AIRWAYS

OUR SKIES OPEN BEYOND NEW ZEALAND'S BORDERS AND OVER THE HORIZON.

2016_17
ANNUAL REPORT

making your world possible


THIS YEAR WE WENT EVEN FURTHER, BEYOND OUR SKIES INTO
WE ARE THE GUARDIANS OF THESE SKIES
O PE

SPACE. WITH OUR EXPERT NAVIGATION, NASA TESTED THEIR SUPER-PRESSURED HIGH ALTITUDE BALLOONS AT THE EDGE OF SPACE. AND WITH OUR GUIDANCE, ROCKET LAB'S ELECTRON ROCKET LAUNCHED NEW ZEALAND'S BURGEONING SPACE INDUSTRY TO THE NEXT LEVEL.

ENSURING SAFE AND EFFICIENT PASSAGE FOR OVER ONE MILLION JOURNEYS A YEAR.

N

SKIES

FROM THE GIANT A380S TAKING OUR PEOPLE AND ECONOMY TO NEW PLACES, TO LIGHT AIRCRAFT CARRYING TOURISTS OVER OUR SOUTHERN PEAKS THROUGH TO OFFSHORE SEARCH AND RESCUE, WE GUIDE THEM ALL HOME SAFELY.

OUR TALENTED PEOPLE WORK HARD TO ENABLE OUR CUSTOMERS TO REACH HIGHER AND GO
THIS YEAR OUR SKIES OPENED UP TO NEW CARRIERS,
NEW ROUTES AND TO MORE DRONES AND OTHER UNMANNED CRAFTS.

OUR TECHNOLOGY AND INNOVATIVE THINKING CHARTS SAFER AND MORE EFFICIENT
FLIGHT PATHS, REDUCING CONGESTION AND OUR ENVIRONMENTAL FOOTPRINT.
AND OUR GLOBAL CONNECTIONS DELIVER AIR TRAFFIC EXPERTISE
TO OVER 65 COUNTRIES, RAISING THE QUALITY OF AIR NAVIGATION ALL AROUND


FURTHER.
HIGH ER
THE WORLD.
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UNPRECEDENTED GROWTH MEANS THE FUTURE OF GLOBAL AIR NAVIGATION IS CHANGING IN EXCITING AND CHALLENGING WAYS. WE STAND AT THE FOREFRONT

BE Y

WE ARE CONSTANTLY LOOKING

OF THIS CHANGE, CHAMPIONING GLOBAL THINKING ON COMPETITION, SAFETY AND INNOVATION.

LOOK ING

OND

FORWARD TO WHAT OUR CUSTOMERS AND INDUSTRY WILL NEED TOMORROW. IT'S MORE THAN LOOKING BEYOND, IT'S GOING BEYOND, OPENING UP OUR SKIES TO A WORLD OF POSSIBILITIES. FOR US THE SKY ISN'T THE LIMIT. WE GO BEYOND WHAT THE EYE CAN SEE AND THE MIND CAN IMAGINE.

BUSIEST SUMMER ON RECORD IN NZ

$15.7M
FUEL SAVINGS

$23.7M
PROFIT AFTER TAX

79%
CUSTOMER SATISFACTION

9%
TRAFFIC VOLUME GROWTH

99.98%
SERVICE AVAILABILITY

CONTENTS

22,764
UAV FLIGHTS

$41.8M
INFRASTRUCTURE INVESTMENT

0
HIGH SEVERITY SAFETY EVENTS

49%
NOPAT INCREASE IN COMMERCIAL BUSINESSES

MESSAGE FROM JUDY KIRK — CHAIR
SAFE, SUCCESSFUL, SUSTAINABLE

“AS ALWAYS, AIRWAYS’ FOCUS ON SAFETY IS PARAMOUNT.”

SAFE

Airways’ success is determined by four essential measures – our safety, our operational performance, our customer satisfaction and our financial result. Across all four metrics, we are pleased to report the financial year ended 30 June, 2017 has been one of the most successful on record.

Over the past 12 months the organisation has consistently facilitated safe and efficient operations in a year of extraordinary growth in the aviation industry. We have supported operations for new carriers, aircraft and routes, in addition to emerging entrants in New Zealand’s airspace such as Rocket Lab, National Aeronautics and Space Administration (NASA) and the ever growing Unmanned Aerial Vehicle (UAV) industry.

Operationally the business has invested heavily in infrastructure and technology that positions Airways for the future. Commercially we have executed on a refreshed strategy that is already delivering growth and increased profits.

As we continue to invest in New Zealand’s aviation network, our 30th anniversary as a State-owned Enterprise has provided pause to reflect on the achievements of our people and our business through these past three decades, a period in which we are pleased to have delivered tangible benefits to our customers and shareholder. We are proud of Airways’ contribution to New Zealand aviation over the years.

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STRATEGIC REFRESH

Airways' strategic direction, formed through our 10-year business strategy known as MANA (Making A New Airways), has now passed its midpoint and was refreshed during the year. This revitalisation ensures we retain focus and capability during our transition to a new technology and operational platform that will drive safety and performance improvements. Called Destination 2021, it clarifies our business objectives and operating imperatives for the remainder of the MANA strategy timeline.

Five strategic approaches will underpin the next five years:

- Enhancing safety culture
- Investing and innovating
- Simplifying our business
- Growing and diversifying
- Growing capability

Each of these approaches is explored in more detail throughout this report.

MESSAGE FROM JUDY KIRK CHAIR
SAFE, SUCCESSFUL, SUSTAINABLE

"PARTNERSHIPS WITH OUR DELIVER BENEFITS FAR OUR OWN RESOURCES."

0
HIGH SEVERITY SAFETY EVENTS

SAFE

As always, Airways' focus on safety is paramount, both operationally and where the health and safety of our people is concerned.

This year we are pleased to report zero major severity operational safety incidents. The loss of separation incidents remain very low, with no near collisions. Similarly, there have been no major severity health and safety incidents recorded through the year.

We continue to enhance our safety management and culture with the creation of an integrated Safety Management System (SMS) and a refresh of our 'Just Culture' (a staff self-reporting system) across all of Airways. In this business, where maintaining safe skies is paramount, a Just Culture is essential to creating a proactive incident reporting environment to enable Airways to mitigate and learn from potential risks before they cause any harm.

The health, safety and wellbeing of our people remains a constant focus, with the successful implementation of a wellbeing programme.

An e-learning module for Health and Safety has ensured increased awareness of responsibilities, reporting and effective hazard and risk management.

SUCCESSFUL

FOR OUR SHAREHOLDERS

As we continue our transition to a future very different to today, we have maintained a strong financial result and dividend for our shareholders.

Volume growth in Airways' statutory air traffic control business exceeded forecasts. This, combined with strong cost management, has contributed to a higher than expected Group Net Operating Profit After Tax (NOPAT)[1] of $23.7 million. The Board has declared a full-year shareholder dividend of $9 million, $2 million higher than indicated in the Statement of Corporate Intent.

In July the Company implemented a new strategic direction for our internationally focused businesses establishing independent business units with their own accountabilities: Training, GroupEAD Asia Pacific (now Aeropath) and Aviation Services. While still subject to appropriate governance and oversight, these units operate independently of Airways' corporate structures and report into a dedicated executive committee.

It is especially pleasing to see early signs of success from this revised commercial strategy. The financial performance of the Commercial Business this year grew by 49% to $5.2 million NOPAT, although this improvement did not come without tough decisions. The partnership with GroupEAD Europe concluded in December, with Airways taking back full ownership of the underlying business, and we ceased ongoing sales efforts of the Flightyield product in June following ongoing challenges in securing keystone customers. New product development, strong customer relationships and prudent financial management will continue to be a focus to ensure continual business development and success.

FOR OUR CUSTOMERS

This financial year marked the first year of a new three-yearly pricing cycle that will not only

[1] Also referred to as net surplus after taxation

INDUSTRY PEERS WILL EXCEEDING

support an extensive lifecycle replacement programme but also enable strategic programmes that will deliver an additional $84 million of benefits to customers by 2028. Airways delivered a price reduction of 9.8% this year and the planned price increase of 1.6% next year has been reduced to a 0.4% increase, reflecting growth across the aviation industry. Prices for our General Aviation customers continue to be kept in line with inflation.

We are proud to serve some 1,700 airline and general aviation customers, in addition to 17 airports in New Zealand. Last year we delivered 99.98% service availability to customers and our investment in new technologies continues to generate fuel efficiencies. This has been acknowledged by our customers, with our last annual customer survey achieving 79% customer satisfaction across both the major airlines, the general aviation community and airports.

Tourism is thriving in New Zealand and we continue to aid our aviation partners through unprecedented growth. It was the busiest summer on record for New Zealand skies, with a 9% increase in flight volumes recorded over the year.

The strong volume growth through the year has brought benefits, however, it has also impacted inflight delay performance.

Extreme weather events, compounded by record flight volumes, caused average delays of 20.4 seconds, exceeding the 14 second target but significantly below the average delay of three minutes per flight when the network last handled traffic at this level.

Our customer focus underpins Airways' Operational Strategy, designed to improve business efficiency and resilience by creating 'One Centre, Two Locations' – two interoperable centres in Christchurch and Auckland by 2020. The programme to deliver this strategy has been progressing well over the past 12 months and we are on track to deliver benefits to our customers within the original timeframe.

Most notably the key investments during the year include the first steps towards replacement of our Air Traffic Management platform and surveillance network and significant progress on new towers in Wellington and Nelson.

Airways' facilitation of the Government's New Southern Sky programme to modernise New Zealand's airspace, and our investments in new technologies over the year, ensures that airlines are able to take advantage of advancements in the latest generation of aircraft.

FOR OUR PEOPLE

The active engagement of staff in our Destination 2021 strategy will be crucial to its success.

This year saw the continuation of our leadership training programmes, as well as a number of staff recognition and wellbeing initiatives. We were proud to host Airways' third annual Recognition Awards event in October, where we celebrated some of our longest serving staff, along with those who had outstanding achievements over the year.

Also during the year a joint group was formed between Airways and New Zealand Air Line Pilots' Association (NZALPA) – this

MESSAGE FROM JUDY KIRK CHAIR
SAFE, SUCCESSFUL, SUSTAINABLE

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OPPORTUNITIES

group's focus is on addressing proposed operational changes, while ensuring a strong staff voice in the development and implementation of key initiatives, particularly Airways' Operational Strategy.

Despite a successful year operationally and financially, it is disappointing to report a 6% reduction in overall engagement in our annual staff survey. Management will review its programmes to support our people in the coming year, particularly in the areas of organisational change and developing our culture.

We recognise that our people will be key to growing our capabilities and delivering the changes required to take us into the future. While we look forward it's equally important to acknowledge our people for enabling Airways to successfully deliver on its core role of keeping the skies safe, as we move aircraft as efficiently as possible. In this time of change and exponential growth we would like to thank our people for their commitment and dedication to Airways, our customers and our values.

ATING

SUSTAINABLE

An important aspect of the Destination 2021 vision is to develop successful commercial businesses, a strategy that is fundamental to our long-term sustainability. Growth creates opportunities, generates value for our customers and shareholders and helps us to attract and reward the best talent, while diversifying our income base away from the statutory operational business.

Technology will also play a significant role in delivering this vision. This year saw the creation of the new Chief Technology Officer role, tasked with leading Airways' ambitious infrastructure investment programme. The appointment will also ensure the Company becomes more proactive in information management, cyber security and in business continuity through disaster recovery.

We intend to continue developing partnerships with our industry peers to deliver benefits far exceeding our own resources. Our engagement with like minded Air Navigation Service Providers (ANSPs) is exploring collaboration opportunities on emerging industry issues.

Already this collaboration has furthered our investigations into virtual tower capabilities.

The ability to operate tower services from a remote location should improve the efficiency and resilience of the aviation system within New Zealand. In the future it should also enable Airways to extend the hours of tower services in regional aerodromes.

After six years leading Airways through a period of extraordinary strategic change and building company-wide resilience following several natural disasters, Ed Sims stepped down from his role as Chief Executive in May and has moved to a leadership role within an airline.

This has also been a year in which I have taken over the role of Chair following Susan Paterson's departure in October. I would like to thank both Susan and Ed for their service to Airways over the years.

It is a pleasure to lead an organisation that achieves such high standards and I am particularly pleased with the safety and operational performance delivered during the year – areas where the Board and Management are committed to ensuring continued success.

We are confident that Airways' business and operation is well positioned to grow and support New Zealand's aviation sector into the future. We would like to acknowledge our customers and shareholder for their ongoing support and especially thank our people for their contribution to our success.

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JUDY KIRK **CHAIR**

SAFETY FIRST ENHANCING
OUR SAFETY CULTURE

IM PROVE

OUR SAFETY

"THIS FRAMEWORK WILL PROMOTE A CULTURE THAT ENSURES FULL DISCLOSURE, WHICH IS CONDUCIVE TO MAKING CORRECT CHANGES TO THE SYSTEM, THEREBY ENSURING AND IMPROVING SAFETY."

Jon Brooks – New Zealand Air Line Pilots Association representative / Senior Air Traffic Controller

PERFORMANCE

The first approach on Airways' Destination 2021 strategy is to continue to enhance our safety culture, a key pillar across our entire operation. Nowhere is the approach to safety more critical than in our organisation, which is responsible for ensuring safe and efficient skies across 30 million square kilometres of airspace.

Strategically, Airways continues to foster a proactive risk prevention environment, rather than a reactive one. Our investments over the year have enhanced our safety practices through a refresh of our Just Culture policies, integrated Safety Management System and an inaugural company-wide safety improvement programme. The safety team has also started to put in place the foundations of a predictive safety ethos using a wider aviation system-wide approach.

JUST CULTURE

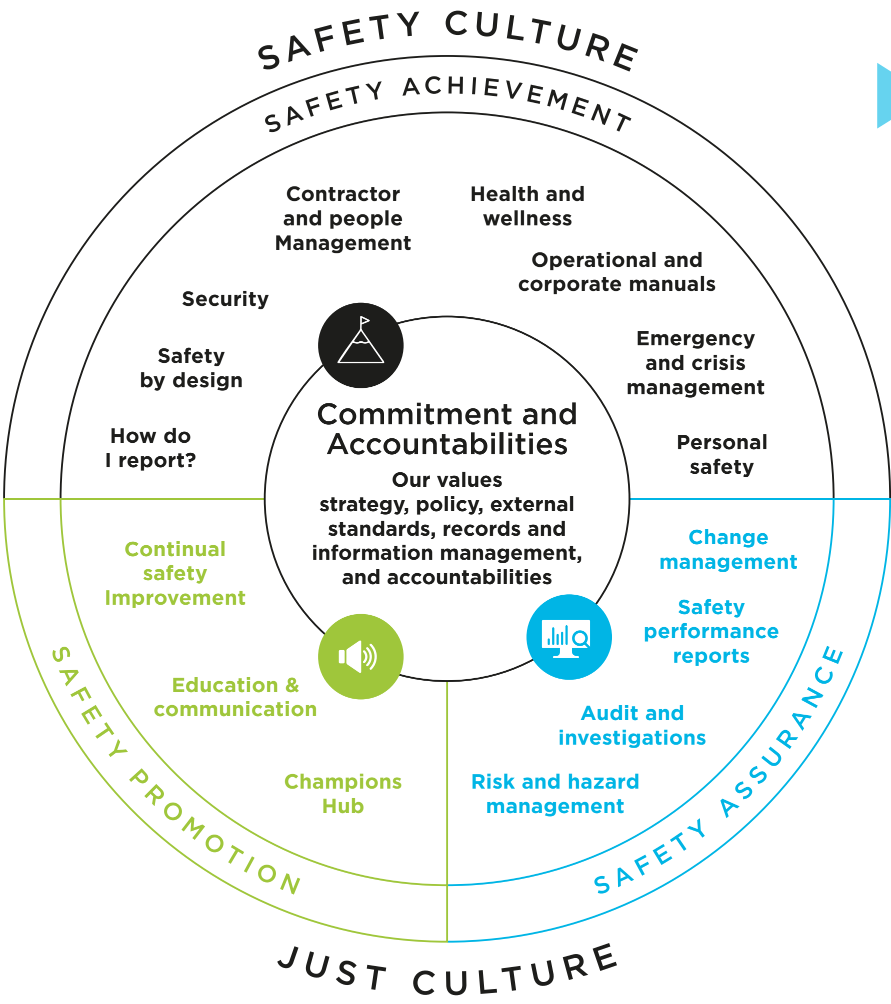
A Just Culture is an increasingly common concept in operational businesses. By encouraging reporting and learning from situations that have not gone to plan, a Just Culture ensures that anyone who self-reports an unintended error isn't subject to penalties. Our people are instead recognised for reporting and taking ownership.

Commitment to Airways' Just Culture framework reaches across our industry. The refresh of our philosophy this year, and its introduction beyond the operational business, has been created in collaboration with our union partners New Zealand Air Line Pilots' Association (NZALPA), Aviation & Marine Engineers Association (AMEA) and the Public Service Association (PSA), as well as a wide cross section of people from our business – all of whom are committed to Just Culture principles and to fostering continuous improvement and learning within Airways.

SAFETY FIRST ENHANCING OUR SAFETY CULTURE

"THE AMEA FULLY SUPPORTS AND AGREES WITH AIRWAYS HAVING A JUST CULTURE FRAMEWORK TO GIVE OUR MEMBERS CONFIDENCE TO REPORT SAFETY CONCERNS. IN DOING SO, WE CAN ALL IMPROVE OUR SAFETY PERFORMANCE AND HELP ENSURE A SAFE AND FAIR WORKPLACE."

Trevor Williamson – Aviation and Marine Engineers Association representative / Technology Team Leader



SAFETY MANAGEMENT SYSTEM

The Just Culture model is essential to the effectiveness of our Safety Management System, enhanced this year as part of our increased focus on preventing incidents and verifying our controls around identified risks.

The system brings together all aspects of safety at Airways, including operational, health and safety, security, and international quality standards. Its extensive reach encompasses the non-negotiable external rules, policies and procedures that we comply with, our own expectations and reporting mechanisms and comprehensive education and promotion for our people.

SAFETY IMPROVEMENT PROGRAMME

This year we introduced a company-wide Safety Improvement Programme, which uses the results from investigations, risk assessments, people and safety surveys, independent reviews and industry trends to identify areas for improvement.

The programme encourages collaboration and learning on safety across the business by ensuring the appropriate and proportionate sharing and allocation of resources.

We have increased our engagement with external partners, including unions, airport companies and other Air Navigation Service Providers, driving system-wide safety discussions. We also have an initiative to focus on wellbeing, with improvements to work-related health programmes.

INVESTING AND INNOVATING

In an environment where air traffic will grow by 50% over the next decade, our approach to innovation and our investments in new technology will ensure we continue to enhance safety, flow and efficiencies in the future.

AIR TRAFFIC MANAGEMENT PLATFORM REPLACEMENT

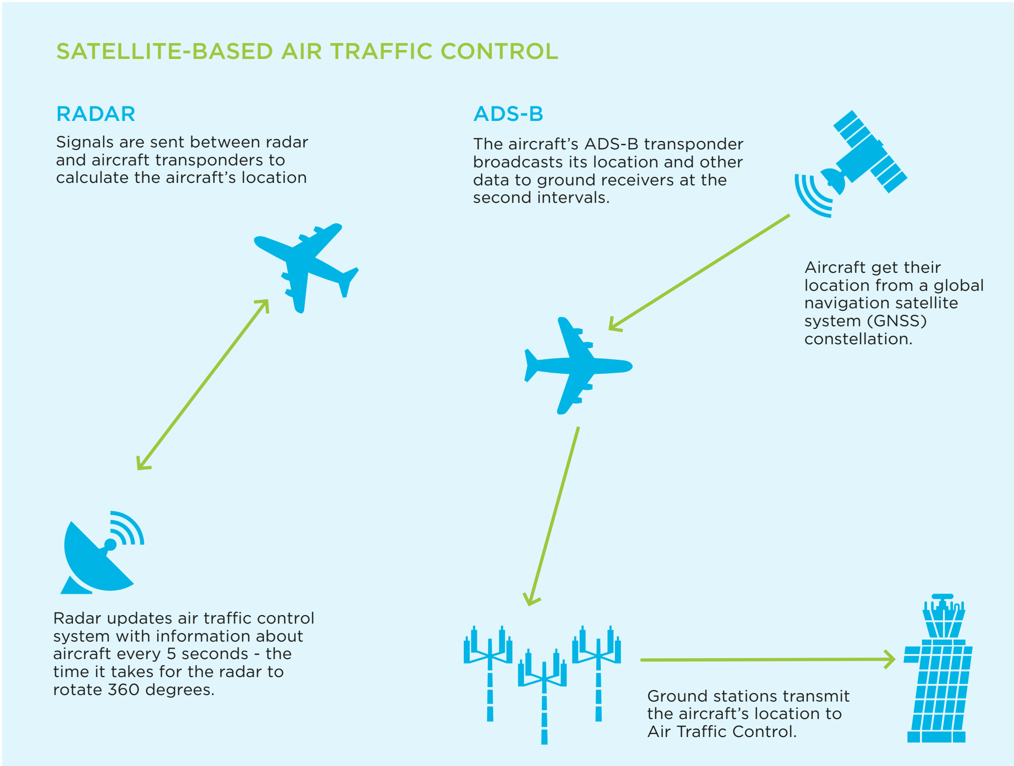
Given the exponentially advancing technologies around the world, it is clear that future controllers will manage substantially more aircraft than at present. The pace of change is quickening, and our customers expect us to stay ahead, which is why we have confirmed the replacement of our two existing Air Traffic Management (ATM) platforms in a $58 million project over the next four years.

Following a full and robust procurement process, the contract was awarded to global science and technology company Leidos to collaborate on software development. Significant cost savings in the development of the system will be passed on to customers through this innovative partnership model. Airways has purchased the Leidos Skyline-X system, which will become operational in New Zealand's domestic airspace in 2020 and in oceanic airspace in 2021.

The new system will allow Airways to implement our 'One Centre, Two Locations' strategy to provide resilience in the event of an emergency at one of our air traffic control operational centres, as well as taking advantage of advances in tools to optimise the air traffic system and staff deployment.

The result will achieve the flexibility, resilience and productivity expected by our customers and shareholders and deliver tangible benefits to airlines and airports.

Some initial enhancements will be operational in 2018 and we expect to be working with the new ATM system in 2020.



SATELLITE-BASED AIR TRAFFIC CONTROL

This year Airways began the development and construction of a new surveillance network, which will in time replace traditional radar as the main surveillance system for New Zealand. Automatic Dependent Surveillance – Broadcast (ADS-B) is the global standard for airspace surveillance and its introduction here is a key part of the Government's 10-year New Southern Sky programme to modernise our airspace and crucial in supporting the growth of air travel in New Zealand. The ADS-B project has progressed with the signing of a contract with French multinational Thales. Thales has commenced installation of the ground equipment required for the $12.8 million network. The first phase of the network will be operational by the end of 2018, enabling a much more detailed picture of airspace than currently possible using radar.

AIREON TRIAL

Airways will evaluate the efficiency and safety benefits of a global air traffic surveillance capability through an agreement signed with Aireon this year.

The agreement has paved the way for a formal trial, developing operational concepts for space-based air traffic management in South Pacific airspace and long-range flow management procedures to major New Zealand destinations.

The Aireon data obtained through the trial will help Airways to determine the benefit this technology could bring to New Zealand's aviation community.

INVESTING AND INNOVATING

SPACE-AGED AIR TRAFFIC CONTROL

Our position as a proactive enabler of near-space launches was cemented during the year through the signing of a contract ensuring the safety of regular rocket launches from our shores. Rocket Lab has built the world's first private orbital launch site on Mahia Peninsula, south of Gisborne, to launch satellites into space, with air traffic services provided by Airways. An inaugural test launch successfully took place in May.

The same adaptable and detailed airspace control and coordination from Airways has enabled approximately 120 near-space launches in New Zealand airspace to date, with both NASA and Google choosing New Zealand for super-pressure scientific balloon launches.

Near-space launch services is an emerging market globally and offers significant opportunities for New Zealand. Airways' strategy is to offer an enabling approach service for these ground-breaking research and development customers, supported by our existing air traffic management and safety expertise.

UAV TRAFFIC MANAGEMENT

With over 500 UAV flights registered on Airways' UAV flight management platform, Airshare, every week, solutions have been investigated this year to manage the growing industry and its increasing traffic both in and outside of controlled airspace. In March Airways issued a Request for Information (RFI) to assess the latest technology and innovation in the market.

The process has identified vendors as potential partners to future-proof New Zealand's airspace for the use of UAVs. In addition, Airways has implemented a demonstration of one of the vendor solutions at Queenstown airport for testing and learning purposes, which was met positively by ATCs, airport and UAV user stakeholders. As we look to develop the airspace, we continue to consult with the industry and stakeholders to better understand their requirements.

IMPROVED ACCESS TO PRE-FLIGHT INFORMATION

Innovation and investment is also taking place on a much shorter time scale and within Airways itself. Airways' own software developers, many of whom are general aviation pilots in their spare time, identified a customer need for mobile access to pre-flight and weather information, particularly for private and recreational pilots. The result was the development of a mobile extension of the Internet Flight Information Service (IFIS) website, with the first version of an app released in September.

SUPPORTING THE AVIATION COMMUNITY

Airways' investments in aviation over the year also extended to supporting the wider aviation community.

Encouraging creativity and innovation with a focus on safety, we were pleased to award the Jilly Murphy Memorial Scholarship for Aviation Safety to Dan Parsons. Dan developed a free online training service, aimed at enhancing airport runway safety through applying human factors and desired behaviours to runway driving activities.

In January Matamata again became the busiest airfield in New Zealand, hosting the Walsh Memorial Flying School. Airways supports the event by providing air traffic control via our mobile tower.

February saw the 80th Royal New Zealand Airforce (RNZAF) anniversary celebrated with the Ohakea Air Tattoo. Our Ohakea tower team assisted in the coordination of the show, with 65 aircraft participating over the two-day event.

OPERATIONAL RESILIENCE THROUGH NATURAL DISASTER TURMOIL

Airways' well-established operational resilience has been put to good use in a year in which mother nature delivered a catastrophic series of earthquakes and cyclones and contributed to devastation caused by fire.

From the devastating November earthquakes centred in Kaikoura and affecting much of central New Zealand, to the Christchurch Port Hills fires in February and the far-reaching cyclones of March and April, our operational teams have had their work cut out for them.

Meticulous planning and back up, and the tireless work of many of our people, supported by disaster response units across the country, ensured that our operational integrity was not impacted during any of these events.

When our Cass Peak radar site was under threat from the fires, prompt collaboration from emergency response agencies and preventative site clearance work protected Airways' assets there, while generators kept us in operation when the mains power was shut off. Our close collaboration with Kordia ensured its communications network was rerouted away from the threatened Sugarloaf Communications Hub, enabling air travel to continue without disruption.

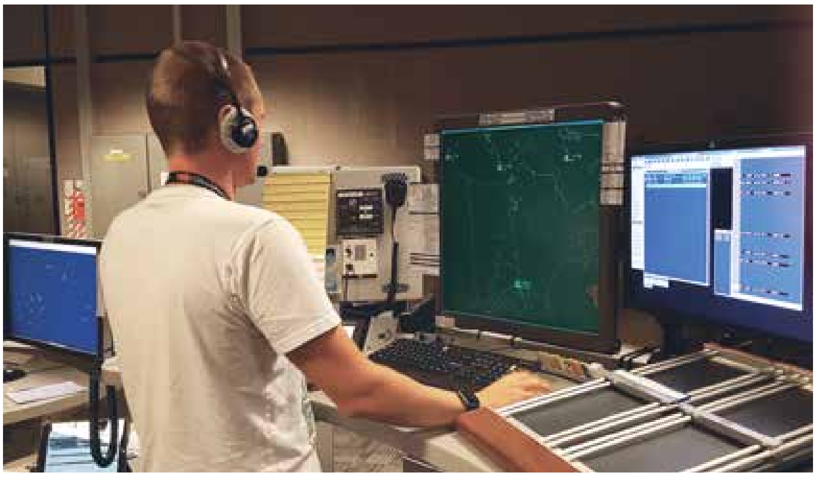
Our experience supporting the earthquake relief effort in Kaikoura was a personal one for many of our people, given its proximity to our Christchurch centre and our own history of earthquake recovery. Several of our staff donated their time, as private pilots, flying people and supplies in and out of the quake-stricken area.

Others were deployed by Airways to support the RNZAF, sleeping in tents on site to help the response initiative. The high school playing fields became the landing zone for military helicopters operating from ships anchored off the coast, with Airways providing an air traffic advisory service within the restricted airspace around Kaikoura, as well as delivering a radio service on behalf of the Defence Force. All Airways' service fees were waived for flights participating in the earthquake relief operation.

The response of our people throughout these disasters was exemplary and a reflection of our deeply ingrained Airways culture of operational safety and resilience.

SIMPLIFYING OUR BUSINESS

ONE CENTRE



TWO LOCATIONS

This year we made a start on the road towards simplification. With a view to remaining lean, nimble and ahead of the demands of our shareholders and customers, we have looked at ways to streamline many areas of our business.

OPERATIONAL STRATEGY

At the one year point in our Operational Strategy, focus is on our physical locations and the early designs for Airways' new ways of working.

Two interoperable Air Traffic Management (ATM) centres will be established in Christchurch and Auckland by 2020 allowing Airways to provide streamlined 24/7 services on one operating platform from either centre. If one location is unable to provide service, the other will seamlessly continue without interruption to services.

Supporting our enhanced resilience and contingency capabilities, our new ATM platform will simplify core controller tasks through automation and the development of common processes.

TWO OPERATIONAL LOCATIONS

During the year the establishment of Auckland as our second operational centre has been confirmed and the move to a new headquarters will take place in August 2017. Being in Auckland builds Airways a strong presence close to our customers, with most of our domestic and international customers based in the aviation precinct at Auckland Airport.

Building a radar centre in Auckland will also give Airways access to a much larger pool of future staffing resources and offers our operational and corporate office people the opportunity to work closely with our customers on a daily basis.

Initial design specifications have been completed for the two new operational buildings in Auckland and Christchurch, with completion on track for mid-2020 to coincide with the new ATM platform.

SEAMLESS SERVICE DELIVERY

In an early demonstration of the potential efficiencies of 'One Centre, Two Locations', in May we moved the management of the Raglan airspace sector to our Auckland-based control centre. Having Auckland-based staff successfully managing this airspace is already demonstrating how 'One Centre, Two Locations' will benefit customers in the future.

Furthermore, training is expected to begin at the beginning of FY 2018 to combine the Wellington and Auckland radar terminal sectors.

This follows the development of a concept of operations and transition planning by the project team during the current year.

This year also saw training commence on the Queenstown approach services, which are changing from procedural to surveillance, with delivery due in the first quarter of 2018.

Over the next two to three years, our en-route services will be combined so that controllers are capable of handling all services. This major project is currently in the scoping phase.

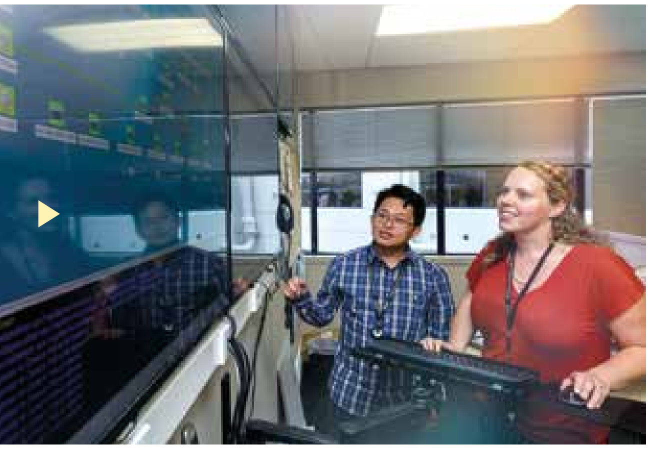
A CROSS-FUNCTIONAL APPROACH

Across the Operational Strategy, the people elements are as important as the technical solutions. Since confirmation of the overall strategy, implementation of these changes has been the responsibility of staff. Cross-functional working groups have been charged with determining the final size, shape and method of service delivery and transition. This empowering approach has resulted in the development of solutions that are realistic and fit for purpose and aim to ultimately ensure the success of the project.

Through the increasing use of efficient technologies, contingency planning and the ability to adapt, our Operational Strategy will position Airways to thrive in a future in which continuous change will be the only constant.

GROWING AND DIVERSIFYING

DEVELOP



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FOUNDATION

During the year several of Airways' commercial businesses undertook a transformation process, reshaping from a portfolio approach to discrete subsidiary businesses. Part of this process was taking the commercial businesses through a 12-week incubation project, using new lean and agile start-up methodologies. This aims to ensure the businesses are well equipped to thrive in an ever-changing market environment and in a better position to scale for growth.

This new commercial strategy enables our commercial businesses to grow, diversify and function in a more entrepreneurial and autonomous manner. Already their combined NOPAT is up 49% year-on-year as a result.

AEROPATH (FORMERLY GROUPEAD ASIA PACIFIC)

In December, following the completion of an initial two-year performance period, Airways exited the Asia Pacific aeronautical services joint venture with GroupEAD Europe. The decision was initiated by Airways and the result of growth in our own Procedure Design capability, as well as challenges in developing the hosted Aeronautical Information Management (AIM) business underpinning the original partnership.

Airways took back 100% ownership and relaunched GroupEAD Asia Pacific as Aeropath early in the new year. This business is now in a position to grow and diversify and its strategy continues to focus on opportunities in Asia Pacific.

After a rebranding exercise Aeropath was relaunched in March 2017, which included our new Procedure Design Training Service. With our focus now on Performance-Based Navigation (PBN) implementation, procedure design, technical training, aeronautical charting and data hosting, the new company has been well received.

Contracts have been secured with ANSPs and Civil Aviation Authorities in Vietnam, Kazakhstan, Fiji, Mongolia, Taiwan, Thailand, Cook Islands and a trial of the Pacific-wide AIM data hub is under way with early adopters.

Aeropath signed a partnership agreement with the Auckland Rescue Helicopter Trust to better service the needs of emergency services throughout New Zealand. This ensures rescue helicopters can operate in remote locations previously inaccessible in adverse conditions, helping to save lives and reducing the risk to pilots and crew.

AVIATION SERVICES

Aviation Services provides aeronautical, engineering, maintenance and management solutions to ANSPs and aerodrome operators throughout Asia Pacific – and beyond.

Over the year this business unit has reviewed the service it offers and how those services are delivered, focusing on the design, installation and maintenance of aviation and aeronautical management systems.

Early success includes the provision and commissioning of a new Air New Zealand radio network,

GROWING AND DIVERSIFYING

managing the World Bank funded lighting upgrades in Samoa and re-securing the Pacific upper airspace contracts with our key Pacific customers. A significant element of Airways' involvement with the Pacific region is its joint commercial agreement with the governments of the Cook Islands, Niue, Samoa and the Kingdom of Tonga to provide air traffic management services in the states' upper airspace. Over the past 15 years Airways has provided enroute air traffic control services using its Oceanic Control System. This agreement was re-signed in June for a further five years.

As part of broader Pacific engagement, this agreement complements the work of the Ministry of Foreign Affairs and Trade (MFAT) and, in particular, the recent Pacific Aeronautical Charting and Procedures (PACP) programme – the project is implementing satellite-based approach procedures at 38 aerodromes across the Pacific, improving the ability of aircraft to land safely, especially in poor weather.

Aviation Services also manages the Flightyield product, a fully integrated aeronautical billing service purpose built for ANSPs. During the year an extensive review of Flightyield's strategic direction resulted in the termination of our long-term joint partnership with Société Internationale de Télécommunications Aéronautiques (SITA), substantial service changes to reflect the needs of our customers, sales-based performance gates being set for June 2017. Following concerted efforts with a number of market opportunities during the year, the business was unable to meet the established gates and the decision was taken in June to cease promoting the product externally.

TRAINING

The growth strategies of past years have placed Airways' training business in a strong position today, with positive growth across the portfolio. The traditional New Zealand-based delivery of ATC training to international students has developed through pivotal customer relationships delivering recurring business.

Growth through the year has seen Saudi Arabia, Vietnam, the United Arab Emirates and Hong Kong all commit to ongoing training of their students with Airways in New Zealand.

Outside of New Zealand, Airways' partnership model as a 'turnkey' ATC training provider is proving successful, focusing on developing foundation customers in each region, as is the case in Kuwait and Puerto Rico. The ability to recruit students is enhanced with the expectation of a guaranteed job in country on completion and the on-the-job training available.

In the last year we have actively pursued our Airways Knowledge Online strategy with a key achievement of moving our online training platform onto the cloud, providing access to students and instructors remotely from anywhere in the world. We have also been actively developing our Airbooks e-learning platform, which is an integral part of this strategy.

The new commercial direction for Airways Training also included a review of our partnerships to ensure they deliver on their original intent. As a result, Airways elected not to pursue training facilities with Civil Aviation Management Institute of China and Emirates Aviation University.

INTERNATIONAL TRAINING PARTNERSHIPS

FEDERAL AVIATION ADMINISTRATION (FAA)

Following the signing of a five-year partnership contract with the Federal Aviation Administration (FAA) in the United States, Airways is using its SureSelect product to provide rigorous pre-screening assessments as the FAA steps up its major recruitment drive. SureSelect is an ATC-specific recruitment and selection system designed by Airways Training. A focus in the coming year will be leveraging this contract to further grow the SureSelect business.

KUWAIT

Our partnership with the Australian College of Kuwait (ACK), established this year, will see Airways delivering Air Traffic Control training at ACK's training campus for the Kuwait Ministry of Defence. Airways will be responsible for ab-initio ATC training using a Total Control simulator.

SAUDI ARABIA

Two groups of Saudi Arabian students have been studying Aviation English with Airways during the year. On completion, the students will undertake Airways' ATC ab-initio training.

GROWING CAPABILITY

GROWING OUR LEADER

Airways has always been a technology-centred business, with a sharp focus on up-to-date skillsets and abilities. In the future, growing our leadership, as well as our capabilities, will be key to supporting our customers across the aviation industry, particularly as tourism volumes into New Zealand continue to grow and we continue to enable this growth.

This year has seen staff continue to take advantage of our development and leadership programmes. We have also focused on defining the behaviours and skills we will need from our leaders in the future, with this work continuing into the next financial year.

LEADERSHIP COACHING

Throughout the year we have enhanced the capability of senior leaders through an executive coaching and mentoring programme. Leaders have increased their awareness of their personal impact and benefited from 360-degree reviews.

LEADERSHIP TRAINING

Following the completion of our Leadership Edge programme last year, where 75 of our managers undertook bespoke leadership training, we have continued to support our newer leaders by partnering with external providers to offer a broad range of training opportunities.

SCHOLARSHIP ADVANTAGE

Over the year Airways has supported the aspirations of our future technical and people leaders by providing funding for study, innovation or to attend industry-related conferences. Eighteen of our people have been approved to receive these $1,500 grants over the financial year.

PROFESSIONAL ADVANTAGE

Our third annual Professional Advantage conference in October 2016 gave more than 100 of our technical experts an opportunity to hear from leaders in innovation and technology. Topics at this year's conference included: the science behind high-altitude balloon launches; the latest developments in robotics and intelligent systems; exponential technologies and organisations; and influencing people to invest in technology ideas.

SAFETY SUMMIT

The fourth annual Airways safety summit, held in June 2017, focused on "Maintaining Safety Through Change". Presentations and workshops gave operational staff, project managers and safety representatives the opportunity to develop their knowledge, maintaining our focus on safety through organisational change.

SHIP

GROWING CAPABILITY THROUGH PARTNERSHIPS

As growth continues at unprecedented levels across Asia Pacific, Airways is increasingly working with global partners – a joined-up approach that is providing unique development opportunities for our people.

Airways is already a successful exporter of our own locally-developed products. During the year we have extended this focus to the development of information-sharing with like-minded ANSPs, identifying collaboration opportunities on emerging industry issues, including global Air Traffic Flow Management, virtual services, unmanned traffic management, benchmark performance metrics and human resources, including training and fatigue management.

Concepts are already in development with our people both leading and benefiting from the collaborative approach. Taking Global Air Traffic Flow Management as an example, these collaborations will enable us to take our peoples' experiences as leading developers of domestic air traffic flow management and work together to develop a similar concept for international use, better balancing the capacity of airports for improved global air traffic flow.

Multilateral planning between governments, regulators, ANSPs and airlines is critical if we are to achieve long-term and sustainable growth for our region. Sharing knowledge in these ways enables Airways and our people to learn from the insights of our international colleagues, understanding that collaboration is a key contributor to cutting-edge thinking. These non-traditional partnerships are now a key strand in growing our capability, benefiting both our operations and our people, while opening the way for future commercial opportunities.

AIRWAYS' BOARD

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 served as a director of Metservice New Zealand from 2011 and as Deputy Chair from 2015. She is also a director and shareholder of JMK Consulting. Judy 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.

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 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.

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 Saas start-up, offering a modern hotel management system for boutique properties. Bennett has 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 Ltd 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 has been an owner of Future Flight Limited, a flight operations and training business at Ardmore Airport.

TERRY MURDOCH
MINSTD

Terry is currently Chief Executive of Christchurch Helicopters and Pacific Aviation Services, and was appointed to the Airways Board in 2009. He is also the former Chief Executive and Director of Pacific Jets Limited and a director of CHL Holdings and Pacific Aircraft Services. He has more than 25 years' experience in general aviation and has represented the industry on a number of committees and advisory groups. He is an active commercial pilot, holding Flight Examiner and Instructor ratings. He holds a number of private sector directorships and is Chairman of SOE Animal Control Products.

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 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.

GRANT KEMBLE
LLB (HONS), BCOM, CMINSTD

Grant was appointed to the Airways Board in May 2013.

Before transitioning to a business leadership career, Grant was a lawyer, specialising in commercial and corporate law and working with a range of domestic and international clients. Grant was a partner at Russell McVeagh and the Chair of its Board for a period.

More recently, Grant was the Chief Executive Officer of the Perpetual Guardian Group, a New Zealand fiduciary services business.

Financial Performance

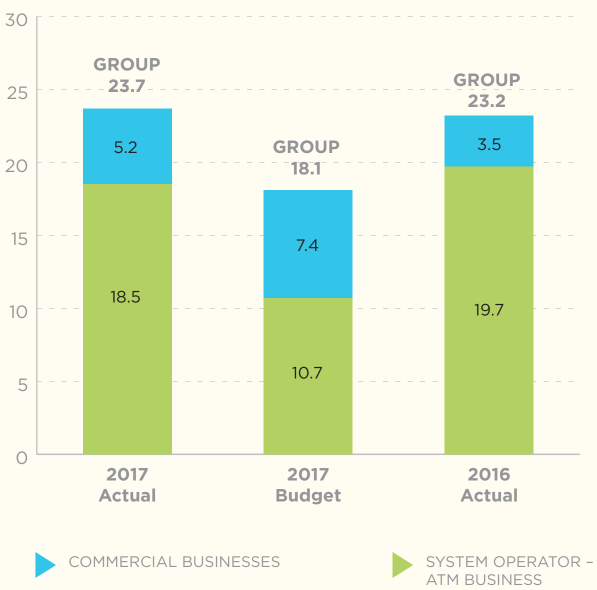
GROUP

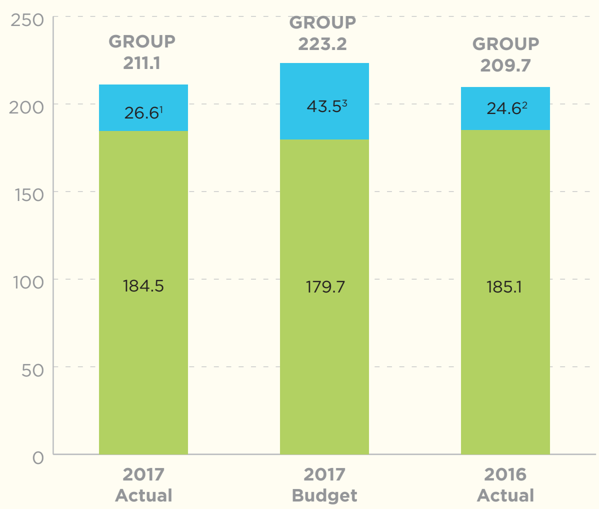
Airways delivered strong results in the key shareholder metrics of safety, operational and financial performance, building on the recent trend. The Company recorded zero high risk operational and staff safety incidents, 99.98% service availability and a Group Net Operating Profit after Tax (NOPAT) of $23.7 million for FY17, a slight improvement over the prior year and 35% ahead of budget.

The statutory business has benefited from a combination of air traffic growth continuing to outstrip industry expectations and forecasts, and savings on both discretionary spend and key initiatives. Traffic growth was up 9% on the prior year compared to expected growth of 7%, while savings reflect both hard savings and the deferral of some planned activities into the next financial year.

The commercial business' financial result has continued to grow both in size, with NOPAT of $5.2 million, 49% more than the previous year, and in its relative contribution to the Group result, at 22% of Group result, up from 15%. This result, while below the stretch target of $7.4 million, has benefited from a reduction in centralised overheads following a restructure of the business at the start of the year and improved performance across all business units.

Table 1: NOPAT and revenue breakdown (NZ$ million)





1 Includes internal revenue of $6.0m eliminated in the Group Statement of Profit or Loss and Other Comprehensive Income

2 Includes internal revenue of $4.6m eliminated in the Group Statement of Profit or Loss and Other Comprehensive Income

3 Includes $6.5m of Aeropath revenue equity accounted for in the Group Statement of Profit or Loss and Other Comprehensive Income (prior to consolidation of Aeropath in April 2017)

Table 2: Business performance and leadership indicators

	2017 ACTUAL	2017 TARGET	2016 ACTUAL
BUSINESS PERFORMANCE			
Safety performance – near collision incidents	Zero	Zero	Zero
Staff safety – serious harm injuries	Zero	Zero	One
Inflight delay/holding (seconds per flight)	20.4	≤14.0	22.1
Service availability	99.98%	99.95%	99.97%
Service improvement (capital) projects ($m)	41.8	41.1	35.4
LEADERSHIP			
Staff engagement	63%	71%	69%
Succession (suitable candidates for senior roles)	>2 for 84% of roles	>2	3
Visibility – internal event platforms (per week)	2	>1	2

SYSTEM OPERATOR – AIR TRAFFIC MANAGEMENT (ATM) BUSINESS

Investments in service resilience and efficiency

Capital investment of $41.8 million through the year has enabled the progression of lifecycle upgrades and investment into new technologies. Partnership agreements were confirmed for both the development of a new ATM platform, which will support and underpin the 'One Centre, Two Locations' operational strategy and for the implementation of a new ADS-B satellite-enabled surveillance system.

The ongoing investment in satellite-based procedures to improve the efficiency of flight paths continued during the year. Airways' new Wellington airport control tower has also progressed during the year and is scheduled for completion in November 2017.

In addition to the key investments outlined above, lifecycle replacements of critical infrastructure have also played a big part in the FY17 capital programme, including the communication cable network at Wellington airport and instrument landing systems at four airports across the country. This ongoing lifecycle replacement programme continues to support strong service availability levels.

This financial year was a challenging one for inflight delays. Extreme weather events, compounded by record flight volumes, caused average delays of 20.4 seconds, exceeding the 14 second target but significantly below the average delay of three minutes per flight when the network last handled traffic at this level.

Work continues with airports to manage capacity issues. Investment was made during the year into new clearance procedures to reduce the impact of missed approaches in poor weather and into improved metric measurement to provide a more granular view on the root causes of delays, providing better transparency and the ability to appropriately focus efforts in FY18.

Financial Performance

Financial

Overall flight volume growth has exceeded industry forecasts set through pricing consultation for the 2017 to 2019 price path. The domestic volume growth of 8.7% against a budget of 6.4% has been driven primarily by increased volumes on Auckland-Queenstown routes and flights into Tauranga.

International volume growth of 9.5%, against a budget of 8.4%, has come from increased services from Christchurch to Brisbane and Melbourne and new services from Auckland to Dubai and Hong Kong.

This continued volume growth, while positive for the industry, has also triggered a review of the approach to pricing. Following customer consultation during the year, Airways amended the risk sharing pricing mechanism to re-forecast volume changes within a pricing period. Prices will be updated for the latest volume forecasts annually, inititally resulting in the 1.6% price increase planned for FY18 reducing to 0.4%.

Significant cost savings during the year on planned discretionary and strategic initiatives have also contributed to a strong financial result. This has been a combination of finding more cost-effective ways to deliver initiatives, the requirement for some initiatives not eventuating and some key milestones for the Operational Strategy pushing out into FY18. We do not expect this change in timing to impact the overall benefits or timeline of the programme.

Throughout the year the company-wide focus on cost savings across core activities has also continued, returning $0.8 million savings against budget on insurance premiums, travel and professional fees.

As expenditure on long running capital projects increases, the interest on the funding required to deliver them continues to rise. Capitalised interest reached $1.5 million in the current year, an increase of $0.7 million on FY16.

COMMERCIAL BUSINESSES

A comprehensive restructure of the commercial businesses completed at the start of the year has reduced centralised overhead costs and provided each business with more autonomy. Early results are pleasing, with the new operating model contributing to improved performance of the individual businesses and reducing centralised costs by $1.3 million. The overall commercial result of $5.2 million is ahead of the previous year, although behind the current year stretch target.

Training

A five-year contract to deliver SureSelect, an ATC trainee selection tool, to the FAA was secured this year, expanding the range of operational products offered by Training and delivering a significant contribution to the year end result. New Zealand campus utilisation was high off the back of strong international customer relationships.

Mixed success has been achieved, however, in Airways' international academic partnerships. Our training partnership in Puerto Rico remains in place and has delivered incremental revenue during the year, while campuses in China and the United Arab Emirates will not be actively pursued owing to certification challenges. Lessons from these academic partnerships have been taken into the new international facilities currently under consideration.

Aviation Services (previously System Operator Other Services)

'System Operator Other Services' has been rebranded Aviation Services and given an expanded remit to include all international consultancy work and the Flightyield business. Our international upper airspace management has continued to perform well during the year, with steady volume growth in the Pacific states we service. Positive progress has also been made in delivering key Pacific consultancy work across eight states. The long term strategy for the Flightyield business was reviewed during the year, resulting in a wind up of the partnership with SITA and, subsequently, the decision to cease promoting the product externally.

Aeropath (previously GroupEAD Asia Pacific)

With challenges in delivering on the perceived global AIM market continuing, the partnership with GroupEAD Europe was wound up during the year and Aeropath became a fully owned Airways subsidiary in early 2017. The business is experiencing positive growth in procedure design and related training services and has returned a strong performance against budget during the year.

Airways' Management and Board believe that its commercial businesses remain integral to the Company's growth aspirations. The Company will continue to manage and fund these commercial businesses independently of the statutory business.

Statement of corporate intent targets

	ACTUAL 2017	SCI TARGET
PROFITABILITY (VALUES IN $NZ THOUSANDS)		
Total revenue	205,088	217,894[1]
Earnings before interest, tax, depreciation and amortisation (EBITDA)	55,605	50,306
Earnings before interest and tax (EBIT)	33,350	27,675
NOPAT	23,675	18,120
SHAREHOLDER RETURNS		
Total Shareholder return[2]	7.6%	-
Dividend yield	4.2%	3.3%
Dividend payout	33.6%	28.3%
Return on equity	21.9%	16.2%
Return on equity, adjusted for IFRS fair value movements and asset revaluations	21.5%	16.2%
PROFITABILITY/EFFICIENCY		
Return on capital employed	22.4%	18.2%
Return on assets	16.6%	13.4%
Operating margin	27.1%	23.1%
Net Profit margin	11.5%	8.3%
Asset turnover	1.0	1.0
LEVERAGE/SOLVENCY		
Equity multiplier[3]	1.8	1.8
Gearing ratio (net)	24.5%	25.5%
Interest cover	63.8	20.1
Solvency (current ratio)	0.8	0.8
GROWTH/INVESTMENT		
Revenue growth	0.0%	4.0%
EBITDAF growth	1.2%	(10.4%)
NPAT growth	1.9%	(23.0%)
Capital employed growth	10.4%	5.5%
Capital renewal[4]	1.9	1.8

1 Total revenue shown in the SCI is $223,178. Internal revenue of $5,284 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 The ratio of capital expenditure to depreciation.

Definitions for the financial performance measures above can be found at the following link:

http://www.treasury.govt.nz/statesector/commercial/guidance/fpm-soes.pdf

2016–17 INITIATIVES	PROGRESS TO JUNE 2017	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 has been developed, ready for delivery in 2017/18. The majority of the System Operator team has completed training on the enhanced Just Culture programme, with remaining staff planned to train early in the next financial year.	Complete
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 programme plan for the operational strategy has been developed, accommodating both the ATM system replacement and development of new campuses in Auckland and Christchurch. The first airspace sector has successfully transitioned to being delivered from both Christchurch and Auckland, with useful insights for broader deployment of the 'One Centre, Two Locations' concept. Planning for the second sector change is progressing well, although is slightly behind time. Regulatory approval for key elements of the plan is also behind schedule, although positive progress had been achieved late in the year.	Behind plan
Adopt a system approach to technology design, development and deployment	New functionality enabling automatic approval (through Airshare) for unmanned aerial vehicle (UAV) operations within certain parts of controlled airspace is complete. Detailed surveillance strategies are also being updated to reflect and integrate UAV requirements.	Complete
COMMERCIAL BUSINESS		
Deliver structural governance and product changes in Flightyield	Following a review of the long term Flightyield Strategy early in the year, the partnership with SITA was wound up in December. Following continued challenges in securing customers, the decision was taken in June to cease promoting the product externally.	Complete
Establishing the next stages of the academic partnerships and Aviation Knowledge Online	The Puerto Rican campus, operated in partnership with the Inter-American University of Puerto Rico, is in full delivery mode. However the China and Emirates campuses have wound up.	Behind plan
	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.	On track
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.	Complete

(CONTINUED)

2016–17 INITIATIVES	PROGRESS TO JUNE 2017	STATUS
COMMERCIAL BUSINESS (CONTINUED)		
Refine and deliver the long term GroupEAD (now Aeropath) business model Refine and deliver the long term GroupEAD business model	Following a rigorous assessment of the benefits and challenges of the current business model, Airways took back 100% ownership of Aeropath in late February 2017. The long term model has subsequently been refined to focus on procedure design delivery and training and the development of new product options.	Complete
Make “invest, hold or exit” decisions on all existing opportunities	Key decisions have been confirmed for all major businesses.	Complete
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 was on establishing the Aviation Services management structure, which is now in place. A strategy to transition from manual engineering work towards managed services is being developed, and discussions are underway with likely partners.	Behind plan
CORPORATE SERVICES AND SAFETY & ASSURANCE		
Develop and implement a Just Culture strategy	The refreshed Just Culture strategy, along with supporting materials, has been developed and rolled out to the majority of staff. Further training for remaining and new staff is planned for 2017/18.	Complete
Enhance tools to support safety and risk management maturity in the business	The Safety Management System (SMS) training and education programme has been completed and is being rolled out to the business. Health & Safety and security e-learning modules have also been developed through the year.	Complete
Refresh Airways’ corporate brand	A new Creative partner was appointed during the year and has, in conjunction with the business, developed a new visual identity for Airways, including supporting design work and brand guidelines.	Complete
Continuous improvement in core processes	A security e-learning module and an improved financial management dashboard has been developed during the year, and the procurement process for a contract management module is complete.	Complete
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, and research has been completed on a refreshed Leadership Competency Framework.	Behind plan
Complete Auckland and Christchurch property strategies	Both strategies are complete and have been aligned to the long-term business requirements of the Operational Strategy. Commercial agreements have been completed for Auckland and final terms accepted for Christchurch.	Complete

Statement of profit or loss and other comprehensive income

NZ IFRS

	GROUP		
FOR THE YEAR ENDED 30 JUNE	2017 ($000'S)	2016 ($000'S)	NOTES
OPERATING ACTIVITIES			
REVENUE			
Air traffic management revenue	187,271	189,078	A3.1
Other revenue	17,817	16,053	A3.1
Total revenue	**205,088**	**205,131**	
EXPENSES			
Employee remuneration	104,710	105,949	A3.3
Employee related costs	6,297	5,846	
Depreciation and impairment	17,109	16,301	A8
Amortisation and impairment	5,146	5,048	A8
Other operating costs	33,214	33,525	A3.2
Rental expense on operating leases	6,160	5,815	
Net finance expense	816	1,573	
Total expenses	**173,452**	**174,057**	
Share of profit from joint ventures	898	939	C1
Net surplus before taxation	**32,534**	**32,013**	
Taxation expense	8,859	8,784	A4
Net surplus after taxation attributable to equity shareholders	**23,675**	**23,229**	
OTHER COMPREHENSIVE INCOME			
That will be reclassified to profit or loss when conditions are met:			
Movement in cash flow hedge reserve	138	(1,167)	
Deferred tax on other comprehensive income	(39)	327	A4
Total other comprehensive income	**99**	**(840)**	
Total comprehensive income for the year attributable to equity shareholders	**23,774**	**22,389**	

This statement is to be read in conjunction with the Notes to the Financial Statements on pages 46 to 67.

Balance sheet

NZ IFRS

	GROUP		
AS AT 30 JUNE	2017 ($000'S)	2016 ($000'S)	NOTES
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	1,522	1,479	
Trade and other receivables	23,109	27,457	A6
Prepayments	2,182	1,590	
Derivative financial instruments	68	178	A5
Total current assets	**26,881**	**30,704**	
NON-CURRENT ASSETS			
Property, plant and equipment	154,887	137,286	A8
Assets held for sale	2,943	–	A8
Intangibles	21,471	23,276	A8
Inventory	1,392	1,388	
Investment in joint venture	–	1,400	C2
Other non-current assets	84	74	
Derivative financial instruments	4	31	A5
Total non-current assets	**180,781**	**163,455**	
Total assets	**207,662**	**194,159**	
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables	12,312	14,643	A7
Employee entitlements	18,103	17,643	A3.4
Current tax liability	2,110	2,460	
Derivative financial instruments	380	325	A5
Loan facility – unsecured	–	39,000	B1
Total current liabilities	**32,905**	**74,071**	

This statement is to be read in conjunction with the Notes to the Financial Statements on pages 46 to 67.

Balance sheet CONTINUED

NZ IFRS

	GROUP		
AS AT 30 JUNE	2017 ($000'S)	2016 ($000'S)	NOTES
(CONTINUED)			
NON-CURRENT LIABILITIES			
Loan facility – unsecured	39,000	–	B1
Deferred tax liability	8,867	7,254	A4
Employee entitlements	9,024	9,494	A3.4
Derivative financial instruments	2,528	2,776	A5
Total non-current liabilities	**59,419**	**19,524**	
Total liabilities	**92,324**	**93,595**	
Net assets	**115,338**	**100,564**	
EQUITY			
Share capital	41,100	41,100	A9
Reserves	(2,080)	(2,179)	
Retained earnings	76,318	61,643	
Total equity	**115,338**	**100,564**	

This statement is to be read in conjunction with the Notes to the Financial Statements on pages 46 to 67.

The Board of Directors of Airways Corporation of New Zealand Limited authorised these financial statements for issue on 10 August 2017. The Directors do not have the power to amend the financial statements once issued.

JUDITH KIRK
CHAIR
10 August 2017

MARY-JANE DALY
DIRECTOR
10 August 2017

Statement of changes in equity

NZ IFRS

	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 2015	**41,100**	**(1,339)**	**47,414**	**87,175**	
Comprehensive income					
Net surplus after taxation	–	–	23,229	23,229	
Other comprehensive income					
Movements in hedge contracts	–	(1,167)	–	(1,167)	
Deferred tax on other comprehensive income	–	327	–	327	A4
Total other comprehensive income	**–**	**(840)**	**–**	**(840)**	
Total comprehensive income	**–**	**(840)**	**23,229**	**22,389**	
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 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**	

This statement is to be read in conjunction with the Notes to the Financial Statements on pages 46 to 67.

Statement of cash flows

NZ IFRS

	GROUP		
FOR THE YEAR ENDED 30 JUNE	2017 ($000'S)	2016 ($000'S)	NOTES
CASH FLOWS FROM OPERATING ACTIVITIES			
CASH WAS PROVIDED FROM:			
Receipts from customers	208,499	200,762	
Interest received	30	95	
CASH WAS APPLIED TO:			
Payments to suppliers	(43,961)	(40,479)	
Payments to employees	(112,064)	(110,451)	
Interest paid	(872)	(1,697)	
Income tax paid	(7,749)	(6,283)	
Net cash flows from operating activities	**43,883**	**41,947**	E2
CASH FLOWS FROM INVESTING ACTIVITIES			
CASH WAS PROVIDED FROM:			
Sale of property, plant and equipment	397	23	
Cash received on acquisition of subsidiary	5,697	–	
Loans repaid by related parties	–	240	
Dividend from related parties	723	100	
CASH WAS APPLIED TO:			
Purchase of property, plant and equipment	(38,107)	(22,297)	
Purchase of intangible assets	(3,341)	(13,710)	
Purchase of shares in subsidiary	(209)	–	
Net cash flows from investing activities	**(34,840)**	**(35,644)**	
CASH FLOWS FROM FINANCING ACTIVITIES			
CASH WAS PROVIDED FROM:			
Drawdown of loan facility	–	4,000	
CASH WAS APPLIED TO:			
Repayment of loan facility	–	(1,000)	
Payment of dividends	(9,000)	(9,000)	
Net cash flows from financing activities	**(9,000)**	**(6,000)**	
Net increase in cash held	**43**	**303**	
Cash at the beginning of the year	1,479	1,176	
Cash at the end of the year	**1,522**	**1,479**	

Interest paid above excludes capitalised interest. Total interest paid for the year was $2,395 million (2016: $2.476 million).

This statement is to be read in conjunction with the Notes to the Financial Statements on pages 46 to 67.

Structure of notes to the financial statements

SECTION A: HOW THE NUMBERS ARE CALCULATED (PAGES 47 – 58)

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.

SECTION B: RISK (PAGES 59 – 62)

This section outlines Airways' exposure to financial risks and sets out the objectives, policies and controls in place to manage them.

SECTION C: GROUP STRUCTURE (PAGES 63 – 65)

This section describes the entities within the Group, transactions with these and other related parties, and Airways' investment in other entities outside the Group.

SECTION D: UNRECOGNISED ITEMS (PAGE 66)

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.

SECTION E: OTHER INFORMATION (PAGE 67)

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: Airways International limited, Airways Training Limited, Aviation English Services and Aeropath Limited (formerly GroupEAD Asia Pacific Limited) (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 Financial Reporting Standards, 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 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's) 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 not adopted any new standards, interpretations or amendments to existing standards in the current financial year.

The following standards with an impact on Airways have been published and are mandatory for future accounting periods however 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, with early adoption allowed). Management expect this standard to have some impact on the timing of revenue recognition for contracts where multiple service components are provided to customers, however, based on current and expected future revenue streams this is expected to be immaterial. Airways intend to adopt this standard in the 2018-19 financial year.

(ii) NZIFRS 16 (2016), 'Leases', issued in February 2016 (effective for periods beginning on or after 1 January 2019, with early adoption allowed). Management expect this standard to increase both assets and liabilities on the balance sheet and front load the recognition of lease expenses in profit or loss to earlier years of lease terms, however these impacts have not yet been quantified. Airways intend to adopt this standard in the 2019–20 financial year.

(iii) NZIFRS 9 (2014), Financial Instruments, issued in September 2014 (effective for periods beginning on or after 1 January 2018, with early adoption allowed). Given the relatively simple financial instruments held by the Company, management expect the impact of this standard to be largely immaterial. There are, however, likely to be small increases in doubtful debt provisions as prospective economic conditions are factored into expected credit losses.

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, unless otherwise stated.

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

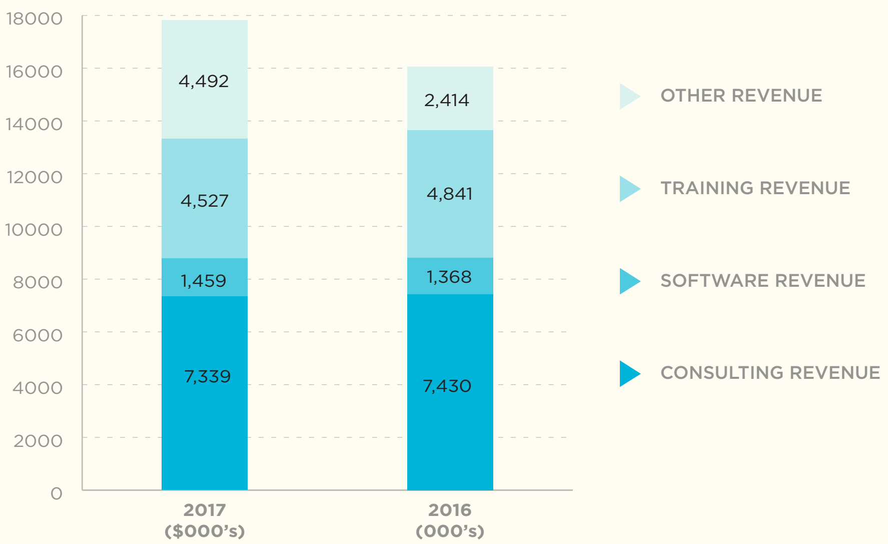
Airways' principal business is the provision of air traffic management services, however it is also involved in a number of related revenue generating activities. Airways' revenue streams, and the associated recognition policies, are set out in the table below:

REVENUE TYPE	ACCOUNTING POLICY
Air traffic management (ATM)	Recognised as flights or other aircraft movements occur
Consulting	Revenue from discrete consultancy services is recognised based on the percentage of expected project time and material costs completed, using the expected project margin Revenue from ongoing, recurring consultancy services is recognised as the service is provided
Training	Recognised as courses are delivered
Software licences	Recognised over the life of the licence or, where the licence is perpetual, when the licence is available for use

Section A: How the numbers are calculated CONTINUED

KEY JUDGEMENT:

Judgement is exercised in estimating the percentage of expected project time and material costs completed and the expected project margin for discrete consultancy services. These judgements have not had a material impact on the financial statements in the current year.



ATM revenue has decreased to $187.3 million (2016: $189.1 million) as shown in the Statement of Profit or Loss and Other Comprehensive Income. The composition of the $17.8 million of other revenue for the year (2016: $16.1 million), by type, is set out in the chart opposite:

Other revenue includes insurance proceeds of $0.99 million, for damage sustained to the Christchurch tower during the 2011 Christchurch earthquake (2016: nil). This income has been used to fund repairs during the current year, resulting in additional maintenance costs (refer note A3.2 below).

Funds received in advance of the provision of services are recognised in the Statement of Financial Position as deferred revenue.

A3.2 INDIVIDUALLY SIGNIFICANT ITEMS WITHIN OPERATING COSTS

FOR THE YEAR ENDED 30 JUNE	2017 ($000'S)	2016 ($000'S)
Bad debts written off or provided for/(reversed)	290	(152)
Material and equipment costs	4,444	4,422
Travel	3,524	3,826
Communications	3,136	3,005
Maintenance*	10,080	7,672
Utilities	1,719	1,834
Cloud-based infrastructure transition costs	–	1,026
Procedure design services provided by related party	2,317	2,045
Professional fees	3,252	4,958
Insurance	1,451	1,736

*Maintenance costs includes repairs of the Christchurch tower following the insurance pay out described in A3.1.

A3.3 EMPLOYEE REMUNERATION

FOR THE YEAR ENDED 30 JUNE	2017 ($000'S)	2016 ($000'S)
Wages and salaries	93,246	92,390
Less: labour costs capitalised	(7,690)	(8,172)
KiwiSaver/superannuation contributions	8,415	8,812
Leave entitlement expense	10,739	12,919
	104,710	**105,949**

Section A: How the numbers are calculated CONTINUED

A3.4 EMPLOYEE ENTITLEMENTS

SUPERANNUATION

Airways operates various defined contribution schemes which 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.

KEY JUDGEMENT:

Judgement is exercised in adopting the long run wage index and crown entity discount rates to determine Airways' liability for non-vested long service and retiring leave entitlements. Airways receives advice on these assumptions from external actuaries and changes in adopted discount rates during the year have resulted in a credit of $0.267 million to profit or loss.

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	2017	2016
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.

	2017 ($000'S)	2016 ($000'S)
(Credit)/ expense for movements in non-vested long service and retiring leave recognised in profit or loss	(470)	974
Balance sheet obligations as at 30 June, within non-current employee entitlements:		
Long service leave	1,108	1,210
Retiring leave	7,916	8,284
	9,024	**9,494**

NOTES TO THE FINANCIAL STATEMENTS

Section A: How the numbers are calculated CONTINUED

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.

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.

FOR THE YEAR ENDED 30 JUNE	2017 ($000'S)	2016 ($000'S)
Reconciliation of surplus before taxation to income tax expense		
Surplus before taxation	32,534	32,013
Tax at the New Zealand tax rate of 28% (2016: 28%)	9,110	8,964
Tax effect of amounts which are either non-deductible or taxable in calculating taxable income:		
Non-taxable income/non-deductible expenses	(163)	(192)
Utilisation of tax losses for current/prior periods	(75)	(39)
Foreign tax credits foregone	15	62
Other	(28)	(11)
Income tax expense	**8,859**	**8,784**
Components of income tax expense		
Current tax charge	7,270	7,848
Foreign tax credits foregone	15	62
Movement in deferred tax	1,574	874
Income tax expense	**8,859**	**8,784**

At 30 June 2017 Airways has imputation credits available for use in subsequent reporting periods of $26.7 million (2016: $22.4 million).

Section A: How the numbers are calculated CONTINUED

DEFERRED TAX

Deferred tax assets and liabilities are offset on the face of the balance sheet. 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 2016	**(14,561)**	**7,305**	**2**	**(7,254)**
Deferred tax charged to net surplus	(1,062)	(512)	–	(1,574)
Deferred tax on items charged to other comprehensive income	–	–	(39)	(39)
Balance as at 30 June 2017	**(15,623)**	**6,793**	**(37)**	**(8,867)**
Balance as at 1 July 2015	**(13,479)**	**6,927**	**(157)**	**(6,709)**
Deferred tax charged to net surplus	(1,082)	378	(168)	(872)
Deferred tax on items charged to other comprehensive income	–	–	327	327
Balance as at 30 June 2016	**(14,561)**	**7,305**	**2**	**(7,254)**

Aviation English Services (AES) has unrecognised tax losses of $0.989 million (2016: $1.162 million) which cannot be offset against the income of other members of the Group. The Group has no other unrecognised tax losses.

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, and 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 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**
As at 30 June 2016				
Assets as per balance sheet				
Cash and cash equivalents	1,479	–	–	1,479
Trade and other receivables	27,457	–	–	27,457
Derivative financial instruments	–	209	–	209
Total	**28,936**	**209**	**-**	**29,145**
Liabilities as per balance sheet				
Trade and other payables	–	–	11,117	11,117
Employee entitlements	–	–	27,137	27,137
Derivative financial instruments	–	3,101	–	3,101
Borrowings and overdrafts	–	–	39,000	39,000
Total	**-**	**3,101**	**77,254**	**80,355**

The derivatives used for hedging are considered level 2 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	2017 ($000'S)	2016 ($000'S)
Trade accounts receivable	22,390	26,027
Other receivables	719	1,430
Total trade and other receivables	**23,109**	**27,457**

KEY JUDGEMENT:

Judgement is exercised in choosing the levels of provision for doubtful receivables and assessing the factors impacting recoverability. Given the balance of debtors at year end, these judgements have not had a material impact on the financial statements in the current year.

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 2017						
Unimpaired trade receivables	18,307	3,251	180	–	–	21,738
Impaired trade receivables	–	199	625	171	952	1,947
Total 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**
As at 30 June 2016						
Unimpaired trade receivables	19,244	6,148	178	–	7	25,577
Impaired trade receivables	–	–	399	191	801	1,391
Trade receivables due	**19,244**	**6,148**	**577**	**191**	**808**	**26,968**
Provision	–	–	(33)	(123)	(785)	(941)
Trade receivables recognised	**19,244**	**6,148**	**544**	**68**	**23**	**26,027**

NOTES TO THE FINANCIAL STATEMENTS

Section A: How the numbers are calculated CONTINUED

A7 TRADE AND OTHER PAYABLES

AS AT 30 JUNE	2017 ($000'S)	2016 ($000'S)
Trade accounts payable	4,615	4,151
Payroll related payables	1,780	2,213
Accrued liabilities	5,323	6,489
Provisions	425	1,615
Other payables	169	175
Total trade and other payables	**12,312**	**14,643**

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

Provisions include a restructuring provision, relating to termination of employment, and an allowances provision, relating to expected employee payments. 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 expect 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.

KEY JUDGEMENT:

Significant judgement is exercised in assessing potential indicators of impairment and carrying out any required impairment tests. During the year, management exercised significant judgement in determining the value in use of the aeronautical information management business unit as part of an impairment resulting in a $0.4m charge to profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

Section A: How the numbers are calculated CONTINUED

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.

During the year, management concluded that the charting portion of the aeronautical information management (AIM) system would not be used. As a result, the AIM business, the smallest identifiable cash-generating unit to which the system asset belongs, was tested for impairment. The recoverable amount of $3.7 million was determined by discounting forecast future cashflows at the applicable pre-tax weighted average cost of capital for the unit of 12.35%, resulting in an impairment to the assets in the AIM business of $0.4 million, recognised in amortisation and impairment in profit or loss.

Wellington Tower build, May 2017

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 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**

ASSETS HELD FOR SALE

The sale of a parcel of land in Queenstown with a book value of $2.94 million went unconditional in June 2017. As a result, the land has been transferred out of fixed assets and classified as held for sale from the date negotiations commenced in January 2017. Ownership will transfer on 1 July 2017.

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 2015	7,078	30,185	184,912	30,089	8,625	2,891	23,553	287,333
Additions at cost	–	5,880	14,386	5,583	247	301	36,085	62,482
Asset transfers/ reclassifications	–	–	1,766	–	(1,766)	–	–	–
Deduct disposals	–	(118)	(8,975)	(62)	(1,109)	(116)	–	(10,380)
Transfers from work in progress	–	–	–	–	–	–	(33,291)	(33,291)
As at 30 June 2016	**7,078**	**35,947**	**192,089**	**35,610**	**5,997**	**3,076**	**26,347**	**306,144**
ACCUMULATED DEPRECIATION								
As at 1 July 2015	2,511	20,777	118,247	13,806	5,276	1,737	–	162,354
Depreciation charge	–	698	9,749	5,121	299	434	–	16,301
Asset transfers/ reclassifications	–	–	149	–	(149)	–	–	–
Deduct disposals	–	(105)	(8,397)	(76)	(1,101)	(118)	–	(9,797)
As at 30 June 2016	**2,511**	**21,370**	**119,748**	**18,851**	**4,325**	**2,053**	**–**	**168,858**
Net book value as at 30 June 2016	**4,567**	**14,577**	**72,341**	**16,759**	**1,672**	**1,023**	**26,347**	**137,286**

The Work in progress balance includes significant investments in Wellington Tower, Nelson Tower and a new Air Traffic Management system. Construction of the two towers will be completed within the 2017/18 financial year, at which point the accumulated project costs will be transferred to fixed assets and depreciation will commence.

NOTES TO THE FINANCIAL STATEMENTS

Section A: How the numbers are calculated CONTINUED

INTANGIBLE ASSETS

	INTERNALLY GENERATED SOFTWARE ($000'S)	LICENCES & ACQUIRED SOFTWARE ($000'S)	TOTAL ($000'S)
Average useful life	6 YEARS	5 YEARS	
COST			
As at 1 July 2016	31,465	22,373	53,838
Additions at cost	3,023	315	3,338
Asset transfers/reclassification	61	–	61
Deduct disposals	–	(49)	(49)
As at 30 June 2017	**34,549**	**22,639**	**57,188**
ACCUMULATED AMORTISATION			
As at 1 July 2016	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**
COST			
As at 1 July 2015	25,225	21,541	46,766
Additions at cost	6,495	1,155	7,650
Deduct disposals	(255)	(323)	(578)
As at 30 June 2016	**31,465**	**22,373**	**53,838**
ACCUMULATED AMORTISATION			
As at 1 July 2015	16,676	9,116	25,792
Amortisation charge	2,997	2,051	5,048
Deduct disposals	(146)	(132)	(278)
As at 30 June 2016	**19,527**	**11,035**	**30,562**
Net book value as at 30 June 2016	**11,938**	**11,338**	**23,276**

$9.233 million of the closing WIP balance disclosed on page 56 relates to intangible projects in progress (2016: $4.908 million). These balances will be transferred to Intangibles on completion of the project.

A9 SHARE CAPITAL AND RESERVES

Airways has capital of $41.1 million (2016: $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 the long term, Airways is exposed to liquidity risk 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 on a monthly basis, 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 on a monthly basis; and
- Monitoring compliance with banking covenants on a monthly basis 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 DRAWN DOWN			
TOTAL FACILITY	2017	2016	REMAINING TERM	INTEREST RATE
$60 million	$39 million	$39 million	4 years*	Floating
$5 million	–	–	None (uncommitted)	Floating

*Expires June 2021

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 (2016: 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.

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 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	(266)	(789)	(1,054)	(42,123)	–	–
Total	**(9,853)**	**(1,535)**	**(1,889)**	**(43,229)**	–	**(27,127)**
AS AT 30 JUNE 2016						
Interest rate derivatives – outflow	(200)	(604)	(654)	(1,500)	(243)	–
Foreign currency exchange contracts – inflow*	2,966	98	–	–	–	–
Foreign currency exchange contracts – outflow	(2,861)	(109)	–	–	–	–
Trade and other payables	(11,117)	–	–	–	–	–
Employee entitlements	–	–	–	–	–	(27,137)
Term loan	(298)	(39,295)	–	–	–	–
Total	**(11,510)**	**(39,910)**	**(654)**	**(1,500)**	**(243)**	**(27,137)**

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

NOTES TO THE FINANCIAL STATEMENTS

Section B: Risk CONTINUED

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 through the use of 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

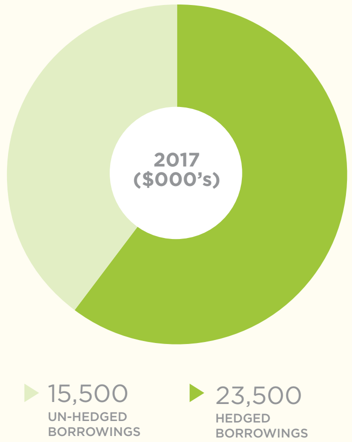
To ensure these policies are adhered to, Airways operate the following controls:

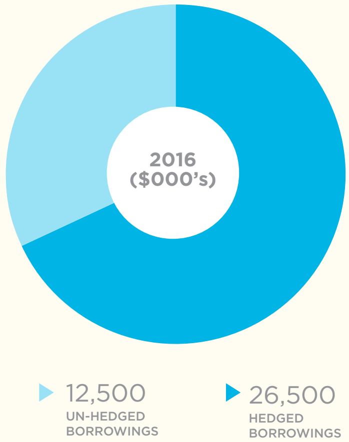
- Maintaining and monitoring forecast debt levels to identify required hedging activity
- CFO approval is required for all hedging decisions.

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 $39m (2016: $39m). Further interest rate swaps were also in place to hedge future debt.

The effective interest rate on borrowing in the current year was 5.87% (2016: 5.79%).

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





$8 million of borrowings was hedged up to 28 June 2017 and was re-hedged in early July 2017. Had the hedging taken place prior to year end this would have brought total hedged borrowings to 81% (currently 61%).

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'S)	REVENUE CONTRACTS NOT YET INVOICED ($000'S)	CURRENT TRADE PAYABLES ($000'S)	EXPENDITURE COMMITMENTS NOT YET INVOICED ($000'S)
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%
AS AT 30 JUNE 2016				
Amount unhedged	336	–	(275)	–
Amount hedged	670	941	(137)	(1,223)
Total NZD Value	**1,006**	**941**	**(412)**	**(1,223)**
Percentage of exposure hedged	67%	100%	33%	100%

The increase in hedged expenditure is a result of a commitment to the purchase a new Air Traffic Management system during the year, with the external US dollar costs fully hedged on contract signing.

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 75% (2016: 79%) of total revenue and 61% (2016: 67%) 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.

NOTES TO THE FINANCIAL STATEMENTS

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.

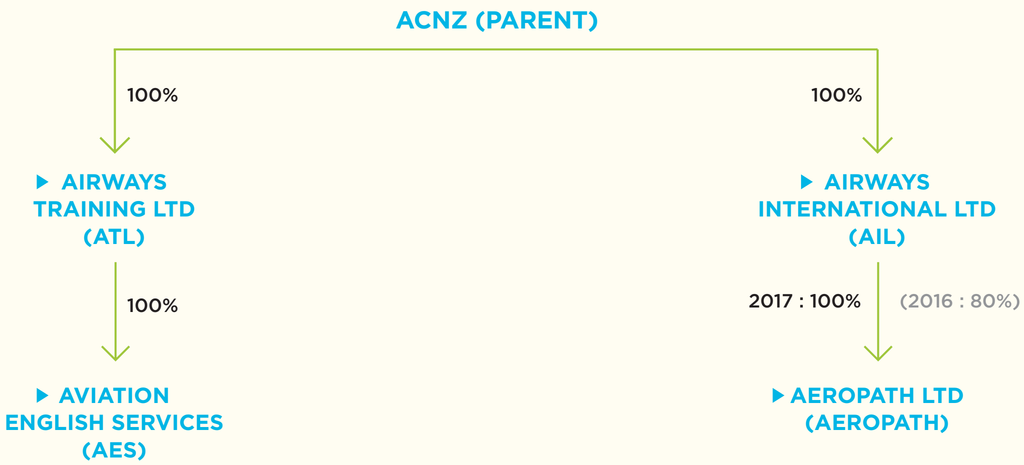
Subsidiaries are all entities over which Airways has control. Airways controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from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

The ownership structure of the Group is shown in the diagram below.



On 24 April 2017, after completion of the agreed trial period for the joint venture, AIL purchased the remaining 20% shareholding in Aeropath for $0.21 million (representing the undistributed retained earnings attributable to the other joint venture party). The Group obtained control of Aeropath on acquisition of the shares and have fully consolidated Aeropath as a subsidiary from that date. Prior to consolidation, Aeropath was classified as a joint venture and equity accounted for within the Group's financial statements. At the date of acquisition, both the carrying value and the fair value of the equity interest in Aeropath were $1.58 million and as a result no gain or loss was recognised.

Section C: Group structure CONTINUED

The impacts on the Group financial statements resulting from this business combination are set out below:

Fair value of assets and liabilities acquired:	AS AT 24 APRIL 2017 ($000'S)
Current assets	
Cash	5,697
Other current assets	824
Total current assets	**6,521**
Current liabilities	
Intercompany liabilities	(2,579)
Other current liabilities	(2,152)
Total current liabilities	**(4,731)**
Fair value of net assets acquired	**1,790**
Fair value of equity investment at acquisition date	1,581
Total consideration	**209**

Since the acquisition, Aeropath has contributed $0.422 million revenue and $0.120 million net operating profit after tax (NOPAT) to the Group's profit and loss. Had the business acquisition occurred at the beginning of the annual reporting period, $6.564 million revenue and $1.108 million NOPAT would have been recognised in the Group's profit or loss.

The Groups' equity accounted share of Aeropath's total comprehensive income for the current financial year, recognised prior to acquisition, is summarised below:

	FOR THE PERIOD ENDED 24 APRIL 2017 ($'000'S)	FOR THE YEAR ENDED 30 JUNE 2016 ($000'S)
For the year ended 30 June		
Revenue	6,142	7,431
Expenses (including taxation)	(5,146)	(6,311)
Total comprehensive income	**996**	**1,120**
Less: interests of other Joint Venturer	(98)	(181)
Group's share of total comprehensive income	**898**	**939**

C2 JOINT ARRANGEMENTS AND OTHER INVESTMENTS

Investments in joint arrangements are classified as either joint operations or joint ventures, depending on the contractual rights and obligations of each investor. Joint ventures are accounted for using the equity method, whereas investments in joint operations are reflected through the recognition of Airways' portion of assets, liabilities, revenues and expenses incurred.

JOINT OPERATIONS

Inter-American University of Puerto Rico (UIPR) Training partnership

This arrangement is involved in delivering training to ATC students in Central America. Airways provides training materials, simulator software and hardware and training resources to the arrangement and is entitled to receive 85% of revenue streams. The business is delivered by AIL and does not involve support or subsidisation from ACNZ. No separate legal entity has been established, and Airways and the partner in the arrangement both: deliver fundamental components of the service; make decisions regarding relevant activities on a day to day basis; and make unanimous strategic decisions. As a result, Airways has concluded that joint control exists and this arrangement has been classified as a Joint Operation under NZ IFRS11.

Joint operations for international ATC training with Emirates Aviation University and Civil Aviation Management Institute of China were wound up during the year. The partnership with SITA to deliver the Flightyield service also ceased during the year.

Section C: Group structure CONTINUED

C3 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. Up until the date of acquisition, there were a number of transactions between the Group and the Aeropath joint venture. These transactions 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.

	PERIOD ENDED 24 APRIL 2017 ($000'S)	YEAR ENDED 30 JUNE 2016 ($000'S)
Transactions with joint ventures		
Aeropath revenue charged to ACNZ	(3,186)	(3,997)
ACNZ operating costs recharged to Aeropath	3,579	4,009
ACNZ revenue charged to Aeropath	480	580
Interest charged to Aeropath	–	2
Loans repaid by to Aeropath	–	240

AS AT 30 JUNE	2017	2016
Balances with joint ventures		
Intercompany balances due from Aeropath	–	483

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 $123.7 million by Airways in the current financial year (2016: $128.7 million).

C4 TRANSACTIONS WITH MANAGEMENT AND DIRECTORS

FOR THE YEAR ENDED 30 JUNE	2017 ($000'S)	2016 ($000'S)
Key management+ compensation		
Salaries and other short-term employee benefits (including termination benefits of $0.047 million)*	2,381	1,906
KiwiSaver/ superannuation contributions	71	61
	2,452	**1,967**
Directors' fees		
Directors' fees paid	273	275

+ Key management are considered to be the Chief Executive Officer and their General Manager 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	2017 ($000'S)	2016 ($000'S)
Property, plant and equipment capital commitments	28,208	20,644
Intangible assets capital commitments	56,722	5,039
Total capital commitments	**84,930**	**25,683**

The increase in capital commitments in 2017 is driven by recently signed contracts for the delivery of a new air traffic management system and a new ADS-B surveillance network.

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	2017 ($000'S)	2016 ($000'S)
Less than one year	5,598	4,461
One to two years	5,240	4,010
Two to five years	7,422	4,238
Over five years	37,004	1,818
Total operating lease obligations	**55,264**	**14,527**

The increased operating lease commitments in out years is a result of new leases signed for corporate and operational facilities in Auckland. These leases commence in August 2017 and January 2020 respectively.

D3 CONTINGENT LIABILITIES

Airways has contingent liabilities in respect of financial guarantee contracts of $0.461 million for performance bonds (2016: $0.378 million).

D4 SUBSEQUENT EVENTS

Ownership of the Queenstown land classified as held for sale at balance date was transferred on 1 July 2017, resulting in a gain on sale of $4.4 million.

NOTES TO THE FINANCIAL STATEMENTS

Section E: Other information

E1 AUDITOR'S REMUNERATION

FOR THE YEAR ENDED 30 JUNE	2017 ($000'S)	2016 ($000'S)
PricewaterhouseCoopers for:		
Financial statement audit services as an agent of the Office of the Auditor-General	166	164
Student fee protection trust audit	10	9
Financial statement audit services for Joint Venture	–	13
Other assurance services in respect of review of Joint Venture	8	–
Other assurance services in respect of pricing compliance	–	46
Other advisory services in respect of IT security	14	50
	198	**282**

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

FOR THE YEAR ENDED 30 JUNE	2017 ($000'S)	2016 ($000'S)
NET SURPLUS AFTER TAXATION	23,675	23,229
ADD NON CASH ITEMS		
Amortisation	5,146	5,048
Depreciation and impairment	17,109	16,301
Movement in deferred tax	1,579	872
Accounting gain on sale of assets	57	28
Share of loss/(profit) from Joint Venture	(898)	(939)
Total adjustments for items in surplus not impacting cash flow	**22,993**	**21,310**
ADD MOVEMENTS IN WORKING CAPITAL ITEMS		
Increase/(decrease) in payables	(6,963)	2,259
Decrease/(increase) in receivables	4,178	(4,851)
Total adjustments for items not in surplus impacting cash flow	**(2,785)**	**(2,592)**
Net cash inflow from operating activities	**43,883**	**41,947**

Audit report

NZ IFRS

INDEPENDENT AUDITOR'S REPORT

To the readers of Airways Corporation of New Zealand

The financial statements comprise:

- the balance sheet as at 30 June 2017;
- the statement of profit or loss and other comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which includes key accounting policies.

The Auditor-General is the auditor of Airways Corporation of New Zealand Limited (the Company) and its subsidiaries and other controlled entities (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

In our opinion, the financial statements of the Group, present fairly, in all material respects, the financial position of the Group as at 30 June 2017, its financial performance and its cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards (IFRS).

Basis for opinion

We conducted our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the International Standards on Auditing (New Zealand). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

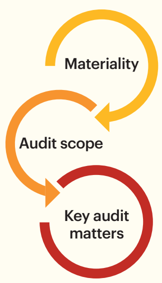
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of the Group in accordance with the Auditor-General's Statement on Professional and Ethical Standard 1 (Revised) *Code of Ethics for Assurance Practitioners*, Professional and Ethical Standard 1 (Revised) *Code of Ethics for Assurance Practitioners* (PES 1) issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code). We have fulfilled our other ethical responsibilities in accordance with these requirements.

Our firm carried out other services for the Group relating to an interim financial statements review and IT security advisory services. The provision of these other services has not impaired our independence as auditor of the Group.

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: $2.46 million, which represents 7.5% of net profit before tax.

We chose profit before tax 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 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 work in progress property, plant and equipment and intangible assets Refer to note A8 of the financial statements. 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. At 30 June 2017 the Group held $176.4 million in property, plant and equipment and intangible assets, including $44.8 million of work in progress (WIP). The general principle for the initial recognition of tangible and intangible assets is that the associated costs deliver economic benefit to the entity beyond a 12 month period and the costs capitalised are able to be measured reliably and are directly attributable to the asset being constructed. Depreciation/amortisation commences once an asset with a finite useful life is in the location and condition necessary for it to be capable of operating in the manner intended by management. The magnitude of the WIP balance and the significant level of effort required to obtain sufficient appropriate audit evidence, specifically in relation to the initial recognition, and classification of tangible and intangible WIP and the determination of depreciation/amortisation commencement date has resulted in the reporting of capitalisation of costs into WIP property, plant and equipment and intangible assets as a key audit matter.	Audit procedures performed to address the key audit matter included the following; We tested a sample of additions to work in progress property, plant and equipment and intangible assets, agreeing each item tested to appropriate audit evidence, including 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, and • 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 We tested a sample of items for which depreciation/amortisation had commenced to confirm the asset was ready for use by reviewing project business cases with respect to the planned duration of the project, discussion with project leaders and management and review of minutes of meetings of the Board of Directors. In addition, we considered individually material projects remaining within WIP at balance date to verify whether management's assessment that the asset was not yet ready for use was reasonable, performing the same procedures as those outlined above.

Audit report CONTINUED

NZ IFRS

INFORMATION OTHER THAN THE FINANCIAL STATEMENTS AND AUDITOR'S REPORT

The Directors are responsible for the annual report. Our opinion on the financial statements does not cover the other information included in the annual report and we do not express any form of assurance conclusion on the other information.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, 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 the work we have performed on the other information that we obtained prior to the date of this auditor's report, 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.

RESPONSIBILITIES OF THE DIRECTORS FOR THE FINANCIAL STATEMENTS

The Directors are responsible, on behalf of the Company, for the preparation and fair presentation of the financial statements in accordance with NZ IFRS and IFRS, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

AUDITOR'S RESPONSIBILITIES 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 Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. Our responsibility arises from section 15 of the Public Audit Act 2001.

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. We also:

- 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.
- 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the use of the going concern basis of accounting by the 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 the auditor concludes that a material uncertainty exists, the auditor is required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the auditor's 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.
- 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.
- 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.
- We communicate with the 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 the auditor identifies during the audit.

Audit report CONTINUED

NZ IFRS

- We also provide the Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on the auditor's independence, and where applicable, related safeguards.
- From the matters communicated with the Directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

For and on behalf of the Auditor-General;

Kevin Brown
28 August 2017

PricewaterhouseCoopers
Wellington, New Zealand

EVA key performance indicators

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

FOR THE YEAR ENDED 30 JUNE	PARENT 2017	PARENT 2016
Debt and equity employed		
Debt employed	65.3	67.7
Equity employed	131.2	120.5
Total debt & equity employed	**196.5**	**188.2**
Charge on operating capital	13.1	13.2
Economic value added	7.6	10.3
Summary of parameters for cost of capital		
Risk free rate – 3-year government stock	2.19%	2.39%
Market risk premium	7.00%	7.00%
Company tax rate	28%	28%
Business risk factor (asset beta)	0.6	0.6
Cost of capital	6.80%	7.48%

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 6.80% for the year ended June 2017 compares to a cost of capital of 6.90% used for determining 2016–19 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 2017	PARENT 2016
NOPAT	18.5	19.7
Deduct: Charge on operating capital	(13.1)	(13.2)
Add back: interest costs	0.9	1.7
Add back: non-cash tax charges	1.6	0.9
Add back: non-cash employee costs	(0.3)	1.2
Economic Value Added	**7.6**	**10.3**

Audit report

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 2017

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 72 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 72 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 72 have been calculated in accordance with the EVA policies and principles adopted by Airways.

Our engagement was completed on 28 August 2017 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 2016–30 JUNE 2017

DIRECTOR	AMOUNT PAID*	ANNUAL FEE
Judith Kirk	33,834	53,044
Mary-Jane Daly	39,663	39,663
Terry Murdoch	31,981	31,981
Chris Moxon	31,981	31,981
Grant Kemble	31,981	31,981
Bennett Medary	23,865	31,981
Mark Pitt	31,981	31,981
Susan Paterson – retired September 2016	20,583	20,583
Total	**245,869**	**273,195**

* The amount paid represents the actual date of payment over the period and therefore may not reflect annualised fees payable.

TOTAL REMUNERATION OVER $100,000

REMUNERATION BAND	TOTAL STAFF	EXECUTIVE/SENIOR MANAGERS	OPERATIONAL STAFF AND MANAGERS
$100,000 – $110,000	51	–	51
$110,000 – $120,000	56	1	55
$120,000 – $130,000	51	–	51
$130,000 – $140,000	51	–	51
$140,000 – $150,000	51	–	51
$150,000 – $160,000	53	–	53
$160,000 – $170,000	46	–	46
$170,000 – $180,000	48	1	47
$180,000 – $190,000	36	–	36
$190,000 – $200,000	63	–	63
$200,000 – $210,000	50	2	48
$210,000 – $220,000	23	1	22
$220,000 – $230,000	15	2	13
$230,000 – $240,000	9	2	7
$240,000 – $250,000	2	1	1
$250,000 – $260,000	2	–	2
$260,000 – $270,000	3	3	–
$270,000 – $280,000	3	3	–
$280,000 – $290,000	3	2	1
$320,000 - $330,000	1	1	–
$500,000 - $510,000	1	1	–
$780,000 - $790,000*	1	1	–
	619	21	598

* Includes annual leave payout and performance remuneration for both 2015-16 and 2016-17.

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.

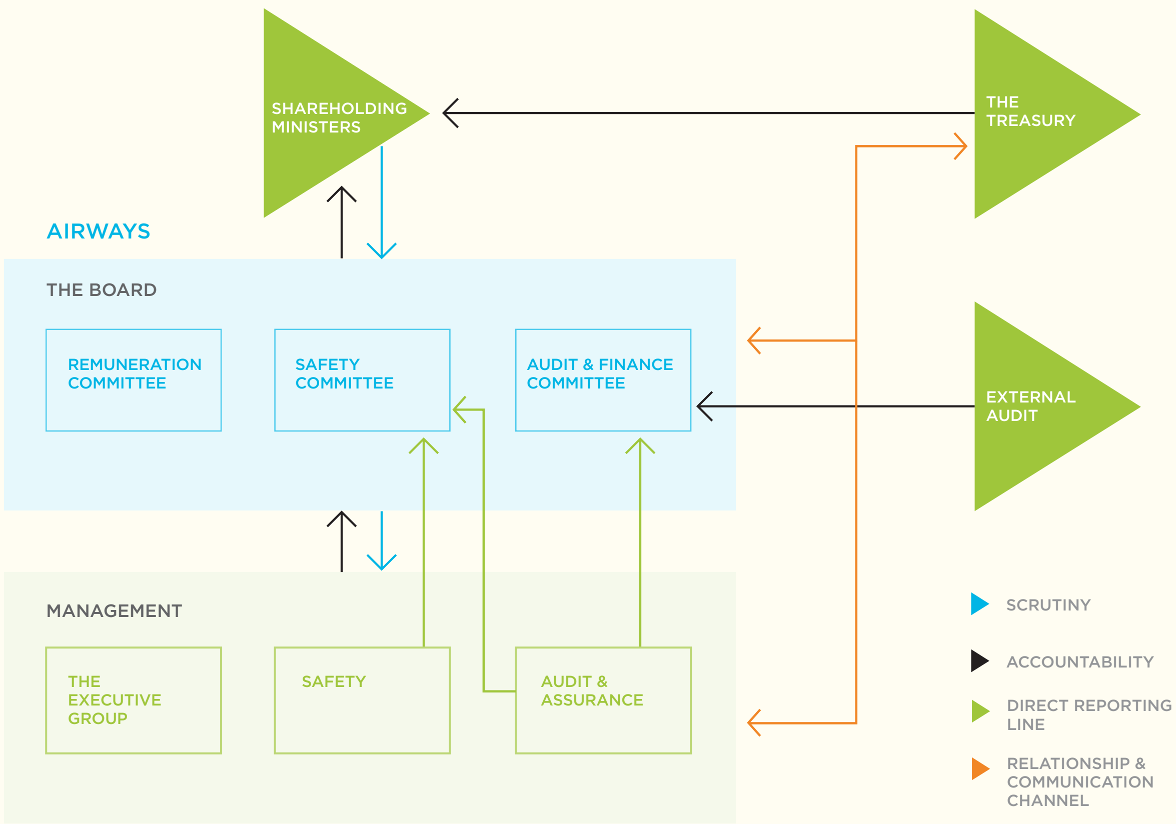
The Code of Conduct underpins governance at Airways, from the Board through to operational staff. It is a comprehensive guide communicated to all employees which sets out explicit expectations of the highest standards of integrity, good conduct and concern for the public interest, as well as providing 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, eight 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 31 to 33 (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. In order 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 2017, the Board set its own goals and undertook its own 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 on the Airways website under the "Our Board" section. 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) Terry Murdoch Grant Kemble
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

During the year, the Board also established a committee to provide oversight and advice on the procurement of a new ATM system. This committee comprised Bennett Medary (Chair) and Chris Moxon and was wound up following completion of the procurement process in February 2017.

Governance at Airways CONTINUED

DIRECTORS' ATTENDANCE

The Board held nine meetings during the year ended 30 June 2017. 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 & FINANCE COMMITTEE	SAFETY COMMITTEE	REMUNERATION COMMITTEE	ATM PROCUREMENT
Total meetings held	**9**	**4**	**4**	**3**	**4**
Judith Kirk	9	–	2^	3	–
Mary-Jane Daly	9	4	–	3	–
Terry Murdoch	8	–	3	–	–
Chris Moxon	9	3	–	–	4
Grant Kemble	9	–	4	–	–
Bennett Medary	9	4	–	1 (of 1)	4
Mark Pitt	8	–	4	–	–
Susan Paterson*	4 (of 4)	1^ (of 1)	1^ (of 1)	2 (of 2)	–

* = retired directors

+ = new directors

^ = directors were 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.

Some of the key outcomes they are responsible for include:

- delivery of audits in line with the Group-wide audit programme
- assessment of audit action effectiveness to ensure actions are driving improvements and reducing recurring issues
- assessment of legislative Compliance, company-wide and remediation management
- ongoing certification to the ISO9001:2008 business standard
- verifying compliance to the CAA Rule parts, applicable to Airways
- clear, concise, consistent, compliant document, process and record management, company-wide
- quarterly reporting to the Audit and Finance and Safety Board sub-committees
- increased understanding of Audit across the business
- improvements in business practices resulting from advice and guidance provided by the Audit and Assurance team.

Governance at Airways CONTINUED

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. The key components of the remuneration policy for directors and executives are set out below:

- 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.
- Up to 20% of total remuneration for executives is determined by a combination of company performance (both safety and financial) and performance against individually set objectives aligned to the Company's long term strategy.

DIRECTORY

BANKERS

ANZ Bank New Zealand Limited

Bank of New Zealand Limited

The Hong Kong and Shanghai Banking Corporation Limited

AUDITORS

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

REGISTERED OFFICE

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AIRWAYS

ANNUAL REPORT 2016—17