ANNUAL REPORT 2014-2015

AIRWAYS

making your world possible

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Top decile safety and efficiency record worldwide

Over 37,000 tonnes of CO_2 emissions saved

22% reduction in inflight delays

84% customer satisfaction
99.95% service availability

Airways New Zealand

ANNUAL REPORT 2014-2015

Message from the CHAIR AND CHIEF EXECUTIVE

We are pleased to announce a strong safety, operational and financial performance for the 2015 financial year.

Airways has maintained a zero high-severity safety incidents record and achieved a Group Net Operating Profit after Tax (NOPAT) of $15.1 million, in line with the original budget of $15 million and ahead of last year's result. This strong performance has been achieved while maintaining safe and efficient air traffic control in New Zealand airspace. We are proud of the result, which is in accordance with customer, shareholder and employee expectations. This is testament to the efforts and contribution of Airways' people.

KEEPING PACE IN A RAPIDLY EVOLVING INDUSTRY

The global aviation industry is undergoing rapid technological change as satellite navigation replaces traditional radar systems. We are embracing this change. Our goal is to ensure that all airlines operating in New Zealand's airspace are able to realise all the safety and efficiency benefits available in the latest generation of aircraft. This includes supporting the New Southern Sky (NSS) national airspace programme being led by the Civil Aviation Authority (CAA).

The transition will mean Airways will need to deliver new satellite-based services alongside ground-based services. The aviation industry will need to work together to implement the transition smoothly and efficiently to help minimise the duration and cost of operating parallel systems.

ENHANCING AIR SAFETY

Safety is Airways' top priority. In the last financial year we maintained our position as a leading air navigation service provider (ANSP), continuing to meet industry standards. It is pleasing to report that, as well as having no high-severity safety incidents during the year, we retained our international Civil Air Navigation Services Organisation (CANSO) top decile safety performance rating. We also recorded no significant events in occupational health and safety.

In the last financial year we upgraded and replaced crucial navigational equipment, such as Doppler VHF Omni-directional Radars (DVORs) and distance measuring equipment (DMEs) in Invercargill, Napier, Queenstown and New Plymouth. We also completed a complex two-year project to deliver a new internet protocol (IP) network supporting navigational and communications systems. The network replaces all existing analogue communications infrastructure to ensure Airways can effectively harness known future technology changes.

Airways continues to play a leading role in promoting international safety standards, particularly through our role as Executive Champion of the CANSO Safety Standing Committee.

CREATING SHAREHOLDER VALUE

A $4 million dividend to Government shareholders has been delivered on the back of the strong financial performance of the last 12 months. This return achieves a sound balance between providing appropriate cash returns and ensuring sufficient capital is retained in the business for long-term growth.

2014-15 was the third year of our transformation strategy 'Making a New Airways' (MANA). At a group level, we achieved the targets for customer satisfaction, financial return and valuation.

We are confident that our innovative partnering business model (see page 5) within Airways Global Services supports long-term growth and value for shareholders.

MEETING OUR ENVIRONMENTAL RESPONSIBILITIES

Building on past enhancements and introducing new initiatives meant we continued to meet our social and environmental responsibilities. Our investment in Collaborative Flow Manager (CFM) technology is generating fuel efficiencies, with a

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reduction of approximately 37,000 tonnes of CO_2 per year, and the rollout of Performance Based Navigation (PBN) procedures is also returning environmental benefits.

DELIVERING CUSTOMER VALUE

We delivered a high level of service availability and network optimisation during the year, through further investment in the development of New Zealand aviation infrastructure.

2014-15 saw a further 22% reduction in inflight delays compared to the previous year. This improvement highlights the benefits of the CFM system, the introduction of SMART approaches and procedural enhancements, and the new sequencing tools for inbound flights to Auckland Airport. The new Aeronautical Information Management (AIM) system provided not only lifecycle replacement but also the ability to enhance Airways' AIM capability in line with global data protocols.

Unfortunately, on 23 June 2015 a network interruption of two and a half minutes caused a significant service outage. We took the prudent approach of curtailing operations for one and a half hours before resuming full service so we could assure the safety and integrity of systems. We sincerely apologise to our airline customers, airport customers and the travelling public for the disruption this caused. Both the investigation and remediation are well advanced.

GENERATING STRONG FINANCIAL RESULTS

Cost control and effective procurement has meant significant savings in a range of areas, including travel and consultancy costs. These savings, complemented by a 2% year-on-year increase in flight volumes, underpinned NOPAT of $12.9 million for the core air traffic control (ATC) business. The earnings have enabled further investment of $32 million in service enhancements and efficiency initiatives.

Our other commercial and international businesses contributed an additional $2.2 million NOPAT. The group NOPAT of $15.1 million was in line with budget.

DEVELOPING AIRWAYS' PEOPLE

Strong leadership, supported by capable teams, is critical to Airways' continuing success as an industry leader and strong performer in the global economy.

Building Airways' leadership capability and succession planning has been a primary focus for the financial year and staff have had opportunities to attend courses and workshops to develop their skills in these areas.

BUILDING GLOBAL BUSINESS

Airways' leadership in aviation safety provided a sound platform for two new business ventures on the international stage. The first was a partnership with the InterAmerican University of Puerto Rico (UIPR) for the establishment of an international ATC training centre. The second was the air traffic control hub at Emirates Aviation University (EAU) in Dubai, which officially opened in May 2015. We believe these facilities, along with Flightyield and GroupEAD Asia Pacific, will provide a base for strong revenue growth in the next financial year.

THE YEAR AHEAD

Airways has sound foundations in place to meet strategic directives and to deliver on our vision. Air safety is our core business and will remain our central focus while we build on a number of performance-enhancing infrastructure and service initiatives to meet customer, shareholder and employee expectations.

We are excited and positive about the year ahead and look forward to the challenges of our changing technological environment while continuing to improve on performance.

Susan Paterson
Chair

Ed Sims
Chief Executive

Creating value for
OUR PEOPLE, SHAREHOLDERS AND OUR CUSTOMERS

As a State-Owned Enterprise (SOE) and fully-owned subsidiary of the New Zealand Government operating as a commercial business, Airways is committed to creating value for our people, shareholders and our customers. We are proud that we met the Government's requirement for the efficient, effective and socially responsible management of Airways' businesses.

SAFE AND EFFICIENT SKIES

Our primary business priorities are safe and efficient skies for all New Zealanders and visitors to our country. In the last financial year, the company reported no high-severity safety incidents, with 99.95% service availability. We also retained our top quartile safety performance rating from CANSO – the industry body that represents air navigation service providers (ANSPs). Members of CANSO control some 85% of the world's air traffic.

During the last 12 months we continued a range of technical and systems improvements resulting in savings of approximately $15 million per year for our customers. Earlier investment in CFM, which streams aircraft into Auckland, Wellington, Christchurch and Queenstown, has meant airlines can better manage arrival times, reduce delays and achieve 'on time performance' targets. Airways continues to build on its past efficiencies through satellite-guided approaches and enhanced surveillance, reducing average delays for customers and reducing fuel burn. During the year average inflight delays reduced from 15 to 11 seconds in Auckland, Wellington, Christchurch and Queenstown.

Airways' system innovations and improvements during the year have also benefited the wider New Zealand community. Auckland Airport's new SMART approaches have reduced CO_2 emissions by 1,500 tonnes through more efficient flight profiles and enabled flights to achieve maximum efficiency. Overall, around 37,000 tonnes of CO_2 have been saved from improvements in systems and procedures.

COST-EFFICIENCIES AND GLOBAL TRAINING OFFERINGS

Airways' financial performance for the year was driven by ongoing cost efficiencies and growth in traffic volumes (international increased by 3.9% and domestic by 1.2%). Significant ongoing cost savings were achieved across all businesses and in a range of areas, including procurement, labour and travel, delivering shareholder benefits in the current year and into the future. These were complemented by the successful re-negotiation of the Wellington corporate head office lease, resulting in savings of a further $1 million over the next three years. We have continued to build on our investment in Airways Global Services (AGS), an innovative business model designed to commercialise intellectual property developed in New Zealand. New initiatives, such as international training campuses with overseas partners, provide Airways with a sound foundation to build long-term shareholder value.

OUR PEOPLE AT THE HEART

Our commitment to growing our business and achieving efficiencies during the year has continued to work towards meeting customer and shareholder expectations, as well as creating more employment options and a stimulating and fulfilling business environment for our employees. Our people are at the heart of our business and Airways' success is because of their commitment, efforts and leadership.

Employee health and safety is paramount and last year we:

- introduced staff safety benchmarking through surveys and new wellness programmes
- retained our ACC Workplace Safety Management Practices Tertiary rating.

Investing in the NEW ZEALAND AVIATION INDUSTRY

Delivering key local safety and service initiatives, in concert with significant infrastructure investments has enhanced safety and reduced aircraft delays, generating industry and regional benefits.

During the year we trialled the Airports Collaborative Decision Making system (A-CDM) in collaboration with Auckland Airport and local airline operators. The system is designed to provide more efficient operations at the airport by capturing information on where there are delays, both on the ground and in the air – and documenting each stage of the aircraft's journey to identify areas for improvement. The system was first tested in Auckland at the start of this year and is now operational.

SAY IT RIGHT, HEAR IT RIGHT, IS IT RIGHT?

We led a national industry-wide campaign with airline, military and flight training organisations to raise the standard of radio communications, called 'Say it Right, Hear it Right, Is it Right?' The campaign's aim was to test the accuracy, professionalism and phrases air traffic control and pilots use and to collect feedback about their experiences while at work. The results will be reported with recommendations for improvements to flight safety.

REVIEWING BUSINESS MODELS

Airways continues to support airline and general aviation customers through the long-term and sustainable provision of services to New Zealand airports. We regularly review business models and service levels to ensure airlines can continue to operate safely and profitably, and have proposed changes to air traffic management services at some regional aerodromes with lower volumes of traffic. These changes aim to deliver an appropriate, cost-effective service based on the level of traffic and complexity at these aerodromes, which will help all customers continue to operate in these locations.

NEW CONTROL TOWER FOR WELLINGTON; EXTENSION TO QUEENSTOWN TOWER

Improvement in infrastructure was another feature of the last financial year. In March 2015, after two years of collaboration with airline customers and Wellington Airport, Airways applied for resource consent for a new 32-metre high, $18 million air traffic control tower. The tower is designed to complement the environment and positioned to maximise efficient operations and meet current and future demands of the city. If the resource consent application is successful we expect construction will start later this year.

Work also started on the new Queenstown Airport control tower extension. The extension is at the base of the existing tower and is designed to accommodate the future needs of New Zealand's fastest growing airport, including new, non-daylight operations.

SMART APPROACHES DELIVER CUSTOMER BENEFITS

Working in partnership with Auckland Airport and the Board of Airline Representatives New Zealand, Airways has helped deliver two new satellite-guided flight paths into Auckland Airport, which came into operation in May 2015.

Extensive community consultation was undertaken to ensure affected residents in the flight paths were informed of the benefits and understood the reasons for the changes.

On these revised flight paths, approach curves are wider than those first trialled last year, which means aircraft can reduce thrust and speed brakes, which in turn makes them quieter, saves fuel, cuts carbon emissions and enables them to land more efficiently.

The new flight paths contribute to the modernisation of the airspace and air navigation in New Zealand. It is expected they will help grow travel, trade and tourism through increased efficiency and capacity at New Zealand airports.

Standing out on
THE WORLD STAGE

Worldwide, Airways is regarded as having an excellent safety record, offering the highest levels of service and delivering highly innovative solutions – it's an enviable reputation and one we have continued to build on in the 2014-15 financial year.

GLOBAL AVIATION SYSTEMS MEAN COST-EFFICIENCIES AND REDUCED CO_2 EMISSIONS

As an integral part of the Government's New Southern Sky (NSS) national airspace and air navigation programme, led by the CAA, we are helping to deliver the International Civil Aviation Organisation (ICAO) vision for a globally interoperable aviation system. We are leading the way with the implementation of satellite-guided approaches and multilateration surveillance systems and assisting NSS to meet ICAO timeframes for the implementation of modern air traffic management technologies. The NSS programme is expected to deliver environmental benefits through reducing CO_2 emissions and contribute nearly $2 billion over 20 years to the national economy through fuel savings, lower aircraft operating costs and efficiencies for airlines.

SHAPING GLOBAL ATM DISCUSSIONS

Airways plays a significant role in the air traffic management industry globally through its involvement with CANSO. CEO Ed Sims is a member of the CANSO Executive Committee and Executive Champion of the CANSO Safety Committee. In addition, 19 of our technical experts represent Airways on ICAO and CANSO international working groups and operational committees. These include the ICAO Cyber Security working group and CANSO's PBN working group.

WHY WANAKA WAS CHOSEN FOR NASA'S BALLOON LAUNCH

During the year we developed our launch services business, showcasing global best practice in the safe and innovative sharing of airspace through our work with NASA and other organisations. In Wanaka we supported the launch of the 150-metre high NASA Colombia Scientific Balloon Facility super pressure balloon. Once inflated it was the size of a rugby field. It reached an altitude of 110,000 feet and spent 32 days in the air. NASA chose New Zealand for the launch based on a safety and infrastructure survey of the southern hemisphere, the relatively uncongested airspace and Airways' ability to be responsive to their specific launch requirements.

AIRSHARE.CO.NZ – THE ONLINE PORTAL FOR UAV USERS

Another New Zealand innovation generating interest worldwide is an online portal and community hub for Unmanned Aerial Vehicle (UAV) users – www.airshare.co.nz. The portal is the result of collaboration between Airways, industry group UAV NZ, Callaghan Innovation and the CAA. It helps UAV users discover where they can fly and what they need to know, including the Civil Aviation rules. Key features include dynamic maps highlighting aerodromes and controlled airspace locations and a flight planning feature for operators to log their unmanned flights and interact with air traffic control to request access to controlled airspace.

"I have been deeply impressed with the comprehensive support provided to the NSS programme by the management and individuals at Airways. Airways staff have been involved at every level of the project, from the monitoring role of the governance group down to providing specific detailed technical advice. We have been fortunate to have had access to such a remarkable depth of expertise and effort from an organisation dedicated to delivering excellence in its field."

Steve Smyth
Director, New Southern Sky

AIRSHARE.CO.NZ SUPPORTS NEW TECHNOLOGY AND SAFE SKIES

Since the launch of airshare.co.nz in June 2014, the popular website has attracted over 20,000 users, reflecting the rapid interest in UAVs in New Zealand.

The website database includes over 900 commercial and recreational UAV operators (commercial 47% and recreational 53%). UAVS are used for a range of commercial applications, including aerial photography, land surveying, forestry and agriculture management, such as pasture management.

The MyFlights service introduced in December 2014 and designed to automate UAV flight requests, has been particularly popular with over 1,000 flights logged in controlled airspace in just six months. Other website features in demand include dynamic maps, Civil Aviation rules and news and updates.

Airways' new, and less traditional, UAV customers are a growing aviation segment. The website is user-friendly, and airshare has over 2,000 Facebook followers.

Exporting Airways'
EXPERTISE WORLDWIDE

Airways is capitalising on intellectual property developed locally, with our international partners, to generate revenue for re-investment in New Zealand. This will finance ongoing improvements in ATC technologies and services and the safety of New Zealand's airspace.

TRAINING AIR TRAFFIC CONTROLLERS AROUND THE WORLD

A global shortage of air traffic controllers in the last financial year created opportunities for us to help train new controllers and offer refresher training through our international training partnerships model. In October 2014 we launched a partnership with the InterAmerican University of Puerto Rico (UIPR) for the establishment of an international ATC training centre. We are providing ATC ab-initio, air traffic services operations and air traffic management training programmes at the university. A partnership with Emirates Aviation University (EAU) was also established and a purpose-built air traffic control training facility was officially opened in Dubai in May 2015.

As well as providing a full suite of ATC services, a Total Control simulator installed at the facility in Dubai gives students a realistic tower and radar experience. The centre will deliver training for up to 200 students per year for five years. We also established a partnership with the Civil Aviation Management Institute of China (CAMIC) to deliver short courses in China. Under this contract, we will provide refresher training for up to 200 controllers over three years. Students will also benefit from using an Airways Total Control ATC simulator installed at CAMIC.

Other training contracts include:

- Our long-standing customer for inbound New Zealand training – the General Authority of Civil Aviation of Saudi Arabia – re-signed another training contract
- In late 2014 students from Hong Kong International Airport (HKIA) Staff Services Limited started their ab-initio training with Airways. These students also completed their private pilot's licence qualification – a requirement for air traffic controllers in Hong Kong
- Vietnam also approved Airways as its preferred supplier for ab-initio training for government-selected and approved self-funding students.

TALKING TO WORLD EXPERTS ABOUT OUR E-LEARNING AND LATEST TRAINING TECHNOLOGIES

In late 2014 we presented an alternative ATC training approach to world experts at the Next Generation of Aviation Professionals symposium in Montreal, Canada. The presentation focused on how we are incorporating new generation e-learning and gaming technologies to meet our expected demand for high-volume and lower-risk training of ATCs. The model provides ANSPs with surety that the students they train will become quality graduates at a significantly reduced cost.

MAXIMISING RETURNS WITH FLIGHTYIELD

During the year we also progressed contract negotiations with a number of customers for the Flightyield service. Flightyield is a fully integrated aeronautical billing service for ANSPs that simplifies and automates the billing process, improving cost recovery and maximising returns on ATC investments.

JOINT VENTURE A FIRST FOR ASIA PACIFIC

A first for Asia Pacific, a partnership between Airways and European Aeronautical Information Management (AIM) specialists was launched in July 2014. The joint venture company, GroupEAD Asia Pacific, began operations during the last financial year. GroupEAD Asia Pacific provides next-generation AIM and procedure design services across the region, delivering higher quality and more accessible aeronautical information and enhancing aviation customer safety and efficiency.

Promoting
SAFETY AND GROWTH IN THE PACIFIC

Airways is strengthening its support and commitment to Pacific Island partners with a long-term vision to enhance aviation safety and develop sustainable and efficient services that will make a difference to the region.

We aim to share our expertise to achieve the same standard of infrastructure, service, customer value and safety as provided in New Zealand and required by CAA regulations. Satellite-based communication for the aviation community, along with improved surveillance, charting, lighting and navigational equipment will all enhance transport connectivity and facilitate growth of local Pacific economies.

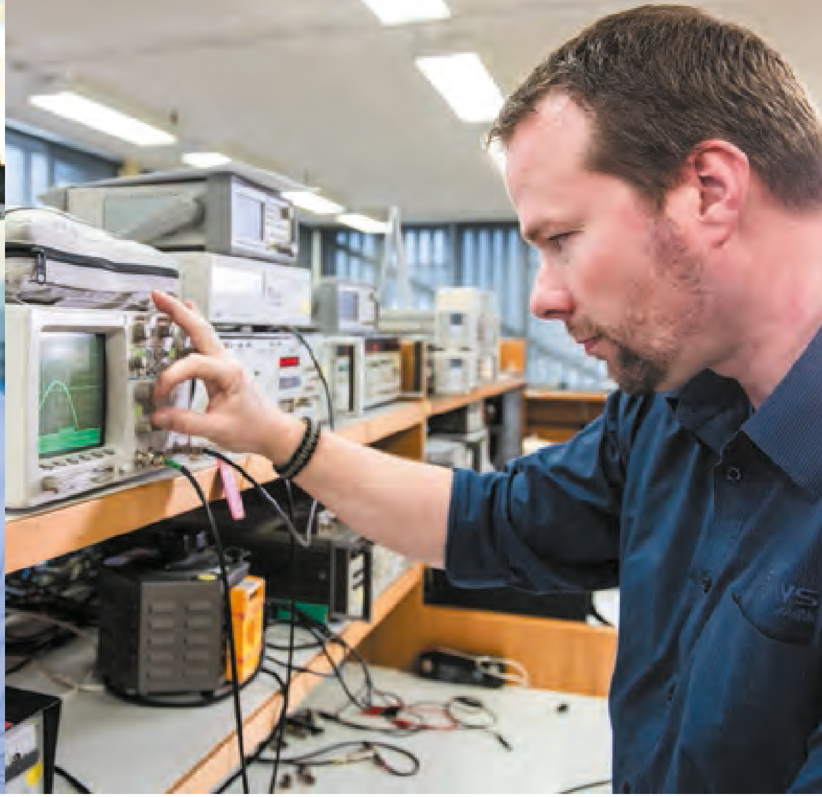
Airways has a long history of working in the Pacific, delivering safe, value-for-money projects and services. We have a dedicated Pacific-focused team and are proactively driving solutions to benefit everyone – airlines, airports and the travelling public.

Here are some of the solutions we have provided over the last financial year:

- Helping Vanuatu review satellite services – along with our joint venture partner, GroupEAD Asia Pacific, we helped Vanuatu to review satellite-based approaches at Bauerfield International Airport. The review assessed the feasibility of a lower minimum to enable landings in low cloud to avoid the redirection of flights to other airports
- Helping restore services after Cyclone Pam – we helped restore critical navigation systems and equipment at Bauerfield Airport after Cyclone Pam. An Airways senior technician spent a week in the devastated capital of Port Vila helping local technicians repair essential navigation equipment

We have a dedicated Pacific-focused team and are proactively driving solutions to benefit everyone – airlines, airports and the travelling public.

- Upgrading Nauru's aviation knowledge – we now have a partnership agreement to help Nauru upgrade its aviation knowledge and capability. The comprehensive agreement covers how to manage an airport, including management structure, services and infrastructure, to achieve CAA compliance
- Continued our upper air space partnership agreements with Tonga, Samoa, Cook Islands and Niue – the model of sharing revenue with the Island States has proved to be sound, sustainable and beneficial, enabling the ongoing re-investment in aviation infrastructure and services in the Pacific
- Annual flight inspection programme – this programme is conducted in 11 countries and is part of our commitment to maintaining aviation safety in the Pacific. The inspections have been provided for over 50 years. The programme is cost-effective and provides a high value service from a respected supplier
- Hosted a Pacific Islands Automatic Dependent Surveillance-Broadcast (ADS-B) workshop – the workshop was attached to the ICAO taskforce meeting and seminar held in April 2015 in Christchurch. The workshop provided an opportunity to share New Zealand's ADS-B expertise with the 20 Pacific Island and World Bank attendees to build understanding of the implications of implementing the technology in the Pacific
- Ongoing services and support of installations – we have continued to support installations, such as the February 2014 Cook Islands operational desktop version of the Airways Total Control simulator, specifically designed for ATC refresher training in smaller airports.



Underpinning success with **LEADING PEOPLE STRATEGY**

We continued to provide industry-leading programmes for our people during the year, to develop and nurture skilled, healthy and committed people who consistently deliver high-quality outcomes for Airways.

Our People Strategy was introduced in 2014, with four pillars: belonging, leadership, talent and performance. Within the four pillars are a series of individual programmes, several of which were launched in the last 12 months.

‘A WELL TEAM IS A SAFE TEAM’

Based on the principle ‘a well team is a safe team’, Airways launched a wellness programme last year providing staff with a portal to access health and wellbeing resources, along with webinars from health experts on topics such as healthy eating and the importance of sleep and exercise. The programme also includes team challenges to encourage staff to improve on specific areas of their health. A survey enables staff to obtain a year-on-year comparison of their wellbeing, including tips for improvements.

The Airways People Strategy was one of three finalists in the Human Resources Institute of New Zealand Talent Development and Management awards in the category: **Recognising outstanding initiatives for developing talent.**

DEVELOPING LEADERSHIP CAPABILITY

Three new leadership programmes were launched during the year, helping to develop Airways leaders. Inspiring Leaders, run in partnership with Otago University, is designed to help our people leaders find their leadership voice. Leadership Edge builds on greater self-awareness to help participants discover what would make them a more effective leader. Professional Advantage gives Airways technical experts the opportunity to hear from technology and innovation thought leaders, such as the inventor of the Jetpack, Glenn Martin.

'BEYOND THE BOUNDARIES' – A 10-WEEK PROJECT

Reinforcing the importance of innovation and thinking outside the square, Beyond the Boundaries explored what Airways might look like in 10 years' time and which strategic partnerships could help us to grow and develop in our rapidly evolving industry. The project aimed to fine-tune Airways' longer-term strategy, following the MANA business transformation in late 2011.

Airways'
BOARD AND EXECUTIVE






Susan Paterson ONZM
Chair
BPharm, MBA, CFInstD

An independent director since 1996, Susan was appointed to the Airways Board in May 2006, becoming Chair in 2011. She was appointed an Officer of the Order of New Zealand (ONZM) for her services to corporate governance. Having trained and practiced as a pharmacist, Susan completed her MBA at London Business School then worked in strategy, consulting and management roles in New Zealand, Europe and the United States.

Susan is also Chair of Theta Systems Limited, Deputy Chair of Abano, and a Director of the Electricity Authority, Goodman NZ, Arvida, Housing NZ Limited and Les Mills NZ Limited. Susan has a keen interest in sport, education and the environment. She is Chair of 'Home of Cycling' (Avantidrome), a Commissioner of the Tertiary Education Commission, past Chair of Auckland Hockey, and a past board member of St. Cuthbert's College, the NZ Ecolabelling Trust and the Energy Efficiency and Conservation Authority (EECA).

David Park
Deputy Chair
BE (Hons), MSc, MBA

David was appointed to the Airways Board in January 2010. A qualified aeronautical engineer, he has held senior flight operations management positions in two airlines and now provides aviation consulting advice to airports, airlines and international aviation businesses. He is a member of the Royal Aeronautical Society, the Honourable Company of Air Pilots and is a United Kingdom (UK) Chartered Engineer.

Susan Huria
Dip Journalism, Dip Marketing, CFInstD

Susan has been an independent director for the past 18 years. She is Chair of Veterinary Enterprises and a Director of Ngai Tahu Property and Marsden Maritime Holdings. She is a Trustee of First Foundation and a Fellow of the Public Relations Institute of New Zealand. Her background is in marketing and communications and she has spent many years working with Maori entities through her company Huria Anders, specialising in remuneration policy and director recruitment.

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. 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.






Robin Gunston

BSc (Hons), ACII , CMC, MInstD

Robin was appointed to the Airways Board in December 2012. He is a Director of BoardSafe Limited and is Chair of the SafeHere Trust. He has had considerable experience on not-for-profit boards, including in recent years the Association of NGOs (non-government organisations) in Aotearoa and the Anglican Insurance Board.

Robin is a chemical engineer with wide international experience in the design, construction and operation of oil and petrochemical facilities. He specialised in safety engineering, loss prevention and risk management. He is a certified management consultant specialising in business development, risk and insurance and long-term strategic futuring for both government and business organisations.

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 multi-national software companies and global consulting practices. He 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, UK.

Grant Kemble

LLB (Hons), BCom, CMInstD

Grant is a lawyer, specialising in commercial and corporate law, and works with a range of international and domestic clients over a number of industries including listed companies. He is a partner at Russell McVeagh and has previously been the Chair of the Board of Russell McVeagh and a Director of Integria Healthcare Limited. Grant was appointed to the Airways Board in May 2013.

Mary-Jane Daly

BCom, MBA, CMInstD

Mary-Jane was appointed to the Airways Board in May 2014. She is an Independent Director of the New Zealand Green Building Council, and Kiwi Property Group Limited. Mary-Jane is also a Commissioner of the Earthquake Commission.

Mary-Jane holds a Bachelor of Commerce from Canterbury University and an MBA from City University Business School. Mary-Jane has a strong background in banking and finance, with extensive experience in a variety of roles both in New Zealand and the UK.

Executive

Ed Sims, Chief Executive

Pauline Lamb, Chief Operating Officer and General Manager System Operator

Mark Loveard, Chief Financial Officer and General Manager Shared Services

Jamie Macdonald, General Manager Global Services

Financial PERFORMANCE

GROUP

Airways measures its performance on the basis of its safety, efficiency and commercial results, and has performed strongly in all three areas during the 2015 financial year.

Airways achieved a Group Net Operating Profit after Tax (NOPAT) of $15.1 million, in line with the original budget of $15 million and 28% ahead of the prior year's result of $11.8 million. $1.3 million of unexpected asbestos removal costs, and delays in revenue streams from new international businesses, have created significant commercial challenges during the year. Despite these, our ongoing focus on rigorous cost control, complemented by statutory revenue growth, have enabled a Group result in line with the original plan. A breakdown of both NOPAT and revenue by business unit is provided in table 1 below.

The lower than planned NOPAT and revenue for Airways Global Services reflects the challenges in growing revenues from Airways' training and Flightyield partnerships. In response, we managed the expense base of the global business very tightly, delivering positive cashflow of $0.7 million.

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

Business unit	NOPAT			Revenue		
	2015 Actual	2015 Budget	2014 Actual	2015 Actual	2015 Budget[1]	2014 Actual
System Operator – Air Traffic Control (ATC) business	12.9	10.6	10.2	169.7	164.6	159.9
Other Services:						
System Operator – Ancillary Services	2.5	2.8	2.9	11.1	11.1	14.6
Airways Global Services	(0.3)	1.6	(1.3)	5.5	23.3	6.8
	2.2	4.4	1.6	16.6	34.4	21.4
Group	15.1	15.0	11.8	186.3	199.0	181.3

[1] Budget revenue for Airways Global Services includes: GroupEAD Asia Pacific revenue of $5.0m, whereas this entity is equity accounted in the Actuals.

GROUP PROFIT OF $15.1 MILLION IS IN LINE WITH BUDGET AND 28% AHEAD OF THE PRIOR YEAR

SYSTEM OPERATOR – AIR TRAFFIC CONTROL (ATC) BUSINESS

Investment in service and efficiency improvements (capital expenditure)

We are on track to deliver the overall three-year capital plan agreed in the 2013-16 pricing framework, although total expenditure for the year of $32.1 million is below the planned level of $37 million. The lower than planned expenditure has been primarily driven by two major factors: 1) the time required to finalise an optimal location and design for the new Wellington air traffic control tower (now agreed, with resource consent expected in November 2015); and 2) ongoing efforts in establishing a more cost-effective and sustainable solution to long-term enroute contingency.

Key investments during the year have included:

- the implementation of a new Aeronautical Information Management system delivering improved service quality and reliability, and providing a platform for further service development
- ongoing lifecycle replacement and upgrades of crucial navigational equipment (DVORs and DMEs) in Invercargill, Napier, Queenstown and New Plymouth
- completion of a two-year project to rollout a new IP network supporting Airways' navigational and communication systems. This network replaces all the existing analogue communication lines connecting Airways' New Zealand infrastructure to ensure Airways can effectively harness known and future technology changes.

2015 has also seen a 22% reduction in inflight delays from the previous year. This further demonstrates the effectiveness of the recent investment into Airways' Collaborative Flow Manager system, SMART approaches and procedural enhancements, and new sequencing tools for inbound flights to Auckland Airport.

Financial performance

Overall, higher than planned flight volumes and effective cost management have delivered a NOPAT result for the System Operator (ATC) business of $12.9 million, ahead of both budget and the prior year.

Increased traffic volumes[1] have resulted in 3.1% higher than planned revenue levels for the System Operator – ATC business. Increases have come through on both domestic and international routes, with the most significant increases from continued growth on the core domestic routes between Auckland and Wellington and Christchurch and Queenstown, which are on average 8.2% above expected levels. These increases are partially offset by a reduction in regional domestic air traffic movements. The higher than planned revenue streams for the current financial year will be adjusted for customers in the 2015-16 financial year.

Compared to the same period last year, revenue has benefited from higher traffic volumes, coupled with the 3.5% price increase from 2013-14. The funds from the price increase have been invested in our service enhancement programme which continues to optimise the New Zealand aviation network and allows the industry to transition from ground to satellite-based navigation.

Costs for the year are higher than planned, primarily because of unbudgeted asbestos removal costs of $1.3 million. Asbestos was identified in a small number of sites through planned building maintenance, and we are committed to ensuring its safe removal. These unbudgeted costs have been offset by procurement category savings of over $0.7 million in a number of areas, including electricity, electrical suppliers, record management and weather systems.

Airways' cost efficiency ranked in the top five (of 24 ANSPs surveyed) for both lowest total cost and lowest overhead cost per flight hour[2], meaning it remains in the top tier of world ANSPs.

ONGOING FOCUS ON PROCUREMENT AND COST CONTROL HAS ENSURED THE BUSINESS CAN MANAGE UNBUDGETED COSTS

[1] Traffic volumes are measured in flight tonnes i.e. flight x tonnes x miles
[2] Sourced from CANSO Global ANSP Performance Report 2014

Table 2: Business performance and leadership indicators

	2015 Actual	2015 Target	2014 Actual
Business Performance			
Safety performance – near collision incidents	Zero	Zero	2
Staff safety – serious harm injuries	Zero	Zero	Zero
Inflight delay/holding (seconds per flight)[1]	13.1	<16.7	16.8
IFR movement per core System Operator FTE	936	>970	952
Service availability	99.95%	99.95%	99.95%
CO_2 emissions saved (tonnes p.a.)	37,400	30,400	36,800
Take-offs and landings at Auckland Airport	46 per hour	46 per hour	Not measured
Service improvement (capital) projects ($m)	32.1	37.0	33.8
Leadership			
Staff engagement	72%	77%	73%
Succession (suitable candidates for senior roles)	>3 for 81% of roles	>3	>3
Visibility – internal event platforms (per week)	2	>2	>2

SYSTEM OPERATOR – ANCILLARY SERVICES

Business performance for the unregulated System Operator business remains stable, underpinned by a 4.4% year-on-year growth in flight volumes in the Airways managed Tonga and Samoa upper airspace.

Our ongoing presence in the Pacific remains strong and provides a sound platform for upcoming air navigation infrastructure contract tenders, although several of the planned opportunities have not eventuated in the current year. This has been offset by the development of new launch services with a number of customers in New Zealand and other parts of the world. New services have contributed $0.5 million NOPAT in the current year and provide an opportunity for further growth in 2015-16.

[1] The 2014-15 target set out in the Statement of Corporate Intent was measured in minutes per month. Under this measure, the actual result for the year was 2,910 compared with a target of <3,700.

AIRWAYS GLOBAL SERVICES (AGS)

AGS' key focus for the current year has been on completing the final stages of converting new global partnerships into cash generating businesses. The $0.3 million NOPAT loss during the year, while below budget, is an improved result from the previous year. Importantly, AGS has recorded a positive cashflow for the year of $0.7 million, reflecting prudent cash management during the ongoing start-up phase of these new businesses.

The Flightyield revenue management business, delivered in partnership with Societe Internationale de Telecommunications Aeronautiques (SITA) and CANSO, has made progress in contract negotiations with a number of customers during the year. Service implementation for two customers is targeted for 2015-16 and will provide a strong revenue platform for AGS once achieved.

Airways Training reached a significant milestone in May 2015 with the first students starting at the new air traffic control training campus in the United Arab Emirates, provided in partnership with the Emirates Aviation University (EAU). This partnership, along with those campuses established with the Civil Aviation Management Institute of China (CAMIC) and the InterAmerican University of Puerto Rico (UIPR), is also expected to provide an important basis for 2015-16 revenue growth.

In January 2015, the training business started a New Zealand-based programme for a group of 30 international students, contributing $0.5 million to AGS' NOPAT result.

GroupEAD Asia Pacific launched in July 2014, providing aeronautical information management and procedural design and development services in the Asia Pacific region. NOPAT for the year of $0.7 million is ahead of the budgeted breakeven position, reflecting a sound first year focused on bedding in effective and efficient operating practices.

Airways manages the investment risk associated with Airways Global Services by setting clear investment limits for the amount of capital each business can draw down. All businesses are operating within their Board approved investment limits and cash burn has been kept neutral during the period to manage risks while these businesses complete their start-up phase.

AGS HAS MAINTAINED POSITIVE CASHFLOW THROUGH EXTENDED START-UP PHASES FOR NEW BUSINESSES

PERFORMANCE AND PROGRESS AGAINST STATEMENT OF CORPORATE INTENT (SCI) METRICS AND KEY INITIATIVES

	SCI TARGET	ACTUAL 2015
Profitability (values in $NZ'000)		
Total revenue	199,001	186,348
Earnings before interest, tax, depreciation and amortisation (EBITDA)	42,070	43,890
Earnings before interest and tax (EBIT)	23,254	23,069
NOPAT	14,970	15,102
Shareholder returns		
Total Shareholder return[1]	2.8%	28.1% [1]
Dividend yield	2.8%	2.5%
Dividend payout	25.2%	27.1%
Return on equity	18.0%	18.4%
Return on equity, adjusted for IFRS movements and asset revaluations	18.0%	18.2%
Profitability/efficiency		
Return on capital employed	20.1%	19.4%
Return on assets	14.4%	13.7%
Operating margin	21.1%	23.6%
Net Profit margin	7.5%	8.1%
Asset turnover	1.2	1.1
Leverage/solvency		
Equity multiplier [2]	1.9	2.0
Gearing ratio (net)	30.4%	28.5%
Interest cover	17.1	17.9
Solvency (current ratio)	0.5	0.8
Growth/investment		
Revenue growth	6.5%	2.8%
EBITDAF growth	14.0%	16.7%
NPAT growth [3]	17.7%	27.6%
Capital employed growth	14.8%	9.8%
Capital renewal [4]	2.0	1.5

[1] Total Shareholder return includes dividends and movements in company valuation. Airways' company valuation increased significantly during the year, resulting in a higher than expected total return.
[2] The ratio of total assets to Shareholder's equity.
[3] The SCI target is based on a forecast starting value, which was higher than the known starting value used to determine actual NPAT growth.
[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/commercial/resources/pdfs/fpm-soes.pdf

2014-15 initiatives	Progress to June 2015	Status
System Operator		
Proactive in safety	The 2014-15 Safety Improvement Plan was published and implemented, and the 2015-16 plan has been completed. Key incident safety metrics continue to improve, with Q2 2014-15 achieving the best safety outcome since Q2 2010-11.	Achieved
Maintain service availability and service delay performance	System availability was 99.95% with one major outage recorded on 23 June. On-time arrivals are 21% ahead of target, with inflight delays into Auckland International Airport reduced by 63% for the 2014 calendar year.	Achieved
Deliver $37 million of tangible benefits from service enhancement programme	The full-year service enhancement (Capex) programme was $4.9 million behind budget at $32.1 million. This was mainly due to rescheduling of the Wellington Tower project and a new, efficient contingency solution being investigated. Airways is on track to deliver the planned benefits, or alternative cost savings, through the 2013-16 pricing period.	Benefits delivery on track
Improve productivity and resource planning	A tool to assist workforce planning was developed, providing cost-efficient coverage based on aircraft movements and shift staffing calculations on each radar sector. Weekly performance reports on delays at main trunk airports commenced. Work has begun to scope performance metrics for each control sector and control tower.	Achieved
Innovate and trial new future service delivery options	Meetings were held with Air NZ Link, Mt Cook and Eagle Air, confirming their continued support of a more sustainable and fit-for-purpose service for regional airports. These meetings were followed up with service options being provided to Air NZ.	Achieved
Maintain a customer focus and develop a sound pricing strategy	The Customer Relationship Framework was refreshed and responsibilities of customer leads clarified, contributing to customer satisfaction levels of 84% in the current year's survey. The pricing strategy will be based on ensuring Airways continues to create value for aviation customers.	Achieved
Grow SO non-regulated income and extend footprint across the Pacific	New contracts for high altitude balloon launching services were signed. Revenue from the Pacific funding programme has progressed more slowly than anticipated. Overall, revenue is in line with budget and 89% of NOPAT targets have been achieved.	Not achieved
Grow the capability of the System Operator team	The third Employment Relations summit was held with our three union groups in October 2014. Operational and technical staff have attended development programmes such as Professional Advantage, Leadership Edge, Inspiring Leaders and Connections.	Achieved
Global Services		
Complete set-up of GroupEAD Asia Pacific and Flightyield as standalone entities	GroupEAD Asia Pacific has been operational since 1 July 2014. Airways' launch of the Flightyield revenue management system joint venture is currently in the final stages, and contract negotiations are progressing with two customers.	Not achieved
Effectively incubate new businesses as they are recognised	Two new incubator businesses have been identified – SureSelect and Total Control – however AGS' current focus is on the continued development of Flightyield, GroupEAD and the new training campuses. Further investment in SureSelect and Total Control will continue once the existing businesses are fully established and generating recurring income.	Not achieved
Build capability in governing venturing opportunities	Stronger partnership models are in place to manage our partners. Business plans clearly identify partner responsibilities and while these are being delivered, there is still scope to leverage further opportunity.	Achieved
Continue to develop sales insights and capability	The sales processes and sales team continue to mature with a Sales Director, Europe, Middle East and Africa now living in-region. The GroupEAD Asia Pacific product team has worked with GroupEAD Europe to transfer learnings on sales process cost models and price lists.	Achieved
Move towards organising AGS into a central holder of stakes in a portfolio of businesses	The GroupEAD Asia Pacific business is established and operational and the Flightyield business is in the final stages of setup.	Achieved

2014-15 initiatives	Progress to June 2015	Status
Shared Services and Governance		
Craft high-level strategy roadmap to 2020	A review of Airways' 10-year strategy, called Beyond the Boundaries was completed during October 2014. The key strategic outcomes from this project have been incorporated into the Business Plan and Statement of Corporate Intent (SCI).	Achieved
Enhance belonging and develop leadership	Full implementation of the People Strategy completed, including: 1) remuneration framework; 2) development framework for all employees; 3) employee health and wellness programme; 4) succession planning for critical roles and targeted development for emerging talent; and 5) 52 teams debriefed on staff engagement results and action planning.	Achieved
Implement the new Safety Management System	The documentation framework for the Safety Management programme is complete. Detailed work on fatigue and enterprise change management is also complete and published.	Achieved
Increase continuous improvement activities	Shared Services' focus was to promote excellent self-service, through simplified forms and workflows. Other milestones included: FMIS continuous improvement, Shared Services web portal intranet refresh and strengthening financial controls.	Achieved
Implement MIS strategy	The SharePoint project was completed. Security improvements for Wellington and the installation of new firewalls were completed. The rollout of Lync (softphone/Skype equivalent) for calling to/from external telephone numbers is complete, with good user feedback. Meeting room equipment upgrades were completed. A crisis email service was set up for Executive and key staff for when Airways email servers cannot be accessed.	Achieved
Improve people, processes and systems	The Smart Management training programme was undertaken to lift the level of management expertise in key areas including contract negotiation, procurement, objective setting and performance management, and to grow the standard of advisory expertise within Shared Services. All modules were successfully delivered.	Achieved
Implement new budgeting and forecasting process	The new Enterprise Budgeting system was delivered and successfully used for the 2015-16 business plan.	Achieved

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

NZ IFRS

	GROUP		
FOR THE YEAR ENDED 30 JUNE	2015 ($'000)	2014 ($'000)	NOTES
OPERATING ACTIVITIES			
REVENUE			
Air traffic management revenue	173,832	164,359	A3.1
Other revenue	12,426	16,845	A3.1
Interest Income	90	78	
TOTAL REVENUE	186,348	181,282	
EXPENSES			
Depreciation and impairment	16,185	14,921	A8
Amortisation and impairment	4,636	3,300	A8
Employee remuneration	101,564	100,620	A3.3
Employee related costs	4,248	5,059	
Other operating costs	30,923	31,476	A3.2
Rental expense on operating leases	6,274	6,515	
Finance expense	2,467	2,205	
TOTAL EXPENSES	166,297	164,096	
Share of profit from joint ventures	551	10	C2.1
NET SURPLUS BEFORE TAXATION	20,602	17,196	
Taxation expense	5,500	5,361	A4
NET SURPLUS AFTER TAXATION ATTRIBUTABLE TO EQUITY SHAREHOLDERS	15,102	11,835	
OTHER COMPREHENSIVE INCOME			
That will be reclassified to profit or loss when conditions are met:			
Movement in cash flow hedge reserve	(1,185)	537	
Deferred tax on other comprehensive income	332	(151)	A4
TOTAL OTHER COMPREHENSIVE INCOME	(853)	386	
TOTAL COMPREHENSIVE INCOME FOR THE YEAR ATTRIBUTABLE TO EQUITY SHAREHOLDERS	14,249	12,221	

This statement is to be read in conjunction with the notes to the Financial Statements on pages 32 to 51.

STATEMENT OF CHANGES IN EQUITY

NZ IFRS

	GROUP ATTRIBUTABLE TO EQUITY SHAREHOLDERS				
	CONTRIBUTED EQUITY ($'000)	HEDGE RESERVE ($'000)	RETAINED PROFITS ($'000)	TOTAL ($'000)	NOTES
BALANCE AS AT 30 JUNE 2013	41,100	(872)	27,477	67,705	
COMPREHENSIVE INCOME					
Net surplus after taxation	-	-	11,835	11,835	
OTHER COMPREHENSIVE INCOME					
Movements in hedge contracts	-	537	-	537	
Deferred tax on other comprehensive income	-	(151)	-	(151)	A4
TOTAL OTHER COMPREHENSIVE INCOME	-	386	11,835	12,221	
TOTAL COMPREHENSIVE INCOME	-	386	11,835	12,221	
TRANSACTIONS WITH OWNERS					
Dividends paid (7.3 cents per share)	-	-	(3,000)	(3,000)	
TOTAL TRANSACTIONS WITH OWNERS	-	-	(3,000)	(3,000)	
BALANCE AS AT 30 JUNE 2014	41,100	(486)	36,312	76,926	
COMPREHENSIVE INCOME					
Net surplus after taxation	-	-	15,102	15,102	
OTHER COMPREHENSIVE INCOME					
Movements in hedge contracts	-	(1,185)	-	(1,185)	
Deferred tax on other comprehensive income	-	332	-	332	A4
TOTAL OTHER COMPREHENSIVE INCOME	-	(853)	15,102	14,249	
TOTAL COMPREHENSIVE INCOME	-	(853)	15,102	14,249	
TRANSACTIONS WITH OWNERS					
Dividends paid (9.7 cents per share)	-	-	(4,000)	(4,000)	
TOTAL TRANSACTIONS WITH OWNERS	-	-	(4,000)	(4,000)	
BALANCE AS AT 30 JUNE 2015	41,100	(1,339)	47,414	87,175	

This statement is to be read in conjunction with the notes to the Financial Statements on pages 32 to 51.

BALANCE SHEET

NZ IFRS

AS AT 30 JUNE	GROUP 2015 ($'000)	GROUP 2014 ($'000)	NOTES
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	1,176	1,306	
Trade and other receivables	22,603	21,234	A6
Prepayments	1,474	1,256	
Derivative financial instruments	375	345	A5
TOTAL CURRENT ASSETS	25,628	24,141	
NON-CURRENT ASSETS			
Property, plant and equipment	124,979	120,256	A8
Intangibles	20,974	14,801	A8
Inventory	1,666	1,656	
Other non-current assets, including investment in JV	875	324	
Derivative financial instruments	4	335	A5
TOTAL NON-CURRENT ASSETS	148,498	137,372	
TOTAL ASSETS	174,126	161,513	
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables	14,213	11,876	A7
Employee entitlements	18,421	19,358	A3.4
Current tax liability	831	2,694	
Derivative financial instruments	267	182	A5
TOTAL CURRENT LIABILITIES	33,732	34,110	

This statement is to be read in conjunction with the notes to the Financial Statements on pages 32 to 51.

AS AT 30 JUNE	GROUP 2015 ($'000)	2014 ($'000)	NOTES
NON-CURRENT LIABILITIES			
Loan facility - unsecured	36,000	36,000	B1
Deferred tax liability	6,709	5,704	A4
Employee entitlements	8,520	7,833	A3.4
Derivative financial instruments	1,990	940	A5
TOTAL NON-CURRENT LIABILITIES	53,219	50,477	
TOTAL LIABILITIES	86,951	84,587	
NET ASSETS	87,175	76,926	
EQUITY			
Share capital	41,100	41,100	
Reserves	(1,339)	(486)	
Retained earnings	47,414	36,312	
TOTAL EQUITY	87,175	76,926	

The Board of Directors of Airways Corporation of New Zealand Limited authorised these financial statements for issue on 19 August 2015. The Directors do not have the power to amend the financial statements once issued.

Susan Paterson
Chairperson
19 August 2015

Mary-Jane Daly
Director
19 August 2015

This statement is to be read in conjunction with the notes to the Financial Statements on pages 32 to 51.

STATEMENT OF CASH FLOWS

NZ IFRS

	GROUP		
FOR THE YEAR ENDED 30 JUNE	2015 ($'000)	2014 ($'000)	NOTES
CASH FLOWS FROM OPERATING ACTIVITIES			
CASH WAS PROVIDED FROM:			
Receipts from customers	185,323	179,991	
Interest received	97	80	
CASH WAS APPLIED TO:			
Payments to suppliers	(36,311)	(37,454)	
Payments to employees	(105,465)	(105,779)	
Interest paid	(2,449)	(2,205)	
Goods and services tax	428	(349)	
Income tax paid	(6,026)	(8,744)	
NET CASH FLOWS FROM OPERATING ACTIVITIES	35,597	25,540	E2
CASH FLOWS FROM INVESTING ACTIVITIES			
CASH WAS PROVIDED FROM:			
Sale of property, plant and equipment	28	41	
CASH WAS APPLIED TO:			
Loans to related parties	-	(240)	
Purchase of property, plant and equipment	(20,512)	(21,872)	
Purchase of intangible assets	(11,243)	(11,989)	
NET CASH FLOWS FROM INVESTING ACTIVITIES	(31,727)	(34,060)	
CASH FLOWS FROM FINANCING ACTIVITIES			
CASH WAS PROVIDED FROM:			
Drawdown of loan facility	-	6,000	
CASH WAS APPLIED TO:			
Payment of dividends	(4,000)	(3,000)	
NET CASH FLOWS FROM FINANCING ACTIVITIES	(4,000)	3,000	
NET INCREASE IN CASH HELD	(130)	(5,520)	
Cash at the beginning of the year	1,306	6,826	
CASH AT THE END OF THE YEAR	1,176	1,306	

This statement is to be read in conjunction with the notes to the Financial Statements on pages 32 to 51.

STRUCTURE OF NOTES TO THE FINANCIAL STATEMENTS

Section A: How the numbers are calculated

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

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

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

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

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

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 and Aviation English Services (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 profit-oriented and tier 1 entities. They also comply with International Financial Reporting Standards); and
- The requirements of the Financial Reporting Act 2013, Companies Act 1993 and the State-Owned Enterprises Act 1986.

The financial statements have been prepared on the historical cost basis as modified by the revaluation of derivative financial instruments and are presented in New Zealand dollars, which is Airways' presentation currency and the functional currency of all entities within the Group. All values are rounded to the nearest thousand dollars ($'000) unless otherwise stated.

All components in the primary statements have been stated net of GST, with the exception of receivables and payables which include any GST invoiced.

Airways has not adopted any new standards, interpretations or amendments to existing standards in the current financial year.

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

- NZ IFRS 15 (2014), 'Revenue from Contracts with customers', issued in July 2014 (effective for periods beginning on or after 1 January 2017, 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 this impact has not yet been quantified. Airways intend to adopt this standard in the 2018-19 financial year.

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 profit or loss or other comprehensive income statement, 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	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
Publications	Subscription revenue from the publication of aeronautical information is recognised evenly over the period of the subscription (typically one year)
Training	Recognised as courses are delivered

SECTION A: HOW THE NUMBERS ARE CALCULATED (CONTINUED)

Other revenue for the year, by type, is set out in the table below:

FOR THE YEAR ENDED 30 JUNE	2015 ($'000)	2014 ($'000)
Consulting revenue	5,262	8,734
Publications revenue	-	3,086
Training revenue	1,826	2,134
Other revenue	5,338	2,891
Total other revenue	12,426	16,845

In the current year, GroupEAD Asia Pacific Limited (GEADAP), a joint venture between Airways and GroupEAD Europe S.L., commenced operations. GEADAP now carries out the publications business previously performed by Airways and as a result there is no publications revenue recognised in the table above. The NOPAT attributable to Airways from this business is equity accounted and is recognised in profit or loss separately. Refer to note C2.1 for further details.

A3.2 Individually significant items within operating costs

FOR THE YEAR ENDED 30 JUNE	2015 ($'000)	2014 ($'000)
Bad debts written off or provided for/(reversed)	(107)	309
Material and equipment costs	5,567	3,872
Travel	3,738	4,345
Communications	3,168	2,902
Maintenance	9,101	9,056
Utilities	1,695	1,826
Professional fees	3,578	3,886
Insurance	1,822	1,850

Comparative values in the table above have been changed to ensure consistency with current year classifications. In all cases, further costs not previously disclosed in the notes to the accounts are now included. The categories affected, and their reported amounts last year are: material and equipment costs (2014: $2,567), communications (2014: $2,276), maintenance (2014: $4,589) and utilities (2014: $1,677).

A3.3 Employee remuneration

FOR THE YEAR ENDED 30 JUNE	2015 ($'000)	2014 ($'000)
Wages and salaries, including termination benefits of $0.115m (2014: $0.578m)	91,436	89,849
Less: labour costs capitalised	(9,539)	(8,230)
KiwiSaver/superannuation contributions	8,192	8,049
Leave entitlement expense	11,475	10,952
	101,564	100,620

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 when they are due.

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.

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.

SECTION A: HOW THE NUMBERS ARE CALCULATED (CONTINUED)

ASSUMPTION	2015	2014
Consumer Price Index increase	2.5%	2.5%
Long run wage index 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.

	2015 ($'000)	2014 ($'000)
Statement of profit or loss and other comprehensive income charge for movements in non-vested long service and retiring leave recognised in employee remuneration	687	95
Balance sheet obligations as at 30 June, within non-current employee entitlements:		
Long service leave	1,079	956
Retiring leave	7,441	6,877
	8,520	**7,833**

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	2015 ($'000)	2014 ($'000)
RECONCILIATION OF SURPLUS BEFORE TAXATION TO INCOME TAX EXPENSE		
Surplus before taxation	20,602	17,196
Tax at the New Zealand tax rate of 28% (2014: 28%)	5,769	4,815
Tax effect of amounts which are either non-deductible or taxable in calculating taxable income:		
Non-taxable income/non-deductible expenses	(140)	589
Foreign tax credits foregone	-	123
Other	(129)	(166)
INCOME TAX EXPENSE	5,500	5,361
COMPONENTS OF INCOME TAX EXPENSE		
Current tax charge	4,163	7,406
Movement in deferred tax	1,337	(2,045)
INCOME TAX EXPENSE	5,500	5,361

Comparatives values for components of income tax expense in the table above have been simplified into two categories to ensure consistency with current year classifications.

At 30 June 2015 Airways had imputation credits available for use in subsequent reporting periods of $20.3 million (2014: $15.0 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 ($'000)	PROVISIONS ($'000)	OTHER ($'000)	TOTAL ($'000)
BALANCE AS AT 1 JULY 2014	(13,597)	8,013	(120)	(5,704)
Deferred tax in respect of previous years	-	(1,475)	-	(1,475)
Deferred tax charged to net surplus	118	389	(445)	62
Deferred tax on items charged to other comprehensive income	-	-	332	332
Other	-	-	76	76
BALANCE AS AT 30 JUNE 2015	(13,479)	6,927	(157)	(6,709)
BALANCE AS AT 1 JULY 2013	(13,830)	6,294	(186)	(7,722)
Deferred tax in respect of previous years	-	132	-	132
Deferred tax charged to net surplus	233	1,587	50	1,870
Deferred tax on items charged to other comprehensive income	-	-	(151)	(151)
Other	-	-	167	167
BALANCE AS AT 30 JUNE 2014	(13,597)	8,013	(120)	(5,704)

Aviation English Services (AES) has unrecognised tax losses of $1.7 million (2014: $1.7 million) which cannot be offset against the income of other members of the Group. The Group has no other unrecognised tax losses.

The deferred tax balance is expected to reduce within the year ending 30 June 2016 by $2.1 million (2014: increase by $1.6 million).

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 approximates 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 approximates 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.

SECTION A: HOW THE NUMBERS ARE CALCULATED (CONTINUED)

Financial assets and liabilities by category

	LOANS AND RECEIVABLES ($'000)	DERIVATIVES USED FOR HEDGING ($'000)	LIABILITIES AT AMORTISED COST ($'000)	TOTAL ($'000)
AS AT 30 JUNE 2015				
ASSETS AS PER BALANCE SHEET				
Cash and cash equivalents	1,176	-	-	1,176
Trade and other receivables	22,603	-	-	22,603
Loans due from joint ventures	240	-	-	240
Derivative financial instruments	-	379	-	379
TOTAL	24,019	379	-	24,398
LIABILITIES AS PER BALANCE SHEET				
Trade and other payables	-	-	11,120	11,120
Employee entitlements	-	-	26,941	26,941
Derivative financial instruments	-	2,257	-	2,257
Borrowings and overdrafts	-	-	36,000	36,000
TOTAL	-	2,257	74,061	76,318
AS AT 30 JUNE 2014				
ASSETS AS PER BALANCE SHEET				
Cash and cash equivalents	1,306	-	-	1,306
Trade and other receivables	21,234	-	-	21,234
Loans due from joint ventures	240	-	-	240
Derivative financial instruments	-	680	-	680
TOTAL	22,780	680	-	23,460
LIABILITIES AS PER BALANCE SHEET				
Trade and other payables	-	-	9,335	9,335
Employee entitlements	-	-	27,191	27,191
Derivative financial instruments	-	1,122	-	1,122
Borrowings and overdrafts	-	-	36,000	36,000
TOTAL	-	1,122	72,526	73,648

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 Contracts 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	2015 ($'000)	2014 ($'000)
Trade accounts receivable	20,877	19,800
Other receivables	1,726	1,434
Total trade and other receivables	22,603	21,234

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 the statement of profit or loss and other comprehensive income.

The value of Airways' provision for doubtful receivables, in proportion to total trade receivables, is set out below:

	Current ($'000)	1-90 days overdue ($'000)	91 days – 1 year overdue ($'000)	1-2 years overdue ($'000)	2+ years overdue ($'000)	Total ($'000)
As at 30 June 2015						
Unimpaired trade receivables	17,647	2,334	140	-	-	20,121
Impaired trade receivables	-	-	729	178	936	1,843
Total trade receivables due	17,647	2,334	869	178	936	21,964
Provision	-	-	(199)	(119)	(769)	(1,087)
Trade receivables recognised	17,647	2,334	670	59	167	20,877
As at 30 June 2014						
Unimpaired trade receivables	16,209	2,390	208	49	5	18,861
Impaired trade receivables	-	-	753	272	986	2,011
Trade receivables due	16,209	2,390	961	321	991	20,872
Provision	-	-	(64)	(243)	(765)	(1,072)
Trade receivables recognised	16,209	2,390	897	78	226	19,800

SECTION A: HOW THE NUMBERS ARE CALCULATED (CONTINUED)

A7 Trade and other payables

AS AT 30 JUNE	2015 ($'000)	2014 ($'000)
Trade accounts payable	4,287	3,341
Payroll related payables	1,936	1,812
Accrued liabilities	6,633	5,599
Provisions	1,133	913
Other payables	224	211
Total trade and other payables	14,213	11,876

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 and intangibles

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:

i) the economic and other benefits of the asset are clearly articulated and consistent with Airways' strategy

ii) the cost associated with the project is within Airways' budget

iii) there are sufficient staffing and technical resources available to complete the project (either internally or externally)

iv) 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. The range of useful economic lives used for calculating depreciation and amortisation are shown in the table below:

Land	not depreciated
Buildings structure:	
Freehold	5-40 years
Leasehold	5-25 years
Plant and equipment	3-40 years
Computer equipment	3-20 years
Furniture and fittings	5-25 years
Motor vehicles	4-12 years
Intangibles	2-15 years
Capital work in progress	not depreciated

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. This test involves 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.

SECTION A: HOW THE NUMBERS ARE CALCULATED (CONTINUED)

Property, plant & equipment

	LAND ($'000)	BUILDINGS ($'000)	PLANT AND EQUIPMENT ($'000)	COMPUTER EQUIPMENT ($'000)	FURNITURE AND FITTINGS ($'000)	MOTOR VEHICLES ($'000)	WORK IN PROGRESS ($'000)	TOTAL ($'000)
COST								
As at 1 July 2014	6,701	28,664	177,579	16,511	6,387	2,455	38,781	277,078
Additions at cost	377	1,544	16,900	13,973	2,545	612	32,782	68,733
Deduct disposals	-	(23)	(9,567)	(395)	(307)	(176)	(48,010)	(58,478)
AS AT 30 JUNE 2015	7,078	30,185	184,912	30,089	8,625	2,891	23,553	287,333
ACCUMULATED DEPRECIATION								
As at 1 July 2014	2,277	20,118	116,901	10,990	4,997	1,539	-	156,822
Depreciation charge	-	683	11,125	3,209	562	372	-	15,951
Impairment charge	234	-	-	-	-	-	-	234
Deduct disposals/transfers from work in progress	-	(24)	(9,779)	(393)	(283)	(174)	-	(10,653)
AS AT 30 JUNE 2015	2,511	20,777	118,247	13,806	5,276	1,737	-	162,354
NET BOOK VALUE AS AT 30 JUNE 2015	4,567	9,408	66,665	16,283	3,349	1,154	23,553	124,979
COST								
As at 1 July 2013	6,701	28,457	184,466	15,653	6,429	2,255	24,610	268,571
Additions at cost	-	345	9,445	2,052	101	340	34,071	46,354
Deduct disposals/transfers from work in progress	-	(138)	(16,332)	(1,194)	(143)	(140)	(19,900)	(37,847)
AS AT 30 JUNE 2014	6,701	28,664	177,579	16,511	6,387	2,455	38,781	277,078
ACCUMULATED DEPRECIATION								
As at 1 July 2013	357	19,726	123,859	10,161	4,778	1,400	-	160,281
Depreciation charge	-	529	9,312	2,494	360	307	-	13,002
Impairment charge	1,920	-	-	-	-	-	-	1,920
Deduct disposals	-	(137)	(16,270)	(1,664)	(141)	(168)	-	(18,380)
AS AT 30 JUNE 2014	2,277	20,118	116,901	10,990	4,997	1,539	-	156,822
NET BOOK VALUE AS AT 30 JUNE 2014	4,424	8,546	60,678	5,521	1,390	916	38,781	120,256

Comparative values in the table above have been changed to ensure consistency with current year classifications. Specifically, freehold and leasehold buildings have been combined into a single category and computer equipment and furniture and fittings have been split out. There are no assets intended for sale in property, plant and equipment.

SECTION A: HOW THE NUMBERS ARE CALCULATED (CONTINUED)

Intangible assets

	INTERNALLY GENERATED SOFTWARE ($'000)	LICENCES & ACQUIRED SOFTWARE ($'000)	TOTAL ($'000)
COST			
As at 1 July 2014	20,598	15,419	36,017
Additions at cost	4,994	6,184	11,178
Deduct disposals	(367)	(62)	(429)
AS AT 30 JUNE 2015	25,225	21,541	46,766
ACCUMULATED AMORTISATION			
As at 1 July 2014	13,715	7,501	21,216
Amortisation charge	2,974	1,662	4,636
Deduct disposals	(13)	(47)	(60)
AS AT 30 JUNE 2015	16,676	9,116	25,792
NET BOOK VALUE AS AT 30 JUNE 2015	8,549	12,425	20,974
COST			
As at 1 July 2013	16,344	13,173	29,517
Additions at cost	4,543	2,866	7,409
Deduct disposals	(289)	(620)	(909)
AS AT 30 JUNE 2014	20,598	15,419	36,017
ACCUMULATED AMORTISATION			
As at 1 July 2013	11,736	6,613	18,349
Amortisation charge	2,054	1,246	3,300
Deduct disposals	(75)	(358)	(433)
AS AT 30 JUNE 2014	13,715	7,501	21,216
NET BOOK VALUE AS AT 30 JUNE 2014	6,883	7,918	14,801

$7.941 million of the closing WIP balance disclosed on page 35 relates to intangible projects in progress (2014: $7.262 million). These balances will be transferred to Intangibles on completion of the project.

Comparative values within the table above have been changed to ensure consistency with current year classifications. Specifically, assets with a net book value of $4.428 million as at 30 June 2014 were previously reported under fixed assets (computer equipment) and have been classified as internally generated software. Asset components with a net book value of $11.559 million have similarly been re-classified as licenses and acquired software in the current year.

A9 Share capital and reserves

Airways has capital of $41.1 million (2014: $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 in 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:

i) 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)

ii) 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

iii) 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

iv) 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
- 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	2015	2014	Term	Interest rate
$60m	$36m	$36m	3 years (expires January 2017)	Floating
$5m	-	-	None (uncommitted)	Floating

SECTION B: RISK (CONTINUED)

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 (2014: 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.

Financial liability profile

AS AT 30 JUNE	LESS THAN 3 MTHS ($'000)	BETWEEN 3 MTHS AND 1 YEAR ($'000)	BETWEEN 1 AND 2 YEARS ($'000)	BETWEEN 2 AND 5 YEARS ($'000)	GREATER THAN 5 YEARS ($'000)	NO STATED MATURITY ($'000)
GROUP 2015						
Interest rate derivatives – outflow	(130)	(483)	(586)	(952)	(102)	-
Foreign currency exchange contracts – inflow *	3,640	4,174	99	-	-	-
Foreign currency exchange contracts – outflow	(3,615)	(3,993)	(95)	-	-	-
Trade and other payables	(10,167)	-	-	-	-	-
Employee entitlements	-	-	-	-	-	(26,941)
Term loan	(375)	(1,125)	(37,500)	-	-	-
TOTAL	(10,647)	(1,427)	(38,082)	(952)	(102)	(26,941)
GROUP 2014						
Interest rate derivatives – outflow	(101)	(234)	(229)	(375)	(33)	-
Foreign currency exchange contracts – inflow *	2,162	3,992	1,451	99	-	-
Foreign currency exchange contracts – outflow	(1,951)	(4,103)	(1,494)	(95)	-	-
Trade and other payables	(8,424)	-	-	-	-	-
Employee entitlements	-	-	-	-	-	(27,191)
Overdraft and term loan	(369)	(1,107)	(1,476)	(36,861)	-	-
TOTAL	(8,683)	(1,452)	(1,748)	(37,232)	(33)	(27,191)

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

SECTION B: RISK (CONTINUED)

Interest rate risk

Airways is exposed to interest rate risk through:

i) 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

ii) 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 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:

i) maintaining and monitoring forecast debt levels to identify required hedging activity

ii) CFO approval is required for all hedging decisions.

Airways' exposure to interest rate risk is set out in the table below which shows the total floating rate borrowing at year end, the quantum of hedge contracts in place to cover this borrowing, and the effective interest rate achieved. Further interest rate swaps were also in place to hedge future debt.

	GROUP	
	2015 ($'000)	2014 ($'000)
Hedged borrowings	35,000	27,000
Un-hedged borrowings	1,000	9,000
Total term borrowings	36,000	36,000
Effective interest rate	5.04%	5.05%

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

* Hedging decisions under previous policies were based on higher minimums and Airways is currently transitioning to this new level.

SECTION B: RISK (CONTINUED)

Foreign exchange risk

Airways is exposed to foreign exchange (FX) risk through:

i) revenue streams denominated in foreign currencies

ii) operational costs requiring payment in foreign currencies

iii) 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:

i) no purchase order or invoice request for FX exposures above control limit levels can be approved without a hedge in place;

ii) residual exposures are monitored and reported internally on a monthly basis; and

iii) all hedging transactions are approved in accordance with delegated financial authorities.

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.

	2015		2014	
	Total NZD value ($'000)	Amount hedged ($'000)	Total NZD value ($'000)	Amount hedged ($'000)
Current trade debtors	2,198	1,857	1,219	1,083
Revenue contracts not yet invoiced	838	838	1,552	1,552
Current trade payables	(167)	(52)	(356)	(224)
Expenditure commitments not yet invoiced	(4,956)	(4,956)	(4,784)	(4,784)

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

SECTION B: RISK (CONTINUED)

Credit risk

Airways is exposed to credit risk through:

i) cash and cash equivalents on deposit with banks;

ii) interest rate swaps and foreign exchange contracts with counterparties; and

iii) 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:

i) 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

ii) setting a maximum exposure of $10m to any individual counterparty.

Adherence to these policies is continuously monitored and reported on 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 78% (2014: 82.11%) of total revenue and 60% (2014: 63%) of total accounts receivable at balance date. No collateral is held over these receivables. No unusual risk has been identified by Airways in relation to these companies, however overdue debts are continuously monitored to identify and address any potential specific credit risks.

B2 Capital management

Airways' primary objectives when managing capital are to safeguard its ability to continue as a going concern and to maintain a target gearing ratio over the medium term (five years). In order to maintain or adjust the capital structure, Airways may: adjust the amount of dividends paid to Shareholders; return capital to Shareholders; increase or reduce debt; sell assets; or reduce capital expenditure.

SECTION C: GROUP STRUCTURE

C1 Group entities and ownership

Airways Corporation of New Zealand Limited is a limited liability company incorporated and domiciled in New Zealand. The address of its registered office is Level 5, 100 Willis Street, Wellington, New Zealand. It is also is a State-Owned Enterprise established under the State-Owned Enterprise Act 1986 with shares held in equal numbers by the Minister for State-Owned Enterprises and the Minister of Finance, on behalf of the Crown.

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:

	COUNTRY OF INCORPORATION	GROUP SHAREHOLDING	PARENT	PRINCIPAL ACTIVITIES
Airways International Limited (AIL)	New Zealand	100% (2014: 100%)	Airways Corporation of New Zealand (ACNZ)	Aeronautical information management, revenue management, recruitment and training, and air navigation services and maintenance of systems
Airways Training Limited (ATL)	New Zealand	100% (2014: 100%)	Airways Corporation of New Zealand (ACNZ)	Holding company
Aviation English Services (AES)	New Zealand	100% (2014: 100%)	Airways Training Limited (ATL)	Aviation English training

SECTION C: GROUP STRUCTURE (CONTINUED)

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.

C2.1 Joint ventures

GroupEAD Asia Pacific Limited

GroupEAD Asia Pacific Limited (GroupEAD AP) is a separate legal entity that delivers aeronautical information management and procedural design and development services throughout the Asia Pacific region. While the Group holds 80% of the shares of GroupEAD AP, and appoints a majority of the Directors, the shareholders agreement governing the Company's operations requires unanimous resolution at both a shareholder and Board level for any material decision that affects the Group's returns. As a result, joint control of GroupEAD AP exists and the Group has equity accounted for its investment at balance date.

The Group's investment in GroupEAD AP is carried at $0.561 million (2014: 0.01 million). Summarised financial information for GroupEAD AP is provided below:

AS AT 30 JUNE	2015 ($'000)	2014 ($'000)
Current assets	2,482	300
Non-current assets	-	-
Total assets	2,482	300
Current liabilities	1,484	9
Non-current liabilities	295	281
Total liabilities	1,779	290
Net assets	703	10
Less: Interests of other joint venturer	(142)	-
Group's share of net assets	561	10
FOR THE YEAR ENDED 30 JUNE		
Revenue	6,648	20
Expenses	(5,955)	(10)
Total comprehensive income	693	10
Less: interests of other joint venturer	(142)	-
Group's share of total comprehensive income	551	10

SECTION C: GROUP STRUCTURE (CONTINUED)

C2.2 Joint operations

The Group has entered into a number of contractual distribution arrangements to deliver services in partnership with other entities, in support of the Group's growth strategy. In all cases the services are delivered by AIL and do not involve support or subsidisation from ACNZ. In all cases 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 these arrangements have been classified as Joint Operations under NZ IFRS11. Details of these arrangements, and any material impacts on the Group financial statements, are set out below.

i) Flightyield
This arrangement is involved in delivering revenue management services to customers in the aviation industry. The service is offered globally and operates out of New Zealand, the United Kingdom and Switzerland. Airways provides software, marketing support and technical resources to the arrangement and is entitled to receive a portion of revenue streams, which varies by customer.

ii) Emirates Aviation University (EAU) Training partnership
This arrangement is involved in delivering training to Air Traffic Control (ATC) students in the Middle East. Airways provides training materials, simulator software and hardware and training resources to the arrangement and is entitled to receive 50% of revenue streams.

iii) InterAmerican 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 50% of revenue streams.

iv) Civil Aviation Management Institute of China (CAMIC) Training partnership
This arrangement is involved in delivering training to ATC students in China. Airways provides training materials, simulator software and hardware and training resources to the arrangement and is entitled to receive 50% of revenue streams.

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.

	2015 ($'000)	2014 ($'000)
Transactions with joint ventures		
GroupEAD revenue charged to ACNZ	(3,974)	-
ACNZ operating costs recharged to GroupEAD AP	3,682	-
ACNZ revenue charged to GroupEAD AP	580	-
Interest charged to GroupEAD AP	5	-
Loans advanced to GroupEAD AP	-	(240)
Balances with joint ventures		
Intercompany balances due from GroupEAD AP	280	-
Loans advanced from AIL to GroupEAD AP	240	240

The loan to GroupEAD AP is repayable in 2017 and has a fixed interest rate of 2%. The Group has also guaranteed a loan of $60,000 to GroupEAD from the other joint venturer.

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 paid Airways $105.1 million in revenue in the current financial year (2014: $96.8 million).

C4 Transactions with management and directors

	GROUP	
FOR THE YEAR ENDED 30 JUNE	2015 ($'000)	2014 ($'000)
KEY MANAGEMENT COMPENSATION		
Salaries and other short-term employee benefits*	1,862	1,756
KiwiSaver/superannuation contributions	46	46
	1,908	**1,802**
DIRECTORS' FEES		
Directors' fees paid	286	268

Key management are considered to be the Chief Executive Officer, his direct reports and the Board of Directors.

*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).

	GROUP	
AS AT 30 JUNE	2015 ($'000)	2014 ($'000)
Property, plant and equipment capital commitments	40,638	18,457
Intangible asset capital commitments	1,450	4,303
TOTAL CAPITAL COMMITMENTS	42,088	22,760

The increase in commitments from the prior year is due primarily to the planned construction of a new control tower at Wellington airport. Construction contracts are in place and the build is expected to commence in November 2015.

D2 Operating lease commitments

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

	GROUP	
AS AT 30 JUNE	2015 ($'000)	2014 ($'000)
Less than one year	4,644	4,652
One to two years	4,276	4,327
Two to five years	8,133	8,859
Over five years	2,087	2,500
TOTAL OPERATING LEASE OBLIGATIONS	19,140	20,338

D3 Contingent liabilities

Airways has contingent liabilities in respect of financial guarantee contracts of $0.1 million for performance bonds (2014: $1.5 million).

D4 Subsequent events

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

SECTION E: OTHER INFORMATION

E1 Auditor's remuneration

	GROUP	
FOR THE YEAR ENDED 30 JUNE	2015 ($'000)	2014 ($'000)
PricewaterhouseCoopers for:		
Financial statement audit services as an agent of the Office of the Auditor-General	174	169
Student fee protection trust audit	9	9
Financial statement audit services for joint venture	13	5
Remuneration strategy advice	29	-
	225	183

E2 Reconciliation of net cash flow from operating activities to reported surplus

	GROUP	
FOR THE YEAR ENDED 30 JUNE	2015 ($'000)	2014 ($'000)
NET SURPLUS AFTER TAXATION	15,102	11,835
ADD NON CASH ITEMS		
Amortisation	4,636	3,300
Depreciation and impairment	16,185	14,921
Movement in deferred tax	1,337	2,018
Accounting gain on sale of assets	10	-
Share of loss/(profit) from joint venture	(550)	(10)
TOTAL ADJUSTMENTS FOR ITEMS IN SURPLUS NOT IMPACTING CASH FLOW	21,618	20,230
ADD MOVEMENTS IN WORKING CAPITAL ITEMS		
Increase/(decrease) in payables	(803)	(3,533)
Decrease/(increase) in receivables	(320)	(2,992)
TOTAL ADJUSTMENTS FOR ITEMS NOT IN SURPLUS IMPACTING CASH FLOW	(1,123)	(6,525)
NET CASH INFLOW FROM OPERATING ACTIVITIES	35,597	25,540

TO THE READERS OF AIRWAYS CORPORATION OF NEW ZEALAND LIMITED GROUP'S FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

The Auditor-General is the auditor of Airways Corporation of New Zealand and its subsidiaries and other controlled entities. 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, consisting of Airways Corporation of New Zealand Limited and its subsidiaries and other controlled entities (collectively referred to as 'the Group'), on her behalf.

Opinion

We have audited the financial statements of the Group on pages 27 to 51, that comprise the balance sheet as at 30 June 2015, the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information.

In our opinion the financial statements of the Group:

- present fairly, in all material respects:
- its financial position as at 30 June 2015; and
- its financial performance and cash flows for the year then ended; and
- comply with generally accepted accounting practice in New Zealand and have been prepared in accordance with New Zealand equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

Our audit was completed on 19 August 2015. This is the date at which our opinion is expressed.

The basis of our opinion is explained below. In addition, we outline the responsibilities of the Board of Directors and our responsibilities, and explain our independence.

Basis of opinion

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and carry out our audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

Material misstatements are differences or omissions of amounts and disclosures that, in our judgement, are likely to influence readers' overall understanding of the financial statements. If we had found material misstatements that were not corrected, we would have referred to them in our opinion.

An audit involves carrying out procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including our assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the preparation of the Group's financial statements 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.

An audit also involves evaluating:

- the appropriateness of accounting policies used and whether they have been consistently applied;
- the reasonableness of the significant accounting estimates and judgements made by the Board of Directors;
- the adequacy of the disclosures in the financial statements; and
- the overall presentation of the financial statements.

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements. Also we did not evaluate the security and controls over the electronic publication of the financial statements.

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

Responsibilities of the Board of Directors

The Board of Directors is responsible for the preparation and fair presentation of financial statements for the Group that comply with generally accepted accounting practice in New Zealand and New Zealand equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

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

The Board of Directors is also responsible for such internal control as it determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is also responsible for the publication of the financial statements, whether in printed or electronic form.

Responsibilities of the Auditor

We are responsible for expressing an independent opinion on the financial statements and reporting that opinion to you based on our audit. Our responsibility arises from section 15 of the Public Audit Act 2001.

Independence

When carrying out the audit, we followed the independence requirements of the Auditor-General, which incorporate the independence requirements of the External Reporting Board. In addition to the audit we have carried out assignments in the areas of other assurance services and advisory services, which are compatible with those independence requirements. Other than the audit and these assignments, we have no relationship with or interests in the Group.

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

PricewaterhouseCoopers

PricewaterhouseCoopers

EVA KEY PERFORMANCE INDICATORS

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

FOR THE YEAR ENDED 30 JUNE	PARENT 2015	PARENT 2014
DEBT AND EQUITY EMPLOYED		
Debt employed	57.5	52.5
Equity employed	107.4	96.1
Total Debt & Equity Employed	164.9	148.6
Charge on operating capital	13.1	11.9
Economic Value Added	4.8	1.0
SUMMARY OF PARAMETERS FOR COST OF CAPITAL		
Risk free rate – 3-year Government Stock (2013: 5-year Government Stock)	3.63%	4.09%
Market risk premium	7.00%	7.00%
Company tax rate	28%	28%
Business risk factor (asset beta)	0.60	0.60
Cost of capital	8.50%	8.45%

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 on the following page on the Airways website: http://www.airways.co.nz/about/financial-operational-and-safety-performance-reports/

The cost of capital of 8.50% for the year ended June 2015 compares to a cost of capital of 7.80% used for determining 2013-16 air navigation pricing. This variance is driven by higher actual risk free rates. The positive EVA for the current year has been driven by higher than forecast traffic volumes and Airways will return some of this value back to customers through reduced prices in the 2015-16 financial year.

Reconciliation of EVA to Net Operating Profit after Tax

FOR THE YEAR ENDED 30 JUNE	PARENT 2015	PARENT 2014
NOPAT	12.9	10.2
Deduct: Charge on operating capital	(13.1)	(11.9)
Add back: interest costs	2.4	2.2
Add back: non-cash tax charges	1.4	(1.3)
Add back: non-cash employee costs	1.0	(0.1)
Add back: Impairment charges not recognised under EVA	0.2	1.9
Economic Value Added	4.8	1.0

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 2015

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 54 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 54 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) "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. We also perform other advisory services.

Unqualified opinion

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

Based on our reasonable assurance engagement, the EVA KPIs on page 54 have been calculated in accordance with the EVA policies and principles adopted by Airways.

Our engagement was completed on 19 August 2015 and our opinion is expressed as at that date.

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

PricewaterhouseCoopers

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 2014 - 30 JUNE 2015

DIRECTOR	AMOUNT PAID*	ANNUAL FEE
Susan Paterson	$59,250	$59,250
David Park	$37,500	$37,500
Susan Huria	$23,000	$30,250
Terry Murdoch	$30,250	$30,250
Chris Moxon	$37,500	$30,250
Robin Gunston	$31,500	$30,250
Grant Kemble	$21,750	$30,250
Mary-Jane Daly	$23,000	$30,250
TOTAL	$263,750	$278,250

Note: The above schedule represents the actual date of payment over the period and therefore may not reflect annualised fees payable.

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

ADDITIONAL FINANCIAL INFORMATION (CONTINUED)

TOTAL REMUNERATION OVER $100,000

REMUNERATION BAND	TOTAL STAFF	EXECUTIVE/SENIOR MANAGERS	OPERATIONAL STAFF AND MANAGERS
$100,000 - $110,000	62		62
$110,000 - $120,000	58		58
$120,000 - $130,000	58		58
$130,000 - $140,000	51	1	50
$140,000 - $150,000	52	1	51
$150,000 - $160,000	40	1	39
$160,000 - $170,000	38	1	37
$170,000 - $180,000	50	2	48
$180,000 - $190,000	71		71
$190,000 - $200,000	56		56
$200,000 - $210,000	34	4	30
$210,000 - $220,000	17		17
$220,000 - $230,000	6		6
$230,000 - $240,000	3	2	1
$240,000 - $250,000	1	1	
$250,000 - $260,000	2	1	1
$260,000 - $270,000	2	2	
$270,000 - $280,000	1	1	
$290,000 - $300,000	1	1	
$350,000 - $360,000	1	1	
$420,000 - $430,000	1	1	
$600,000 - $610,000	1	1	
	606	21	585

[a] Includes equalisation payments and overseas allowances.

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.

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:

i) Airways is ultimately accountable to the Shareholding Ministers, who have support from Treasury (through the Commercial Operations group).

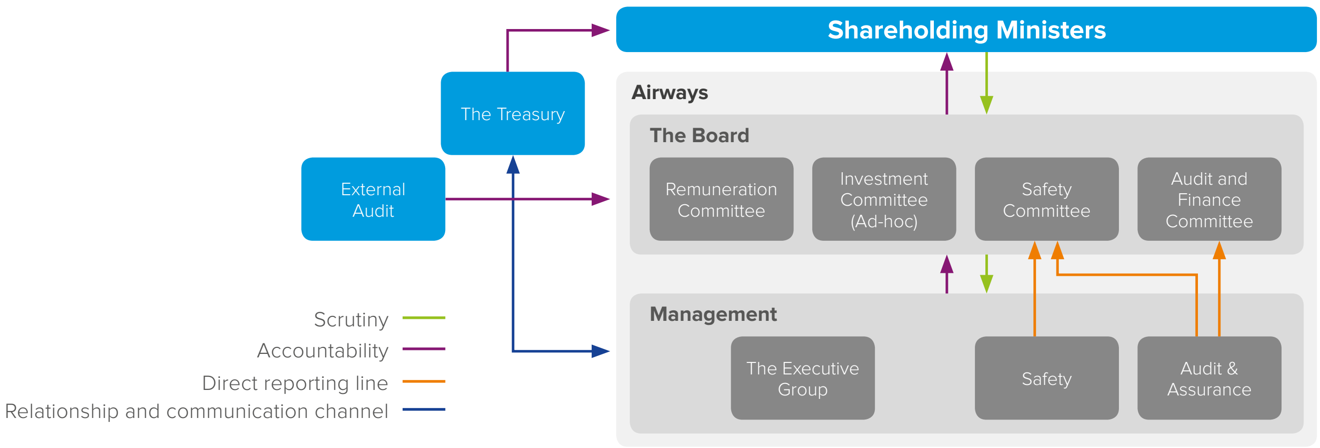
ii) this accountability is achieved through the annual expectations letter issued by the Shareholding Ministers and the compilation of (and reporting against) the Statement of Corporate Intent (SCI) by the Airways Board. The SCI sets out the objectives, the nature and scope of activities, financial and non-financial performance indicators and an estimate of the current commercial value, of Airways.

iii) the Office of the Auditor-General (OAG) is responsible for providing additional financial oversight, primarily through the appointment of an external auditor.

iv) starting with the Board, and flowing through to all areas of the company, Airways adopts a 'no surprises' policy.

v) 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 diagram below:



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 responsibilities they need to ensure are achieved are:

i) ensuring clear goals, and strategies for achieving them, are established through the annual Business Plan and SCI
ii) holding management responsible for delivering on that Plan
iii) ensuring appropriate risk management policies and strategies are established and monitored
iv) establishing, participating in and monitoring effective governance structures and internal controls that address Airways' key financial, commercial and safety risks
v) reporting to the Shareholding Ministers on performance and other required matters
vi) providing leadership in building effective relationships with key stakeholders
vii) managing CEO appointment and performance
vii) providing leadership and guidance on remuneration policies and strategies
ix) 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.

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, seven new entries were made to the Interests Register. These disclosures are all either company directorships listed in the directors' profiles on pages 18 to 19, or shareholdings less than 5% of the relevant director's net worth. Only one of the new entries was an interest that required management in connection with Airways' conflict policies – Mary-Jane Daly's interest as a Director of Kiwi Property Group Ltd, the ultimate landlord of Airways' corporate head office.

Appointing new members

All new Directors are appointed by the shareholder, in consultation with the Chairperson. In order for the Board to meet its duties and responsibilities, it is crucial that they have an appropriate mix of skills and backgrounds. 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 2015, 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 focused on addressing some of the key Board responsibilities. The role, key responsibilities and members of the committees are set out below. While these committees are responsible for certain activities and decisions, ultimate accountability still resides with the Board.

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 Audit 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) Grant Kemble Chris Moxon
Safety Committee	Inform the Board of the performance of Airways' safety management systems	• Review audit and assurance reports from Head of Audit and Assurance • Review safety reports from the Head of Safety and Standards including key safety metrics, status reports on incident investigations and key safety issues • Understand key safety risks and how they are being managed	David Park (Chair) Terry Murdoch Robin Gunston
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	Susan Huria (Chair) Robin Gunston Susan Paterson

Directors' Attendance

The Board held 10 meetings during the year ended 30 June 2015. Board committees also met regularly throughout the year to consider matters relevant to, and required by, their terms of reference. Director attendance at these Board and committee meetings is set out in the table below:

	Board meetings	Audit and Finance Committee	Safety Committee	Remuneration Committee
Total meetings held	10	4	4	4
Susan Paterson	10	4	3	4
Susan Huria	10			4
Terry Murdoch	10		4	
David Park	10		4	
Chris Moxon	9	3		
Robin Gunston	9		4	4
Grant Kemble	10	4		
Mary-Jane Daly	9	4		

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. 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.

Internal Audit and Assurance

The Audit 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:

i) delivery of audits in line with the Group-wide audit programme

ii) assessment of audit action effectiveness to ensure actions are driving improvements and reducing recurring issues

iii) assessment of legislative Compliance, company-wide and remediation management

iv) ongoing certification to the ISO9001:2008 business standard

v) verifying compliance to the CAA Rule parts, applicable to Airways

vi) clear, concise, consistent, compliant document, process and record management, company-wide

vii) quarterly reporting to the Audit and Finance and Safety Board sub-committees

viii) increased understanding of Audit across the business

ix) improvements in business practices resulting from advice and guidance provided by the Audit and Assurance team.

Safety

The Safety team are 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, provide assurance to the Board, CEO and business that safety risks are being effectively and appropriately managed. They are also responsible for developing and supporting a just, free and open reporting culture within Airways.

Photo credit: Royal New Zealand Air Force

Top decile safety and efficiency record worldwide

22% reduction in inflight delays

Over 37,000 tonnes of CO_2 emissions saved

84% customer satisfaction
99.95% service availability

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

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making your world possible