

# 2010/11 Interim Report

For the six months ended  
31 December 2010

# CONTENTS

---

Chairman and Chief Executive Report	Pages 3-5
NZIFRS Financial Statement	Pages 6-12
EVA Key Performance Indicators	Page 13
Corporate Directory	Page 14

# REPORT FOR THE SIX MONTHS ENDED 31 DECEMBER 2010

---

The first six months of the financial year was a challenging period for Airways with the withdrawal of Pacific Blue from the New Zealand domestic market. The full revenue impact of this withdrawal was partially offset with higher than expected revenues from international airlines and domestic customers taking up the additional capacity from the Pacific Blue withdrawal.

At a group level, Airways achieved a half year Net Operating Profit after Tax (NOPAT) result of \$4.8m which was \$0.6m better than budget of \$4.2m.

Our non-financial objectives for 2010/11 are progressing to plan.

## Financial Performance

### Air Navigation Services (NZ ANS)

The NZ ANS half year result of \$4.3m NOPAT was \$0.6m ahead of budget.

Revenues of \$66.9m were \$0.1m better than budget with the drop in domestic revenues due to the Pacific Blue withdrawal being offset with higher than expected revenues from increased international airlines schedules.

Costs are down on budget mainly due to \$0.9m favourable variance in depreciation.

### Airways International (AIL)

The Growth segment of the business achieved a half year result of \$0.5m NOPAT which was \$0.1m below budget.

Revenues of \$10.2m were \$2.5m below budget due to lower than planned revenues in the Consulting, Flight Yield and Training businesses. This adverse variance was offset by a combination of lower cost of sales and timing of operating expenses.

The implementation of Airways Flight Yield billing system in China went live on the 1st December 2010 and the implementation of Flight Yield into Saudi Arabia is progressing well with the completion of the Site Acceptance Testing milestone.

*Key Performance Indicators*

For the period 1 July to 31 December 2010	Actual	Target
Loss of separation incidents (A1/A2)	11	≤12
System Availability	99.995%	≤ 99.99%

Airways' principal safety metrics remain positive. Heightened safety awareness and recent new technologies such as Performance Based Navigation and Required Navigation procedures are contributing to an improvement in Airways safety performance.

The failure of the Auckland Runway Edge Lights on the evening of Saturday November 27 resulted in a 7 hour closure of Auckland Airport and affected 18 flights. The cause of the failure is still under investigation, but in the meantime a cable replacement programme is being expedited.

**The Employment Relations (Breaks, Infant Feeding and Other Matters) Amendment Act 2008 ("the Act")**

The proposed amendment to the legislation is positive and is in keeping with the agreements Airways has put in place but it has not yet been passed into law. This still needs to happen.



Con Anastasiou  
Chairman



Monica Davis  
Acting CEO

## Statement of Corporate Intent Performance Objectives

2010/11 Objectives	Progress at Half Year
<b>Safe &amp; reliable</b>	
» Continue to implement Airways 10 year Airways Strategic Safety Plan to drive our objective of zero serious loss of separation incidents.	Progressing to plan
» Successfully introduce the new maintenance management software and complete all system maintenance optimisation reviews.	Progressing to plan
<b>Helping customers succeed</b>	
» Together with our customers and key stakeholders in the aviation industry, implement initiatives as outlined in Airways' Vision 2015 strategy aimed at fuel burn and carbon emissions by the Airlines. Complete the business case for extending multi-lateration and ADS-B surveillance data into the southern part of the South Island to enable complete surveillance across the South Island above 9500ft.	Progressing to plan
» Work with the NZ Airports Association to review and agree on a standard Letter of Agreement between Airways and the Airports.	Progressing to plan
» Progress a regional Aeronautical Communications solution with Airservices Australia to reduce costs and improve interoperability.	Progressing to plan
<b>Motivated and prepared workforce</b>	
» Successfully complete negotiations for the collective agreements expiring in 2010/2011 within acceptable parameters.	Progressing to plan
» Align Airways' brand with domestic, internal and international audiences and raise the profile of the Airways brand to support international marketing and local recruitment.	Achieved
» Increase emphasis on staff/team communications with support for managers through the new RSVP system.	Progressing to plan
» Continue to focus on lifting the workplace culture from "Good to Great", through initiatives aimed at increasing employee engagement.	Progressing to plan
<b>Grow the business</b>	
» Achieve international sales of proprietary software products including Airways' SureSelect, CBT, or Tower Simulator directly or through alternative sales channels.	Progressing to plan
» Complete Flight-Yield TM installation in Saudi Arabia and secure a contract for two other sites.	Saudi Arabia installation progressing to plan. At risk to extent of additional contracts.
» Secure at least one multi-year, >\$1m pa ATC Training sale.	Progressing to plan
» Deliver Airways-style training through one other channel (owned joint venture or partnering) and aim to be training more than 60 ab initios per year in NZ.	Progressing to plan
<b>Being commercially successful</b>	
» Maintain our focus on our core infrastructure capital investment programme and our strategic initiatives.	Progressing to plan
» Renew Airways' \$55m term funding facility.	Achieved
» Work closely with our airline, general aviation, and pilot training customers, and other key industry stakeholders to formulate a long term pricing strategy aimed at addressing the imbalance in Airways' regional vs main trunk pricing.	Progressing to plan
» Complete Intensive GA pricing consultations and complete reviews on Airways' pricing tickets and contracts.	Progressing to plan
» Continue to pursue initiatives arising from "new commercial model" discussions with industry, including the progressing of the introduction of a rate stabilisation fund and pursuing value based pricing initiatives for projects outside of Airways' technology roadmap.	Progressing to plan
» Develop partnerships that will benefit the domestic business and generate opportunities for the products and services in our growth business.	Progressing to plan

## STATEMENT OF COMPREHENSIVE INCOME

NZIFRS

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

FOR THE PERIOD ENDED 31 DECEMBER 2010	GROUP	
	DEC 2010 UNAUDITED	DEC 2009 UNAUDITED
REVENUE		
Service Delivery	67,895	63,030
Other income	9,137	7,753
Finance Income	49	11
	<b>77,081</b>	<b>70,794</b>
EXPENSES		
Depreciation	6,156	6,532
Amortisation	502	455
Employee remuneration	46,840	43,672
Other operating expenses	13,637	12,508
Rental expense on operating leases	2,264	2,151
Finance expense	845	820
	<b>70,244</b>	<b>66,138</b>
<b>NET OPERATING SURPLUS BEFORE TAXATION</b>	<b>6,837</b>	<b>4,656</b>
Taxation	(2,051)	(1,397)
<b>NET OPERATING SURPLUS AFTER TAXATION</b>	<b>4,786</b>	<b>3,259</b>
OTHER COMPREHENSIVE INCOME		
Movement on foreign exchange cash flow hedge reserve	1,213	582
Movement on interest rate derivative cash flow hedge reserve	(521)	43
Deferred tax for current year on items recognised directly to equity	(208)	229
<b>TOTAL OTHER COMPREHENSIVE INCOME</b>	<b>484</b>	<b>854</b>
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>	<b>5,270</b>	<b>4,113</b>
ATTRIBUTED TO:		
EQUITY SHAREHOLDERS	5,270	4,113

This statement is to be read in conjunction with the Notes to the Financial Statements on pages 10 to 12.

## STATEMENT OF CHANGES IN EQUITY

NZIFRS

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

	GROUP			
	CONTRIBUTED EQUITY	HEDGE RESERVE	RETAINED PROFITS	TOTAL
<b>BALANCE AS AT 1 JULY 2009</b>	<b>41,100</b>	<b>70</b>	<b>10,642</b>	<b>51,812</b>
COMPREHENSIVE INCOME				
Surplus after taxation	-	-	3,259	3,259
OTHER COMPREHENSIVE INCOME				
FOREIGN EXCHANGE HEDGES RECOGNISED IN:				
Net surplus before taxation	-	1	-	1
MOVEMENT IN VALUE OF:				
New foreign exchange hedges	-	135	-	135
Foreign exchange hedges held throughout the year	-	446	-	446
New interest rate hedges	-	42	-	42
Interest rate hedges held throughout the year	-	1	-	1
Deferred tax	-	229	-	229
<b>TOTAL OTHER COMPREHENSIVE INCOME</b>	<b>-</b>	<b>854</b>	<b>-</b>	<b>854</b>
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>-</b>	<b>854</b>	<b>3,529</b>	<b>4,113</b>
TRANSACTIONS WITH OWNERS				
Dividends paid	-	-	(2,000)	(2,000)
<b>TOTAL TRANSACTIONS WITH OWNERS</b>	<b>-</b>	<b>-</b>	<b>(2,000)</b>	<b>(2,000)</b>
<b>BALANCE AS AT 31 DECEMBER 2009</b>	<b>41,100</b>	<b>924</b>	<b>11,901</b>	<b>53,925</b>
<b>BALANCE AS AT 1 JULY 2010</b>	<b>41,100</b>	<b>(214)</b>	<b>4,702</b>	<b>45,588</b>
COMPREHENSIVE INCOME				
Surplus after taxation	-	-	4,786	4,786
OTHER COMPREHENSIVE INCOME				
FOREIGN EXCHANGE HEDGES RECOGNISED IN:				
Net surplus before taxation	-	-	-	-
MOVEMENT IN VALUE OF:				
New foreign exchange hedges	-	(48)	-	(48)
Foreign exchange hedges held throughout the year	-	884	-	884
New interest rate hedges	-	15	-	15
Interest rate hedges held throughout the year	-	(159)	-	(159)
Deferred tax	-	(208)	-	(208)
<b>TOTAL OTHER COMPREHENSIVE INCOME</b>	<b>-</b>	<b>484</b>	<b>-</b>	<b>484</b>
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>-</b>	<b>484</b>	<b>4,786</b>	<b>5,270</b>
TRANSACTIONS WITH OWNERS				
Dividends paid	-	-	(2,000)	(2,000)
<b>TOTAL TRANSACTIONS WITH OWNERS</b>	<b>-</b>	<b>-</b>	<b>(2,000)</b>	<b>(2,000)</b>
<b>BALANCE AS AT 31 DECEMBER 2010</b>	<b>41,100</b>	<b>270</b>	<b>7,488</b>	<b>48,858</b>

This statement is to be read in conjunction with the Notes to the Financial Statements on pages 10 to 12.

## INTERIM BALANCE SHEET

NZIFRS

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

AS AT 31 DECEMBER 2010	GROUP		
	DEC 2010 UNAUDITED	DEC 2009 UNAUDITED	JUN 2010 AUDITED
ASSETS			
CURRENT ASSETS			
Cash and Cash Equivalents	5,031	5,502	5,425
Trade and Other Receivables	21,884	19,243	21,697
Prepayments	1,941	2,033	818
Current Tax Assets	-	1,212	1,919
Derivative Financial Instruments	1,808	965	604
<b>TOTAL CURRENT ASSETS</b>	<b>30,664</b>	<b>28,955</b>	<b>30,463</b>
NON-CURRENT ASSETS			
Property, Plant and Equipment	104,641	109,377	106,452
Intangibles	4,507	4,371	4,855
Investments	23	121	23
Parts Inventory	1,306	1,281	1,182
Other Non-Current Assets	85	84	84
Derivative Financial Instruments	159	842	102
<b>TOTAL NON-CURRENT ASSETS</b>	<b>110,721</b>	<b>116,076</b>	<b>112,698</b>
<b>TOTAL ASSETS</b>	<b>141,385</b>	<b>145,031</b>	<b>143,161</b>
LIABILITIES			
CURRENT LIABILITIES			
Trade and Other Payables	4,633	6,345	6,925
Employee Entitlements	15,876	14,472	16,161
Derivative Financial Instruments	338	185	176
Current Tax Liability	132	-	-
Loan facility- unsecured	33,000	-	36,000
<b>TOTAL CURRENT LIABILITIES</b>	<b>53,979</b>	<b>21,002</b>	<b>59,262</b>
NET LONG-TERM BORROWING			
Loan Facility – Unsecured	-	38,000	-
<b>TOTAL NET LONG-TERM BORROWING</b>	<b>-</b>	<b>38,000</b>	<b>-</b>
NON-CURRENT LIABILITIES			
Deferred tax liability	9,788	3,949	9,581
Deferred income	21,297	22,525	21,297
Employee entitlements	6,730	5,439	6,730
Derivative financial instruments	733	191	703
<b>TOTAL NON-CURRENT LIABILITIES</b>	<b>38,548</b>	<b>32,104</b>	<b>38,311</b>
<b>TOTAL LIABILITIES</b>	<b>92,527</b>	<b>91,106</b>	<b>97,573</b>
<b>NET ASSETS</b>	<b>48,858</b>	<b>53,925</b>	<b>45,588</b>
EQUITY			
Share Capital	41,100	41,100	41,100
Reserves	270	924	(214)
Retained earnings	7,488	11,901	4,702
<b>TOTAL EQUITY</b>	<b>48,858</b>	<b>53,925</b>	<b>45,588</b>

This statement is to be read in conjunction with the Notes to the Financial Statements on pages 10 to 12.



## INTERIM STATEMENT OF CASH FLOWS

NZIFRS

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

FOR THE SIX MONTHS ENDED 31 DECEMBER 2010	GROUP	
	DEC 2010 UNAUDITED	DEC 2009 UNAUDITED
CASH FLOW FROM OPERATING ACTIVITIES		
Cash was provided from:		
Receipts from Customers	74,281	68,554
Interest Received	51	13
Cash was applied to:		
Payments to Suppliers	(15,748)	(17,574)
Payments to Employees	(50,610)	(44,736)
Interest Paid	(705)	(806)
Goods and Services Tax	1,763	1,179
Payment of Income Tax	-	57
<b>NET CASH FLOWS FROM OPERATING ACTIVITIES</b>	<b>9,032</b>	<b>6,687</b>
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash was provided from:		
Sale of Property, Plant and Equipment	30	1
Cash was applied to:		
Purchase of Property, Plant and Equipment	(5,407)	(5,008)
Labour Costs Capitalised	960	991
<b>NET CASH FLOWS FROM INVESTING ACTIVITIES</b>	<b>(4,417)</b>	<b>(4,016)</b>
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash was provided from:		
Loan Facility	-	3,000
Cash was applied to:		
Repayment of loan facility	(3,000)	-
Payment of Dividends	(2,000)	(2,000)
<b>NET CASH FLOWS FROM FINANCING ACTIVITIES</b>	<b>(5,000)</b>	<b>1,000</b>
NET (DECREASE)/INCREASE IN CASH HELD	(385)	3,671
<b>CASH AT THE BEGINNING OF THE PERIOD</b>	<b>5,416</b>	<b>1,831</b>
<b>CASH AT THE END OF THE PERIOD</b>	<b>5,031</b>	<b>5,502</b>

This statement is to be read in conjunction with the Notes to the Financial Statements on pages 10 to 12.

## NOTES TO THE FINANCIAL STATEMENTS

NZIFRS

### NOTE 1 REPORTING ENTITY

Airways Corporation of New Zealand Limited is a limited liability company incorporated and domiciled in New Zealand. The address of its registered office is Level 26, Majestic Centre, 100 Willis St, Wellington, New Zealand. Airways Corporation of New Zealand Limited is a State-Owned Enterprise established under the State-Owned Enterprise Act 1986 with shares held in equal numbers by the Minister for State-Owned Enterprises and the Minister of Finance, on behalf of the Crown.

These Group consolidated financial statements are for Airways Corporation of New Zealand Limited and its wholly owned subsidiaries, Airways International Limited (AIL), Airways Training Limited, and Airways Equipment Limited (AEL). All companies are registered under the Companies Act 1993. Airways refers to the "Group": Airways Corporation of New Zealand, as well as its wholly owned subsidiaries. The term "Parent" refers to Airways Corporation of New Zealand Limited.

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

Airways' principal business is air navigation services within New Zealand.

In addition to this Airways is involved in International:

- (i) Air navigation services and maintenance of systems
- (ii) Consultancy
- (iii) Training
- (iv) Selling aviation related publications, and
- (v) Software development, sale and implementation.

### NOTE 2 BASIS OF PREPARATION

#### A. STATEMENT OF COMPLIANCE

These interim financial statements as at end for the six months ended 31 December 2010 have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand and IAS 34, 'Interim Financial Reporting'. They comply with the New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and other applicable Financial Reporting Standards, as appropriate for profit oriented entities. These Interim Financial Statements should be read in conjunction with the 2010 Annual Report.

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

#### B. BASIS OF MEASUREMENT

The principal accounting policies adopted in the preparation of the financial statements are consistent with those followed in the preparation of the financial statements prepared as at June 2010, except as described below.

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

#### C. FUNCTIONAL AND PRESENTATION CURRENCY

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

## NOTES TO THE FINANCIAL STATEMENTS

## NZIFRS

**D. STANDARDS, AMENDMENTS AND INTERPRETATIONS TO EXISTING STANDARDS THAT HAVE BEEN ADOPTED BY AIRWAYS.**

(i) NZ IAS 1 (Revised), 'Presentation of financial statements' (effective from 1 January 2009). The revised standard prohibits the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity. All non-owner changes in equity are required to be shown in a performance statement, but entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the income statement and statement of comprehensive income). Airways has applied NZ IAS 1 (Revised) from 1 July 2010 statements, and has chosen to present two statements, the income statement and statement of comprehensive income.

Share Capital – The Parent has paid up capital of \$41.1 million (2009: \$41.1 million) issued and fully paid ordinary shares which confer on the holders the right to vote at any general meeting of Shareholders. This consists of 41,100,000 fully paid ordinary shares.

The cash flow hedge reserve records the portion of the gain or loss on a hedging instrument in a cash flow hedge that is determined to be an effective hedge.

**NOTE 3 CAPITAL COMMITMENTS**

At balance date Airways had total capital commitments of \$7.86 million as at December 2010 (2009: \$11.73 million at December 2009). Airways will fund this programme through operating cash flow and increased debt (whilst remaining within current loan facilities and covenants).

**NOTE 4 OPERATING LEASE COMMITMENTS**

Lease commitments under non-cancellable operating leases:

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

	GROUP	
	DEC 2010	DEC 2009
Less than one year	3,960	3,623
One to two years	3,614	3,290
Two to five years	9,290	7,179
Over five years	8,641	11,006
<b>TOTAL OPERATING LEASE OBLIGATIONS</b>	<b>25,505</b>	<b>25,098</b>

These lease commitments relate to both unsigned leases under negotiation and signed leases. Management has estimated the future lease commitments for unsigned leases, based on the most recent negotiations. The Group leases various land, buildings, IT hardware and equipment under non-cancellable operating lease agreements. Lease terms are between two and twenty one years and most agreements are renewable at the end of the lease period.

**NOTE 5 CONTINGENT LIABILITIES**

There are no contingent liabilities in addition to those identified in the notes above (2009: Nil).

**NOTE 6 SUBSEQUENT EVENTS**

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

## NOTES TO THE FINANCIAL STATEMENTS

NZIFRS

## NOTE 7 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 SIX MONTHS ENDED 31 DECEMBER 2010	GROUP	
	DEC 2010	DEC 2009
NET PROFIT AFTER TAXATION	4,786	3,259
Add non cash items:		
Accounting loss on sale of fixed assets	33	9
Amortisation	502	455
Depreciation	6,156	6,532
<b>TOTAL ADJUSTMENTS FOR ITEMS NOT IN PROFIT IMPACTING CASH FLOW</b>	<b>6,691</b>	<b>6,996</b>
Add movements in working capital items:		
(Decrease) in payables	336	(269)
(Increase)/decrease in receivables	(2,781)	(3,299)
<b>TOTAL ADJUSTMENTS FOR ITEMS NOT IN PROFIT IMPACTING CASH FLOW</b>	<b>(2,445)</b>	<b>(3,568)</b>
<b>NET CASH INFLOW FROM OPERATING ACTIVITIES</b>	<b>9,032</b>	<b>6,687</b>

## EVA KEY PERFORMANCE INDICATORS

## EVA

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

FOR THE SIX MONTHS ENDED 31 DECEMBER 2010	GROUP	
	DEC 2010	DEC 2009
DEBT & EQUITY EMPLOYED		
Debt Employed	46,459	52,881
Equity Employed	100,848	95,670
<b>TOTAL DEBT &amp; EQUITY EMPLOYED</b>	<b>147,307</b>	<b>148,551</b>
CHARGE ON OPERATING CAPITAL		
Air Navigation Services	4,204	3,979
Airways International	669	619
<b>TOTAL CHARGE ON OPERATING CAPITAL</b>	<b>4,873</b>	<b>4,598</b>
<b>CHARGE ON EQUITY CAPITAL</b>	<b>3,960</b>	<b>3,525</b>
ECONOMIC VALUE ADDED (EVA)		
Air Navigation Services	2,142	(12)
Airways International	(474)	367
<b>TOTAL ECONOMIC VALUE ADDED</b>	<b>1,668</b>	<b>355</b>

## SUMMARY OF PARAMETERS FOR COST OF CAPITAL

Risk free rate – 5 yr Government Stock	4.61%	5.06%
Market risk premium	7.0%	8.0%
Company tax rate	30.0%	30.00%
Business risk factor (asset beta)		
Air Navigation Services	0.45	0.30
Airways International	0.75	0.57
Airways Corporation of NZ Ltd (weighted average)	0.48	0.33
Cost of Capital		
Air Navigation Services	6.37%	5.94%
Airways International	8.04%	8.74%
Airways Corporation of NZ Ltd (weighted average)	6.60%	6.18%
Cost of Equity Capital		
Equity Risk factor (equity beta)	0.68	0.48
Cost of equity	8.00%	7.41%

## EVA EXPLANATION:

An explanation of EVA accounting is found in the Airways New Zealand 2010 Annual Report which is found at:  
[http://www.airways.co.nz/about\\_Airways/corporate-publications.asp](http://www.airways.co.nz/about_Airways/corporate-publications.asp)

# CORPORATE DIRECTORY

---

## REGISTERED OFFICE

Level 26,  
Majestic Centre  
100 Willis Street  
PO Box 294  
Wellington  
New Zealand

---

## DIRECTORS

Con Anastasiou Chairman  
Susan Paterson Deputy Chairman  
Anthony Briscoe  
Susan Huria  
Terry Murdoch  
David Park  
Susan Putt  
Graeme Reeves

---

## INTERNET ADDRESS

[www.airways.co.nz](http://www.airways.co.nz)

---

## AUDITORS

Fred Hutchings, with the assistance of  
PricewaterhouseCoopers on behalf of the Auditor-  
General

---

## BANKERS

ANZ National Bank Limited  
Bank of New Zealand Limited