
Statement of Corporate Intent

2011/12 – 2013/14

FINAL
30 June 2011

Authorised by: _____

Monica Davis
Acting CEO

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making your world possible

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1 Introduction

Airways Corporation of New Zealand Limited (ACNZ) is a State-Owned Enterprise (SOE) established under the State-Owned Enterprise Act 1986 (the Act) and is a public company registered under the Companies Act 1993. The shareholders are the Minister for State-Owned Enterprises and the Minister of Finance, each of whom holds 20.55 million fully paid shares of \$1.

ACNZ fully owns three subsidiaries, Airways International Limited, Airways Equipment Limited, and Airways Training Limited. This Statement of Corporate Intent (SCI) refers to the Airways Group, including its subsidiaries (Airways). It is prepared in accordance with the Act and sets out Airways' business goals and objectives for the period 1 July 2011 to 30 June 2014.

Airways' achievements against the objectives outlined in last year's Statement of Corporate Intent are referred to in this year's Annual Report.

2 Objectives of Airways

The principal objective of every SOE as defined by the Act is to be a successful business and to be:

- As profitable and efficient as comparable businesses.
- A good employer.
- Exhibiting a sense of social responsibility.

Airways' view of the future is that as the aviation industry becomes more global there will be regional rationalisation and consolidation of Air Navigation Service (ANS) providers.

Our vision and our strategic focus remain unchanged.

2.1 Airways' Vision

“To be a key player in Global Air Navigation Services (ANS)”

2.2 Airways' Mission

“We work with our customers to get aircraft and their passengers where they want to go safely and efficiently. We draw on our teamwork and expertise to grow the value of the business.”

For the period of this SCI, Airways' key focus will be to strive for excellence within our New Zealand (NZ) business, and to grow the size and influence of the company internationally.

3 Nature and Scope of our Business

Airways' core business is the provision of ANS and associated aviation infrastructure services in New Zealand and internationally. Within NZ, Airways' business is primarily centred on ANS comprising:

3.1 Air Traffic Control

This is primarily the separation of aircraft in flight, to standards determined by the appropriate regulatory authority (the Civil Aviation Authority (CAA) in New Zealand) using radar or other appropriate means.

3.2 Air Traffic Management

This is the management of aircraft in flight to maximise access to the most efficient flight paths as determined by the customer, limited only by the constraints of safe delivery of an Air Traffic Control (ATC) service.

3.3 Navigation Services

These are the navigation infrastructure and supporting services used by aircraft to navigate.

Air Navigation Services are currently provided within the 30 million square kilometres of the NZ and Auckland Oceanic Flight Information Regions (FIR).



Within this FIR, Airways is to all intents and purposes a sole supplier and controls approximately one million aircraft movements per annum. Airways provides a safe and effective ANS service to our customers, who include:

- International and domestic commercial airlines.
- The Royal New Zealand Air Force.
- General Aviation.
- Airports.

3.4 Growth Businesses

To achieve our vision we need to grow our business internationally in addition to maintaining a successful domestic business. Provision of ANS within the NZ FIR has developed a set of core competencies which have been successfully marketed internationally. The challenge for the future is to continue to do this profitably. Airways is involved in (or plans to be in) aviation-related infrastructure activities, both in New Zealand and internationally, categorized under our business units as follows:

Consulting

- Aviation infrastructure consultancy and project management, which may involve partnering with companies that can provide the necessary specialist expertise in development of infrastructure, and management operations.
- Communication, navigation and surveillance systems and infrastructure.
- Air traffic systems design, installation and maintenance services.
- Aviation related communication services.

Training

- Aviation related training services.

Flight Yield

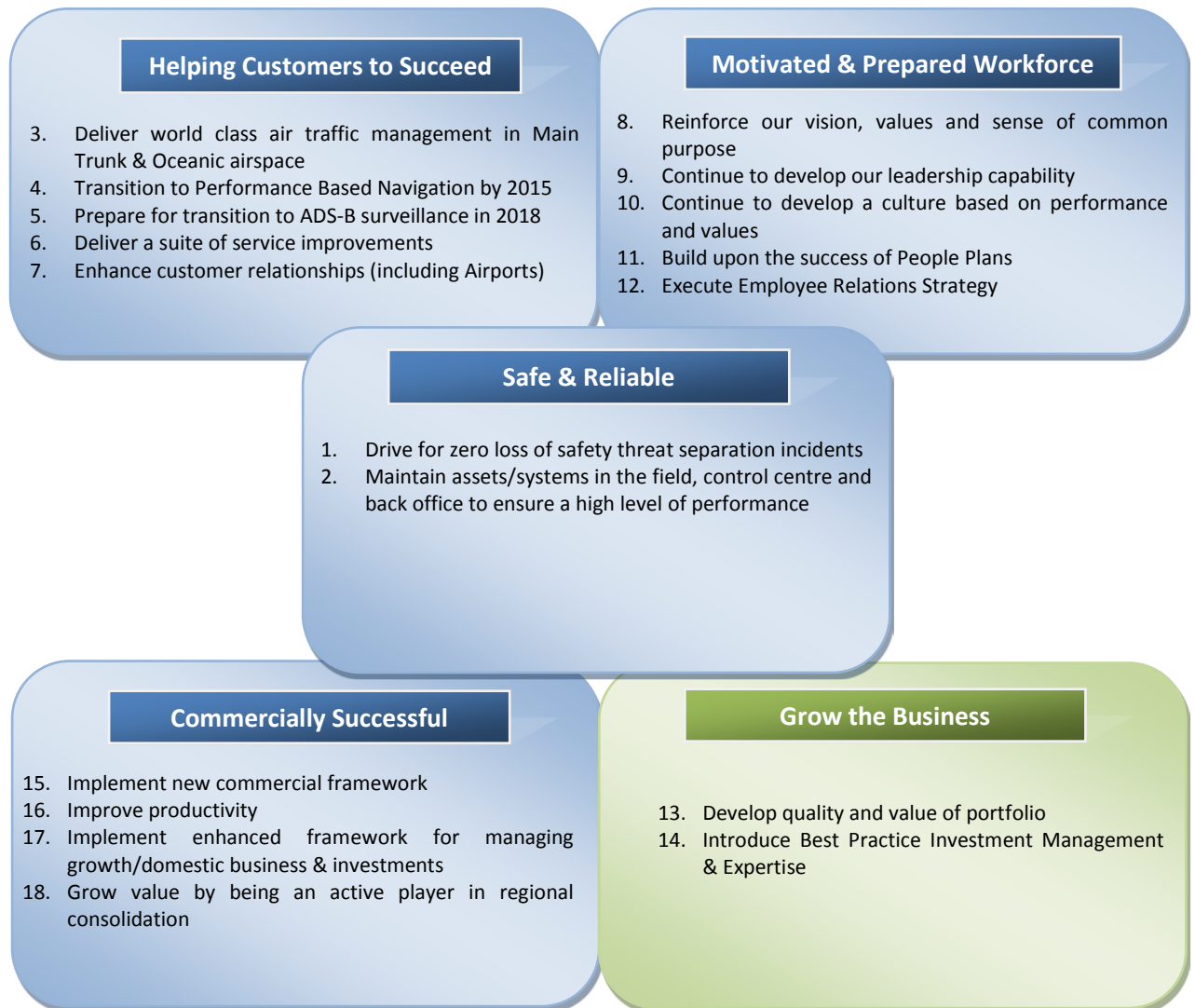
- The licensing sale of software products developed in NZ and adapted for overseas markets.

Pacific

- Management and operation of ANS internationally through equity participation and management contracts.
- Aviation publications.

4 Enabling Strategies

The balanced scorecard below summarises our key strategies for driving towards our vision and executing on our mission over the next five years. The blue quadrants capture the strategies for the core domestic business. The green quadrant captures the strategies for our growth business.



5 Performance Targets and Measures

Under each of the strategies, outlined in 4 above, we have established a set of measures to track our progress towards achievement of the Strategic Plan.

Our target results in 2011/12 are:



Notes:

A ~ Not currently measuring Optimised Descents

B ~ Best Places to Work (BPTW) survey by JRA

C ~ 18% is the GAAP ROE hurdle rate at which EVA= 0

D ~ Difference between market value of equity in growth business vs. equity invested as measured by independent valuation of growth businesses.

Our key initiatives in the 2011/12 year are as follows:**5.1 Safe and Reliable**

2011/12 Key Initiatives are:

- Update the Strategic Safety plan and progress initiatives in accordance with the plan.
- Optimise the preventative maintenance programme to unlock the benefits arising from the comprehensive review of maintenance requirements performed over the past 18 months.
- Review design criteria for airfield lighting and implement changes critical to attaining availability agreed under our shortly to be completed letter of agreement with the airports.

5.2 Helping our Customers Succeed

2011/12 Key Initiatives are:

- Design “Optimised Gate to Gate domestic flight” services for Jet Operations.
- Design and implement a work programme for the transition to Performance Based Services to allow more efficient use of airspace by 2015.
- Work with stakeholders (including CAA) to design options that meet the regulatory, operational and technical requirements for Automatic Dependent Surveillance - Broadcast (ADS-B) operations.
- Review Vision 2015 initiatives and targets, and issue 2020 Vision white paper.
- In consultation with customers develop service specifications, service levels and service reporting framework.

5.3 Motivated and Prepared Workforce

2011/12 Key Initiatives are:

- Reinforce a sense of common purpose by piloting the establishment of team KPI's with regular performance feedback to selected teams and benchmarking.
- Negotiate the expiring collective agreements within agreed parameters.

5.4 Grow the Business

2011/12 Key Initiatives are:

- Review the five year strategic plans developed by the Consulting, Flight Yield and Training business units and determine whether they have an investable proposition for future investment.

- For Consulting - Develop High Value Services / Value-Based Pricing model by determining what parts of our portfolio are of the highest value to the market, and where Airways should build the best portfolio for the future.
- For Training - Establish an e-learning framework using the benchmarking, academic practices and internal reviews to develop a leading educational framework for aviation training.
- For Flight Yield - Reduce operational cost base until the sales pipeline begins to bear fruit.

5.5 Commercially Successful

2011/12 Key Initiatives are:

- Implement a new commercial model framework by seeking a long term investment and pricing path which secures the necessary funding to deliver the technology transition programme in a holistic and optimal manner including completing the Letter of Agreement with Airports.
- Implement a whole of life cycle investment management approach – starting with the initial business case, through monthly reporting and concluding with the final benefit realisation review. This initiative will also deliver a suite of enhancements to improve the performance of Airways' core and growth investments.

6 Corporate Social Responsibility (CSR)

Airways' Corporate and Social Responsibility objectives are to provide a safe air navigation service within NZ's airspace.

The key areas which we will focus on in 2011/12 are:

6.1 Safety

Airways' Mission is to "work with our customers to get aircraft and their passengers to their destination safely and efficiently". This represents our primary social responsibility and we have a set of initiatives to trend towards zero incidents.

6.2 Carbon Emissions

Assist our airline customers in reducing New Zealand's aviation greenhouse gas emissions. To this end we have a number of important programmes which will assist the airlines to fly the most direct routes, with a minimum of delay, hence reducing fuel consumption and emissions.

6.3 Aviation Industry Support

Airways plays a critical role in the New Zealand economy, supporting aviation's key role in NZ's GDP, and in our largest industry, tourism. Whilst we are a "behind-the-scenes" player, we need to deliver service reliability to support NZ Inc., and the Airways brand.

7 Accounting Policies

Airways prepares conventional Financial Statements in accordance with GAAP. The GAAP Financial Statements in the SCI and Business Plan comply with the New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and other applicable Financial Reporting Standards, as appropriate for profit oriented entities. The Financial Statements comply with International Financial Reporting Standards.

A complete list of GAAP accounting policies is attached in Appendix A.

Airways also uses Economic Value Added (EVA) accounting principles to guide pricing decisions.

Summary Financial Performance

Group Summary					
2010	2011 ¹		2012	2013	2014
		Revenue			
123,763	132,923	Core	138,198	144,180	151,500
21,585	21,012	Grow th	25,758	28,032	31,402
145,348	153,935	Total Revenue	163,955	172,212	182,902
		NOPAT			
3,229	5,532	Core	4,628	6,203	7,256
1,900	1,109	Grow th	1,950	2,775	3,995
5,129	6,642	Total NOPAT¹	6,578	8,978	11,250
		Key Indicators			
10,316	13,061	Capital Expenditure	18,291	20,814	20,522
713	741	Headcount (FTE's)	749	749	749
1,588	282	EVA	1,102	1,060	2,794
5,000	6,000	Dividends	5,000	6,000	6,000

All figures are NZ\$000's unless otherwise stated

¹ The 2010 NOPAT excludes the 2010 Budget tax adjustment on buildings of \$6.047m

Appendix B sets out a summary of Airways' GAAP Financial Performance and Appendix C the EVA performance for the periods 2008/09 to 2013/14.

Until the fourth quarter of calendar year 2010 the prospects for the 2011/12 year were optimistic with New Zealand hosting the Rugby World Cup in late 2011 and world growth rates steadily improving. Since that time the two earthquakes in Christchurch, flooding in Australia, the major earthquake, tsunami and nuclear crisis in Japan and civil unrest in the Middle east have conspired to cause a sharp increase in oil prices internationally and a slow- down in domestic air traffic movements with resulting volume reductions and low revenue growth.

This low revenue growth will reduce profit and temporarily result in a return below the cost of capital. We are now budgeting for an overall group NOPAT of \$6.5 million comprising a core ANS NOPAT of \$4.6 million and a Growth business NOPAT of \$1.9 million. ANS volume growth is forecast at 0.6%. A dividend of \$5 million is planned to be paid.

8 Dividend Policy

The Directors will recommend such dividend payments as are consistent with Airways' earnings, capital structure, capital expenditure and future investment requirements, with the intention to distribute at least the cost of equity from core activities to the Shareholder each year. Dividends are usually paid in October, February and a final dividend not later than 30 June of each year. Airways is currently reviewing its dividend policy to include consideration of operating cash.

The financial performance in 2010/11 with a gradual recovery from the global financial crisis will result in a return to a dividend of \$5 million. This represents a 13% return on equity and exceeds the cost of equity capital. The dividend represents a 180% pay-out of operating cash flow less depreciation.

9 Reporting to Shareholding Ministers

In compliance with the Act and in accordance with the requirements of the Shareholding Ministers, the following reports will be presented to shareholders.

Annual Report

Within three months after the end of each financial year an Annual Report including:

- Audited financial statements for the year.
- Notes to the financial statements including accounting policies.

- A report from the Chairman which will include:
 - A review of operations.
 - Changes in the nature and scope of Airways' activities.
 - A summary of achievements measured against performance targets.
 - Comments on the outlook for the next twelve months.
 - Statement of dividend payable.

Interim Report

Within two months of the end of each half-year an Interim Report including:

- An abridged, unaudited statement of Airways' financial position.
- A qualitative report from the Directors on Airways' performance compared with the objectives set out in the Statement of Corporate Intent, any significant changes in intent and scope during the half-year and the outlook for the next half-year.

Quarterly Report

Within one month of the end of each quarter a Quarterly Report comprising a commentary and summary of financial statistics indicating performance against targets for the preceding quarter.

Investment Project Review

Provide a report covering all post project investment reviews conducted in the previous calendar year by 28 February each year. This applies to all projects greater than 5% of the book value of equity for Airways.

10 Policy for Share Acquisitions

Any share, equity or asset acquisitions (or sales) will reflect our business strategy requirements for achieving our vision. Airways will consult Shareholding Ministers on equity investment or capital expenditure above:

- \$10 million on an individual item of capital expenditure or investment in New Zealand.
- \$5 million investment in an individual overseas project, or other significant investments, even if they do not meet the above thresholds.

11 Compensation from the Crown

Section 7 of the Act allows for the Crown to enter into an Agreement with Airways whereby the Crown would pay Airways for undertaking a non-commercial activity. Airways does not currently undertake any such activities but reserves the right to seek payment where Airways is restrained from acting in a normal business-like manner.

12 The Crown's investment in Airways

The Directors have completed a comprehensive evaluation process to estimate the current commercial value of the Crown's investment in the Airways Group. The Airways valuation is affected by the assumptions made regarding a number of external factors. The Directors estimate of the current commercial value of the Crown's investment in the Airways Group is \$117.6m (2009/10 \$117.4m). Key points about the manner in which that value was assessed are:

- The valuation was calculated as at 30 June 2011.
- The FCF to Enterprise methodology was used to calculate the Net Present Value (NPV) of the entire Airways Group, including all subsidiaries, on an after-tax basis.
- The NPV was based on the future cash flows set out in the Airways Group's three-year business plan, with forward projections then also made about years 4 to 10. A terminal value of \$84.3m (present value) was included. A growth rate of 0.5% per annum was assumed in the terminal value calculation of the Growth Business. A growth rate of zero was used for the Core ANS business.
- The discount rate was based around the projected average cost of capital (long term averages of 7.7% for the ANS Business and 10.3% for the Growth Business).
- Sensitivities to the underlining assumptions could affect the valuation of both the Core and Growth businesses.
- The valuation was prepared by the Airways finance team, and reviewed by Ireland, Wallace & Associates Limited, prior to approval by the Board.
- The valuation compares with a commercial value as at 30 June 2010 of \$117.4m. The key reasons for the increase in commercial value are:
 - An increase in Core ANS Business cash flows of \$13.1m over ten years due to a combination of higher operating profits and lower capital expenditure.
 - Partially offset by a reduction in forecast cash flows from the Growth Business of \$1.2m per annum over ten years as a result of a revised forecast in sales in the Airways Flight Yield and Training Business units.

Appendix A Accounting Policies

NOTE 1 REPORTING ENTITY

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 26, Majestic Centre, 100 Willis St, Wellington, New Zealand. Airways Corporation of New Zealand Limited is 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.

These Group consolidated financial statements are for Airways Corporation of New Zealand Limited and its wholly owned subsidiaries, Airways International Limited (AIL), Airways Training Limited (ATL) and Airways Equipment Limited (AEL). All companies are registered under the Companies Act 1993.

Airways refers to the "Group": Airways Corporation of New Zealand, as well as its wholly owned subsidiaries. The term "Parent" refers to Airways Corporation of New Zealand Limited as a separate legal entity.

Airways is designated as a profit-oriented entity for financial reporting purposes.

Airways principal business is air navigation services within New Zealand.

In addition to this, Airways is involved in International and Domestic growth activities:

- i. Maintenance of systems
- ii. Consultancy
- iii. Training
- iv. Aviation related publications, and
- v. Software development, sales and implementation.

NOTE 2 BASIS OF PREPARATION

(A) STATEMENT OF COMPLIANCE

These financial statements have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand. They comply with the New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and other applicable Financial Reporting Standards, as appropriate for profit oriented entities. The Financial Statements comply with International Financial Reporting Standards.

The financial statements have also been prepared in accordance with the requirements of the Financial Reporting Act 1993, Companies Act 1993 and the State-Owned Enterprises Act 1986.

These financial statements were approved by the Board of Directors on XX August 2011.

(B) BASIS OF MEASUREMENT

The principal accounting policies adopted in the preparation of the financial statements are consistent with those followed in the preparation of the financial statements prepared for the reporting period ended 30 June 2010.

The financial statements have been prepared on the historical cost basis as modified by the revaluation of derivative financial instruments.

(C) FUNCTIONAL AND PRESENTATION CURRENCY

Items included in the financial statements of each of Airways' entities are measured using the currency of the primary economic environment in which it operates ('the functional currency'), which is New Zealand dollars. The consolidated financial statements are presented in New Zealand dollars, which is Airways' presentation currency and all values unless otherwise stated are rounded to the nearest thousand dollars (\$'000).

(D) USE OF CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenditure. Actual results may differ from these estimates.

Estimates and underlying assumptions are evaluated on an on-going basis based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions to accounting estimates are recognised in the accounting period in which the estimate is revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty, and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements, are described in the following notes:

- i Note 3 C - contract revenue
- ii Note 3 K and Note XX - financial instruments
- iii Note 3 N - intangible assets
- iv Note 3 R and Note XX – employee entitlements
- v Note D - deferred tax
- vi Note 3 M - depreciation estimates

(E) STANDARDS, INTERPRETATIONS AND AMENDMENTS TO EXISTING STANDARDS THAT HAVE BEEN ADOPTED BY AIRWAYS.

(i) NZ IAS 1 (Revised), 'Presentation of financial statements' (effective from 1 January 2009). The revised standard clarifies that, for each component of equity, an entity may present the breakdown of other comprehensive income either in the statement of changes in equity or in the notes to the financial statements.

(ii) Airways has chosen to early adopt Revised IAS 24, 'Related party disclosure', issued in November 2009 supersedes IAS 24, 'Related party disclosures', issued in 2003. This standard removes the requirement for government-related entities to disclose details of all transactions with government and other government-related entities; and clarifies and simplifies the definition of related party. This has had minimal impact to Airways.

(F) STANDARDS, AMENDMENTS AND INTERPRETATIONS TO EXISTING STANDARDS THAT ARE NOT YET EFFECTIVE AND HAVE NOT BEEN EARLY ADOPTED BY AIRWAYS.

The following standards and amendments to existing standards have been published and are mandatory for accounting periods beginning on or after 1 January 2011 or later periods, but the Group has not early adopted them:

(i) NZ IFRS 7, 'Financial instruments: Disclosures' (Amended), issued in November 2010 (effective for periods beginning on or after 1 January 2011, with early adoption allowed). The amendment requires additional disclosure in respect of risk exposures arising from transferred financial assets. The Group will adopt NZ IFRS 7 from 1st July 2011. It is not expected to have a material impact on the Group's financial statements.

(ii) NZ IFRS 9, 'Financial instruments', issued in December 2009 (effective for periods beginning on or after 1 January 2013, with early adoption allowed). NZ IFRS 9 replaces the multiple classification and measurement models in NZ IAS 39 with a single model that has only two classification categories: amortised cost and fair value. Classification under NZ IFRS 9 will be driven by an entity's business model for managing the financial assets and the contractual characteristics of the financial assets. The Group has not determined when it will adopt NZ IFRS 9. It is not expected to have a material impact on the Group's financial statements.

NOTE 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(A) BASIS OF CONSOLIDATION

(i) SUBSIDIARIES

Subsidiaries are all entities (including special purpose entities) over which Airways has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether Airways controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to Airways. They are deconsolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by Airways. The cost of an acquisition is measured as the fair value of the assets given, equity instruments used and liability incurred or assumed at the exchange rate, acquisition related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of Airways' share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly on the statement of comprehensive income.

Inter-company transactions, balances and unrealised gains on transactions between Airways companies are eliminated. Unrealised losses are also eliminated but considered an impairment indicator of the asset transferred. Accounting policies of subsidiaries are consistent with the policies adopted by Airways and all subsidiaries share a 30 June balance date. The parent recognises its investment in subsidiaries at cost, less impairment.

(ii) JOINT VENTURES

Airways' interests in jointly controlled entities are accounted for using the equity method of consolidation. Airways' share of its joint venture post-acquisition profits or losses is recognised in the statement of comprehensive income, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying value of the investment. When Airways share of losses in a joint venture equals or exceeds its interests in the joint venture, including any unsecured receivables, Airways does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint venture.

(B) FOREIGN CURRENCY TRANSLATION

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities held in foreign currencies are translated at the exchange rate at balance date.

Foreign exchange gains and losses resulting from settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income, except when deferred in equity as qualifying cash flow hedges.

(C) REVENUE RECOGNITION

Revenue comprises the fair value for the sale of goods and services, excluding Goods and Services Tax, rebates and discounts and after eliminating sales within Airways. Revenue is recognised as follows:

(i) Sales of products

Airways follows the principles of IAS18, "Revenue recognition", in determining appropriate revenue policies. In principle, therefore, revenue associated with Sale of Products is recognised when all the following conditions have been satisfied:

- The Airways has transferred to the buyer the significant risks and rewards of ownership of the products;
- Airways does not retain either continuing managerial involvement to the degree usually associated with ownership or effective control over the products sold;
- The amount of revenue can be measured reliably;
- It is probable that the economic benefits associated with the transaction will flow Airways; and
- The costs incurred or to be incurred in respect of the sale can be measured reliably.

(ii) Air service charges and other services

Revenue associated with the rendering of services is recognised when all the following conditions have been satisfied:

- The amount of revenue can be measured reliably;
- It is probable that the economic benefits associated with the transaction will flow to Airways;
- The stage of completion of the transaction at the end of the reporting period can be measured reliably; and
- The costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

(iii) Interest Income

Interest income is recognised on a time proportion basis using the effective interest method.

(D) CURRENT AND DEFERRED INCOME TAX

The current income tax charge is calculated on the basis of the tax laws enacted or substantially enacted at the balance sheet date of the countries where Airways' subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulations are subject to interpretation, and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination, that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled. Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by Airways and it is probable that the temporary difference will not reverse in the foreseeable future.

(E) LEASES

Airways leases certain land, buildings, plant and equipment.

Operating lease payments, where the lessors effectively retain the risks and benefits of ownership of the leased items, are included in the statement of comprehensive income on a straight line basis over the lease term.

F) IMPAIRMENT OF NON-FINANCIAL ASSETS

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units).

(G) CASH AND CASH EQUIVALENTS

Cash and cash equivalents includes cash on hand, deposits held on call with financial institutions, other short term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

(H) TRADE ACCOUNTS RECEIVABLE

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost, less provision for impairment.

Collectability of trade receivables is reviewed on an on-going basis. Debts which are known to be uncollectible are written off. A provision for doubtful receivables is established when there is objective evidence that Airways will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is dependent on the age of the debt and specific debtor circumstances. Generally, debt which is greater than 90 days old but less than one year is discounted at the average cost of capital. Debt which is greater than one year old but less than 2 years old is discounted by 50% of the carrying value. Debt which is greater than 2 years old is discounted by 100% of the carrying value. The amount of the provision is recognised in the statement of comprehensive income.

(I) PARTS INVENTORY

Parts inventory is stated at the lower of cost and net realisable value. Cost is determined on a weighted average cost basis. Net realisable value is the estimated selling price less applicable variable selling expenses.

(J) INVESTMENTS AND OTHER FINANCIAL ASSETS

Airways classifies its financial assets in the following categories: financial assets at fair value through profit or loss and loans and receivables. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at the initial recognition and re-evaluates this designation at every reporting date.

(i) FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

This category has two sub categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorised as held for trading unless they are designated hedges. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within 12 months of the balance sheet date. Airways has no financial assets designated at fair value through profit or loss at balance date.

(ii) LOANS AND RECEIVABLES

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when Airways provides money, goods or services directly to a debtor with no intention of selling the receivable. They are included in current assets, except for those with maturities greater than 12 months after the balance sheet date which are classified as non-current assets. Loans and receivables are included in 'trade and other receivables' and 'cash and cash equivalents' in the balance sheet.

(iii) AVAILABLE-FOR-SALE FINANCIAL ASSETS

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months at the end of the reporting period. Airways has no available-for-sale financial assets at balance date.

Purchases and sales of investments are recognised on trade date - the date on which Airways commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the statement of comprehensive income. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and Airways has transferred substantially all the risks and rewards of ownership. Loans and receivables are subsequently carried at amortised cost using the effective interest rate method.

Airways assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. Refer Note 3(H) and 11.

(K) DERIVATIVE FINANCIAL INSTRUMENTS

Airways uses Forward Exchange Contracts to hedge expenditure and revenue denominated in foreign currency. Airways also uses Interest Rate Swaps and Caps to hedge interest repayments on its term debt.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-valued to their fair value. The method of recognising the resulting gain or loss depends on the nature of the relationship between the derivative and the item being hedged. Airways designates derivatives as hedges of highly probable forecast transactions (cash flow hedges).

At the inception of the transaction, Airways documents the relationship between hedging instruments and hedged items as well as its risk management objective and strategy for undertaking various hedge transactions. Airways also documents an assessment, both at hedge inception and on an on-going basis, of whether the derivatives that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in cash flows of hedged items.

(i) CASH FLOW HEDGE

The effective portion of changes in the fair value of derivatives that qualify as cash flow hedges is recognised in equity in the hedging reserve. Amounts accumulated in equity are transferred to the statement of comprehensive income when the hedged item affects profit and loss (for example, when the forecast sale that is hedged takes place). Offsetting this, when the forecast transaction that is hedged occurs, the gains or losses previously deferred in equity are also transferred to the statement of comprehensive income. For forecast items that are fully hedged and 100% effective, the net effect on the statement of comprehensive income is neutral (i.e. nil).

When a hedging instrument expires or is sold, terminated or exercised, or the entity revokes designation of the hedge relationship but the hedged forecast transaction still is expected to occur, the cumulative gain or loss at that point remains in equity and is recognised in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer expected to take place, then the cumulative unrealised effect recognised in equity is recognised immediately in the statement of comprehensive income.

(L) FAIR VALUE ESTIMATION

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

The fair value of instruments that are not traded in an active market (for example, over the counter derivatives) is determined using valuation techniques. Airways uses its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period.

(M) PROPERTY, PLANT AND EQUIPMENT**(i) RECOGNITION AND MEASUREMENT**

All classes of property, plant and equipment are initially recorded at cost. Cost is determined by including all costs directly associated with bringing the assets to their location in working condition. The value of property, plant and equipment includes financing costs. Capital work in progress includes all expenditure to date on all assets partially completed. 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. Repairs and maintenance are charged to the statement of comprehensive income during the financial period in which they are incurred. Assets no longer required and ultimately intended for sale or disposal are valued at the lower of cost or estimated realisable value. Changes in this value are included in the statement of comprehensive income. Gains or losses on the disposal of fixed assets are recognised in the statement of comprehensive income and are calculated as the difference between the sale proceeds and the carrying value of the asset. If the recoverable amount of an item of property, plant and equipment is less than its carrying amount, the item is written down to its

recoverable amount. The write down of an asset recorded at historical cost is recognised as an expense in the statement of comprehensive income.

(ii) DEPRECIATION

The cost of all fixed assets (excluding freehold land) less their estimated residual value is written off on a straight line basis over the estimated useful economic life of all property, plant and equipment other than freehold land and capital work in progress. Estimated useful lives are reviewed annually to consider factors that may affect economic life including, but not limited to:

1. Deterioration through use
2. The effects of the physical environment
3. Obsolescence through technological development
4. Lease terms or other contractual arrangements.

The estimated useful economic lives are as follows:

	DEPRECIATED RANGE	ACTUAL WEIGHTED AVERAGE
Land	not depreciated	not depreciated
Buildings structure:		
Freehold	10 – 40 years	24 years
Leasehold	8 – 40 years	20 years
Computers and furniture	3 – 10 years	8 years
Plant and equipment	3 – 20 years	13 years
Motor vehicles	4 – 6 years	5 years
Intangibles	2 – 10 years	8 years
Capital work in progress	not depreciated	not depreciated

(N) INTANGIBLE ASSETS

(i) COMPUTER SOFTWARE

Acquired computer software costs are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised on a straight line basis over their estimated useful lives (three to five years).

Costs associated with developing or maintaining computer software programmes are recognised as an expense except where the costs are directly associated with the development of identifiable and unique software products controlled by Airways, which are expected to generate economic benefits exceeding costs beyond one year. These are then recognised as intangible assets. Direct costs include the costs of software development employees and an appropriate portion of relevant overheads.

Internally generated software assets are amortised on a straight line basis over their estimated useful lives (not exceeding ten years).

(ii) LICENSES

Separately acquired licenses are capitalised at historical cost. Licenses have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated on a straight line basis over their estimated useful lives.

(O) TRADE ACCOUNTS PAYABLE

These amounts represent liabilities for goods and services provided to Airways prior to the end of the financial year that are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition. These are measured at amortised cost.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

(P) BORROWINGS

Borrowings are initially recognised at fair value, net of costs incurred. Borrowings are subsequently measured at amortised cost. Any differences between the proceeds (net of transaction costs) and the redemption amount is recognised in the statement of comprehensive income over the period of the borrowing using the effective interest rate method.

Borrowings are classified as current liabilities unless Airways has an unconditional right to defer settlement of the liability for at least 12 months after the balance date.

(Q) PROVISIONS

Provisions for legal claims, service warranties and rental obligations are recognised when Airways has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required to settle is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation, using a pre-tax rate that reflects current market assessments of the time value of money, and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised as interest expense.

(R) EMPLOYEE ENTITLEMENTS

A liability for annual leave, long service leave and retiring leave is accrued and recognised in the balance sheet. The liability is equal to the present value of the estimated future outflows as a result of employee services provided at balance date. Where it is necessary, actuarial estimates of future demographic trends and employee remuneration are used to calculate these liabilities.

Airways operates various defined contribution schemes. The schemes are funded through payments to trustee administered funds. A defined contribution plan is a superannuation plan under which Airways pays fixed contributions into a separate entity (either KiwiSaver or otherwise). 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.

For defined contribution plans, Airways pays contributions to publicly or privately administered superannuation plans on a mandatory, contractual or voluntary basis. Airways has no further payment obligations once the contributions have been paid. The contributions are recognised as an employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

Termination benefits are payable when employment is terminated by Airways before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. Airways recognises termination benefits when it is demonstrably committed to either:

- (i) terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or
- (ii) providing termination benefits as a result of an offer made to encourage voluntary redundancy.

Benefits falling due more than 12 months after the balance sheet date are discounted to their present value.

(S) SHARE CAPITAL

Ordinary shares issued by Airways are classified as equity and are recognised at fair value less direct issue costs.

(T) DIVIDENDS

Provision is made for the amount of any dividend declared on or before balance date but not distributed at balance date.

(U) GOODS AND SERVICES TAX (GST)

The statement of comprehensive income and the cash flow statement have been prepared so that all components are stated net of GST. All items in the balance sheet are stated net of GST, with the exception of receivables and payables, which include GST invoiced.

Appendix B Summary of GAAP Financial Performance

SUMMARY OF GAAP FINANCIAL PERFORMANCE						
	Year ended 30 June					
<i>Profitability</i>	2009	2010	2011 ⁱ	2012	2013	2014
Total revenue	140,371	145,348	153,935	163,955	172,211	182,902
EBITDA	23,145	22,286	25,430	27,040	30,975	35,906
EBIT	7,839	8,064	11,401	11,720	15,141	18,366
NOPAT	4,528	5,129	6,633	6,578	8,977	11,249
<i>Shareholder returns</i>						
Total Shareholder return (1)	5%	30%	5%	n/a	n/a	n/a
Dividend yield	6%	5%	5%	4.3%	5.1%	5.1%
Dividend payout	245%	138%	103%	180%	139%	98%
Return on equity	9%	11%	14%	14%	18%	21%
ROE, adj IFRS movements & asset revaluations	9%	11%	14%	14%	18%	21%
<i>Profitability /efficiency</i>						
Return on capital employed	9%	10%	14%	14%	18%	20%
Return on assets	6%	6%	8%	8%	10%	12%
Operating margin	17%	15%	17%	17%	18%	20%
Net profit margin	3%	4%	4%	4%	5%	6%
Asset turnover	1.0	1.0	1.1	1.1	1.2	1.2
<i>Leverage/Solvency</i>						
Equity multiplier	2.7	3.1	3.0	3.0	2.9	2.7
Gearing ratio (net)	40%	44%	42%	42%	41%	40%
Interest cover	9.9	13.6	14.5	10.4	11.6	13.1
Solvency (current ratio)	1.1	1.3	1.2	1.2	1.1	1.2
<i>Growth/Investment</i>						
Revenue growth	1%	4%	6%	6%	5%	6%
EBITDAF growth	-29%	-4%	14%	6%	15%	16%
NPAT growth	-57%	13%	29%	-1%	36%	25%
Capital employed growth	8%	-6%	-3%	4%	4%	10%
Capital renewal	1.6	0.9	1.0	1.2	1.3	1.2
(1) n/a - Company valuations are not forecast						

Appendix C Summary of EVA Performance

Under EVA, "Shareholders Funds" is defined as share capital and other economic equity (including earnings that have not been returned to the Shareholders). "Total Assets" is defined as total capital employed, including long-term assets, net operating capital and non-operating capital (work in progress).

EVA Key Performance Indicators				
F2 2011		2012 Plan	2013 Plan	2014 Plan
Debt & Equity Employed				
46,839	Debt Employed	47,016	45,823	46,755
99,713	Equity Employed	103,731	104,461	110,007
146,552	Total Debt & Equity Employed	150,747	150,284	156,762
Charge on Operating Capital				
8,456	Core Business	9,249	9,666	10,082
1,495	Grow th Business	1,370	1,762	1,838
9,950	Total Charge on Operating Capital	10,618	11,428	11,921
Charge on Equity Capital				
7,926	Airw ays Group	8,535	9,274	9,723
Economic Value Added (EVA)				
717	Core Business	332	(253)	292
(434)	Grow th Business	770	1,313	2,501
282	Total Economic Value Added	1,102	1,060	2,794
Summary of Parameters for Cost of Capital				
4.57%	Risk free rate - 5 year Government Stock	5.36%	5.78%	5.78%
7.00%	Mark risk premium	7.00%	7.00%	7.00%
30.00%	Company tax rate	28.00%	28.00%	28.00%
Business risk factor (asset beta)				
0.45	Core Business	0.45	0.45	0.45 #
0.69	Grow th Business	0.69	0.69	0.69
0.48	Airw ays Corporation of NZ Ltd (w eighted average)	0.48	0.48	0.48
Cost of Capital				
6.35%	Core Business	7.01%	7.31%	7.31%
8.01%	Grow th Business	8.67%	9.76%	9.76%
6.56%	Airw ays Corporation of NZ Ltd (w eighted average)	7.22%	7.52%	7.52%
Cost of Equity Capital				
0.67	Equity Risk factor (equity beta)	0.67	0.67	0.67
7.88%	Cost of equity	8.58%	8.88%	8.88%

This asset beta is currently under review .