STATEMENT OF CORPORATE INTENT 2023/24 ▶ 2025/26

AIRWAYS

Contents

INTRODUCTION

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

Under the Act, 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
- to exhibit a sense of social responsibility by having regard to the interests of the community in which it operates.

The nature and scope, purpose and core strategies of Airways are defined within this context.

The shareholders are the Minister for State-Owned Enterprises and the Minister of Finance, each of whom holds $85.55 million fully paid shares.

This Statement of Corporate Intent (SCI) refers to the Airways Group (Airways), including Airways Corporation of New Zealand (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 2023 to 30 June 2026.

Company Overview

OUR PURPOSE

Safe skies today and tomorrow

We provide safe, resilient and efficient air traffic services to New Zealand-managed airspace.

We deliver our innovative products and services across the globe.

WHO WE ARE

Airways Corporation 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.

Airways International Limited (AIL) is 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 VISION

Create the aviation environment of the future

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.

Strategy

OUR ASPIRATION

We want to lead the world in the delivery of **safe airspace management** and services.

Starting with our own airspace and expanding out, we will **use technology and innovation to unlock future growth**.

We will be a company that **people want to work for**, and with.

As the guardian of New Zealand's airspace, we will deliver **a more sustainable future** by supporting the reduction of emissions across all participants in the aviation sector.

OUR STRATEGY

Airways released its 10-year strategy in 2023. Our strategy is designed to support accelerated change within the aviation industry as it emerges from the pandemic. COVID-19 revealed the need for a more adaptable, flexible and resilient industry – one better able to adapt to change while remaining strongly focused on safety and efficiency.

We developed our strategy using a comprehensive process that considered the projects underway, the changing aviation environment, our strengths and opportunities, and the pain points our people and our customers identified in our staff engagement survey and face-to-face sessions with CEO James Young. We overlaid this information with our financial obligations and limitations, and our obligations as the country's air traffic service provider.

There are four pillars to the strategy:

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

Our strategy has a 10-year horizon to allow Airways to evolve with the changing aviation environment. We plan to deliver on it in three phases:

- **Connect 2025**
- **Build 2028**
- **Adapt 2033.**

By focusing on the deliverables at each phase, we will continue to build a strong foundation while taking advantage of the rapid changes in our industry.

Our values underpin everything we do and remain broadly unchanged – we are safe, we are one Airways, we celebrate success and we strive for excellence.

Our strategy is a significant shift from the way we have operated in the past. Our priority for 2023 is to embed it into the business and to change the way we approach business planning and prioritising.

We are excited by what the future of aviation offers and look forward to continuing to deliver safe and efficient air traffic management for New Zealand and our Oceanic Flight Information Region.

OUR STRATEGIC PILLARS

Put our people first

Our people are our most important asset. We are creating a diverse workplace where people feel valued, rewarded and, most importantly, safe.

We will invest in our people to ensure we provide opportunities for them to grow and develop.

By attracting, developing and retaining our people, we will become an employer of choice in the aviation industry and future-proof our workforce.

Serve all airspace users

Aviation is changing and we are seeing new and different entrants into our airspace.

We are committed to delivering a safe, flexible and customer-centric experience at a fair price.

Through the use of technology and innovation, we will meet the needs of current airspace users while ensuring we continue to deliver solutions for future users.

Support sustainable aviation

The aviation industry is moving rapidly to adopt more sustainable options with a strong focus on reducing carbon emissions.

We are committed to playing our part.

We will champion a sustainable approach to airspace management to ensure the industry achieves its long-term objectives.

Unlock future growth

The rate of change in the aviation industry is accelerating.

By working collaboratively to harness the expertise across Airways, we will unlock future growth.

We will be a world leader in safe airspace management and services at home and across the globe.

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, who are our most important asset

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 incidents
- Staff turnover
- Women in the workforce
- Women as senior leaders

- Flight count
- Customer experience score
- Core system availability
- Service availability
- Serious Air Proximity Events[1]
- UAV incursions[2]

- CO_2 savings via fewer track miles
- EV/hybrid fleet transition
- Printed paper used
- Waste recycled[3]

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

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

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.

Airways at a glance

WHAT WE DO

PROVIDE AIR NAVIGATION SERVICES ACROSS

30mil sq km

OF AIRSPACE

OVER

470,000

SAFE FLIGHTS IN THE COMING YEAR

SUPPORTING

Industry recovery

AIRSPACE MANAGEMENT CONSULTANCY AND TRAINING IN

65 countries

Drone traffic management system

SERVICES

CARBON REDUCTION TARGET OF

17,000 tonnes

CO_2 EMISSIONS

HOW WE DO IT

~800

highly trained people

19 towers

2 air traffic control centres

3 subsidiaries

AIRWAYS INTERNATIONAL, AEROPATH AND AIRSHARE

Economic and Strategic Context

The aviation industry has seen a sustained recovery following the COVID-19 pandemic but is now faced with the challenges of staff shortages and inflationary effects across the system, ultimately leading to rising travel costs.

Airways is responding to these challenges by committing to building a future-fit air traffic network that is safe, resilient, more efficient and sustainable. This includes exploring new technologies and optimising operations. We are also rethinking the way we operate to support the new users of the system, and to introduce greater flexibility and efficiency through technology.

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 all stakeholders, including investors, customers, employees and the wider community. Airways implemented this approach in 2021 and will develop it further in the coming years to ensure we remain transparent and accountable as we navigate the challenges of a changing industry.

Air traffic recovery

By April 2023, domestic flight movements reached 94% compared with the same period prior to COVID-19, with international flight movements reaching 81%. We expect to reach full recovery of domestic travel by 2024 and international travel by 2025.

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

Airways is committed to supporting the long-term recovery of the aviation industry by safely matching our services to the sector and customer needs, now and into the future. We have a number of initiatives underway to achieve this.

These initiatives include, amongst others, a programme to optimise the design of our wider controlled airspace by simplifying and standardising flight paths and procedures, and the transition to our new Skyline-X air traffic management platform, which will operate from our new seismically resilient air traffic management centres in Auckland and Christchurch.

WE EXPECT TO REACH FULL RECOVERY OF

DOMESTIC TRAVEL BY

2024

INTERNATIONAL TRAVEL BY

2025

Airways International plays an integral role in achieving our recovery and growth aspirations. The commercial arm of Airways delivers air traffic management consultancy services, training and technology products worldwide. It is seen as a leader in its field and its contribution to NZ Inc over many years is something we are very proud of. The business pivoted quickly at the onset of the pandemic, shifting towards digital services and virtual learning environments.

As Airways takes a central role in transforming our sector to meet a future based on integrated airspace management, we will work with our airport customers to withdraw from the ownership and maintenance of airfield power and lighting assets. Airways has historically owned power and lighting equipment at airports, a business model that is inconsistent with international standards.

Longer-term projects include the development of Unmanned Aerial Vehicle (UAV) management and digital air traffic control tower technologies. Supporting the safe integration of UAVs into New Zealand airspace, and building our air traffic management resiliency and capabilities are firmly part our future strategic direction.

Building a modern and future-fit air traffic network

Airways is undertaking a modernisation programme to provide more resilient and flexible air traffic management services to our customers and partners. Our activities over the next three years will continue to be centred on achieving these objectives.

Airspace optimisation

The design of New Zealand's air traffic control airspace sectors has developed over several decades, in line with the surveillance and navigation technologies of the day.

With significant changes over recent years in our capabilities for surveillance using Automatic Dependent Surveillance-Broadcast technology (ADS-B), and for navigation using performance-based navigation procedures (PBN), we have identified an opportunity to improve the performance of the system.

Our Airspace Optimisation Programme will improve efficiency and resilience for our customers and for Airways. It will consider airspace design, sectorisation, route structures and network-centric air traffic flow management. This will leverage the benefits of Airways' investment in advanced air traffic management (ATM) systems.

An initial review of airspace was initiated in 2020, when we engaged specialist consultancy Mitre. We have already implemented a number of their recommendations and this work continues.

Driving digital technology and innovation

Digital technologies are a core enabler of positive change in the aviation industry. They will allow improvements to our services that increase resilience, boost safety outcomes, support regional connectivity and achieve greater sustainability. The development of digital air traffic control tower services and UAV management are priorities for Airways.

Airways has been investigating digital air traffic control tower technology for several years and watching closely as airports internationally have moved to this way of operating.

Beginning in September 2022, Airways sought feedback from the wider aviation industry and our people on replacement options for our air traffic control tower at Auckland Airport, in the context of the future aviation environment (2025-2040). The current tower, which has been operational since the early 1960s, is reaching the end of its life and is in need of replacement.

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

Having considered all feedback carefully, we announced in December 2022 that we will proceed with our preferred option – a hybrid tower at Auckland Airport supported by a remote digital contingency. We plan to reconfirm the decision to proceed with a hybrid tower before physical construction commences, so we can look at the knowledge gained from the digital contingency development to date, and assess whether a full digital solution would offer a superior outcome. We will continue to work with our customers and stakeholders on this important project.

We will continue to collaborate with the industry to investigate solutions that will, in time, enable us to safely integrate UAVs into our existing air traffic network, alongside traditional aircraft. This requires the implementation of UAV traffic management technologies, along with a suitable regulatory framework that will safely support the proliferation of UAVs in New Zealand's skies. While there are limitations on the technologies currently available in the market, we are investigating the use of UAV detection systems designed to recognise UAVs operating in controlled airspace at major airports.

As a participant in the Airspace Integration Trial Program (AITP), Airways will continue to work with the Civil Aviation Authority (CAA) and Urban Air Mobility (UAM) company Wisk to facilitate safe airspace integration trials to explore UAM flight into controlled airspace. Wisk is exploring the possibility of electric, vertical take-off and landing flight (eVTOL), which would enable safe autonomous passenger transport.

This is a challenging task which requires new applications of legacy aviation rule sets. Applying equivalency endorsements provided by the CAA, Airways experts are undertaking an in-depth hazard and safety assessment, alongside the CAA and Wisk, to ensure trials are brought within acceptably safe levels.

The work so far has been presented to Wisk, which is appreciative of the complex project and the priority Airways and CAA gave it. This is world-leading work with global implications for autonomous travel.

In March 2023, Airways announced a partnership with Canberra-based space services company Skykraft to develop space-based air traffic management services. Skykraft is developing a satellite-based global service combining an air traffic surveillance imaging system and a Very High Frequency (VHF) radio communication system, which would extend the reach of VHF to areas that are currently more difficult to cover with other technologies.

Under this agreement, Skykraft will use its satellite constellation to gather data on aircraft movements and then test it against the data held by Airways. The integration of space-based air traffic management into existing air traffic management infrastructure offers the potential for safer, more efficient air traffic management.

Continuous safety improvement

We are committed to achieving the highest level of safety performance across our organisation. As our industry and internal environment evolves, we are working to identify safety enhancements proactively and continuously, and to learn from them.

In October 2022, we were acknowledged as a world leader in aviation safety reporting and improvement by the Civil Air Navigation Services Organisation (CANSO). Our Safety Performance Indicator (SPI) programme was recognised as best practice, incorporated into the CANSO safety information sharing network, and made available to air navigation services providers worldwide. Safety performance indicators are a critical tool. They allow an organisation to measure, report on and respond to its safety performance across both operational safety and health and safety.

In March 2023, the Aeronautical Information Management (AIM) team of Airways subsidiary Aeropath won the CANSO Global Safety Achievement Award for their Flight Advisor tool. Developed in collaboration with the Royal New Zealand Air Force, Flight Advisor provides information on traffic and potential hazards to pilots operating at low levels in uncontrolled airspaces.

In 2020, Airways began an independent review of its safety culture. This project has been a strategic priority for Airways over the past three years, and the recommendations implemented to date establish a strong foundation on which to continue building a strong and positive safety culture. In 2023, we surveyed our people again to measure the impact of the changes implemented and identify areas for future improvement.

Exporting Airways expertise and innovation worldwide

Within Airways, we have two business arms focusing on different markets and delivering different outcomes. Our primary function is to provide air traffic services in the airspace over New Zealand and our Oceanic Flight Information Region, while Airways International delivers training and technology solutions internationally.

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

Airways International will continue working with international customers to provide a pathway for further innovation domestically, ensuring we continue to provide world-leading air traffic services within our own airspace. The interconnected and synergistic nature of our business also means that this innovation leads to demonstrable benefits, including safety, for the core part of our business.

Now that borders have opened and international travel is recovering, Airways International will continue to promote its technology solutions and invest in partnerships and key customer relationships over the 2023-2026 period.

The long-term strategy is to build a product and service mix that is primarily software-based, highly scalable and able to deliver repeatable revenue streams.

Over time, we will also focus on potentially higher-value sectors of the aviation industry including airlines and airports. The commercial business opportunities over the next three years are targeted in the Middle East, Southeast Asia, Hong Kong and Europe.

Sustainability and tackling climate change

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

Work is currently underway to refresh a sustainability strategy for Airways that will guide our future approach and initiatives. Our goal to become a zero-waste, zero-emissions business will be a cornerstone of our new strategy. Carbon measurement and reporting work will form an important part of the refreshed strategy and framework, and will include new baseline measures along with targets and enhanced methods of monitoring our greenhouse gas (GHG) emissions, waste and carbon use, including offsets.

The success of our sustainability strategy and our ability to drive the level of holistic thinking required to deliver the solutions we need relies heavily on relationships – with our customers, our communities and our regulators. We have been engaging with our stakeholders and our people to develop a new roadmap, to realise our ambition for a more sustainable future and to ensure we play our part in tackling climate change.

In late 2022, Airways was confirmed as a member of the Sustainable Aviation Aotearoa (SAA) Leadership Group – a public-private partnership that will provide advice and coordination to accelerate the decarbonisation of Aotearoa's aviation sector.

For a number of years, Airways has been at the forefront of developing and deploying procedures and technologies that reduce the environmental footprint of the aviation industry. Our introduction of advanced navigation procedures and intelligent flow management tools has improved the efficiency of flight paths and reduced aircraft fuel burn and carbon emissions, as well as enhancing overall safety. In FY23 alone, flight track miles savings amounted to 792,248 NM, leading to a reduction of 14,849 k/Tn of carbon.

In December 2022, we continued this work with the implementation of the Divergent Missed Approach Protection System (DMAPS) for Wellington Airport. This followed the successful implementation of DMAPS at Christchurch Airport in 2020.

The DMAPS procedures safely manage an approaching aircraft that is unable to land for any reason, by reducing complexity and uncertainty, in line with the global move towards safety-by-design instrument flight procedures. They also significantly reduce delays, as well as fuel burn and the associated carbon emissions.

Our people: Building a skilled, engaged and diverse workforce

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

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

We are in the process of attaining the Rainbow Tick accreditation as an employer and have recently signed on as a sponsor of Winter Pride and the Pride Pledge. Winter Pride attracts thousands of people to Queenstown every year, and as many arrive by air it is an ideal opportunity to demonstrate our commitment to support the rainbow community.

In 2023, we partnered with DivergenThinking to offer training for our people to better understand neurodiversity and how this can be better supported in the workplace. As of May 2023, 160 people have completed the training and we will explore further opportunities to continue conversation and education around neurodiversity.

Te Ao Māori

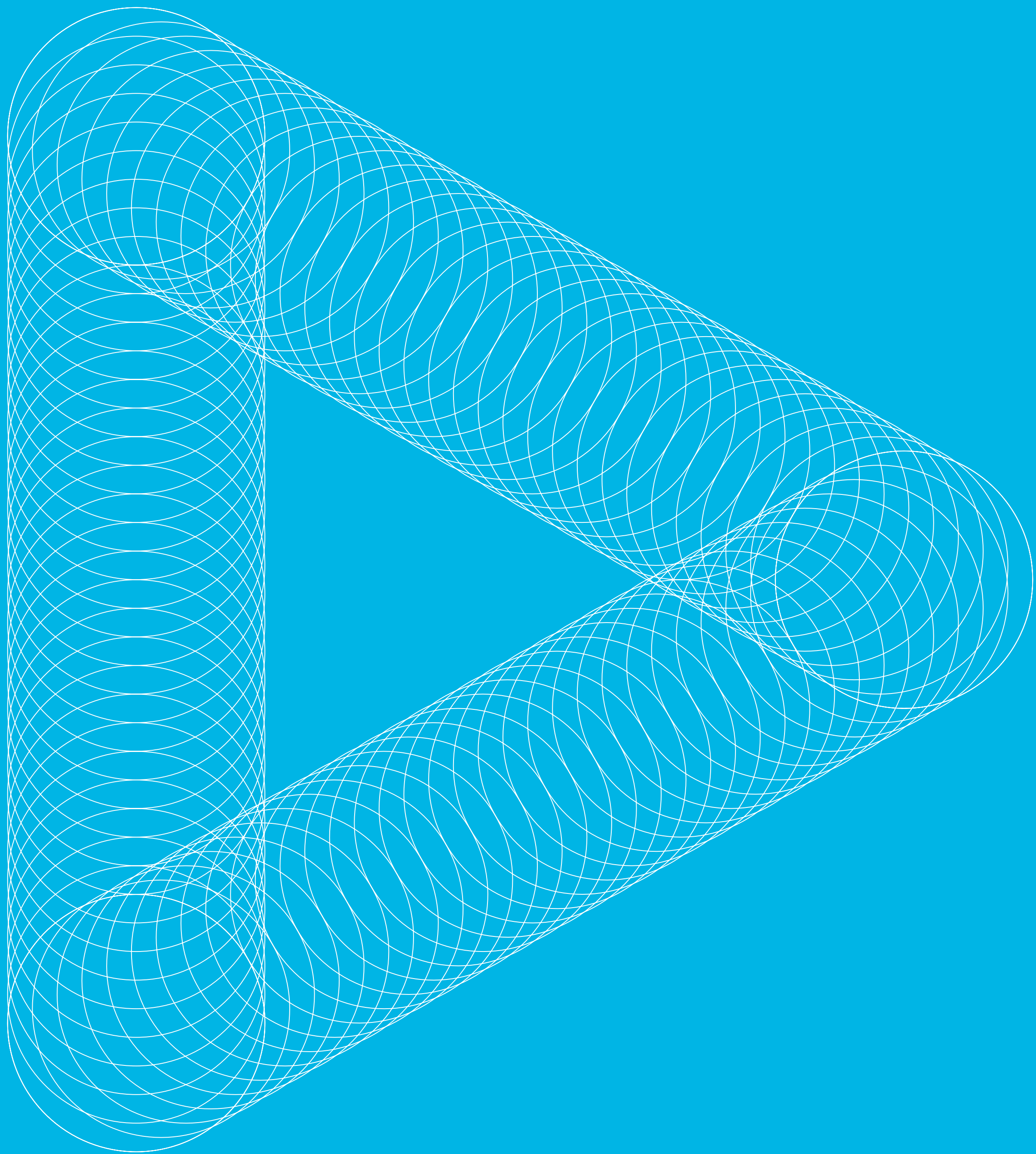
Airways is committed to incorporating Te Ao Māori into our business. As part of this, we are supporting our people to build their understanding of Te Ao Māori with a particular emphasis on building Te Reo Māori capability across the company.

In December 2022, we launched Whakatere – a freely available web app designed to support New Zealand's aviation community with Te Reo Māori pronunciation. Whakatere, which means 'to navigate', is an interactive map offering air traffic controllers and pilots support with pronunciation of Māori place names and visual reporting points (VRPs) – the easily recognisable geographical points that pilots use to navigate and communicate with air traffic control about their location.

In late 2022, we unveiled the name of our new Christchurch Air Traffic Centre – Te Whare Ao Rangi or The World of the Sky. The name was developed in collaboration with local iwi Ngāi Tūāhuriri and acknowledges the care and protection role those working in the building play for those travelling in our skies, and all the elements that we share the airspace with.

In June 2023, we unveiled the name of our new Auckland Air Traffic Centre. Following a hui with local iwi Te Ākitai Waiohua, the centre was named Te Paho Rangi or Communication with the Sky. Communication with the sky father is a daily cultural or religious practice for many people, and Te Paho Rangi communicates with those travelling the skies.

Performance and Financial Measures



Airways Business Units

Airways Corporation of New Zealand Limited (ACNZ) is a State-Owned Enterprise established under the State-Owned Enterprises 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 $85.55 million fully paid shares.

The Airways Group comprises the following businesses and support functions:

Core business – Airways Corporation of New Zealand Limited

- 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.
- Delivers leading-edge technology and infrastructure to keep New Zealand's skies safe and running efficiently.
- Offers these services:
  - enroute and approach services in the New Zealand Flight Information Region (FIR)
  - aerodrome air traffic control services, provided on behalf of airports, including the provision of navigation infrastructure
  - enroute services in the Auckland Oceanic FIR, on behalf of the International Civil Aviation Authority (ICAO)
  - the safe integration of drone activity into New Zealand's airspace.
- Is governed by a Service and Pricing Framework which provides for a 'fair return on investment' and is reviewed through consultation with customers every three years.

International business – Airways International Limited

- Utilises Airways' intellectual property and expertise to provide products and services to international air navigation service providers (ANSPs) and the wider aviation industry. This also leads to demonstrable benefits, including safety, for the core part of our business.
- Comprises this portfolio of businesses:
  - Airways Training – delivering world-leading Air Traffic Control (ATC) training to ANSPs and ATC students virtually through Airways Knowledge Online (AKO) and in person 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, 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

- Provides advice to Airways' Board, management and staff on financial, commercial, sustainability, technology and operational matters.
- Manages stakeholder relationships and protects and enhances Airways' brand.
- Provides services that are structured functionally to secure value and manage risk within approved mandates – People and Partnerships, Finance, Legal, Enterprise Portfolio Management Office and Property and Procurement.

Safety and assurance

- 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.

Key Performance Measures

This section outlines Airways' aspirations and targets for the three years to 2026. 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

- Restore financial independence and remove the need for any further government support.
- Secure stable planning and funding arrangements to transition the business to a digital future.
- Secure new growth opportunities through partnerships and development of products and services.

FY24 – FY26 Focus

- Secure new debt funding arrangement.
- Review Airways pricing for General Aviation.
- Contain operating cost growth within long-run CPI averages.

Measure	Forecast FY23	Plan FY24	Plan FY25	Plan FY26
Revenue ($m)	224.5	279.1	284.7	320.7
Profit before tax ($m)	8.7	25.5	20.9	48.0
Capital expenditure ($m)	39.7	56.7	77.5	76.6
Gearing	28.0%	25.6%	27.7%	27.8%
Dividends ($m)	Nil	5.0	Nil	11.0

Infrastructure

Aspiration

- Deliver integrated planning and management of the systems and infrastructure that support air traffic management (ATM) services and operations.
- Deliver optimal aviation system availability and reliability.
- Deliver a strategic investment programme that underpins safety, customer flexibility and strategic objectives.
- Transition into a digital future as assets become due for replacement.
- Ensure the investment in assets drives better environmental outcomes.

FY24 – FY26 Focus

- Deliver a new ATM platform, operating in new Christchurch and Auckland IL4-grade buildings.
- Advance planning and development of the Auckland Tower replacement – with customer-centricity at the forefront.
- Implement a next-generation aviation surveillance strategy.
- Develop robust service management frameworks.
- Improve the flexibility of project delivery utilising both internal and external delivery models.

Measure	Forecast FY23	Plan FY24	Plan FY25	Plan FY26
Track miles saved vs modelled flight distance*	835,900 NM	>825,000 NM	>825,000 NM	>825,000 NM
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%

*Subject to traffic volumes.

Expertise

Aspiration

- Build a sustainable global business by establishing strategic partnerships to complement service offerings and enter new markets.
- Become a leading provider of digital solutions for the aviation industry.
- Be recognised globally as thought leaders in the aviation industry.
- Embed a safety culture demonstrated through safety performance across the organisation.
- Embed a safety promotions programme that includes implementation of Safety Points of Contact.

FY24 – FY26 Focus

- Develop innovative cloud-based technologies to support ANSPs.
- Actively take a leadership role globally in the aviation industry.
- Develop Aeropath partnerships in Europe to extend capacity and enter new markets.

Measure	Forecast FY23	Plan FY24	Plan FY25	Plan FY26
Serious Air Proximity Events (Airways attributable)	Nil	Nil	Nil	Nil
UAV incursions (Airways attributable, medium or above assessed risks)	Nil	Nil	Nil	Nil
Products under development	4	4	4	4
Thought leadership events	8	10	10	10
Number of new customers	3	3	4	5

People

Aspiration

- Everyone is happy to go to work and returns safe and well.
- We build a more sustainable and diverse workforce for the future.
- Everyone feels safe to be their whole self at work.
- We provide employees with a rewarding and satisfying career path.

FY24 – FY26 Focus

- Lift people culture and engagement across the business.
- Grow our workforce planning capability.
- 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, including but not limited to supporting the roll out of the Safety Led Mindset programme.
- Develop targeted initiatives to support wellbeing, through implementation of wellbeing design and other appropriate initiatives.
- Enhance our leadership development approach and build resilient and effective leaders for the future.
- Work with our people's representative unions on areas of mutual interest.

Measure	Forecast FY23	Plan FY24	Plan FY25	Plan FY26
Employee experience	55%	57%	59%	61%
WorkSafe notifiable incidents	1	Nil	Nil	Nil
Staff turnover	8.75%	8.25%	7.5%	7.5%
Women in the workforce	27%	29%	31%	33%
Women in senior leadership	40%	41%	42%	43%

Relationships

Aspiration

- Align stakeholders and the New Zealand public on Airways' purpose and strategy.
- Collaborate with customers to offer fit-for-purpose services.
- Deliver safe, sustainable and inclusive services.
- Ensure our services deliver improved environmental outcomes.

FY24 – FY26 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 FY23	Plan FY24	Plan FY25	Plan FY26
Flight count	480,921	508,673	512,568	512,568
Customer experience	New measure	Set baseline	FY24 baseline +2%	FY24 baseline +4%

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 partnerships to identify and realise opportunities for carbon reduction.

FY24 – FY26 Focus

- During FY24, set a date by which the company will be carbon zero.
- Participate in government and industry-led initiatives to reduce emissions and improve environmental performance.
- Initiate participation in the CANSO GreenATM accreditation programme.
- Continue developing 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 and reduce kilometres travelled.

Measure	Forecast FY23	Plan FY24	Plan FY25	Plan FY26
Transition vehicle fleet to EV/hybrid	10%	20%	40%	60%
Reduction in paper printed	New baseline	FY23 baseline -5%	-5%	-5%
Waste recycled (tonnage)	New baseline	FY23 baseline -5%	-5%	-5%
Carbon reduction (CO_2 saved)*	16.7 k/Tn	>17 k/Tn	>17 k/Tn	>17 k/Tn

* Subject to traffic volumes.

Financial forecasts by unit ($NZm)

The financial performance of the Airways Group continues to reflect the challenging aviation environment. We are, however, pleased to be forecasting a Net Profit After Tax of $6.2 million in FY23, $17.1 million higher than the budgeted loss. This is primarily due to air navigation services revenue being $13.3 million higher than budget, resulting from a slightly higher than expected recovery in both domestic and international air traffic.

In June 2022, following industry consultation, Airways set prices for FY23–25 (three-year pricing cycle). This largely restored Airways' revenue from FY24. However, costs have risen higher than those forecast during the pricing consultation, impacting FY24 and FY25.

Our commercial businesses continue to perform well in difficult operating environments, and are forecast to deliver a Net Profit After Tax of $5.0 million, comparing favourably to the budget of $3.1 million.

	Forecast FY23	Plan FY24	Plan FY25	Plan FY26
Revenue (includes internal revenue)				
• Core business	203.7	252.0	256.2	289.3
Commercial businesses				
• Aviation services	11.5	13.7	14.6	15.7
• Digital	4.4	7.0	7.0	8.0
• Aeropath	14.3	14.7	15.2	15.6
• Training course delivery	4.2	6.3	6.9	7.6
	34.4	**41.7**	**43.6**	**46.9**
Group revenue	**238.0**	**293.7**	**299.8**	**336.2**
Net Profit After Tax				
• Core business	1.2	12.8	8.2	26.7
Commercial businesses				
• Aviation services	3.1	3.5	3.9	4.2
• Digital	(0.1)	(0.3)	0.1	0.5
• Aeropath	1.7	1.8	1.8	1.9
• Training course delivery	0.3	0.6	1.1	1.3
	5.0	**5.5**	**6.9**	**7.9**
Group Net Profit After Tax	6.2	18.3	15.1	34.6
Key financial metrics				
• Capital investment	39.7	56.7	77.5	76.6
• Group FTEs	813	852	858	857
• Group return on capital	4.4%	11.1%	8.9%	16.9%

Accounting policies

Airways prepares financial statements in accordance with Generally Accepted Accounting Practice (GAAP) in New Zealand, with a complete list of accounting policies available in Appendix D.

The financial forecasts and budgets set out in this Statement of Corporate Intent 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 core 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.

Dividends

The Directors will seek to return a dividend of between 50% and 100% of free base cash flow from the Group (normalised for maintenance levels of capital investment), subject to maintaining gearing ratios below 50% over a rolling five-year term[1].

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

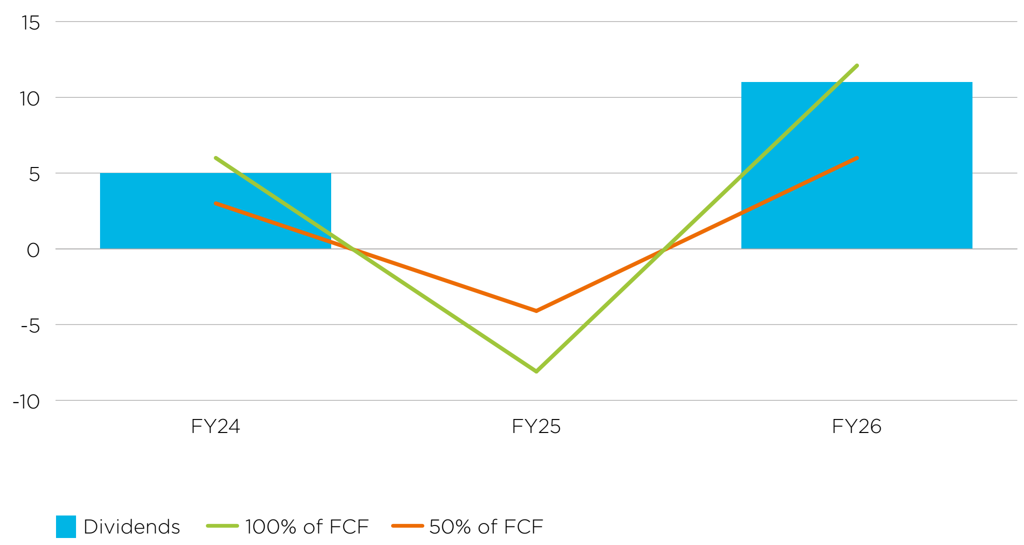
In determining dividend levels, the Board will balance the objective of providing a stable or increasing dividend to the shareholder against short-to-medium term investment requirements and prudent risk management.

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

Gearing is expected to remain within policy limits for the five-year period FY24–FY28.

The level of dividend will be reviewed annually as part of the business planning process and at each declaration date. Dividends are usually paid in October and February and a final dividend not later than 30 June of each year.

Dividends vs Free Cash Flow limits ($m)



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

Reporting to shareholding Ministers

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

Annual report

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

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

Interim report

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

- an abridged, unaudited statement of Airways' financial performance and position
- a qualitative report from the Directors on Airways' performance compared with the objectives set out in the Statement of Corporate Intent, 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

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

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 State-Owned Enterprises Act 1986, Airways will also provide other information relating to the affairs of the Company 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 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.

Commercial value of 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 2023 was $328.6 million (30 June 2022 $301.9 million).

	June 2023
Group Enterprise Value	$411.5m
Less Net Debt*	$82.9m
Group Equity Value attributable to Crown	**$328.6m**

* Includes lease liabilities of $72.3 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 8.69%.
- 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 10.50%.
- 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 $328.6 million compares with a value as at 30 June 2022 of $301.9 million. This reflects higher earnings projections as the industry recovers from the impacts of COVID-19 and the plan assumes Airways' costs are largely recovered from our pricing framework from FY24.

Appendix

Appendix A: Financial Performance Metrics ($NZm)

Year ended 30 June	Actual FY22	Forecast FY23	Plan FY24	Plan FY25	Plan FY26
• **Profitability**					
Total revenue	144.6	224.5	279.1	284.7	320.7
EBITDA	(20.8)	38.5	66.1	65.7	96.1
EBIT	(47.5)	11.5	29.1	24.0	50.9
Group (loss)/profit after tax	(35.5)	6.2	18.3	15.1	34.6
• **Shareholders' returns**					
Total shareholders' returns[1]	(6.1%)	4.5%	(1.5%)	0.0%	3.3%
Dividend yield	0.0%	0.0%	1.5%	0.0%	3.3%
Dividend payout	0.0%	0.0%	22.2%	0.0%	29.5%
Return on equity	(19.0%)	3.1%	8.2%	6.2%	13.1%
ROE, adjusted for IFRS revaluations	(19.0%)	3.1%	8.2%	6.2%	13.2%
• **Profitability/efficiency**					
Return on capital employed	(19.4%)	4.4%	11.1%	8.9%	16.9%
Return on assets	(13.3%)	3.1%	7.5%	6.0%	11.9%
Operating margin	(14.4%)	17.2%	23.7%	23.1%	30.0%
Net profit margin	(24.6%)	2.8%	6.6%	5.3%	10.8%
Asset turnover	0.4	0.6	0.7	0.7	0.7
• **Leverage/solvency**					
Equity multiplier	1.9	1.8	1.6	1.6	1.6
Gearing ratio (net) – excluding leases	7.1%	4.7%	2.9%	9.3%	11.6%
Gearing ratio (net) – including leases	31.6%	28.0%	25.6%	27.7%	27.8%
Interest cover (before capitalised interest)	(4.1)	7.6	11.8	16.1	17.9
Solvency (current ratio)	1.5	1.9	1.1	1.0	0.9
• **Growth/investment**					
Revenue growth	(1.7%)	55.2%	24.3%	2.0%	12.6%
EBITDAF growth	(150.1%)	284.8%	71.6%	(0.6%)	46.3%
NPAT growth	(754.4%)	117.5%	194.5%	(17.9%)	129.5%
Capital employed growth	4.8%	7.7%	(5.8%)	13.0%	9.9%
Capital renewal	1.2	1.8	1.8	2.1	1.9

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

[1] Company valuations are not forecast from 2024–26.

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

Background

EVA (economic value added) 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.

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

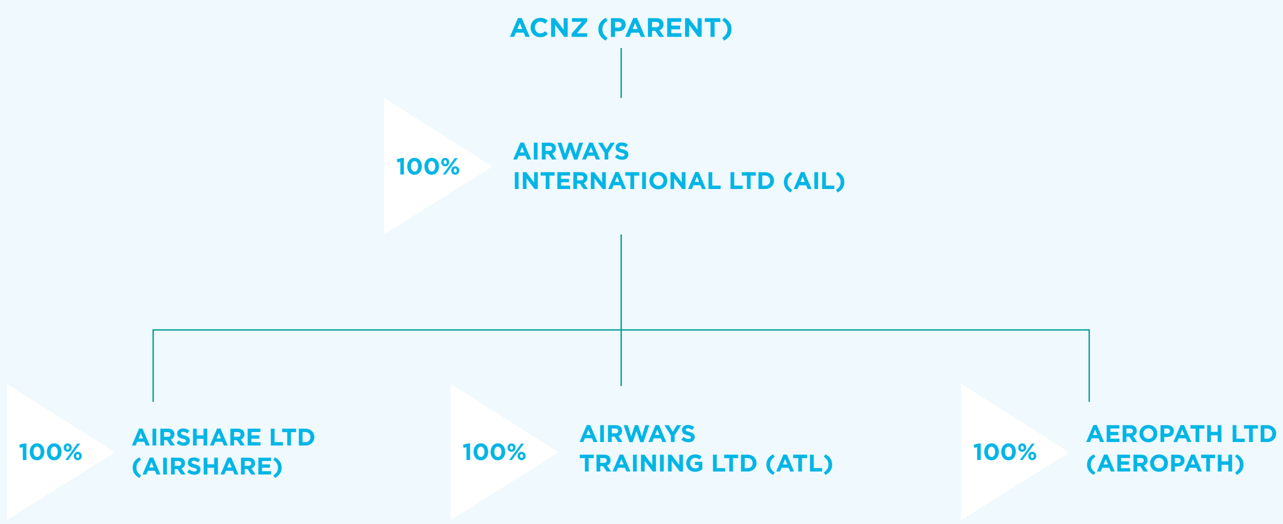
EVA	Plan FY24	Plan FY25	Plan FY26
• **Total capital employed**			
Debt employed	153.8	174.4	185.8
Equity employed	162.1	180.1	208.6
	315.9	**354.5**	**394.4**
• **Charge on operating capital**	**25.5**	**27.6**	**29.3**
• **Economic value added (EVA)**	**(9.5)**	**(16.6)**	**0**

Cost of capital – key parameters	Plan FY24	Plan FY25	Plan FY26
Risk free rate – 3-year Government Stock	3.18%	3.18%	4.09%
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**	**8.03%**	**8.03%**	**8.69%**
• **Return on capital (RoC)**	5.44%	3.44%	8.69%

Appendix C: Group Structure

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

Legal entity	Principal activity
Airways Corporation of New Zealand Limited (ACNZ)	Provision of air traffic management services.
Airways International Limited (AIL)	Revenue management, recruitment and training, and air navigation services and maintenance of systems.
Airways Training Limited (ATL)	Not trading.
Aeropath Limited (Aeropath)	Aeronautical information management, procedure design and development services.
Airshare Limited	Unmanned aerial vehicle (UAV) and drone traffic management services.



Appendix D: Statement of Accounting Policies

Basis of preparation

The financial statements are for the consolidated Group ("Airways"), consisting of Airways Corporation of New Zealand Limited 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 Airways, 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 air traffic management (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

Mark Bramley, with the assistance of PricewaterhouseCoopers on behalf of the Auditor-General

Registered office

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