AIRWAYS NEW ZEALAND LTD

INTERIM REPORT

For the six months ended
31 December 2016

AIRWAYS
making your world possible

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Chair and Chief Executive Report

Summary of Group Performance

Safety, operational and financial measurements form the backbone of Airways New Zealand's business and shareholder reporting. The company has performed at, or ahead of target, for all three measures in the July to December 2016 reporting period.

The Crown-owned entity demonstrated a robust safety and operational performance for the first six months of the year, with a continued, stable level of Loss of Separation events and no near collision events reported. An increasing trend in safety reporting from our people indicates a healthy safety culture within the organisation. Additionally, Airways has maintained its world-leading service availability record of 99.98%.

Domestic volume growth over the six months is in line with forecasts used to set prices for the FY17–19 pricing period. Industry growth is expected to continue as the effects of Jetstar's new regional services and Air New Zealand's fleet changes are recognised.

Following 18 months of unprecedented growth, volumes for the period ended 30 June 2017 continue to build. Airways monitors the external factors that influence flight volumes, and continues to work collaboratively with all stakeholders to meet demand. The immediate implications of events like the November earthquakes will form part of that assessment.

The first half of the year has seen a focus on the essential investment decisions and projects necessary to take advantage of next-generation technology to deliver improved resilience, safety and efficiency. The capital programme is progressing in line with the plan agreed with customers at the start of the year, including the critical new technology investments that will enable New Zealand to take benefit from satellite-based navigation and surveillance.

Further development and implementation of Airways' Operations Strategy is underway. This is a deployment programme extending to 2028 which utilises modern practices and technology to increase resilience, improve flight efficiency and deliver safe, fit for purpose services to our customers.

The transition to a simplified commercial business model, initiated at the end of FY2015/16, is nearly complete, with strategic decisions taken in December to exit the Flight-Yield and GroupEAD partnerships with SITA and GroupEAD Europe respectively. Overall commercial results are ahead of the previous year, although they remain behind the stretch targets set for FY2016/17.

At a Group level, Airways expects to meet its year-end profit target, with Net Operating Profit after Tax (NOPAT) ahead of budget for the first six months.

Chair and Chief Executive Report

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Table 1 NOPAT and revenue breakdown (NZ$ millions)

Business unit	NOPAT			Revenue		
For the six months ended	Dec 16 Actual	Dec 16 Budget	Dec 15 Actual	Dec 16 Actual[1]	Dec 16 Budget	Dec 15 Actual[2]
System Operator - Air Traffic Control (ATC) business	11.9	6.3[3]	10.5	92.9	90.7	90.8
Commercial businesses:						
Training	0.8	1.5	0.5	5.6	8.9	3.9
Aviation Services	1.4	1.6	1.1	5.3	7.4	5.7
GroupEAD Asia Pacific	0.5	0.3	0.3	3.9	3.8	3.6
Flight-Yield	(0.2)	0.3	(0.1)	0.1	1.0	0.4
Other services	(0.6)	0.2	(0.8)	0.6	0.8	1.2
	1.9	3.9	1.0	15.5	21.9	14.8
GROUP	13.8	10.2	11.5	108.4	112.6	105.6

[1]Includes $ of internal revenue in the commercial businesses eliminated in the Group Statement of Profit or Loss and $3.9m of revenue in GroupEAD equity accounted for in the Group Statement of Profit or Loss

[2]Includes $2.4m of internal revenue in the commercial businesses eliminated in the Group Statement of Profit or Loss and $3.6m of revenue in GroupEAD equity accounted for in the Group Statement of Profit or Loss

[3]The main drivers of the positive year to date result against budget are increasing traffic volumes and savings/delays on initiative spend. See page 8 for further details on the financial performance of the System Operator business.

Statutory business

Operational

A ten-year operational strategy has been developed in this period to integrate the company's key outcomes and work streams into a defined programme of work. The Operational Strategy Programme is designed to improve business resilience by creating 'One Centre, Two Locations' – two interoperable centres in Christchurch and Auckland by 2021.

The strategy will strengthen the company's pillars of technology, resilience and customer focus. Essential milestones have been identified and achieved in this six-month period, including the development of service models and concepts for the initial service delivery work streams. Projects now underway include moving the management of our Raglan airspace sector to our Auckland campus, standardising terminal operations across the Wellington and Auckland terminals, improving roster efficiency overnight across the Christchurch and Wellington sectors and providing enhanced surveillance service in the southern part of the South Island. All initiatives are in line with the strategy of growing Airways' operational capabilities across two locations.

The significant investment decisions on the procurement of a new domestic ATM platform are nearing completion. The system will enable Airways to provide all of its ATC services from a single platform, while bringing capability improvements such as sequencing automation, enhanced conflict detection and electronic performance monitoring. Development is expected to commence towards the end of the year, with the system in use by 2020.

While volume growth brings many benefits, it does impact on inflight delays, with a worsening average delay of 22 seconds per flight. While this is behind the target of

14 seconds it compares favourably with 2008's recorded average inflight delay of three minutes and 30 seconds per flight – the most recent year of comparable traffic volumes. Airways has established a capacity planning group bringing together airports and airlines to understand and meet both the operational and safety demands of this recent growth.

Likewise, work is underway to segregate ATC controllable delay (capacity, staffing and engineering) from weather attributable delay and to measure ground and airborne delay criteria.

Airways' capital programme is progressing in line with the 2017–2019 plan agreed with customers through the recent pricing consultation. Two key components of this plan, the new Wellington and Nelson towers, are currently under development and are on track for completion early in the 2018 financial year.

Following earlier trials and a rigorous research phase, Airways has also begun the development and construction of its new surveillance network, augmenting the existing radar-based infrastructure with automatic dependent surveillance – broadcast (ADS-B) satellite-based technology. ADS-B is the global standard for airspace surveillance and its introduction here is a key part of the New Southern Sky programme, the Government's 10-year plan to modernise New Zealand's aviation system. The introduction of the network came a step closer with the selection of a ground infrastructure supplier in September this year.

Airways has reached agreement with space commercial launch facility Rocket Lab to safely support regular rocket launches through New Zealand airspace. The contract aids this emerging industry by providing air traffic services for Rocket Lab to test and operate commercial rocket launches from the world's first private orbital launch site, on Mahia Peninsula.

Airways has already enabled around 120 near-space launches, working with organisations such as NASA and Google which choose New Zealand for balloon launches due to its relatively uncongested airspace and Airways' experience and enabling approach.

In addressing significant investment, technology and customer-focused initiatives today, Airways is building a progressive airspace environment for the future.

Table 2 Business and leadership performance indicators

	December 2016 Actual	December 2016 Target	December 2015 Actual
Business performance			
Operational safety – near collision incidents	Zero	Zero	Zero
Staff safety – serious harm injuries	Zero	Zero	1
Service availability	99.98%	99.95%	99.98%
Inflight delay/holding (average seconds per flight)	22.5	<14	17
Capex – value creating investments ($m)	15.7	13.1	14.6
SO Statutory Services return on capital	7.6%	6.9%	11.0%
Leadership			
Succession (suitable candidates for senior roles)	Measured in June	>3	Measured in June
Visibility – internal event platforms (per week)	2	>1	2

Chair and Chief Executive Report

CONTINUED

Financial

With airline pricing now reset for the 2016–2019 financial years, statutory revenue and underlying volumes are in line with budget and reflect a 9% price decrease compared to the prior year. The price reduction has been enabled by traffic growth and strong cost control.

Overall, operational costs for the period are below budget as a result of planned spending delays on certain initiatives. Proactive cost management remains a focus and essential to offset the impact of lower than planned leave take-up across a number of operational teams, and an anticipated revenue shortfall from the commercial business.

As Airways' capital programme increases in size, and in line with accounting rules, the interest costs associated with funding are now being capitalised. As a result, financing costs are $0.6 million below budget with the variance expected to increase to $1.3 million by the end of the financial year.

The statutory business also received $1.0 million in insurance proceeds during the period, in respect of claims for damage to the Christchurch control tower sustained in the 2011 earthquakes. These proceeds have been recognised in other income in the interim report, but will be offset by repair costs which will come through in the second half of the year.

Commercial businesses

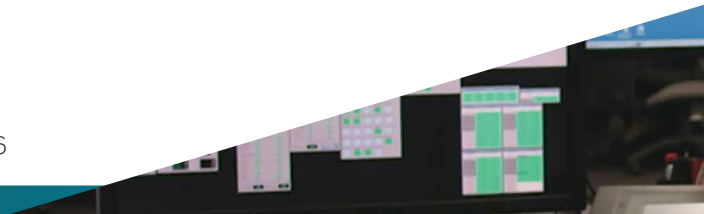
Airways' commercial businesses are forecast to reach a full year NOPAT of $4.8 million against a budget of $7.4 million. They continue to show year-on-year improvement, and although results remain below stretch targets, the new operational structure implemented at the end of FY15/16 has reduced the level of overheads and provides for increased business unit autonomy.

Training

The Airways Training business has benefitted from strengthening key customer relationships, with Saudi student training starting in Australia during the year and negotiations on significant opportunities with Vietnam, Oman and Kuwait progressing well.

While the Puerto Rico campus is about to deliver its second course both the Dubai and China campuses have now been wound down, due to the lack of a sustainable revenue stream.

The SureSelect business reached a major milestone by securing a five-year contract to supply recruitment services to the FAA. This significant contract will see SureSelect used during the FAA's major recruitment drive, identifying ATC candidates who have the highest chance of success through training. Delivery of this contract is now underway.



An international training collaboration programme has been confirmed under a new agreement with the Washington Consulting Group (WCG). Airways will work closely with WCG, a global aviation professional services company, to deliver a number of training initiatives worldwide using Airways' own training systems including Airbooks.

Aviation Services

The negotiations for two long term Aviation Services contracts are nearing completion and a number of Pacific contracts secured last year are currently in the delivery phase. The focus for this business is currently on securing long term multi-year contracts in New Zealand, Australia and the Pacific.

Airways Procedure Design and AIM Team (formerly GroupEAD Asia Pacific)

Airways and GroupEAD Europe have jointly decided to exit their partnership. This decision was driven by Airways and the result of limited European growth opportunities. This exit follows the completion of the initial two-year performance period outlined in the shareholder agreement. Airways will take back 100% ownership and rebrand early in 2017.

This business is in a strong position and our strategy will continue to have a focus on Asia Pacific.

Flight-Yield

Despite strong interest in Flight-Yield, sales negotiations continue to take time to reach fruition. In December 2016, Airways and SITA reached agreement to exit the current marketing and service delivery arrangement. Airways intends to develop and promote a more customer-driven and modularised product offering.

Airways' management and board believe that its commercial businesses remain integral to its growth aspirations. The company will continue to manage and fund these commercial businesses independent of the statutory business.

Progress On Key Initiatives

2016–17 INITIATIVES	PROGRESS TO DECEMBER 2016	STATUS
System Operator		
Enhance safety culture and training programme	Operational reviews for solo watch locations are underway, with increased oversight in place. A training programme focused on enhancing professional safety standards is in the planning stage and will be released in the second half of the year.	On track
Deliver on key customer efficiency expectations	New missed approach procedures at Auckland, Wellington and Christchurch have been developed and are currently being implemented. Airways has also implemented improved collaboration with airports and airlines to better manage the pressure placed on the network through increased volumes. While these changes are helping to manage inflight delays, actual performance remains behind target as a result of the pressure placed on the network from increasing traffic volumes.	Behind plan
Implement and deliver the first phase of the operational strategy	The draft programme plan for the operational strategy has been developed, accommodating both the domestic ATM system replacement and development of a new Auckland campus. Relocation projects for two significant operational teams are also underway, with training and hardware configuration scheduled for the second half of the year.	On track
Adopt a system approach to technology design, development and deployment	Development is underway on an interface between the new Airshare website and the ATM system which will provide air traffic controllers with better information and improve safety. Detailed surveillance strategies are also being updated to reflect and integrate UAV requirements.	On track
Commercial businesses		
Deliver structural governance and product changes in Flight-Yield	Research is currently underway into a modularised version of the Flight-Yield service which will enable a more tailored offering to prospective customers. Following discussions on future partnership models during the first half of the year, agreement was reached with SITA in December to exit the current arrangement. Alternative delivery and sales models are currently being investigated.	On track
Establishing the next stages of the academic partnerships and Aviation Knowledge Online	The Puerto Rican campus, operated in partnership with the Interamerican University of Puerto Rico, is in full delivery mode. However the China and Emirates campuses have wound up. Investment into new Aviation Knowledge Online products is continuing and a partnership has been established with a Washington-based company to promote the product offering globally.	Behind plan On track

2016–17 INITIATIVES	PROGRESS TO DECEMBER 2016	STATUS
Strengthen key international relationships for the domestic campuses	Key relationships with Saudi Arabian and Vietnamese customers continue to strengthen, with both committing to significant increases in student numbers from recent years. Other long term relationships are also progressing well.	On track
Refine and deliver the long term GroupEAD business model	Following a rigorous assessment of the benefits and challenges of the current business model, both parties agreed in December to wind up the partnership. Airways expects to take back 100% ownership in late February 2017.	On track
Make “invest, hold or exit” decisions on all existing opportunities	Key decisions have been confirmed for all major businesses, with a final decision on the long term viability of the Flight-Yield product and service expected by the end of the financial year.	On track
Establish a dedicated Airways product development capability	Organic product development/extension is occurring within business units, with several new product and business ideas already in the evaluation pipeline, however a dedicated capability has not yet been formally established.	Behind plan
Identify and develop long term customer relationships	Focus during the first half of the year has been on establishing the Aviation Services management structure, with the intention of developing relationships in the second half.	Behind plan
Corporate Services and Safety & Assurance		
Develop and implement a Just Culture strategy	Development of the strategy, educational material and associated training programme has continued during the first half of the year and will continue through the next six months.	On track
Enhance tools to support safety and risk management maturity in the business	Development of enhanced dashboards for risk and performance management has progressed well during the first half of the year.	On track
Refresh Airways’ corporate brand	While some initial design ideas have been developed, work planned for the first half of the year has been deferred to the second half of the year.	Behind plan
Continuous improvement in core processes	A security e-learning module and an improved financial management dashboard board report is being developed, and the procurement process for a contract management module has commenced.	On track
Deliver enhanced leadership and change management training	A change management course has been developed and rolled out to a number of senior managers involved in upcoming business changes. Further courses are under consideration for the second half of the year.	On track
Complete Auckland and Christchurch property strategies	The Auckland property strategy is nearly complete, with commercial terms reached with Auckland Airport to meet long term office and operational requirements. Requirements for the Christchurch campus have been confirmed and the extrernal procurement cycle commenced.	On track

Judith Kirk

Chair

16 February 2017

Ed Sims

Chief Executive Officer

16 February 2017

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

For the period ended 31 December	GROUP		NOTES
	Dec 2016 Unaudited	Dec 2015 Unaudited	
OPERATING ACTIVITIES			
REVENUE			
Air traffic management revenue	93,809	93,155	
Other revenue	8,278	6,448	3
TOTAL REVENUE	102,087	99,603	
EXPENSES			
Employee remuneration	51,573	52,865	
Employee related costs	2,854	2,118	
Depreciation and impairment	8,137	8,011	
Amortisation and impairment	2,685	2,411	
Other operating costs	14,788	14,403	
Rental expense on operating leases	2,871	3,012	
Net finance expense	618	1,252	4
TOTAL EXPENSES	83,526	84,072	
Share of profit from joint ventures	421	265	2
NET SURPLUS BEFORE TAXATION	18,982	15,796	
Taxation expense	5,198	4,303	
NET SURPLUS AFTER TAXATION ATTRIBUTABLE TO EQUITY SHAREHOLDERS	13,784	11,493	
OTHER COMPREHENSIVE INCOME			
That will be reclassified to profit or loss when conditions are met:			
Movement in cash flow hedge reserve	1,089	(435)	5
Deferred tax on other comprehensive income	(305)	122	
TOTAL OTHER COMPREHENSIVE INCOME	784	(313)	
TOTAL COMPREHENSIVE INCOME FOR THE YEAR ATTRIBUTABLE TO EQUITY SHAREHOLDERS	14,568	11,180	

This statement is to be read in conjunction with the Notes to the Financial Statements on pages 16–18.

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

	GROUP				
	ATTRIBUTABLE TO EQUITY SHAREHOLDERS				
	CONTRIBUTED EQUITY	HEDGE RESERVE	RETAINED PROFITS	TOTAL	NOTES
BALANCE AS AT 1 JULY 2015	41,100	(1,339)	47,414	87,175	
COMPREHENSIVE INCOME					
Net surplus after taxation	-	-	11,493	11,493	
OTHER COMPREHENSIVE INCOME					
Movements in hedge contracts	-	(435)	-	(435)	5
Deferred tax on other comprehensive income	-	122	-	122	
TOTAL OTHER COMPREHENSIVE INCOME	-	(313)	-	(313)	
TOTAL COMPREHENSIVE INCOME	-	(313)	11,493	11,180	
TRANSACTIONS WITH OWNERS					
Dividends paid (2.4 cents per share)	-	-	(1,000)	(1,000)	
TOTAL TRANSACTIONS WITH OWNERS	-	-	(1,000)	(1,000)	
BALANCE AS AT 31 December 2015	41,100	(1,652)	57,907	97,355	
BALANCE AS AT 1 JULY 2016	41,100	(2,179)	61,643	100,564	
COMPREHENSIVE INCOME					
Net surplus after taxation	-	-	13,784	13,784	
OTHER COMPREHENSIVE INCOME					
Movements in hedge contracts	-	1,089	-	1,089	5
Deferred tax on other comprehensive income	-	(305)	-	(305)	
TOTAL OTHER COMPREHENSIVE INCOME	-	784	-	784	
TOTAL COMPREHENSIVE INCOME	-	784	13,784	14,568	
TRANSACTIONS WITH OWNERS					
Dividends paid (4.9 cents per share)	-	-	(2,000)	(2,000)	6
TOTAL TRANSACTIONS WITH OWNERS	-	-	(2,000)	(2,000)	
BALANCE AS AT 31 DECEMBER 2016	41,100	(1,395)	73,427	113,132	

This statement is to be read in conjunction with the Notes to the Financial Statements on pages 16–18.

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

As at	GROUP Dec 2016 unaudited	Jun 2016 audited	Dec 2015 unaudited	NOTES
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents	3,772	1,479	3,165	7
Trade and other receivables	28,448	27,457	30,116	
Prepayments	2,679	1,590	2,711	
Derivative financial instruments	60	178	201	
TOTAL CURRENT ASSETS	34,959	30,704	36,193	
NON-CURRENT ASSETS				
Property, plant and equipment	143,542	137,286	128,725	
Intangibles	21,350	23,276	21,196	
Inventory	1,397	1,388	1,628	
Investment in joint venture	1,811	1,400	826	
Other non-current assets	84	74	314	
Derivative financial instruments	38	31	-	
TOTAL NON-CURRENT ASSETS	168,222	163,455	152,689	
TOTAL ASSETS	203,181	194,159	188,882	
LIABILITIES				
CURRENT LIABILITIES				
Trade and other payables	12,689	14,643	15,390	
Employee entitlements	16,707	17,643	16,200	8
Current tax liability	3,082	2,460	1,990	
Derivative financial instruments	147	325	413	
Loan facility – unsecured	-	39,000	-	
TOTAL CURRENT LIABILITIES	32,625	74,071	33,993	
NON-CURRENT LIABILITIES				
Loan facility – unsecured	39,000	-	40,000	
Deferred tax liability	7,561	7,254	6,587	
Employee entitlements	9,016	9,494	8,959	8
Derivative financial instruments	1,847	2,776	1,988	
TOTAL NON-CURRENT LIABILITIES	57,424	19,524	57,534	
TOTAL LIABILITIES	90,049	93,595	91,527	
NET ASSETS	113,132	100,564	97,355	
EQUITY				
Share Capital	41,100	41,100	41,100	
Reserves	(1,395)	(2,179)	(1,652)	
Retained Earnings	73,427	61,643	57,907	
TOTAL EQUITY	113,132	100,564	97,355	

This statement is to be read in conjunction with the Notes to the Financial Statements on pages 16–18.

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

For the period ended 31 December	GROUP		NOTES
	Dec 2016 Unaudited	Dec 2015 Unaudited	
CASH FLOWS FROM OPERATING ACTIVITIES			
CASH WAS PROVIDED FROM:			
Receipts from customers	103,741	94,241	
Interest received	18	40	
CASH WAS APPLIED TO:			
Payments to suppliers	(21,862)	(20,851)	
Payments to employees	(57,247)	(55,632)	
Interest paid	(632)	(1,260)	
Income tax paid	(4,575)	(3,143)	
NET CASH FLOWS FROM OPERATING ACTIVITIES	19,443	13,395	*13*
CASH FLOWS FROM INVESTING ACTIVITIES			
CASH WAS PROVIDED FROM:			
Sale of property, plant and equipment	382	-	
CASH WAS APPLIED TO:			
Purchase of property, plant and equipment	(12,869)	(5,729)	
Purchase of intangible assets	(2,663)	(8,677)	
NET CASH FLOWS FROM INVESTING ACTIVITIES	(15,150)	(14,406)	
CASH FLOWS FROM FINANCING ACTIVITIES			
CASH WAS PROVIDED FROM:			
Drawdown of loan facility	-	4,000	
CASH WAS APPLIED TO:			
Payment of dividends	(2,000)	(1,000)	*6*
NET CASH FLOWS FROM FINANCING ACTIVITIES	(2,000)	3,000	
NET INCREASE IN CASH HELD	2,293	1,989	
Cash at the beginning of the period	1,479	1,176	
CASH AT THE END OF THE PERIOD	3,772	3,165	

Interest paid above excludes capitalised interest. Actual interest paid for the six months ended 31 December 2016 was $1,213 (FY16: $1,260).

This statement is to be read in conjunction with the Notes to the Financial Statements on pages 16–18.

NOTE 1 – Basis of preparation

These interim financial statements as at and for the six months ended 31 December 2016 are for the consolidated Group ("Airways"), consisting of Airways Corporation of New Zealand Limited and its subsidiaries: Airways International Limited, Airways Training Limited and Aviation English Services. They have been prepared in accordance with:

- Generally Accepted Accounting Practice in New Zealand and NZ IAS 34, 'Interim Financial Reporting' (as a result they comply with the New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and other applicable Financial Reporting Standards, as appropriate for profit-oriented and 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 interim financial statements have been prepared on the 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.

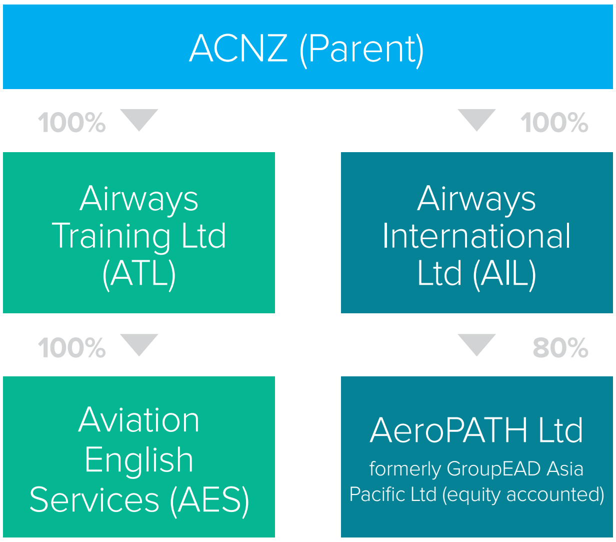
These interim financial statements should be read in conjunction with the 2016 Annual Report.

NOTE 2 – Group structure

Airways Corporation of New Zealand Limited is a limited liability company incorporated and domiciled in 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.

Airways' principal business is the provison of air traffic management services, however it is also involved in a number of related revenue gathering activities including consulting and training.

The Group structure is shown in the diagram below. The percentages indicate ownership.



	PRINCIPAL ACTIVITY
Airways International Ltd	Aeronautical information management, revenue management, recruitment and training, and air navigation services and maintenance of systems
Airways Training Ltd	Holding company
Aviation English Services	Provision of Aviation English training
AeroPATH Limited	AeroPATH Limited is a separate legal entity that delivers aeronautical information management and procedural design and development services throughout the Asia Pacific region. While the Group holds 80% of the shares of AeroPATH, and appoints a majority of the Directors, the shareholders agreement governing the company's operations requires unanimous resolution at both a shareholder and Board level for any material decision that affects the Group's returns. As a result, joint control of AeroPATH exists and the Group has equity accounted for its investment at balance date.

NOTE 3 – Other revenue

Other revenue includes $0.990 million received from an insurance payout. This payment is the final settlement for damage to the Christchuch control tower incurred during the Christchurch earthquakes. Airways intends to use these funds to repair the Christchurch control tower during the current financial year.

NOTE 4 – Net finance expense

Net finance expense includes capitalised interest of $0.581 million (2015: nil). Airways has increased investment in its capital programme, including a number of significant and ongoing construction projects. Accordingly, and in line with Airways' accounting policies and relevant standards, interest costs associated with funding these long term projects are now capitalised.

NOTE 5 – Cash flow hedge reserve

The negative cash flow hedge reserve has decreased due to movements in the valuation of interest rate derivatives.

NOTE 6 – Dividends paid

A $2 million Interim dividend has been delivered to shareholders over the reporting period. Airways expects to pay a total dividend of $7 million for the full year to 30 June 2017.

NOTE 7 – Cash and cash equivalents

Airways operates an overdraft facility to manage operational cashflow without the requirement to hold surplus cash on hand. The overdraft facility incurs interest rates on similar terms as long term borrowings and represents a critical component of Airways' liquidity risk management strategy.

NOTE 8 – Employee entitlements

Employee entitlements (current and non-current) is largely made up of accrued salary costs, annual leave, long service leave and retiring leave liabilities. During the period there were decreases to long term long service and retirement leave balances due to discount rate movements.

NOTE 9 – Capital commitments

Airways had total capital commitments of $39.2 million as at 31 December 2016 (2015: $39.3 million). This programme will be funded through operating cash flow and increased debt, while remaining within current loan facilities and covenants.

NOTE 10 – Operating lease commitments

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

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

AS AT 31 DECEMBER	Dec 2016	Dec 2015
Less than one year	4,742	4,726
One to two years	4,078	4,493
Two to five years	3,213	6,572
Over five years	3,193	1,964
TOTAL OPERATING LEASE OBLIGATIONS	15,226	17,755

NOTE 11 – Contingent liabilities

Airways has contingent liabilities in respect of financial guarantee contracts of $0.409 million for performance bonds (2015: $0.343 million).

NOTE 12 – Subsequent events

There have been no significant events occurring since balance date requiring disclosure. The company is in discussions with GroupEAD Europe to acquire their shares in the AeroPATH joint venture, however no change in share ownership had occurred prior to approving these financial statements for issue.

NOTE 13 – Reconciliation of the net cash flow from operating activities to reported profit

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

FOR THE PERIOD ENDED 31 DECEMBER	Dec 2016	Dec 2015
NET SURPLUS AFTER TAXATION	13,784	11,493
ADD NON CASH ITEMS		
Accounting gain on sale of assets	(5)	17
Amortisation	2,685	2,411
Depreciation and impairment	8,137	8,012
Movement in deferred tax	2	-
Share of loss/(profit) from joint venture	(421)	(265)
TOTAL ADJUSTMENTS FOR ITEMS IN SURPLUS NOT IMPACTING CASH FLOW	10,398	10,175
ADD MOVEMENTS IN WORKING CAPITAL ITEMS		
Increase/(decrease) in payables	(3,350)	(2,906)
Decrease/(increase) in receivables	(1,389)	(5,367)
TOTAL ADJUSTMENTS FOR ITEMS NOT IN SURPLUS IMPACTING CASH FLOW	(4,739)	(8,273)
NET CASH INFLOW FROM OPERATING ACTIVITIES	19,443	13,395

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

FOR THE PERIOD ENDED 31 DECEMBER	PARENT Dec 2016	PARENT Dec 2015
DEBT AND EQUITY EMPLOYED		
Debt employed	65,427	60,811
Equity employed	129,789	117,724
TOTAL DEBT AND EQUITY EMPLOYED	195,216	178,535
Charge on operating capital	6,431	6,534
Economic Value Added	5,632	5,588
SUMMARY OF PARAMETERS FOR COST OF CAPITAL		
Risk free rate – three-year Government Stock	2.05%	2.61%
Market risk premium	7.0%	7.0%
Company tax rate	28.0%	28.0%
Business risk factor (asset beta)	0.60	0.60
Cost of capital	6.71%	7.61%

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/

Consistent with the previous year, Airways' parent company EVA result of $5.6 million for the six months to December 2016 is expected to reduce in the second half of the financial year. Air traffic volumes are seasonally weighted to the first half of the financial year, while capital expenditure and associated interest and depreciation costs are weighted to the second half of the year.

The cost of capital of 6.71% for the period ending December 2016 compares to a cost of capital of 6.90% used for determining 2017–19 air navigation services pricing.

Reconciliation of EVA to Net Operating Profit after Tax

FOR THE PERIOD ENDED 31 DECEMBER	PARENT Dec 2016	PARENT Dec 2015
NOPAT	11,905	10,523
Deduct: Charge on operating capital	(6,431)	(6,534)
Add back: interest costs	754	1,131
Add back: non-cash employee costs	(596)	468
Economic Value Added	5,632	5,588

AIRWAYS
making your world possible

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Directors

Judith Kirk – Chair
Mary-Jane Daly – Deputy Chair
Terry Murdoch
Chris Moxon
Grant Kemble
Bennett Medary
Mark Pitt
Susan Paterson – Chair, retired November 2016

Auditors

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

Bankers

ANZ Bank New Zealand Limited
Bank of New Zealand Limited
The Hong Kong and Shanghai Banking Corporation Limited