

AIRWAYS

Statement of
Corporate Intent
2021/22 ▶ **2023/24**



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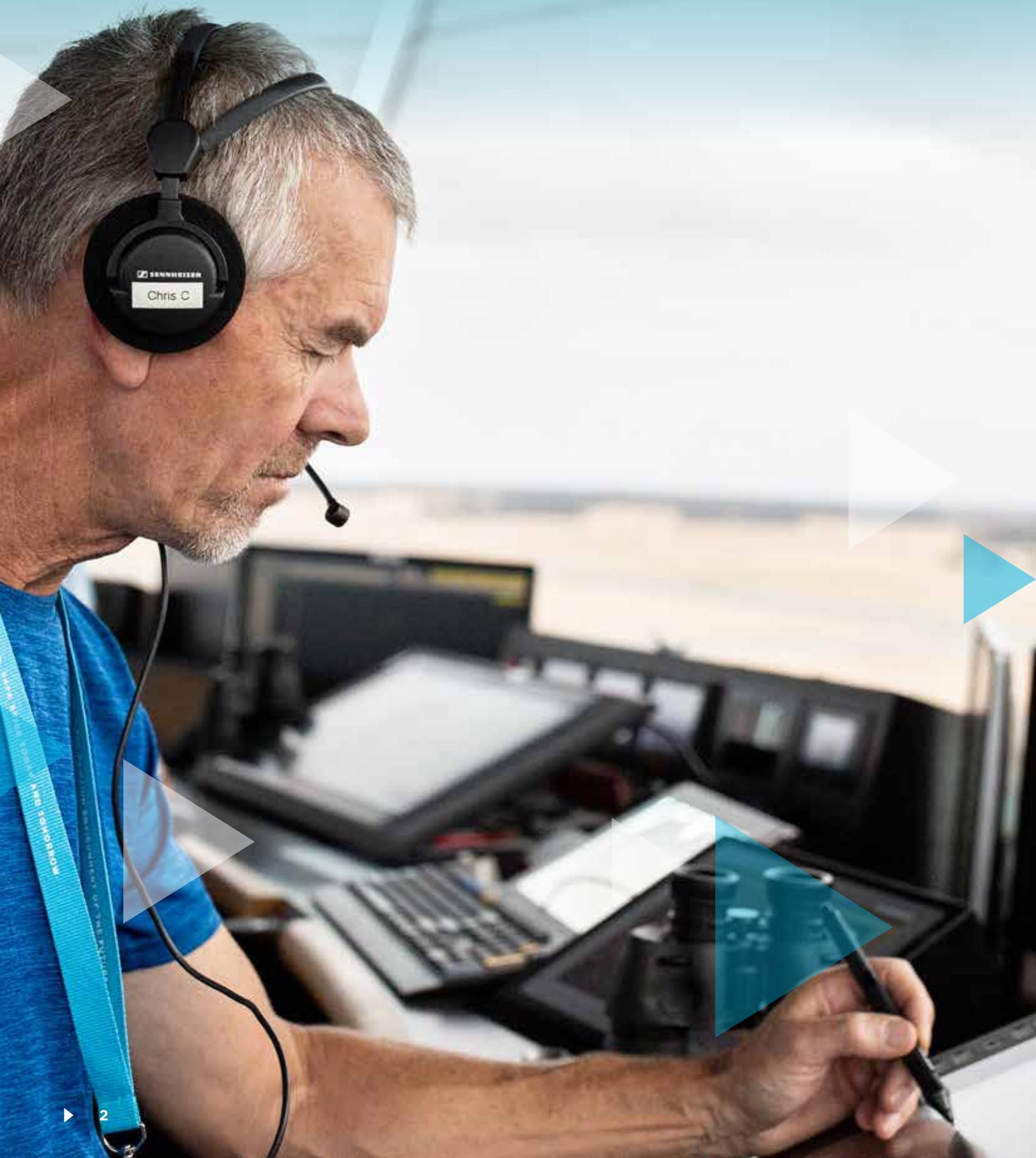
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▶ Safe skies today and tomorrow



Introduction and nature and scope of activities

Airways Corporation of New Zealand Limited (ACNZ) is a State-Owned Enterprise 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 \$55.55 million fully paid shares.

Airways' core role is to be 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 percent 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 2021 to 30 June 2024.

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

We value safety, each other, excellence and success

An integrated approach to value creation

Airways has committed to reporting against the Integrated Reporting <IR> Framework going forward to illustrate how we create immediate and long-term value. This SCI marks the start of our journey towards

more integrated thinking and value creation. Over the coming years, we will continue to develop our strategic thinking and reporting practices using the IR Framework.

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How we create value

Resources to create value



FINANCE

Our financial strength and flexibility.



INFRASTRUCTURE

Networks and infrastructure under our control that support operations and services.



EXPERTISE

Progressive, innovative and customer focussed technological developments and training programmes.



PEOPLE

The skills, knowledge and active engagement of our people.



RELATIONSHIPS

Safe skies and connections for our passengers, airline customers, communities, aviation and government.



ENVIRONMENT

The natural resources and environmental assets integral to delivering our services.

AIRWAYS

How we expect to contribute

459,000

FLIGHT COUNT

\$51.6M

CAPITAL INVESTED

99.98%

CORE SYSTEM AVAILABILITY

\$17.5M

GROUP LOSS AFTER TAX

Nil

NEAR COLLISIONS

\$4.3M

COMMERCIAL PROFIT AFTER TAX



► **OUR VISION**
Where we are heading

Create the aviation environment of the future.

► **OUR PURPOSE**
Why we exist

Safe skies today and tomorrow.

► **OUR STRATEGY**
How we'll get there

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 VALUES

Who we are

Every day we contribute to achieving our strategy by living our values



Safety



Each Other

Value we create



SAFETY AND SOCIAL RESPONSIBILITY

- Safety for travelling public and airspace users
- Global and regional connectivity
- Lifting standards for airspace management through technology and innovation



PROFITABLE AND EFFICIENT

- Fit for purpose service at a fair price
- Improving fuel burn and on time performance
- Sustainable return to shareholder



GOOD EMPLOYER

- Health and wellbeing
- Training and development for our people and the aviation industry
- Rewarding career paths

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Excellence



Success

Safety and social responsibility

Safety is our reason for being and is integral to everything we do, both operationally for our customers and where the health and wellbeing of our people is concerned. We create value by enabling the safe passage of aircraft and passengers through New Zealand's controlled airspace, and ensuring a safe workplace for our people.

Airways has an established record of excellent safety results, enabling as many as 430,000 safe journeys through our skies every year prior to the outbreak of COVID-19. Our industry is evolving and our safety focus will endure as we look to new technologies and innovations to modernise air traffic management services and reshape our business to meet the changing needs of our industry.

Social responsibility is a central operating principle for our business and we clearly recognise the duty we have to make a positive contribution to the world we operate in. We are committed to achieving Airways' strategic goals in a socially and environmentally sustainable way that works for us, our people, our industry and our wider communities.

Using best endeavours, our goal is to become a zero waste, zero emissions organisation by 2050. Airways has significant influence over the carbon emissions of our airline customers and we aim to encourage air transport that reduces fuel burn and carbon emissions. This can be achieved through the development of more efficient flight paths and procedures for aircraft travel.

Profitable and efficient

Our role is to provide efficient and reliable services that meet our customers' needs, at a fair price, creating value for our stakeholders and the New Zealand economy. As a consequence, we are proud to have delivered direct value to New Zealanders through our financial returns to our Government shareholder over more than 30 years.

Since our inception in 1987, we have developed world class air traffic management systems which enable airlines operating in New Zealand to achieve optimal efficiency. We will continue to pursue opportunities to ensure our future operational resilience through technological advancements and smart air traffic management systems.

While the aviation industry faces difficult challenges, we will work to align our business to best serve the needs of our customers and our shareholder, and reduce our financial risk exposure. Our guiding principle will be to ensure we are providing right-fit services that do not impose unnecessary cost on our industry and the travelling public.

Building our international profile, and diversifying our earnings, will continue to play an important role in the growth and sustainability of our business.

Our aim is to return to profitability in 2023 and to be fully self-funding in accordance with the State-Owned Enterprise Act 1986.

Good employer

Our organisational values of Safety, Each Other, Excellence and Success underpin all that we do. We create value by continuing to be an employer of choice, capable of attracting and retaining high quality people.

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

In a time of change for our business, we are committed to ensuring our people are well supported and have the opportunity to have a say on changes that may affect them.

The aviation industry is a rewarding career path, and our focus on training and development will enable our people to be the best they can be at work.

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Economic and strategic context

The global pandemic continues to greatly impact the aviation industry worldwide, with a return to pre COVID-19 air traffic levels not expected anytime soon. However, Airways' core purpose of ensuring all aircraft and passengers reach their destination safely and efficiently remains resolute, irrespective of the challenging and changing times.

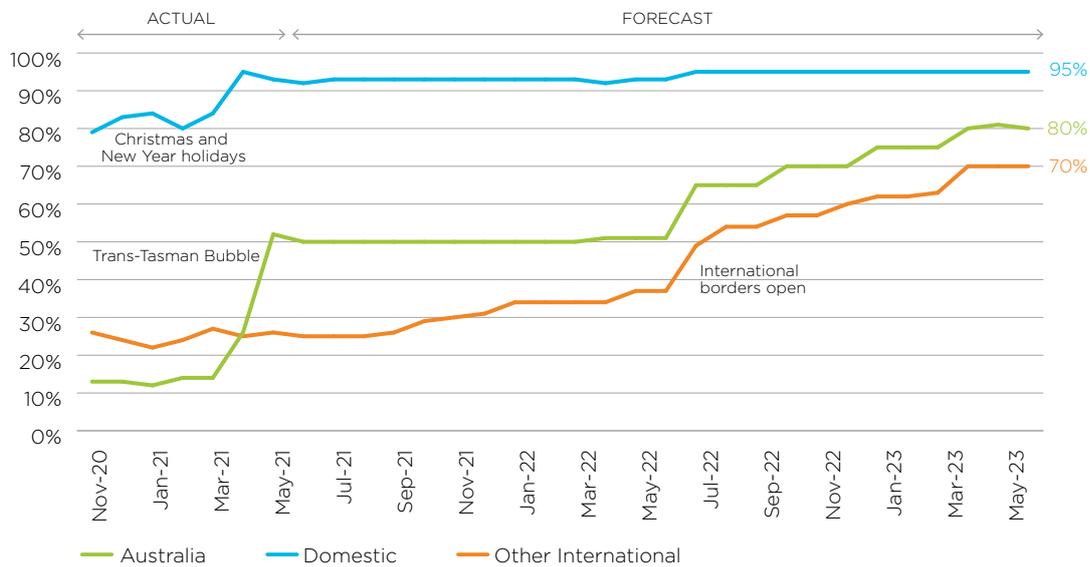
THE IMPACT OF COVID-19

Following the implementation of travel restrictions in New Zealand in March 2020, air traffic volumes declined by 95 percent. The domestic market is showing encouraging signs of recovery, with commercial carriers now operating at 90 percent of pre-pandemic levels by early 2021. However, the limited number of international flights means our core revenue streams continue to be significantly affected.

The Government's decision to allow quarantine free trans-Tasman travel from April 2021, along with a global focus on vaccine programmes, will support limited international travel this year. However, a high level of uncertainty remains and any marked improvement in international travel is still expected to be some time away.

We currently anticipate that a return to 2019 traffic volume could be achieved, at the earliest, toward the end of 2025.

Recovery hypothesis



GOVERNMENT SUPPORT

The Government has provided financial support to the aviation industry, with Airways receiving \$70 million to support its operations in the short term and a further \$95 million facility to draw on. This has allowed Airways to not immediately increase prices to offset traffic volume shortfalls, which would be the traditional commercial route we would take in this situation.

As we navigate the next 12 months of uncertainty, Airways is committed to reshaping and aligning our operations to meet Shareholder expectations as well as customer demand, acknowledging that safety and efficiency are our most important priority, and we require the right skills to fulfil this objective.

As always, we remain a steadfast partner to the Government and will continue to support actions that work to resolve the tough challenges our industry faces.

A SAFE AND RESILIENT AIR TRAFFIC NETWORK

The financial impact of COVID-19 has meant we have had to change the phasing of our capital investment programme. Through the 2021 financial year, only investments in systems and infrastructure critical to maintaining aviation safety were progressed. Looking forward, we will restart critical investment in surveillance systems, replacement of legacy control towers with digital solutions and upgrades to Airways' network infrastructure.

A DIGITAL FUTURE: DIGITAL AIR TRAFFIC CONTROL AND DRONE MANAGEMENT

Digital technology and operating models are increasingly driving change in the aviation industry and investment in these tools and technologies remains a priority for Airways.

COVID-19 has not hampered UAV (drone and autonomous flying vehicles) usage in New Zealand and is instead creating new opportunities for the sector. Airshare – Airways' UAV user platform – saw a 31 percent increase in registrations in the 12 months to April 2021, with almost 47,000 UAV flights recorded in the period.

Solutions that enable the safe integration and management of UAVs alongside traditional aircraft in our skies are needed now more than ever. We will continue to work with our aviation stakeholders to ensure appropriate regulation is in place and to develop a safe and efficient UAV management system for New Zealand.

Prior to the COVID-19 outbreak, Airways set out to develop New Zealand's first digital air traffic control tower. While financial constraints and the pandemic operating environment meant this initial project was unable to continue, digital air traffic control development remains a key part of our future strategic direction.

AIRWAYS INTERNATIONAL: EXPORTING AIRWAYS' EXPERTISE AND INNOVATION WORLDWIDE

Airways International (AIL), our commercial business, remains our primary avenue for growth. Closed global borders, a continuation of lockdowns and travel restrictions sped up the development of cloud based products and services. AIL will promote these over the 2022-2024 period in key markets, through investment in partnerships and 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 varies by region and by the source of the funding – either government or private.

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OPPORTUNITIES IN OUR OPERATIONS

We are working to improve our Air Traffic Management (ATM) services to support a thriving, safe and sustainable aviation network now and into the future.

Optimising the design of our wider controlled airspace is important to New Zealand's aviation recovery. The design of our controlled airspace has developed over several decades resulting in a complex system which may benefit from simplification and standardisation. 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. A programme of work is being undertaken in three phases across three years. We are now in the second year of the programme and have recently completed a "ground-up" review of all New Zealand airspace which was undertaken by an independent specialist consultancy. Next, we will transition our existing sectors and staff into two new operational buildings and commence implementation of sectorisation opportunities in the third year.

A review of our services at seven regional airports was initiated in 2020 and we expect to continue to receive determinations from the Civil Aviation Authority as to the appropriate level of service at these airports in the coming months.

SERVICES AND PRICING

Airways is committed to supporting the long-term recovery of the aviation industry. With fewer aircraft in our skies, we are taking the opportunity to review our services with customers to put us in the best position to support the emerging shape and modernisation of the aviation industry.

Earlier this year we started consultation on the Service Framework which sets out the services we provide and who pays for them. The Service Framework was last reviewed in 2012 so a review is needed to ensure it is fit for purpose. We sought customer, stakeholder and industry views about what role Airways can play in the recovery of the aviation sector and how can we support

them. This included what objectives should guide the development of our future commercial framework and whether there is industry support for direct charging to airports for Aerodrome Services rather than airport users which is currently the case. In the first instance our aim is to ensure we are providing right-sized, evidence-based services that do not impose unnecessary costs on our industry.

The review of the Service Framework is ahead of any subsequent review of Airways' Pricing Framework and Standard Terms and Conditions before a pricing reset currently anticipated for implementation in July 2022.

AIRFIELD POWER AND LIGHTING

In 2019 Airways signalled its intention to withdraw airfield power and lighting services at airports, including ongoing maintenance and support.

Airways has historically owned power and lighting equipment at airports, an area of activity that does not support our core mission of providing airspace management to facilitate safety in our skies. In the current environment, there is an even greater need to focus our investment and efforts on making sure we can meet changing requirements for air traffic control.

Internationally it is airports, not air navigation service providers, that hold responsibility for power and lighting and we believe that adopting this approach would bring us into line with global best practice.

We will take into account the interests of airport customers, and move at a pace that minimises disruption to them and their operations.



Airways' business units

The Airways Group comprises the following businesses and support functions:

Core business	Commercial businesses
<ul style="list-style-type: none"> ▶ Delivers safe, resilient and efficient air traffic services to New Zealand airspace users, including airlines and 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 Organisation (ICAO). ▶ 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. 	<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, technological 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.

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Key strategic workstreams

The key workstreams Airways will progress during FY22, and the initiatives and activities that will enable them, are set out in the table below.

Key strategic workstreams	Objectives
Airspace optimisation	<ul style="list-style-type: none"> ▶ Continue to develop a long-term airspace plan to improve resiliency, efficiency and flexibility for system users. ▶ Implement a series of track shortening initiatives to reduce aircraft fuel burn, carbon emissions and improve efficiency of flight paths.
Safety culture and assurance	<ul style="list-style-type: none"> ▶ Progress the independent review of Airways' Safety Culture with the completion of an independent Safety Culture questionnaire to identify areas for internal improvement and possible external benchmarking. ▶ Continue the development of systems and processes that enhance Safety Culture in a way that is constructive, predictable, and evolves with changes to the internal operating environment and industry. ▶ Continue baselining of Airways' Safety Culture and identify areas where 'safety-by-design' principles can be embedded.
ATS system transformation	<ul style="list-style-type: none"> ▶ Complete the build, testing and operational proving of the new ATM platform. ▶ 'Go-live' ATC operations in the new buildings greatly enhancing operational resilience and flexibility.
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. ▶ Work with government to ensure future UAV regulatory framework is modern and enables integration and monitoring of UAVs into controlled airspace.
Auckland digital tower	<ul style="list-style-type: none"> ▶ Changes in aviation technology mean the onset of digital towers. ▶ Develop specifications and requirements for a full-service digital tower solution in Auckland.
Service and Pricing Framework reviews	<ul style="list-style-type: none"> ▶ Complete review of Service Framework commenced in FY21. ▶ Subject to outcomes of the Service Framework review, undertake a review of the Pricing Framework.

Key strategic workstreams	Objectives
Pricing	▶ Consult with our customers – airlines, airports and the general aviation community – on services and associated prices in time for a new pricing structure period starting from 1 July 2022.
Regional aerodrome services	▶ Following completion of aeronautical studies, provide services to regional airports which at a minimum align with the level of service determined as appropriate by the Civil Aviation Authority.
Airfield power and lighting	▶ Collaborate with airport customers on transitioning airfield power and lighting assets and services, taking into account the interests of airport customers.

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Measures of success

This section outlines Airways' aspirations and targets to 2024. Airways is moving to Integrated Reporting. The Measures of Success are set against the six capitals of the Integrated Reporting Framework. The aspirations and targets link into Airways' long-term strategy.

FINANCIAL

ASPIRATION

- ▶ Restore financial independence and remove the need for any further government support.
- ▶ In step with recovery of the New Zealand aviation industry, target a return to profitability in FY23.
- ▶ Secure stable planning and funding arrangements with the industry to transition the business to a digital future.
- ▶ Secure new growth opportunities through partnerships and development of new products and services.

FY2022 Focus

- ▶ External review of the Airways Pricing Framework ensuring it remains fit for purpose.
- ▶ Target a price consultation with customers commencing end of this calendar year, reset prices from 1 July 2022.
- ▶ Contain operating cost growth within long run CPI averages.

Measure	Forecast FY21	Plan FY22	Plan FY23	Plan FY24
Revenue (\$M)	146.6	179.4	247.8	256.8
Profit before tax (\$M)	8.6	(24.3)	32.9	35.5
Capital expenditure (\$M)	18.1	51.6	63.4	58.6
Gearing	34.3%	39.1%	36.5%	36.3%
Dividends (\$M)	Nil	Nil	Nil	12.0

INFRASTRUCTURE

ASPIRATION

- ▶ Integrated planning and management of systems and infrastructure that support air traffic management services and operations.
- ▶ Optimal aviation system availability and reliability.
- ▶ Deliver a strategic investment programme that underpins safety and strategic outcomes, including UAV detection and management.
- ▶ Transition into a digital future as assets become due for replacement.
- ▶ Investment in assets to help drive better environmental outcomes.

FY2022 FOCUS

- ▶ Deliver a new ATC platform, operating in new Christchurch and Auckland buildings.
- ▶ Advance the planning and development of the Auckland Digital Tower.
- ▶ Develop drone radar system to detect drones in controlled airspace.
- ▶ Increase the maturity of asset management systems to ensure service reliability.
- ▶ Improve the flexibility of project delivery models utilising both internal and external resources to maximise value.

Measure	Forecast FY21	Plan FY22	Plan FY23	Plan FY24
Monthly drone incursions (within aviation system)	≤5	≤6	≤7	≤8
Track miles saved vs minimum plannable route	>825,000 NM	>825,000 NM	>825,000 NM	>825,000 NM
Core system availability	≥99.98%	≥99.98%	≥99.98%	≥99.98%

EXPERTISE

ASPIRATION

- ▶ Embed a culture of innovation and outward thinking across the organisation.
- ▶ Develop digital thought leadership across the business.
- ▶ Prepare the workforce of the future that embraces technology.
- ▶ Reimagine the aviation environment of the future that meets customer needs.

FY2022 FOCUS

- ▶ Develop and enhance training environments that embrace new digital platforms.
- ▶ Promote data connectivity and information exchange with stakeholders for innovation and new product development.

Measure	Forecast FY21	Plan FY22	Plan FY23	Plan FY24
Near collisions	NIL	NIL	NIL	NIL
Aircraft accidents	NIL	NIL	NIL	NIL
Drone incursions with Airways' involvement	NIL	NIL	NIL	NIL
Products under development	5	5	5	5
Thought leadership events	10	10	10	10

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PEOPLE

ASPIRATION

- ▶ Everyone returns from work safe and well.
- ▶ Achieve zero harm to our staff.
- ▶ Improve staff engagement scores across the business.
- ▶ Build a sustainable and diverse workforce for the future.
- ▶ Provide employees with a rewarding and satisfying career path.

FY2022 FOCUS

- ▶ Attract, develop and retain talent given Airways' ageing workforce.
- ▶ Transition to a more diverse and inclusive workforce and culture.
- ▶ Build on our existing safety culture to ensure safety continues to underpin everything we do.
- ▶ Develop targeted initiatives to support well-being, including mental health and fatigue management.
- ▶ Work with unions on points of mutual interest.

Measure	Forecast FY21	Plan FY22	Plan FY23	Plan FY24
Staff engagement	Not completed	baseline	>FY22	>FY23
Work accidents resulting in lost time injury	3	Nil	Nil	Nil
Notifiable staff safety events	1	Nil	Nil	Nil
Staff turnover	6.0%	6.5%	6.5%	6.5%
Women in leadership	42%	43%	44%	45%

RELATIONSHIPS

ASPIRATION

- ▶ Align stakeholders and the public on Airways' purpose and long-term plan.
- ▶ Collaborate with customers to offer fit for purpose services at a fair price.
- ▶ Deliver safe, sustainable and inclusive services to regional New Zealand.
- ▶ Ensure our services deliver improved environmental outcomes.

FY2022 FOCUS

- ▶ Undertake industry wide consultation on Airways' service offering.
- ▶ Implement new customer management framework, building trust and industry collaboration.
- ▶ Implement a new commercial framework with customers.
- ▶ Transition ownership and maintenance of airfield power and lighting to airports.

Measure	Forecast FY21	Plan FY22	Plan FY23	Plan FY24
Flights handled	431,000	459,000	486,000	515,000
Voice of Customer	Not measured	baseline	+5%	+5%

ENVIRONMENT

ASPIRATION

- ▶ Become carbon zero by 2050.
- ▶ Support the industry to achieve New Zealand's climate goals.
- ▶ Foster partnerships to identify and realise opportunities for carbon reduction.

FY2022 FOCUS

- ▶ Develop new initiatives to reduce Airways' carbon footprint.
- ▶ Improve visibility of waste outcomes and reduce waste to landfill.
- ▶ Transition to electric and hybrid vehicles and reduce kilometres travelled.

Measure	Forecast FY21	Plan FY22	Plan FY23	Plan FY24
Carbon reduction (CO2 saved)	>17k/Tn	>17k/Tn	>17k/Tn	>17k/Tn
Transition vehicle fleet to EV / Hybrid	10%	20%	40%	60%
Reduction in paper printed	-5%	-5%	-5%	-5%
Waste recycled (tonnage)	722	700	650	600

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Financial forecasts by unit (\$NZm)



The financial performance of the Airways Group reflects the challenging aviation environment. The Group financial impact of COVID-19 has been profound, and this year the Airways Group is forecasting an underlying loss of \$30.5 million, before the reversal of impairment. Based on the forward projection, the asset impairments last year of \$48.7 million are expected to reverse, resulting in Net Profit After Tax (NPAT) of \$4.5 million.

Our commercial businesses have performed well in difficult operating environments, successfully delivering work remotely whilst borders remained largely closed. The business is forecast to deliver NPAT of \$5.3 million comparing favourably to the budget of \$3.5 million.

The rapid and unprecedented effects of COVID-19 have had a devastating impact on the aviation industry in New Zealand and abroad, and our business is not exempt from this disruption. We anticipate it will take up to five years for the industry to recover to pre-COVID levels.

	Forecast FY21	Plan FY22	Plan FY23	Plan FY24
Revenue (Includes internal revenue)				
▶ Core business	129.4	159.5	223.1	231.5
Commercial businesses				
▶ Aviation services	6.9	10.0	13.0	15.0
▶ Digital	5.6	4.4	5.3	6.9
▶ Aeropath	8.9	13.4	13.7	9.5
▶ Training course delivery	5.7	3.5	4.1	5.0
	27.1	31.3	36.1	36.3
Group revenue	156.5	190.8	259.2	267.8
NPAT				
▶ Core business	(0.7)	(21.9)	17.3	18.6
Commercial businesses				
▶ Aviation services	2.2	2.9	4.2	5.1
▶ Digital	0.3	(0.2)	0.2	0.6
▶ Aeropath	1.0	1.7	1.7	0.7
▶ Training course delivery	1.7	(0.1)	0.2	0.5
	5.3	4.3	6.4	6.9
Group NPAT	4.5	(17.5)	23.7	25.6
Key financial metrics				
▶ Capital investment	18.1	51.6	63.4	58.6
▶ Group FTEs	749	772	775	787
▶ Group return on capital	5.2%	(8.6%)	14.0%	13.9%

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 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.

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Dividends

Due to the impacts of COVID-19 on Airways, the company is not expected to be in a position to pay a dividend until FY24. Management will continue to review distributions as part of the financial outlook and incorporate this into the business planning process.

The Directors will seek to return a dividend of between 50 percent and 100 percent of free cash flow from the Group (normalised for maintenance levels of capital investment), subject to maintaining gearing ratios below 50 percent over a rolling five year term¹.

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

In determining dividend levels, the 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.

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 55% inclusive of leases



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, 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, 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.



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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 2021 was \$271.6 million (30 June 2020 \$246.5 million).

	June 2021
Group Enterprise Value	\$365.1m
Less Net Debt*	\$93.5m
Group Equity Value attributable to Crown	\$271.6m

* Includes lease liabilities of \$72.8 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 5.95%.
- ▶ The commercial business comprises a portfolio of products and services utilising Airways' 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 10.41%.
- ▶ 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 \$271.6 million compares with a value as at 30 June 2020 of \$246.5 million. This reflects higher earnings projections as industry recovers from the impacts of COVID-19 and the plan assumes Airways' costs are recovered from our pricing framework in FY23. This is partly offset by higher discount rates driven by higher risk-free rates applied.

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Appendix A:

Financial Performance Metrics (\$NZm)

Year ended 30 June	Actual FY20	Forecast FY21	Plan FY22	Plan FY23	Plan FY24
► Profitability					
Total revenue	209.4	146.6	179.4	247.8	256.8
EBITDA	(10.3)	40.3	6.9	70.3	77.2
EBIT	(40.8)	12.2	(20.7)	36.0	38.5
Group (loss)/profit after tax	(31.3)	4.5	(17.5)	23.7	25.6
► Shareholders' returns					
Total shareholder return ²	(26.6%)	10.2%	(8.8%)	0.0%	4.4%
Dividend yield	3.2%	0.0%	0.0%	0.0%	4.4%
Dividend payout	234.2%	0.0%	0.0%	0.0%	38.0%
Return on equity	(19.7%)	2.6%	(9.6%)	12.0%	11.8%
ROE, adjusted for IFRS revaluations	(19.5%)	2.5%	(9.5%)	11.9%	11.8%
► Profitability/efficiency					
Return on capital employed	(19.0%)	5.2%	(8.6%)	14.0%	13.9%
Return on assets	(13.3%)	3.4%	(5.7%)	9.6%	9.7%
Operating margin	(4.9%)	27.5%	3.8%	28.4%	30.1%
Net profit margin	(15.0%)	3.1%	(9.8%)	9.6%	10.0%
Asset turnover	0.6	0.4	0.5	0.6	0.6
► Leverage/solvency					
Equity multiplier	2.1	2.0	1.9	1.8	1.8
Gearing ratio (net) - excluding leases	(5.3%)	10.4%	20.8%	20.0%	20.1%
Gearing ratio (net) - including leases	27.8%	34.3%	39.1%	36.5%	36.3%
Interest cover (before capitalised interest)	(1.9)	7.4	1.3	14.6	16.0
Solvency (current ratio)	0.9	1.8	0.9	1.0	0.9
► Growth/investment					
Revenue growth	(8.7%)	(30.0%)	22.4%	38.1%	3.6%
EBITDAF growth	(118.0%)	491.6%	(82.9%)	922.3%	9.8%
NPAT growth	(232.8%)	114.5%	(486.1%)	235.1%	8.1%
Capital employed growth	19.8%	1.9%	2.7%	9.7%	5.8%
Capital renewal	1.5	0.8	2.3	2.1	1.7

2. Company valuations are not forecast from 2021-22.

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, reflected by an EVA result of zero.

The Government provided Airways with equity support for FY21 and FY22. FY23 is prepared on the basis pricing is increased to reflect an EVA result of zero.

EVA	Plan FY22	Plan FY23	Plan FY24
▶ Total capital employed			
Debt employed	191.1	194.7	207.1
Equity employed	135.4	155.7	163.2
	326.5	350.4	370.3
▶ Charge on operating capital			
	18.6	20.1	21.4
▶ Economic value added			
	(37.4)	0.0	0.0
Cost of capital – key parameters			
Risk free rate – 3 year Government Stock	0.8%	0.8%	0.8%
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			
	5.95%	5.95%	5.95%
▶ Return on capital (RoC)			
	NA	5.95%	5.95%

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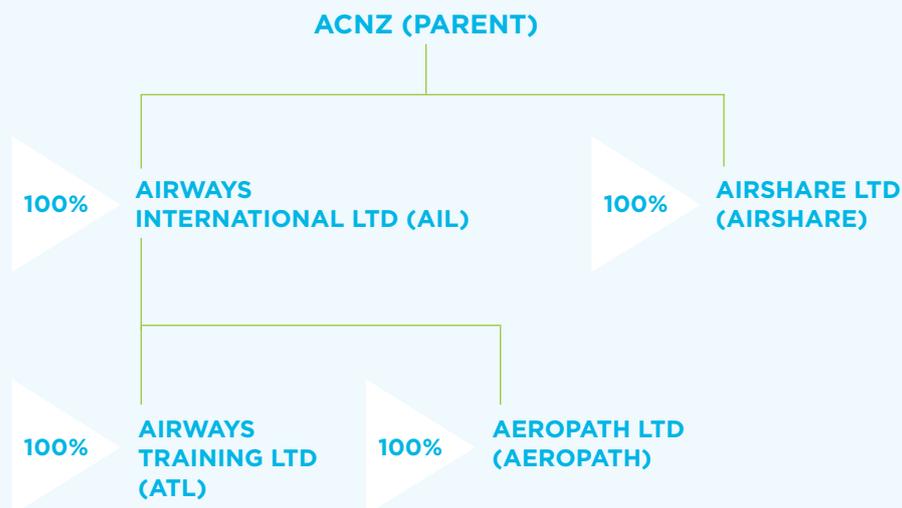
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Appendix C: Group structure

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, training, recruitment, 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



Directory

BANKERS

ANZ Bank New Zealand Limited
Bank of New Zealand Limited

AUDITORS

Mark Bramley, 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

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