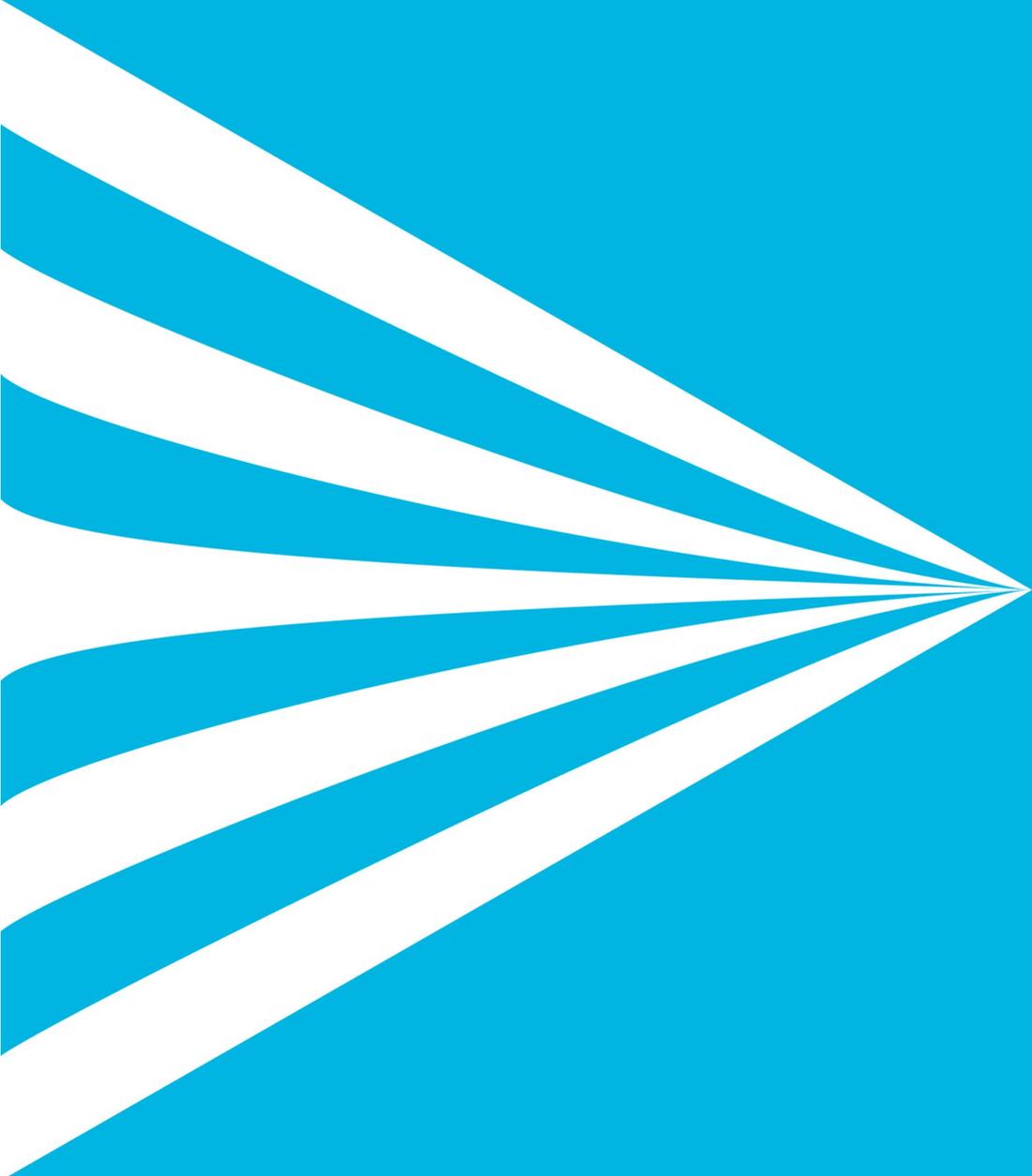


AIRWAYS



AIRWAYS CORPORATION OF NEW ZEALAND

FY25 Price Reset Consultation

June 2024



Airways' proposed prices 1 July 2024 to 30 June 2025

On 30 April 2024, Airways advised customers that it had completed its revenue forecast for the period 1 July 2024 to 30 June 2025 (FY25) in accordance with our Standard Terms and Conditions (**Standard Terms**) and Pricing Framework. Airways' forecast revenue for FY25 was within 2% of the target revenue set as part of the three-yearly pricing consultation. Therefore, Airways proposed no changes to our published prices for the 1 July 2024 to 30 June 2025 period.

Airways invited customers to provide any additional information about their schedules by 15 May 2024 before setting final prices.

Airways subsequently received updated schedules from some of its customers after 15 May. The updated schedules show a reduction in both domestic and international flight volumes, reducing our forecast revenue to 96.2% of our target revenue and below the 98% threshold in the risk-sharing mechanism provided for in the Standard Terms and Conditions and Pricing Framework. As this will have a material and adverse effect on Airways' financial position, Airways is now proposing a price reset for most of FY25. Therefore, Airways is undertaking an urgent further consultation on the proposed prices to apply for most of the Period.

Airways is now proposing 2.7% increase to the published weight prices to apply for the period 1 September 2024 to 30 June 2025 to bring Airways back to 98% of the target revenue **for the full FY2025 (i.e. from 1 July 2024 to 30 June 2025)**.

For this consultation, Airways is providing customers two weeks from the release of this consultation paper to provide any additional information about their schedules and any other feedback. Airways then proposes to make its decision on the proposed re-set of prices by the end of July with the intention that any increased prices will apply from 1 September 2024. In the meantime, the published prices for FY2025 will apply from 1 July 2024.

Airways also proposed to enter into an agreement to sell the Airfield Power and Lighting Assets at Hamilton Aerodrome to Hamilton Airport. In anticipation of this being agreed and completion occurring on 1 July 2024, Airways proposed to reduce its charges with effect from 1 July 2024. Airways will reduce aerodrome charges on 1 July 2024 for Regional Airport (Group 1) weight price as proposed. This will be implemented as proposed.

Background

In June 2022, Airways set prices for FY23-25 (three-year pricing cycle). During the three-year pricing cycle there can be unforeseen variations in the volume of air traffic, which will affect the amount of revenue Airways receives.

Airways has a risk-sharing mechanism in place to share this volume risk between Airways and its customers. This mechanism requires Airways to make a forecast of the next year's revenue. If the forecast for the following pricing year indicates that revenue will lie outside a range of +/- 2% of the Target Revenue set during the pricing consultation, then prices



can be reset to bring revenue back to within 2% of the target revenue following the processes for a risk-sharing pricing consultation set out in our Standard Terms and Conditions and Pricing Framework.

As noted above, Airways carried out a review of prices under the risk-sharing processes, which identified that FY2025 forecast revenue would be within the 2% range. This indicated that prices should not be increased. Airways did not receive any information from customers prior to 15 May, the date for customers to provide updated scheduled information under the consultation processes, to indicate any need to change this position.

After 15 May, however, Airways received updated schedule information from customers. The updated schedules show a reduction in both domestic and international flight volumes, reducing our forecast revenue to 96.2% of our target revenue and below the 98% threshold in the risk-sharing mechanism provided for in the Standard Terms and Conditions and Pricing Framework.

The receipt of this information fell outside the timeframes specified in the processes for the risk-sharing consultation in Airways Standard Terms and Pricing Framework and therefore is not able to be taken into account in that process.

The updated schedules, however, will have a material and adverse effect on Airways financial position. The reduction in schedules would see a reduction in revenue of approx. \$9.7M against Airways target revenue if no changes to prices will be made. While \$5.1M of that would be carried by Airways under the risk-sharing revenue, the reduction in schedules would see Airways carrying \$4.6M of reduced revenue, if no changes to prices will be made.

This will have a material and adverse effect on Airways' financial position. In particular, it would see Airways' core profit reduce substantially. Although some of that decrease would be absorbed by Airways under the risk-sharing mechanism, there is still \$4.6M of profit loss that would not occur if prices were to be reset. Airways considers that this is a material and adverse effect and its shareholder should not be expected to carry all the cost of the reduced schedules.

Airways considers that this situation comes within the material and adverse changes affect clause in its Standard Terms and the similar paragraph in the Pricing Framework. Those provisions allow Airways to reset prices in the event of any circumstance not otherwise specified in those provisions "that has or will have a material and adverse effect on Airways, its assets, liabilities, or financial position (including profits or losses) not being a circumstance that could reasonably have been avoided by prudent management action".

Airways does not consider that this change in schedules is something that it could have taken into account in the risk-sharing consultation, with the relevant information being received after 15 May.



Key changes

The table below outlines Airways' updated forecast by region comparing current forecasts to the forecast set during the pricing consultation.

Assumed annual volume growth/decline (flights)

Region	FY25 May Forecast Growth/Decline on FY25 Pricing Consultation	FY25 April Forecast Growth/Decline on FY25 Pricing Consultation
Domestic	-7%	-5%
Australia	-7%	-5%
Pacific	-25%	-15%
Asia	-15%	-2%
Middle East	+65%	+65%
North America	+6%	+49%
South America	+99% (+363 Flights)	+99% (+363 Flights)

Key Changes to April Forecast

Domestic

Airways now forecasts FY25 domestic schedules to be 7% lower than the FY25 Pricing Consultation schedules set in June 2022 and 2% lower than the April 2024 forecast.

Airways' largest domestic customer is Air New Zealand. The domestic market volume has been impacted by aircraft mechanical issues.

International

Australia

The trans-Tasman market is 7% lower than the FY25 Pricing Consultation forecast set in June 2022 and a further 2% lower than April 2024 forecast. The current forecast shows flight volumes are lower across Sydney, Melbourne and Brisbane routes compared with the April forecast.

Other International

The Pacific region is 25% lower than the FY25 Pricing Consultation forecast set in June 2022 and 10% lower than the April 2024 forecast. The reduction in flight volumes from the April forecast is predominantly due to a lower number of flights to Fiji, Tahiti, and the Cook Islands.



Flights to Asia are forecast to be 15% lower than the FY25 Pricing Consultation forecast set in June 2022 and 13% lower than the April 2024 forecast. The reduction in flight volumes from the April forecast is mainly due to a lower number of flights to, Japan, China and Korea.

North American flights are 6% higher than the FY25 Pricing Consultation forecast however this is 43% lower on the April 2024 forecast. The reduction in flight volumes is mainly due to reduced flights to the Canada and Hawaii and reduced flights to the US via Air New Zealand, Delta Airlines and United Airlines.

Guide to providing further information or feedback

The key changes impacting Airways revenue forecast from 1 July 2024 to 30 June 2025 are summarised above.

Airways invites customers to provide any additional information about their schedules or any other feedback (including whether any additional consultation steps should be undertaken) by 28 June 2024.

Please send this information or feedback to submissions@airways.co.nz. As any submitted information or feedback will be made available to the public via Airways' website, they should not contain any commercially sensitive or confidential information.

Further information and feedback provided will be carefully considered by Airways prior to finalising prices by the intended date of 30 July 2024 with new prices intended to take effect from 1 September 2024.