STATEMENT OF CORPORATE INTENT FY2024/25 ▶ 2026/27

AIRWAYS

Contents

INTRODUCTION

This Statement of Corporate Intent (SCI) is submitted by the Board of Directors of Airways Corporation of New Zealand, in accordance with section 14 of the State-Owned Enterprises Act 1986 (the Act).

It sets out the Board's overall objectives, business goals and key measures for Airways Corporation of New Zealand Limited (ACNZ) and its subsidiary companies for the year commencing 1 July 2024, and the following two financial years, through to 30 June 2027.

It refers to the Airways Group, including ACNZ and our subsidiaries. The Airways Group is referred to as "Airways" throughout this SCI.

OBJECTIVES

Under the State-Owned Enterprises Act 1986, Airways is required to operate as a successful business and specifically to achieve the following objectives:

- To be as profitable and efficient as comparable businesses that are not owned by the Crown
- To be a good employer
- Exhibit a sense of social responsibility by having regard for the interests of the community in which it operates.

Airways' objectives, nature and scope, purpose and core strategies are defined within this context.

Airways is committed to reporting against an integrated reporting framework. By doing so, we can demonstrate how we create immediate and long-term value for our shareholder, customers, employees and the wider community.

Airways overview

OUR PURPOSE

Safe skies today and tomorrow

OUR VISION

Create the aviation environment of the future

WHAT WE DO

Airways is the state-owned enterprise that provides New Zealand's air traffic management services. Our core role is to manage safe and efficient air transport through our Flight Information Region, and to invest in the infrastructure and people to support it.

We control 30 million square kilometres of airspace over New Zealand and our Oceanic Flight Information Region. One of the world's largest airspace regions, it extends over the South Pacific and Southern Oceans and the Tasman Sea, from 5 degrees south of the equator to Antarctica.

The subsidiaries represent our commercial arm providing training, digital products, aeronautical information management, procedure design and aviation consultancy services globally to air navigation service providers, airlines and airports in 65 countries.

We employ about 800 valued staff in highly skilled roles. Our people work across our Christchurch Radar Centre, Auckland Oceanic Centre, 19 towers and corporate offices in Auckland, Wellington and Christchurch.

OUR VALUES

We are **safe**
Safety is at the forefront of everything we do. We are committed to the safety of our people, our operations and the communities we serve.

We are **one Airways**
We all have our own areas of expertise and by working together and sharing knowledge, we achieve our aspiration.

We strive for **excellence**
We deliver our best work each and every day, and look for ways to continue to improve what we do.

We celebrate **success**
We recognise our people's achievements, big and small, and celebrate our successes.

OUR STRUCTURE

ACNZ (PARENT)

- 100% AIRWAYS INTERNATIONAL LTD (AIL)
  - 100% AIRSHARE LTD (AIRSHARE)
  - 100% AIRWAYS TRAINING LTD (ATL)
  - 100% AEROPATH LTD (AEROPATH)

ENTITY	PRINCIPAL ACTIVITY
Airways Corporation of New Zealand Limited (ACNZ)	Provision of air traffic management services
Airways international Ltd	Revenue management, recruitment and training, and air navigation services and maintenance of systems
Airways Training Ltd	Not trading
Aeropath Ltd	Aeronautical information management, procedural design and development services
Airshare Ltd	Delivery of unmanned aerial vehicle (UAV) and drone traffic management services

Our Strategy

OUR PURPOSE

Safe skies today and tomorrow

OUR VISION IS TO

Create the aviation environment of the future

OUR FOUR STRATEGIC PILLARS

- **Put our people first**
- **Serve all airspace users**
- **Support sustainable aviation**
- **Unlock future growth**

STRATEGIC PRIORITIES 2024/25

Future Services programme

- Confirm strategic direction and roadmap development for DAS & UTM
- Deveop airspace architecture concept and value proposition
- Network management conops for TBO & A-CDM
- Commonality of procedures and training

Safety system enhancements

- Enterprise integration of 3LoD
- Airways Group Safety Promotion Programme
- Host CANSO Global Safety Conference

Commercial strategy

- Validation of strategic direction, clarity on operating parameters
- Review governance structure
- Review and refresh risk and revenue frameworks
- Execute 2-3 sales initiatives

Strengthen technology foundations

- Develop an enterprise strategy to support future technology decisions
- Optimisation of asset management strategy and project prioritisation process

People experience

- Implement a new leadership development framework
- Enhance the learning & development offering for our people
- Complete an employee feedback survey and workplan
- Improve Diversity, Equity and Inclusion across the company
- Implement new Performance, Development and Remuneration frameworks
- Collaborate with Professional Associations on strategic initiatives

Sustainability

- Develop Airways' sustainability roadmap and supporting initiatives
- Implement greenhouse gas emissions tracking capability
- Identify and report key greenhouse gas inventory risks and opportunities
- Transition 33% of the vehicle fleet to EV or Hybrid

Customer & Stakeholder engagement

- Refresh Customer and Stakeholder strategy and relationships
- Start refresh of Airport Service Agreements
- Implement annual voice of customer and stakeholder survey
- Consult on FY26-28 priorities and price reset

UNDERPINNED BY OUR VALUES

▶ We are always **safe** ▶ We are one **Airways** ▶ We strive for **excellence** ▶ We celebrate **success**

How we create value

OUR RESOURCES

Financial
Our financial capability and flexibility

Our infrastructure
Networks and assets that support operations and services

Our expertise
Progressive, innovative, customer-focused technologies and capabilities

Our people
The skills and knowledge of our people

Our relationships
With our customers, aviation industry, communities and government

Our environment
The natural resources and environmental assets integral to delivering our services

WHAT WE DO TO CREATE VALUE

OUR PURPOSE

Safe skies today and tomorrow

OUR VISION

Create the aviation environment of the future

OUR STRATEGIC PILLARS

- Put our people first
- Serve all airspace users
- Support sustainable aviation
- Unlock future growth

HOW WE MEASURE SUCCESS

- Employee experience
- Worksafe notifiable event (significant or above)
- Women in the workforce
- Women as senior leaders

- Flight count
- Customer experience score
- Core system availability
- Average delay per arrival
- Serious Air Proximity Events[1]
- UAV incursions[2]

- EV/hybrid fleet transition
- Waste to landfill[3]

- Revenue
- Profit before tax
- Capital expenditure
- Gearing
- Dividends
- New products
- New customers
- Thought leadership events

AND ACHIEVE THESE OUTCOMES

Better work and careers
We are committed to creating a diverse workplace where people feel valued and safe. By focusing on attracting, developing and retaining our people, we will become an employer of choice in the aviation industry.

Value for all airspace users
We are committed to delivering a safe, flexible and accessible customer experience at a fair price, for current and future users, through the use of technology and innovation.

Sustainable outcomes
We will continue to play our part in championing a sustainable approach to airspace management to ensure the industry achieves its long-term objectives.

Financial sustainability
We will ensure a sustainable return to government shareholder.

[1] Airways attributable
[2] Airways attributable, medium or above assessed risks
[3] Tonnage

Strategic and economic context

The global aviation industry is in a state of transition, accelerated by the pandemic. Prolonged disruption highlighted the need for the industry to be more adaptable, flexible and resilient to change. Technologies, new entrants in our skies and increasing expectations of environmental responsibility are driving developments on a number of fronts.

Airways has a long history of high performance as a state-owned enterprise. While the long-term outlook for New Zealand air traffic is strong, the 2024/25 financial year is expected to present headwinds as a more challenging fiscal environment takes hold and we are constrained in the third year of our current price path. Prudent cost management, appropriate prioritisation of our work and continuation of close working links with our stakeholders will support Airways to meet delivery objectives.

Safe Skies Today and Tomorrow – a ten-year strategy

We are now a full year into the Airways' refreshed 10-year strategy, designed to shape our business to meet the needs of the evolving aviation environment. While the strategy is a significant shift from the way we have operated in the past, it does not change our enduring purpose, which is safe skies today and tomorrow.

We are taking a three staged approach to strategy delivery. Currently we are in the 'connect' phase, which will see us through to 2025. During this phase, we are working to ensure a strong foundation for growth as we move ahead. This current stage is focussed on renewing our connections between our people, our customers and stakeholders, alongside completing remaining significant strategic projects started prior to the pandemic.

As we move into the 'build' phase, running through to 2028, our focus will shift to increasing our capacity to deliver safe, flexible solutions to a range of customers, drawing on the skills of a diverse workforce with a unified culture.

Following its launch in mid-2023, our attention has been on embedding the strategy within our business and confirming first priorities for each of its four pillars: 'put our people first', 'serve all airspace users', 'support sustainable aviation' and 'unlock future growth'.

An enduring commitment to Safety

Safety is paramount to Airways' business and we are taking a proactive and multi-dimensional approach to the continuous improvement of our safety culture, to ensure it resonates with our diverse workforce. Our people must not only understand our safety accountabilities but demonstrate them daily.

Safety system enhancements is one of our current strategic priorities. Three initiatives sit within this: Enterprise implementation of the Three Lines of Defence model; a Safety Promotions Programme and hosting the CANSO Safety Global conference.

The first of these initiatives is well underway. As well as being a critical element of our strategic priority, the Enterprise implementation of the Three Lines of Defence model is also a key focus of our safety culture programme. While different parts of the business have different safety needs and priorities, we are united in our shared commitment to maintaining safe skies and ensuring safety is always the number one priority across Airways.

It is an honour to be hosting the CANSO Safety Global conference in March 2025 and this is key to our ongoing Safety leadership, both internally and externally.

The overall goal of these initiatives is to achieve a single, company-wide roadmap for improvement for all components of our safety management system and to ensure accountability for safety is understood and implemented.

A strong focus on our people

'Putting our people first' is about creating a diverse workplace where people feel valued, rewarded and, most importantly, safe. Central to this is our ability to attract, retain and develop the right people to ensure we reach our goals. The starting point, currently underway, is enhancing our employee value proposition to attract the best candidates. We are also reviewing our approach to strategic workforce planning and leadership development, allowing us to retain and develop these people.

Airways' Rainbow Tick accreditation affirms our commitment to being a welcoming workplace for those who identify as lesbian, gay, bisexual, transgender, takatāpui and intersex (LGBTTQIA+). Looking ahead, we will work to take what we have learned through the accreditation process and apply it more widely across our business, with a view to confirming we are a workplace that is equitable and inclusive of everybody. Alongside this, we will continue our support of Pride Pledge, a values-based commitment that organisations and individuals can take to demonstrate their dedication to the safety, visibility and inclusion of the rainbow members of their community and workforce, both internally and externally.

The future of air traffic services

Economic, environmental and technological factors will shape the air traffic of the future and the way we deliver our services. Over the next decade, we expect growth of air traffic in New Zealand's regions, increased use of sustainable aircraft and fuels, and a rapid increase of uncrewed aerial vehicles (UAVs). 'Serve all airspace users' is the strategic pillar that prioritises our core business operations and the delivery of a safe, flexible and accessible customer experience at a fair price through the use of technology and innovation. Our umbrella future services programme will see a number of initiatives progressed to achieve this.

In October 2023, we transitioned to our new Skyline-X air traffic management platform (ATM), operating out of two new surveillance centres in Auckland and Christchurch. This once in a generation technology and infrastructure upgrade increases resilience and flexibility, and paves the way for sustainable solutions for air traffic management in New Zealand. This transition was recognised globally with Airways receiving the Civil Air Navigation Services Organization's (CANSO) 2023 Overall Excellence Award, and Resilience Award. CANSO is the global industry body representing civil air navigation service providers. The new ATM platform and operating centres will provide a solid foundation for initiatives progressed under the future services programme.

Key to serving all airspace users is the development of an uncrewed traffic management (UTM) system. We will keep working collaboratively with regulators, UAV operators and airports on the development of a UTM strategy that safely integrates these technologies into our airspace alongside traditional aircraft. This will build on several years of research and development and important recent milestones, including the completion of a world leading trial in partnership with Wisk Aero – developer of an all-electric, self-flying air taxi – demonstrating a remote pilot flying beyond their visual line of sight and responding safely and effectively to air traffic control. Our contribution to this trial has also been recognised by CANSO with us receiving the 2023 Integration of Drones and Advanced Air Mobility award.

The Auckland air traffic control tower replacement project will progress over the coming 12 months under the future services programme, safeguarding our ability to deliver safe and effective services to our country's busiest airport going forward.

Supporting sustainable aviation

Sitting closely alongside 'serve all airspace users' is our 'support sustainable aviation' pillar. Reducing emissions will remain a key area of focus for aviation industries. We are continuing to champion a more sustainable approach to airspace management, collaborating with domestic international industry partners, defining goals clearly and tracking our results on CO2 emission reduction.

Building on successful work to date, we will continue to review our management of airspace sectors, including making greater use of surveillance approaches using instrument flight procedures for all of our controlled aerodromes. We will also look to further develop our flow management capability through collaborative network operations (CNO) and trajectory-based operations (TBO).

A new corporate sustainability strategy, to be developed for Airways, will make our waste, energy, infrastructure and transport management more sustainable.

> "Reducing emissions will remain a key area of focus for aviation industries."

Positioning ourselves for future growth

Our fourth pillar is 'unlock future growth'. Our goal is to create a sustainable global commercial business through key strategic partnerships, a strong customer base with multi-year contracts, and recurring revenue streams. We will look to build a suite of digital solutions using cloud-based technologies and a strong presence in New Zealand and the Pacific.

In late 2024 we will begin consulting with our airport, airline and general aviation customers on prices for the 2026 to 2028 period. Every three years we consult with customers on our prices and associated service enhancements.

Through this process, we look forward to sharing more with our customers and stakeholders about our future strategy taking Airways to 2033 and our roadmaps for getting there. We are confident that through our continued collaboration a strong and more resilient future lies ahead.

Performance and Financial Measures

This section outlines Airways' aspirations and targets for the three years to 2027. Airways is moving to an Integrated Reporting Framework. The key performance measures are set against the six capitals of the Integrated Reporting Framework. The aspirations and targets link into Airways' long-term strategy.

Financial

Aspiration

- Deliver appropriate risk-adjusted rates of return over the business planning period.
- Secure stable planning and funding arrangements to transition the business to a digital future.
- A strong focus on value creation through disciplined investment that continues to build resilience in our operating network and supports future delivery of our strategic initiatives.

FY25 – FY27 Focus

- Customer consultation on a new 3-year pricing cycle.
- Secure new debt funding arrangement.
- Focus on growing Total Shareholder Return over time.

Key Measures*	Forecast FY24	Plan FY25	Plan FY26	Plan FY27
Revenue ($m)	276.1	274.8	323.1	339.3
Profit before tax ($m)	25.7	10.5	46.6	52.4
Capital expenditure ($m)	46.5	63.2	78.3	85.6
Gearing	38.3%	40.4%	38.9%	37.4%
Dividends ($m)	20.0	5.0	11.0	12.0
Total shareholder return[2]	4.8%	(0.6%)	2.0%	2.0%
Dividend yield	6.3%	1.6%	3.6%	3.9%
Return on capital employed	11.8%	6.1%	18.2%	17.7%

* For a complete listing of our financial measures please refer to Appendix A

Infrastructure

Aspiration

- Integrated planning and management of the systems and infrastructure that support air traffic management services and operations.
- Deliver a safe and efficient aviation system focused on availability and reliability.
- Deliver a strategic investment programme that underpins safety, customer flexibility and strategic objectives.
- Transition to a digital future in step with asset lifecycle and industry priorities.
- Review and enhance the New Zealand Domestic Flight Information Region.
- Drive better environmental outcomes through future investment programs.

FY25 – FY27 Focus

- Continue to improve network and service resilience.
- Advance planning and execution of the Auckland Tower replacement – with customer impacts at the forefront of the work program.
- Implement the next-generation aviation strategy that serves all airspace users.
- Develop robust service management frameworks to enhance efficiencies.
- Improve project flexibility utilising both internal and external delivery models.

Measure	Forecast FY24	Plan FY25	Plan FY26	Plan FY27
Core system availability	99.99%	99.98%	99.98%	99.98%
Service availability				
Main trunk	99.97%	99.98%	99.98%	99.98%
Regional	99.47%	99.80%	99.80%	99.80%
Surveillance	99.97%	99.98%	99.98%	99.98%
Enroute domestic	99.93%	99.93%	99.93%	99.93%
Enroute oceanic	100%	99.93%	99.93%	99.93%
Flight information	100%	99.93%	99.93%	99.93%

Expertise

Aspiration

- Build a sustainable global business by establishing strategic partnerships to complement service offerings and access to new markets.
- Drive increased productivity outcomes across the business.
- Become a leading provider of digital solutions for the aviation industry.
- Be recognised globally as thought leaders in the aviation industry.
- Improve safety performance by fostering positive safety culture, data driven intelligence, embedded safety practices and an integrated Safety Management System.

FY25 – FY27 Focus

- Develop innovative cloud-based technologies to support Air Navigation Service Providers.
- Actively take a leadership role globally in the aviation industry.
- Develop Aeropath (one of our subsidiaries) partnerships to extend capacity and enter new markets.
- Improve integrated SMS by including the CANSO Global Standard for Human Performance Management.

Measure	Forecast FY24	Plan FY25	Plan FY26	Plan FY27
Airways attributable Serious Air Proximity Events (Category A)	Nil	Nil	Nil	Nil
UAV incursions (Airways attributable, high or above assessed risks)	Nil	Nil	Nil	Nil
Thought leadership events	>30	>30	>30	>30
Number of new customers	3	4	5	5

People

Aspiration

- Our people are happy to go to work, and return home safe and well.
- We continue to build a more diverse and flexible workforce for the future.
- Our people feel safe to be their whole self at work and do their best work.
- We provide our people with a rewarding and satisfying career path.

FY25 – FY27 Focus

- Continue to lift people culture and engagement across the business.
- Enhance our leadership development approach and build resilient and effective leaders for the future.
- Enhance learning and career progression opportunities.
- Attract, develop and retain talent to meet our future workforce requirements.
- Continue our focus on delivering a diverse and inclusive workplace and culture, where all employees feel they belong.
- Continuously build on our safety culture through collaboration and communication across Airways.
- Work with our people's representative unions on areas of mutual interest.

Measure	Forecast FY24	Plan FY25	Plan FY26	Plan FY27
Employee experience	66%	68%	70%	72%
WorkSafe notifiable incidents	1			
Worksafe notifiable event (significant or above)	Nil	Nil	Nil	Nil
Voluntary attrition	8.25%	7.5%	7.5%	7.5%
Women in the workforce	28%	29%	30%	31%
Women in senior leadership	41%	42%	43%	44%
(New measure) Gender pay gap	New measure	Set baseline		

From FY25 worksafe notifiable incidents will no longer be measured. The new measure is Worksafe notifiable events (significant or above)

Relationships

Aspiration

- Ensure Airways' purpose and strategy is well understood by customers and stakeholders.
- Continue to positively contribute to, and influence, positive change across the aviation industry.
- Deliver safe, flexible and customer-centric experiences and services at a fair price.
- Ensure our services deliver improved environmental outcomes.
- Through the use of technology and innovation, we will meet the needs of current airspace users while striving to deliver solutions for future users.

FY25 – FY27 Focus

- Implement a refreshed customer management framework with emphasis on building trust and industry collaboration.
- Foster customer-centricity within Airways.
- Build voice of customer programme.
- Establish customer-focused reporting.
- Transition ownership and maintenance of airfield power and lighting to airports.

Measure	Forecast FY24	Plan FY25	Plan FY26	Plan FY27
Flight count	494,547	493,512	503,382	508,416
(New measure) Average delay per arrival	New measure	<20 seconds	<20 seconds	<20 seconds
Customer experience	TBC	FY24 baseline +2%	FY24 baseline +4%	FY24 baseline +6%

Environmental capital

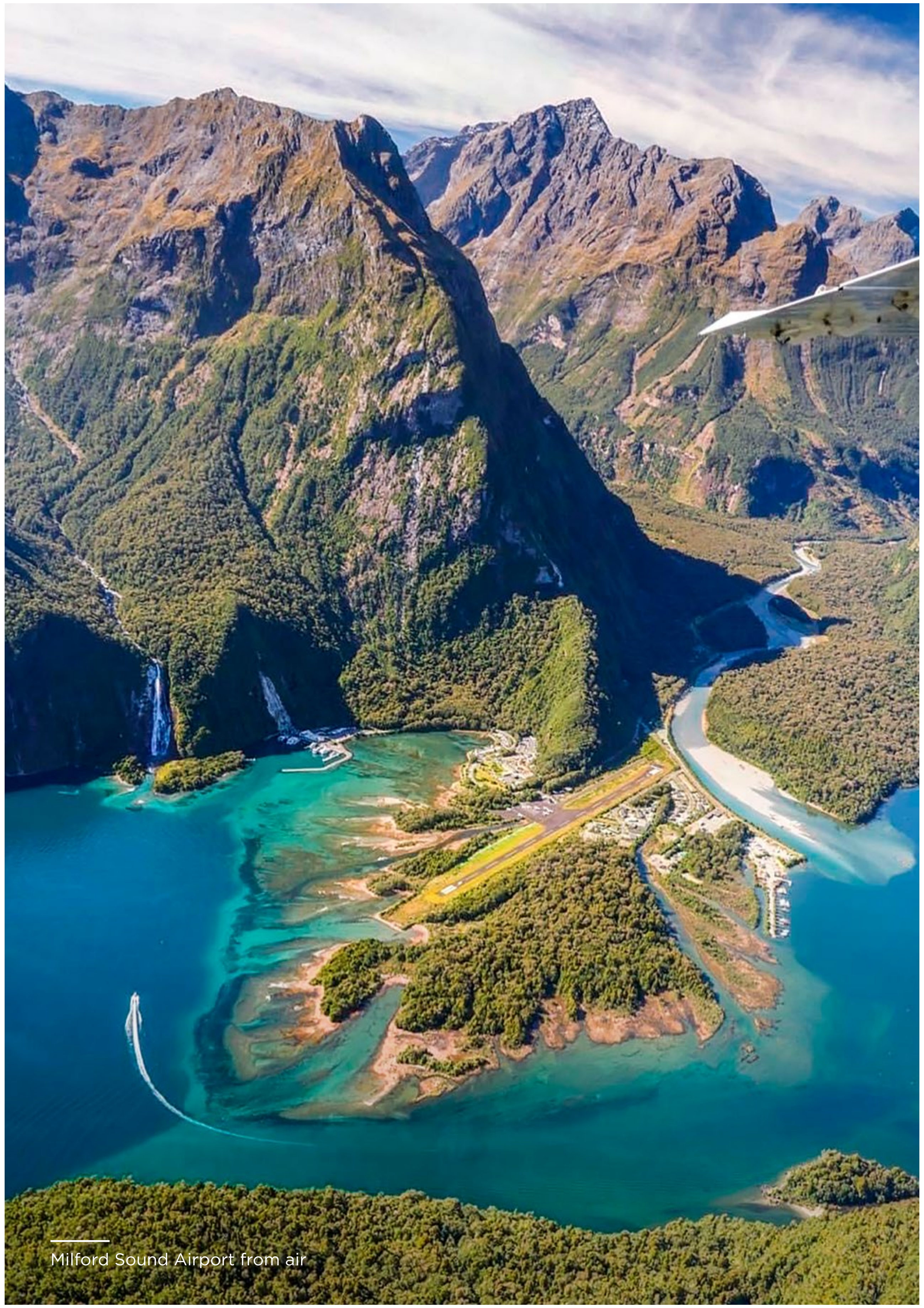
Aspiration

- Deliver enduring actions that improve Airways' carbon and environmental footprint.
- Continue world-leading initiatives to reduce track miles travelled.
- Support the industry to achieve New Zealand's climate goals.
- Foster and lead partnerships to identify and realise opportunities for carbon reduction.

FY25 – FY27 Focus

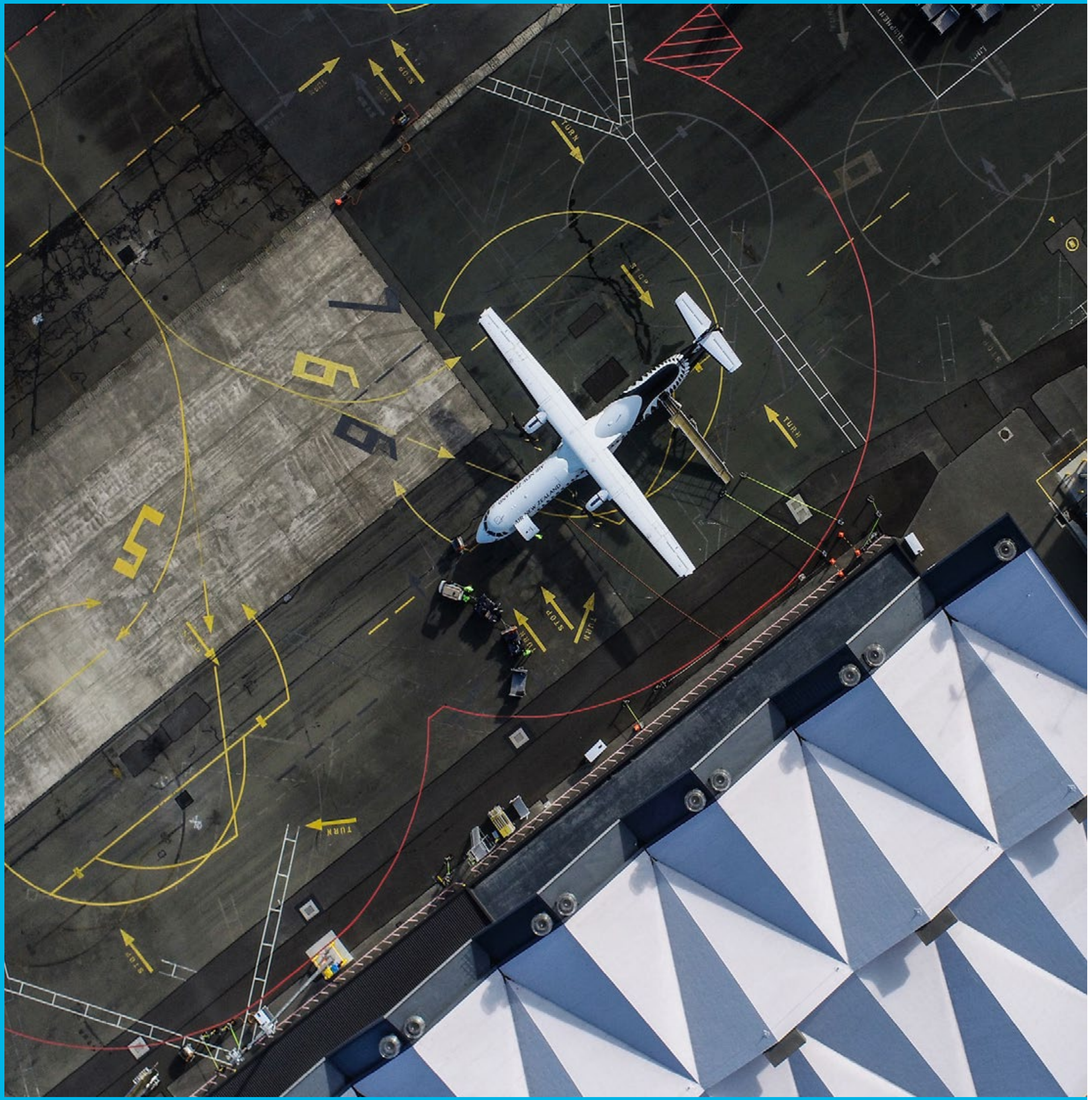
- Develop a sustainability strategy with clearly defined objectives, initiatives and tracking
- During FY25, set a date by which the company will be carbon zero.
- Actively participate in government and industry-led initiatives to reduce emissions and improve environmental performance.
- Initiate participation in the CANSO GreenATM accreditation programme.
- Leverage technology to develop enduring initiatives to reduce Airways' carbon and environmental footprint.
- Improve visibility of waste outcomes and reduce waste to landfill.
- Transition to electric and hybrid vehicles where possible and reduce kilometres travelled.

Measure	Forecast FY24	Plan FY25	Plan FY26	Plan FY27
Transition vehicle fleet to EV/Hybrid	13%	33%	60%	60%
(New Measure) Waste to landfill (tonnage)	42.5	42.1	41.6	41.2



Milford Sound Airport from air

Financial Forecasts by Unit ($NZm)



The financial performance of the Airways Group has continued to improve as the volume of air traffic through our network has increased over the last year. We are pleased to be forecasting a full year Net profit before tax of $25.7m for the FY24 year, which is in line with our budgeted profit. This result is due to a combination of factors, including Core ANS revenue tracking favourably to budget, lower than forecast net interest cost and depreciation charge, partly offset by higher labour costs.

In April 2024, Airways advised customers that it had completed its revenue forecast for the period 1 July 2024 to 30 June 2025 (FY25) in accordance with our Standard Terms and Conditions (Standard Terms) and Pricing Framework. Airways' forecast revenue for FY25 was within 2% of the target revenue set as part of the three-yearly pricing consultation and proposed no changes to our published prices for FY25. Airways invited customers to provide any additional information about their schedules before setting final prices.

We subsequently received updated schedules from some of our customers which showed a reduction in both domestic and international flight volumes, reducing our forecast revenue to 96% of our target revenue and below the 98% threshold in the risk-sharing mechanism provided for in the Standard Terms and Pricing Framework. As this has a material and adverse effect on Airway's financial position, Airways is consulting in June on the proposed prices to apply for most of the FY25 period.

We will start consultation for our FY26-28 pricing period in early 2025 under our Economic Value Added methodology outlined in Appendix B.

	Forecast FY24	Plan FY25	Plan FY26	Plan FY27
Revenue (includes internal revenue)				
Core business (ACNZ)	255.3	250.7	295.3	310.0
Commercial businesses (subsidiaries)				
Aviation services	9.8	12.4	13.0	13.7
Digital products	7.0	7.8	8.6	10.8
Aeropath	13.0	10.3	12.0	12.6
Training course delivery	5.8	8.0	8.7	6.9
Total Commercial Business	**35.6**	**38.5**	**42.4**	**44.0**
Group revenue	**290.9**	**289.2**	**337.6**	**354.0**
Net profit before tax				
Core business (ACNZ)	19.0	2.0	35.8	40.0
Commercial businesses (subsidiaries)				
Aviation services	3.9	6.0	6.2	6.5
Digital products	(0.9)	(0.1)	0.5	2.2
Aeropath	2.1	1.2	2.2	2.4
Training course delivery	1.5	1.4	1.7	1.3
Total Commercial Business	**6.7**	**8.5**	**10.7**	**12.4**
Group net profit before tax	**25.7**	**10.5**	**46.6**	**52.4**
Key financial metrics				
Capital investment	46.5	63.2	78.3	85.6
Group FTEs	835	883	881	890
Group return on capital	11.8%	6.1%	18.2%	17.7%

Accounting policies

Airways prepares financial statements in accordance with NZ 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 Airways Group revenue number above includes internal revenue earned by the commercial businesses (the subsidiaries) from the core business (ACNZ). This internal revenue is eliminated in the annual financial statements, which are prepared at an Airways Group level only. This has no impact on the Airways Group profit.

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

Dividends

The Directors will seek to return a dividend of between 50 percent and 100 percent of free base cash flow from Airways (normalised for maintenance levels of capital investment), subject to maintaining gearing ratios below 50 percent over a rolling five year term .

Actual dividend payments will also remain subject to both solvency test and banking covenant restrictions.

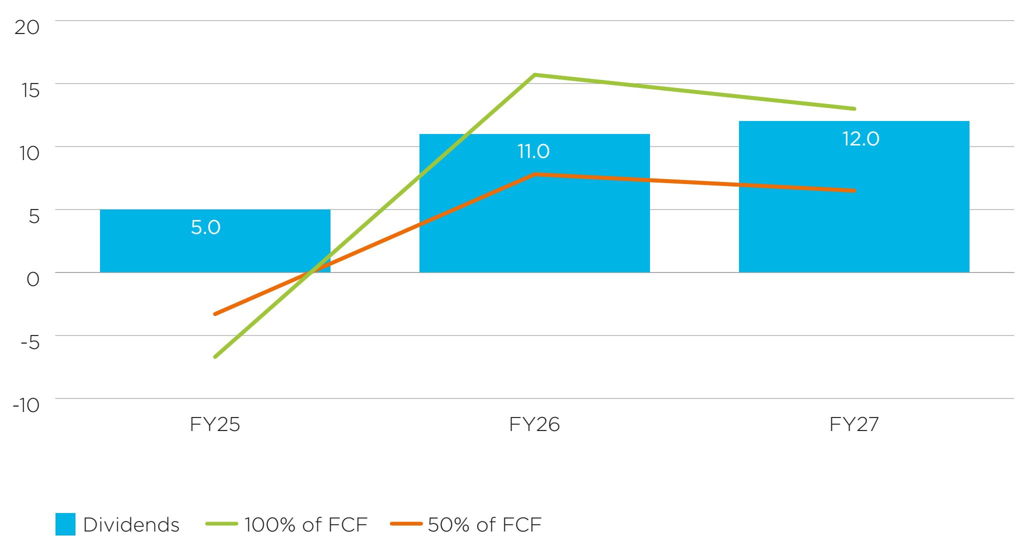
In determining dividend levels, the ACNZ Board will balance the objective of providing a stable or increasing dividend to the Shareholder against short-to-medium term investment requirements and prudent risk management.

Specific dividend forecasts for the planning period, with respect to base free cashflow parameters, are set out below.

Gearing is expected to remain within policy limits for the five-year period FY25– FY29.

The level of dividend will be reviewed annually as part of the business planning process and at each declaration date.

Dividends vs Free Cash Flow limits ($m)



[1] Dividends are payable where average gearing over the next 5 year period remains below policy levels and there is no individual year where gearing exceeds 40% exclusive of leases or 50% inclusive of leases.

Information to be provided to shareholding Ministers

In compliance with the Act and in accordance with the requirements of the shareholding Ministers, the following information 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 of Airways during that financial year
  - 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 of ACNZ 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 information and commentary in each report should summarise performance against plan, highlight major achievements for the quarter, identify the cause of any major variances, provide an outlook of performance to the end of the year, and signal any developing issues and emerging risks and opportunities.

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 and information requests from Shareholding Ministers

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

In accordance with Section 18 of the SOE Act, the ACNZ Board will also provide other information relating to the affairs of ACNZ or its subsidiaries as requested by the Shareholding Ministers.

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 Airways' equity investment or capital expenditure above:

- $10 million on an individual item of capital expenditure or investment in New Zealand, if outside of activities reported in this SCI
- $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.

Commercial value of the Crown's investment in Airways

The ACNZ Directors' estimate of the current commercial value of the Crown's investment in the Airways Group at 30 June 2024 was $305.1 million down $23.6m on the 2023 value of $328.6 million.

	June 2024
Group Enterprise Value	$414.1m
Less Net Debt*	$109.0m
Group Equity Value attributable to Crown	**$305.1m**

* Includes lease liabilities of $68.5 million.

The key characteristics of the valuation approach adopted are:

- The core business (ACNZ) 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 8.91 percent.
- The commercial business (subsidiaries) comprises a portfolio of products and services utilising ACNZ's intellectual property and expertise supporting international ANSPs and the wider aviation industry. The discount rate was based on the projected average cost of capital of 11.04 percent.
- A growth rate of 0 percent per annum was assumed in the terminal value calculation for all business units.
- The valuation was prepared by management and reviewed by Deloitte Limited, prior to approval by the ACNZ Board.

The current valuation of $305.1 million compares with a value as at 30 June 2023 of $328.6 million. The key reasons for the decrease in commercial value are:

- Core business (up $2.9 million) net increases in the capital base used to determine future pricing
- Increase in Airways Group net debt of $26.1 million

Appendix

Appendix A: Financial Performance Metrics ($NZm)

Year ended 30 June	Actual FY23	Forecast FY24	Plan FY25	Plan FY26	Plan FY27
Profitability					
Total revenue	223.7	276.1	274.8	323.1	339.3
EBITDA	35.7	63.0	52.5	91.5	102.0
EBIT	11.0	29.4	14.7	50.1	56.0
Group profit after tax	5.4	12.4	7.5	33.8	37.9
Shareholders' returns					
Total shareholders' returns[2]	4.5%	4.8%	(0.6%)	2.0%	2.0%
Dividend yield	0.0%	6.3%	1.6%	3.6%	3.9%
Dividend payout	0.0%	91.2%	64.0%	29.6%	32.3%
Return on equity	2.7%	6.2%	4.0%	16.2%	15.9%
ROE, adjusted for IFRS revaluations	2.7%	6.3%	4.0%	16.3%	16.0%
Profitability/efficiency					
Return on capital employed	4.2%	11.8%	6.1%	18.2%	17.7%
Return on assets	2.9%	7.7%	4.0%	12.3%	12.3%
Operating margin	15.9%	22.8%	19.1%	28.3%	30.1%
Net profit margin	2.4%	4.5%	2.7%	10.5%	11.2%
Asset turnover	0.6	0.8	0.7	0.7	0.7
Leverage/solvency					
Equity multiplier (Assets/Shareholder equity)	1.9	2.0	2.0	2.0	1.9
Gearing ratio (net) – excluding leases	2.7%	17.9%	23.9%	24.3%	25.0%
Gearing ratio (net) – including leases	27.2%	38.3%	40.4%	38.9%	37.4%
Interest cover (before capitalised interest)	6.3	11.0	8.9	13.7	13.8
Solvency (current ratio)	1.6	0.9	0.9	0.8	0.8
Growth/investment					
Revenue growth	54.7%	23.4%	(0.5%)	17.6%	5.0%
EBITDAF growth	271.2%	76.6%	(16.6%)	74.3%	11.5%
NPAT growth	115.3%	128.8%	(39.2%)	348.1%	12.1%
Capital employed growth	7.3%	(14.9%)	11.4%	15.2%	14.9%
Capital renewal	1.8	1.6	2.0	2.2	2.1

[2] Company valuations are not forecast from 2025–27.

Definitions for the financial performance measures above are at the following link:
Owner's Expectations: Expectations for Crown companies and entities monitored by the Treasury - July 2020

Appendix B: Core (ACNZ) 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 ACNZ, reflected by an EVA result of zero.

Key parameters and inputs into the EVA framework have been presented to our customers through the consultation process for the FY23-25 pricing round.

EVA	Plan FY25	Plan FY26	Plan FY27
Total capital employed			
Debt employed	195.6	213.4	232.1
Equity employed	141.2	165.6	184.7
	336.7	**378.9**	**416.8**
Charge on operating capital	**27.2**	**28.9**	**31.9**
Economic value added	**(23.1)**	**0**	**0**

Cost of capital – key parameters	Plan FY25	Plan FY26	Plan FY27
Risk free rate – 3-year Government Stock	4.40%	4.40%	4.40%
Market risk premium	7.50%	7.50%	7.50%
Business risk factor (asset beta)	0.60	0.60	0.60
WACC range percentile	67th	67th	67th
Cost of capital	**8.91%**	**8.91%**	**8.91%**
Return on capital (RoC)	1.36%	8.91%	8.91%

Appendix C: Statement of Accounting Policies

Basis of preparation

The financial statements are for the Airways Group, consisting of ACNZ and its subsidiaries. They have been prepared in accordance with:

- Generally Accepted Accounting Practice (GAAP) in New Zealand (as a result they comply with the New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and other applicable New Zealand accounting standards and authoritative notices, as appropriate for for-profit Tier 1 entities. They also comply with International Financial Reporting Standards).
- The requirements of the Financial Reporting Act 2013, Companies Act 1993 and the State-Owned Enterprises Act 1986.

The financial statements have been prepared on a 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 Airways. 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.

Key accounting policies

Key accounting policies adopted in the preparation of these consolidated financial statements can be found in the specific note to which the policy applies. These policies have been consistently applied to all the years presented.

Profit or loss and other comprehensive income information

This note provides further information about items in the statement of profit or loss and other comprehensive income, that are either individually significant or involve estimates or judgements in determining their value.

Revenue from contracts with customers

Airways recognises revenue in accordance with NZ IFRS 15 – revenue from contracts with customers. Under this standard, specific performance obligations within contracts are identified, and the revenue assigned to the obligations is recognised as the control of the good or service is transferred to the customer. Depending on how this control passes, revenue is recognised either at a point in time, or over time.

With respect to the different sources of revenue for the Airways Group – the following accounting policies have been adopted.

Revenue type	Accounting policy	Over time vs point in time
Air Traffic Management (ATM)	Recognised at completion of the flight or aircraft movement.	Point in time
Consulting	For consultancy contracts with specified contractual obligations where Airways retains control until the work is completed, revenue is recognised once the obligations are satisfied.	Point in time
	Revenue from ongoing consultancy services, or where assets are being constructed for customers that do not have an alternative use for Airways and there are contractual rights to payment for work performed, is recognised as the service is provided or asset is constructed. Revenue recognition is based on the input method utilising direct costs incurred	Over time
Software licences	For licenses with a defined term, revenue recognition is based on straight-line recognition across the life of the license.	Over time
	Revenue for perpetual licenses that grant a right to use is recognised once the license is available for use	Point in time
Training	Revenue recognition is based on the output method utilising the days of training provided.	Over time
Publications	Revenue from subscriptions to aeronautical information is recognised on a straight-line basis over the life of the subscription.	Over time
Data services	Data services include the ongoing provision of access to Airways data and revenue recognition is based on the output method utilising the days of services provided.	Over time

Employee entitlements

Superannuation

Airways contributes to various defined contribution schemes that are funded through fixed contributions into trustee administered funds. Airways has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. The contributions are recognised as an employee benefit expense in profit or loss when they are due for payment to the funds.

Leave benefits

Liabilities for annual leave, long service leave and retiring leave are accrued and recognised in the balance sheet. These liabilities equal the present value of the estimated future outflows as a result of employee services provided at balance date. Long service leave that has vested with employees is recognised as a current liability within employee entitlements. Actuarial estimates of future demographic trends and employee remuneration are used to calculate the long service leave and retiring leave liabilities that have not yet vested with staff. This is recognised as a long-term liability within employee entitlements.

Income tax and related balances

This note provides an analysis of Airways' income tax expense, shows which amounts are recognised directly in equity and in other comprehensive income, and how the tax expense is affected by non-assessable and non-deductible items.

Income tax expense

The tax expense for the year comprises current and deferred tax. Tax is recognised in profit or loss, except to the extent it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is recognised in other comprehensive income or directly in equity, respectively. Current tax is measured on the basis of laws enacted or substantially enacted at the reporting year end.

Deferred tax is recognised in respect of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amount used for taxation purposes. The amount of deferred tax is based on the expected manner of realisation of the carrying amount of assets and liabilities, using tax rates enacted, or substantially enacted at the reporting year end.

Deferred tax assets arising from tax losses are recognised only if it is probable that future taxable amounts will be available to utilise those losses.

Deferred tax

Deferred tax assets and liabilities are offset on the face of the balance sheet when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends to either settle on a net basis or to realise the asset and settle the liability simultaneously.

Financial assets and liabilities

Airways classifies all financial assets and liabilities as being measured either at Amortised Cost, Fair Value through Profit or Loss or Fair Value through Other Comprehensive Income (OCI). Financial liabilities (other than fair value through OCI) are recognised initially at fair value, net of any costs incurred, and subsequently measured at amortised cost using the effective interest method. The carrying value of trade and other payables approximate their fair value.

Airways uses forward exchange contracts to hedge expenditure and revenue denominated in foreign currency and interest rate swaps to hedge interest repayments on its term debt. The effective portion of changes in the fair value of hedging instruments is recognised in equity until the underlying transaction being hedged occurs. At this point, the fair value of the hedging instrument deferred in the cash flow hedge reserve is recognised in profit or loss (as interest costs, or foreign currency denominated revenue or expenses as appropriate) or on the balance sheet (within the recognised value of any hedged asset or stock purchase). If the hedged transaction is no longer expected to take place, then the cumulative, unrealised balance recognised in equity is recognised immediately in profit or loss.

The derivatives used for hedging are considered Level 2 financial instruments and are recognised on the balance sheet at their fair values, which are determined using observable inputs as follows:

- Forward exchange contract values are determined using observable forward exchange market rates at the balance date.
- Interest rate swaps are valued using the "projected" methodology. For floating rates, this method projects all future floating cash flows and discounts these back to the revaluation date. For fixed rates, the individual cash flows are discounted from the cash flow date to the revaluation date. The discount rate used to calculate the Net Present Value (NPV) of the deal is the zero-coupon curve, based on a blended swaps curve obtained from Reuters.

Trade and other receivables

Collectability of trade receivables is reviewed on an ongoing basis and uncollectible debts are written off. Airways uses the simplified model to determine expected credit loss. A provision for expected credit losses (ECL) is recognised for groups of trade receivables that have been grouped based on shared credit risk characteristics and the days past due. The amount of the ECL will reflect the specific circumstances of individual debtors, including the expected ability and intent to pay, however as a guide and based on previous historical observed default rates for different groupings:

- debt which is greater than 90 days but less than one year overdue is provided for at 10%
- debt which is greater than one year but less than two years old is provided for at 50%
- debt which is greater than two years old is provided for at 100%.

In addition to this, consideration is also given to other economic factors which could contribute to further expected credit losses.

The net impairment losses are recognised in profit or loss under other operating costs. Any subsequent recoveries of amounts previously provided for, or written off as bad debts, are credited against the same line item.

Property, plant and equipment, and intangible assets

Recognition and measurement

All classes of property, plant and equipment and intangibles are initially recorded at cost. Cost is determined by including all charges directly associated with bringing the assets to their location in working condition.

Capital work in progress includes expenditure on partially completed assets that management expects will form part of the asset cost at completion.

Where assets are generated internally, costs are only capitalised once a formal investment case has been prepared and approved in line with Airways' delegated financial authority policy. The costs on these projects may include both internal labour and third-party costs. The investment case must demonstrate that:

- the economic and other benefits of the asset are clearly articulated and consistent with Airways' strategy
- the cost associated with the project is within Airways' budget and can be reliably measured
- there are sufficient staffing and technical resources available to complete the project (either internally or externally)
- the asset to be created is technically feasible.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to Airways and the cost of the item can be measured reliably. The carrying amount of any replaced parts is written off.

Depreciation and amortisation

The cost of all fixed and intangible assets (excluding freehold land and work in progress), less their estimated residual value, is written off on a straight-line basis over the asset's estimated useful economic life. Asset useful lives and residual values are assessed annually and adjusted if required.

Impairment

All assets are reviewed for potential indicators of impairment at every balance date and whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. For work in progress, these indicators include any changes to the scope or expected outcome of individual projects.

In addition, impairment tests are carried out at every balance date for intangible assets within work in progress regardless of whether indicators of impairment exist.

These tests involve reassessing the feasibility of the project, the expected cost to completion and the expected economic benefit to be realised. Where the expected economic benefit provided by the asset is lower than the expected cost to completion, the difference is booked as an impairment to the current carrying value in work in progress unless a higher amount could be realised through sale of the asset less costs to sell (fair value less costs to sell). The corresponding impairment is recognised in profit or loss.

Leases

Recognition and measurement

The determination of whether a contract is, or contains, a lease is based on the substance of the arrangement at the inception of the lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

At the commencement date of a lease agreement, Airways recognises a right-of-use asset and a lease liability.

Right-of-use assets are recognised when a member of the Airways Group, as a lessee, has the right to use an underlying asset for the lease term.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs
- restoration costs.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term.

Lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using Airways' incremental borrowing rate. The incremental borrowing rate is the rate that Airways would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions. Airways has used an incremental borrowing rate as the discount rate for all leases.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value and short-term leases recognised on a straight-line basis by Airways comprise of IT-equipment and small items of office furniture.

Inventories

Recognition and measurement

Inventories are measured at the lower of cost and net realisable value. The costs of individual items of inventory are determined using weighted average costs.

Share capital and reserves

Airways has issued ordinary shares which confer on the holders the right to vote at any general meeting of shareholders.

The Cash Flow Hedge Reserve records the portion of the gain or loss on a hedging instrument designated as a cash flow hedge that is determined to be an effective hedge.

Financial risk management

Airways is exposed to a number of financial risks, which are managed through setting appropriate objectives and implementing prudent policies and controls. These objectives, policies and controls are managed through Airways' Treasury Policy and summarised below.

Liquidity risk

In the short term, Airways is exposed to liquidity risk through timing differences between cash receipts from sales or facility drawdowns and cash requirements for current capital expenditure and business operating costs. In addition Airways is also exposed to liquidity risk in the long term through the potential unavailability of debt funding to finance future capital expenditure, business developments and loan repayments.

Airways' primary objective in managing liquidity risk is to ensure there is sufficient liquidity and funding capacity to cover known, and a reasonable level of unforeseen, funding requirements.

Interest rate risk

Airways is exposed to interest rate risk through:

- differences between cost of debt assumptions used when setting ATM service pricing for three-yearly periods, and actual interest rates available when debt is drawn down
- fluctuations in interest rates on unhedged, floating debt.

Airways' primary objective in managing interest rate risk is to secure interest rates below pricing assumptions and the long-term average cost of debt, ensuring revenue from customers is sufficient to cover interest costs. This is achieved using interest rate swaps to secure fixed debt funding costs for forecast positions.

Foreign exchange risk

Airways is exposed to foreign exchange (FX) risk through:

- revenue streams denominated in foreign currencies
- operational costs requiring payment in foreign currencies
- capital expenditure requiring payment in foreign currencies.

Possible fluctuations in foreign exchange rates are not expected to have a material impact on Airways' financial position or performance.

Credit risk

Airways is exposed to credit risk through:

- cash and cash equivalents on deposit with banks
- interest rate swaps and foreign exchange contracts with counterparties
- customers with outstanding receivables.

Capital management

Airways' primary objectives when managing capital are to safeguard its ability to continue as a going concern and to maintain a target gearing ratio over the medium term (five years). In order to maintain or adjust the capital structure, Airways may adjust the amount of dividends paid to shareholders, return capital to shareholders, increase or reduce debt, sell assets or reduce capital expenditure.

Directory

Bankers

ANZ Bank New Zealand Limited

Bank of New Zealand Limited

Auditors

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

Registered office

Level 2
6 Leonard Isitt Drive
Auckland Airport 2022
New Zealand

airways.co.nz

AIRWAYS.CO.NZ