F.17

Airways New Zealand Ltd
INTERIM REPORT

For the six months ended 31 December 2015

AIRWAYS
making your world possible

CONTENTS

CHAIR AND CHIEF EXECUTIVE **REPORT**

SUMMARY OF GROUP PERFORMANCE

Airways New Zealand's success as a State-Owned Enterprise is measured by its shareholder, the Crown, on the basis of its safety, operational and commercial performance. Airways has performed well against all three measures in the six months from July to December 2015.

New Zealand's air navigation service provider (ANSP) maintained its strong operational safety record during the half year, with no near collision incidents and a continued low level of technical losses of separation. This is a direct result of continued investment in effective safety management.

Unfortunately Airways recorded one serious staff health and safety incident during the period. A full review of the incident has taken place and the business has made all appropriate improvements to staff safety practices.

Service availability has remained high during the period. Unusually severe weather over the winter months and record traffic volumes in December resulted in a decrease in flight efficiency, with inflight delay metrics below the planned target and the prior year. Detail on both service availability and efficiency is available in table 2 on page 5.

Airways has continued investing in services that will deliver tangible benefits to customers and is well on track to deliver the capital investment programme set out in the 2013-16 pricing plan. The year-to-date spend remains slightly behind target, however is expected to be close to budget by year end.

Financial performance during the period has been strong, with Group Net Operating Profit after Tax (NOPAT) ahead of both budget and the prior period, as outlined in table 1 below.

This strong financial result has been driven by increased flight volumes (both domestic and international), and a continued focus on controllable costs. Over this period, Airways has continued to be a critical enabler of New Zealand's tourism growth. While higher volumes have resulted in increased revenues, customers have also benefited from a price reduction provided for under the pricing framework. Statutory labour costs are higher than planned and are being actively managed (refer to the System Operator – Air Traffic Control (ATC) section on page 5 for further detail).

Year-to-date NOPAT for Airways' non-statutory businesses is slightly behind budget but ahead of the prior year. Although ongoing challenges for the new international partnerships continue, the Training business is performing better than planned – contributing to an expected positive full year NOPAT and cashflow, ahead of the prior year but behind target.

Table 1 NOPAT and revenue breakdown (NZ$ millions)

Business unit	NOPAT			Revenue		
For the six months ended	Dec 15 Actual	Dec 15 Budget	Dec 14 Actual	Dec 15 Actual	Dec 15 Budget	Dec 14 Actual
System Operator – Air Traffic Control (ATC) business	10.5	6.5	6.1	90.8	86.7	85.4
Other Services:						
System Operator - Ancillary Services	1.1	1.2	0.8	5.5	6.1	4.6
Airways Global Services	(0.1)	0.1	(0.3)	5.6[1]	6.7	4.8[2]
	1.0	1.3	0.5	11.1	12.8	9.4
GROUP	11.5	7.8	6.6	101.9	99.5	94.8

1. Includes $2.3m of internal revenue eliminated in the Group Statement of Profit or Loss.
2. Includes $2.3m of internal revenue eliminated in the Group Statement of Profit or Loss.

The 2015-16 full year NOPAT is expected to be $18.1 million, ahead of both budget of $16.5 million and the prior year. This improving forecast fully factors in expected cyclical volume decreases in the statutory business from January to June, and expected full year performance in the non-statutory business.

SYSTEM OPERATOR – AIR TRAFFIC CONTROL (ATC) BUSINESS

Year-to-date operational safety performance has been steady in comparison to recent years, with no near collisions and 10 technical loss of separation incidents (compared to 10 reported in the first half of 2014-15). This continued strong safety record reflects Airways' ongoing investment in safety management systems, which includes the completion of three key safety campaigns across Airways and the broader industry.

These campaigns aim to improve ATC radio phraseology; promote positive controlling practices; and lead professional and safe maintenance practices. These initiatives have now been incorporated into ongoing practice. Investment in new risk assessment tools are also helping to identify and address the underlying causes of losses of separation, contributing to the improving trend over the last three years.

Service availability during the period remained high at 99.98%, ahead of both the target and the same period last year.

Service efficiency, measured using inflight delay metrics, is tracking behind both budget and the prior year as a result of severe weather across the country and record traffic volumes in Auckland (see table 2 for details). However, performance remains well above historic levels, driven by previous investments in aircraft flow management tools and improved procedural design.

The capital investment programme remains on track to deliver key 2013-16 pricing round commitments. Key projects during the six months include:

- progress on the new Wellington control tower, with resource consent and foundation contractors secured
- lifecycle replacement of the critical high frequency radio communication system. Airways has however opted to delay milestone payments of $1 million while issues identified during factory acceptance testing are resolved by the supplier. This has contributed to a temporary underspend against budget
- seismic strengthening at key operational locations in Christchurch, Wellington and Queenstown to ensure high levels of service resilience
- construction of new Queenstown facilities to support the airport's current expansion programme (agreed with airlines outside the current pricing round).

Table 2 Business and leadership performance indicators

	December 2015 Actual	December 2015 Target	December 2014 Actual
BUSINESS PERFORMANCE			
Operational safety – near collision incidents	Zero	Zero	Zero
Staff safety – serious harm injuries	1	Zero	Zero
Service availability	99.98%	99.95%	99.94%
Inflight delay/holding (average seconds per flight)	17 seconds	<14 seconds	14 seconds
Capex – value creating investments ($m)	14.6	16.3	14.2
SO Statutory Services Return on Capital	11.0%	7.7%	10.0%
LEADERSHIP			
Succession (suitable candidates for senior roles)	Measured in June	>3	Not measured
Visibility – internal event platforms (per week)	2	>1	2

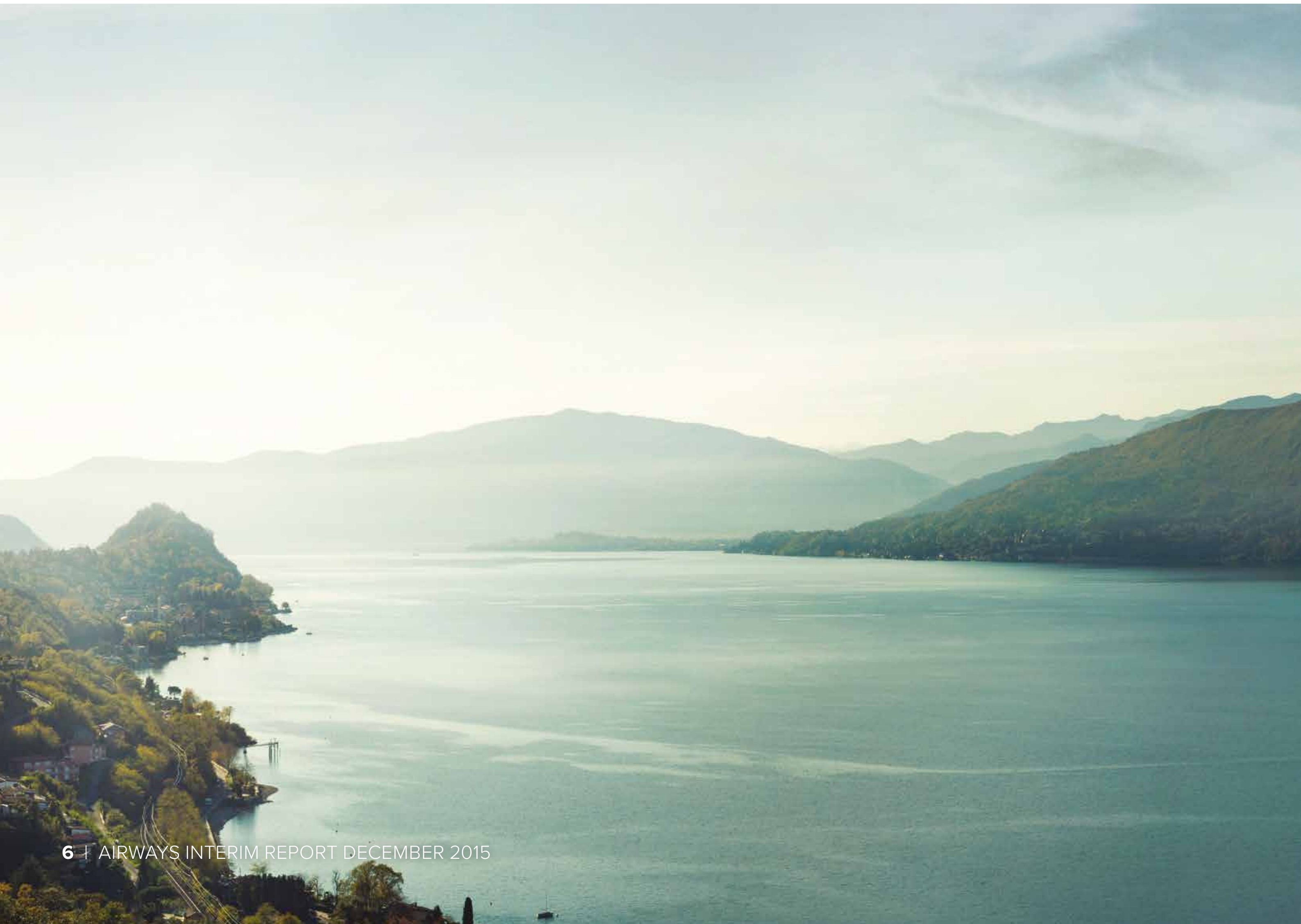
CHAIR AND CHIEF EXECUTIVE **REPORT CONTINUED**

Revenue for the first six months is above target, driven by higher volumes and a number of new routes and services coming into effect during the period. Domestic volumes are up 4.9%, driven largely by key routes between Auckland and Wellington, Christchurch and Queenstown (up 7.6% on average from the prior year) which have delivered $1.2 million revenue above budget. International volumes are also up (5.3% on prior year), with growth supported by a wide range of new routes and providers.

The most significant positive variance on international routes has come from flights between Auckland and Melbourne, which have contributed $0.3 million more revenue than planned. This strong volume growth reflects a similar trend in 2014-15, which enabled Airways to reduce its prices in the current year.

Labour costs for the first six months were $1.3 million higher than planned, driven partly by differences between the expected level of attrition and newly trained staff joining. Airways continues to take a conservative approach to staffing levels to ensure there is no impact on safety or service availability, with timing differences being managed through sabbaticals, increased focus on leave burn and continuing reviews of upcoming ATC trainee intake levels. The unfavourable labour cost variance has also been impacted by lower than planned staff time on capital projects ($0.4 million), and changes in discount rates increasing long term leave provisions ($0.5 million). The overrun in labour costs is expected to reduce in the second half of the year, with the full year forecast expected to be $1 million over budget.

An ongoing focus on operating cost control during the year has helped offset the labour cost variance described above.



The new head office lease, re-negotiated in 2014-15, has delivered $0.1 million of savings against budget year-to-date, and there have been savings in both insurance ($0.1 million) and computer maintenance ($0.1 million). Full year cost savings across these categories are expected to be approximately $0.5 million.

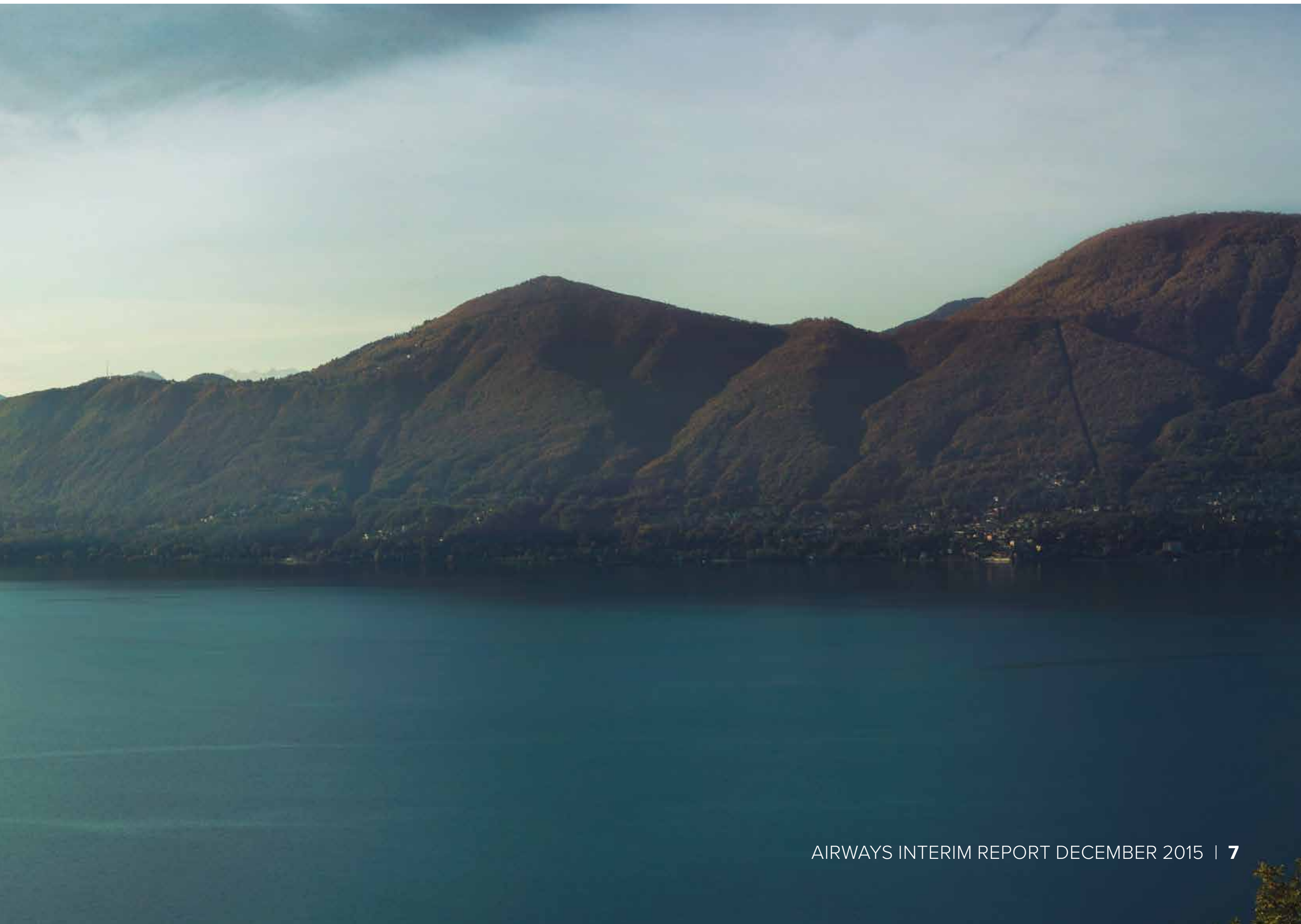
The Statutory business 2015-16 full year NOPAT is expected to be $14.4 million, ahead of the budget of $10.7 million.

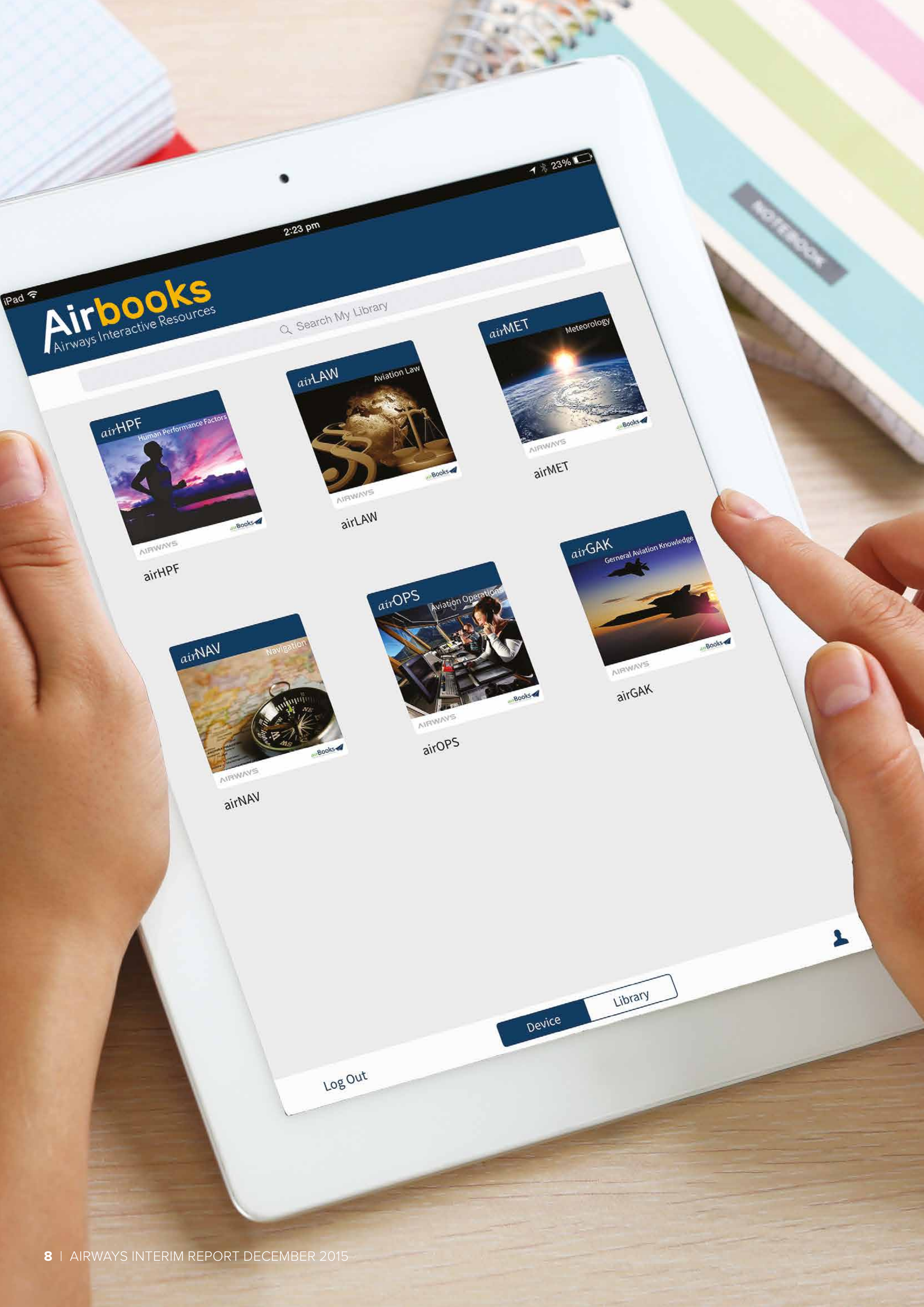
SYSTEM OPERATOR – OTHER SERVICES

System Operator – Other Services has also benefited from strong flight volume growth. Revenue from Pacific airspaces managed by Airways is $0.3 million ahead of budget, off the back of a 3.8% year-on-year rise in volumes.

This business has continued its focus on establishing Airways' presence in the Pacific region, including successfully winning a contract with the Ministry of Foreign Affairs and Trade (MFAT) to deliver a range of navigation, surveillance and procedural design services into the region. This contract positions Airways well for future Pacific work and will be delivered in conjunction with GroupEAD Asia Pacific (part of Airways Global Services).

System Operator – Other Services full year NOPAT is expected to remain in line with budget at $2.8 million.

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AIRWAYS GLOBAL SERVICES

Airways Global Services' financial results for the first six months have been stable. The NOPAT loss of $0.1 million, against a budgeted profit of $0.1 million, is nonetheless an improvement on the prior year. Management continues to control costs and minimise cash burn which is reflected in a positive year-to-date cashflow of $1.2 million.

Training

Progress has been made on establishing the international training campuses, with the Inter American University of Puerto Rico and the Emirates Aviation University campuses expecting students in February and the final quarter respectively.

The most recently developed component of the training strategy, Aviation Knowledge Online, took a significant step forward during the period with the launch of airBooks, a world-first online resource for delivery of foundation ATC training. This is the first in a series of online programmes which will enable Airways to reach customers outside the scope of either in-country or international-campus training services.

The first six months has also seen continued strong performance in the domestic training campuses, with both existing and new customers increasing capacity utilisation by 35% compared to the prior year.

GroupEAD Asia Pacific

The new MFAT contract has been a significant milestone for GroupEAD Asia Pacific and has provided a strong basis to develop relationships with the seven Pacific states included in the agreement. The remaining key GroupEAD Asia Pacific contracts, with Airways and the Civil Aviation Authority (CAA), are delivering in line with expectations.

Flightyield

Financial results for the first six months are below budget as negotiations continue to secure the first fully-hosted Flightyield customer. Nonetheless, a pipeline of opportunities reinforces the value provided by the service.

There have been a number of significant milestones achieved during the first six months across the Global Services portfolio, although some of the challenges from 2014-15 have continued into the current year. The full-year forecast NOPAT result of $0.8 million will be a significant improvement on the prior year even though it falls well short of the $3.0 million target.

Airways continues to manage its international businesses within the Board approved capital limits and the agreed mandate.

PROGRESS ON KEY INITIATIVES

2015-16 INITIATIVES	PROGRESS TO DECEMBER 2015	STATUS
System Operator		
Enhance safety management programme	The updated Safety Management Plan was completed and key safety-focused campaigns delivered. The 2016 Normal Operational Safety Survey (NOSS) is progressing well, with the observation phase now complete.	On track
Operations and ATM platform strategies defined	Both strategies have been defined, approved by the Board and included in the pre-consultation pricing process.	Complete
Flight Information Service (Airways Lite model) for regional airports implemented	Significant progress has been made with two aerodromes to pilot the new service model. A safety case for one aerodrome has been submitted to the CAA with a response expected later in the year.	On track
Develop and implement remotely piloted aircraft systems (RPAS) strategy	Research into long term strategies has commenced and the airshare.co.nz website functionality continues to grow with strong support from the Ministry of Transport and industry. Consideration of pricing components of the strategy have been put on hold until after the broader ATM pricing consultation is completed in May 2016.	On track
Pricing implementation plan agreed with customers	The pricing consultation process has proceeded in line with plan up to December. Formal consultation is expected to start in January.	On track
Deliver $35m service enhancement capital programme	Delivery is on track, although there has been a delay in a $1 million milestone payment while issues with supplied equipment are resolved.	On track
Pacific revenues secured on sustainable basis	A significant contract with seven Pacific states, funded by MFAT, was secured during the period, as well as an additional contract in Samoa. One further tender was also under review at the reporting date.	On track
Airways Global Services		
Drive performance of training campuses	Progress was made in generating student demand for the initial intake at the Inter American University of Puerto Rico and Emirates Aviation University campuses. Unfortunately the CAMIC campus in China has not shown expected progress since launch.	Behind plan
Realise value in GroupEAD Asia Pacific and Flightyield as viable businesses	The GroupEAD business is performing in line with plan. Flightyield continues to struggle to secure a first customer, despite a strong pipeline and robust value proposition.	On track Behind plan
Incubate high potential business opportunities	Investment in further business opportunities is on hold until the existing businesses are more established.	Behind plan
Make the right 'buy, hold, sell' decisions	Airways continues to ensure the performance of all opportunities is objectively and rigorously monitored to maximise value.	On track

PROGRESS ON KEY INITIATIVES CONTINUED

2015-16 INITIATIVES	PROGRESS TO DECEMBER 2015	STATUS
Shared Services and Governance		
Drive forward value creation strategy	Ongoing support has been provided for the operational and ATM strategies and planning has commenced for an externally provided strategic review in the second half of the year.	On track
Enhance Occupational Safety and Health performance	Training for new Health and Safety Act 2015 obligations is being developed and rolled out to the business. A new online tool is being trialled to improve the effectiveness of contractor management and is expected to be released in the second half of the year.	On track
Deliver leadership capability	The key components of the current leadership programme have continued in the current year with good success. The Leadership programme is currently under review, with the aim of enhancing and refining its effectiveness, particularly in respect of new leaders.	On track
Enhance business continuity and national crisis response capability	Two planned crisis exercises were run during the year, covering a range of possible crises from lost aircraft through to media engagement. Further scenarios are planned for the second half of the year.	On track
Enhance safety incident investigation and risk outcomes	A new risk assessment tool is now in place and being used by the Safety team to assess loss of separation events, in conjunction with the Airways risk assessment framework. The risk assessment tool will be formally integrated into the safety management system in Q3.	On track

Susan Paterson

Chair

17 February 2016

Ed Sims

Chief Executive Officer

17 February 2016

STATEMENT OF COMPREHENSIVE INCOME

NZ IFRS

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

For the period ended 31 December	GROUP		NOTES
	Dec 2015 Unaudited	Dec 2014 Unaudited	
OPERATING ACTIVITIES			
REVENUE			
Air traffic management revenue	93,155	87,767	
Other revenue	6,408	4,650	
Interest Income	40	10	
TOTAL REVENUE	99,603	92,427	
EXPENSES			
Depreciation and impairment	8,011	8,167	7
Amortisation and impairment	2,411	2,278	7
Employee remuneration	52,865	50,873	6
Employee related costs	2,118	2,309	
Other operating costs	14,403	15,738	
Rental expense on operating leases	3,012	3,048	
Finance expense	1,252	1,258	
TOTAL EXPENSES	84,072	83,671	
Share of profit from joint ventures	265	263	2
NET SURPLUS BEFORE TAXATION	15,796	9,019	
Taxation expense	4,303	2,401	
NET SURPLUS AFTER TAXATION ATTRIBUTABLE TO EQUITY SHAREHOLDERS	11,493	6,618	
OTHER COMPREHENSIVE INCOME			
That will be reclassified to profit or loss when conditions are met:			
Movement in cash flow hedge reserve	(435)	(943)	3
Deferred tax on other comprehensive income	122	264	
TOTAL OTHER COMPREHENSIVE INCOME	(313)	(679)	
TOTAL COMPREHENSIVE INCOME FOR THE YEAR ATTRIBUTABLE TO EQUITY SHAREHOLDERS	11,180	5,939	

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)	3
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 (9.7 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 2014	41,100	(486)	36,311	76,925	
COMPREHENSIVE INCOME					
Net surplus after taxation	-	-	6,618	6,618	
OTHER COMPREHENSIVE INCOME					
Movements in hedge contracts	-	(943)	-	(943)	3
Deferred tax on other comprehensive income	-	264	-	264	
TOTAL OTHER COMPREHENSIVE INCOME	-	(679)	-	(679)	
TOTAL COMPREHENSIVE INCOME	-	(679)	6,618	5,939	
TRANSACTIONS WITH OWNERS					
Dividends paid (7.3 cents per share)	-	-	(1,000)	(1,000)	4
TOTAL TRANSACTIONS WITH OWNERS	-	-	(1,000)	(1,000)	
BALANCE AS AT 31 December 2014	41,100	(1,165)	41,929	81,864	

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

INTERIM BALANCE SHEET

NZ IFRS

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

	GROUP			
As at 31 December	Dec 2015 Unaudited	Jun 2015 Audited	Dec 2014 Unaudited	NOTES
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents	3,165	1,176	-	5
Trade and other receivables	30,116	22,603	24,035	
Prepayments	2,711	1,474	2,141	
Derivative financial instruments	201	375	229	
TOTAL CURRENT ASSETS	36,193	25,628	26,405	
NON-CURRENT ASSETS				
Property, plant and equipment	128,725	124,979	123,366	7
Intangibles	21,196	20,974	14,833	7
Inventory	1,628	1,666	1,586	
Other non-current assets	1,140	875	586	
Derivative financial instruments	-	4	34	
TOTAL NON-CURRENT ASSETS	152,689	148,498	140,405	
TOTAL ASSETS	188,882	174,126	166,810	
LIABILITIES				
CURRENT LIABILITIES				
Cash and cash equivalents	-	-	2,509	5
Trade and other payables	15,390	14,213	13,441	
Employee entitlements	16,200	18,421	15,775	6
Current tax liability	1,990	831	7	
Derivative financial instruments	413	267	203	
TOTAL CURRENT LIABILITIES	33,993	33,732	31,935	
NON-CURRENT LIABILITIES				
Loan facility - unsecured	40,000	36,000	38,000	
Deferred tax liability	6,587	6,709	5,440	
Employee entitlements	8,959	8,520	8,019	6
Derivative financial instruments	1,988	1,990	1,552	
TOTAL NON-CURRENT LIABILITIES	57,534	53,219	53,011	
TOTAL LIABILITIES	91,527	86,951	84,946	
NET ASSETS	97,355	87,175	81,864	
EQUITY				
Share Capital	41,100	41,100	41,100	
Reserves	(1,652)	(1,339)	(1,165)	
Retained earnings	57,907	47,414	41,929	
TOTAL EQUITY	97,355	87,175	81,864	

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

INTERIM STATEMENT OF CASH FLOWS

NZ IFRS

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

	GROUP	
For the period ended 31 December	Dec 2015 Unaudited	Dec 2014 Unaudited
CASH FLOWS FROM OPERATING ACTIVITIES		
CASH WAS PROVIDED FROM:		
Receipts from customers	94,241	91,038
Interest received	40	10
CASH WAS APPLIED TO:		
Payments to suppliers	(23,245)	(23,129)
Payments to employees	(55,632)	(55,142)
Interest paid	(1,260)	(1,247)
Goods and services tax	2,394	2,313
Income tax paid	(3,143)	(5,087)
NET CASH FLOWS FROM OPERATING ACTIVITIES	13,395	8,756
CASH FLOWS FROM INVESTING ACTIVITIES		
CASH WAS PROVIDED FROM:		
Sale of property, plant and equipment	-	11
CASH WAS APPLIED TO:		
Loans to related parties	-	-
Purchase of property, plant and equipment	(5,729)	(11,274)
Purchase of intangible assets	(8,677)	(2,308)
NET CASH FLOWS FROM INVESTING ACTIVITIES	(14,406)	(13,571)
CASH FLOWS FROM FINANCING ACTIVITIES		
CASH WAS PROVIDED FROM:		
Drawdown of loan facility	4,000	2,000
CASH WAS APPLIED TO:		
Payment of dividends	(1,000)	(1,000)
NET CASH FLOWS FROM FINANCING ACTIVITIES	3,000	1,000
NET INCREASE IN CASH HELD	1,989	(3,815)
Cash at the beginning of the period	1,176	1,306
CASH AT THE END OF THE PERIOD	3,165	(2,509)

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 2015 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.

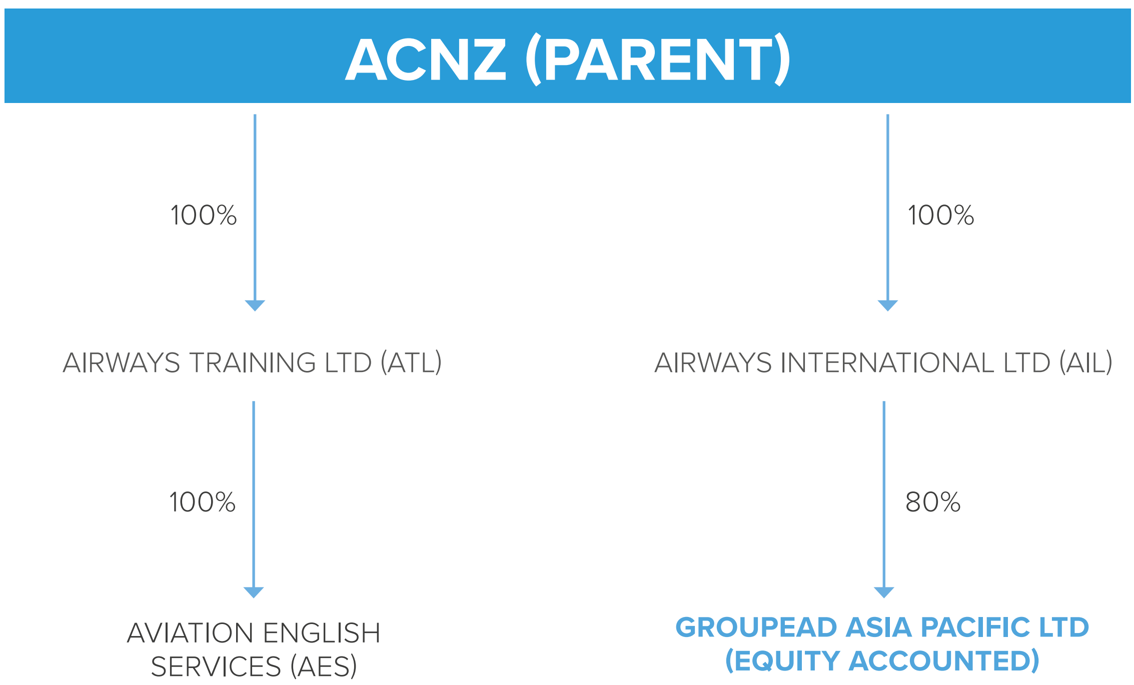
These interim financial statements should be read in conjunction with the 2015 Annual Report.

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 provision of air traffic management services, however it is also involved in a number of related revenue-gathering activities including consulting, publications and training.

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



Note 2 Group structure cont.

	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
GroupEAD Asia Pacific Ltd	GroupEAD Asia Pacific Limited (GroupEAD AP) 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 GroupEAD AP, 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 GroupEAD Asia Pacific exists and the Group has equity accounted for its investment at balance date.

Note 3 Cash flow hedge reserve

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

Note 4 Dividends paid

A $1 million interim dividend has been delivered to shareholders over the last six months. Airways expects to pay a total dividend of $5 million for the full year to 30 June 2016.

Note 5 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 6 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 significant increases to long term long service and retirement leave balances due to discount rate movements.

Note 7 Restatement of comparative balances

Assets with a net book value of $9.954 million were reclassified from property plant and equipment to intangibles in the 2015 financial year. Comparative balances have been restated for property, plant and equipment; intangibles; depreciation; and amortisation to ensure consistency with current year classifications.

NOTES TO THE FINANCIAL STATEMENTS

Note 8 Capital commitments

Airways had total capital commitments of $39.3 million as at 31 December 2015 ($20.3 million as at 31 December 2014). This programme will be funded through operating cash flow and increased debt (whilst remaining within current loan facilities and covenants).

Note 9 Operating lease commitments

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

For the period ended 31 December 2015	Dec 2015 ($'000)	Dec 2014 ($'000)
Less than one year	4,726	4,672
One to Two years	4,493	4,350
Two to five years	6,572	8,900
Over five years	1,964	2,500
TOTAL OPERATING LEASE OBLIGATIONS	17,755	20,422

Note 10 Contingent liabilities

Airways has contingent liabilities in respect of financial guarantee contracts of $0.343 million for performance bonds (2014: $1.5 million).

Note 11 Subsequent events

There have been no significant events occurring since balance date requiring disclosure.

Note 12 Reconciliation of the net cash flow from operating activities to reported profit

For the period ended 31 December 2015	Dec 2015 ($'000)	Dec 2014 ($'000)
NET SURPLUS AFTER TAXATION	11,493	6,618
ADD NON CASH ITEMS		
Accounting gain on sale of assets	17	(14)
Amortisation	2,411	2,278
Depreciation and impairment	8,012	8,167
Movement in deferred tax	-	-
Share of loss/(profit) from joint venture	(265)	(263)
TOTAL ADJUSTMENTS FOR ITEMS IN SURPLUS NOT IMPACTING CASH FLOW	10,175	10,168
ADD MOVEMENTS IN WORKING CAPITAL ITEMS		
Increase/(decrease) in payables	(2,906)	(6,594)
Decrease/(increase) in receivables	(5,367)	(1,436)
TOTAL ADJUSTMENTS FOR ITEMS NOT IN SURPLUS IMPACTING CASH FLOW	(8,273)	(8,030)
NET CASH INFLOW FROM OPERATING ACTIVITIES	13,395	8,756

EVA KEY PERFORMANCE INDICATORS

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

For the six months ended 31 December 2015	Parent Dec 2015	Parent Dec 2014
DEBT AND EQUITY EMPLOYED		
Debt employed	60,811	55,934
Equity employed	117,724	101,426
TOTAL DEBT AND EQUITY EMPLOYED	178,536	157,360
Charge on operating capital	6,534	6,585
ECONOMIC VALUE ADDED (EVA)	5,588	1,039
SUMMARY OF PARAMETERS FOR COST OF CAPITAL		
Risk free rate – three-year Government Stock	2.61%	3.79%
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	7.61%	8.61%

EVA explanation:

The EVA reporting framework applied by Airways can be found at:
http://www.airways.co.nz/about/financial-operational-and-safety-performance-reports

Consistent with the previous year, Airways' parent company EVA result of $5.547 million for the six months to December 2015 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 7.61% for the period ending December 2015 compares to a cost of capital of 7.80% used for determining the 2013-16 air navigation services pricing.

Corporate **DIRECTORY**

Registered office

Level 7
Majestic Centre
100 Willis Street
PO Box 294
Wellington
New Zealand

Directors

Susan Paterson – Chair
David Park – Deputy Chair, *retired November 2015*
Terry Murdoch
Chris Moxon
Grant Kemble
Mary-Jane Daly
Susan Huria – *retired November 2015*
Robin Gunston – *retired November 2015*
Bennett Medary – *joined November 2015*
Mark Pitt – *joined November 2015*

Web address

www.airways.co.nz

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