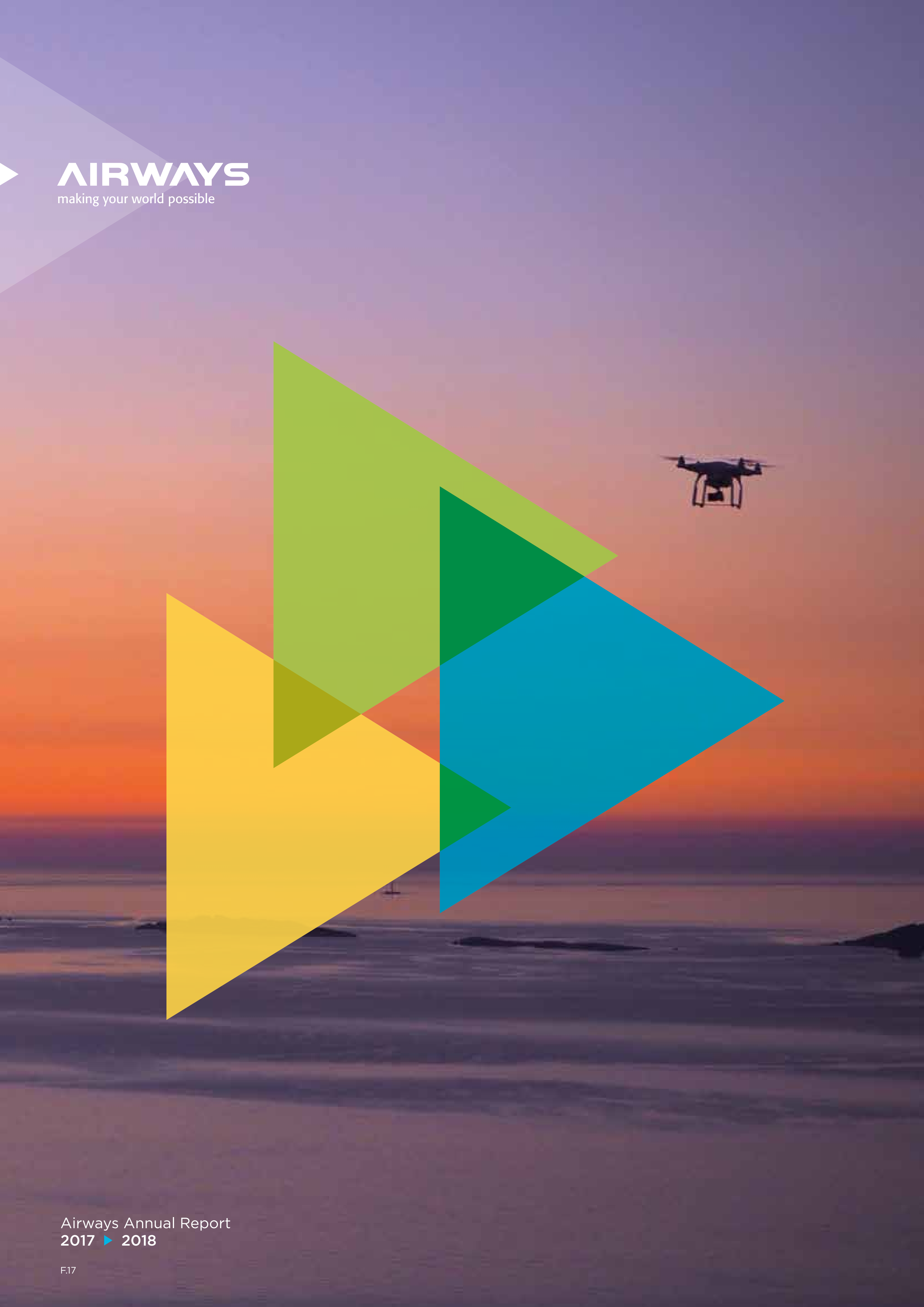
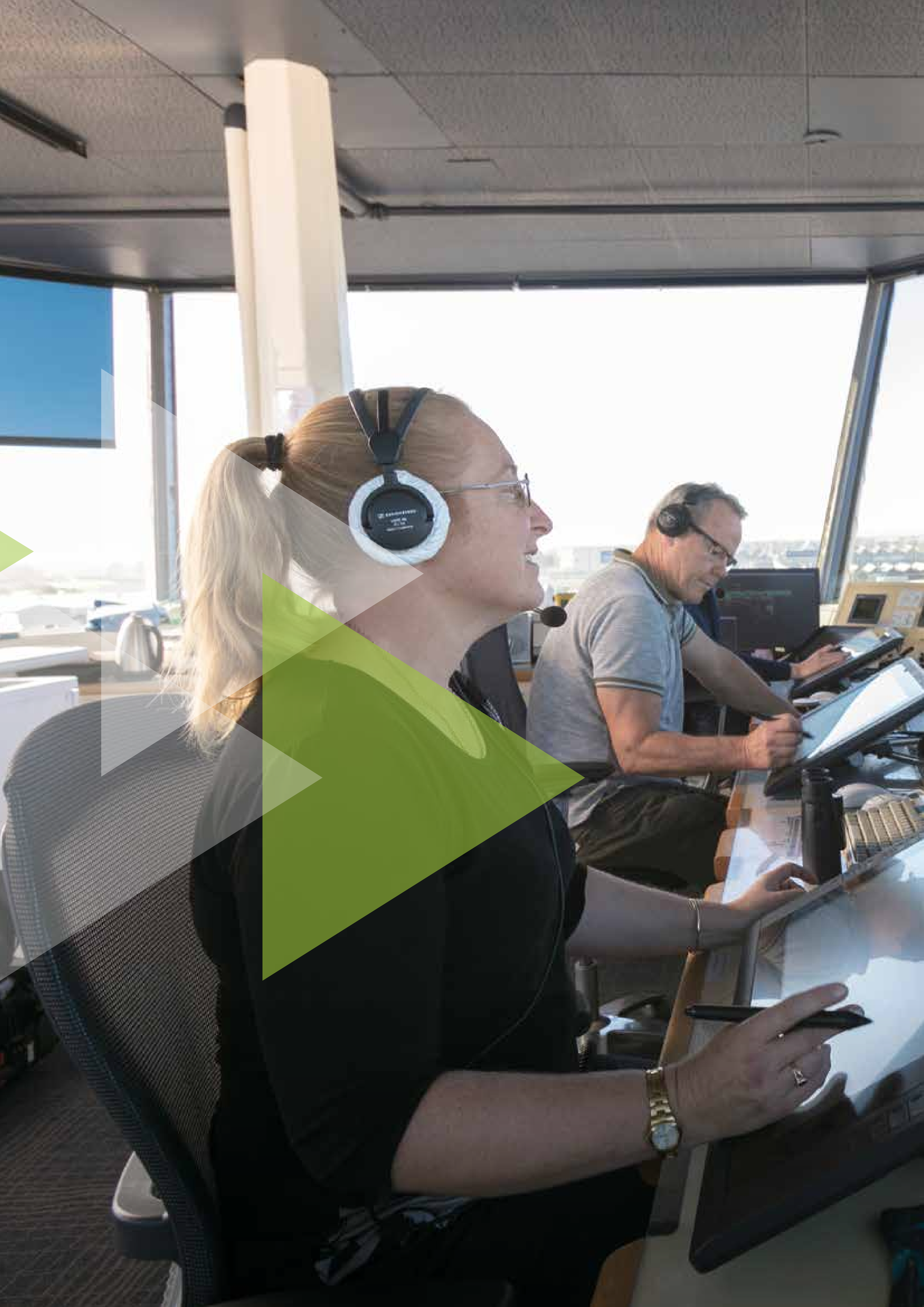


AIRWAYS
making your world possible

Airways Annual Report
2017 ▸ 2018

F.17



EVERY DAY WE THINK ABOUT THE FUTURE NEEDS AND EXPECTATIONS OF OUR CUSTOMERS. IN CLOSE COLLABORATION WITH OUR EXPERT PARTNERS, WE STRIVE FOR THAT IDEAL COMBINATION OF IDEAS, TECHNOLOGY AND HUMAN KNOW-HOW TO ENSURE OUR SKIES ARE READY FOR WHAT'S OVER THE HORIZON.

THE HARD WORK AND COMMITMENT OF OUR PEOPLE KEEP OUR SKIES SAFE AND EFFICIENT EVERY DAY. IT'S THIS SAME PASSION THAT ALLOWS US TO KEEP ADAPTING AND THRIVING IN THIS DYNAMIC AVIATION ENVIRONMENT.

AS WE NAVIGATE THE FUTURE OF AVIATION, OUR PEOPLE AND PARTNERS STEER US TOWARDS A WORLD OF POSSIBILITIES. AS ONE, WE'RE GOING FURTHER AND HIGHER, SHAPING A BETTER FUTURE FOR US, OUR CUSTOMERS AND OUR COMMUNITIES.

HIGHLIGHTS
2017 ▶ 2018

CONTENTS

28,614
UAV FLIGHTS

$46M
INFRASTRUCTURE INVESTMENT

$27.2M
NPAT

$11M
DIVIDEND TO NZ GOVERNMENT

11,790
COMBINED YEARS OF STAFF EXPERIENCE

3.9%
INCREASE IN TRAFFIC MOVEMENTS

$2.73M
INVESTMENT IN STAFF TRAINING

ZERO
HIGH SEVERITY HEALTH AND SAFETY EVENTS

23%
INCREASE IN COMMERCIAL BUSINESS NOPAT

NEW
CHIEF EXECUTIVE

CHAIR
AND CEO
MESSAGE

JUDY KIRK
CHAIR

GRAEME SUMNER
CHIEF EXECUTIVE OFFICER

People, partners, possibilities

"MANAGING DRONES SAFELY IN NEW ZEALAND AIRSPACE IS OF INCREASING CONCERN FOR AIRWAYS, AND WE ARE WORKING WITH GOVERNMENT AGENCIES TO DEFINE TIGHTER PROTOCOLS FOR DRONE MANAGEMENT."

In a year characterised by our unwavering focus on safety, and our people and partners collaborating and innovating to shape the future of aviation, Airways is pleased to announce an excellent safety, operational and financial performance.

This strong performance for the year ended 30 June 2018 has been achieved through the efforts and unity of our people and increased profits in our commercial businesses, against a backdrop of continued air traffic growth.

We are particularly pleased to report no high severity health and safety events for the year. We are also proud of our people for delivering positive operational safety results over a period in which new entrants to our airspace have presented some unique challenges.

Despite maintaining a stable level of aircraft loss of separation events, one near collision was recorded during the year – the first such event to occur in four years. It involved a drone operating in controlled airspace. The serious challenges and difficulties presented by drone operations in controlled airspace have been brought into sharp focus as a result of both this event and a number of unauthorised drone incursions at major New Zealand airports over the year. Managing drones safely in New Zealand airspace is of increasing concern for Airways. We are progressing a number of initiatives with Government agencies, our people, customers and partners to safely manage our airspace in the future – these are detailed further in this report.

The changing New Zealand aviation environment was further illustrated this year by the introduction of other new and disruptive technologies such as Rocket Lab's commercialised rockets being tested off Mahia Peninsula, and Zephyr Airworks' development and testing of a flying taxi in Canterbury. The complexities and challenges arising from rapid technology advancements in New Zealand's airspace, and from continued growth across the aviation industry makes Airways' strong safety and operational results this year even more significant.

“THE DEDICATION OF OUR PEOPLE TO OUR CORE ROLE OF KEEPING OUR SKIES SAFE AND MOVING AIRCRAFT AS EFFICIENTLY AS POSSIBLE IS AT THE HEART OF AIRWAYS’ SUCCESS.”

INVESTING IN OUR FUTURE

Airways’ capital investments reflect the future needs and expectations of our customers and all airspace users. Through close collaboration with our partners, our people design the best combination of technology and infrastructure to ensure our airspace is ready for the future.

During the year we invested $46 million in technologies that will maintain our current high levels of operational service and ensure greater safety, resilience and efficiency for decades to come.

Our investment in trialling digital towers technology was a significant step towards assessing how this technology could fit into Airways’ future operations. Following a successful digital tower demonstration at Auckland Airport, a Request for Proposal was issued in May for a digital tower at Invercargill Airport.

Strong progress was made on another critical investment for Airways during the year, aimed at ensuring future resilience and supporting our customers’ growth. New Zealand’s new $58 million air traffic management (ATM) platform is on track to deliver enhanced safety, resilience and efficiency across both domestic and oceanic airspace from 2021.

As previously reported, the rising number of drone incursions in controlled airspace is cause for concern for Airways – investment in this sector is critical to the continued safe management of New Zealand’s airspace. This year we made substantial headway in trialling and planning new technologies that can help safely integrate drones into New Zealand’s aviation system.

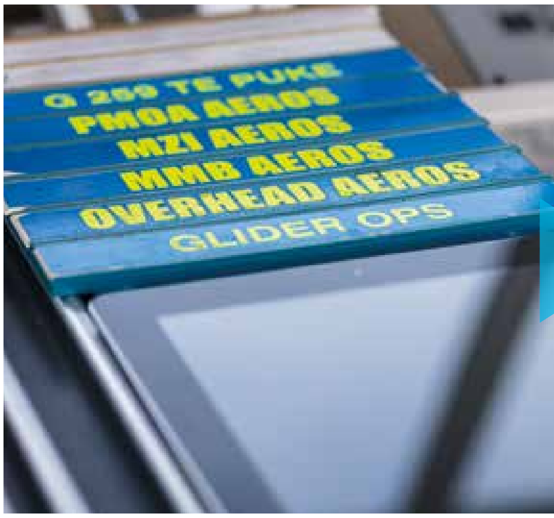
During the year we were proud to complete a major milestone for New Southern Sky, the Government’s airspace modernisation plan. Automatic Dependent Surveillance Broadcast (ADS-B) satellite-based surveillance has now been installed nationwide, providing a more detailed picture of our airspace and enabling us to detect aircraft more precisely in areas where there is limited radar coverage.

Construction of two new air traffic control towers was also largely completed during the financial year. Our Wellington and Nelson towers may be the last physical towers to be built in New Zealand – future-proofing New Zealand’s aviation industry will require a continued focus on replacing ageing infrastructure while also investing in future technologies such as digital towers. This ongoing requirement for increased investment is expected to be reflected in the next three-year pricing structure for Airways.

FINANCIAL PERFORMANCE

We were pleased to report a Net Profit After Tax (NPAT) of $27.2 million which includes a one-off property gain of $4.3 million from the sale of surplus Queenstown land.

Our commercial businesses delivered stable revenues during the year. A key highlight was significant growth in the delivery of air traffic control (ATC) training services, particularly in the Middle East. Steady flows of domestic and international students are keeping our training campuses close to full capacity.



Contract wins from our other commercial businesses, such as aerodrome consultancy services in the Philippines, in addition to cost efficiencies achieved through restructuring, contributed to increased profits across the commercial portfolio. These businesses have delivered a NOPAT (Net Operating Profit After Tax) result of $6.4 million, up 23% from $5.2 million in the previous financial year.

As a critical provider of air traffic management services to the aviation sector and a leader of innovation in aviation we are proud of our contribution to New Zealand and are pleased to report an $11 million dividend to the Crown this year.

ACKNOWLEDGEMENT OF OUR PEOPLE

Our solid performance for the 2017-18 financial year is testament to the commitment, hard work and collaboration of our people across the organisation, and the close working relationships we have developed and nurtured with our customers and partners.

This year Airways' management placed significant focus on initiatives to enhance our staff culture and relationships. One important step was the establishment of the Airways Culture Development Team, a group of our people who will work with management to ensure our culture supports the ambitious goals we have set ourselves for the future.

We are pleased to have delivered a number of business improvements, aimed at streamlining our business processes and delivering a better service to our customers. We would like to thank our people for working with us through these changes and ensuring a smooth transition for the business.

As always, the dedication of our people to our core role of keeping our skies safe and moving aircraft as efficiently as possible is at the heart of Airways' success. We remain confident that our people and our business operations are well positioned to turn industry disruption into opportunities to achieve future safe, successful and sustainable growth for Airways.

Judy Kirk
Airways Chair

Graeme Sumner
Airways CEO

New Wellington and Nelson towers – the end of an era?

KEY STATS

WLG

HEIGHT

↑32m

COST

$20 million

SEISMIC STRENGTHENING

13

base isolators within the building's foundations to provide a high level of resilience against earthquakes

OPERATIONAL SINCE

AUG 2018

NSN

HEIGHT

↑22m

COST

$6 million

OPERATIONAL IN

SEP 2018

During the year Airways largely completed construction of new air traffic control towers in Wellington and Nelson – which, due to evolving digital tower technology, may become the last physical control towers ever built in New Zealand.

WELLINGTON

The new Wellington tower built in Wellington Airport's retail shopping area on Tirangi Road replaces the existing 58-year-old tower situated in a nearby residential area. The tower is an iconic new landmark for Wellington, designed to lean into the city's prevailing northerly wind.

Developed to deliver Wellington Airport's air traffic requirements now and into the future, the new 32-metre-high Wellington Tower meets 100 per cent of the building code at importance level 4 (IL4) standard and as such is one of New Zealand's safest buildings. Thirteen base isolators have been installed within the building's foundations to provide a high level of resilience against earthquakes – combining strength and safety with excellent functionality and stunning urban design.

Wellington Tower became operational in August 2018.

NELSON

The construction of Airways' tower in Nelson is part of a major $40m redevelopment at Nelson Airport, including a new terminal building and infrastructure upgrades. The new six-level, 22-metre-high tower has been relocated to the east end of the new airport terminal and was designed utilising the experience, expertise and technical knowledge gained from the Wellington tower project.

The structural design of the tower merges seamlessly with the architecture of the new Nelson Airport terminal development. The first stage of the development was completed in September 2017 and is designed to cater for expected growth in Nelson's tourism and aviation sectors. The tower, which will support Nelson Airport's growth with continued safe and efficient air traffic services, became operational in September 2018.

LOOKING TO THE FUTURE

Our old Wellington and Nelson towers are part of a network of ageing tower infrastructure. Many air traffic control towers are approaching the end of their useful lives and will require significant upgrades over the next few years in order to continue to deliver safe and effective operational service. Digital tower solutions are now being considered as a viable alternative to physical built towers around the country – with the potential to provide greater aviation safety, resilience and improved operational performance and effectiveness.

INVESTING AND INNOVATING

Developing our aerodrome services

Over the past few years Airways has been exploring how we can deliver aerodrome services that are more safe, efficient, flexible and shaped for our customers' needs.

We have been watching closely the momentum that digital tower technology is gaining internationally, with air navigation service providers around the world investigating the technology's potential to provide greater aviation safety and resilience, and improve the performance of the aviation system.

During the year Airways continued its own investigations into digital aerodrome services and towers, assessing how the technology could deliver improved operational performance, enhance safety and resilience, extend the hours of air traffic services in more regional locations, and improve traffic flows in bad weather.

A digital tower allows air traffic to be directed by controllers in a remote location by watching live footage of the airfield from high-definition video cameras, enhanced with surveillance sensors and microphones. The cameras can automatically zoom in on and then track objects that are fast moving or otherwise hard to see, such as birds which are a serious hazard to aircraft. In low light or bad weather, infrared cameras provide controllers with heightened visibility.

Digital towers present controllers with a vast amount of information and panoramic views of an airfield in more detail than is possible to see with the human eye. Augmented reality overlays allow controllers to track additional flight data collected via radar such as aircraft speed, separation between aircraft and airfield information.

In November 2017 Airways began a four-month demonstration of digital towers technology at Auckland Airport, in partnership with Austrian technology leader Frequentis which has deployed systems in Austria and Germany. Other air navigation service providers are also trialling this technology, in such locations as London City Airport and Singapore's Changi Airport.

The Auckland Airport demonstration was a success and has given us confidence to move forward with longer term future implementation of the technology within Airways' aerodrome operations.

Invercargill Airport will be the first airport in New Zealand to have its air traffic control tower replaced with a digital system operated from a remote location. In May 2018 Airways issued a Request for Proposal (RFP) seeking a supplier of digital tower technology for Invercargill. The RFP also signals Airways' intention to implement a digital tower at Auckland International Airport as a back-up to its existing tower by 2020, and a full replacement in the future.

Expected to go-live in 2020 following operational tests, Invercargill's digital tower will operate first from a building on the airfield before moving off-site in the future to a centralised hub providing services for a number of regional locations.

We recognise the critical role of both our people and our customers in determining how our regional services will be delivered in the future and how digital technology fits into this future strategy. Collaboration with our people across our operational business and customers has begun, as projects are commenced to support the implementation of digitally enhanced services.

Learning about experiences from other air navigation service providers who have deployed digital towers technology is also an important step as Airways explores options for developing our own future aerodrome services.

During the year a team of our senior leaders visited a number of digital towers operations in Europe to see first-hand their fully operational digital services and gain valuable insights into their development and implementation.

"DIGITAL TOWERS PRESENT CONTROLLERS WITH A VAST AMOUNT OF INFORMATION AND PANORAMIC VIEWS OF AN AIRFIELD IN MORE DETAIL THAN IS POSSIBLE TO SEE WITH THE HUMAN EYE."

IMAGE Invercargill Airport will be the first airport in New Zealand to have its air traffic control tower replaced with a digital system.

Our future operations

We are investing heavily in operational infrastructure and technology to meet our customers' and industry's needs for tomorrow and beyond – and ensuring the future resilience and continued efficiency of New Zealand's air traffic control operation.

A driving factor for this investment is the rapid development of technology in the air traffic services sector which is key to enabling us to change and improve the services we provide. The introduction of a range of advanced controller support tools have the potential to provide even higher levels of safety for our operations and enhanced productivity for our workforce.

Our investment in advanced technology and systems will deliver quantum improvements in safety, resilience and efficiency of our air traffic management (ATM) services, while at the same time enabling Airways to proactively address future increased air traffic demand.

Three major projects were progressed during the year to achieve our strategy of optimising New Zealand's aviation network through delivery of integrated air traffic management – a new ATM platform, radar sector improvements and construction of two new operations centres.

A COLLABORATIVE APPROACH TO ATM SYSTEM DEVELOPMENT

Our $58 million project to deliver a new ATM platform will replace Airways' existing two ATM platforms which were installed between 2000 and 2003 and are nearing the end of their useful lives. The system is expected to become operational in domestic airspace in 2020 and Oceanic airspace in 2021.

Airways has partnered with global science and technology company Leidos to deliver the Skyline X system, and our talented people are working collaboratively with their counterparts at Leidos to develop the system in a partnership model which will deliver long-term savings to our customers.

AIR TRAFFIC IS FORECAST TO GROW BY

50%

OVER THE NEXT DECADE

The new system will allow Airways to implement a new operating model as well as take advantage of advances in tools to optimise the air traffic system and staff deployment, delivering enhanced safety and tangible long-term benefits to airline and airport customers.

Once fully commissioned, the Skyline X system will allow airspace sectors to be operated from two centres in Auckland and Christchurch in addition to 19 control towers nationwide. This will provide greater resilience for our operations and will enable standardised ATC functions to improve operational flexibility.

Advanced tools such as medium and long-term conflict alerting, time based separation and arrival and departure management tools will be part of the system.

The first phase of implementation was carried out this year, with Airways and Leidos development teams merging more than 60,000 lines of Leidos code with the New Zealand code base. A new way of updating our current system with weather information was also introduced, which has improved trajectory performance.

A vital element of our plans to transform the way we deliver air traffic services is to ensure that our teams have excellent tools and technology to support them. New controller workstations will be implemented with the new ATM system, and during the year our controllers and flight information officers started testing prototypes of the new workstations.

"BOTH OUR CHRISTCHURCH AND AUCKLAND SITES WERE BLESSED BY LOCAL IWI BEFORE WE BROKE GROUND, GIVING OUR PEOPLE AN OPPORTUNITY TO JOIN WITH OUR BUILDING PARTNERS AND TEAMS TO CELEBRATE THIS FIRST MAJOR MILESTONE."

NEW OPERATIONAL FACILITIES

At the heart of Airways' strategy to implement a new operating model and state-of-the-art ATM technology and capability is the construction of two seismically resilient operational facilities in Auckland and Christchurch.

The buildings will be constructed to importance level 4, meaning they have the capability to withstand significant seismic events and retain their operational functionality after an earthquake or other disastrous event.

The new operational centres will support the delivery of a highly resilient service across Airways' entire operation, where our people and our system will be able to provide 24/7 services on one operating platform from either Auckland or Christchurch.

We are working alongside our customer Auckland Airport as they manage the Auckland centre construction project. The centre will be located adjacent to Airways' corporate offices in a business park near the airport. We have partnered with Augusta Capital and Leighs Construction to build the new Christchurch centre, which is being constructed on the current campus.

Design and planning for the new buildings was completed during the year. The final designs ensure that the building and interiors provide an optimum and suitable operational environment; meet our resilience brief and requirements; and have interior and exterior visual similarities despite being built in different geographical locations.

Airways' people have been heavily involved in the design and layout of the centres, and we have worked closely with our air traffic controllers this year to ensure the operational environment is fit-for-purpose, particularly in relation to lighting and sound levels.

Construction of the buildings also began this year. Both our Christchurch and Auckland sites were blessed by local iwi before we broke ground, giving our people an opportunity to join with our building partners and teams to celebrate this first major milestone.

MOVING THE RAGLAN AIRSPACE SECTOR TO AUCKLAND

In July 2017 we completed the transition of the delivery of air traffic control of the Raglan airspace sector from Christchurch to Auckland – a first step in our strategy to enable radar sector service delivery from Auckland.

Training commenced during the year for the first of our air traffic controllers who are supporting the Raglan sector relocation to Auckland. The project to manage this transition began in October 2016 and our people were instrumental in delivering the final solution design, installing and implementing equipment and technologies, delivering training and managing resource requirements.

Our people involved in this significant project are critical to ensuring a safe, efficient and effective transition. The learnings from their experiences in managing this transition will be vital in our planning and implementation of future radar sector developments as part of our operational improvements to be rolled out through to the end of 2021.

MORE THAN

60,000

lines of Leidos code merged with the New Zealand code base.

Safely supporting a growing drone industry

Future usage

EXPECTED CHANGE IN DEMAND FOR DRONE SERVICES OVER THE NEXT 12 MONTHS

19% SIGNIFICANT INCREASE

51% INCREASE

27% STAY THE SAME

3% DECREASE

Key insights

$108,000p.a.

The average turnover for drone activities (ranging from $1,000–$1,000,000 p.a)

38%↑

The increase in drone related turnover more than half the respondents expect next year (averaging $20,000 p.a)

4

The average number of staff businesses have involved in drone activities

1/3

of businesses are expecting to hire more staff over the next 12 months (the average number of new hires is four)

The safe management of drones in New Zealand's airspace is of utmost priority to Airways, as the burgeoning drone sector continues to grow and evolve.

Technology advancements have seen rapid growth in drone use by commercial and recreational users in recent years. The number of drone flights logged with our airshare.co.nz flight clearance and information system has increased from 30 to 600 per week since it was implemented in 2014, with more than 9,000 users now registered. We recognise the significant opportunities and huge economic benefits that this industry can bring to New Zealand. However, these benefits will only be realised if growth of the sector is managed safely.

During the year we reached out to the drone community to ask for their views on drone safety and the growth of the industry, and to gain an in-depth look at how drones are being used both recreationally and commercially in New Zealand. The state of the industry report produced from the survey provided information about safety challenges faced by the sector amidst forecasts of further growth. The annual drone tracker survey will be an ongoing monitor that will map the direction of the drone sector, providing important insights for businesses and helping to shape future support for the industry.

Managing drones safely in New Zealand airspace is a serious concern for Airways. We are working closely with drone operators, and aviation industry partners the Civil Aviation Authority and Ministry of Transport working groups, to support and encourage safe drone operations throughout our airspace.

During the year we have also made some major technological leaps forward in our efforts to support the safe growth and development of the drone sector in New Zealand:

- Amidst concerns about an increasing number of drone sightings in New Zealand controlled airspace, Airways began planning for a trial of a new radar-based drone detection system at Auckland Airport in June 2018. The technology behind the system allows air traffic controllers to see smaller metal objects such as drones up to 5km away and up to 7,500 feet.
- Airways has partnered with global airspace management provider AirMap to trial a UAV Traffic Management (UTM) platform that provides flight planning and management tools for commercial and recreational drone pilots. Pilots in Canterbury and Queenstown can trial the system via free iOS and Android apps, which they can access to seek necessary airspace and public landowner approvals to fly, file flight plans, and access real-time information about other aircraft in the area. This trial is an important step for Airways in investigating how we could implement a UTM system that safely integrates drones into New Zealand's wider air traffic control network.
- We are trialling new technologies needed to support the arrival of autonomous flying vehicles in New Zealand airspace – such as Zephyr Airworks' self-piloted air taxi called Cora, which has been trialled in Canterbury's airspace. The first step in this development is the trial of the AirMap platform in Canterbury and Queenstown – the second step is to develop tracking tools that allow drones to be accurately monitored once they are beyond the pilot's line of site, and detect and avoidance capability to keep them safely separated from other aircraft.

Airways is committed to doing everything we can to enhance aviation safety. We have made a number of recommendations to the Government on further initiatives to support drone safety in New Zealand airspace, such as a compulsory drone registration scheme and transponders on drones that meet criteria related to weight and speed capacity.

New Southern Sky plan has become a reality

Airways is an integral part of the New Zealand Government's New Southern Sky national airspace and air navigation programme, led by the Civil Aviation Authority (CAA).

This 10-year programme is the Government's plan to realise the safety, environmental, social and economic potential of technological advances in airspace management and air navigation services, by integrating them into the New Zealand aviation system. The programme is already delivering environmental and economic benefits through the reduction of CO_2 emissions and is expected to contribute billions of dollars to the national economy through fuel savings, lower aircraft operating costs and efficiencies for airlines.

Two key elements of New Southern Sky – Automatic Dependent Surveillance Broadcast (ADS-B) infrastructure and Performance Based Navigation (PBN) implementation programmes – represent a significant capital expenditure spend by Airways – $12.3 million over two years for ADS-B, and $9 million over seven years for PBN.

ADS-B

Our ADS-B network will provide a more detailed and resilient oversight of the airspace than is currently possible with radar, will enhance the way aircraft are monitored in domestic airspace and will play a crucial role in supporting the growth of air travel in New Zealand.

The ADS-B programme involves enhancing ground-based radar technology with a modern satellite-based system for surveillance. This technology is the global standard for airspace surveillance, and during the year Airways completed deployment of critical ADS-B infrastructure at 12 sites across the country.

ADS-B uses the Global Positioning Satellite (GPS) system, aircraft transmitters and a network of ground station receivers to track aircraft with a more precise level of accuracy. With ground receivers installed even in remote locations, the system will detect aircraft in areas where there is limited radar coverage, like behind mountain ranges and at low altitudes in regions such as the Hawkes Bay, Gisborne and much of the South Island's west coast.

PBN

Airways' PBN implementation programme, which covered more than 50 separate projects across our 17 controlled aerodromes, will end in 2019 – providing benefits throughout the country such as improved schedule reliability, capacity, reduced track miles and improved safety due to consistent and predictable flight paths.

PBN route, departure and arrival procedures enable more accurate navigation than those utilising traditional ground-based navigation aids, and allow for shorter, more direct flights as well as flexible routing.

MORE THAN

10,000

TONNES OF CO_2 SAVED SINCE 2012

Aircraft using the procedures can identify their positions accurately at every point along their journey, and this means greater flexibility during flight.

Since Airways began the implementation programme in 2012, more than 10,000 tonnes of CO_2 has been saved.

Trials of PBN flight paths help us to gather information about their environmental and efficiency benefits, and also to fully understand the impacts on local residents. In November 2017 we partnered with New Southern Sky, the Board of Airline Representatives New Zealand (BARNZ) and Christchurch Airport in to commence a trial of PBN approach flight paths at the airport. We will work with our airport customer as they engage with their community and gather feedback and data to help determine the best balance of safety, airspace management, noise reduction and environmental benefits such as fuel and carbon emission savings. Trials of PBN flight paths will begin in Wellington from September 2018.

In August 2017 we completed the trial of the "Uniform" Approach flight path in Auckland, in collaboration with Auckland Airport and BARNZ, and the final report was published in May. As a result of community feedback received during the trial, we adjusted the final flight path to further avoid populated areas. The modified flight path will become operational in March 2019.

INVESTING AND INNOVATING

Middle East expansion

Airways has been delivering ATC training solutions and consultancy services in the Middle East region for more than 20 years, and we are actively working to strengthen our relationships in this key target market. During the year we further cemented our reputation in the region as a high quality ATC training provider, delivering training for key customers in Saudi Arabia and the United Arab Emirates, and signing contracts with new customers in Lebanon, Kuwait, Bahrain and the UAE emirate of Fujairah.

111

TOTAL NUMBER OF GACA GRADUATES SINCE 2010

In May 2018 a group of 29 Saudi Arabian students graduated from Airways' ATC training programme delivered in New Zealand, after a successful two-year scholarship sponsored by the General Authority of Civil Aviation of Saudi Arabia (GACA). The students spent their first year in New Zealand studying English with Nelson Marlborough Institute of Technology and Kaplan International English in Auckland. They then completed a 12-month ATC training programme at the Airways Training facility in Palmerston North. The students have now returned to Saudi Arabia to begin on-the-job training with Saudi Arabia Air Navigation Services (SANS), the newly formed commercialised air navigation services provider for Saudi Arabia.

This was the fourth group of GACA students to train with Airways in New Zealand, bringing the total number of GACA graduates to 111 since 2010. A fifth group of 35 Saudi Arabian students from GACA also arrived in New Zealand during the year to commence their English training, before starting ATC training with Airways in November 2018. To date, all trainees who have successfully completed the programme have become licensed air traffic controllers after several months of on-the-job training.

In the UAE, Airways has partnered with the General Civil Aviation Authority (GCAA) to deliver ATC training and ATM consulting services. As part of a two-year training agreement between GCAA and Airways, a group of 22 students completed their radar surveillance course in New Zealand in May 2018. This was the fourth group of GCAA students to be trained by Airways, and during the year a further 12-month contract was signed to bring more GCAA students to New Zealand for training.

GCAA has also contracted Airways in a consulting capacity to support the introduction of a major ATM system upgrade – this consulting work began in July 2017 and includes an oversight role of the prime contractor.

> "TO DATE, ALL TRAINEES WHO HAVE SUCCESSFULLY COMPLETED THE PROGRAMME HAVE BECOME LICENSED AIR TRAFFIC CONTROLLERS."

Students from the UAE emirate of Fujairah completed a radar surveillance course with Airways in May, as part of a new customer partnership for us in the Middle East – a relationship we expect to grow further in coming years.

Airways has also secured new customers in Kuwait and Lebanon during the year. In June 2018 we completed contract negotiations on a 12-month contract with the Australian College of Kuwait to deliver our ATC training programme to 20 students from the Kuwait Air Force, and signed a contract with the Directorate General of Civil Aviation in Lebanon to install and deploy a Total Control LCD simulator and four radar simulators. Discussions are continuing with our Lebanon customer regarding providing ongoing ATC training support.

In May Airways also signed a contract with another new customer, SERCO, to provide ATC training to 15 students in Bahrain this year.

Establishing a physical presence in the Middle East has supported Airways to continue to grow deeper relationships with our customers in the region. A registered office for Airways is now set up in the Fujairah Free Zone in the UAE.

AIRWAYS' BOARD

MARY-JANE DALY
DEPUTY CHAIR
BCOM, MBA, CMINSTD

Mary-Jane was appointed to the Airways Board in May 2014. She is a Director of Auckland Transport, Deputy Chair of the Earthquake Commission, an independent director of Kiwi Property Group Limited and Cigna Life Insurance New Zealand and until October 2017, was the Chair of the New Zealand Green Building Council.

Mary-Jane has a strong background in insurance and banking, having held a range of roles in New Zealand and the United Kingdom. She has led significant business units in large organisations and also has extensive financial and risk skills from a variety of contexts. As well as her management experience in the corporate sector with Fonterra and IAG, Mary-Jane has held positions at the Bank of New Zealand and National Australia Bank and Toronto-Dominion Bank in London.

Mary-Jane holds a Bachelor of Commerce from Canterbury University and an MBA from City University in London.

JUDY KIRK
CHAIR
ONZM, MINSTD

Judy was appointed to the Airways Board in January 2016. She is an experienced director with a wide knowledge of fundraising and business. Judy is a Justice of the Peace and was appointed an Officer of the New Zealand Order of Merit in 2011 for services to the community.

Judy was Chair of Lotteries Commission from May 2009 to April 2017 and was appointed Chair of the Tourism Infrastructure Fund in June 2017. She has served as both a director and as Deputy Chair of MetService New Zealand and is a director and shareholder of JMK Consulting. Judy also previously chaired the New Zealand Lottery Grants Board national welfare committee and the Rotorua regional lottery distribution committee for five years. She also served as President of the New Zealand National Party for seven years.

BENNETT MEDARY
BCOM, PMP, IITP, MINSTD

Bennett was appointed to the Airways Board in November 2015. He brings a strong belief in technology as an enabler for change, transformation and competitive advantage. He is passionate about the need for fresh thinking as organisations face disruption to legacy business models.

He was founder and Chair of The Simpl Group of technology companies, and is Chair of Preno, a global software start-up offering a modern hotel management system for boutique properties. Bennett recently stood down as Chair of NZTech after 10 years and as the NZ Co-Chair of the Australia and New Zealand Leadership Forum on Innovation. He also chaired the Establishment Board of TechweekNZ. Bennett remains a trustee of the New Zealand Hi-Tech Trust, a Board member of Quotable Value and strategic advisor to a number of New Zealand companies.

Bennett is an avid aviator and mariner, serves on the Board and as crew of Coastguard Northern Region and owned Future Flight Limited, a flight operations and training business at Ardmore Airport.

MARK PITT
BSC, ATPL

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

He was the Chief Executive of Air New Zealand subsidiary Mount Cook Airline, Managing Director and Chairman of Virgin Samoa and, most recently, Managing Director and Chief Executive of Virgin Australia New Zealand. Mark has also served as a director on a number of boards, including Virgin Australia New Zealand and the Board of Airline Representatives New Zealand Incorporated (BARNZ).

Mark is the owner and a director of distribution company Quinn International Limited and manufacturing and distribution company G&M Pty Limited in Australia, is a director of aviation services company Airwork Holdings, and runs a consultancy called Frontseat which specialises in leadership and marketing.

DR CHRIS MOXON
PH.D, BSC (HONS)

Chris brings international sales and executive-level consulting experience to Airways. Appointed to the Airways Board in December 2012, Chris has worked for multinational software companies and global consulting practices and is currently the Chief Executive of Accordo Group Limited. His previous roles include Managing Director of Oracle New Zealand, Global Chief Executive of Methodware and New Zealand Managing Partner of Ernst & Young Consulting. He holds a first class honours degree in Engineering from Coventry University and a Ph.D. from the University of Sheffield, United Kingdom.

DARIN CUSACK

Darin's senior leadership roles in the aviation and transport sectors span three decades. This extensive aviation experience includes, most recently, leading the Pacific Aviation Investment Program for the World Bank across five countries and reforming the Pacific Aviation Safety Office. Bringing operational and commercial acumen, Darin provides clear strategic direction, supported by strong processes. He has held chief executive and senior executive roles across airport, air traffic, aviation security and airline organisations throughout New Zealand and Tonga and is a member of the Institute of Directors. Darin has a focus on continual improvement, strengthening relationships, and the provision of safe and secure operations. Darin Cusack was appointed to the Airways Board in April 2018.

Financials

2017 ▶ 2018

Financial performance

FLIGHT VOLUMES HAVE CONTINUED TO GROW THROUGH THE YEAR, ALTHOUGH THE RATE OF GROWTH IS DECLINING.

CORE BUSINESS OPERATING COSTS REMAIN IN LINE WITH PLAN.

COMMERCIAL BUSINESS NOPAT UP

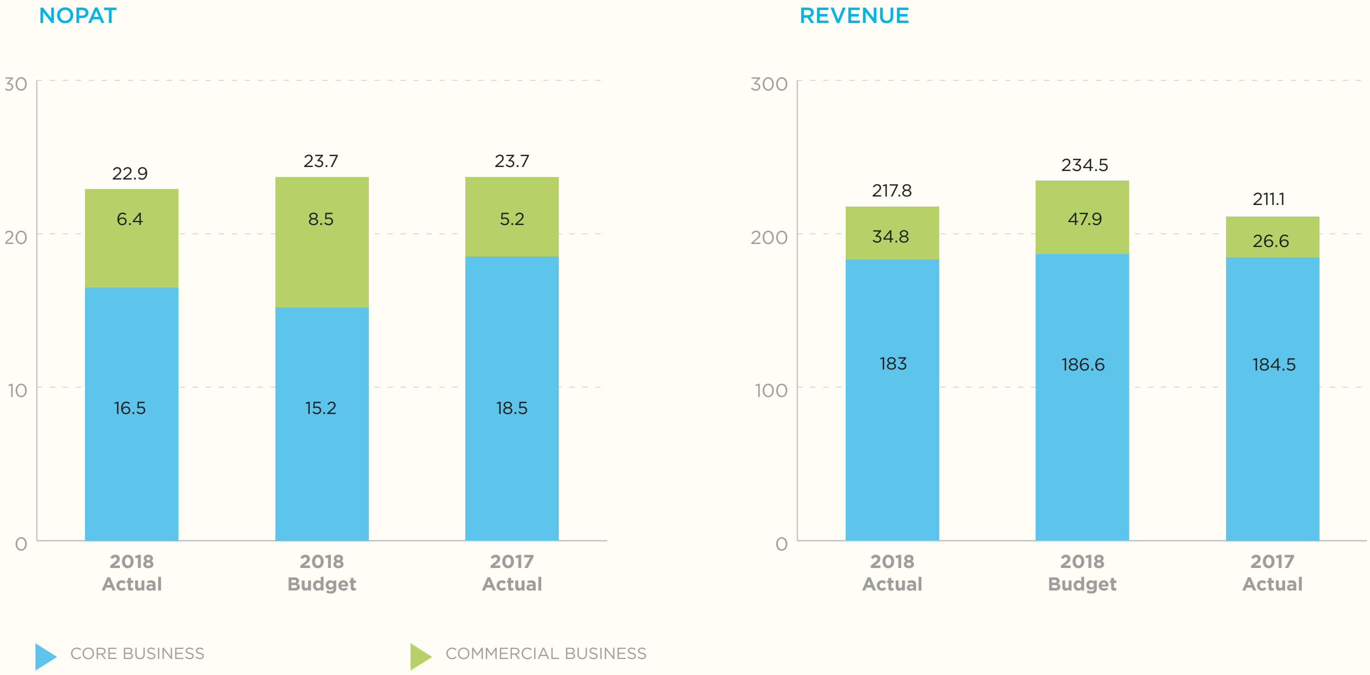
23%

ON PRIOR YEAR

THE COMMERCIAL BUSINESS IS BENEFITTING FROM RESTRUCTURING IMPLEMENTED IN 2017, AND A STRENGTHENING PIPELINE.

CAPITAL INVESTMENT OF $46 MILLION IS AHEAD OF PLAN, WITH ACCELERATION OF INVESTMENT IN NEW OPERATIONAL CENTRES IN AUCKLAND AND CHRISTCHURCH, AND INVESTMENT IN THE NEW ATM PLATFORM.

Chart 1: NOPAT and revenue breakdown ($ million)



1 2018 revenue includes internal revenue of $5.3 million (2017: $6 million) eliminated in the Group Statement of Profit or Loss and Other Comprehensive Income.

2 The net gain on sale of Queenstown land has been excluded from 2018 NOPAT (actual: $4.3 million, budget: $3.2 million).

STATUTORY BUSINESS

Flight volumes increased by 2.7% on the previous year, with domestic increases of 4.2% being offset by flat international growth, including significant cuts to international routes between New Zealand and Australia. Overall operational costs remain in line with budget, with a continued focus on cost control across key areas of discretionary spend.

The capital programme is driving higher than planned capitalised interest which, along with changes in assumptions regarding our long-term leave liabilities, have contributed to the positive statutory business result against budget.

The capital programme has progressed well during the year, with a spend of $46 million against a budget of $45 million. Construction of the two new Wellington and Nelson towers is now complete, and work is underway on key elements of the medium term plan to introduce next generation ATM infrastructure.

This capital investment has also been balanced with ongoing lifecycle replacement of critical navigation equipment around the country, most notably the replacement of instrument landing systems at Christchurch and Auckland airports. This ongoing lifecycle replacement programme is a key driver of our strong network resilience, with service availability of 99.95% in line with target.

COMMERCIAL BUSINESS

While revenue has remained stable on the prior year, the transition to a higher margin product mix in software services (primarily SureSelect), and higher training delivery volumes, have contributed to an improved overall result.

Restructuring measures introduced last year have also contributed to the 23% increase in NOPAT from the 2016-17 financial year.

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

Performance and progress against statement of corporate intent (SCI) metrics

	ACTUAL 2018	SCI TARGET
PROFITABILITY (VALUES IN $ THOUSANDS)		
Total revenue[1]	214,476	231,151
Earnings before interest, tax, depreciation and amortisation (EBITDA)	58,722	61,040
Earnings before interest and tax (EBIT)	36,090	37,436
NPAT	27,156	26,948
SHAREHOLDER RETURNS		
Total Shareholder return[2]	14.2%	-
Dividend yield	4.8%	5.0%
Dividend payout	41.8%	43.2%
Return on equity	21.9%	21.9%
Return on equity, adjusted for IFRS fair value movements and asset revaluations	21.6%	21.9%
PROFITABILITY AND EFFICIENCY		
Return on capital employed	21.9%	22.3%
Return on assets	16.5%	17.0%
Operating margin	27.4%	26.4%
Net Profit margin	12.7%	11.7%
Asset turnover	0.9	1.0
LEVERAGE AND SOLVENCY		
Equity multiplier[3]	1.7	1.8
Gearing ratio (net)	22.4%	25.4%
Interest cover[4]	25.3	24.8
Solvency (current ratio)	0.7	0.9
GROWTH AND INVESTMENT		
Revenue growth	4.6%	6.9%
EBITDAF growth	5.6%	7.5%
NPAT growth	14.7%	12.3%
Capital employed growth	11.0%	13.3%
Capital renewal[5]	2.0	1.9
LEADERSHIP		
Staff engagement	not measured in 2018	65%
Succession (suitable candidates for senior roles)	not measured in 2018	>=3
Visibility – internal event platforms (per week)	2	>=2

1 Total revenue shown in the SCI is $237,527. Internal revenue of $6,376 has been excluded in the table above to ensure comparability with actual results.

2 Total Shareholder Return includes dividends and movements in company valuation.

3 The ratio of total assets to Shareholder's equity.

4 Reinstated to interest cover before capitalised interest.

5 The ratio of capital expenditure to depreciation.

Definitions for the financial performance measures above can be found at the following link: **https://treasury.govt.nz/sites/default/files/2015-09/fpm-soes.pdf**

Statement of profit or loss and other comprehensive income

	GROUP		
FOR THE YEAR ENDED 30 JUNE	2018 ($000'S)	2017 ($000'S)	NOTES
OPERATING ACTIVITIES			
REVENUE			
Air traffic management revenue	193,109	187,271	A3.1
Other revenue	21,367	17,817	A3.1
Total revenue	**214,476**	**205,088**	
OTHER INCOME			
Gain on sale of surplus land	4,263	-	A8
Total other income	**4,263**	**-**	
Total income	**218,739**	**205,088**	
EXPENSES			
Employee remuneration	109,258	104,710	A3.3
Employee related costs	9,503	6,297	
Depreciation and impairment	17,703	17,109	A8
Amortisation and impairment	4,929	5,146	A8
Other operating costs	35,276	33,214	A3.2
Rental expense on operating leases	5,980	6,160	
Net finance expense	58	816	
Total expenses	**182,707**	**173,452**	
Share of profit from joint ventures	-	898	
Net surplus before taxation	**36,032**	**32,534**	
Taxation expense	8,876	8,859	A4
Net surplus after taxation attributable to equity shareholders	**27,156**	**23,675**	
OTHER COMPREHENSIVE INCOME			
That may be reclassified to profit or loss when conditions are met:			
Movement in cash flow hedge reserve	1,190	138	
Deferred tax on other comprehensive income	(333)	(39)	A4
Total other comprehensive income	**857**	**99**	
Total comprehensive income for the year attributable to equity shareholders	**28,013**	**23,774**	

This statement is to be read in conjunction with the Notes to the Financial Statements on pages 38 to 59.

Balance sheet

	GROUP		
AS AT 30 JUNE	2018 ($000'S)	2017 (000'S)	NOTES
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	1,750	1,522	
Trade and other receivables	25,618	23,109	A6
Prepayments	2,150	2,182	
Derivative financial instruments	172	68	A5
Total current assets	**29,690**	**26,881**	
NON-CURRENT ASSETS			
Property, plant and equipment	176,707	154,887	A8
Assets held for sale	–	2,943	A8
Intangibles	22,491	21,471	A8
Inventory	1,581	1,392	
Other non-current assets	84	84	
Derivative financial instruments	55	4	A5
Total non-current assets	**200,918**	**180,781**	
Total assets	**230,608**	**207,662**	
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables	16,778	12,312	A7
Employee entitlements	19,350	18,103	A3.4
Current tax liability	4,312	2,110	
Derivative financial instruments	519	380	A5
Total current liabilities	**40,959**	**32,905**	

This statement is to be read in conjunction with the Notes to the Financial Statements on pages 38 to 59.

Balance sheet CONTINUED

	GROUP		
AS AT 30 JUNE	2018 ($000'S)	2017 (000'S)	NOTES
NON-CURRENT LIABILITIES			
Loan facility – unsecured	40,000	39,000	B1
Deferred tax liability	8,345	8,867	A4
Employee entitlements	7,518	9,024	A3.4
Derivative financial instruments	1,435	2,528	A5
Total non-current liabilities	**57,298**	**59,419**	
Total liabilities	**98,257**	**92,324**	
Net assets	**132,351**	**115,338**	
EQUITY			
Share capital	41,100	41,100	A9
Reserves	(1,223)	(2,080)	
Retained earnings	92,474	76,318	
Total equity	**132,351**	**115,338**	

This statement is to be read in conjunction with the Notes to the Financial Statements on pages 38 to 59.

The Board of Directors of Airways Corporation of New Zealand Limited authorised these financial statements for issue on 30 August 2018. The Directors do not have the power to amend the financial statements once issued.

JUDITH KIRK
Chair

30 August 2018

MARY-JANE DALY
Director

30 August 2018

Statement of changes in equity

	GROUP ATTRIBUTABLE TO EQUITY SHAREHOLDERS				
	CONTRIBUTED EQUITY ($000'S)	HEDGE RESERVE ($000'S)	RETAINED PROFITS ($000'S)	TOTAL ($000'S)	NOTES
Balance as at 30 June 2016	**41,100**	**(2,179)**	**61,643**	**100,564**	
COMPREHENSIVE INCOME					
Net surplus after taxation	–	–	23,675	23,675	
OTHER COMPREHENSIVE INCOME					
Movements in hedge contracts	–	138	–	138	
Deferred tax on other comprehensive income	–	(39)	–	(39)	A4
Total other comprehensive income	–	**99**	**-**	**99**	
Total comprehensive income	–	**99**	**23,675**	**23,774**	
TRANSACTIONS WITH OWNERS					
Dividends paid (21.9 cents per share)	–	–	(9,000)	(9,000)	
Total transactions with owners	–	–	**(9,000)**	**(9,000)**	
Balance as at 30 June 2017	**41,100**	**(2,080)**	**76,318**	**115,338**	
COMPREHENSIVE INCOME					
Net surplus after taxation	–	–	27,156	27,156	
OTHER COMPREHENSIVE INCOME					
Movements in hedge contracts	–	1,190	–	1,190	
Deferred tax on other comprehensive income	–	(333)	–	(333)	A4
Total other comprehensive income	–	**857**	**-**	**857**	
Total comprehensive income	–	**857**	**27,156**	**28,013**	
TRANSACTIONS WITH OWNERS					
Dividends paid (26.8 cents per share)	–	–	(11,000)	(11,000)	
Total transactions with owners	**-**	**-**	**(11,000)**	**(11,000)**	
Balance as at 30 June 2018	**41,100**	**(1,223)**	**92,474**	**132,351**	

This statement is to be read in conjunction with the Notes to the Financial Statements on pages 38 to 59.

Statement of cash flows

	GROUP		
FOR THE YEAR ENDED 30 JUNE	2018 ($000'S)	2017 ($000'S)	NOTES
CASH FLOWS FROM OPERATING ACTIVITIES			
CASH WAS PROVIDED FROM:			
Receipts from customers	213,111	208,499	
Interest received	25	30	
CASH WAS APPLIED TO:			
Payments to suppliers	(38,974)	(43,961)	
Payments to employees	(117,602)	(112,064)	
Interest paid	(60)	(872)	
Income tax paid	(7,529)	(7,749)	
Net cash flows from operating activities	**48,971**	**43,883**	E2
CASH FLOWS FROM INVESTING ACTIVITIES			
CASH WAS PROVIDED FROM:			
Sale of property, plant and equipment	7,231	397	
Cash received on acquisition of subsidiary	–	5,697	
Dividend from related parties	–	723	
CASH WAS APPLIED TO:			
Purchase of property, plant and equipment	(29,212)	(38,107)	
Purchase of intangible assets	(16,762)	(3,341)	
Purchase of shares in subsidiary	–	(209)	
Net cash flows from investing activities	**(38,743)**	**(34,840)**	
CASH FLOWS FROM FINANCING ACTIVITIES			
CASH WAS PROVIDED FROM:			
Drawdown of loan facility	1,000	–	
CASH WAS APPLIED TO:			
Repayment of loan facility	–	–	
Payment of dividends	(11,000)	(9,000)	
Net cash flows from financing activities	**(10,000)**	**(9,000)**	
Net increase in cash held	**228**	**43**	
Cash at the beginning of the year	1,522	1,479	
Cash at the end of the year	**1,750**	**1,522**	

Interest paid above excludes capitalised interest. Total interest paid for the year was $2.290 million (2017: $2.395 million).

This statement is to be read in conjunction with the Notes to the Financial Statements on pages 38 to 59.

NOTES TO THE FINANCIAL STATEMENTS

Structure of notes to the financial statements

A

SECTION A:

How the numbers are calculated – pages 39 – 51

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 52 – 55

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 56 – 57

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 58

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 59

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

KEY JUDGEMENT:

Areas where significant financial judgement may be required are highlighted like this throughout the accounts.

SECTION A:
How the numbers are calculated

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 the Group. 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.

Airways has adopted NZIAS 7 in the current financial year with no material impact on the financial statements.

The following standards with an impact on Airways have been published and are mandatory for future accounting periods. Airways has not early adopted them:

(i) NZ IFRS 15 (2014), 'Revenue from Contracts with customers', issued in July 2014 (effective for periods beginning on or after 1 January 2018). Airways intends to adopt this standard with a full retrospective approach in the 2018-19 financial year. This standard has potential impact on the timing of revenue recognition for contracts where Airways delivers multiple performance obligations to customers. The standard has no impact on the recognition of Air traffic management revenue. Airways expects to apply significant judgement in the following matters under NZ IFRS 15:

- Airways has determined that training revenue should be recognised over time as our performance obligation for air traffic control training programmes is to transfer a body of specific knowledge through course delivery, rather than provide a final qualification.
- Determining the performance obligations for equipment installation and maintenance consulting work and when revenue for these should be recognised.

Based on actual revenue streams in comparative periods, no transition adjustments will be required as changes are immaterial.

(ii) NZIFRS 16 (2017), 'Leases', issued in February 2017 (effective for periods beginning on or after 1 January 2019). Airways intends to adopt this standard in the 2019-20 financial year using the simplified transition approach and will not restate comparative amounts for the period prior to first adoption. Airways preliminary estimate is that this standard will:

Increase lease assets by approximately	$60-65 million
Increase lease liabilities by approximately	$60-65 million

Lease related expenses in the profit or loss will be front loaded to the earlier years of lease terms where interest bearing liabilities are higher. For the year ending 30 June 2020 Airways expects:

Increase in financing expenses and depreciation by approximately	$8 million
Decrease in lease costs of approximately	$6 million
Net impact on the P&L of approximately (before tax)	$2 million

The model developed to estimate these impacts requires management to make a number of key judgements including:

- the incremental borrowing rate used to discount lease assets and liabilities
- the expected lease term including potential rights of renewals
- estimated lease costs for leases which have not yet been finalised but will be in place by transition date
- determining that expired land leases where Airways is still in possession and paying rent fall out of the scope of the standard and are exempt.

Current estimates are likely to change at time of adoption and for the year ended 30 June 2020, due to finalising key estimates, new lease contracts entered into by Airways and any changes to existing lease contracts.

(iii) NZIFRS 9 (2014), Financial Instruments, issued in September 2014 (effective for periods beginning on or after 1 January 2018). Airways intends to adopt this standard with a full retrospective approach in the 2018-19 financial year. Given the relatively simple financial instruments held by the Company and low credit risk of most Airways creditors, the impacts of adopting this standard are immaterial. There is expected to be some impact on the classification of Airways financial assets and associated financial statement disclosures.

SECTION A:

How the numbers are calculated CONTINUED

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 PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME INFORMATION

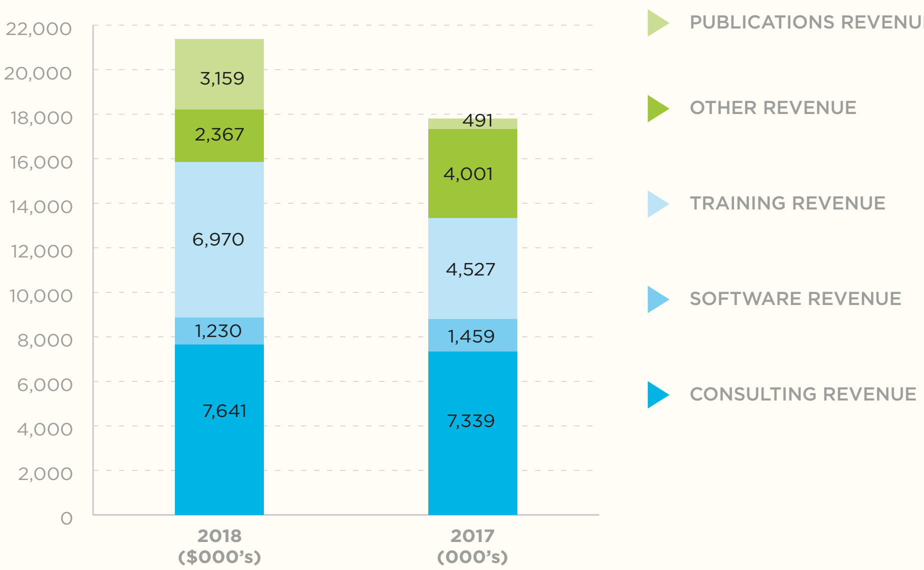
This note provides further information about items in the statement of profit or loss and other comprehensive income, that are either individually significant or involve estimates or judgements in determining their value.

A3.1 REVENUE

Airways' principal business is the provision of air traffic management service and it is also involved in a number of related revenue generating activities. Airways' revenue streams, and the associated recognition policies, are set out in the table below:

REVENUE TYPE	ACCOUNTING POLICY
Air traffic management (ATM)	Recognised as flights or other aircraft movements occur
Consulting	Revenue from discrete consultancy services is recognised as our contractual obligations are fulfilled Revenue from ongoing, recurring consultancy services is recognised as the service is provided
Software licences	Recognised over the life of the licence or, where the licence is perpetual, when the customer has legal title
Training	Recognised as courses are delivered
Publications	Subscription revenue from the publication of aeronautical information is recognised over the period of the subscription (typically one year)

Funds received in advance of the provision of services are recognised on the balance sheet as trade and other payables. ATM revenue has increased to $193.1 million (2017: $187.3 million) as shown in the statement of profit or loss and other comprehensive income. The composition of the $21.4 million of other revenue for the year (2017: $17.8 million), by type, is set out in the chart below:



Publications revenue has increased for 2018 because 10 months of publications revenue was recognised in share of profit from joint ventures in the prior year.

Other revenue has decreased as 2017 included insurance proceeds of $0.99 million (2018: nil).

NOTES TO THE FINANCIAL STATEMENTS

SECTION A:
How the numbers are calculated CONTINUED

A3.2 INDIVIDUALLY SIGNIFICANT ITEMS WITHIN OPERATING COSTS

FOR THE YEAR ENDED 30 JUNE	2018 ($000'S)	2017 ($000'S)
Bad debts written off or provided for/(reversed)	100	290
Material and equipment costs	6,174	4,444
Travel	4,207	3,524
Communications	3,218	3,136
Maintenance	9,292	10,080
Utilities	1,662	1,719
Procedure design services provided by related party	–	2,317
Professional fees	3,654	3,252
Insurance	1,497	1,451
Provision for expected losses on onerous contract	1,980	–

During 2017 procedure design services were provided by an equity accounted Joint Venture which became a 100% owned subsidiary on 24 April 2017. All subsequent procedure design costs have been eliminated on consolidation in these accounts.

KEY JUDGEMENT:

Significant judgement was exercised in determining the quantum of a provision for the expected loss on a contract to install airfield lighting. Judgement has been applied in assessing the likely cost of exiting the contract, determining the likely costs to fulfil the contractual obligations, and estimating the likelihood of being able to minimise losses.

A3.3 EMPLOYEE REMUNERATION

FOR THE YEAR ENDED 30 JUNE	2018 ($000'S)	2017 ($000'S)
Wages and salaries	97,470	93,246
Less: labour costs capitalised	(10,176)	(7,690)
Kiwisaver/superannuation contributions	8,653	8,415
Leave entitlement expense	13,311	10,739
	109,258	**104,710**

A3.4 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.

SECTION A:

How the numbers are calculated CONTINUED

KEY JUDGEMENT:

Significant judgement was exercised in amending employee decrement assumptions from generic decrement rates to Airways specific decrement rates to better reflect expected future obligations. Airways receives advice on these assumptions from external actuaries, and the impact of the change in decrement rates are shown in the table below.

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	2018	2017
Employee decrement assumptions	Airways specific	Generic
Long run wage increase	3.0%	3.0%
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.**

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

	2018 ($'000)	2017 ($'000)
Movement in employee decrement assumptions	(2,020)	–
Other movements	513	(470)
Total movement in non-vested long service and retiring leave recognised in profit or loss	**(1,507)**	**(470)**
Balance sheet obligations as at 30 June, within non-current employee entitlements:		
Long service leave	996	1,108
Retiring leave	6,522	7,916
	7,518	**9,024**

A4 INCOME TAX AND RELATED BALANCES

This note provides an analysis of the Group's 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.

NOTES TO THE FINANCIAL STATEMENTS

SECTION A:
How the numbers are calculated CONTINUED

FOR THE YEAR ENDED 30 JUNE	2018 ($000'S)	2017 ($000'S)
RECONCILIATION OF SURPLUS BEFORE TAXATION TO INCOME TAX EXPENSE		
Surplus before taxation	36,032	32,534
Tax at the New Zealand tax rate of 28% (2017: 28%)	10,089	9,110
Tax effect of amounts which are either non-deductible or taxable in calculating taxable income:		
Non-taxable income/non-deductible expenses	(1,176)	(163)
Utilisation of tax losses for current/prior periods	(36)	(75)
Foreign tax credits foregone	39	15
Other	(40)	(28)
Income tax expense	**8,876**	**8,859**

COMPONENTS OF INCOME TAX EXPENSE		
Current tax charge	9,692	7,270
Foreign tax credits foregone	39	15
Movement in deferred tax	(855)	1,574
Income tax expense	**8,876**	**8,859**

At 30 June 2018 Airways has imputation credits available for use in subsequent reporting periods of $29.5 million (2017: $26.7 million).

DEFERRED TAX

Deferred tax assets and liabilities are offset on the face of the balance sheet. Deferred tax assets and liabilities are offset 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)	OTHER ($000'S)	TOTAL ($000'S)
Balance as at 1 July 2017	**(15,623)**	**6,754**	**2**	**(8,867)**
Deferred tax charged to net surplus	90	432	333	855
Deferred tax on items charged to other comprehensive income	–	–	(333)	(333)
Balance as at 30 June 2018	**(15,533)**	**7,186**	**2**	**(8,345)**
Balance as at 1 July 2016	**(14,561)**	**7,305**	**2**	**(7,254)**
Deferred tax charged to net surplus	(1,062)	(551)	39	(1,574)
Deferred tax on items charged to other comprehensive income	–	–	(39)	(39)
Balance as at 30 June 2017	**(15,623)**	**6,754**	**2**	**(8,867)**

Airways Training Limited (ATL, previously Aviation English Services) has unrecognised tax losses of $0.861 million (2017: $0.989 million) which cannot be offset against the income of other members of the Group. The Group has no other unrecognised tax losses.

SECTION A:
How the numbers are calculated CONTINUED

A5 FINANCIAL ASSETS AND LIABILITIES

Airways' financial assets and liabilities are classified as either derivatives used for hedging, liabilities at amortised cost or loans and receivables, depending on the purpose for which the transactions were entered into. Management determines the classification at initial recognition and re-evaluates this designation at every reporting date.

Financial liabilities (other than derivatives used for hedging) 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.

Loans and receivables are recognised initially at fair value, plus any transaction costs. They are subsequently measured at amortised cost using the effective interest method, less provision for any impairment. The carrying value of trade and other receivables and cash and cash equivalents 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 value of the hedging instrument 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.

NOTES TO THE FINANCIAL STATEMENTS

SECTION A:

How the numbers are calculated CONTINUED

FINANCIAL ASSETS AND LIABILITIES BY CATEGORY

	LOANS AND RECEIVABLES ($000'S)	DERIVATIVES USED FOR HEDGING ($000'S)	LIABILITIES AT AMORTISED COST ($000'S)	TOTAL ($000'S)
As at 30 June 2018				
ASSETS AS PER BALANCE SHEET				
Cash and cash equivalents	1,750	–	–	1,750
Trade and other receivables	25,618	–	–	25,619
Derivative financial instruments	–	227	–	227
Total	**27,368**	**227**	**-**	**27,596**
LIABILITIES AS PER BALANCE SHEET				
Trade and other payables	–	–	8,959	8,959
Employee entitlements	–	–	26,868	26,868
Derivative financial instruments	–	1,954	–	1,954
Borrowings and overdrafts	–	–	40,000	40,000
Total	**-**	**1,954**	**75,827**	**77,781**
As at 30 June 2017				
ASSETS AS PER BALANCE SHEET				
Cash and cash equivalents	1,522	–	–	1,522
Trade and other receivables	23,109	–	–	23,109
Derivative financial instruments	–	72	–	72
Total	**24,631**	**72**	**-**	**24,703**
LIABILITIES AS PER BALANCE SHEET				
Trade and other payables	–	–	9,328	9,328
Employee entitlements	–	–	27,127	27,127
Derivative financial instruments	–	2,908	–	2,908
Borrowings and overdrafts	–	–	39,000	39,000
Total	**-**	**2,908**	**75,455**	**78,363**

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

A6 TRADE AND OTHER RECEIVABLES

AS AT 30 JUNE	2018 ($000'S)	2017 ($000'S)
Trade accounts receivable	24,271	22,390
Other receivables	1,347	719
Total trade and other receivables	**25,618**	**23,109**

Collectability of trade receivables is reviewed on an ongoing basis and uncollectible debts are written off. A provision for doubtful receivables is recognised when there is objective evidence that Airways may not be able to collect some or all amounts due according to the original terms. The amount of the provision will reflect the specific circumstances of individual debtors, including the expected ability and intent to pay, however as a guide and based on previous experience:

i) debt which is greater than 90 days but less than one year overdue is discounted by the current cost of capital;

ii) debt which is greater than one year but less than two years old is discounted by 50% of the carrying value; and

iii) debt which is greater than two years old is discounted by 100% of the carrying value.

The amount of the provision is recognised in profit or loss.

The value of Airways' provision for doubtful receivables, 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 2018						
Unimpaired trade receivables	19,773	3,725	21	2	1	23,522
Impaired trade receivables	13	43	772	319	859	2,006
Total trade receivables due	**19,786**	**3,768**	**793**	**321**	**860**	**25,528**
Provision	(11)	(38)	(212)	(163)	(833)	(1,257)
Trade receivables recognised	**19,775**	**3,730**	**581**	**158**	**27**	**24,271**
As at 30 June 2017						
Unimpaired trade receivables	18,307	3,251	180	–	–	21,738
Impaired trade receivables	–	199	625	171	952	1,947
Trade receivables due	**18,307**	**3,450**	**805**	**171**	**952**	**23,685**
Provision	(42)	(99)	(117)	(85)	(952)	(1,295)
Trade receivables recognised	**18,265**	**3,351**	**688**	**86**	**-**	**22,390**

A7 TRADE AND OTHER PAYABLES

AS AT 30 JUNE	2018 ($000'S)	2017 ($000'S)
Trade accounts payable	4,526	4,615
Payroll related payables	1,809	1,780
Accrued liabilities	6,018	5,323
Provisions	4,218	425
Other payables	207	169
Total trade and other payables	**16,778**	**12,312**

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

SECTION A:
How the numbers are calculated CONTINUED

MOVEMENT IN PROVISIONS	RESTRUCTURING	ONEROUS CONTRACT	OTHER PROVISIONS	TOTAL
Opening balance as at 1 July 2017	236	–	189	425
Accrued balance released	(211)	–	(12)	(223)
Additional provisions raised	1,428	1,980	608	4,016
Closing balance as at 30 June 2018	**1,453**	**1,980**	**785**	**4,218**

The provisions balance includes an onerous airfield lighting contract and a staff restructuring provision. Other provisions relate primarily to expected costs to remove known asbestos. It is expected all sums provided for will be paid within one year.

A8 PROPERTY, PLANT & EQUIPMENT, INTANGIBLES AND ASSETS AVAILABLE FOR SALE

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 investment case must demonstrate that:

- the economic and other benefits of the asset are clearly articulated and consistent with Airways' strategy
- the cost associated with the project is within Airways' budget and can be reliably measured
- there are sufficient staffing and technical resources available to complete the project (either internally or externally)
- the asset to be created is technically feasible.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to Airways and the cost of the item can be measured reliably. The carrying amount of any replaced parts is written off.

DEPRECIATION AND AMORTISATION

The cost of all fixed and intangible assets (excluding freehold land and work in progress), less their estimated residual value, is written off on a straight line basis over the asset's estimated useful economic life. Asset useful lives and residual values are assessed annually and adjusted if required.

IMPAIRMENT

All assets are reviewed for potential indicators of impairment at every balance date and whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. For work in progress, these indicators include any changes to the scope or expected outcome of individual projects.

In addition, impairment tests are carried out at every balance date for intangible assets within work in progress regardless of whether indicators of impairment exist.

These tests involve 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.

SECTION A:

How the numbers are calculated CONTINUED

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	19 YEARS	12 YEARS	5 YEARS	8 YEARS	6 YEARS	NOT DEPRECIATED	
COST								
As at 1 July 2017	1,480	36,750	205,473	38,866	6,741	3,217	44,772	337,299
Additions at cost	–	1,858	23,879	1,752	1,046	74	47,061	75,670
Deduct disposals	–	(84)	(3,165)	(355)	(360)	(172)	–	(4,136)
Transfers from work in progress	–	–	–	–	–	–	(34,932)	(34,932)
As at 30 June 2018	**1,480**	**38,524**	**226,187**	**40,263**	**7,427**	**3,119**	**56,901**	**373,901**
ACCUMULATED DEPRECIATION								
As at 1 July 2017	233	22,147	128,487	24,556	4,613	2,376	–	182,412
Depreciation charge	–	836	10,563	5,544	438	322	–	17,703
Deduct disposals	–	(64)	(1,988)	(351)	(346)	(172)	–	(2,921)
As at 30 June 2018	**233**	**22,919**	**137,062**	**29,749**	**4,705**	**2,526**	**–**	**197,194**
Net book value as at 30 June 2018	**1,247**	**15,605**	**89,125**	**10,514**	**2,722**	**593**	**56,901**	**176,707**

The work in progress balance includes significant investments of $21.3 million in the Wellington control tower, $5.2 million in the Nelson control tower and $16.3 million in a new air traffic management (ATM) system. Construction of the two towers will be completed within the 2018/19 financial year, at which point the accumulated project costs will be transferred to fixed assets and depreciation will commence. Airways capitalised interest associated with qualifying assets of $2.2 million during the year ended 30 June 2018 (2017: $1.6 million).

NOTES TO THE FINANCIAL STATEMENTS

SECTION A:
How the numbers are calculated CONTINUED

	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	19 YEARS	12 YEARS	5 YEARS	8 YEARS	6 YEARS	NOT DEPRECIATED	
COST								
As at 1 July 2016	7,078	35,947	192,089	35,610	5,997	3,076	26,347	306,144
Additions at cost	–	803	14,523	3,347	818	214	41,464	61,169
Asset transfers/ reclassifications	–	–	–	(61)	–	–	–	(61)
Assets reclassified as held for sale	(5,221)	–	–	–	–	–	–	(5,221)
Deduct disposals	(377)	–	(1,139)	(30)	(74)	(73)	–	(1,693)
Transfers from work in progress	–	–	–	–	–	–	(23,039)	(23,039)
As at 30 June 2017	**1,480**	**36,750**	**205,473**	**38,866**	**6,741**	**3,217**	**44,772**	**337,299**
ACCUMULATED DEPRECIATION								
As at 1 July 2016	2,511	21,370	119,748	18,851	4,325	2,053	–	168,858
Depreciation charge	–	777	9,836	5,740	360	396	–	17,109
Asset transfers/ reclassifications	–	–	–	(18)	–	–	–	(18)
Assets reclassified as held for sale	(2,278)	–	–	–	–	–	–	(2,278)
Deduct disposals	–	–	(1,097)	(17)	(72)	(73)	–	(1,259)
As at 30 June 2017	**233**	**22,147**	**128,487**	**24,556**	**4,613**	**2,376**	**-**	**182,412**
Net book value as at 30 June 2017	**1,247**	**14,603**	**76,986**	**14,310**	**2,128**	**841**	**44,772**	**154,887**

SECTION A:

How the numbers are calculated CONTINUED

INTANGIBLE ASSETS

	INTERNALLY GENERATED SOFTWARE ($000'S)	LICENCES & ACQUIRED SOFTWARE ($000'S)	TOTAL
Average useful life	6 years	5 years	
COST			
As at 1 July 2017	34,549	22,639	57,188
Additions at cost	5,929	129	6,058
Deduct disposals	(337)	(2,436)	(2,773)
As at 30 June 2018	**40,141**	**20,332**	**60,473**
ACCUMULATED AMORTISATION			
As at 1 July 2017	22,349	13,368	35,717
Amortisation charge	3,221	1,708	4,929
Deduct disposals	(270)	(2,394)	(2,664)
As at 30 June 2018	**25,300**	**12,682**	**37,982**
Net book value as at 30 June 2018	**14,841**	**7,650**	**22,491**
COST			
As at 1 July 2016	31,465	22,373	53,838
Additions at cost	3,023	315	3,338
Asset transfers/ reclassifications	61	–	61
Deduct disposals	–	(49)	(49)
As at 30 June 2017	**34,549**	**22,639**	**57,188**
ACCUMULATED AMORTISATION			
As at 1 July 2015	19,527	11,035	30,562
Amortisation charge	2,804	1,984	4,788
Asset transfers/ reclassifications	18	–	18
Impairment	–	358	358
Deduct disposals	–	(9)	(9)
As at 30 June 2017	**22,349**	**13,368**	**35,717**
Net book value as at 30 June 2017	**12,200**	**9,271**	**21,471**

$19.6 million of the closing WIP balance disclosed on page 48 relates to intangible projects in progress (2017: $9.2 million), primarily reflecting the ongoing development of the new ATM system. These balances will be transferred to Intangibles on completion of the project.

NOTES TO THE FINANCIAL STATEMENTS

SECTION A:
How the numbers are calculated CONTINUED

MATERIAL INTANGIBLE ASSETS

Airways holds the following material intangible assets:

DESCRIPTION	CARRYING VALUE	REMAINING AMORTISATION PERIOD
TechnologyOne FMIS	3,032	October 2023
AIM system	2,427	May 2025

ASSETS HELD FOR SALE

The land held for sale in the prior year sold on 1 July 2018 with a gain of $4.3 million.

A9 SHARE CAPITAL AND RESERVES

Airways has capital of $41.1 million (2017: $41.1 million) issued ordinary shares which confer on the holders the right to vote at any general meeting of shareholders. This consists of 41,100,000 authorised ordinary shares. 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 B:
Risk

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 debt facilities have the provision to accommodate 10% surplus funding over and above the projected maximum level of debt for the next three years, based on the most up to date forecasts;
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	2018	2018 DRAWDOWNS	2017	REMAINING TERM	INTEREST RATE
$55 million	$40 million	$1 million (2017: nil)	$39 million	3 years (expires June 2021)	Floating
$5 million	–	–	–	1 year (expires June 2019)	Floating

All banking covenants relating to interest coverage, levels of shareholder funds and gearing ratios which are in place for the drawn down facility have been complied with throughout the financial year (2017: full compliance).

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.

NOTES TO THE FINANCIAL STATEMENTS

SECTION B:
Risk CONTINUED

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 2018						
Interest rate derivatives – outflow	(194)	(554)	(582)	(563)	–	–
Foreign currency exchange contracts – inflow*	4,036	8,445	7,520	3,295	–	–
Foreign currency exchange contracts – outflow	(4,060)	(8,333)	(7,479)	(3,325)	–	–
Trade and other payables	(8,943)	–	–	–	–	–
Employee entitlements	–	–	–	–	–	(26,868)
Term loan	(365)	(1,084)	(1,449)	(44,348)	–	–
Total	**(9,526)**	**(1,526)**	**(1,990)**	**(44,941)**	**-**	**(26,868)**
AS AT 30 JUNE 2017						
Interest rate derivatives – outflow	(159)	(533)	(590)	(782)	–	–
Foreign currency exchange contracts – inflow*	4,591	5,915	4,804	6,575	–	–
Foreign currency exchange contracts – outflow	(4,691)	(6,128)	(5,049)	(6,899)	–	–
Trade and other payables	(9,328)	–	–	–	–	–
Employee entitlements	–	–	–	–	–	(27,127)
Term loan	(354)	(1,052)	(1,406)	(43,179)	–	–
Total	**(9,941)**	**(1,798)**	**(2,241)**	**(44,285)**	**-**	**(27,127)**

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

Airways has contingent liabilities in respect of financial guarantee contracts of $0.764 million for performance bonds (2017: $0.461 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:

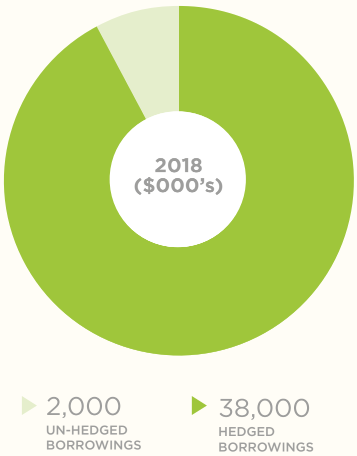
ATM SERVICE PRICING PERIOD	MINIMUM HEDGING LEVELS	MAXIMUM HEDGING LEVELS	MAXIMUM SWAP RATES
Current pricing period	25% forecast debt	90% forecast debt	Current pricing cost of debt assumption
Next pricing period	None	30% forecast debt	Current 10-year government bond rate, plus the current pricing debt margin

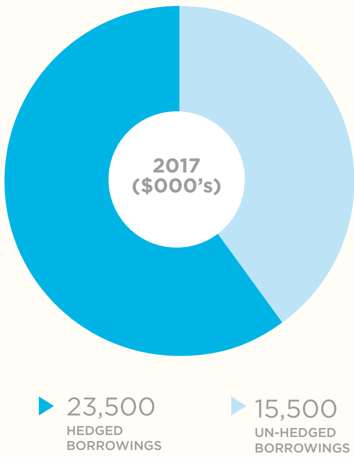
To ensure these policies are adhered to, Airways operate the following controls:

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

SECTION B:
Risk CONTINUED

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 $40m (2017: $39m). Further interest rate swaps were also in place to hedge highly probable future debt.





The effective interest rate on borrowing in the current year was 5.56% (2017: 5.87%).

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

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 monitor 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.

SECTION B:
Risk CONTINUED

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.

	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 2018				
Amount unhedged	77	–	(82)	–
Amount hedged	1,080	1,440	(145)	(20,531)
Total NZD value	1,157	1,440	(227)	(20,531)
Percentage of exposure hedged	93%	100%	64%	100%
AS AT 30 JUNE 2017				
Amount unhedged	151	–	(231)	–
Amount hedged	1,044	357	(178)	(21,118)
Total NZD value	**1,195**	**357**	**(409)**	**(21,118)**
Percentage of exposure hedged	87%	100%	44%	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 $10m to any individual counterparty.

Adherence to these policies is continuously monitored and reported monthly. There have been no breaches during the current or previous financial year.

Airways' exposure to credit risk is outlined in the balance sheet (showing cash and cash equivalents and derivative financial instruments) and note A6, setting out trade and trade receivables and the current provision in place against these balances.

Airways' five largest customers account for 73% (2017: 75%) of total revenue and 67% (2017: 61%) of total accounts receivable at balance date. No collateral is held over these receivables. No 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

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 7, 100 Willis Street, Wellington, 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.

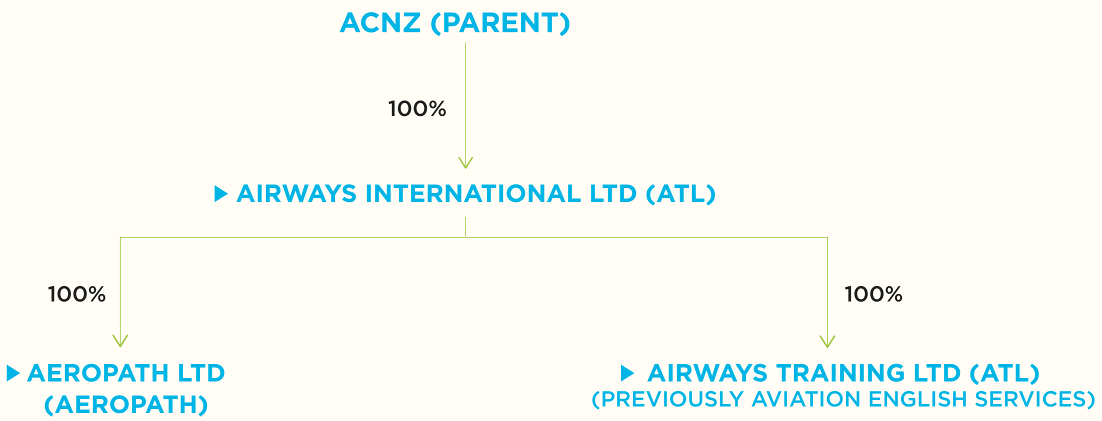
Subsidiaries are all entities over which Airways has control. Airways controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from 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 the Group 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)	RECRUITMENT AND TRAINING, REVENUE MANAGEMENT, AIR NAVIGATION SERVICES AND MAINTENANCE OF SYSTEMS
AIRWAYS TRAINING LIMITED (ATL) (PREVIOUSLY AVIATION ENGLISH SERVICES)	AVIATION ENGLISH TRAINING
AEROPATH LIMITED (AEROPATH)	AERONAUTICAL INFORMATION MANAGEMENT, PROCEDURE DESIGN AND DEVELOPMENT SERVICES

During the year Airways restructured its subsidiaries, including the amalgamation of a holding company into the parent and the renaming of another company to better align with its long term business focus. The ownership structure of the Group 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 the Group are eliminated in the preparation of Group financial statements. The Group acquired full control of Aeropath Limited during the 2017 financial year. Up until the date of acquisition, there were several transactions between the Group and the Aeropath joint venture which are set out in the table below. All transactions between Aeropath and the entities within the Group subsequent to acquisition have been eliminated in these financial statements.

	YEAR ENDED 30 JUNE 2018 ($000'S)	PERIOD ENDED 24 APRIL 2017 ($000'S
Transactions with Joint Ventures		
Aeropath revenue charged to ACNZ	–	(3,186)
ACNZ operating costs recharged to Aeropath	–	3,579
ACNZ revenue charged to Aeropath	–	480
Interest charged to Aeropath	–	–
Loans repaid by Aeropath	–	–

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 $129.0 million by Airways in the current financial year (2017: $123.7 million).

C3 TRANSACTIONS WITH MANAGEMENT AND DIRECTORS

FOR THE YEAR ENDED 30 JUNE	2018 ($000'S)	2017 ($000'S)
KEY MANAGEMENT+ COMPENSATION		
Salaries and other short-term employee benefits (including termination benefits of $0.274 million (2017:$0.047 million)*	2,646	2,445
Kiwisaver/ superannuation contributions	45	71
	2,691	**2,516**
DIRECTORS' FEES		
Directors' fees paid	282	273

+ Key management include the Chief Executive Officer and their direct reports.

* No salaries or other short term employee benefits were paid to Directors

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 operating cash flow and increased debt (whilst remaining within current loan facilities and covenants).

AS AT 30 JUNE	2018 ($000's)	2017 ($000's)
Property, plant and equipment capital commitments	32,168	28,208
Intangible assets capital commitments	43,569	56,722
Total capital commitments	**75,737**	**84,930**

D2 OPERATING LEASE COMMITMENTS

Operating leases relate to the rental of buildings, plant and equipment and are on normal commercial terms and conditions.

AS AT 30 JUNE	2018 ($000'S)	2017 ($000'S)
Less than one year	4,501	5,598
One to two years	5,486	5,240
Two to five years	16,315	7,422
Over five years	35,119	37,004
Total operating lease obligations	**61,421**	**55,264**

D3 CONTINGENT LIABILITIES

Airways has contingent liabilities in respect of financial guarantee contracts of $0.764 million for performance bonds (2017: $0.461 million).

D4 SUBSEQUENT EVENTS

There were no subsequent events requiring disclosure.

NOTES TO THE FINANCIAL STATEMENTS

SECTION E:
Other information

E1 AUDITOR'S REMUNERATION

FOR THE YEAR ENDED 30 JUNE	2018 ($000'S)	2017 ($000'S)
PricewaterhouseCoopers for:		
Financial statement audit services as an agent of the Office of the Auditor-General	180	166
Student fee protection trust audit	10	10
Review of sensitive expenditure	18	–
Other assurance services in respect of review of Joint Venture	–	8
Other advisory services in respect of IT security	–	14
	208	**198**

E2 RECONCILIATION OF NET CASH FLOW FROM OPERATING ACTIVITIES TO REPORTED SURPLUS

FOR THE YEAR ENDED 30 JUNE	2018 ($000'S)	2017 ($000'S)
NET SURPLUS AFTER TAXATION	27,156	23,675
ADD NON CASH ITEMS		
Amortisation	4,929	5,146
Depreciation and impairment	17,703	17,109
Movement in deferred tax	(855)	1,579
Accounting loss/(gain) on sale of assets	(3,790)	57
Share of loss/(profit) from Joint Venture	–	(898)
Total adjustments for items in surplus not impacting cash flow	**17,987**	**22,993**
ADD MOVEMENTS IN WORKING CAPITAL ITEMS		
Increase/(decrease) in payables	6,409	(6,963)
Decrease/(increase) in receivables	(2,581)	4,178
Total adjustments for items not in surplus impacting cash flow	**3,828**	**(2,785)**
Net cash inflow from operating activities	**48,971**	**43,883**

Audit report

NZ IFRS

pwc

INDEPENDENT AUDITOR'S REPORT

To the readers of the financial statements of Airways Corporation of New Zealand Limited.

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

Our opinion

We have audited the financial statements of the Group on pages 33 to 59, that comprise the balance sheet as at 30 June 2018, the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date and the notes to the financial statements, which include key accounting policies.

In our opinion, the financial statements of the Group:

- present fairly, in all material respects:
  - its financial position as at 30 June 2018; and
  - its financial performance and cash flows for the year then ended; and
- comply with generally accepted accounting practice in New Zealand in accordance with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards (IFRS).

Our audit was completed on 31 August 2018. This is the date at which our opinion is expressed.

The basis for our opinion is explained below. In addition, we outline the responsibilities of the Board of Directors and our responsibilities relating to the financial statements, we comment on other information and we explain our independence.

Basis for opinion

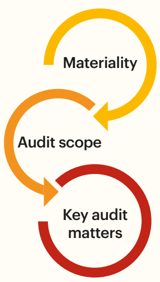
We conducted our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the Professional and Ethical Standards and the International Standards on Auditing (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board. Our responsibilities under those standards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

OUR AUDIT APPROACH

Overview



An audit is designed to obtain reasonable assurance as to whether the financial statements are free from quantitative and qualitative material misstatement.

Overall quantitative group materiality: $2.7 million, which represents 7.5% of net surplus before taxation.

We chose net surplus before taxation as the benchmark because, in our view, it is the benchmark against which the performance of the Group is most commonly measured by users, and is a generally accepted benchmark.

Our key audit matter is:

- Capitalisation of costs into property, plant and equipment (PP&E) and intangible assets.

Audit report CONTINUED

NZ IFRS

Materiality

The scope of our audit was influenced by our application of materiality.

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. We also assess qualitative materiality, which includes other matters that, in our judgement, and in the context of our audit, might influence the decisions of the users of the financial statements. Quantitative materiality and 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.

Audit scope

We designed our audit by assessing the risks of material misstatement in the financial statements and our application of materiality. 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.

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 industries in which the Group operates.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, 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.

KEY AUDIT MATTER	HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTER
Capitalisation of costs into property, plant and equipment (PP&E) and Intangible assets The Company operates in a capital intensive industry. In order to maintain and enhance service levels the Company needs to invest significant funds in its infrastructure. This requires a significant annual capital expenditure programme. The Group holds property, plant and equipment of $176.7 million and intangible assets of $22.5 million at 30 June 2018. During the period, the Group capitalised $47.1m (2017: $41.5m) of costs. Further disclosures on the PP&E and Intangible assets held by the Group are included in note A8 of the financial statements. The capitalisation of costs into PP&E and Intangible assets is a key audit matter as it represents a significant proportion of the Group's net assets. Also, judgement is applied by the Group when including costs as part of the carrying value of PP&E and Intangible assets based on whether the costs: • deliver economic benefit to the entity beyond a 12 month period • are able to be measured reliably • are directly attributable to the asset being constructed, and • contribute to an asset which is technically feasible and for which the Group has sufficient internal or external resources to complete. Costs capitalised by the Group include both third party costs and internal costs, such as employee labour costs.	To address the key audit matter we tested a sample of additions for PP&E and Intangible assets. For each addition sampled, we agreed the item to appropriate audit evidence. This evidence included third party invoices and approved timesheets for internal labour costs. Internal labour cost rates were agreed to supporting evidence including underlying wage and salary rates. For each item tested, we assessed the appropriateness of capitalisation against the recognition criteria in the accounting standards, 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 Company investment case and using our own judgement • assessing 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 • assessing whether the Company has the technical and financial resources to complete the project. In assessing this we considered the nature of the projects and the Company's historic performance at completing projects of a similar nature. From our procedures, no material exceptions were noted.

Audit report CONTINUED

NZ IFRS

RESPONSIBILITIES OF THE DIRECTORS FOR THE FINANCIAL STATEMENTS

The Board of Directors is responsible, on behalf of the Group, for preparing financial statements that are fairly presented and that comply with generally accepted accounting practice in New Zealand.

The Board of Directors is responsible for such internal control as it determines is necessary to enable it to prepare financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors is responsible on behalf of the Group for assessing the Group's ability to continue as a going concern. The Board of Directors is also responsible for disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

The Board of Directors responsibilities arise from the State Owned Enterprises Act 1986.

RESPONSIBILITIES OF THE AUDITOR 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 are differences or omissions of amounts or disclosures, and can arise from fraud or error. Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of readers 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 performed in accordance with the Auditor-General's Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. Also:

- We 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
- We 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;
- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors;
- We conclude on the appropriateness of the use of the going concern basis of accounting by the Board of Directors and, based on the audit evidence obtained, 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 the auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern
- We 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
- We 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. The auditor is responsible for the direction, supervision and performance of the group audit. The auditor remains solely responsible for the audit opinion, and
- We communicate with the Board of 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.

Our responsibilities arise from the Public Audit Act 2001.

Audit report CONTINUED

NZ IFRS

OTHER INFORMATION

The Board of Directors is 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. In doing so, we 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 our work, 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.

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 Standards 1 (revised): *Code of Ethics for Assurance Practitioners* issued by the New Zealand Auditing and Assurance Standards Board.

Our firm carries out other services for the Group in the areas of assurance services relating to the Group's compliance with the terms of the Student Fee Protection Trust Deed, in relation to the reporting of the Group's Economic Value Added (EVA) Performance Indicators in accordance with the disclosed policies, and procedures in relation to sensitive expenditure. The provision of these other services has not impaired our independence as auditor of the Group.

For and on behalf of the Auditor-General;

Kevin Brown
31 August 2018

PricewaterhouseCoopers
PricewaterhouseCoopers
Wellington, New Zealand

EVA key performance indicators

EVA

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

FOR THE YEAR ENDED 30 JUNE	PARENT 2018	PARENT 2017
DEBT AND EQUITY EMPLOYED		
Debt employed	81.2	65.3
Equity employed	137.6	131.2
Total Debt & Equity Employed	**218.8**	**196.5**
Charge on operating capital	14.0	13.1
Economic Value Added	1.4	7.6
SUMMARY OF PARAMETERS FOR COST OF CAPITAL		
Risk free rate – 3-year Government Stock	2.04%	2.19%
Market risk premium	7.00%	7.00%
Company tax rate	28%	28%
Business risk factor (asset beta)	0.6	0.6
Cost of capital	6.74%	6.80%

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 6.74% for the year ended June 2018 compares to a cost of capital of 6.90% used for determining 2017-19 air navigation pricing. The positive EVA for the current year has been driven by higher than forecast traffic volumes.

Reconciliation of EVA to Net Operating Profit after Tax

FOR THE YEAR ENDED 30 JUNE	PARENT 2018	PARENT 2017
NOPAT	20.7	18.5
Deduct: Charge on operating capital	(14.0)	(13.1)
Add back: interest costs	0.5	0.9
Add back: non-cash tax charges	–	1.6
Deduct: non-cash tax charges	(0.5)	–
Deduct: non-cash employee costs	(1.0)	(0.3)
Deduct: gain on sale of surplus land not included in EVA result	(4.3)	–
Economic Value Added	**1.4**	**7.6**

Audit Report

EVA

pwc

INDEPENDENT AUDITOR'S REPORT

Report to the readers of the EVA key performance indicators of Airways Corporation of New Zealand Limited for the year ended 30 June 2018

PricewaterhouseCoopers audit the financial statements of Airways Corporation of New Zealand Limited (Airways) on behalf of the Auditor-General. PricewaterhouseCoopers has been engaged to provide reasonable assurance over the economic value added (EVA) key performance indicators (KPIs) of Airways, detailed on page 64 of this document.

DIRECTORS' RESPONSIBILITIES

The Directors of Airways are responsible for the preparation of the KPIs, in accordance with the EVA policies and principles adopted by Airways. A link to the EVA policies and principles adopted by Airways is provided on page 64 of this document.

The Directors' responsibilities include establishing and maintaining a system of internal control relevant to the preparation of the KPIs to ensure they are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITIES

Our responsibility is to obtain reasonable assurance that the KPIs have been calculated in accordance with the EVA policies and principles adopted by Airways.

BASIS OF OPINION

An assurance engagement includes examining, on a test basis, evidence relevant to the KPIs.

Our engagement has been conducted in accordance with International Standard on Assurance Engagements 3000 (New Zealand) (Revised) "Assurance Engagements other than Audits or Reviews of Historical Financial Information".

We planned and performed our assurance engagement so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient and appropriate evidence to obtain reasonable assurance that the KPIs have been calculated in accordance with the EVA policies and principles adopted by Airways.

Where applicable, we did not evaluate the security and controls over the electronic publication of the presented information.

We have no relationship with or interests in Airways other than in our capacities as assurance providers in conducting this engagement and other assurance services, as auditors of Airways on behalf of the Auditor-General.

UNQUALIFIED OPINION

We have obtained all the information and explanations we have required.

Based on our reasonable assurance engagement, the EVA KPIs on page 64 have been calculated in accordance with the EVA policies and principles adopted by Airways.

Our engagement was completed on 31 August 2018 and our opinion is expressed as at that date.

Kevin Brown
On behalf of the Auditor-General
Wellington, New Zealand

PricewaterhouseCoopers

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 2017–30 JUNE 2018

DIRECTOR	AMOUNT PAID*	ANNUAL FEE
Judith Kirk	64,922	67,779
Mary-Jane Daly	40,577	43,434
Terry Murdoch (retired May 2018)	27,051	29,908
Chris Moxon	32,461	35,318
Grant Kemble (retired May 2018)	27,051	29,908
Bennett Medary	32,461	35,318
Mark Pitt	32,461	35,318
Darin Cusack (joined April 2018)	5,410	5,410
Total	**262,394**	**282,393**

* The differences between the amount paid and the annual fee are fees due for a strategy day which have been paid out subsequent to balance date.

Additional financial information CONTINUED

TOTAL REMUNERATION OVER $100,000

REMUNERATION BAND	TOTAL STAFF	EXECUTIVE/SENIOR MANAGERS	OPERATIONAL STAFF AND MANAGERS
$100,000 – $110,000	42	–	42
$110,000 – $120,000	55	–	55
$120,000 – $130,000	59	2	57
$130,000 – $140,000	55	–	55
$140,000 – $150,000	47	–	47
$150,000 – $160,000	54	3	51
$160,000 – $170,000	40	–	40
$170,000 – $180,000	38	2	36
$180,000 – $190,000	38	3	35
$190,000 – $200,000	42	2	40
$200,000 – $210,000	67	3	64
$210,000 – $220,000	35	1	34
$220,000 – $230,000	25	2	23
$230,000 – $240,000	12	5	7
$240,000 – $250,000	7	4	3
$250,000 – $260,000	1	–	1
$260,000 – $270,000	2	1	1
$280,000 – $290,000	2	2	–
$290,000 – $300,000	2	2	–
$310,000 – $320,000	1	1	–
$330,000 – $340,000	1	1	–
$350,000 – $360,000	3	3	–
$380,000 – $390,000	1	1	–
$700,000 – $710,000	1	1	–
	630	**39**	**591**

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).

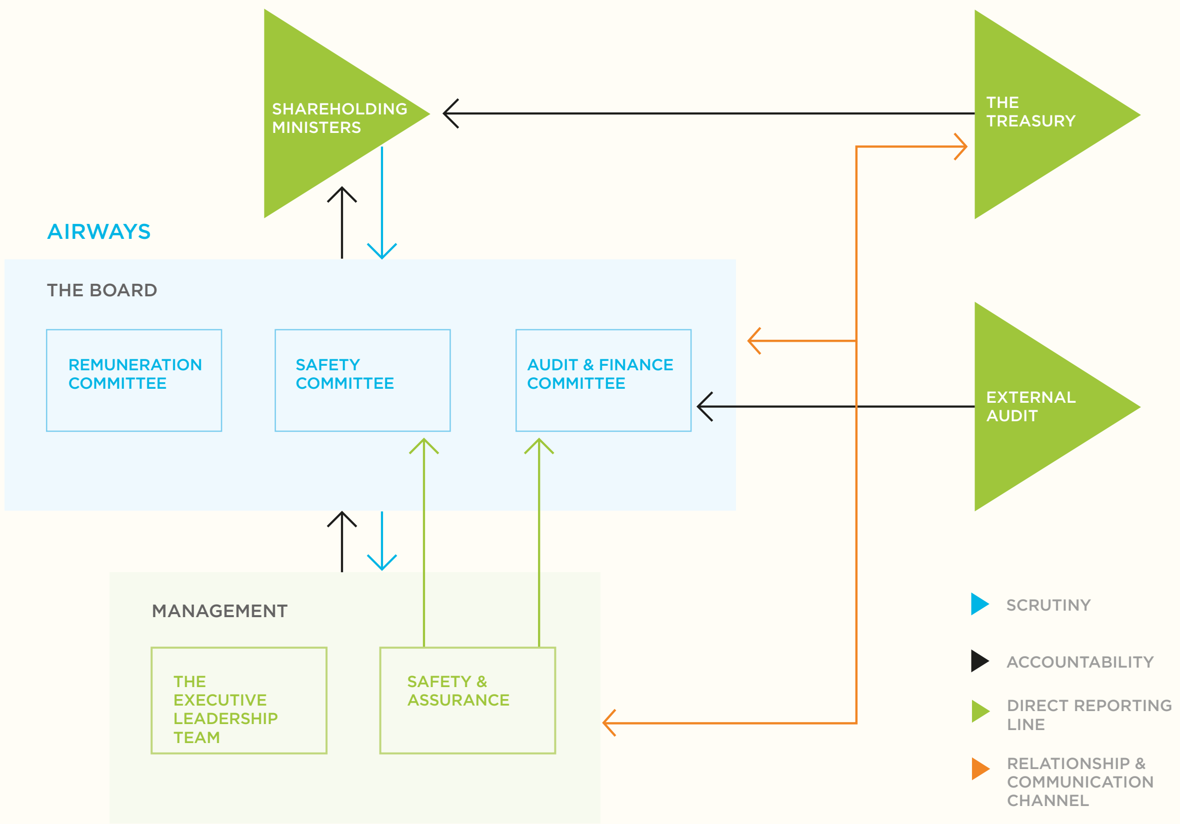
b) This accountability is achieved through the annual expectations letter issued by the Shareholding Ministers and the compilation of (and reporting against) the Statement of Corporate Intent (SCI) by the Airways Board. The SCI sets out the objectives, the nature and scope of activities, financial and 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:



Governance at Airways CONTINUED

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, published under the "Our Board" section of the Airways website:

- 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 remuneration policies and strategies
- 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, two new entries were made to the Interests Register. These disclosures are all either shareholdings less than 5% of the relevant director's net worth or company directorships or other roles listed in the directors' profiles on pages 26 to 27 (or relating to a now retired director). None of the new entries represented interests requiring management in connection with Airways' conflict policies.

Appointing new members and ensuring a balanced Board

All new Directors are appointed by the shareholder, usually in consultation with the Chair. For the Board to meet its duties and responsibilities, it is crucial that they have an appropriate mix of skills and backgrounds.

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 experience across all members.

Continuing education

Airways provides ongoing support for continuous professional learning and development to all Directors. Airways also expects that Directors will take responsibility for continuously improving their own professional knowledge and skills, utilising and supplementing this support where required.

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. In 2018, the Board set its own goals and engaged a representative from the Institute of Directors to facilitate their evaluation of performance.

Governance at Airways CONTINUED

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 and in the charters published under the "Our Board" section of the Airways website. 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	Mary-Jane Daly (Chair) Bennett Medary Chris Moxon
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) Darin Cusack
Remuneration Committee	Assist the Board in establishing remuneration policies and practices	• Set and review remuneration policies • Review and recommend remuneration for the CEO and his direct reports • Set and review the terms of the company's short and long term incentive plans • Obtain and consider independent remuneration advice	Bennett Medary (Chair) Judy Kirk Mary-Jane Daly

Governance at Airways CONTINUED

DIRECTORS' ATTENDANCE

The Board held ten meetings during the year ended 30 June 2018. 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	REMUNERATION COMMITTEE
Total meetings held	**10**	**4**	**4**	**3**
Judith Kirk	9	–	3^	2
Mary-Jane Daly	9	3	–	2
Terry Murdoch*	8 (of 8)	–	2 (of 3)	–
Chris Moxon	8	3	–	1^
Grant Kemble*	8 (of 8)	–	3 (of 3)	–
Bennett Medary	9	4	–	3
Mark Pitt	9	–	4	–
Darin Cusack+	2 (of 2)	–	1 (of 1)	–

* retired directors

+new directors

^ directors are not standing members of the Committee but still attended. Formal Committee membership is detailed on the previous page.

EXTERNAL AUDIT

The OAG appoints external auditors annually, following consultation with the Board. External audit'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 Board 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 practise 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 Remuneration 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.

DIRECTORY

BANKERS

ANZ Bank New Zealand Limited

Bank of New Zealand Limited

AUDITORS

Kevin Brown, with the assistance of PricewaterhouseCoopers on behalf of the Auditor-General

REGISTERED OFFICE

Level 7
Majestic Centre
100 Willis Street
PO Box 294
Wellington
New Zealand
www.airways.co.nz

insightcreative.co.nz

THIS PUBLICATION IS PRINTED USING SUSTAINABLY GROWN PAPERS,
CHEMICAL-FREE PLATING AND PRINTING PROCESSES, AND VEGETABLE-BASED INKS.