purpose and values:

VISION

Create the aviation environment of the future

PURPOSE

Safe skies today and tomorrow

VALUES

Safety, Each Other, Excellence and Success

Furthermore, as an SOE, Airways is expected to:

- ▶ be as profitable and efficient as comparable businesses
- ▶ be a good employer
- ▶ exhibit a sense of social responsibility.

SAFETY

Safety is paramount throughout the aviation industry, with continuous improvement in safe travel and operations a key priority for all participants. Against this backdrop, Airways keeps safety at the forefront of all it does and has established a proven track record of excellent safety results amongst its peers. Airways embraces 'Just Culture' principles relating to safety performance and management.

DIVERSITY AND INCLUSION

Airways recognises the value of a diverse and skilled workforce and is committed to creating and maintaining an inclusive and collaborative workplace culture. As we start out on this journey, our focus is firmly on enabling Airways people to be the best they can be at work, directly supporting our value of Each Other. This value is defined as appreciating the role of other people and their ideas, acting inclusively, earning trust, accepting differences and getting on with others.

INTRODUCTION AND NATURE & SCOPE OF ACTIVITIES

ECONOMIC AND STRATEGIC CONTEXT

AIRWAYS' BUSINESS UNITS

KEY STRATEGIC WORKSTREAMS

MEASURES OF SUCCESS

FINANCIAL FORECAST BY UNIT (\$NZM)

ACCOUNTING POLICIES

DIVIDENDS

REPORTING TO SHAREHOLDING MINISTERS

POLICY FOR SHARE ACQUISITION

COMPENSATION FROM THE CROWN

THE CROWN'S INVESTMENT IN AIRWAYS

APPENDICES

DIRECTORY

— Economic and strategic context



“COVID-19 HAS PRESENTED THE AVIATION INDUSTRY WITH ITS MOST SIGNIFICANT CHALLENGE YET.”

The rapid and unprecedented disruptive effects of Covid-19 will continue to impact global aviation for the foreseeable future. While the face of New Zealand’s aviation industry has changed fundamentally, Airways’ core purpose of ensuring safe skies remains steadfast.

Air traffic volumes declined by 95 percent following the implementation of travel restrictions in New Zealand. In response to collapsing air traffic volumes, Airways undertook a number of immediate cost saving measures, including the deferral of all capital expenditure and actions to reduce operating costs. We expect to see a further reduction of roles over the next financial year.

The recovery in demand for air travel will take time, with domestic markets coming back first, followed by international markets once travel restrictions are lifted. Forecasts indicate commercial air traffic volumes may only reach 50 per cent of pre-pandemic levels by the middle of 2021.

In March Airways received a \$70 million equity injection as part of the Government’s aviation relief package, to support its operations in the short term. Due to the level of uncertainty around industry recovery, the Government has provided Airways with a \$95 million uncalled capital facility, available through to the end of FY22.

Our aim is to minimise reliance on government funding as far as is practicable while meeting safety and operational requirements. Crucially, this means we must reshape our business to support the re-emerging aviation industry – an industry needing flexible, efficient and safe services to drive future growth at a competitive price.

RECOVERY

We expect commercial traffic levels to build gradually, beginning with main trunk services (Auckland, Wellington, Christchurch, Queenstown routes). We assume there will be a more cautious recovery in the domestic regional market, which is largely reliant on the international tourism market. Our business plan assumes international travel will resume unconstrained from early 2022. This is highly dependent on effective treatments and vaccines being readily available for Covid-19.

INTRODUCTION
AND NATURE
& SCOPE OF
ACTIVITIES

ECONOMIC AND
STRATEGIC CONTEXT

AIRWAYS’
BUSINESS UNITS

KEY STRATEGIC
WORKSTREAMS

MEASURES
OF SUCCESS

FINANCIAL
FORECAST BY
UNIT (\$NZM)

ACCOUNTING
POLICIES

DIVIDENDS

REPORTING TO
SHAREHOLDING
MINISTERS

POLICY
FOR SHARE
ACQUISITION

COMPENSATION
FROM THE CROWN

THE CROWN’S
INVESTMENT IN
AIRWAYS

APPENDICES

DIRECTORY

“AIRLINES IN THE FUTURE WILL EXPECT MORE FLEXIBLE, EFFICIENT AND SAFE AIR TRAFFIC CONTROL SERVICES, ALL DELIVERED AT A LOWER COST.”

RESHAPING OUR OPERATION

Airways is committed to supporting the long-term recovery of the aviation industry by safely matching our services to the sector, and our customer needs, now and into the future.

With fewer aircraft in our skies, we have an opportunity to redesign our operations to support the emerging shape of the aviation industry with services that are more flexible and efficient. Increasingly, digital and remote technologies will be deployed to secure the new future.

We will undertake a number of initiatives to reach this goal:

Future regional aerodrome services

In a first step towards supporting the long-term recovery of New Zealand’s aviation industry, Airways intends to change air traffic services provided from some regional aerodromes where commercial traffic volumes have declined. Technology and other developments are enabling safe and commercially viable alternatives to the way Airways has traditionally provided its air traffic services.

Airways has been working for a number of years to reassess how these services are delivered through New Zealand’s airspace, to ensure they are fit for the future. Digital air traffic management solutions, including digital air traffic control towers, have been actively considered as part of this work. The dramatic collapse in flight numbers caused by the Covid-19 pandemic has added urgency to the need to transition to a more appropriate, sustainable and safe level of service.

In parallel we will work with the industry on a cross-sector plan for regional aviation, modernising aviation services and getting back to growth in the post-pandemic environment.

Optimising controlled airspace

Optimising the design of our wider controlled airspace will be critical to New Zealand’s aviation recovery. The design of our controlled airspace has developed piecemeal over several decades resulting in a system that is overly complex, specialised and costly to run. By simplifying and standardising flight paths and procedures across the country, we aim to improve safety and create a more efficient operating environment for both controllers and pilots that is in line with international best practice.

The first step in this process is to undertake a “ground-up” review of all New Zealand airspace, which will be run by an independent specialist consultancy.

The programme will be undertaken in three phases over the next three years, starting with the review. Next, we will transition our existing sectors and staff into two new operational buildings and implement re-sectorisation in the third year.

Air traffic management systems

We expect to complete the transition to our new ATM system (Skyline X) in early 2022. Operating in domestic and international oceanic airspace, from new seismically resilient operations buildings in Christchurch and Auckland.

Airways has partnered with global science and technology company Leidos to co-develop the \$58 million SkyLine-X platform, which will integrate our domestic and oceanic ATM systems. SkyLine-X will provide controllers with additional features to increase safety and efficiency, including medium and long-term conflict alerting, time-based separation and arrival and departure management tools.

Supporting the drone industry

UAV (drones and autonomous vehicles) usage continues to grow exponentially, presenting significant challenges in enabling the safe integration of UAVs into our airspace. To achieve this, there is a need to develop a national UAV traffic management framework which addresses aerodrome safety, airspace management and national UAV infrastructure.

Our vision is to create a world-leading UAV industry that is safe and commercially viable. Our role in this vision is to work with our aviation stakeholders to develop a safe, transparent and efficient UAV management system for New Zealand.

We will review our existing drone management solution offerings and determine the future strategic direction for our unmanned traffic management (UTM) platform AirShare, to enable us to revalidate international commercial opportunities. Recently AirShare provided a proof of concept to Airservices Australia as the ANSP explores options for implementing a UTM system in Australia.

Exiting airfield power and lighting

In 2019 Airways signalled its intention to withdraw from airfield power and lighting activities – both asset ownership as well as ongoing maintenance and support.

Airways has historically owned power and lighting equipment at airports, a business model that is inconsistent with international standards. Against a backdrop of advancing air traffic management technology, and the current environment, we must focus our investment and efforts on making sure we are able to meet future needs and provide the most value to our customers.

We will work collaboratively with airports to transition to a new ownership and maintenance model for airfield power and lighting assets, taking into account the interests of airport customers, and at a pace that minimises disruption to airport customers and operations.

Harnessing international opportunities

The vision for our commercial business is to gain a share in key markets through strategic partnerships, understanding our customer needs, improved accessibility and providing effective digital solutions.

For the 2021 – 2023 period, the focus will be on validating and expanding the range of cloud based digital products or services that are customer centered, industry aligned, personalised, data-driven and scalable. At the same time, we will continue to invest in key customer relationships.

In the longer term, the target product and service mix will be primarily software-based, highly scalable and able to deliver long term, repeatable revenue streams. Over time, we will also focus on potentially higher value sectors in the aviation industry including airlines and airports.

The commercial business opportunities over the next three years are targeted in the Middle East, South East Asia, Hong Kong, and Europe. The impact of Covid-19 on current and potential international customers is expected to vary by region and by the source of the funding – either government or private.

INTRODUCTION
AND NATURE
& SCOPE OF
ACTIVITIES

ECONOMIC AND
STRATEGIC CONTEXT

AIRWAYS'
BUSINESS UNITS

KEY STRATEGIC
WORKSTREAMS

MEASURES
OF SUCCESS

FINANCIAL
FORECAST BY
UNIT (\$NZM)

ACCOUNTING
POLICIES

DIVIDENDS

REPORTING TO
SHAREHOLDING
MINISTERS

POLICY
FOR SHARE
ACQUISITION

COMPENSATION
FROM THE CROWN

THE CROWN'S
INVESTMENT IN
AIRWAYS

APPENDICES

DIRECTORY



Airways' business units

The Airways Group comprises the following businesses and support functions:

Core business	<ul style="list-style-type: none"> ▶ Delivers safe, resilient and efficient air traffic services to NZ airspace users, including airlines & other commercial aircraft operators, the general aviation (GA) community, the Royal New Zealand Air Force and airports. ▶ The service offering comprises: <ul style="list-style-type: none"> — Enroute and approach services in the NZ FIR. — Aerodrome air traffic control services, provided on behalf of airports, including the provision of navigation infrastructure. — Enroute services in the Auckland Oceanic FIR, on behalf of the International Civil Aviation Authority (ICAO). — The safe integration of drone activity into New Zealand's airspace. ▶ Governed by a Service and Pricing framework which provides for a 'fair return on investment' and is reviewed through consultation with customers every three years.
International business	<ul style="list-style-type: none"> ▶ Airways International utilises Airways' intellectual property and expertise to provide products and services to the international ANSP and wider aviation industry. ▶ The portfolio of businesses comprises: <ul style="list-style-type: none"> — Airways Training, delivering world leading Air Traffic Control (ATC) training to both ANSPs, and directly to ATC students through an outsourced academy model. — Aeropath, providing aeronautical information management and procedure design services. — Digital products, utilising cloud-based technologies to deliver a range of services to ANSPs including simulation, revenue management, recruitment and selection, industry language skills and interactive digital learning. — Aviation Services, providing ANSPs and airports with outsourced air traffic services and support in the development and maintenance of technology. — AirShare, a platform that provides information to drone users on how to operate safely, plan drone flights, and request access to controlled airspace.
Corporate services	<ul style="list-style-type: none"> ▶ Provides advice to Airways' board, management and staff on commercial, technology and operational matters. ▶ Services are structured functionally in the form of People, Finance, Customer and Regulatory Partnerships, and Public Affairs teams to secure value and manage risk within approved mandates. ▶ Manage stakeholder relationships and protect and enhance Airways' brand.
Safety and assurance	<ul style="list-style-type: none"> ▶ Provides leadership, advice and assurance on safety management and maturity, safety performance and Just Culture to Airways and the board. ▶ Ensures Airways becomes predictive in safety: moving from reactive to proactive and then to predictive practices; learning through what could happen, as well as what has happened; and tailoring improvements in system design to ensure the best result.

INTRODUCTION AND NATURE & SCOPE OF ACTIVITIES

ECONOMIC AND STRATEGIC CONTEXT

AIRWAYS' BUSINESS UNITS

KEY STRATEGIC WORKSTREAMS

MEASURES OF SUCCESS

FINANCIAL FORECAST BY UNIT (\$NZM)

ACCOUNTING POLICIES

DIVIDENDS

REPORTING TO SHAREHOLDING MINISTERS

POLICY FOR SHARE ACQUISITION

COMPENSATION FROM THE CROWN

THE CROWN'S INVESTMENT IN AIRWAYS

APPENDICES

DIRECTORY

Key strategic workstreams

The key workstreams Airways will progress during FY21, and the initiatives and activities that will enable them, are set out in the table below.

Key strategic workstreams	Objective
Airspace optimisation	<ul style="list-style-type: none"> ▶ Develop options to redesign New Zealand's air space, leverage advances in technologies and airspace design principles that will deliver a safer, more efficient, resilient and flexible air traffic service delivery model.
Air traffic services systems	<ul style="list-style-type: none"> ▶ Transition air traffic control services to a more resilient and flexible operations platform. Development and implementation of the ATM platform is a key component of this.
Regional aerodrome services	<ul style="list-style-type: none"> ▶ Plan, co-ordinate and manage a change programme relating to identified regional aerodromes.
Digital solutions	<ul style="list-style-type: none"> ▶ Develop and deploy digitally enabled products and services to support ANSPs and the wider aviation community. ▶ Grow the business globally through digital solutions that solve meaningful problems, are fit for purpose, repeatable, and scalable.
Airfield power and lighting	<ul style="list-style-type: none"> ▶ Consultation and collaboration with airport customers to transition ownership and maintenance support for airfield power and lighting assets.
Safety culture and assurance	<ul style="list-style-type: none"> ▶ Baseline Airways safety culture and identify areas where 'safety-by-design' principles can be embedded. ▶ Develop systems and processes that enhances our safety culture in a way that is constructive, predictable and evolves with changes to the internal operating environment and industry.
Stakeholder engagement plan	<ul style="list-style-type: none"> ▶ Develop an overarching stakeholder strategy that supports Airways' vision, purpose and strategy.



Measures of success

Operational Focus	Actual FY20	Plan FY21	Plan FY22	Plan FY23
Near collisions	Nil	Nil	Nil	Nil
Staffing service availability	99.89%	99.88%	99.88%	99.88%
Core systems availability	99.99%	100.00%	100.00%	100.00%
Critical technology services availability	99.98%	99.95%	99.95%	99.95%
Cyber security maturity rating	3	>3	>3	>3
Customer Focus				
Core customer satisfaction	Not measured	>80%	>80%	>80%
Commercial customer satisfaction	Not measured	>80%	>80%	>80%
Leadership & People				
Staff safety – serious harm injuries	Nil	Nil	Nil	Nil
Staff survey results (targeted areas)	<FY19	>FY20	>FY21	>FY22
Sustainability				
Carbon emissions per FTE	Not measured	Baseline to be measured	<FY21	<FY22
Reduction in waste to landfill against FY22 baseline	Not measured	Not measured	Baseline to be measured	5%
Energy consumption	Not measured	Baseline to be measured	<FY21	<FY22
Financial (\$m)				
Group profit/(loss) after tax	(31.3)	(52.0)	(18.2)	23.7
Commercial business profit after tax	9.1	3.5	5.7	7.0
Capital investment	38.6	28.5	43.5	69.4
Dividends	8.0	-	-	-
Dividend yield	3.2%	0.0%	0.0%	0.0%
Return on equity	(19.7%)	(32.1%)	(11.8%)	14.0%

INTRODUCTION AND NATURE & SCOPE OF ACTIVITIES

ECONOMIC AND STRATEGIC CONTEXT

AIRWAYS' BUSINESS UNITS

KEY STRATEGIC WORKSTREAMS

MEASURES OF SUCCESS

FINANCIAL FORECAST BY UNIT (\$NZM)

ACCOUNTING POLICIES

DIVIDENDS

REPORTING TO SHAREHOLDING MINISTERS

POLICY FOR SHARE ACQUISITION

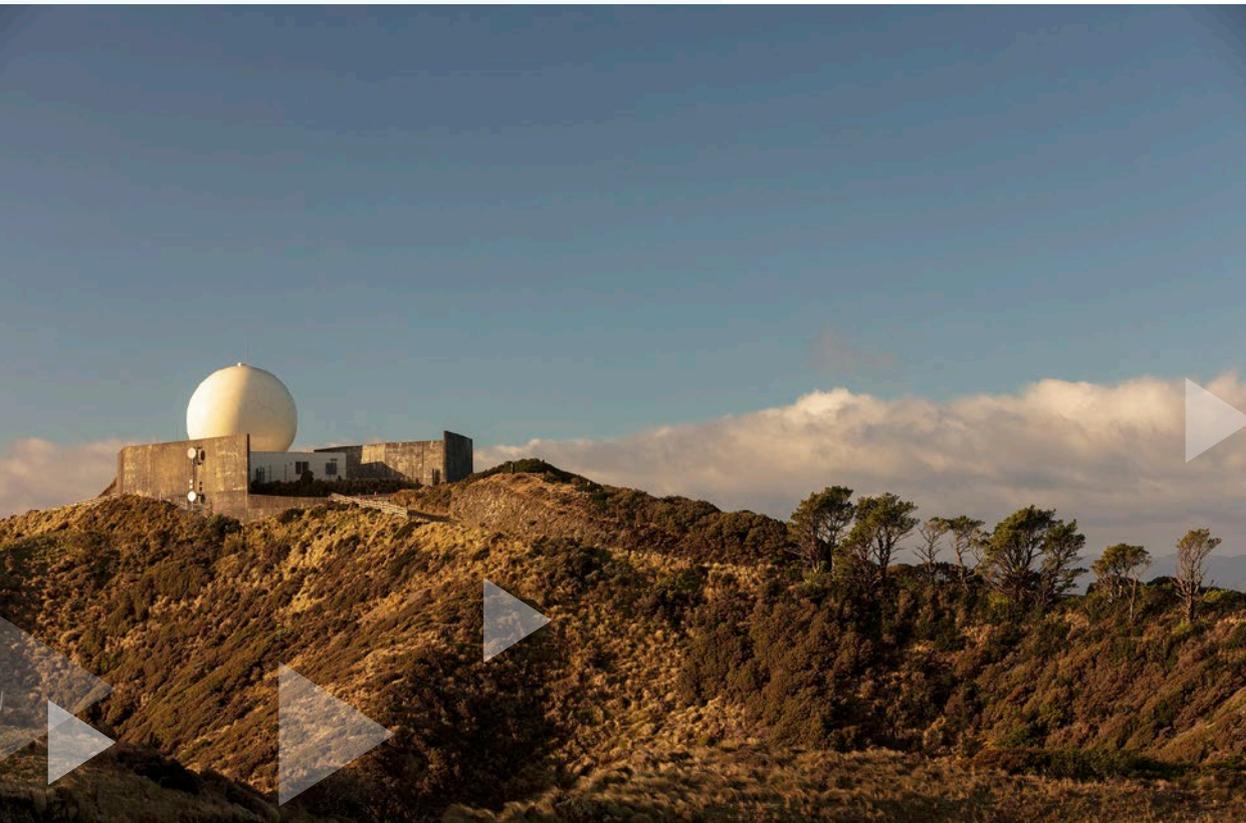
COMPENSATION FROM THE CROWN

THE CROWN'S INVESTMENT IN AIRWAYS

APPENDICES

DIRECTORY

Financial forecasts by unit (\$NZm)



The financial impact of Covid-19 has been severe and in FY20 the Airways Group recorded a loss of (\$31.3) million, \$54.9 million lower than the prior year.

In FY20, the core business recorded a loss of (\$40.4) million. The travel restrictions that were implemented as a result of Covid-19 eroded the revenue base in the fourth quarter. Due to the impact Covid-19 has had on future cashflows, the Core business has recognised an impairment of \$48.7 million for the year ended 30 June 2020.

We anticipate it will take three years for the industry to recover. Our business plan assumes Airways' costs are recovered from our pricing framework effective FY23.

Our commercial business continued to outperform in FY20 despite the crisis. A key highlight was significant growth in ATC training services that kept our training campuses close to full capacity.

However, our commercial business is not immune to the challenges facing the wider industry. The changing environment has seen our commercial business realign its sales activities towards digitally focussed services and virtual learning environments.

Revenue (Includes internal revenue)	Actual FY20	Plan FY21	Plan FY22	Plan FY23
▶ Core business	181.4	106.7	141.9	208.3
Commercial businesses				
▶ Aviation Services	17.7	6.7	9.8	13.8
▶ Digital	3.6	4.0	4.8	6.1
▶ Aeropath	8.0	6.2	9.1	9.1
▶ Training course delivery	9.3	5.1	6.2	7.3
▶ Airshare	-	1.8	1.9	2.0
	38.7	23.8	31.8	38.3
Group revenue	220.0	130.5	173.6	246.5

Net profit/(loss) after tax	Actual FY20	Plan FY21	Plan FY22	Plan FY23
▶ Core business	(40.4)	(55.4)	(23.8)	16.7
Commercial businesses				
▶ Aviation Services	5.0	1.6	2.2	2.8
▶ Digital	0.5	0.5	1.2	1.4
▶ Aeropath	0.7	0.5	0.9	0.8
▶ Training course delivery	2.9	0.9	1.4	2.0
▶ Airshare	-	0.0	0.0	(0.0)
	9.1	3.5	5.7	7.0
Group Net profit/(loss) after tax	(31.3)	(52.0)	(18.2)	23.7

Key financial metrics				
▶ Capital investment	38.6	28.5	43.5	69.4
▶ Group FTEs	774	682	699	692
▶ Group return on capital (GAAP)	(19.0%)	(30.6%)	(10.0%)	16.6%

ACCOUNTING POLICIES

Airways prepares financial statements in accordance with GAAP, with a complete list of accounting policies available in the latest annual report available on Airways' website.

The financial forecasts and budgets set out in this SCI comply with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and other applicable Financial Reporting Standards (as appropriate for profit-oriented entities) except for revenue, which is determined

at the individual business unit level. As a result, the Group revenue number above includes internal revenue earned by Airways' commercial businesses from the statutory business. This internal revenue is eliminated in the annual financial statements, which are prepared at a Group level only. This has no impact on Group profit.

Airways also uses Economic Value Added (EVA) principles to guide pricing decisions. Further detail is provided in Appendix B.

INTRODUCTION
AND NATURE
& SCOPE OF
ACTIVITIES

ECONOMIC AND
STRATEGIC CONTEXT

AIRWAYS'
BUSINESS UNITS

KEY STRATEGIC
WORKSTREAMS

MEASURES
OF SUCCESS

FINANCIAL
FORECAST BY
UNIT (\$NZM)

ACCOUNTING
POLICIES

DIVIDENDS

REPORTING TO
SHAREHOLDING
MINISTERS

POLICY
FOR SHARE
ACQUISITION

COMPENSATION
FROM THE CROWN

THE CROWN'S
INVESTMENT IN
AIRWAYS

APPENDICES

DIRECTORY

— Dividends

Airways is budgeting losses over the next two years and therefore the company is not expected to be in a position to pay a dividend during the period. Management will review financial performance as part of the Annual Business planning process but resumption of dividends is not anticipated until FY24.



Reporting to shareholding Ministers

In compliance with the Act and in accordance with the requirements of the shareholding Ministers, the following reports will be presented to shareholders:

ANNUAL REPORT

Within three months after the end of each financial year, an annual report including:

- ▶ audited financial statements for the year
- ▶ notes to the financial statements including accounting policies
- ▶ a report from the Chair which will include:
 - a review of operations
 - changes in the nature and scope of Airways' activities
 - a summary of achievements measured against performance targets
 - comments on the outlook for the next 12 months
 - statement of dividend payable

INTERIM REPORT

Within two months of the end of each half-year, an interim report including:

- ▶ an abridged, unaudited statement of Airways' financial performance and position
- ▶ a qualitative report from the Directors on Airways' performance compared with the objectives set out in the SCI, any significant changes in intent and scope during the half-year and the outlook for the next half-year

QUARTERLY REPORT

Within one month of the end of each quarter, a quarterly report comprising a commentary and summary of financial statistics indicating performance against targets for the preceding quarter.

INVESTMENT PROJECT REVIEW

Provide a report covering all post-project investment reviews conducted in the previous calendar year greater than \$5 million, by 28 February each year.

"NO SURPRISES" POLICY

Inform the Ministers of any material or significant events relating to Airways that may be contentious or could attract public interest.

INTRODUCTION
AND NATURE
& SCOPE OF
ACTIVITIES

ECONOMIC
CONTEXT

AIRWAYS'
BUSINESS UNITS

FY20 KEY
STRATEGIC
WORKSTREAM

MEASURES
OF SUCCESS

FINANCIAL
FORECAST BY
UNIT (\$NZM)

DIVIDENDS

REPORTING TO
SHAREHOLDING
MINISTERS

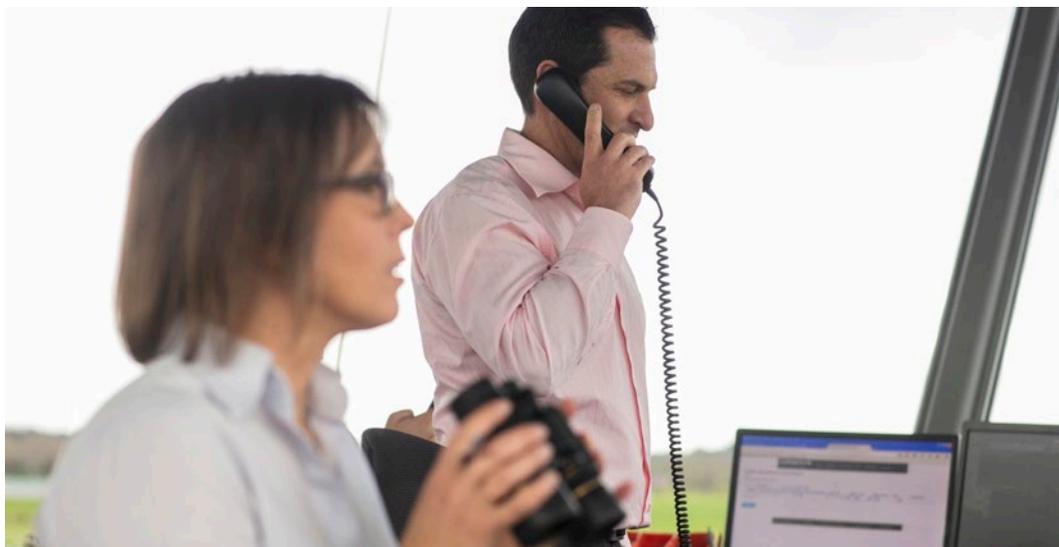
POLICY
FOR SHARE
ACQUISITION

COMPENSATION
FROM THE CROWN

THE CROWN'S
INVESTMENT IN
AIRWAYS

APPENDICES

DIRECTORY



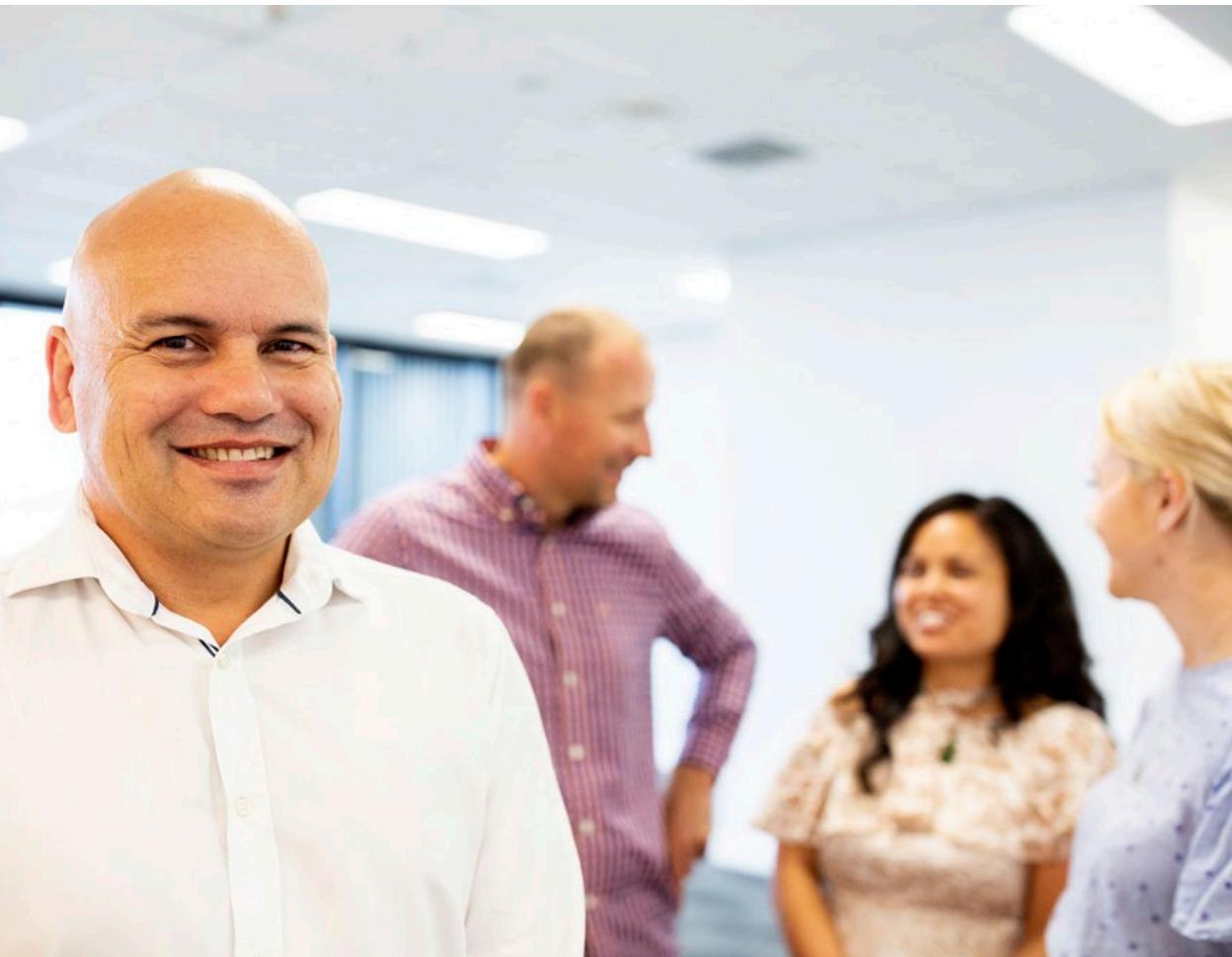
— Policy for share acquisitions

Any share, equity or asset acquisitions (or sales) will reflect Airways' business strategy requirements for achieving our vision. Airways will consult shareholding Ministers on equity investment or capital expenditure above:

- ▶ \$10 million on an individual item of capital expenditure or investment in New Zealand
 - ▶ \$5 million investment in an individual overseas project, or other significant investments, even if they do not meet the above thresholds
-

— Compensation from the Crown

Section 7 of the Act allows the Crown to enter into an agreement with Airways whereby the Crown would pay Airways for undertaking a non-commercial activity. Airways does not currently undertake any such activities but reserves the right to seek payment where Airways is restrained from acting in a normal business-like manner.



The Crown's Investment in Airways

The Directors' estimate of the current commercial value of the Crown's investment in the Airways group at 30 June 2020 was **\$246.5 million** (30 June 2019 \$251.3 million).

Valuation sensitivity and range	June 2020
▶ Group Enterprise Value	\$320.2m
▶ Less Net Debt*	\$73.7m
Group Equity Value attributable to Crown	\$246.5m
* Includes lease liabilities of \$82.4 million	

The key characteristics of the valuation approach adopted are:

- ▶ The core business comprising air traffic control services and supporting infrastructure has been valued using a discounted cash flow (DCF) valuation approach as the primary methodology. The DCF valuation references comparable company multiples (noting the limitations of this in the current economic environment) and the book value of net operating assets employed in the business. The discount rate was based on the projected average cost of capital of 5.86%.
- ▶ The commercial business comprises a portfolio of products and services utilising Airways' intellectual property and expertise supporting international ANSPs and wider aviation industry. The discount rate was based on the projected average cost of capital of 9.83%.
- ▶ A growth rate of 0% per annum was assumed in the terminal value calculation for all business units.
- ▶ The valuation was prepared by the Airways' management and reviewed by Deloitte Limited, prior to approval by the Board.
- ▶ The current valuation of \$246.5 million compares with a value as at 30 June 2019 of \$251.3 million. This reflects lower earnings projections due to Covid-19 impacts being offset by lower debt, as a result of the capital injections.

INTRODUCTION
AND NATURE
& SCOPE OF
ACTIVITIES

ECONOMIC
CONTEXT

AIRWAYS'
BUSINESS UNITS

FY20 KEY
STRATEGIC
WORKSTREAM

MEASURES
OF SUCCESS

FINANCIAL
FORECAST BY
UNIT (\$NZM)

DIVIDENDS

REPORTING TO
SHAREHOLDING
MINISTERS

POLICY
FOR SHARE
ACQUISITION

COMPENSATION
FROM THE CROWN

THE CROWN'S
INVESTMENT IN
AIRWAYS

APPENDICES

DIRECTORY

Appendix A:

Financial Performance Metrics (\$NZm)

Year ended 30 June	Actual FY19	Actual FY20	Plan FY21	Plan FY22	Plan FY23
► Profitability					
Total revenue	229.3	209.4	119.4	161.8	236.5
EBITDA	57.3	(10.3)	(38.0)	9.3	77.3
EBIT	33.2	(40.8)	(67.8)	(21.3)	38.0
Net profit/(loss) after tax	23.6	(31.3)	(52.0)	(18.2)	23.7
► Shareholders' returns					
Total shareholder return ²	10.6%	(26.6%)	(11.0%)	(10.5%)	0.0%
Dividend yield	4.9%	3.2%	0.0%	0.0%	0.0%
Dividend payout	51.0%	234.2%	0.0%	0.0%	0.0%
Return on equity	17.1%	(19.7%)	(32.1%)	(11.8%)	14.0%
ROE, adj for IFRS movements and assets revaluations	16.9%	(19.5%)	(31.8%)	(11.7%)	13.9%
► Profitability/efficiency					
Return on capital employed	18.0%	(19.0%)	(30.6%)	(10.0%)	16.6%
Return on assets	13.7%	(13.3%)	(20.5%)	(7.0%)	11.9%
Operating margin	25.0%	(4.9%)	(31.8%)	5.8%	32.7%
Net profit margin	10.3%	(15.0%)	(43.5%)	(11.2%)	10.0%
Asset turnover	0.9	0.6	0.4	0.5	0.7
► Leverage/solvency					
Equity multiplier	1.8	2.1	2.0	1.9	1.9
Gearing ratio (net) – excluding leases	25.4%	(5.3%)	19.6%	24.9%	24.2%
Gearing ratio (net) – including leases	-	27.8%	43.8%	45.3%	42.3%
Interest cover (before capitalised interest)	22.3	(1.9)	(6.1)	1.6	14.1
Solvency (current ratio)	0.7	0.9	1.9	1.5	1.2
► Growth/investment					
Revenue growth	6.9%	(8.7%)	(43.0%)	35.5%	46.2%
EDITDAF growth	5.2%	(118.0%)	(269.1%)	124.6%	727.1%
NPAT growth	3.0%	(232.8%)	66.0%	65.0%	230.3%
Capital employed growth	12.4%	19.8%	(10.6%)	3.7%	10.9%
Capital renewal	1.9	1.5	1.1	1.7	2.0

2. Company valuations are not forecast from 2020–21.

Definitions for the financial performance measures above are at the following link:
<https://treasury.govt.nz/sites/default/files/2015-09/fpm-soes.pdf>

Appendix B: Core Business Economic Value Added (EVA) (\$NZm)

BACKGROUND

EVA provides an economic measure of performance and explicitly recognises the expected return to investors. EVA underpins our pricing framework, which is premised on achieving a fair return on the capital invested in the core business. Airways targets an EVA result of zero. The Government provided Airways with equity funding on the basis that this would enable Airways to not raise its services fees until at least 1 July 2021.

EVA	Plan FY21	Plan FY22	Plan FY23
▶ Total capital employed			
Debt employed	186.7	187.9	190.0
Equity employed	140.1	156.7	179.7
	326.7	344.6	369.7
▶ Charge on operating capital	18.8	19.7	20.9
▶ Economic value added	(70.7)	(40.2)	0.0

Cost of capital - key parameters	Plan FY21	Plan FY22	Plan FY23
Risk free rate - 3 year Government Stock	0.68%	0.68%	0.68%
Market risk premium	7.00%	7.00%	7.00%
Business risk factor (asset beta)	0.60	0.60	0.60
WACC range percentile	67th	67th	67th
▶ Cost of capital	5.86%	5.86%	5.86%
▶ Return on capital (RoC)	NA	NA	5.86%

INTRODUCTION
AND NATURE
& SCOPE OF
ACTIVITIES

ECONOMIC
CONTEXT

AIRWAYS'
BUSINESS UNITS

FY20 KEY
STRATEGIC
WORKSTREAM

MEASURES
OF SUCCESS

FINANCIAL
FORECAST BY
UNIT (\$NZM)

DIVIDENDS

REPORTING TO
SHAREHOLDING
MINISTERS

POLICY
FOR SHARE
ACQUISITION

COMPENSATION
FROM THE CROWN

THE CROWN'S
INVESTMENT IN
AIRWAYS

APPENDICES

DIRECTORY

Appendix C: Group structure

The legal entities that make up the Airways Group, and their respective principal activities, are set out below:

Legal entity	Principal activity
Airways Corporation of New Zealand Limited (ACNZ)	Provision of air traffic management services
Airways International Limited (AIL)	Revenue management, recruitment and training, and air navigation services and maintenance of systems
Airways Training Limited (ATL)	Aviation English training
Aeropath Limited (Aeropath)	Aeronautical information management, procedure design and development services
Airshare Limited	Unmanned aerial vehicle (UAV) and drone traffic management services

