F.17

FOCUSSING ON THE FUTURE

AIRWAYS INTEGRATED REPORT 2022

AIRWAYS

Contents

OUR PERFORMANCE

OVERVIEW OF 2022 PERFORMANCE AGAINST KEY KPIS

Flight movements	366,017
UAV flights	50,860
Core systems availability	99.97%
Air proximity event (category A)	1
Aircraft accidents	0
Airways Group recorded a net loss after tax	($35.5M)
Carbon reduction	14,849k/Tn
Waste recycled	2.365T
Track miles saved for flights	792,248NM
Women in leadership	44.2%
Notifiable staff safety events	3
AIL recorded a net profit after tax	$4.4M

About Airways

As New Zealand's air navigation service provider, Airways manages one of the largest airspaces in the world. We provide air traffic management services that are safe, modern, reliable and efficient.

We work with our customers – including airlines, airports, commercial and private aircraft operators and the New Zealand Defence Force – to ensure aircraft, passengers and cargo reach their destinations safely.

Our team is located across 17 air traffic control towers, two flight information service towers and two operating centres. Together we guide as many as 366,017 journeys safely through our skies every year.

We are responsible for maintaining and investing in the country's aviation infrastructure to ensure we continue to deliver world-leading air traffic management services, and provide for the safe integration of emerging aviation technology including UAVs.

Our subsidiary, Airways International (AIL), delivers air traffic management consultancy, airspace design, and training products and services across the globe.

We recognise our responsibility to make a positive contribution to the world in which we operate. 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.

Our Purpose

Safe skies today and tomorrow

Our Vision

Create the aviation environment of the future

Our Values

Safety, Each Other, Excellence and Success

CHAIR AND CEO SUMMARY

Continuing to deliver

Denise Church
Chair

James Young
Acting Chief Executive Officer

Through a second year of pandemic travel disruption, Airways has stayed the course and continued to deliver on our commitment to keeping travellers safely connected to each other and the world.

As we look back, we reflect on the collaboration and hard work of our valued people in ensuring we have been able to maintain our essential services through extraordinary times. As we look forward, we are optimistic about the opportunities we have to rebuild a future-fit industry that is efficient, resilient, even safer and more sustainable.

Safety is paramount

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 by ensuring a safe workplace for our people.

Through the year we have progressed an independent review to strengthen our Safety Culture and moved to implementing the recommendations from the review.

We are committed to achieving the highest level of safety performance across our organisation and this year we facilitated 366,017 flights through the 30 million square kilometres of airspace we control. Robust continuity planning, alongside an unwavering focus on supporting the health and safety of our people, resulted in minimal disruption to our services as a result of positive cases of COVID-19 emerging within our teams.

In the 12 months to June 30, we recorded one air proximity event (category A) within controlled airspace. This occurred between a small private plane and a glider and was resolved without incident. The event has been reported to the Civil Aviation Authority, in line with reporting standards, and is being investigated internally.

We are disappointed to be reporting three notifiable safety events, involving Airways people and contractors undertaking work for Airways. While these events have not met the threshold for investigation by Worksafe New Zealand, as part of our proactive safety culture approach, we have initiated a learning review process with the impacted work groups and commissioned an external review of relevant practices.

Our financial result

Reflective of the extensive travel restrictions that remained in place for most of the year, we are reporting a Net Loss After Tax of $35.5 million for the Airways Group, which is $18.0 million higher than budget.

Every three years Airways consults on the prices we charge for our services to airports, airlines and General Aviation customers, and associated service enhancements. In June we announced Airways' service prices for the 2022 to 2025 period. The announcement followed a two-month consultation with our customers, stakeholders and the wider aviation sector.

To support the recovery of the industry and ensure Airways recovers in step, we will not be seeking full recovery of revenue across the FY23-25 period, limiting our price increases to eight percent in FY23, buffering the effects of inflation and rising funding costs. We remain incredibly grateful for the support of Government, as our shareholder, that has made this possible.

We have limited our price increases to our customers to the extent reasonably possible to stay within our equity and funding parameters, while ensuring we are able to continue delivering on our core objective of providing safe and efficient services. After three years of losses, and a forecasted loss in FY23, a pathway back to profit is a requirement for the shareholder as well as external funders.

Our commercial business, Airways International Limited (AIL), has performed well in difficult operating environments, successfully delivering work remotely while borders remained largely closed. Through its symbiotic relationship with our core business, AIL exports Airways' expertise and innovation worldwide. AIL has delivered a Net Profit After Tax of $4.4 million, slightly ahead of budget of $4.3 million.

366,017

FLIGHT MOVEMENTS HANDLED

Delivering on our strategy

We continue to work towards our vision of creating a progressive airspace environment for the future. As we emerge from the COVID-19 pandemic, like many across our industry, we recognise that a return to business as usual would be unsustainable. Underlying this focus is our commitment to supporting the long-term recovery of the aviation industry by matching our services to the sector and to customer needs, while keeping safety at the forefront of our operations.

For a number of years, Airways has been undertaking a modernisation programme aimed at achieving our objectives of creating a more efficient and sustainable aviation network. While there have inevitably been limitations to what we have been able to progress over the past year, and since the onset of the pandemic, we have continued to lay foundations that will allow us to push forward on these initiatives again as the recovery takes hold. Digital and remote technologies will be key enablers for achieving our vision.

The challenges we have faced over the past two years have also given rise to new innovations and adaptations to our ways of working that we hope will continue to benefit Airways and our industry as we move into an endemic COVID-19 world. Some of these key developments and achievements through the year are outlined in the remainder of this report.

Our people

We want to thank our valued and motivated people for their hard work and commitment through these challenging times. Our people are our greatest asset and it is through them that we achieve our core purpose of ensuring safe skies.

The safety and welfare of our people has been central to our COVID-19 response strategy. Following consultation, a vaccination mandate was implemented for all employees working on Airways sites, and contractors and visitors to Airways from December to April. The mandate helped ensure teams were appropriately protected at work. With a number of other protective measures implemented, we were pleased to welcome our people back to working safely on-site from May, following removal of the mandate.

We recognise the ongoing pressures the pandemic has placed on daily life for our people. A number of initiatives were offered during the year to support them to manage their wellbeing at a time of uncertainty.

It is pleasing to see our employee engagement survey results highlight Airways' commitment to supporting our people through the year. The survey has also identified areas beyond COVID-19 where we need to refocus our attention, and these will be reflected in our priorities over the coming year as we step up our efforts to build engagement with our people.

14,849K/Tn

CARBON REDUCTION

Our goal to become a zero waste, zero emissions business will also be key to our strategy

There is no doubt that our recovery as a business and as an industry will not be easy and we need to ensure we continue to have the best and brightest working at Airways in order to successfully navigate our way around these hurdles.

Having a skilled and diverse team of people from a wide range of backgrounds and varied ways of thinking is going to be critical in driving the level of innovation required. This year we have continued on our journey to increase our people's understanding of Māori culture and language, and are thrilled to have started work on key diversity, equity and inclusion initiatives including the process of receiving Rainbow Tick accreditation as an employer.

We also acknowledge the successful completion this year of collective agreement negotiations with the New Zealand Air Line Pilots Association and the Aviation and Marine Engineers Association – the representative unions for air traffic controllers, flight information service specialists, and engineering and technical staff.

Engaging with customers

This year we also asked our customers and industry associations to take part in a customer satisfaction survey. This was an interim survey to be used as a baseline ahead of Voice of Customer (VOC) and the objective was to identify opportunities for Airways to add value to our customers in the coming year.

Of those that undertook the survey, we achieved an overall satisfaction score of 67%. The survey respondents recognised Airways' excellent safety record, our approach to the recent pricing consultation and acknowledged that Airways has worked hard to improve engagement. The results also identified areas for improvement, including the need for greater strategic engagement with our customers, and ensuring we have a deep enough understanding of their needs and business direction. These will be areas of focus as we embark on a refresh of our customer and stakeholder relationships.

We want to thank our customers for their participation in the survey.

Advancing our sustainability agenda

COVID-19 has undoubtedly changed the face of our industry. In light of this change, we have started work to review and reset our sustainability programme to ensure we continue to make progress towards our targets and play our role in tackling climate change. This will involve working with our people, customers and stakeholders to develop an expanded, and ambitious but achievable sustainability strategy and roadmap for our business.

Airways has been at the forefront of developing and deploying procedures and technology to reduce the environmental footprint of the aviation industry, through our introduction and use of performance based navigation procedures and intelligent flow management tools. The greatest contribution we can make to support the industry to tackle climate change is through our Airspace Optimisation programme, the outcomes of which will reduce aircraft fuel burn and carbon emissions. This will be a cornerstone of our sustainability strategy.

Our goal to become a zero waste, zero emissions business will also be key to our strategy. We have a number of company-wide initiatives already underway to achieve this, including work to transition our vehicle fleet to electric or hybrid vehicles, increasing our use of recycling, and reducing our general waste and amount of paper printed. A carbon reduction strategy will also be introduced as part of the new sustainability approach.

Executive and Board

Chief Executive Officer Graeme Sumner resigned from Airways in May, after five years of leading our business through some of the most challenging times we have experienced. This year we have also farewelled Executive Leadership Team members Mark Daldorf, Head of People and Capability, and Ed Overy, Chief Information Officer.

We thank them for their contributions and wish them all the best in the next stage of their careers.

Gavin Fernandez was appointed to the Airways Board in March 2022, bringing a breadth of experience in governance and senior management.

Approach to reporting

As part of our sustainability commitment, Airways is transitioning to reporting against the Integrated Reporting Framework. The shift to integrated reporting will enable us to demonstrate the short, medium and long-term value we create, beyond just our financial result.

This is Airways' first integrated report. We are taking a staged approach to adopting integrated reporting and will continue to develop our strategic thinking and reporting practices using the framework over the coming years.

Airways' Statement of Corporate Intent for the 2021 to 2024 period sets out the business objectives and measures of success that form the basis for this report. These objectives and measures of success are aligned with the capitals and outcomes identified in our value creation model (VCM).

During the development of the framework, we engaged with our people, customers and stakeholders to identify topics which they held to be significant in terms of our influence and impact. These material issues are embedded within the framework, which includes four key pillars: our contribution, our team, our communities and our footprint. Alongside this, our shareholder's letter of expectations for the year confirms their view of Airways' priority focus areas.

Taking into account the widespread impact the pandemic has had on the aviation industry, as well as businesses broadly, supply chains and communities, in FY23 we will undertake a comprehensive stakeholder materiality assessment to understand the issues that matter most to our business as part of our wider sustainability strategy reset, with safety continuing to be at the forefront of all we do.

Our risks and their management

Airways is fully committed to maintaining an effective risk management programme. Our focus is on developing a risk aware culture that enables Airways to consistently, efficiently and cost effectively respond to opportunities and threats.

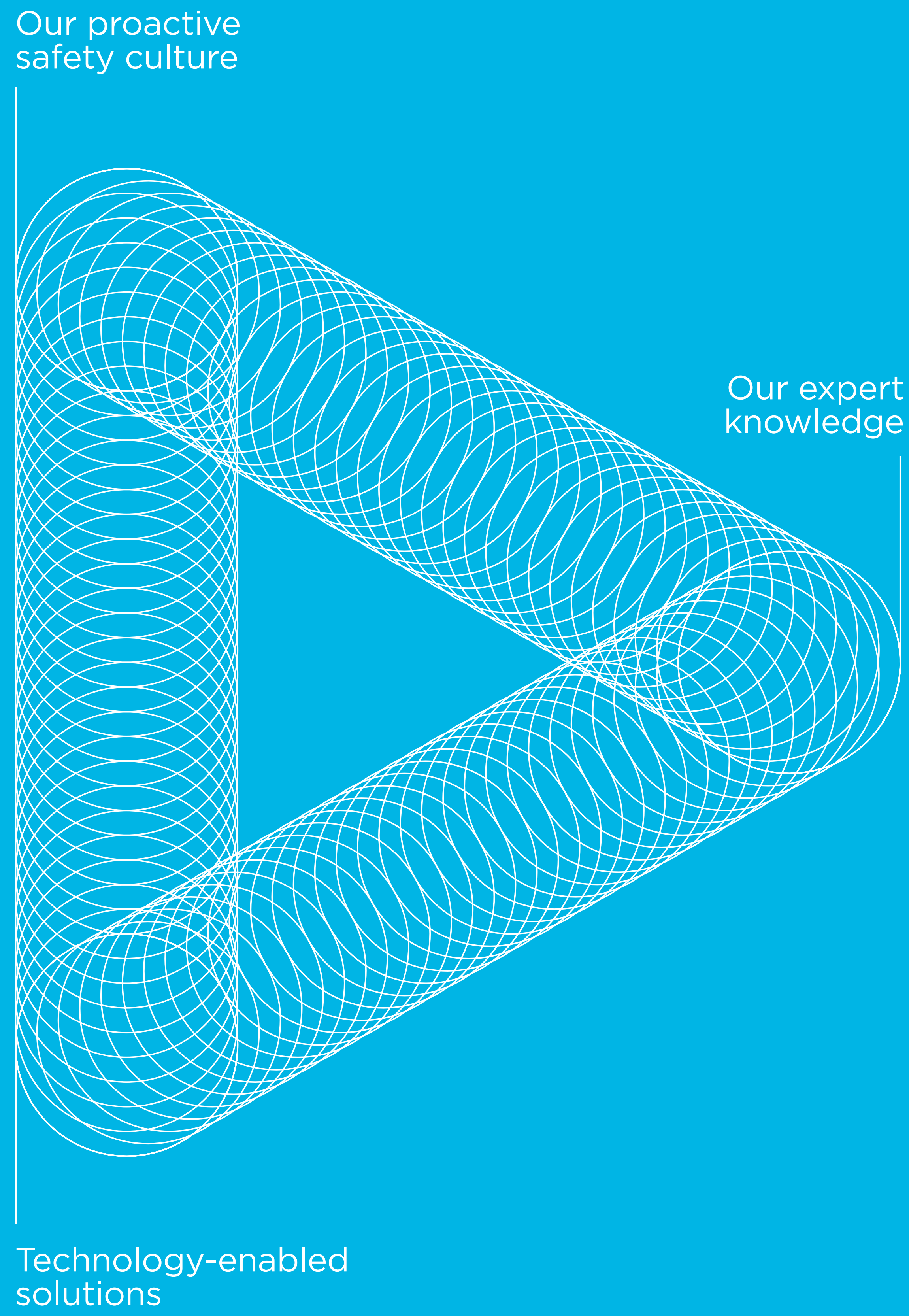
Risk management is critical for achieving our strategy, underpinning decision making and as an enabler of continuous improvement. We are working to integrate risk management processes into all our business operations, projects and day-to-day decision making. This is providing us with increasing confidence that decisions will result in expected outcomes, in line with our just culture.

The top ten risks are managed through the risk register that is continuously reviewed, with oversight and challenge from the Executive Leadership Team and the Airways Board. The threats, managed through the Airways' top risk register include natural disasters, loss of life of Airways' people or the public, cyber security, climate change, and industry and workforce pressure. Risks are actively managed and monitored, with reporting capability provided to all levels of the business.

This year we developed training for all Airways people and have continued to raise awareness of risk through our dashboarding capability. The future focus of our risk management strategy will be to further emphasise and improve our people's risk management capability and to drive control effectiveness programmes to gain greater transparency of where improvements can be made to prevent our risks from being realised.

Our strategy

Airways' strategy for achieving our vision, while continuing to deliver on our core purpose, is to work with partners to provide global aviation customers with safe, integrated airspace management through:



VALUE CREATION MODEL
HOW WE CREATE VALUE FOR OUR STAKEHOLDERS

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, knowledge and active engagement of our people

Our relationships
With passengers, airline customers, communities, aviation and government

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

WHAT WE DO TO CREATE VALUE

Provide safe, resilient and efficient air traffic services to New Zealand airspace

THROUGH...

Proactive safety culture, expert knowledge and technology-enabled solutions

OUR OUTCOMES

Safety
For the travelling public and other airspace users

Service efficiency
Fit for purpose service at a fair price for our customers and the travelling public

Airspace efficiency
Enabling on time performance for airlines and travellers

Sustainable outcomes
- Reducing customer fuel burn
- Identify and mitigate the risks of climate change by reducing our environmental (carbon; waste; energy; water) footprint

Financially sustainable
Ensuring a sustainable return to government shareholder

Better work and careers
- Health and wellbeing focus
- Diverse and inclusive workplace culture
- Ongoing training and development for both our people and the aviation industry
- Rewarding career paths

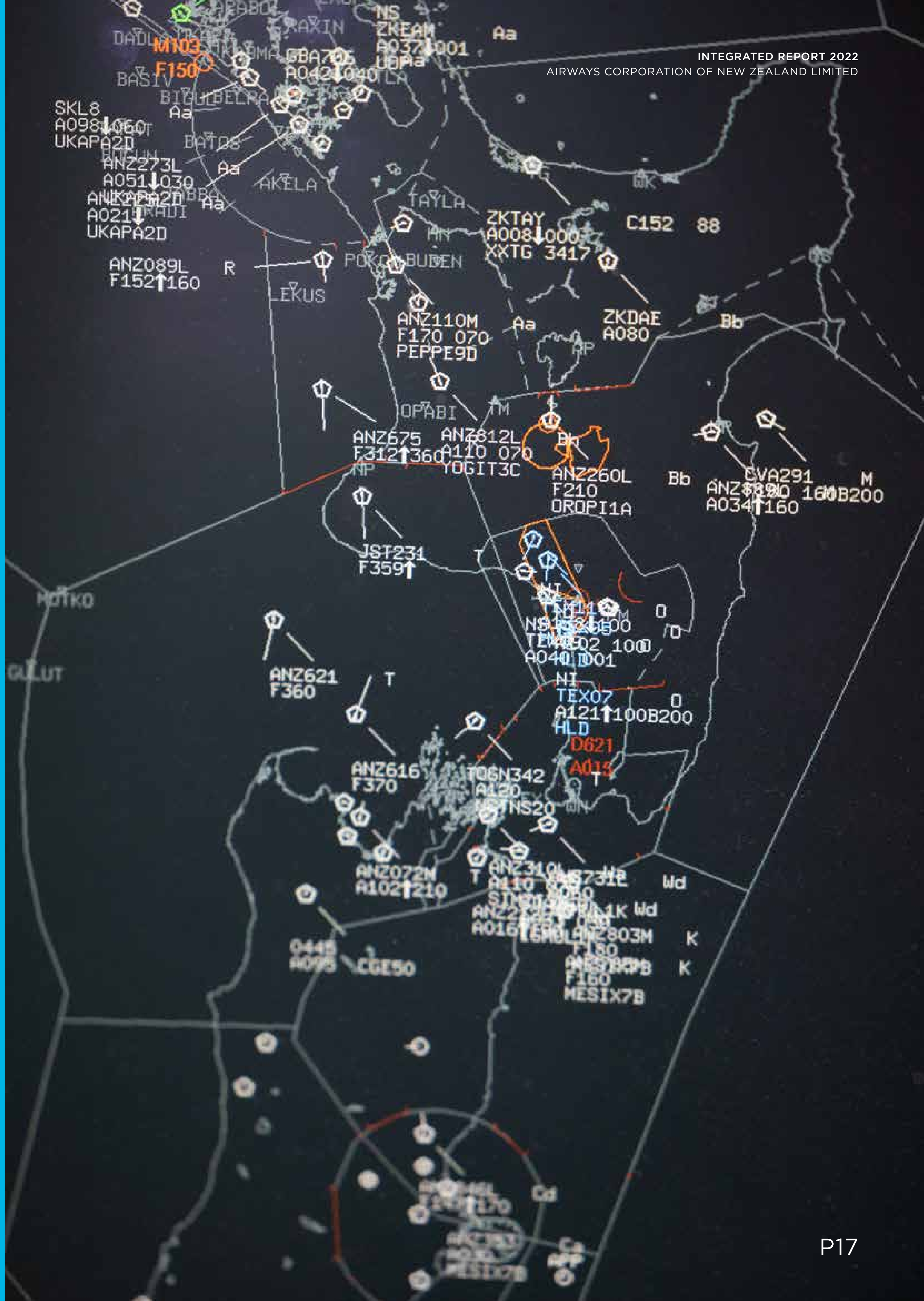
OUR VISION

To create the aviation environment of the future

OUR STRATEGY

Creating value through:

proactive safety culture



Safety is at the forefront of everything Airways does, both operationally for our customers and where the health and safety of our people is concerned. We have a proven track record of strong safety results and are committed to fostering a proactive safety culture across our business.

As our industry and business evolves, we are looking to the latest developments in safety intelligence and technology to ensure we are proactively and continuously identifying and implementing safety enhancements.

External benchmarks for safety and safety performance

Annually we contribute to the EUROCONTROL/ Civil Air Navigation Services Organisation (CANSO) Standard of Excellence in Safety Management Systems Measurement survey. This provides the opportunity for air navigation service providers (ANSPs) to benchmark themselves against the wider industry and continually improve their efforts to manage safety. It is comprised of a comprehensive questionnaire completed by the ANSP, which is then independently validated to allow assessment against the wider industry. The results of this year's survey show we have an excellent Safety Management System when compared with ANSPs across the globe.

The strengths highlighted by CANSO included that Airways sees safety as the number one priority and there is a business ethos of continuous improvement. Threats, risks and opportunities to improve safety performance are addressed in a way that is proportionate and appropriate to the business and identified safety benefit. We were also recognised for our commitment to understanding and improving our safety culture through our safety culture review.

Enhancing our safety culture

In 2020, Airways engaged Presage to conduct an independent review of, and provide recommendations on how to improve our safety culture. This is a major safety investment for Airways that seeks to strengthen the connection between safety culture and safety outcomes. The results and recommendations identified three areas of focus which were further explored by three working groups comprising people from across the business.

The working groups developed 29 draft recommendations which we have committed to validating and delivering as appropriate for the organisation. The working groups have identified six foundation actions aligned to five of the recommendations. Responses to the remaining 24 draft recommendations will be addressed by the end of 2022.

Additionally, the Airways Safety Strategy and corresponding Safety Management System three-year roadmap have been reviewed and will integrate any appropriate actions from the safety culture review.

Cross industry collaboration

Airways takes a leading role in safety development internationally, including our lead positions within the international Civil Air Navigation Services Organisation (CANSO). We value the flow of information and expertise this provides in enhancing our own safety performance.

At home, the Airways Safety Forum has provided an opportunity for the New Zealand aviation industry to share safety knowledge and learnings. For the first time in two years, 80 leaders from across the industry and safety profession were able to come together in June for the forum in Christchurch.

As countries across the globe sought to contain the spread of COVID-19 across borders, the aviation industry faced a constant stream of changing protocols and safety requirements focused on keeping employees and customers safe. For safety leaders this has meant the need to respond quickly to change, while also ensuring wider safety protocols are maintained. As the industry looks to rebuild, the forum was an opportunity to assess learnings from the past two years and how these can be taken into the future.

We were also recognised for our commitment to understanding and improving our safety culture through our safety culture review.

OUR STRATEGY

Creating value through:

our expert knowledge

At home we manage one of the largest areas of airspace in the world, providing air traffic management services that are safe, modern, technologically advanced, reliable and efficient. Through Airways International, we export our expertise and innovation worldwide.

Over many years we have taken leading roles with international bodies including the Civil Air Navigation Services Organisation, CANSO, helping to lift the standard of air traffic management throughout the Pacific and globally.

SUSTAINABLE OUTCOMES

LAUNCHING GREEN ATM

In June CANSO launched GreenATM – an independent, industry-endorsed, environmental accreditation programme specifically for air navigation services providers (ANSPs). Airways has been a key contributor in the development of the programme through our work with the CANSO Environmental Working Group.

While there are a variety of programmes which offer companies frameworks or standards to align their environmental activities, none fit the unique nature of the air traffic industry. It has been estimated globally that ANSPs' scope one and two emissions account for around 2% of their total emissions. This pales in comparison to all other indirect scope three emissions that occur in an ANSP's value chain, such as aircraft engine emissions, estimated to account for over 98%.

GreenATM draws on the objectives and strengths of other accreditation or certification schemes, but is specific to the structural, organisational, and operational environment of ANSPs, and focusses specifically on areas in which we can positively influence emissions and other environmental factors.

Participating ANSPs will be assessed on how they facilitate minimising excess emissions in their airspace, as well as efforts to reduce their own direct environmental footprint. GreenATM covers a range of topics related to governance and policy, ground, terminal and enroute operations, infrastructure, and sustainable procurement practices.

As participation in the accreditation programme grows, best practice will be uncovered and shared across the industry. This will inspire coordinated action between ANSPs, enabling delivery of initiatives that will greatly benefit the environment.

Airways will begin the accreditation process in the coming year.

SUSTAINABLE OUTCOMES & AIRSPACE EFFICIENCY

AIRSPACE OPTIMISATION

The design of New Zealand's air traffic control airspace sectors has developed iteratively over several decades, resulting in a number of inefficiencies. In 2019 Airways began a comprehensive ground-up review of the way we sectorise airspace, which has identified opportunities for adjustments that would improve the overall efficiency of flight paths, reducing aircraft fuel burn and carbon emissions.

Following the review, we are now working to progress track shortening for some flight paths at high altitude and will continue to progress the wider programme in the coming year.

This latest optimisation programme builds off Airways' many years of work to reduce the impact of aviation on our environment through the introduction and use of Performance Based Navigation procedures (PBN). With PBN procedures, aircraft follow optimised flight paths, allowing for safer, more predictable flights, delivering fuel savings and reduced CO2 emissions.

Airways' Collaborative Arrivals Manager (CAM) is now in its 13th year of creating significant fuel and cost savings, minimising delays and maximising efficiencies across the aviation supply chain. CAM is a web-based flight scheduling manager that allows greater control over the time of arrival and enables airlines to manage their schedules flexibly and responsively. Rather than entering into delay vectoring and contributing to holding congestion, inbound flights schedule their departures to synchronise with available arrival slots. At peak traffic levels prior to the pandemic, the improved efficiency of PBN and CAM allowed our customers to avoid close to 40,000 tonnes of CO_2 emissions.

SAFETY & AIRSPACE EFFICIENCY

Divergent missed approach procedures

Divergent missed approach procedures (DMAPS) are delivering real safety and efficiency gains at Christchurch Airport. DMAPS change the way missed approaches are managed, from a tactical approach to a safety by design system.

A missed approach is the procedure aircraft fly if they are unable to complete a landing – often the reason for this is weather or poor visibility. Previously, the management of missed approaches relied on a combination of visual and procedural separation. This resulted in variations in arrival rates at the airport, depending on the weather conditions, and resulted in some uncertainty for flight crews as to whether they might be required to fly a published missed approach or a visual circuit.

The development of DMAPS was initiated by a Christchurch tower air traffic controller who saw an opportunity to enhance the safety and efficiency of missed approach handling. The procedures have resulted in a 75% decrease in ground delays, and a 33% improvement in poor weather traffic capacity at Christchurch Airport.

Off the back of their successful implementation in Christchurch Airport, we are working on a wider rollout of DMAPS to other airports around the country.

SAFETY

Integrating drones into New Zealand airspace

The drone landscape is rapidly evolving as recreational and commercial drone usage continues to rise, and advanced uncrewed aircraft capable of carrying people and cargo emerge.

These technologies have the potential to deliver significant economic benefits and the need to safely integrate them into our wider aviation system is critical. Airways is a contributor to a number of initiatives and workstreams aimed at achieving this.

This year we continued our work as a partner agency in the Government's Airspace Integration Trials Programme (AITP), alongside the Ministry for Business Innovation In the year ahead we will continue to collaborate with the industry to investigate solutions that will enable safe drone integration. This requires the implementation of UAV traffic management technologies, alongside a suitable regulatory framework.

SERVICE EFFICIENCY

Enabling New Zealand's emerging space industry

In November we signed a second five-year contract with Rocket Lab to support the Electron rocket launches from Mahia Peninsula.

Enabling safe and flexible access to New Zealand airspace is critical to supporting our growing space industry. Our air traffic services teams work closely with Rocket Lab in the preparation and execution of each launch to ensure that every rocket has a safe flight path.

Airways has supported Rocket Lab's Electron rocket launches since 2017, when the aerospace organisation launched its first rocket into space. Since then, more than 20 Electron rockets have been launched, deploying more than 100 satellites into orbit.

In April, NASA returned to Wanaka to resume its Scientific Balloon Program. Airways works alongside NASA on the program to plan and facilitate airspace logistics for the launches.

NASA's first super-pressure balloon launch in New Zealand was in 2015, with further launches in 2016 and 2017. Unfortunately, weather meant this year's launches were unable to go ahead as planned, however NASA plans to return to Wanaka in 2023.

FINANCIAL SUSTAINABILITY

Exporting Airways' expertise worldwide

Our Aeronautical Information Management (AIM) and procedure design subsidiary, Aeropath, progressed a number of significant multi-runway projects in the Asia Pacific region during the year. This work included the design of complex metropolitan airspaces and associated procedures, as well as providing leading-edge simulation validation and safety case support. Aeropath's involvement in these projects cements its role as a world-class provider of AIM and navigation design services.

Airways International also secured a three year contract with Airservices Australia for its SureSelect service. Airservices has purchased the service to screen potential air traffic control applicants across Australia.

SureSelect helps ANSPs choose the right candidates to progress with training, who are most likely to succeed as an air traffic controller.

Creating value through:

technology enabled solutions

For a number of years, Airways has been undertaking a modernisation programme aimed at providing more resilient and flexible air traffic management services to our customers and partners. Digital technologies are driving positive change for our business and industry.

SAFETY & AIRSPACE EFFICIENCY

Future fit air traffic systems

Our Air Traffic Services technology transformation programme will see Airways transition our air traffic management and control services to a more resilient and flexible operating platform.

The programme includes the transition to our new Air Traffic Management (ATM) platform, moving our air traffic centres into two new seismically resilient buildings and a range of hardware upgrades across our towers and centres.

COVID-19 has created a number of new challenges in the delivery of this already complex work over the past two years, however we are pleased to have met several key milestones through the year.

A key feature of our new ATM platform is a digital voice communications system, replacing the existing radio-based technology. In June we completed site acceptance testing for the new system, developed by Rhode & Schwarz, that will provide air traffic controllers with air-to-ground and ground to-ground voice communications. It will go live when we transition to the new ATM platform, operating from the new Auckland and Christchurch Air Traffic Centres in early 2023.

This year we also completed the setup of new contingency air traffic centres in Auckland and Christchurch. These contingency centres will allow us to resume up to 70% of our operations in the event of a full evacuation of one of our main air traffic centres.

Going forward we will look to develop digital air traffic control tower services for New Zealand. We have been investigating digital air traffic control tower technology for several years and watching closely as airports internationally have moved to this way of operating.

SAFETY & AIRSPACE EFFICIENCY

Building our resilience

In June we awarded a contract to technology company Indra to replace Airways' aging radar infrastructure, with new systems that will provide an added level of resiliency in the event of a failure of the new Automatic Dependent Surveillance-Broadcast systems (ADS-B) network.

New Zealand has been on a journey to transition from radar to ADS-B as our main surveillance technology. ADS-B utilises global navigation satellite systems (GNSS) to detect and track the movement of aircraft more precisely than is possible with radar and in areas where radar coverage is limited. Airways completed our ADS-B ground network across 27 locations throughout New Zealand in 2019 in anticipation of the full ADS-B mandate for all airspace coming into effect on 31 December 2022.

The new radars will act as a back-up in an event of a GNSS failure causing a widespread ADS-B outage. As part of the project, Airways' existing primary surveillance radar systems at Auckland, Wellington and Christchurch Airports will also be replaced to provide noncooperative surveillance at these main trunk airports.

BETTER WORK AND CAREERS & SAFETY

Remote air traffic control training

The challenges we have faced over the past two years have given rise to new innovations, particularly in the training space. This year we introduced mobile simulation with remote sim piloting for our air traffic controller (ATC) training across Airways.

Remote training has been critical to keeping our ATCs' skills refreshed and current through the year, while COVID-19 border and travel restrictions meant they experienced a sustained period of controlling lower than usual traffic levels and were prevented from traveling to our simulator training facility in Christchurch.

The mobile desktop simulators have been deployed to air traffic control towers around the country and operate with simulator pilots working remotely from home.

As the challenges of the pandemic pass, the mobile desktop simulators will continue to allow greater flexibility and efficiency for our ATC training programme.

SAFETY

AirShare – the drone user hub

Despite the challenges presented by the pandemic for our wider industry, drone usage continues to grow steadily.

Drone users have continued to log close to 1,000 flights per week through Airways' drone user hub AirShare over the past year and developments to the platform are being trialled to make it quicker and easier for operators to gain approval for flights in controlled airspace.

Since AirShare was launched in 2014, gaining final authorisation for a flight has been done by a phone call to the control tower by the drone operator. A digital authorisation feature being trialled in the Whenuapai control zone allows operators to make the final request directly through the app from their mobile phone, allowing them to gain approvals in real time. Following the trial at Whenuapai, digital authorisations will be progressively rolled out around New Zealand.

AIRSPACE EFFICIENCY

Streamlining flight planning

An important piece of work through the year has been the joint development by Airways and Metservice of a new integrated pre-flight planning platform for general aviation pilots.

Pilots have previously needed to visit different websites to get comprehensive pre-flight information. Named Preflight, the new platform replaces the legacy tools previously available with an integrated system that presents both aeronautical and weather information in one easier to use and streamlined app. Pilots and flight planners will be able to more easily interact with the integrated data through new user interfaces and on various devices.

Our people

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.

Not only is this the right thing to do, but it makes good business sense. We know this is critical to encouraging the high performance of our people, and attracting and retaining the best talent, to ensure we are able to navigate the challenges we are facing and make the most of the opportunities ahead.

BETTER WORK AND CAREER

Diversity, equity and inclusion

We want to have a diverse team of people from a wide range of backgrounds and varied ways of thinking.

This year we set our intention to work towards receiving Rainbow Tick accreditation as an employer. This initiative specifically addresses the areas of sexual orientation and gender diversity at Airways. The process of becoming accredited will help us to be confident that we are doing all we can to ensure we are a workplace where our LGBTTQIA+ people feel safe and free to be their authentic selves. Receiving the Rainbow Tick will be a visible way of demonstrating our inclusive culture.

While we are proud we have achieved a level of gender balance within our senior leadership, with 42% of employees in these roles identifying as women, we are aware that there is work to do to address a level of underrepresentation for women across our wider business.

In FY23 we will also be progressing the focus on our diversity, equity and inclusion programme to include neurodiversity. Introductory training will be available to our people to first help build their understanding of the concept and how we can build a truly psychologically safe environment.

Flexible working

Throughout COVID-19 Airways supported our people to balance their personal and professional commitments by facilitating flexibility in employment and working arrangements where this delivers mutual benefit.

While the move to working from home was driven by necessity related to the pandemic, we have used these experiences to validate and shape our flexible working model.

We are committed to continuing to create and maintain an inclusive culture through supporting flexible working options to help our people be empowered to deliver outcomes in a way that best suits their personal circumstances, wherever possible.

Advancing our Te Ao Māori plan

LEARNING TE REO IS PART OF WHAT IT MEANS TO BE KIWI FOR DEON VAN DER HEYDE.

The Rotorua Airport-based principal technician moved to New Zealand from South Africa 11 years ago. After a stint in Wellington, he and his wife relocated to Rotorua where he is used to hearing Te Reo on the streets.

"I hear people speaking Te Reo and I want to be able to start a conversation. If I'm going to call New Zealand home, I want to embrace all parts of home," he says.

In 2020, Airways started out on a journey to increase our people's understanding of Māori culture and language. Deon is one of many Airways people who have signed up to initiatives focussed on increasing their Te Reo, Tikanga, and Te Tiriti o Waitangi understanding.

Short virtual courses have been offered this year, alongside a more comprehensive Te Ao Māori for Professionals course in partnership with Education Perfect.

Outside of work, Deon and his wife also attend local evening classes to improve their language skills. While he is early in his journey, Deon says his confidence is steadily building.

Te Wiki o te reo Māori (Māori Language Week) and Matariki provided further learning opportunities. The focus of Māori Language Week 2021 at Airways was on pronunciation of greetings and place names, helping to provide a practical foundation to support people to begin their own language journey.

Performance against statement of corporate intent metrics

Additional financial performance against Statement of Corporate Intent (SCI) metrics are disclosed on page 87

Capitals	Actual 2022	SCI TARGET
Financial		
Revenue ($M)	$144.6	$179.4
Loss before tax ($M)	($50.3)	($24.3)
Capital expenditure ($M)	$25.2	$51.6
Gearing	31.6%	39.1%
Dividends	NIL	NIL
Infrastructure		
Monthly drone incursions (within aviation system)	4.25	≤6
Track miles saved vs minimum plannable route	792,248 NM	>825,000 NM
Core system availability	99.97%	≥99.98%
Expertise		
Air proximity event (Category A)	1	NIL
Aircraft accidents	0	0
Drone incursions with Airways' involvement	NIL	NIL
Products under development - Commercial	3	5
Thought leadership events	12	10
People		
Staff engagement	55%	Baseline
Work accidents resulting in lost time injury	1	NIL
Notifiable staff safety events	3	NIL
Staff turnover	8.87%	6.5%
Women in leadership	44.2%	43%
Relationships		
Flights handled	366,017	459,000
Voice of Customer - Core	66.7%	Baseline
Environment		
Carbon reduction (CO2 saved)	14,849 k/Tn	>17k/Tn
Transition vehicle fleet to EV / Hybrid (Note vehicles on order but delivery backlog due to COVID so still showing 0% but KPI met once delivered)	0%	2%
Reduction in paper printed	-12%	-5%
Waste recycled (tonnage)	2.365T, 1.0% recycled	700

Governance at Airways

Board of Directors

DENISE CHURCH
CHAIR, QSO, CFINSTD

Denise was appointed as Chair of the Airways Board in January 2019, bringing a wide range of governance and management experience. She is a Chartered Fellow of the Institute of Directors and has been Chair of the Institute of Environmental Science and Research (ESR) since July 2015.

Denise is a board member of Predator Free Wellington Ltd, trustee of the South Youth Foundation, past president of the Rotary Club of Wellington, and a director and shareholder of Leadership Matters Limited.

Denise was Chief Executive of the Ministry for the Environment from 1996 to 2001. She has previously served on the Health IT Board, the Science Board, the Boards of Karori Sanctuary Trust, Ako Aotearoa, FRST, Landcare Research, and the Wellington Zoo Trust.

In 2002 Denise was appointed as a companion of the Queen's Service Order.

MARK PITT
DEPUTY CHAIR, BSC, ATPL

Mark was appointed to the Airways Board in November 2015. He has 25 years' experience as a pilot, initially as an international military pilot and later as a domestic airline pilot instructor.

Mark has also served as a director of a number of Boards including Virgin Australia New Zealand and the Board of Airline Representatives New Zealand Incorporated (BARNZ). He is the owner and director of distribution company Quinn International Ltd and manufacturing and distribution company G&M Pty Ltd in Australia, and runs a consultancy called Frontseat which specialises in leadership and marketing.

Throughout his career Mark has operated in highly competitive international markets, managed complex operational and commercial business functions, and led strong international brands with a focus on innovation and quality products and customer service.

LISA JACOBS
BCOM, LLB, FCA, CMINSTD

Lisa Jacobs was appointed to the Airways Board in November 2018.

She brings a strong legal, financial and risk management focus to the role. Lisa is the Chief Executive Officer of national law firm Anthony Harper and has extensive experience in the professional firm environment and investment management sector, where she has held both senior executive and Board roles.

Lisa holds a Bachelor of Commerce and a Bachelor of Laws from the University of Auckland, is a Fellow Chartered Accountant, and a Chartered Member of the Institute of Directors

DARIN CUSACK
MINSTD

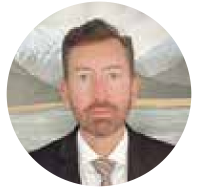
Darin Cusack was appointed to the Airways Board in April 2018. He is a Member of the Institute of Directors.

Darin's current governance roles include directorships of Dunedin International Airport Ltd, Auckland One Rail Ltd, ACL Ltd, Absolute Solutions Group Ltd and the Youth Hostel Association (YHA) of New Zealand.

Darin brings a background in aviation, transport and tourism, having held chief executive and senior executive roles across airport, air navigation, aviation security and airline organisations throughout New Zealand and the Pacific region.

Most recently, he led the Pacific Aviation Investment Program (PAIP) on behalf of the World Bank Group across six countries in the Pacific region, and the reform & restructure of the Pacific Aviation Safety Office. The program delivered over US$350 million of infrastructure renewal, technical assistance and capacity building.

Darin continues to work across the region, supporting donor organisations in the development of investment and implementation programmes for the World Bank Group, Asian Development Bank and Australian Infrastructure Financing Facility for the Pacific.



GAVIN FERNANDEZ
MBA, CMINSTD

Gavin was appointed to the Airways Board in March 2022. He has wide experience in governance and senior management and is presently on the boards of the Government's Green Investment Bank (NZGIF) and MOTAT.

He began his career as a Licenced Avionics Engineer with Air NZ, holds a NZ and FAA Private Pilot Licence and is a graduate of Lincoln University UK (MBA) and INSEAD France (Finance) and a Chartered Member of the Institute of Directors. Gavin has past and present senior technical, commercial and governance roles in NZ, Hong Kong and North America including aviation, engineering, sustainability, environmental finance and social enterprise industries. He aims to help businesses succeed whilst caring for the environment and the community. Gavin has a diverse background with Māori heritage (Ngāti Maru and Ngāti Porou) and is a member of the Rainbow Community.

JOHN HOLT
BA, PGDIPBUSADMIN

John was appointed to the Airways Board in January 2019. He is the founder of Technology and Innovations New Zealand (TAINZ) and co-founder of internet business start-ups Sonar6 (sold to US company Cornerstone in 2012) and Homes.co.nz (sold to TradeMe in 2021).

His purpose is to actively engage the world, grow and learn from that and share with others. He has worked for a range of international corporate organisations including Hewlett Packard, Xerox, ANZ Bank and IBM. John remains an advisor to a number of corporate organisations but is most actively involved with the New Zealand start-up community through Territory3 - Kiwi Landing Pad Reimagined which he founded in 2010 with other prominent entrepreneurs wanting to support the growth and globalisation of impact an for profit ventures from New Zealand.

He is currently focused on ventures and research in Aviation, Sustainability, Technology and Innovation and is founder and CEO of All Things Considered - a global platform for considerate consumers of fashion to discover and research the ethics and sustainability of the brands they buy clothes from.

His current directorships are with Technology and Innovations New Zealand Limited, AIITC Global Limited, Kiwi Landing Pad Limited Chair of the Industry Advisory Group for University of Canterbury Future of Learning faculty and Chair and Trustee of the FreeForAll Charitable Trust.

John has a Bachelor of Arts degree in Military History and a Postgraduate Diploma in Business Administration. He has a lifelong interest in aviation and is a flying member of the Wellington Aero Club.

MARK HUTCHINSON
BSC (HONS), MSC, PGDIP CLPS, MINSTD

Mark was appointed to the Airways Board in November 2019. He is Managing Director of his own leadership consultancy, Divergent & Co. where he works predominately supporting Boards & Chief Executives to improve executive leadership performance and to drive change by linking strategy to capability and culture.

Initially starting his career in clinical psychology in NZ, Mark joined a global leadership consulting firm in London in 2001 and worked with senior leaders in a range of multinational and scale businesses such as RBS, BP, and Sainsbury's; then became Organisational Development Manager for Barclays UK Retail Bank during the GFC. Since returning to NZ in 2010 he has consulted across a range of industries in both the public and private sector with clients such as Trustpower, Fonterra, Chorus, NZ Post, Waka Kotahi, Mercury Energy and Fletcher Building.

NICOLA GREER
M COM (HONS)

Nicola was appointed to the Airways Board in June 2020. She has extensive experience in New Zealand, Australia and the UK in the banking and finance sectors, previously holding a range of roles within financial markets and asset and liability management at ANZ, Citibank and Goldman Sachs.

Nicola's current governance roles include directorships at Fidelity Life Assurance, Precinct Properties, South Port NZ, New Zealand Railways Corporation, and she is a Member of the New Zealand Markets Disciplinary Tribunal.

Nicola also has a significant background in the New Zealand commercial property market, successfully developing and owning commercial property across a variety of sectors.

Governance at Airways

Commitment to sound governance

Directors and management recognise the importance of robust and effective governance and are committed to delivering this at Airways. The following sections set out the systems and processes Airways has in place to foster high standards of ethical and safety conscious behaviour and sound decision making. It also explains how Airways ensures those systems and processes are supported by the right people and achieve the desired outcomes.

The Code of Conduct underpins governance at Airways, from the Board through to operational staff. It is a comprehensive guide communicated to all employees which sets out explicit expectations of the highest standards of integrity, good conduct and concern for the public interest, as well as providing clear guidelines for when these expectations are not being met. The Code of Conduct, along with a range of supporting policies outlining key expected behaviours of Airways' people, is published under the "Our People" section of the Airways website.

Governance framework

Airways operates under a range of legislative and regulatory obligations, however the key principles of Airways' governance framework are established by the Companies Act 1993, State Owned Enterprises Act 1986, the Owners Expectation Manual and the Civil Aviation Authority (CAA) Act 1990. Those key principles are:

a) Airways is ultimately accountable to the Shareholding Ministers, who have support from Treasury (through the Commercial Operations group).

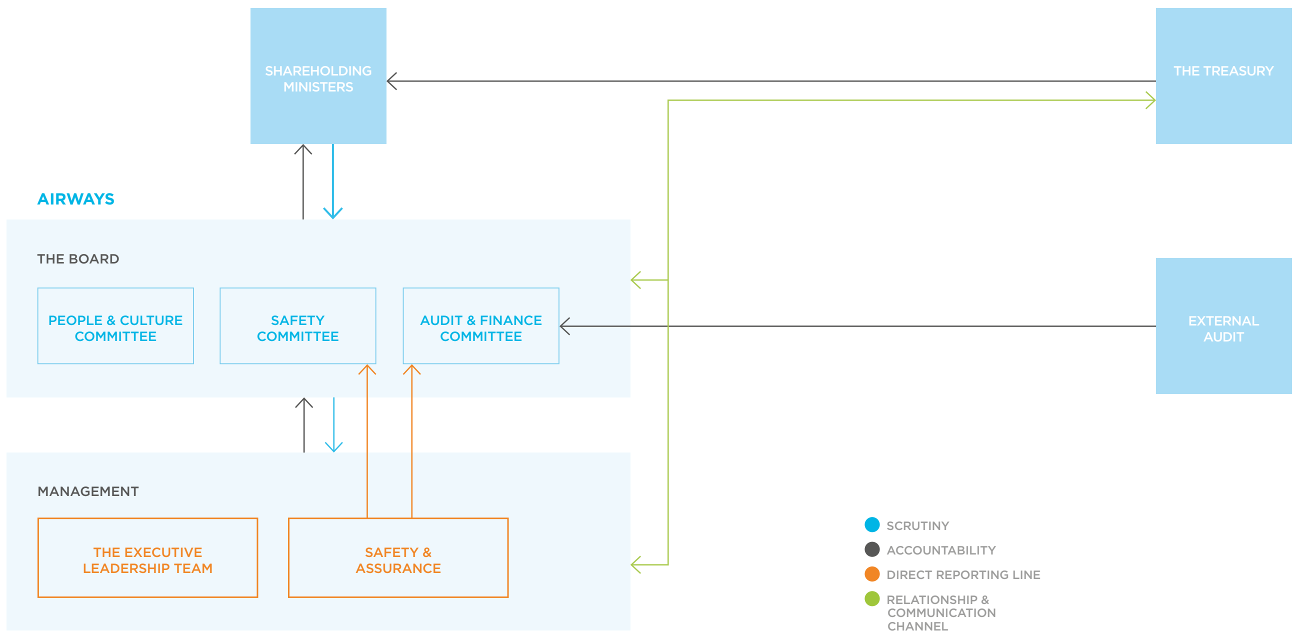
b) This accountability is achieved through the annual expectations letter issued by the Shareholding Ministers and the compilation of (and reporting against) the Statement of Corporate Intent (SCI) by the Airways Board. The SCI sets out the objectives, the nature and scope of activities, financial and non-financial performance indicators and an estimate of the current commercial value, of Airways.

c) The Office of the Auditor-General (OAG) is responsible for providing additional financial oversight, primarily through the appointment of an external auditor.

d) Starting with the Board, and flowing through to all areas of the company, Airways adopts a 'no surprises' policy.

e) Airways must adhere to all applicable Civil Aviation rules and regulatory requirements to ensure continuing operational certification from the CAA, including establishing and maintaining an effective Safety Management System.

The key parties in Airways' governance structure, and the lines of reporting and accountability between them, are set out in the following diagram:



Relevant roles and responsibilities

The Board

The Board's key role is to represent and promote the interests of the shareholders, by providing leadership in the development of Airways' vision, strategy and activities. It is ultimately accountable for adding long term value to Airways while ensuring all obligations are met.

Some of the key Board responsibilities are set out below and captured in the Board charter

- ensuring clear goals, and strategies for achieving them, are established through the annual Business Plan and SCI
- holding management responsible for delivering on that Plan
- ensuring appropriate risk management policies and strategies are established and regularly monitored
- establishing, participating in and monitoring effective governance structures and internal controls that address Airways' key financial, commercial and safety risks
- ensuring financial statements are produced
- establishing appropriate processes and internal controls to ensure those financial statements are high quality and reliable
- ensuring appropriate representations and certifications are received from the CEO and CFO regarding the accuracy and reliability of the financial statements and the supporting processes and internal controls
- reporting to the Shareholding Ministers on performance and other required matters
- providing leadership in building effective relationships with key stakeholders
- managing CEO appointment and performance
- providing leadership and guidance on policies and strategies for remuneration, people and culture
- ensuring systems are in place to manage statutory and regulatory compliance

Ensuring independence

A key component of the Board's ability to deliver robust governance is maintaining independence, in both fact and appearance, from management and from any personal interests.

To ensure this, the Board has no executive Directors, and Directors are not permitted to provide business or professional services to Airways, unless specifically authorised by the shareholders. These, and other, expectations for non-executive Directors are explicitly captured in the Board charter.

Managing conflicts of interest

All Directors recognise the importance of maintaining independence and are required to record all interests, material or otherwise, in the Interests Register which is updated and reviewed at each Board meeting. Where conflicts between a Director's interests and matters being reviewed by the Board do exist, the relevant Director refrains from voting and will not take part in any of the preceding discussion.

During the year, 22 new entries were made to the Interests Register. These disclosures are all in relation to shareholdings of the relevant director or company directorships or other roles listed in the directors' profiles on pages 32 to 33 (or relating to a now retired director).

Appointing new members and ensuring a balanced Board

All new Directors are appointed by the shareholder, with the Chair providing advice as part of the appointment process. For the Board to meet its duties and responsibilities it needs an appropriate mix of skills and backgrounds, a constructive board dynamic and opportunities for active learning.

Director tenure is actively monitored by both the Board and the shareholder. Appropriate succession planning for Chair roles (at both Board and Committee level) and the requirement for a balanced Board are key considerations in all new appointments.

Currently, the Board has a sound mix of commercial, industry, technology and entrepreneurial and people and change leadership experience, and well developed governance skills and practices.

Continuing education

The Board recognises the importance of individual and collective education and skills development to maintain currency in a rapidly changing environment. Airways provides ongoing support for continuous professional learning and development to all Directors. Directors take responsibility for improving their own professional knowledge and skills, utilising and supplementing this support where required. Directors are also encouraged to have an individual governance development plan.

The Board undertook workshops on organisational resilience and identified governance lessons from 2020, and future resilience actions and practices. Directors also used both face-to-face and online opportunities to learn in areas such as strategy, resilience and safety

Monitoring performance

Each year, the Board critically evaluates its collective performance, processes and procedures. The performance of individual Directors is also reviewed and evaluated annually and includes 'look-back' and 'look-forward' reviews.

In the previous year, the Board engaged an external governance specialist to undertake a comprehensive review of the Board. This included individual interviews, Board observation and feedback. The review confirmed strength areas and identified areas for practice development. In addition, the Board also applies a regular practice of reflection and feedback at the conclusion of Board meetings. The findings from the review have been actioned in FY22

The Board also monitors and adapts to new methods of working and collaborating to ensure governance remains future fit. An example of this adopting 'virtual' environments where Board meetings have been adjusted to make best use of the online environment where appropriate

Committees

The Board has established a number of committees, all supported by formal charters and focused on addressing some of the key Board responsibilities. The role, key responsibilities and members of the committees are set out below. While these committees are responsible for certain activities and decisions, ultimate accountability still resides with the Board, who receive reports and meeting minutes back from all Committees covering their proceedings.

Committee	Objectives	Key roles and responsibilities	Members
Audit and Finance Committee	Assist the Board in meeting its internal controls, financial reporting, audit and legal/regulatory compliance responsibilities	• Review audit and assurance reports from Head of Safety and Assurance • Understand key financial, commercial and business recovery risks and how they are being managed • Understand the internal control environment and any identified deficiencies • Review key governance policies and any material breaches thereof • Review annual and interim financial statements and related issues and complex transactions • Manage the external audit relationship • Oversee the internal audit function • Review effectiveness of legal and regulatory compliance systems	Lisa Jacobs (Chair) Denise Church Darin Cusack Nicola Greer Paula Jackson (retired 31 October 2021)
Safety Committee	Inform the Board of the performance of Airways' safety management systems	• Review audit and assurance reports from Head of Safety and Assurance • Review safety reports from the Head of Safety and Assurance including key safety metrics, status reports on incident investigations and key safety issues • Understand key safety risks and how they are being managed	Mark Pitt (Chair) Denise Church Darin Cusack John Holt Gavin Fernandez
People and Culture Committee	Setting strategic human resources and remuneration policies within the policy structure approved by the Board	• Oversight and guidance on core cultural and capability streams of work including talent and succession planning, workforce planning, employee experience and engagement, capability development, career progression, ways of working and union relationships. • Appropriate employment terms and conditions for the Chief Executive and the executives and managers who report directly to the Chief Executive. • The establishment of any new, and amendment of the terms of any existing, incentive plans for the Chief Executive and the executives and managers who report directly to the Chief Executive. • Oversight of the annual performance review of the Chief Executive. • Monitoring whether there is any gender or other inappropriate bias in remuneration for directors, senior executives, or other employees.	John Holt (Chair) Denise Church Mark Hutchinson

Directors' attendance

The Board held 13 meetings during the year ended 30 June 2022. Board committees also met regularly throughout the year to consider matters relevant to, and required by, their terms of reference. Director attendance at these Board and committee meetings is set out in the table below:

	Board meetings	Audit and finance committee	Safety committee	People and culture committee
Total meetings held	13	4	4	4
Denise Church	13	4	4	4
Darin Cusack	13	4	4	-
John Holt	13	-	4	4
Paula Jackson (retired 31 October 2021)	5	1	-	-
Lisa Jacobs	11	4	-	-
Mark Pitt	11	-	4	-
Mark Hutchinson	13	-	-	4
Nicola Greer	13	4	-	-
Gavin Fernandez (Joined 1 March 2022)	4	-	-	-

External audit

The OAG appoints external auditors annually, following consultation with the Board. The external auditor's primary line of communication with Airways is through the Audit and Finance Committee (AFC), who review: the proposed audit scope and approach (to ensure there have been no restrictions placed on it); the results of the audit and management's responses to audit findings; and the auditors' performance.

External auditors are required to maintain independence from Airways and this is reviewed by the AFC continuously through the audit cycle. Lead audit partners are also rotated every six years, in line with OAG requirements.

Annually, the AFC meet the external auditors without management present to ensure they have no issues or concerns the Board needs to be made aware of.

Safety, internal audit and assurance

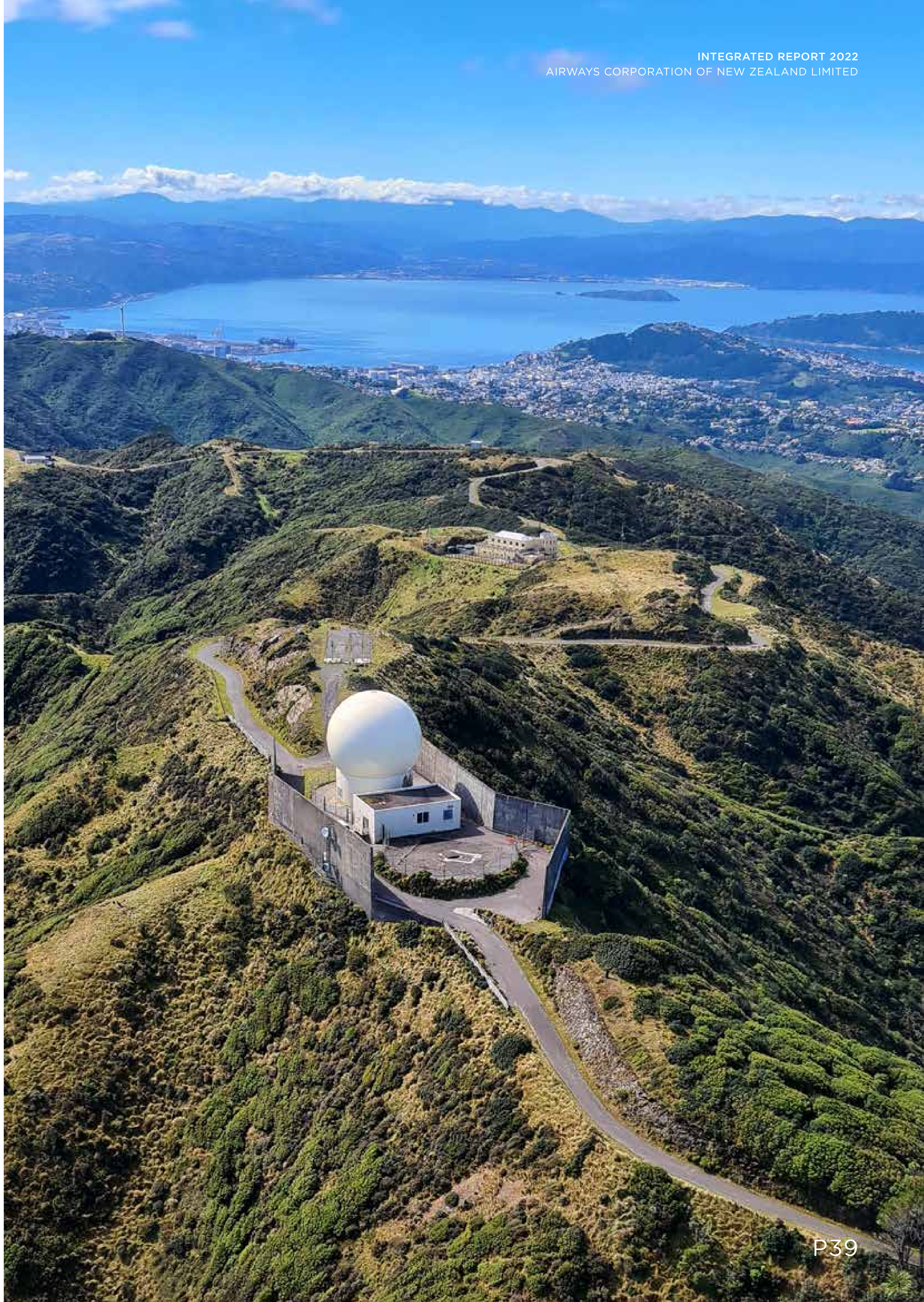
The Safety and Assurance team provides the CEO and Board with assurance that Airways is meeting its governance and operational requirements, and that risks are managed through planning and delivering the annual audit programme. They are also responsible for championing practice improvements across Airways that deliver increases to business performance, financial performance and/or stakeholder satisfaction.

The Safety and Assurance team is also responsible for providing an effective Safety Management System (SMS) that allows the business to manage operational and people safety on a risk prioritised basis. The team, utilising the SMS, provides assurance to the Board, CEO and business that safety risks are being effectively and appropriately managed.

Management, with support from the Safety and Assurance team, are responsible for developing and supporting a just, free and open reporting culture within Airways.

Remuneration

The Board and management are committed to remuneration practices that are fair, transparent and appropriate, and which contribute to strong governance and company performance. This starts with the Board, People and Culture Committee (whose responsibilities are outlined above) and is captured in Airways' Remuneration Policy. Director remuneration is fixed at levels agreed with the Shareholder on an annual basis. Levels of remuneration are set out in the Additional Financial Information section above.



Performance & financial statements

Financial performance

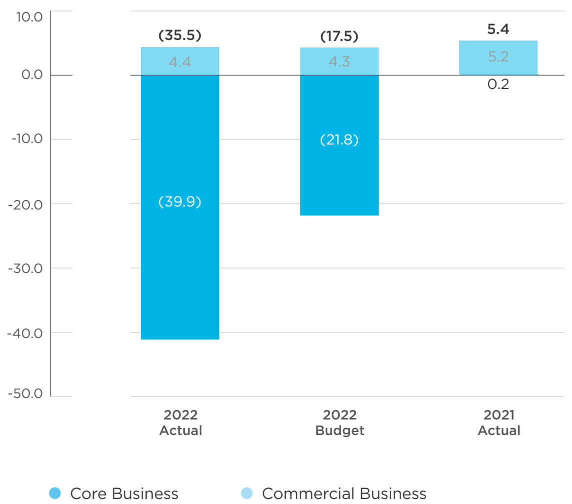
AIRWAYS GROUP
Recorded a net loss after tax of $35.5m

CAPITAL EXPENDITURE
51% behind budget

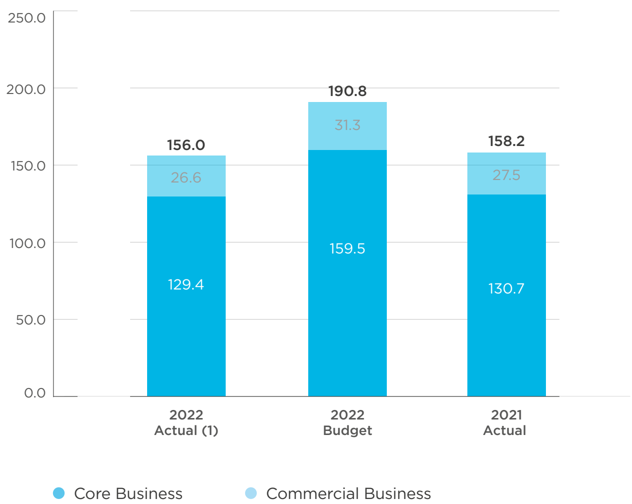
CORE AIR NAVIGATION SERVICES
Revenue was $121.6m for FY22, behind Budget by $34.9m or 22.3%

THE COMMERCIAL BUSINESS
Continues to perform strongly with a Profit after tax of $4.4 million for the year, exceeding budget 2.3%

PROFIT/(LOSS AFTER TAX) ($M)



REVENUE ($M)



1. 2022 revenue includes internal revenue of $11.5 million (2021: $9.9 million) eliminated in the Group Statement of Profit or Loss and Other Comprehensive Income.

Core business

The Core business recorded a net loss after tax of $39.9 million.

Air Navigation Services revenue was lower than expected at $121.6 million, compared to a budget of $156.5 million. The variance was predominately a result of the Delta and Omicron outbreak from September 2021.

Capital spending is 51% behind our budget which is due to supply chain and labour availability issues, as well as local lockdown restrictions preventing work from going ahead.

Commercial business

The Commercial business continues to perform strongly with a Profit after tax of $4.4 million for the year, exceeding budget by 2.3%. However this is a 15.3% decrease on the previous year due to a large contract finishing in May 2021. To mitigate this, the Commercial business is investing in digital products and virtual training to allow cost effective projects to be delivered remotely to customers.

The Commercial business continue to remain an integral part of Airways' growth aspirations and the organisation will continue to manage and fund the Commercial business units independent of the core business.

PERFORMANCE & FINANCIAL STATEMENTS

Financial statements

Statement of profit or loss and other comprehensive income

	GROUP		
FOR THE YEAR ENDED 30 JUNE	2022 ($000's)	2021 ($000's)	NOTES
Operating activities			
REVENUE			
Air traffic management revenue	124,181	123,886	A5.1
Other revenue	15,765	18,229	A5.1
Government grants	4,322	3,606	A5.2
Other gains and losses	–	2,188	A5.6
Interest income	332	360	
Total revenue	**144,600**	**148,269**	
EXPENSES			
Employee remuneration	121,227	110,743	A5.4
Employee related costs	5,805	5,475	
Depreciation	23,052	20,945	A10, A11
Amortisation	3,936	3,526	A10
Reversal of previous impairment losses	–	(44,618)	A3.2
Impairment	1,471	5,954	A10, A11, A14
Other operating costs	34,907	31,320	A5.3
Rental expense	1,685	1,507	
Finance expense	2,815	3,288	
Total expenses	**194,898**	**138,140**	
Net (loss)/profit before taxation	**(50,298)**	**10,129**	
Taxation (benefit)/expense	(14,778)	4,700	A6
Net (loss)/income after taxation attributable to equity shareholders	**(35,520)**	**5,429**	
Other comprehensive income			
That may be reclassified to profit or loss when conditions are met:			
Movement in cash flow hedge reserve	2,049	417	
Deferred tax on other comprehensive income	(574)	(117)	A6
Total other comprehensive income	**1,475**	**300**	
Total comprehensive (loss)/income for the year attributable to equity shareholders	**(34,045)**	**5,729**	

This statement is to be read in conjunction with the Notes to the Financial Statements on pages 49 to 76.

Balance sheet

	GROUP		
AS AT 30 JUNE	2022 ($000's)	2021 ($000's)	NOTES
Assets			
CURRENT ASSETS			
Cash and cash equivalents	43,128	38,082	
Trade and other receivables	18,197	16,590	A8
Assets held for sale	10,468	–	A14
Prepayments	3,426	2,161	
Derivative financial instruments	95	28	A7
Total current assets	**75,314**	**56,861**	
NON-CURRENT ASSETS			
Property, plant and equipment	152,020	207,548	A10
Right-of-use assets	68,194	71,289	A11
Intangibles	63,326	16,010	A10
Inventories	1,550	2,070	A12
Deferred tax asset	16,149	1,945	A6
Other non-current assets	–	8	
Derivative financial instruments	1,214	4	A7
Total non-current assets	**302,453**	**298,874**	
Total assets	**377,767**	**355,735**	

Balance sheet CONTINUED

	GROUP		
AS AT 30 JUNE	2022 ($000's)	2021 ($000's)	NOTES
Liabilities			
CURRENT LIABILITIES			
Trade and other payables	18,617	9,800	A9
Liabilities held for sale	655	–	A14
Lease liabilities	6,595	6,495	A11
Employee entitlements	23,704	20,966	A5.5
Derivative financial instruments	514	1,277	A7
Total current liabilities	**50,085**	**38,538**	
NON-CURRENT LIABILITIES			
Loan facility - unsecured	58,000	58,000	B1
Lease liabilities	67,926	69,891	A11
Employee entitlements	8,516	8,901	A5.5
Derivative financial instruments	43	163	A7
Total non-current liabilities	**134,485**	**136,955**	
Total liabilities	**184,570**	**175,493**	
Net assets	**193,197**	**180,242**	
Equity			
Share Capital	158,100	111,100	A13
Reserves	445	(1,030)	
Retained Earnings	34,652	70,172	
Total equity	**193,197**	**180,242**	

The Board of Directors of Airways Corporation of New Zealand Limited authorised these financial statements for issue on 30 August 2022. The Directors do not have the power to amend the financial statements once issued.

DENISE CHURCH
Chair

30 August 2022

LISA JACOBS
Director

30 August 2022

This statement is to be read in conjunction with the Notes to the Financial Statements on pages 49 to 76.

Statement of changes in equity

	GROUP				
	Attributable to equity shareholders				
	Con-tributed equity	Hedge reserve	Retained earnings	Total	Notes
Balance as at 30 June 2020	**111,100**	**(1,330)**	**64,743**	**174,513**	
COMPREHENSIVE INCOME					
Net profit after taxation	–	–	5,429	5,429	
OTHER COMPREHENSIVE INCOME					
Movements in hedge contracts	–	417	–	417	
Tax on other comprehensive income	–	(117)	–	(117)	A6
Total other comprehensive income	**–**	**300**	**–**	**300**	
Total comprehensive income	**–**	**300**	**5,429**	**5,729**	
Transactions with owners	–	–	–	–	
Total transactions with owners	**–**	**–**	**–**	**–**	
Balance as at 30 June 2021	**111,100**	**(1,030)**	**70,172**	**180,242**	
COMPREHENSIVE INCOME					
Net loss after taxation	–	–	(35,520)	(35,520)	
OTHER COMPREHENSIVE INCOME					
Movements in hedge contracts	–	2,049	–	2,049	
Tax on other comprehensive income	–	(574)	–	(574)	A6
Total other comprehensive income	**–**	**1,475**	**–**	**1,475**	
Total comprehensive income	**–**	**1,475**	**(35,520)**	**(34,045)**	
TRANSACTIONS WITH OWNERS					
Issue of share capital	47,000	–	–	47,000	
Total transactions with owners	**47,000**	**–**	**–**	**47,000**	
Balance as at 30 June 2022	**158,100**	**445**	**34,652**	**193,197**	

This statement is to be read in conjunction with the Notes to the Financial Statements on pages 49 to 76.

Statement of cash flows

	GROUP		
For the year ended 30 June	2022 ($000's)	2021 ($000's)	NOTES
Cash flows from operating activities			
CASH WAS PROVIDED FROM:			
Receipts from customers	138,140	139,948	
Receipts from government	4,322	3,528	A5.2
Interest received	332	360	
Income tax refund	-	3,552	
CASH WAS APPLIED TO:			
Payments to suppliers	(28,742)	(32,512)	
Payments to employees	(124,222)	(118,752)	
Interest paid	(2,740)	(3,281)	
Net cash flows used in operating activities	**(12,910)**	**(7,157)**	**E2**
Cash flows from investing activities			
CASH WAS PROVIDED FROM:			
Sale of property, plant and equipment	18	1,286	
Sale of investments	–	1	
CASH WAS APPLIED TO:			
Purchase of property, plant and equipment	(14,610)	(10,939)	
Purchase of intangible assets	(10,553)	(8,034)	
Net cash flows used in investing activities	**(25,145)**	**(17,686)**	
Cash flows from financing activities			
CASH WAS PROVIDED FROM:			
Issuance of shares	47,000	-	**A13**
CASH WAS APPLIED TO:			
Principal elements of lease payments	(3,899)	(3,827)	
Net cash flows from/(used in) financing activities	**43,101**	**(3,827)**	
Net increase/(decrease) in cash held	**5,046**	**(28,670)**	
Cash at the beginning of the year	38,082	66,752	
Cash at the end of the year	**43,128**	**38,082**	

Interest paid above includes interest expense from leases of $2.7 million (2021: $2.9 million) and excludes capitalised interest of $2.3 million (2021: $2.0 million). Total interest paid for the year was $5.1 million (2021: $5.2 million). Amounts spent on the purchase of intangible assets during the year remain in work in progress (a component of property, plant and equipment) until the relevant asset is commissioned.

This statement is to be read in conjunction with the Notes to the Financial Statements on pages 49 to 76.

Structure of notes to the financial statements

A

SECTION A
How the numbers are calculated – pages 50 to 68

This section provides: further information on the basis of preparation of the financial statements; and detail on components of the primary statements that are material or require significant judgement or estimates in determining their value.

B

SECTION B
Risk – pages 69 to 72

This section outlines Airways' exposure to financial risks and sets out the objectives, policies and controls in place to manage them.

C

SECTION C
Group structure – pages 73 to74

This section describes the entities within the Group, transactions with these and other related parties, and Airways' investment in other entities outside the Group.

D

SECTION D
Unrecognised items – page 75

This section provides information on other financial interests and exposures which are not recognised in the primary financial statements, but which management consider important in understanding the complete financial position of the Group.

E

SECTION E
Other information – page 76

This section includes other required disclosures that are necessary to provide readers with an understanding of Airways' financial position and performance.

SECTION A

How the numbers are calculated

A

A1 BASIS OF PREPARATION

These financial statements are for the consolidated Group ("Airways"), consisting of Airways Corporation of New Zealand Limited and its subsidiaries: (refer to note C1 for further details). They have been prepared in accordance with:

- Generally Accepted Accounting Practice 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); and
- 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.

A2 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.

A3 CRITICAL ACCOUNTING ESTIMATES, JUDGEMENTS AND ERRORS

The preparation of financial statements requires the use of accounting estimates which, by definition, will seldom equal the actual results. Management also needs to exercise judgement in applying Airways accounting policies.

This note provides an overview of the areas that involved a higher degree of judgement or complexity and of items which are more likely to be materially adjusted due to inaccurate estimates and assumptions. Detailed information about each of these estimates and judgements is included in other notes together with information about the basis of calculation for each affected line item in the financial statements.

A3.1 COVID-19 PANDEMIC

Due to the domestic travel restrictions caused by the Delta and Omicron outbreak and the ongoing border restrictions, Airways continues to be financially exposed to the impacts of Covid-19. Domestic air traffic levels have gradually improved in the latter end of FY22 and are currently at 93% of pre-pandemic levels. International flight volumes continue to remain significantly lower than the pre-pandemic levels, however they reached 45% of pre-pandemic levels in June 2022 as a result of the international border opening from May 2022.

The impact of Covid-19 is critical and pervasive to the financial results of Airways. The table below provides an update to our balance sheet position in FY22 as a result of the continuing impacts of Covid-19

SECTION A

How the numbers are calculated CONTINUED

A

COVID-19 ASSESSMENT

Balance sheet item	2022	2021	Note
Cash	No impact on the carrying value of cash on hand	No impact on the carrying value of cash on hand	–
Accounts receivable and Prepayments	No changes to the prior year assessment	Airways continue to reassess the impact of the provision for expected credit losses. No significant impact to the assumptions were made in the 2021 year.	A8
Property, plant and equipment	Airways have reassessed the carrying value of Property, plant and equipment based on a CGU impairment assessment	Airways have reassessed the carrying value of Property, plant and equipment based on a CGU impairment assessment	A10
Intangibles	Airways have reassessed the carrying value of intangibles based on an CGU impairment assessment	Airways have reassessed the carrying value of intangibles based on an CGU impairment assessment	A10
Right-of-use assets	No changes to the prior year assessment	No further rent abatement or changes have been made as a direct consequence of Covid-19.	A11
Inventory	No changes to the prior year assessment	Airways inventory relates to spare parts and equipment used for maintenance of property, plant and equipment. There has been no specific impact to the net realisable value of these assets at balance date.	A12
Derivative financial instruments	No changes to the prior year assessment	Derivatives are recorded at fair value and the carrying value at year-end reflects its market prices at the balance date. Airways has considered the impact of ineffectiveness on hedges.	B1
Trade and other payables	No changes to the prior year assessment	Airways has accrued for additional professional services fees incurred, as a result of COVID-19	A9
Provisions	No additional restructuring costs due to Covid-19 are provided for in the current year.	No additional restructuring costs due to Covid-19 are provided for in the year.	A9
Employee entitlements	No changes to the prior year assessment	Employee entitlements are measured in accordance with the recognition and measurement requirements under NZ IAS 19 Employee benefits.	A5.5
Tax liabilities	Taxable loss for the year ended 30 June 2022 resulted in Airways recognising deferred tax assets arising from tax losses amounting to $11.7m. The losses are expected to be offset against taxable profit forecasted from FY24.	Taxable loss for the year ended 30 June 2021 resulted in Airways recognising deferred tax assets arising from tax losses amounting to $7.8m. The losses are expected to be offset against taxable profit forecasted from 2023.	A6
Lease liabilities	No changes to the prior year assessment	Leases recorded as per lease contract (refer to right-of-use assets above).	A11
Loan facilities	Borrowings are held at amortised cost. Airways obtained an extension to its waiver of breach in banking covenants until 31 December 2023. No changes to the classification of non-current liabilities.	Borrowings are held at amortised cost. Airways obtained an extension to its waiver of banking covenants until 31 December 2022, resulting in a reclassification of borrowings from current to non-current for the year ended 30 June 2021.	B1

SECTION A

How the numbers are calculated CONTINUED

A

A3.2 IMPAIRMENT

Cash generating unit

Airways identified its cash generating units ("CGU's") as Core and Commercial business units, being the lowest level of independent cash flows that are generated in the Group. Core CGU refers to Airways Corporation of New Zealand Limited (ACNZ). Airways International Limited, Airways Training Limited, Aeropath Limited and Airshare Limited are separate CGU's in the Commercial business unit. The details of each CGU's principal activities are disclosed in note C1. There are no changes to the identified CGU compared to the prior year.

An impairment test was performed for the Core CGU in 2020 resulting in an impairment of $48.7 million against the CGU's tangible and intangible assets. An impairment test was subsequently performed in 2021 resulting in a full-reversal of impairment resulting in no accumulated impairment as at 30 June 2021 based on the assumptions applicable at that time.

With significant deterioration to the Core CGU performance in FY22 as a result of the Delta and Omicron outbreak, it was determined that a further impairment test was required to test the carrying value of the Core CGU at 30 June 2022. Consistent to the prior years, no impairment testing was determined necessary for the Commercial CGU's.

The recoverable amount of the Core CGU was determined based on assessing the fair-value less cost of disposal (FVLCOD) of the underlying assets, using a discounted cash flow model, which requires the use of assumptions. The calculations include cash flow projections based on financial budgets for the next three years and projections for a further seven years, approved by the board. Due to Airways pricing model and capital spend profile, a 10 year cash flow projection was considered more appropriate than a five year cash flow projection. Cashflows beyond the 10 year period are extrapolated using the estimated growth rates that are specific to the revenue pricing framework. Airways assumed 1.5 percent of the fair value as the cost associated with disposing of the CGU to be $3.9 million. The valuation is considered to be level 3 in the fair value hierarchy due to unobservable inputs used in the valuation.

KEY ASSUMPTIONS

There are significant uncertainties in relation to the impact of travel and border restrictions to Airways and the key assumptions used in the model to determine the FVLCOD. A number of inputs used in the model are based on future events which are outside the control of Airways, including domestic market recovery and international borders opening. These uncertainties and risks are inherent in the valuation model to determine the FVLCOD.

The table below sets out the baseline key assumptions used to determine the CGU's FVLCOD:

Baseline key assumptions	30 June 2022	30 June 2021	Explanation
Long term growth rate	0%	0%	The growth rate used to extrapolate the cash flows beyond the budget period. Under Airways' pricing framework, Airways is only able to recover the return on capital from its customers and therefore has not performed a sensitivity on this assumption.
Pre-tax discount rate	10.70%	7.94%	Weighted average cost of capital reflecting specific risks to the operational environment of the Core CGU. The rate has increased to reflect an increase in the risk free rate. The inputs are consistent with Airways pricing methodology.
Post-tax discount rate	8.03%	5.95%	
Pricing assumptions	2024	2023	Airways expects to pass on an additional 8% increase in price in FY23 and 11.3% increase in price from FY24.
Capital expenditure	$35m - $71m	$34m – $68m	Capital expenditure is expected to be $70.6m and $66.4m for FY23 and FY24 respectively. The capital expenditure is based on board approved budgets.
Flight volume	85% of pre-COVID-19 volumes	81% of pre-COVID-19 volumes	Airways used pre-Covid-19 flight volumes of 85% for FY23.

SECTION A

How the numbers are calculated CONTINUED

A

Financial impacts of impairment reversal

No impairment was recognised for the year ended 30 June 2022 (2021: recognition of an impairment reversal of $44.6 million).

The recoverable amount was determined as $254.0 million being $51.4 million higher than the carrying amount of $202.6 million (2021: recoverable amount of $232.0 being $65.8 million higher than the carrying amount of $166.2 million)

Impairment sensitivity

FVLCOD is sensitive to a number of key assumptions used to determine impairment.

The table below illustrates the possible change to headroom or impairment with changes in key assumptions:

Sensitivity	Headroom pre sensitivity analysis	Headroom post sensitivity analysis	Impact of sensitivity headroom/ (impairment)
10% increase in domestic and international traffic volume in 2023	$51.4m	$63.3m	$11.9m
10% decrease in domestic and international traffic volume in 2023	$51.4m	$37.2m	($14.2m)
Revenue 10% lower than expected in FY24	$51.4m	$34.8m	($16.6m)
Post-tax discount rate increase by 50 basis points	$51.4m	$26.2m	($25.2m)
Post-tax discount rates decrease by 50 basis points	$51.4m	$77.8m	$26.4m
Travel restrictions in place for 3 months in FY23 not in baseline assumption	$51.4m	$38.5m	($12.9m)

A4 GOING CONCERN

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

As a direct consequence of travel and New Zealand border restrictions the Group continue to experience a significant reduction in revenue due to much lower flight volumes. As a result, the Group incurred a loss after tax of $35.5 million for the year ended 30 June 2022 (2021: $29.6 million before the net impact of impairment reversal) and incurred cash outflow from operating activities of $12.9 million (2021: cash outflow from operating activities of $7.2 million).

It is forecast Airways will continue to incur losses for the financial year ending 30 June 2023 and the financial position of Airways will further deteriorate from cash outflows used in operating and investing activities. The Group is expected to return to profit in FY24.

Airways have access to a number of funding arrangements at the balance date which will allow Airways to continue as a going concern for the next 12 months from the date of signing these financial statements:

- On 3 April 2022, the Group received an extension to its uncalled capital facility with its Shareholder. The facility was extended from its original expiry date of 30 June 2022 to 31 December 2024. As at 30 June 2022, the Group had $48 million of undrawn capital facility, that if required, can be utilised by the Group.
- On 9 June 2022, the Group received an extension to its waiver of breach in banking covenants by Australia and New Zealand Banking Corporation ("ANZ"). The waiver is extended from its previous expiry date of 31 December 2022 until 31 December 2023.
- The Group also has $32 million of undrawn financing facilities in place as at 30 June 2022, that if required, can be utilised by the Group.

Based on the capital and debt funding arrangements in place, the Group is able to continue as a going concern and pay its liabilities as and when they fall due, for a period of not less than 12 months from the date of signing these financial statements.

SECTION A

How the numbers are calculated CONTINUED

A

A5 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.

A5.1 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 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 on-going 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

SECTION A

How the numbers are calculated CONTINUED

A

A5.1(A) DISAGGREGATION OF REVENUE FROM CONTRACTS WITH CUSTOMERS:

Revenue derived from the transfer of goods and services, both over time and at a point in time, for each revenue type for the year is presented below.

	30 June 2022							
	ATM	Consult-ing	Data services	Software	Training	Publica-tions	Other	Total
Point in time	124,181	75	29	688	–	989	1,024	126,986
Over time	–	5,287	4,777	2,057	839	–	–	12,960
Total	**124,181**	**5,362**	**4,806**	**2,745**	**839**	**989**	**1,024**	**139,946**

	30 June 2021							
	ATM	Consult-ing	Data services	Software	Training	Publica-tions	Other	Total
Point in time	123,886	1,405	–	1,739	32	1,005	645	128,712
Over time	–	4,001	3,478	1,130	4,794	–	–	13,403
Total	**123,886**	**5,406**	**3,478**	**2,869**	**4,826**	**1,005**	**645**	**142,115**

A5.1(B) ASSETS & LIABILITIES RELATED TO CONTRACTS WITH CUSTOMERS

Airways has recognised the following assets and liabilities relating to all contract types with customers:

Contract assets	2022 ($000's)	2021 ($000's)
Current contract assets	468	285
Total contract assets	**468**	**285**

Once invoiced, ordinary payment terms are 20th of the following month.

Contract liabilities	2022 ($000's)	2021 ($000's)
Current contract liabilities	1,308	1,312
Total contract liabilities	**1,308**	**1,312**

All contract liabilities recognised as at 30 June 2021 have been subsequently recognised as revenue in the current year.

A5.2 GOVERNMENT GRANT – WAGE SUBSIDY

Airways received $4.3 million of COVID-19 wage subsidy extension grants from the Ministry of Social Development during August to November 2021 (2021: $3.5 million).

The total amount of receipts were recognised in the Statement of profit or loss and other comprehensive income during the year ended 30 June 2022.

The grant has been recognised in the profit or loss on a systematic basis over the period in which the grants were intended to compensate.

SECTION A
How the numbers are calculated CONTINUED

A

A5.3 INDIVIDUALLY SIGNIFICANT ITEMS WITHIN OPERATING COSTS

For the year ended 30 June	2022 ($000's)	2021 ($000's)
Bad debts written off or reversed	(111)	(472)
Material and equipment costs	4,651	2,498
Travel	1,272	1,231
Communications	3,960	4,067
Maintenance	12,223	10,646
Utilities	1,934	1,686
Professional fees	5,719	6,762
Insurance	2,206	2,163

A5.4 EMPLOYEE REMUNERATION

For the year ended 30 June	2022 ($000's)	2021 ($000's)
Wages and salaries	102,911	95,438
Less: labour costs capitalised	(6,597)	(6,998)
KiwiSaver/superannuation contributions	8,933	9,010
Leave entitlement expense	15,980	13,293
	121,227	**110,743**

A5.5 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.

The principal assumptions used in determining Airways' liability for non-vested long service and retiring leave entitlements are set out in the table below. Possible changes in these assumptions are not expected to materially impact Airways' financial position or performance.

Assumption	2022	2021
Employee decrement assumptions	Airways specific	Airways specific
Long run wage increase	2.5%	2.5%
Discount rates *	Crown entity rates	Crown entity rates

* Discount rates adopted are those specified by Treasury for reporting purposes for Crown entities and can be found at: http://www.treasury.govt.nz/publications/guidance/reporting/accounting/discountrates.

SECTION A
How the numbers are calculated CONTINUED

A

The table below sets out the impact of these non-vested entitlements on the financial statements

	2022 ($'000)	2021 ($'000)
Movement in employee decrement assumptions		
Changes in discount rate	(1,305)	(766)
Additional entitlements recognised and paid during the year	772	181
Staff demographic and other movements	779	(294)
Total movement in non-vested long service and retiring leave recognised in profit or loss	**246**	**(879)**
Balance sheet obligations as at 30 June, within non-current employee entitlements:		
Long service leave	1,204	1,134
Retiring leave	7,312	7,767
	8,516	**8,901**

A5.6 OTHER GAINS AND LOSSES

No other gains and losses was recognised during the year ended 30 June 2022 (2021: Other gains and losses include a gain on sale of $1.2 million from the sale of the old Wellington Tower on 27 November 2020 and a $0.9 million gain on the partial surrender of a leased building in Christchurch)

A6 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.

SECTION A
How the numbers are calculated CONTINUED

A

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.

For the year ended 30 June	2022 ($000's)	2021 ($000's)
RECONCILIATION OF (LOSS)/PROFIT BEFORE TAXATION TO INCOME TAX EXPENSE		
(Loss)/Profit before taxation	(50,298)	10,129
Tax at the New Zealand tax rate of 28%	(14,083)	2,836
Tax effect of amounts which are either non-deductible or taxable in calculating taxable income:		
Non-taxable income/non-deductible expenses	122	1,644
Utilisation of tax losses for current/prior periods	-	(150)
Foreign tax credits foregone	18	15
Other	(835)	355
Income tax (benefit)/expense	**(14,778)**	**4,700**
COMPONENTS OF INCOME TAX EXPENSE		
Current tax charge	-	(2,627)
Foreign tax credits foregone	18	15
Movement in deferred tax	(14,778)	7,307
Other	(18)	5
Income tax (benefit)/expense	**(14,778)**	**4,700**

At 30 June 2022 Airways has imputation credits available for use in subsequent reporting periods of $38.1 million (2021: $38.0 million).

SECTION A
How the numbers are calculated CONTINUED

A

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.

The components of deferred tax are set out below:

	Depreciation ($000's)	Provisions ($000's)	Tax losses ($000's)	Other ($000's)	Total ($000's)
BALANCE AS AT 1 JULY 2021	**(14,605)**	**8,072**	**7,763**	**715**	**1,945**
Deferred tax in respect of previous years	–	340	–	52	392
Deferred tax charged to net profit	(136)	1,890	–	372	2,126
Deferred tax on tax losses recognised	–	–	12,260	–	12,260
Deferred tax on OCI	–	–	(574)	–	(574)
Balance as at 30 June 2022	**(14,741)**	**10,302**	**19,449**	**1,139**	**16,149**
BALANCE AS AT 1 JULY 2020	(3,443)	8,793	–	3,902	9,252
Deferred tax in respect of previous years	–	(401)	–	–	(401)
Deferred tax charged to net profit	(11,162)	(320)	–	(3,187)	(14,669)
Deferred tax on tax losses recognised	–	–	7,763	–	7,763
Balance as at 30 June 2021	**(14,605)**	**8,072**	**7,763**	**715**	**1,945**

Airways recognised deferred tax assets arising from tax losses of $11.7 million in the current year (2021: $7.8 million). The losses are expected to be offset against taxable profit forecasted from FY24.

A7 FINANCIAL ASSETS AND LIABILITIES

Airways classifies all financial assets & 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.

SECTION A

How the numbers are calculated CONTINUED

A

Financial assets and liabilities by category

	Derivatives used for hedging ($000's)	Amortised cost ($000's)	Total ($000's)
As at 30 June 2022			
Assets as per balance sheet			
Cash and cash equivalents	–	43,128	43,128
Trade and other receivables	–	18,197	18,197
Derivative financial instruments	1,309	–	1,309
Total	**1,309**	**61,325**	**62,634**
Liabilities as per balance sheet			
Trade and other payables	–	13,645	13,645
Employee entitlements	–	32,220	32,220
Derivative financial instruments	557	–	557
Lease liabilities	–	74,521	74,521
Borrowings and overdrafts	–	58,000	58,000
Total	**557**	**178,386**	**178,943**
As at 30 June 2021			
Assets as per balance sheet			
Cash and cash equivalents	–	38,082	38,082
Trade and other receivables	–	16,590	16,590
Derivative financial instruments	32	–	32
Total	**32**	**54,672**	**54,704**
Liabilities as per balance sheet			
Trade and other payables	–	6,067	6,067
Employee entitlements	–	29,867	29,867
Derivative financial instruments	1,440	–	1,440
Lease liabilities	–	76,386	76,386
Borrowings and overdrafts	–	58,000	58,000
Total	**1,440**	**170,320**	**171,760**

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

(i) Forward Exchange Contract values are determined using observable forward exchange market rates at the balance date.

(ii) 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 NPV of the deal is the zero coupon curve, based on a blended swaps curve obtained from Reuters.

SECTION A

How the numbers are calculated CONTINUED

A

A8 TRADE AND OTHER RECEIVABLES

As at 30 June	2022 ($000's)	2021 ($000's)
Trade accounts receivable	17,729	16,305
Contract assets	468	285
Total trade and other receivables	**18,197**	**16,590**

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:

i) debt which is greater than 90 days but less than one year overdue is provided for at 10%;

ii) debt which is greater than one year but less than two years old is provided for at 50%; and

iii) 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. There have been no significant changes to the default rates compared to the prior year. Based on the calculation performed an ECL of $0.8 million was recognised for the year ended 30 June 2022 (2021: $1.3 million)

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

The value of Airways' ECL, in proportion to total trade receivables, is set out below:

	Current ($000's)	1-90 days overdue ($000's)	91 days – 1 year overdue ($000's)	1-2 years overdue ($000's)	2+ years overdue ($000's)	Total ($000's)
As at 30 June 2022						
Unimpaired trade receivables	15,167	2,306	1	–	–	17,474
Impaired trade receivables	1	3	284	23	777	1,088
Total trade receivables due	**15,168**	**2,309**	**285**	**23**	**777**	**18,562**
Expected credit loss	(1)	(3)	(31)	(21)	(777)	(833)
Trade receivables recognised	**15,167**	**2,306**	**254**	**2**	**–**	**17,729**
As at 30 June 2021						
Unimpaired trade receivables	14,274	1,683	7	–	–	15,964
Impaired trade receivables	8	13	485	178	926	1,610
Total trade receivables due	**14,282**	**1,696**	**492**	**178**	**926**	**17,574**
Expected credit loss	(8)	(12)	(206)	(117)	(926)	(1,269)
Trade receivables recognised	**14,274**	**1,684**	**286**	**61**	**–**	**16,305**

SECTION A

How the numbers are calculated CONTINUED

A

A9 TRADE AND OTHER PAYABLES

As at 30 June	2022 ($000's)	2021 ($000's)
Trade accounts payable	5,367	3,249
Contract liabilities	1,308	1,312
Payroll related payables	1,685	1,926
Accrued liabilities	7,755	2,575
Provisions	2,308	604
Other payables	194	134
Total trade and other payables	**18,617**	**9,800**

Trade and other payables are unsecured, non-interest bearing and typically paid within 30 days.

Movement in provisions	Make good provision	Other provisions	Total
Opening balance as at 1 July 2021	–	604	604
Additional provision raised	1,760	162	1,922
Accrued balance utilised	–	(218)	(218)
Closing balance as at 30 June 2022	**1,760**	**548**	**2,308**

Other provisions primarily relate to expected costs to remove known asbestos. It is expected all sums provided for will be utilised or paid within one year.

A10 PROPERTY, PLANT & 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.

SECTION A

How the numbers are calculated CONTINUED

A

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 re-assessing 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.

Property, plant & equipment

	Land ($000's)	Buildings ($000's)	Plant and Equipment ($000's)	Computer equipment ($000's)	Furniture and fittings ($000's)	Motor Vehicles ($000's)	Work in Progress ($000's)	Total ($000's)
Average useful life	Not depreciated	20 to 50 years	5 to 35 years	3 to 10 years	5 to 20 years	5 to 10 years	Not depreciated	
Cost								
As at 1 July 2021	1,458	69,231	235,159	51,769	7,366	3,208	68,677	436,868
Additions at cost	–	(660)	3,885	913	187	–	25,306	29,631
Deduct disposals	(13)	(283)	(2,247)	(1,323)	(91)	(139)	–	(4,096)
Transfers from work in progress	–	–	–	–	–	–	(55,457)	(55,457)
Reclassification to assets held for sale+	–	–	(23,067)	–	–	(279)	(213)	(23,559)
As at 30 June 2022	**1,445**	**68,288**	**213,730**	**51,359**	**7,462**	**2,790**	**38,313**	**383,387**
Accumulated depreciation and impairment								
As at 1 July 2021	233	26,959	151,395	37,987	4,438	2,638	5,670	229,320
Depreciation charge	–	1,453	12,263	3,680	367	181	–	17,944
Deduct disposals	–	(169)	(2,149)	(1,296)	(80)	(141)	–	(3,835)
Impairment	–	–	–	–	–	–	64	64
Reclassification to Assets held for sale+	–	–	(11,898)	–	–	(228)	–	(12,126)
As at 30 June 2022	**233**	**28,243**	**149,611**	**40,371**	**4,725**	**2,450**	**5,734**	**231,367**
Net book value as at 30 June 2022	**1,212**	**40,045**	**64,119**	**10,988**	**2,737**	**340**	**32,579**	**152,020**

SECTION A
How the numbers are calculated CONTINUED

A

	Land ($000's)	Buildings ($000's)	Plant and Equip-ment ($000's)	Computer equip-ment ($000's)	Furniture and fittings ($000's)	Motor Vehicles ($000's)	Work in Progress ($000's)	Total ($000's)
Average useful life	Not depreci-ated	20 to 50 years	5 to 35 years	3 to 10 years	5 to 20 years	5 to 10 years	Not depreci-ated	
Cost								
As at 1 July 2020	1,476	68,001	233,970	44,093	7,432	3,123	68,266	426,361
Additions at cost	–	1,428	4,995	8,324	156	351	19,305	34,559
Deduct disposals	(18)	(198)	(3,806)	(648)	(222)	(266)	–	(5,158)
Transfers from work in progress	–	–	–	–	–	–	(18,894)	(18,894)
As at 30 June 2021	**1,458**	**69,231**	**235,159**	**51,769**	**7,366**	**3,208**	**68,677**	**436,868**
Accumulated depreciation and impairment								
As at 1 July 2020	429	32,101	156,262	36,036	4,904	2,751	10,676	243,159
Depreciation charge	–	1,405	11,225	3,428	317	189	–	16,564
Reversal of previous impairment losses^	(196)	(6,465)	(12,550)	(977)	(592)	(36)	(10,676)	(31,492)
Impairment charge*	–	105	1	–	21	–	5,670	5,797
Deduct disposals	–	(187)	(3,543)	(500)	(212)	(266)	–	(4,708)
As at 30 June 2021	**233**	**26,959**	**151,395**	**37,987**	**4,438**	**2,638**	**5,670**	**229,320**
Net book value as at 30 June 2021	**1,225**	**42,272**	**83,764**	**13,782**	**2,928**	**570**	**63,007**	**207,548**

+ See note A14 for details regarding the reclassification of Property, Plant and Equipment to assets held for sale.

^ See note A3.2 for details regarding the impairment reversal incurred during 30 June 2021.

* An impairment charge of $5.8m was incurred in relation to the Group's decision to discontinue the Auckland contingent digital tower and Invercargill digital tower and the drone detection system projects. The impairment charge largely includes cost of assets and labour costs incurred to date.

SECTION A
How the numbers are calculated CONTINUED

A

Intangible assets

	Internally generated software ($000's)	Licences & acquired software ($000's)	Total
Average useful life	3 to 10 years	3 to 10 years	
Cost			
As at 1 July 2021	65,320	20,913	86,233
Additions at cost	51,252	–	51,252
Deduct disposals	(278)	(676)	(954)
As at 30 June 2022	**116,294**	**20,237**	**136,531**
Accumulated amortisation and impairment			
As at 1 July 2021	51,701	18,522	70,223
Amortisation charge	2,949	987	3,936
Deduct disposals	(278)	(676)	(954)
As at 30 June 2022	**54,372**	**18,833**	**73,205**
Net book value as at 30 June 2022	**61,922**	**1,404**	**63,326**
Cost			
As at 1 July 2020	61,598	20,951	82,549
Additions at cost	3,722	1	3,723
Deduct disposals	–	(39)	(39)
As at 30 June 2021	**65,320**	**20,913**	**86,233**
Accumulated amortisation and impairment			
As at 1 July 2020	50,529	18,094	68,623
Amortisation charge	2,677	849	3,526
Reversal of previous impairment losses^	(1,505)	(389)	(1,894)
Deduct disposals	–	(32)	(32)
As at 30 June 2021	**51,701**	**18,522**	**70,223**
Net book value as at 30 June 2021	**13,619**	**2,391**	**16,010**

^See note A3.2 for details regarding the impairment reversal incurred during 30 June 2021.

A11 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.

SECTION A
How the numbers are calculated CONTINUED

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, and
- 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.

Right-of-use assets

	Land and buildings ($000's)	Plant and Equipment ($000's)	Vehicles ($000's)	Total ($000's)
As at 1 July 2021	**68,702**	**2,400**	**187**	**71,289**
Depreciation charges	(4,566)	(435)	(107)	(5,108)
Additions to the right-of-use assets	–	4	–	4
Adjustments to existing right-of-use assets	1,431	66	512	2,009
As at 30 June 2022	**65,567**	**2,035**	**592**	**68,194**
As at 1 July 2020	**63,561**	**2,347**	**251**	**66,159**
Depreciation charges	(3,930)	(358)	(93)	(4,381)
Additions to the right-of-use assets	111	–	–	111
Adjustments to existing right-of-use assets	(1,754)	37	–	(1,717)
Impairment	(115)	–	–	(115)
Reversal of previous impairment losses	10,829	374	29	11,232
As at 30 June 2021	**68,702**	**2,400**	**187**	**71,289**

Lease liabilities

	2022 ($000's)	2021 ($000's)
Maturity analysis – contractual undiscounted cash flows		
Less than one year	6,487	6,495
One to five years	23,822	23,634
More than five years	74,962	80,188
Total undiscounted cash flows	**105,271**	**110,317**
Current lease liabilities	6,595	6,495
Non-current lease liabilities	67,926	69,891
Total lease liabilities	**74,521**	**76,386**

SECTION A
How the numbers are calculated CONTINUED

Amounts recognised in profit or loss

	2022 ($000's)	2021 ($000's)
Interest on lease liabilities	2,730	2,883
Gain on partial surrender of lease*	–	(947)
Expenses relating to short-term leases	165	308

Amounts recognised in the statement of cashflows

	2022 ($000's)	2021 ($000's)
Total cash outflow for leases	6,793	7,018

* On 18 November 2020, Airways entered in to a revised Deed of Lease for the land and buildings situated at 26 Sir William Pickering Drive, resulting in a partial surrender of a lease component. The partial surrender of lease resulted in an accounting gain of $0.9m. The surrendered lease was re-entered in to a new lease agreement on the same day with reduced lease term.

Lease profile

The details for the two significant lease liabilities and right-of-use assets as at 30 June 2022 are as follows:

	26 Sir William Pickering Drive, Russley, Christchurch	5 Leonard Isitt Drive, Auckland Airport, Auckland
Start date	23 October 2019	22 August 2019
Initial lease period	25 years	25 years
Extension options	10 years	10 years
Extension options exercised	No	No
Incremental borrowing rate	3.63%	4.43%

A12 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.

A13 SHARE CAPITAL AND RESERVES

Airways has capital of $158.1 million (2021: $111.1 million) issued ordinary shares which confer on the holders the right to vote at any general meeting of shareholders. This consists of 158,100,000 (2021: 111,100,000) authorised ordinary shares.

During the year ended 30 June 2022, Airways called $47.0 million of its issued ordinary shares from its owners (2021: nil shares called). As at 30 June 2022 Airways has on issue 48,000,000 (2021: 95,000,000) authorised uncalled share capital to its owners amounting to a total value of uncalled share capital of $48.0 million (2021: $95.0 million).

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.

SECTION A

How the numbers are calculated CONTINUED

A

A14 ASSETS AND LIABILITIES HELD FOR SALE

During the year ended 30 June 2022, Airways committed in a plan to sell its Airfield Power and Lighting Equipment (APLE) across all locations. At the balance date efforts to sell the APLE assets in one of the locations have progressed significantly to the extent that the fair-value of the assets and liabilities have been measured. Accordingly, these assets are presented as a disposal group held for sale.

Recognition and measurement

Non-current assets, or disposal groups comprising assets and liabilities, are classified as held for sale if it is highly probable that they will be recovered primarily through sale rather than through continuing use.

Such assets, or disposal groups, are generally measured at the lower of their carrying amount and fair value less costs to sell. Any impairment loss on a disposal group is allocated first to goodwill, and then to the remaining assets and liabilities on a pro rata basis, except that no loss is allocated to inventories, financial assets, deferred tax assets, employee benefit liabilities, which continue to be measured in accordance with the Group's other accounting policies. Impairment losses on initial classification as held for sale and subsequent gains and losses on remeasurement are recognised in profit or loss. Once classified as held for sale, intangible assets and property, plant and equipment are no longer amortised or depreciated.

Impairment losses relating to disposal group

Impairment losses of $1.4 million for write-downs of the disposal group to the lower of its carrying amount and its fair value less costs to sell have been recognised as an impairment in the Statement of profit or loss and other comprehensive income.

Assets and liabilities of the disposal group held for sale

As at 30 June 2022, the disposal group was stated at fair value less costs to sell and comprised the following asset and liabilities.

	2022 ($000's)
Property, plant and equipment	9,817
Inventories	438
Work in progress	213
Assets held for sale	**10,468**
	2022 ($000's)
Provision	655
Liabilities held for sale	**655**

Cumulative income or expenses included in OCI

There are no cumulative income or expenses included in OCI relating to the disposal group.

Measurement of fair values

The non-recurring fair value measurement for the disposal group of $9.8 million has been categorised as level 3 fair value based on the draft Sale and Purchase Agreement.

SECTION B

Risk

B

B1 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. The policies that have been established to meet this objective include:

1) Maintaining sufficient, short term funding capacity to accommodate the worst case short-term event (currently defined as a delay of one month's revenue due to an inability to invoice customers e.g. as a result of a system or other process failure);

2) Ensuring current debt facilities have the provision to accommodate 10% surplus funding over and above projected maximum level of debt, based on a 12-month rolling debt forecast;

3) Ensuring all facility renewals are secured at least three months prior to maturity, with the decision to re-negotiate or tender banking arrangements being made 12 months before maturity; and

4) Remaining 100% compliant with banking covenants at all times.

To ensure these policies are adhered to, Airways operate the following controls:

- Maintaining and monitoring cash-flow forecasts monthly, to provide views on monthly, quarterly and annual cash-flow requirements;
- Maintaining debt funding in at least three tranches to ensure funds can be drawn down monthly; and
- Monitoring compliance with banking covenants monthly and reporting semi-annually to banking providers.

Airways has two bank funding facilities. The key terms of these facilities are set out in the table below:

	Amount				
Total facility	2022	2022 Drawdowns	2021	Remaining term	Interest rate
$60 million	$50 million	–	$50 million	3 years (expires 31 July 2025)	Floating
$30 million	$8 million	–	$8 million	3 years (expires 28 February 2026)	Floating

Due to the financial impacts of Covid-19, Airways continues to breach two of its three banking covenants for the year ended 30 June 2022. A waiver of breach in financial covenants was in place between 1 July 2020 to 31 December 2021, which was further extended to 31 December 2022 and 31 December 2023. These were for complying with the interest coverage ratio and gearing ratio.

Neither funding facility is secured by Airways' assets.

Airways' exposure to liquidity risk is represented by the maturity profile of financial liabilities, as shown below. These cashflows are shown at their undiscounted, contractual values.

SECTION B
Risk CONTINUED

B

Financial liability profile

	Less than 3 mths ($000's)	Between 3 mths & 1 year ($000's)	Between 1 & 2 years ($000's)	Between 2 & 5 years ($000's)	Greater than 5 years ($000's)	No stated maturity ($000's)
As at 30 June 2022						
Interest rate derivatives – inflow	–	259	460	546	–	–
Foreign currency exchange contracts – inflow*	4,662	3,855	1,500	2,444	–	–
Foreign currency exchange contracts – outflow	(4,889)	(4,047)	(1,501)	(2,453)	–	–
Trade and other payables	(13,645)	–	–	–	–	–
Employee entitlements	–	–	–	–	–	(32,221)
Term loan	(422)	(1,251)	(1,673)	(63,019)	–	–
Total	**(14,294)**	**(1,184)**	**(1,214)**	**(62,482)**	**–**	**(32,221)**
As at 30 June 2021						
Interest rate derivatives – outflow	(238)	(545)	–	–	–	–
Foreign currency exchange contracts – inflow*	6,246	5,552	3,658	1,716	–	–
Foreign currency exchange contracts – outflow	(6,494)	(5,773)	(3,828)	(1,730)	–	–
Trade and other payables	(6,067)	–	–	–	–	–
Employee entitlements	–	–	–	–	–	(29,867)
Term loan	(320)	(949)	(1,269)	(61,810)	–	–
Total	**(6,873)**	**(1,715)**	**(1,439)**	**(61,824)**	**–**	**(29,867)**

* Foreign currency exchange contracts are settled gross and as a result the inflows associated with these contracts have been included in this analysis.

Lease liabilities are classified as financial liabilities and its maturity profile has been separately disclosed in A11.

Airways has contingent liabilities in respect of financial guarantee contracts of $1.9 million for performance bonds (2021: $0.7 million).

Interest rate risk

Airways is exposed to interest rate risk through:

a) 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

b) 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, subject to the following limits:

ATM service pricing period	Minimum hedging levels	Maximum hedging levels	Maximum swap rates
Current pricing period	25% forecast debt	90% forecast debt	Current pricing cost of debt assumption
Next pricing period	None	30% forecast debt	Current 10-year government bond rate, plus the current pricing debt margin

SECTION B
Risk CONTINUED

B

To ensure these policies are adhered to, Airways operate the following controls:

- Maintaining and monitoring forecast debt levels to identify required hedging activity
- CFO approval is required for all hedging decisions.

Airways' exposure to interest rate risk is set out in the charts below, which show the extent of hedging in place to cover the total floating rate borrowing at year end of $58 million (2021: $58 million). Further interest rate swaps were also in place to hedge highly probable future debt.

As at 30 June	2022 $000's	2021 $000's
Hedged borrowings	17,400	42,000
Un-hedged borrowings	40,600	16,000
Total term borrowings	**58,000**	**58,000**

Possible fluctuations interest rates are not expected to have a material impact on Airways' financial position or performance

The effective interest rate on borrowing in the current year was 3.9% (2021: 3.8%).

As at 30 June 2022, 30% of the outstanding debt facilities are hedged (2021: 72% of outstanding debt facilities are hedged).

Foreign exchange risk

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

a) revenue streams denominated in foreign currencies

b) operational costs requiring payment in foreign currencies

c) capital expenditure requiring payment in foreign currencies

Airways' primary objective in managing foreign exchange risk is to protect foreign exchange rates implicit in project or expenditure approvals and foreign revenue streams. This is achieved by using forward exchange contracts to hedge: a) all transactions greater than NZD $50,000 and with a transaction date greater than one month; and b) all transactions greater than NZD $500,000 regardless of transaction date. In addition, management monitors all residual exposures to ensure they do not become material.

To ensure these policies are adhered to, Airways operate the following controls:

- no purchase order or invoice request for FX exposures above control limit levels can be approved without a hedge in place;
- residual exposures are monitored and reported internally on a monthly basis; and
- all hedging transactions are approved in accordance with delegated financial authorities.

Airways' exposure to foreign exchange risk is set out in the table below, which shows the NZD value of financial exposures denominated in foreign currency (at their hedged rates, where applicable), and the quantum of forward exchange contracts in place to hedge them.

SECTION B
Risk CONTINUED

B

	Revenue		Expenditure*	
	Current trade debtors ($'000)	Revenue contracts not yet invoiced ($'000)	Current trade payables ($'000)	Expenditure commitments not yet invoiced ($'000)
As at 30 June 2022				
Amount unhedged	680	–	(13)	–
Amount hedged	1,165	3,243	–	(8,482)
Total NZD value	**1,845**	**3,243**	**(13)**	**(8,482)**
Percentage of exposure hedged	63%	100%	0%	100%
As at 30 June 2021				
Amount unhedged	885	–	–	–
Amount hedged	773	4,038	–	(13,015)
Total NZD value	**1,658**	**4,038**	**–**	**(13,015)**
Percentage of exposure hedged	47%	100%	0%	100%

* Operating and capital expenditure

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:

a) cash and cash equivalents on deposit with banks;

b) interest rate swaps and foreign exchange contracts with counterparties; and

c) customers with outstanding receivables.

Airways' primary objective in managing credit risk is to minimise financial loss resulting from counterparties failing to meet obligations. The policies that have been established to meet this objective include:

- requiring a credit rating of A1 (short term) or A+ (long term) as rated by Standard and Poor's, or equivalent credit rating from another internationally recognised rating agency, for all banking and derivative counterparties
- setting a maximum exposure of $10 million to any individual counterparty.

Adherence to these policies is continuously monitored and reported monthly. During the year and at year end, due to the level of cash on deposit with banks, there was exposure greater than $10 million to an individual counterparty.

Airways' exposure to credit risk is outlined in the balance sheet (showing cash and cash equivalents and derivative financial instruments) and note A8, setting out trade and trade receivables and the current provision in place against these balances.

Airways' five largest customers account for 74 percent (2021: 73 percent) of total revenue and 65 percent (2021: 61 percent) of total accounts receivable at balance date. No collateral is held over these receivables. No other unusual risk has been identified by Airways in relation to these companies, however overdue debts are continuously monitored to identify and address any potential specific credit risks.

B2 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.

SECTION C
Group structure

C

C1 GROUP ENTITIES AND OWNERSHIP

Airways Corporation of New Zealand Limited is a limited liability company incorporated and domiciled in New Zealand. The address of its registered office is Level 2, 6 Leonard Isitt Drive, Auckland, New Zealand. It is also a State-Owned Enterprise established under the State-Owned Enterprise Act 1986 with shares held in equal numbers by the Minister for State-Owned Enterprises and the Minister of Finance, on behalf of the Crown.

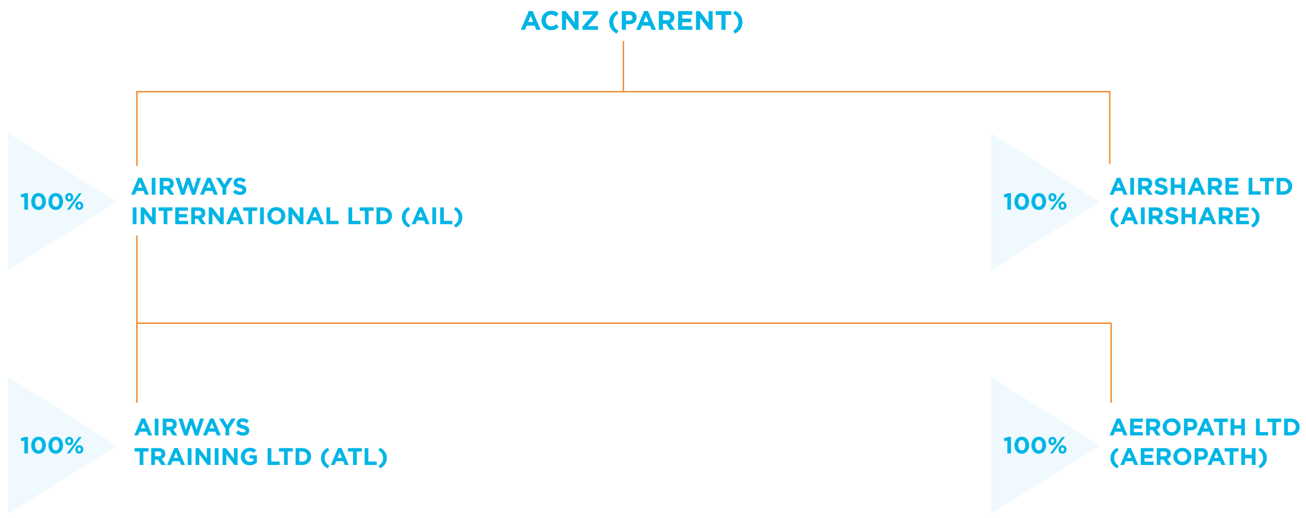
Subsidiaries are all entities over which Airways has control. Airways controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to Airways and are deconsolidated from the date that control ceases.

Accounting policies of subsidiaries are consistent with the policies adopted by the Parent, and all subsidiaries share a 30 June balance date. The Parent recognises its investment in subsidiaries at cost, less impairment.

Key details for each subsidiary in Airways are provided in the table below. All entities are incorporated in New Zealand.

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

The ownership structure of Airways as at balance date is shown in the diagram below.



SECTION C
Group structure CONTINUED

C2 TRANSACTIONS WITH THE GROUP AND OTHER RELATED ENTITIES

Inter-company transactions and balances between entities within Airways are eliminated in the preparation of the Group financial statements. Airways, a State-Owned Enterprise, transacts with other New Zealand government-related entities. The most significant of these transactions are with Air New Zealand (a Mixed Ownership Model company), who were charged $84.4 million by Airways in the current financial year (2021: $85.6 million).

C3 TRANSACTIONS WITH MANAGEMENT AND DIRECTORS

For the year ended 30 June	2022 ($000's)	2021 ($000's)
Key management+ compensation		
Salaries and other short-term employee benefits*	4,168	3,111
KiwiSaver/ superannuation contributions	79	72
	4,247	**3,183**
Directors' fees		
Directors' fees paid	289	275

+ Key management include the Chief Executive Officer and his direct reports.
* No salaries or other short term employee benefits were paid to Directors

C4 CEO REMUNERATION

Remuneration includes all short-term incentives entitled for the financial year but not yet paid at the balance date.

Single figure CEO remuneration

2022 $000	Salary and fees	Taxable benefits	Subtotal	Pay for performance STI	Pay for performance LTI	Pay for performance Subtotal	Total
James Young (Acting CEO)	62	–	62	–	–	–	62
Graeme Sumner (CEO)*	1,289	–	1,289	–	–	–	1,289

* Includes termination payments of $50,000.

Single figure CEO remuneration

2021 $000	Salary and fees	Taxable benefits	Subtotal	Pay for performance STI	Pay for performance LTI	Pay for performance Subtotal	Total
Graeme Sumner (CEO)	649	–	649	–	–	–	649

FIVE YEAR SUMMARY – CEO REMUNERATION		Single figure remuneration $000	Percentage STI against maximum
2022	James Young (Acting CEO)	62	–
2022	Graeme Sumner (CEO)	1,289	–
2021	Graeme Sumner (CEO)	649	–
2020	Graeme Sumner (CEO)	630	–
2019	Graeme Sumner (CEO)	667	73.79%
2018	Graeme Sumner (CEO)	475	85.84%
2018	Pauline Lamb (CEO)	168	85.84%

SECTION D
Unrecognised items

D1 CAPITAL COMMITMENTS

The table below illustrates the total capital commitments for Airways at balance date. This programme will be funded through increased capital.

AS AT 30 JUNE	2022 ($000's)	2021 ($000's)
Property, plant and equipment capital commitments	11,278	1,495
Intangible assets capital commitments	2,200	2,997
Total capital commitments	**13,478**	**4,492**

D2 CONTINGENT LIABILITIES

Airways has contingent liabilities in respect of financial guarantee contracts of $1.9 million for performance bonds (2021: $0.7 million).

D3 SUBSEQUENT EVENTS

There were no subsequent events after the balance date requiring disclosure.

SECTION E
Other information

E

E1 AUDITOR'S REMUNERATION

For the year ended 30 June	2022 ($000's)	2021 ($000's)
PricewaterhouseCoopers for:		
Financial statement audit services as an agent of the Office of the Auditor-General	243	250
Air Navigation Services pricing controls assurance engagement	65	–
Economic Value Added Key Performance Indicator compliance engagement	11	11
Student fee protection trust compliance engagement	7	7
Total auditors remuneration	**326**	**268**

E2 RECONCILIATION OF NET CASH FLOW FROM OPERATING ACTIVITIES TO REPORTED (LOSS)/ PROFIT

For the year ended 30 June	2022 ($000's)	2021 ($000's)
NET (LOSS)/PROFIT AFTER TAXATION	(35,520)	5,429
ADD NON CASH ITEMS		
Amortisation	3,936	3,526
Depreciation	23,052	20,945
Reversal of impairment losses	–	(44,618)
Impairment	1,471	5,954
Movement in deferred tax	(15,352)	7,307
Accounting gain on sale of assets	(15)	(1,241)
Accounting gain on partial surrender of lease	–	(943)
Total adjustments for items in (loss)/profit not impacting cash flow	**13,092**	**(9,070)**
ADD MOVEMENTS IN WORKING CAPITAL ITEMS		
Increase/(decrease) in payables	12,419	(793)
Increase in receivables	(2,901)	(2,723)
Total adjustments for items not in (loss)/profit impacting cash flow	**9,518**	**(3,516)**
Net cash outflow from operating activities	**(12,910)**	**(7,157)**

Audit report

Independent auditor's report

To the readers of Airways Corporation of New Zealand Limited's financial statements for the year ended 30 June 2022

The Auditor-General is the auditor of Airways Corporation of New Zealand Limited (the Company) and its subsidiaries (the Group). The Auditor-General has appointed me, Christopher Ussher, using the staff and resources of PricewaterhouseCoopers, to carry out the audit of the financial statements of the Group on his behalf.

Our opinion

In our opinion, the accompanying financial statements of Airways Corporation of New Zealand Limited (the Company), including its subsidiaries (the Group), present fairly, in all material respects, the financial position of the Group as at 30 June 2022, its financial performance and its cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards (IFRS).

What we have audited

The Group's financial statements comprise:

- the balance sheet as at 30 June 2022;
- the statement of profit or loss and other comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the Professional and Ethical Standards and the International Standards on Auditing (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

We have fulfilled our responsibilities in accordance with the Auditor-General's Auditing Standards.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the independence requirements of the Auditor-General's Auditing Standards, which incorporate the independence requirements of Professional and Ethical Standard 1: International Code of Ethics for Assurance Practitioners issued by the New Zealand Auditing and Assurance Standards Board, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Our firm carries out other assurance services for the Group in respect of the Group's compliance with the terms of the Student Fee Protection Trust Deed, the reporting of the Group's Economic Value Added (EVA) Performance Indicators and Air Navigation Services pricing controls assurance. The provision of these other services have not impaired our independence as auditor of the Group.

PricewaterhouseCoopers, 15 Customs Street West, Private Bag 92162, Auckland 1142, New Zealand
T: +64 9 355 8000, F: +64 9 355 8001, pwc.co.nz

Audit report CONTINUED

pwc

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current year. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Description of the key audit matter	How our audit addressed the key audit matter
Impairment of Core CGU non-financial assets The carrying amount of the Group's Core property, plant and equipment (PP&E), intangible assets and right of use assets as at 30 June 2022 amounted to $202.6 million. The Core cash generating unit (CGU) is the provider of air traffic navigation services in New Zealand. This was an area of key focus due to the significance of the carrying value of Core CGU non-financial assets, the inherent judgements involved in performing an impairment assessment and the inherent uncertainty of travel restrictions in New Zealand and globally arising from the ongoing pandemic. The Group prepared a discounted cash flow model for the Core CGU using probability weighted forecast scenarios for the next 10 years on a Fair Value Less Cost of Disposal (FVLCD) basis. Key FVLCD assumptions include: • price increases in FY23 and FY24 • estimates of flight volume in FY23 • capex ranging from $35m to $71m over the 10 year forecast • weighted average cost of capital (WACC); and • terminal growth rates. Refer to note A3.2 of the financial statements for further information.	We performed the following audit procedures in relation to the Core CGU impairment assessment: • understood and evaluated management's processes and controls in preparing the impairment assessment; • considered whether the valuation methodology used was appropriate; • held discussions with management to understand the basis for determining the key assumptions used in the impairment assessment; • gained an understanding of the continued impact of the pandemic and associated travel restrictions on the Core CGU's performance and the forecast outlook for the aviation industry; • performed lookback procedures, comparing actual results achieved in the year ended 30 June 2022 against forecast and considered the results of this on our assessment of forecast cash flows; • engaged our valuation expert to challenge and assess the reasonableness of the WACC and terminal growth rates by considering against external market forecasts and historical performance; and • assessed the related disclosures in the financial statements against the requirements of NZ IFRS. We considered the results of the procedures above satisfactory in forming our opinion on the financial statements as a whole.

Audit report CONTINUED

pwc

Description of the key audit matter	How our audit addressed the key audit matter
Going concern basis of preparation The financial statements have been prepared on a going concern basis. The Group incurred a loss before taxation of $50.3m for the year ended 30 June 2022 and net cash outflows from operating activities of $12.9m due to the ongoing impacts of the pandemic and travel restrictions. The Group has forecast that it will continue to incur losses during the financial year ending 30 June 2023 and the cash position of the Group will decrease due to continued net cash outflows (as expected with an increase in capital expenditure). To enable the Group to continue as a going concern for at least 12 months from the date of signing the financial statements, the following arrangements were made prior to balance date: • extension of the $48 million capital facility, subscribed for by the Crown, to 31 December 2024; and • the Group's debt facilities with Australia and New Zealand Banking Corporation (ANZ) were amended and a revised agreement was entered into on 9 June 2022. The Group was granted a waiver from an event of default or potential event of default resulting from a breach of its banking covenants until 31 December 2023, and the facilities were extended until 31 July 2025 and 28 February 2026 respectively. Given the significance of the going concern assumption to the financial statements this was considered to be a key audit matter. Refer to notes A4 and B1 of the financial statements.	In considering the appropriateness of the going concern basis of preparation we have: • understood and evaluated management's processes and controls in preparing the going concern assessment; • analysed and discussed the cash flow forecasts for the period through to September 2023 with management; • performed lookback procedures, comparing actual results achieved in the year ended 30 June 2022 against forecast and considered the results of this on our assessment of forecast cash flows; • ensured the cash flow forecasts are consistent with the forecasts used in the base case scenario for impairment testing; • performed various 'stress-tests' on the forecast cash flows to assess the level of forecasting risk; • read the amended and revised agreement with ANZ, including the terms of the waiver and assessed whether the debt was appropriately classified as a non-current liability at balance date; • read the amended share subscription agreement with the Shareholder (the Crown) confirming the committed capital facility; • performed subsequent events procedures to identify events that either mitigate or otherwise affect the Group's ability to continue as a going concern; and • considered the adequacy of the related disclosures in the financial statements against the requirements of NZ IFRS. We considered the results of the procedures above satisfactory in forming our opinion on the financial statements as a whole.

Audit report CONTINUED

pwc

Description of the key audit matter	How our audit addressed the key audit matter
Capitalisation of costs into PP&E and intangible assets The Group holds PP&E of $152.0 million and intangible assets of $63.3 million as at 30 June 2022. The capitalisation of costs into PP&E and intangible assets is a key audit matter as these assets represent a significant portion of the Group's net assets and judgement is applied by the Group when determining which costs to include in the carrying value of PP&E and intangible assets. Costs capitalised by the Group include both third party and employee related costs. Further disclosure in regard to PP&E and intangible assets held by the Group is included in note A10 of the financial statements.	We have tested a sample of additions to PP&E and intangible assets by agreeing external costs, internal labour hours, and internal labour cost rates to supporting evidence. For each item tested, we assessed the appropriateness of capitalisation against the recognition criteria in NZ IFRS, including assessing: • whether it is probable that economic benefit beyond a 12 month period will be generated by the asset by reference to the approved business investment case and project status report where available and discussions with the project manager; • if the costs were directly attributable to the asset. This involved considering invoice narrative for external costs and job description and time sheet records for internal costs; and • whether the Group has the technical and financial resources to complete the project. In assessing this we considered the nature of the projects, the Group's historic performance at completing projects of a similar nature and any decisions taken that may impact the future of the project. We have also performed procedures over expenses in the statement of profit or loss to assess whether any such items were capital in nature. We considered the results of the procedures above satisfactory in forming our opinion on the financial statements as a whole.
Recoverability of deferred tax assets The majority of the Group's deferred tax asset arises from tax losses. We considered recoverability of the deferred tax asset a key audit matter because utilisation of the asset is sensitive to the Group's expected future profitability. Management judgement is involved in forecasting the timing and quantum of future taxable profits, which are inherently uncertain, and whether it is probable the tax losses will be utilised in the foreseeable future.	In considering the recoverability of the deferred tax assets arising from tax losses we performed the following procedures: • obtained management's assessment of forecast taxable profits and the expected utilisation of tax losses; • performed lookback procedures, comparing actual results achieved in the year ended 30 June 2022 against forecast and considered the results of this on the assessment of forecast taxable profits; • ensured the forecasts in management's assessment are consistent with the forecasts used in the base case scenario for impairment testing;

Audit report CONTINUED

pwc

Description of the key audit matter	How our audit addressed the key audit matter
Refer to note A6 of the financial statements.	• considered the reasonableness of the assumptions leading to the point at which the Group will return to generating taxable profits; and • determined whether it was probable (more likely than not) that the tax losses would be utilised in the foreseeable future. We considered the results of the procedures above satisfactory in forming our opinion on the financial statements as a whole.

Our audit approach

Overview

Overall group materiality: $2,550,000, which represents approximately 7.5% of weighted average profit or loss before taxation for the last three years, excluding the impact of impairment.

We chose the weighted average profit or loss before taxation for the last three years, excluding the impact of the impairment, as the benchmark because, in our view, a normalised result is the benchmark against which the performance of the Group is most commonly measured by users.

We performed a full scope audit over the consolidated financial information of the Group.

As reported above, we have four key audit matters, being:

- Impairment of Core CGU non-financial assets
- Going concern basis of preparation
- Capitalisation of costs into PP&E and intangible assets
- Recoverability of deferred tax assets

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance about whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Group materiality for the financial statements as a whole as set out above. These, together with qualitative considerations, helped us to determine the scope of our audit, the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate, on the financial statements as a whole.

How we tailored our group audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

Other information

The Directors are responsible for the other information. The other information comprises the information included in the Annual Report, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of audit opinion or assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the financial statements

The Directors are responsible, on behalf of the Company, for the preparation and fair presentation of the financial statements in accordance with NZ IFRS and IFRS, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The Directors' responsibilities arise from the State-Owned Enterprises Act 1986.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements, as a whole, are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with the Auditor-General's Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

We did not evaluate the security and controls over the electronic publication of the financial statements.

As part of an audit in accordance with the Auditor-General's Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- Conclude on the appropriateness of the use of the going concern basis of accounting by the Directors and, based on the audit evidence obtained, assess whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

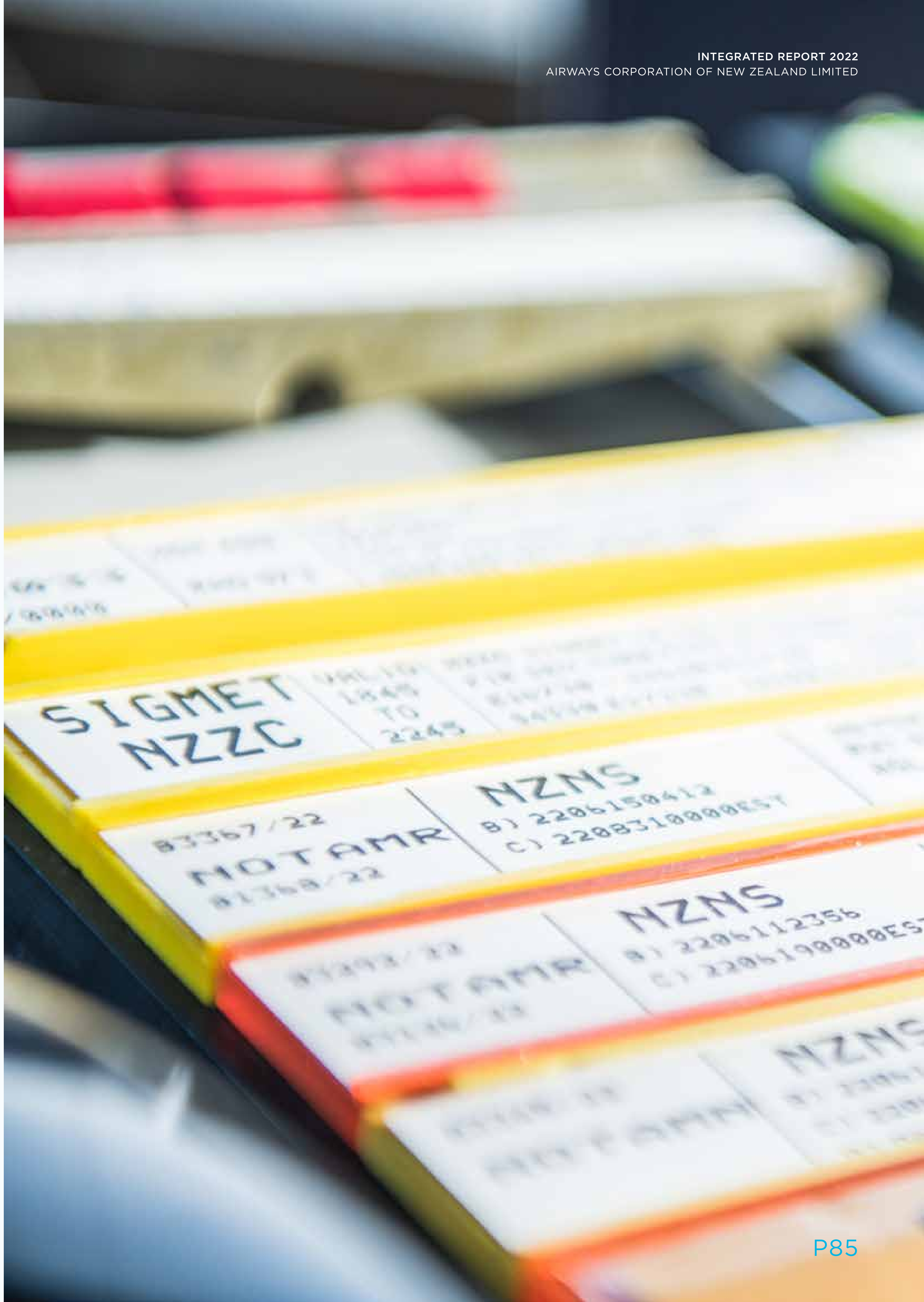
Our responsibilities arise from the Public Audit Act 2001.

Christopher Ussher
On behalf of the Auditor-General
Auckland, New Zealand

PricewaterhouseCoopers

30 August 2022

PwC



EVA key performance indicators

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

For the year ended 30 June	Parent 2022	Parent 2021
DEBT AND EQUITY EMPLOYED		
Debt employed	178.9	177.2
Equity employed	107.4	118.3
Total Debt & Equity Employed	**286.3**	**295.5**
Charge on operating capital	20.6	17.2
Economic Value Added	(72.5)	(52.8)
SUMMARY OF PARAMETERS FOR COST OF CAPITAL		
Risk free rate – 3-year Government Stock	2.3%	0.33%
Market risk premium	7.00%	7.00%
Company tax rate	28%	28%
Business risk factor (asset beta)	0.60	0.60
Cost of capital	7.08%	5.64%

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

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

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

The cost of capital of 7.08% for the year ended June 2022 compares to a cost of capital of 6.59% used for determining 2020-22 air navigation pricing. The negative EVA for the current and the comparative year has been driven by reduction in flight volumes due to COVID-19.

Reconciliation of EVA to net (loss)/profit after Tax

For the year ended 30 June	Parent 2022	Parent 2021
(Loss)/Profit after tax	(39.9)	0.2
Deduct: Charge on operating capital	(20.6)	(17.2)
Add back: Interest costs	2.0	2.3
Add back: Impairment reversal	-	(44.6)
Add back: Non-cash tax charges	(14.7)	7.4
Add back: Non-cash employee costs	0.2	(0.9)
Add back: Depreciation on capitalised interest	0.5	-
Economic Value Added	**(72.5)**	**(52.8)**

EVA audit report

Independent Assurance Report

To the Board of Directors of Airways Corporation of New Zealand Limited

Assurance report pursuant to the Economic Value Added Reporting Framework

Opinion

We have completed the reasonable assurance engagement in respect of the compliance of Airways Corporation of New Zealand Limited (the "Company") with the Company's Economic Value Added ("EVA") Reporting Framework for the year ended 30 June 2022.

In our opinion, the Company has complied, in all material respects, with the EVA Reporting Framework when calculating the EVA Key Performance Indicators ("KPI's") for the year ended 30 June 2022.

Basis for Opinion

We have conducted our engagement in accordance with Standard on Assurance Engagements (SAE) 3100 (Revised) *Compliance Engagements* ("SAE 3100 (Revised)"), issued by the New Zealand Auditing and Assurance Standards Board.

We believe the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Board of Directors Responsibilities

The Board of Directors are responsible on behalf of the Company for compliance with the EVA Reporting Framework, for the identification of risks that may threaten compliance with the EVA Reporting Framework, controls that would mitigate those risks, and monitoring the Company's ongoing compliance.

Our Independence and Quality Control

We have complied with the Professional and Ethical Standard 1 *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)* or other professional requirements, or requirements in law or regulation, that are at least as demanding, which include independence and other requirements founded on the fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

In accordance with the Professional and Ethical Standard 3 (Amended) *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance Engagements* or other professional requirements, or requirements in law or regulation, that are at least as demanding, our firm maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards, and applicable legal and regulatory requirements.

We are independent of the Company. Our firm carries out other services for the Company in the areas of statutory audit on behalf of the Auditor General, pricing controls assurance and compliance with the terms of the Student Fee Protection Trust Deed. The provision of these other services has not impaired our independence.

Assurance Practitioner's responsibilities

Our responsibility is to express an opinion on whether the Company has complied, in all material respects, with the EVA Reporting Framework in calculating the EVA KPI's for the year ended 30 June 2022 and report our opinion to you. SAE 3100 (Revised) requires that we plan and perform our procedures to obtain reasonable assurance about whether the Company has complied, in all material respects, with the EVA Reporting Framework.

An assurance engagement to report on the Company's compliance with the EVA Reporting Framework in calculating the EVA KPI's involves performing procedures to obtain evidence about the

PricewaterhouseCoopers, PwC Tower, 15 Customs Street West, Private Bag 92162, Auckland 1142 New Zealand
T: +64 9 355 8000, www.pwc.co.nz

EVA audit report CONTINUED

pwc

Airways Corporation of New Zealand Limited
30 August 2022

compliance activity and controls implemented. The procedures selected depend on our judgement, including the identification and assessment of risks of material non-compliance.

Inherent Limitations
Because of the inherent limitations of an assurance engagement, together with the internal control structure, it is possible that fraud, error or non-compliance may occur and not be detected. A reasonable assurance engagement throughout the specified period does not provide assurance on whether compliance with the EVA Reporting Framework will continue in the future.

Use of Report
This report has been prepared for the Board of Directors in accordance with the EVA Reporting Framework and is provided solely to assist you in establishing that compliance requirements have been met.

Our report should not be used for any other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility for any reliance on this report to anyone other than the Board of Directors of the Company, as a body, or for any purpose other than that for which it was prepared.

Christopher Ussher

PricewaterhouseCoopers

Christopher Ussher
On behalf of the Auditor-General
Auckland, New Zealand

PricewaterhouseCoopers

30 August 2022

Additional financial information

DIRECTORS' INSURANCE

Airways has arranged Directors' and Officers' Liability Insurance which includes cover for Directors against loss from any claims made against them arising from acts in their capacity as Directors. Certain actions are specifically excluded.

DIRECTORS' FEES PAID 1 JULY 2021– 30 JUNE 2022

	Amount paid	Amount recognised in profit or loss
Denise Church	64,922	64,922
Mark Pitt	40,577	40,577
Lisa Jacobs	32,461	32,461
Paula Jackson (retired 31 October 2021)	10,820	10,820
John Holt	32,461	32,461
Darin Cusack	32,461	32,461
Mark Hutchinson	32,461	32,461
Nicola Greer	32,461	32,461
Gavin Fernandez (joined 1 March 2022)	10,820	10,820
Total	**289,444**	**289,444**

Directors experience and interests are disclosed in the profiles in the 'Board of Directors' section of this report and under "Our Board of Directors" section of the Airways website.

Additional financial information CONTINUED

TOTAL REMUNERATION OVER $100,000

Remuneration band	Total staff	Executive/ senior Managers	Operational staff and managers
$100,001 – $110,000	34	1	33
$110,001 – $120,000	52	1	51
$120,001 – $130,000	56	2	54
$130,001 – $140,000	47	1	46
$140,001 – $150,000	38	–	38
$150,001 – $160,000	51	1	50
$160,001 – $170,000	42	7	35
$170,001 – $180,000	30	8	22
$180,001 – $190,000	39	–	39
$190,001 – $200,000	49	5	44
$200,001 – $210,000	42	7	35
$210,001 – $220,000	66	6	60
$220,001 – $230,000	38	–	38
$230,001 – $240,000	17	–	17
$240,001 – $250,000	10	2	8
$250,001 – $260,000	2	2	–
$260,001 – $270,000	4	2	2
$290,001 – $300,000	1	1	–
$300,001 – $310,000	1	1	–
$320,001 – $330,000	1	1	–
$330,001 – $340,000	1	–	1
$360,001 – $370,000	1	1	–
$370,001 – $380,000	1	1	–
$390,001 – $400,000	1	1	–
$440,001 – $450,000	2	2	–
$1,280,001 – $1,290,000	1	1	–
	627	**54**	**573**

Financial performance against statement of corporate intent metrics

	ACTUAL 2022	SCI TARGET
Profitability		
Total revenue	$144.6m	$179.4m
Earnings before interest, tax, depreciation and amortisation (EBITDA)	($20.5m)	$6.9m
Earnings before interest and tax (EBIT)	($47.5m)	($20.7m)
Group loss after tax	($35.5m)	($17.5m)
Capital investment	25.2m	$51.6m
Dividends	Nil	Nil
Shareholder returns		
Total shareholder return	(8.5%)	(8.8%)
Dividend yield	Nil	Nil
Dividend payout	Nil	Nil
Return on equity	(19.0%)	(9.6%)
Return on equity, adjusted for NZ IFRS fair value movements and asset revaluations	(19.0%)	(9.5%)
Profitability and efficiency		
Return on capital employed	(19.4%)	(8.6%)
Return on assets	(13.0%)	(5.7%)
Operating margin	(14.2%)	3.8%
Net profit margin	(24.6%)	(9.8%)
Asset turnover	0.4	0.5
Leverage and solvency		
Equity multiplier	2.0	1.9
Gearing ratio (net including leases)	31.6%	39.1%
Interest cover (before capitalised interest)	(4.1)	1.3
Solvency (current ratio)	1.4	0.9
Growth and investment		
Revenue growth	(1.7%)	22.4%
EBITDAF growth	(149.3%)	(82.9%)
NPAT growth	(754.4%)	(486.1%)
Capital employed growth	4.8%	2.7%
Capital renewal	1.2	2.3

Directory

Bankers

ANZ Bank New Zealand Limited

Bank of New Zealand Limited

Auditors

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

Registered office

Level 2
6 Leonard Isitt Drive
Auckland
New Zealand

AIRWAYS.CO.NZ

AIRWAYS.CO.NZ

This document is printed on an environmentally responsible paper, produced using Elemental Chlorine Free (ECF), FSC® certified, Mixed Source pulp from Responsible Sources, and manufactured under the strict ISO14001 Environmental Management System.