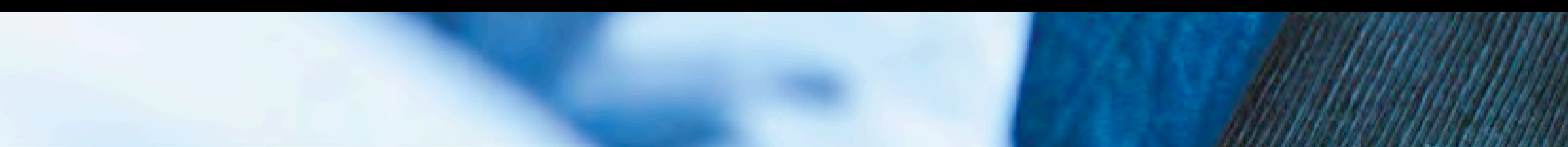
AIRWAYS

INVESTING IN THE FUTURE

2015-16 ANNUAL REPORT

Contents



$35M
Investment in capital projects

90
ATC students from overseas trained in our NZ campuses

99.97%
Service availability

4.7%
decrease in prices for airlines, over three years

$1M
reduction in operating expenditure

ZERO
High-severity safety incidents

85%
Customer satisfaction

8%
Air traffic volume increase

22.1
Average seconds of inflight delay per flight

$23.2M
NOPAT

Message from
THE CHAIR & CHIEF EXECUTIVE

Airways' annual report for the 2015-16 financial year highlights a year in which we have focused on investing in our technology and infrastructure, our strategy and our people.

This investment will ensure that Airways delivers on our commitment to safe and efficient air traffic management and provides a strong platform for the future success of New Zealand's aviation system.

We have achieved a strong safety, operational and financial performance this year, delivering consistently high outcomes across all measures for our shareholders. These results have been achieved in a year of solid air traffic growth, not only in our region but also achieved by the profit in our non-statutory commercial businesses.

This year we have taken stock at the half-way point of our 10-year business transformation strategy, MANA (Making A New Airways), and considered options to simplify our business. It is clear that the next five years will present more challenges and now is the time to prepare Airways for that future.

New technologies, increased competition, low fuel prices and unprecedented traffic growth in Asia Pacific will all impact our business in coming years. Airways' investments today are critical for the future safety, success and sustainability of New Zealand aviation.

SAFE

In a company defined by our dedication to safety, it is pleasing to report zero high-severity safety incidents. The loss-of-separation incident rates continue to remain very low, with no near collisions.

We carried out our Normal Operational Safety Survey at many operational units throughout the year to identify threats, errors and risks to the safety of our services. Learnings from this survey will form a key part of our safety improvement programme over the next year.

This year also saw the creation of a dedicated Safety and Assurance business unit. While the responsibility for proactive safety management and improvement is embedded in business units throughout Airways, the role of this new unit is to set safety standards and policy, report to the Board on performance, safety and security matters and assist in building upon a healthy reporting culture.

In this rapidly growing aviation market our investments in safety, technology and infrastructure continue to provide assurance, such as our progress towards our future air traffic management (ATM) platform. We have prioritised safety in our consideration of all infrastructure investments. One example is the implementation of equipment designed to detect human error – during the year we installed a system that alerts air traffic controllers in the event of an incorrect flight level being selected by a pilot in the flight deck.

We also implemented an enhanced contractor management system to support compliance with the new health and safety legislation. Our voluntary participation in WorkSafe New Zealand's Safety Star Rating Scheme yielded Airways a four star maturity and we also retained our ACC tertiary rating, through the WSMP (Workplace Safety Management Practices) audit.

SUCCESSFUL

For our shareholders

Airways' statutory revenue has increased on the back of record growth across the aviation industry, with volume increases* of 8.1% in our international business and 7.9% domestically. This growth, combined with a continued focus on cost control, has resulted in an overall Group Net Operating Profit After Tax (NOPAT) of $23.2 million against a budgeted $16.5 million. The positive trend continues in the performance of the unregulated non-statutory business, with NOPAT increasing to $3.5 million, from $2.2 million in the prior year.

This financial year heralded the mid-point in our MANA programme, with tough targets achieved across parts of the business in the last five years, including delivery of a challenging capital investment programme. We were, however, unable to meet all of our targets for the Global Services business units, with ongoing challenges in securing the expected level of growth.

To continue to deliver on target at MANA's mid-point, and to uphold our well-earned reputation as a high-performing State-Owned Enterprise (SOE), we will need to remain lean, nimble and ahead of the demands of our shareholders and customers. The future MANA targets require growth in revenue, NOPAT and commercial value to be driven from within our commercial businesses.

We have undertaken prudent management of our finances during the year, operating within capital thresholds.

For our customers

Airways invested $35 million into capital projects during the year, as we continued to deliver on a demanding programme of modernisation. This programme delivered the expected benefits set out in the 2013-16 pricing plan. Key milestones this year included significant progress on the new Wellington air traffic control tower, investments to enable extended operations in Queenstown and new procedures to support efficient flight paths and prepare for the future transition to satellite-based navigation.

Airways' world-leading service availability levels continue at 99.97%, although inflight delays are behind target at 22.1 seconds due to runway works at Auckland Airport, record flight volumes and adverse weather. Airways will be working with stakeholders to help ease the impact of weather and infrastructure upgrades building on our recent capability to efficiently manage traffic demands across New Zealand.

*Traffic volumes are measured in flight tonnes i.e. flight x tonnes x miles.

Airways' statutory revenue has increased on the back of record growth across the aviation industry

The results of Airways' annual customer satisfaction survey were very positive, demonstrating that 85% of customers are satisfied with Airways' service performance. While just behind the 86% target it re-emphasises that our customer-first approach is having a real impact on the way customers perceive Airways and the value of our service.

We have continued our focus on prudent cost management during the year, delivering a $1 million reduction in operating expenditure including leases, insurance and maintenance.

During the financial year we reviewed our business operations, defining how we can engage with our people, streamline our decision-making and achieve our objectives more efficiently. We reviewed our team structures with a focus on simplification and implemented new structures in the Technology and Service Delivery areas. We believe these changes will position Airways to reach our business objectives next year and beyond, while benefiting our customers through further cost efficiencies.

Airways continues to be a critical enabler of aviation and tourism growth in the Asia Pacific region

The year also saw consultation on our proposed pricing for the three-year period from July 2016 to June 2019. Our collaborative engagement with key customers created a robust and effective consultation process, with valuable feedback provided in response to our pricing proposals. We would like to thank our airline, airport and general aviation customers for their active participation. Our agreed pricing for the next three years will provide us with the funding we need to invest in our people and our infrastructure to deliver sustainable benefits to the New Zealand aviation system.

For our people

Investing for the future means ensuring our prospective leaders are primed with access to appropriate training and development opportunities. Airways has invested significantly in the capability of our people, doubling funding for professional development over the past five years.

Our innovative leadership programme enables our people to grow within their roles and to realise their capabilities within the broader Airways environment. This year, 74 of our newest leaders attended this bespoke leadership training programme.

Airways' successful wellness programme continued over the year, with online access to health and wellbeing resources and a number of team challenges to encourage improvements in specific areas of health and fitness.

We continued to evaluate our resource needs across the business during the year and as a result bolstered our engineering unit with increased headcount to provide further support to meet the needs of our customers.

SUSTAINABLE

A number of advancements in technology and automation have enabled us to begin planning for how our business will look in 2028. This year we made solid progress on our operational strategy, with the intention of creating a 'one centre, two locations' operational environment that allows for the seamless continuation of service delivered from our Auckland and Christchurch premises. We also commenced a Request for Proposal (RFP) process for a new ATM platform that will enable this new approach.

A review of Airways' commercial businesses was conducted during the year to determine the steps needed to accelerate revenue growth. A new strategic direction was approved by the Board in May 2016 to establish autonomous commercial business units that will operate more independently of Airways' corporate structures and overheads.

Airways continues to be a critical enabler of aviation and tourism growth in the Asia Pacific region, with predictions of a 60% increase in air traffic over the next 20 years. With such substantial growth in the near future, we are taking a principal role in furthering air traffic management and safety across the region.

In a significant achievement which reflects our reputation for safety, innovation and efficiency, our CEO Ed Sims was appointed Chair of the Civil Air Navigation Services Organisation (CANSO) in June 2016. This ATM industry body represents air navigation service providers' interests globally, and CANSO members support over 85% of the world's air traffic. In further appointments, Lucy Mitchell became Vice-Chair of the CANSO Asia Pacific Safety Workgroup, and Tim Boyle, Head of Auckland Operations, was appointed Chair of ASPIRE (Asia and South Pacific Initiative to Reduce Emissions).

The exponential traffic growth in the Asia Pacific area has many associated challenges for the regional ANSPs responsible for its air traffic management. This year Airways successfully hosted the CANSO Asia Pacific conference in Queenstown to facilitate further discussion of these issues.

Our high-level involvement with CANSO and the International Civil Aviation Organisation (ICAO) enables Airways to lift the standard of air traffic management, enhancing collaboration across the region to address common issues and risks and to shape discussions globally on ATM issues.

CONCLUSION

We are confident that in preparing for the future, we are creating an environment in which both our business and those of our customers will continue to succeed. Now is the time to take these steps, capitalising on the rapidly developing technologies throughout our industry to achieve positive change in the global aviation sector. We would like to thank our people for their dedication to making this happen and to acknowledge our customers and shareholders for their support, collaboration and feedback throughout the year.

Susan Paterson
Chair

Ed Sims
Chief Executive Officer

INVESTING IN
FUTURE EFFICIENCIES

The acceleration of automation and technology in our industry creates an ever greater need for us to plan the structure of our business beyond the next 10 years.

As always, we are committed to delivering tangible benefits for our customers and partners across the aviation industry. The decisions we are making today – around our size and shape, our technology, and our physical locations – will fundamentally define the health of our organisation, and our service levels to our customers, for the coming decades.

2016 saw significant investment into, and the launch of, Airways' operational strategy, enabled by plans for a new ATM platform. Both projects have received Board approval and have been supported through extensive consultation with our customers.

Three overriding considerations drive our operational and ATM planning:

- Today's advancements in the air traffic services environment are such that within the next 10 years, it is clear that controllers will be able to handle substantially more aircraft than at present
- For improved resilience and contingency, a second location with the ability to provide backup approach and area surveillance services is required
- It is essential that any operational expenditure provides our customers with both short-term operational and medium to long-term operational and financial benefits.

AUTOMATION FOR ENHANCED PRODUCTIVITY

In the not too distant future, electronic management and monitoring systems will permit ATM tasks to be managed more efficiently, with an equivalent or higher level of safety assurance than we have today. By planning for this future now, we can ensure that these new technologies and capabilities are deployed in a safe and managed way, delivering benefits to our customers.

This year we have commenced a structured long-term project to achieve this vision over a 12-year timeframe.

ONE CENTRE, TWO LOCATIONS

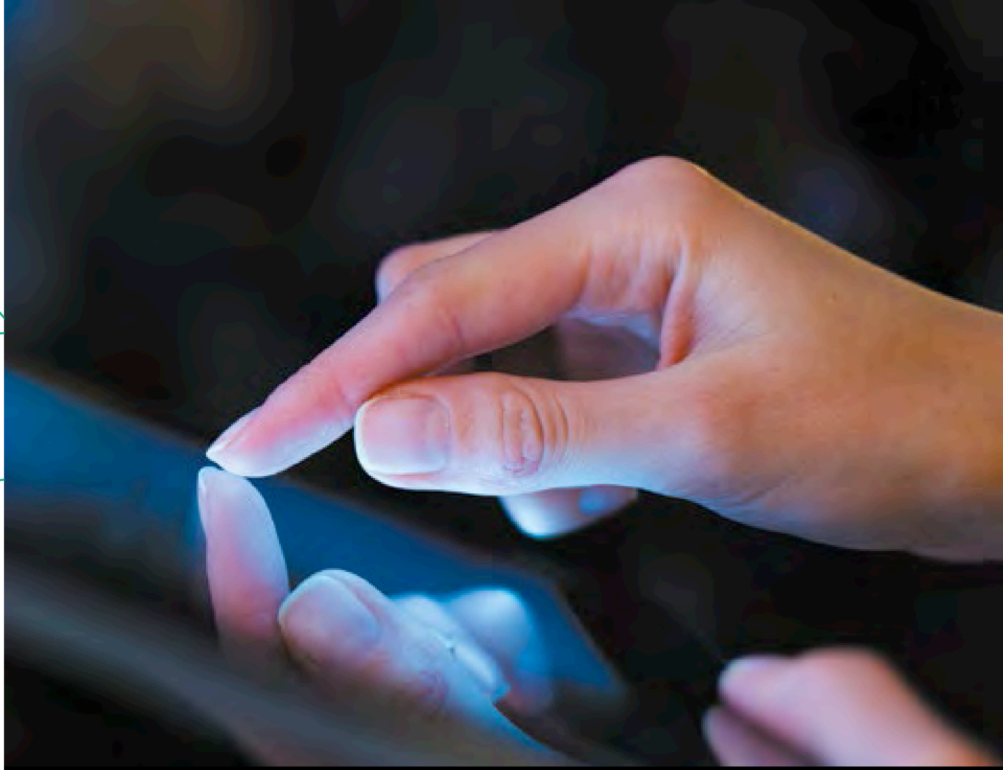
We intend to create, by the mid-2020s, a "one centre, two locations" operational environment, providing a highly resilient service across our whole operation, where our people and our system could support 24/7 services on one operating platform from either Auckland or Christchurch.

The decisions we are making today will fundamentally define the health of our organisation, and our service levels to our customers, for the coming decades

For example, if Christchurch was unable to provide service, Auckland could continue to provide services with fully trained controllers.

As well as bringing enhanced resilience and contingency capabilities, our programme would deliver safety enhancements, automation of core controller tasks and efficiencies through common processes.

Air traffic control (ATC) is evolving, and to ensure we can provide relevant services to aviation operators who are investing in more capable flight deck systems, we are moving towards operating in a far more integrated air traffic management role. We see a future where our controllers will facilitate



more self-management of aircraft, intervening by exception rather than bespoke control of each aircraft.

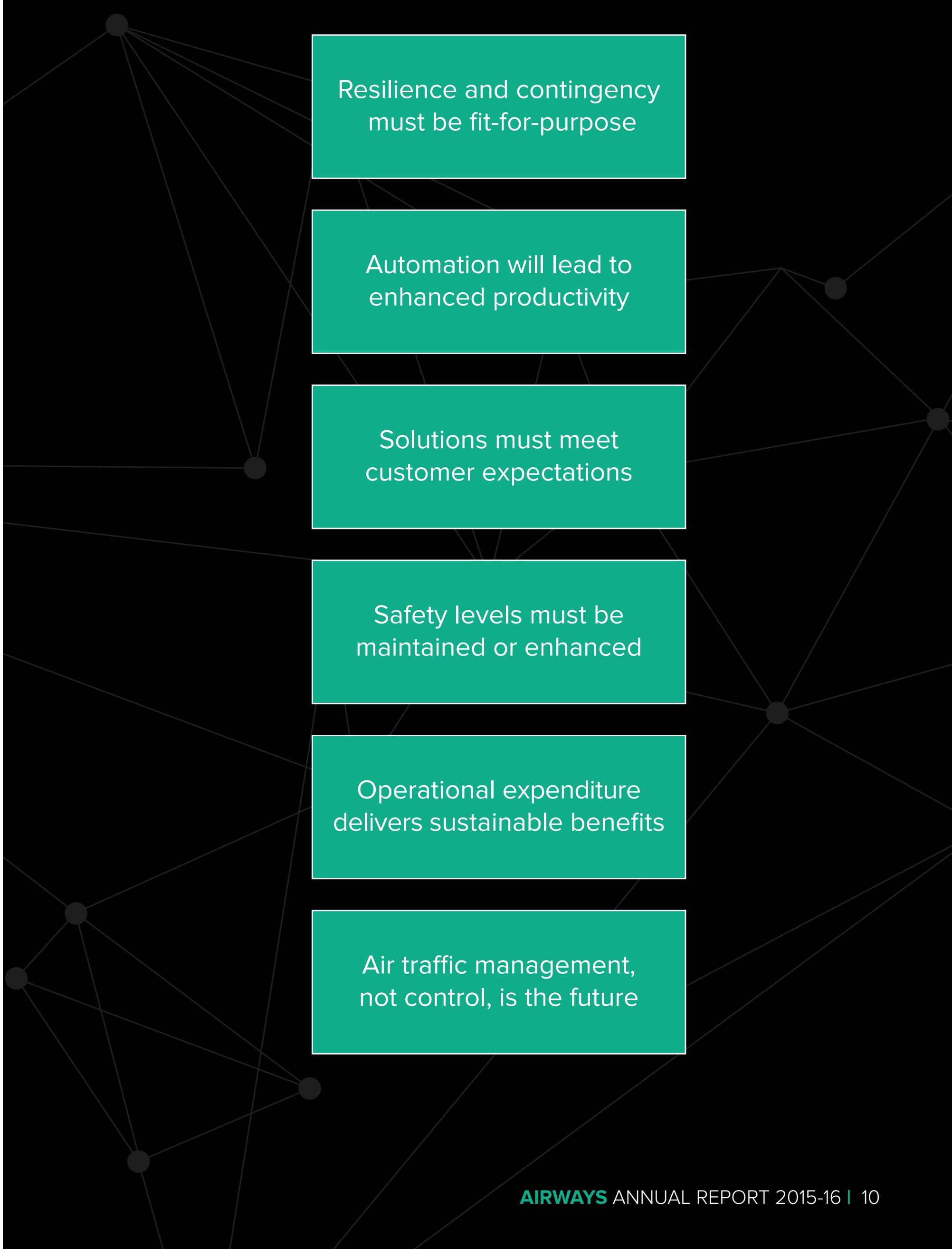
We will use technology to aid our controllers in handling more traffic in more complex scenarios and drive safety and efficiency. With this technology evolving faster than ever, our future operational vision ensures we have a fit-for-purpose and agile system. It allows us to adapt as capability evolves and customer requirements change.

SUSTAINABLE, LONG-TERM BENEFITS

By maximising our use of developing technologies, we are providing the platform for the transformation of our current concept of operations into a more resilient and adaptable operation. This will ultimately determine how we are to be safe, successful and sustainable well into our future.

Our operational and ATM strategies have been the subject of extensive consultation, both internally and with our customers and stakeholders over the past year. They have been designed to fit within an achievable pace of change, while maintaining the integrity of our core ATM services.

GUIDING PRINCIPLES FOR AIRWAYS' OPERATIONS



INDUSTRY-WIDE COLLABORATION

New Zealand's aviation environment is undergoing rapid change. For Airways, the development of new technologies is helping to determine our place in the future aviation landscape.

Our focus on enabling this growth through collaboration with our industry partners and our customers is now more essential than ever.

INDUSTRY COOPERATION – NEW SOUTHERN SKY

The Government's New Southern Sky (NSS) programme is designed to deliver $2 billion worth of benefits to the New Zealand economy and will help New Zealand coordinate the integration of technological advances into our airspace management and air navigation services. Together with the Civil Aviation Authority (CAA), Ministry of Transport and stakeholders across the industry, Airways is driving a range of NSS projects and is represented on the Governance, Working and Safety Groups.

This year has seen the completion of NSS stage one, which focused on PBN implementation and the surveillance system requirements related to our radar system replacement. We also assisted with safety criteria development related to these new technologies, to ensure that our level of safety is maintained or preferably increased. The NSS programme is expected to deliver significant environmental and economic benefits through the reduction of CO_2 emissions, fuel savings, lower aircraft operating costs and efficiencies for airlines.

ENHANCING FLOW MANAGEMENT

During the year we worked with Wellington and Auckland airports to implement Airport Collaborative Decision Making (A-CDM) technology for jet operations.

A-CDM aims to improve operational efficiency by reducing delays, improving the predictability of key events during a flight's turnaround and optimising the use of airport resources.

The A-CDM implementation is the first step in automating movement messages between Airways' ATM system and the airports' operating systems.

REVIEWING SERVICES IN OUR REGIONS

During the year we reviewed our business model and service levels at some regional aerodromes to deliver a cost-effective, fit-for-purpose service. We submitted a safety case to the CAA proposing a change in service from aerodrome control to aerodrome flight information service at Gisborne Airport,

NASA's Colombia Scientific Balloon Facility launched a 90-metre-diameter, 2.3 tonne scientific research balloon safely through the skies above Wanaka in May 2016, enabled by Airways.

We are committed to providing safe, reliable, predictable, innovative and cost-effective services for our customers following consultation with the airport, its customers and stakeholders. The review is ongoing.

INDUSTRY PARTNERSHIPS DRIVE UAV EDUCATION AND EFFICIENCY

The success of UAV industry hub website airshare.co.nz is the result of our collaboration with industry group UAVNZ, Callaghan Innovation and the CAA. The website receives very positive feedback from across the UAV industry, both locally and overseas.

Airshare has continued to grow in both functionality and popularity. Since its 2014 launch, the website has attracted nearly 75,000 unique visitors and has over 2,500 registered users. Over 250 Drone 101 online training courses have been sold since December 2015 and a number of website enhancements have been released, including updated airspace maps, with additional data to help people determine where they can fly. Pricing for a higher level of functionality within airshare's services will be released in the coming months.

During the year we collaborated with local councils around New Zealand, providing resources, advice and information to help them educate their communities about UAV rules and the use of airshare to facilitate their permission processes. The drone/UAV use policies of a number of local councils are now hosted on airshare.

ENABLING NEAR SPACE LAUNCHES IN OUR AIRSPACE

Our responsiveness to our customers' needs saw the return of NASA's scientific research balloon to the Wanaka skies in 2016. The NASA balloon launched in May was a similar size to Dunedin's Forsyth Barr Stadium. Coordinating with NASA's Colombia Scientific Balloon Facility, the Airways team determined an optimal launch time to ensure minimal impact on normal scheduled aircraft operations and facilitated the safe passage of the balloon through controlled airspace.

During the year Airways also worked with Rocket Lab as it planned the launch of its Electron rocket from a site on Mahia Peninsula on the east coast of New Zealand's North Island.

PRICING CONSULTATION

In May 2016 Airways confirmed new prices for our ATM services to airlines, light aircraft and general aviation operators. Following a robust and collaborative consultation process, we announced a decrease in prices for airlines by 4.7% over three years from July 2016 to June 2019. Prices for general aviation operators for the next three years will be kept in line with inflation, increasing by 1.6%.

The final pricing cements Airways' commitment to managing unprecedented air traffic demand and preventing future air traffic congestion with well-planned supply of services.

By reinvesting the revenues available from aviation growth back into the aviation system, we will be able to deliver greater service reliability, better on-time performance, and a reduced carbon footprint, while also reducing our prices.

INVESTING IN New Zealand

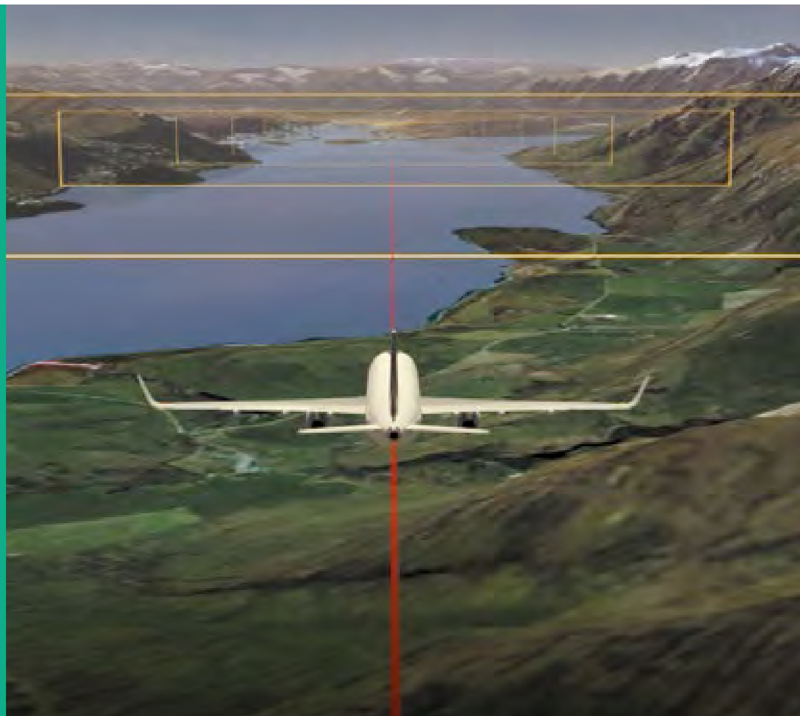
Recent technology advances and significant growth in aviation traffic have provided us with a unique opportunity to inject some affordable investments into New Zealand's aviation network. Through the year we invested heavily in capital projects, spending $35 million on lifecycle replacements and new technologies to provide for the future.

IMPLEMENTING PBN

The implementation of Airways' Performance Based Navigation (PBN) programme throughout New Zealand is a key initiative of the NSS air navigation plan.

The introduction of PBN moves us away from ground-based radio navigation aids to satellite-based navigation. PBN reduces delays, flight times, fuel burn and CO_2 emissions – which benefits our airline customers, the environment and the wider economy.

This year our programme included the introduction of advanced PBN approaches at Auckland and Christchurch and the scoping, introduction or refinement of PBN procedures throughout regional New Zealand. Our airport customers and their communities have faced a number of challenges in implementing PBN, resulting in slower progress than targeted for the programme delivery.



Aircraft flying Performance Based Navigation procedures fly very precise flight paths with a high level of accuracy, improving efficiency and safety.

BENEFITS OF PERFORMANCE BASED NAVIGATION

Safety
Advanced PBN approaches with vertical guidance are improving safety for hundreds of flights (and thousands of passengers) a year at Christchurch

Environment
PBN reduced fuel burn for flights into Auckland by 2,000 tonnes of fuel and 6,000 tonnes of CO_2 emissions

Socio-economic
PBN saved the travelling public more than 50,000 minutes flight time into Auckland

We have agreed that ADS-B surveillance is the best foundation as we move into the future

Airways will install and upgrade ground-based infrastructure throughout New Zealand from early next year to support the move to ADS-B satellite surveillance.

ADS-B PROCUREMENT

Automatic Dependent Surveillance – Broadcast (ADS-B) is set to become the main aviation surveillance technology worldwide. Working closely with CAA, Ministry of Transport and airline customers, we have agreed that ADS-B, with a non-satellite dependent contingency surveillance network, is the best foundation as we move into the future. For New Zealand, this will require new surveillance infrastructure and a ground-based network upgrade programme.

In May 2016 the Board approved the business case for the introduction of ADS-B. By the end of 2020 the planned ADS-B infrastructure rollout will provide an estimated 45% improvement in surveillance coverage across all controlled domestic airspace. It will result in safety improvements via earlier flight detection, improved track accuracy and update frequency and better search and rescue support.

NEW TOWERS

Good progress was made during the year on our new air traffic control tower for Wellington, with resource consent gained, foundation construction underway and entry into service expected in late 2017. The tower combines a strong and safe IL4 standard resilient structure, with excellent functionality and stunning urban design, appearing to lean into the prevailing wind.

Budget has been approved for the replacement of Nelson's tower, needed due to the rapid development of the airport terminal. The concept design and consenting work is underway, with the new tower to be operational by November 2017.

We will continue to keep a watching brief on the development of remote towers technology. At this stage the technology is not sufficiently cost-effective to deliver the required benefits for our customers.

The new Wellington air traffic control tower is designed to lean into the prevailing northerly wind at an angle of 12.5 degrees.

UPGRADES AND LIFECYCLE REPLACEMENTS

Upgrading navigation aids
A $7.8 million investment in upgrading Airways' network of non-precision navigation aids progressed during the year, with Doppler VHF Omni Directional Radio Range (DVOR) and distance measuring equipment (DME) upgraded at Palmerston North, Gisborne, Rotorua and Hamilton airports.

This ground-based navigation network works as a back-up to the Global Navigation Satellite Systems (GNSS) network, and Airways has been progressively upgrading the equipment since 2010. The final navigation aid to be upgraded is at Nelson Airport – this is being relocated and civil works are underway with completion planned by the end of August 2016.

Enhancing our communications network
During the year Airways invested in enhancement and remediation of the Internet Protocol (IP) network that supports our navigational, communication and surveillance systems. These changes were implemented based on recommendations from an independent technical review Airways commissioned following the June 2015 network outage.

All high priority recommendations from the review have been addressed and the remaining enhancement and remediation activities will be completed over the next two years.

Replacing end-of-life equipment
During the year we completed a $4 million replacement of end-of-life high frequency (HF) radio communications equipment at two sites near Auckland Airport. HF transmitters and receivers were replaced and a new antenna installed at each site. The HF radio system allows our Oceanic AirGround operators to communicate to aircraft over Auckland Oceanic Flight Information region, covering 29 million square kilometres.

We also invested $1.4 million to replace uninterruptible power supplies (UPS) at radar sites and regional towers across the country.

Airfield lighting and infrastructure upgrades
We worked with Auckland Airport this year to upgrade airfield lighting and runway infrastructure as part of the airport's annual pavement renewal project. Runway 23L was shortened for two months to allow the work to be completed around the runway threshold, and a displaced threshold was put in place while the work was completed. New airfield lighting systems were also installed and a structural upgrade completed on a pier stretching out into Manukau Harbour.

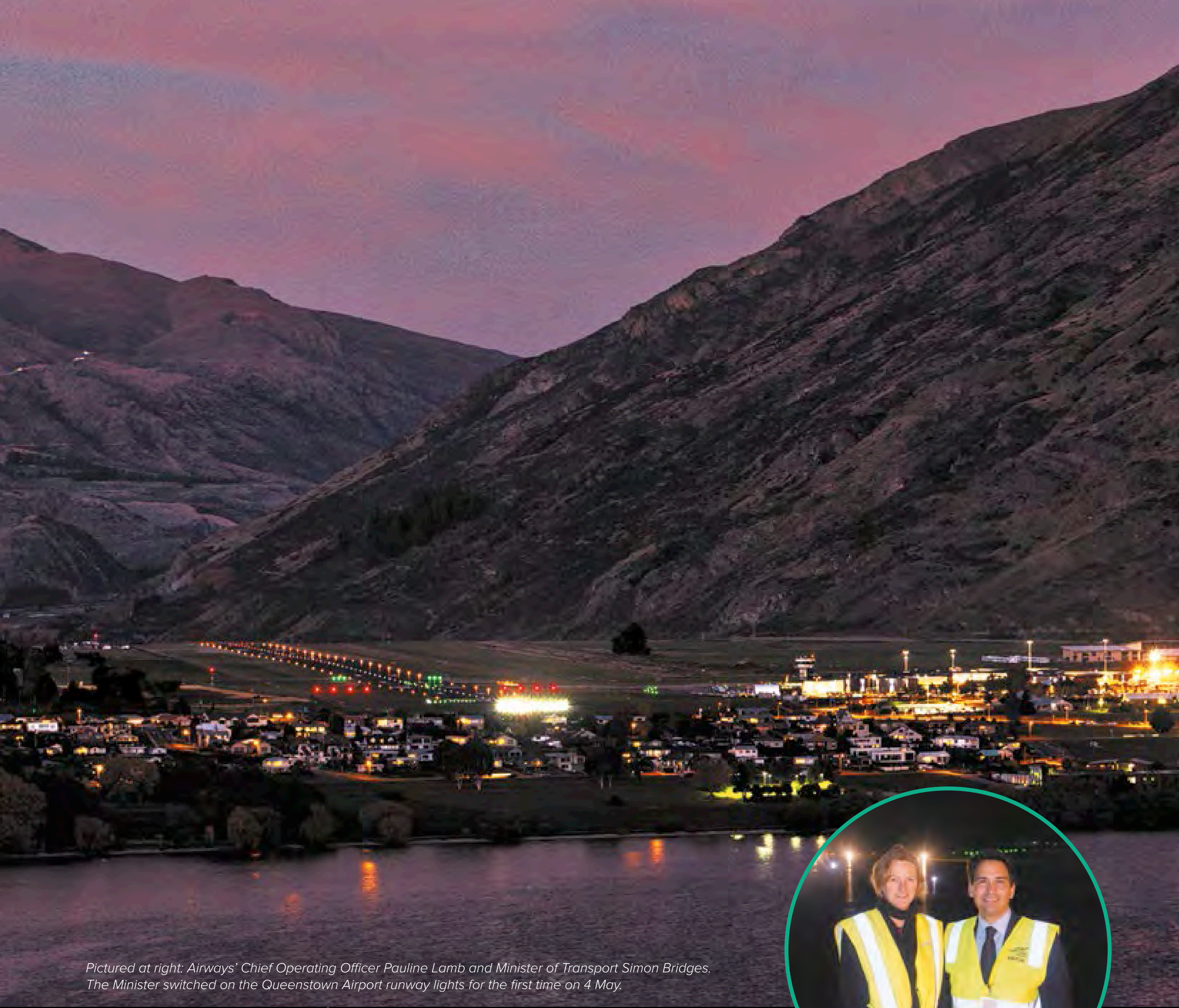
A $1.1 million upgrade of lighting at Woodbourne airfield was completed during the year, with the installation of 20 kilometres of new airfield lighting electrical cable.

SUPPORTING GENERAL AVIATION

Our iconic mobile control tower has been in use again this year, supporting the development of general aviation across New Zealand. The 'tower' – a converted shipping container fitted out with specialist systems and plenty of windows – was used when Airways supported the Walsh Memorial Flying School in Matamata, an event where aspiring aviators, including the two winners of our Glenn Ashton Memorial Scholarship, learn to fly from some of the best in the industry.

Airways ATC support was also provided in the mobile tower at Warbirds over Wanaka and at the New Zealand Defence Force's Southern Katipo 'invasion' in November. Additionally, we have sponsored the flying community through Aviation New Zealand, the Royal Aeronautical Society, Women in Aviation, Angel Flight, gliding clubs, and numerous general aviation rallies and aviation events. Our sponsorship of Flying New Zealand offered Ross Macpherson scholarship winners the opportunity to tour local ATC towers, with the overall winner flown to Christchurch to spend a day with Airways.

The Airways mobile control tower supports a number of general aviation events across New Zealand.



Pictured at right: Airways' Chief Operating Officer Pauline Lamb and Minister of Transport Simon Bridges. The Minister switched on the Queenstown Airport runway lights for the first time on 4 May.

INFRASTRUCTURE UPGRADE ALLOWS NIGHT TIME OPERATIONS

Queenstown Airport (QAC), gateway to one of New Zealand's most popular tourist destinations, is experiencing unprecedented growth. However, terrain restrictions and fluctuating weather create a challenging aviation environment, and until now, the airport has only supported daylight operations.

This year a major lighting and runway infrastructure upgrade by Airways and QAC has made evening flights in and out of the airport possible for the first time, unlocking extensive economic and tourism benefits for the region. In such a complex environment, the runway needed to be widened from 30 to 45 metres, the lighting system extensively upgraded and new accommodation and equipment rooms built.

Airways led the installation of the airport's new runway, taxiway, apron and approach lights required to fly in darkness, which enhances the overall safety and efficiency of operations both day and night.

The multi-million dollar building upgrade will accommodate staff and provide a new, spacious equipment room, large enough to manage future growth. The building has been constructed to be fully compliant with health and safety regulations.

Both the lighting and runway widening projects were completed in tandem, with the first evening passenger services arriving on 23 May.

Within 20 years about half of the world's air travel – nearly three billion journeys – will touch Asia Pacific

INTERNATIONAL LEADERSHIP

Building strong relationships with our international partners will deliver our long-term vision to enhance aviation safety and develop sustainable and efficient services.

FURTHERING REGIONAL COLLABORATION

Airways hosted the annual CANSO Asia Pacific regional conference in May 2016. This event was held in Queenstown, showcasing our unique environment and leaving delegates with a true sense of New Zealand's contribution to global aviation.

Discussions at the summit addressed the future sustainability of Asia Pacific, identifying the opportunities and implications for safety, efficiency and economic viability. Sessions focused on using growth as a positive driver for the region, and on ensuring that the supply of essential services matches demand, so that Asia Pacific retains its status as one of the safest and most efficient regions in the world.

Hosting many of Asia Pacific's most senior aviation leaders at the CANSO conference in Queenstown allowed us to progress important discussions on the future sustainability of the region. The conference also yielded the signing of a Memorandum of Understanding (MOU) between Airways and the Civil Aviation Authority of Singapore. This MOU paves the way for enhanced cooperation and capabilities in a number of areas of air traffic management and air navigation services, a collaboration which will go beyond hardware and process improvements to enhance the development of aviation professionals in both countries.

The event provided Airways with an opportunity to both lead and participate in matters of safety, efficiency and innovation.

INTERNATIONAL COLLABORATION AT THE HIGHEST LEVEL

Many of our senior leaders are significant contributors to our industry's international bodies, facilitating regulatory and operational change. In addition to CEO Ed Sims' appointment as Chair of CANSO's global Executive Committee, 19 of our senior leaders represent Airways on ICAO and CANSO committees.

Tim Boyle, our Head of Auckland Operations, recently took over as Chair of ASPIRE, the Asia and South Pacific Initiative to Reduce Emissions. Lucy Mitchell, Safety Improvement Coordinator, was appointed Vice-Chair of the CANSO Asia Pacific Safety Workgroup during the year.

As we face the challenges of unprecedented global air traffic growth, improvements in safety, efficiency and sustainability have never been more important and we are proud of our increasing contribution to lifting the standard of air traffic management globally.

Improvements in safety, efficiency and sustainability have never been more important

GLOBAL BUSINESS FOR FUTURE SUCCESS

Globally, Airways is recognised for both our commercial and customer focus. By putting our customers at the heart of what we do, we have become a safer, more successful and sustainable organisation.

As leaders in air traffic management, we drive value for our customers through outsourcing, product unbundling and cost-efficiencies. Our innovative business offerings extend around the world, supporting our long-term growth and creating shareholder value. Perhaps owing to our place in the world, we excel at reaching out to our international customers, with many examples of collaboration and partnerships throughout our business.

Airways has worked in more than 60 countries worldwide, delivering air traffic management, revenue management solutions, navigation services, consultancy and training.

Training

- airBooks, a world-first online resource for foundation ATC training, was launched as part of our e-learning platform to support 'net generation' learners, with interactive resources covering the entire ICAO syllabus.
- The first group of students destined for employment with FerroNATS, one of Europe's premier air traffic services providers, started initial training at our ATC training hub in Puerto Rico in March.
- Our third group of Saudi Arabian students from the General Authority of Civil Aviation of Saudi Arabia (GACA) and the Saudi Arabia National Guard started their ATC training in Palmerston North in November 2015. This year we signed a further agreement with GACA to train a fourth group of students commencing in July 2016.
- Two agreements were signed with Vietnamese aviation authorities to provide air traffic control training for Vietnam-based students:
  - A five-year Memorandum of Understanding with the Vietnam Air Traffic Management Corporation confirming our role as its preferred air traffic control training provider, along with the supply of related training services
  - A Memorandum of Understanding with the Vietnam Aviation Academy, which will see the university's students completing ATC training in New Zealand as part of their Aviation Management degrees.

GroupEAD

- Recognised by ICAO in February for its Instrument Flight Procedure design, GroupEAD is one of just a handful of companies to have received this recognition worldwide. GroupEAD continues to grow globally, cementing our reputation at the forefront of Performance Based Navigation.

- An agreement with the Auckland Rescue Helicopter Trust provides cost-effective emergency service aeronautical procedures, with new approaches and departures contributing to rescue success rates around New Zealand, with helicopters able to land safely in more difficult conditions.

Flightyield

- Our Flightyield revenue management business, delivered in partnership with Societe Internationale de Telecommunications Aeronautiques (SITA) and CANSO, has made progress in contract negotiations with several customers during the year. Service implementation for two or three customers is targeted for 2016-17 and will provide a strong revenue platform for Flightyield once achieved.

ENHANCING PACIFIC AVIATION SAFETY AND SUSTAINABILITY

Significant progress has been made in extending our support of neighbouring Pacific nations.

In October Airways signed a multi-year contract with the Ministry of Foreign Affairs and Trade to deliver a range of navigation, surveillance and procedural design services into the Pacific region, with PBN to be delivered through Airways' GroupEAD partnership. This $2.4 million project will enhance safety at 38 aerodromes in eight Pacific countries, further cementing our long-term commitment to providing safe and sustainable services to the Pacific Islands.

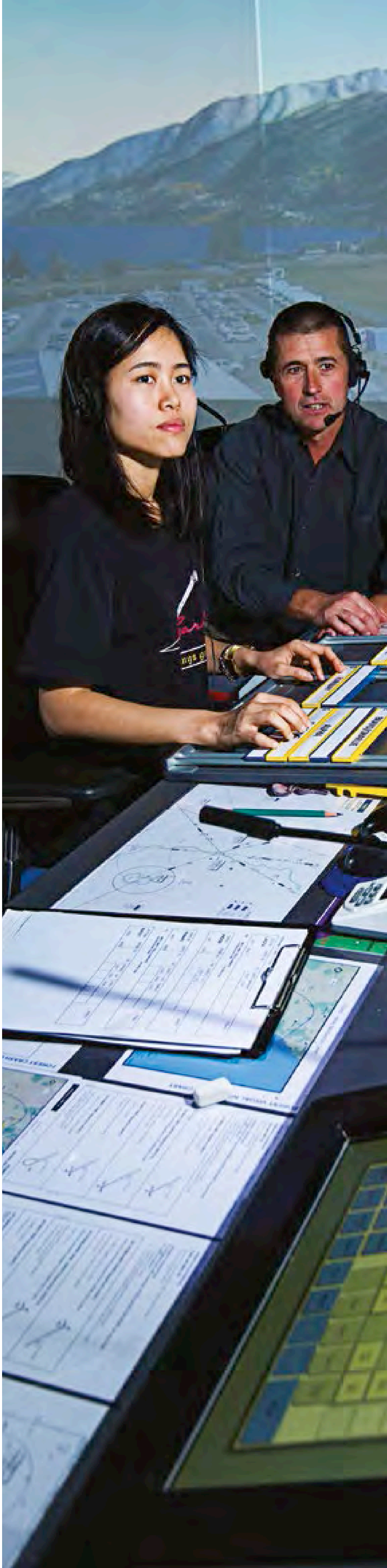
A succession of natural events caused disruption across the Pacific throughout the year. In the aftermath of Cyclone Pam, an Airways technician was sent to Port Vila to assist with repair schemes, working around the lack of resources to bring airport lights, power, communications and navigational aids back into service.

In May Airways secured a contract with the World Bank for the design and construction of navigation aid services, ATC equipment and aerodrome lighting for Faleolo International Airport in Samoa. The awarding of this contract is instrumental in the delivery of aviation infrastructure in Samoa and confirms Airways as a key partner in the Pacific as part of the World Bank Pacific Aviation Investment Project (PAIP).

SETTING OUR GLOBAL BUSINESSES UP FOR THE FUTURE

At the end of the financial year the Airways Board approved a new strategic direction for Airways' internationally focused businesses. The strategy will drive fundamental change in Airways' approach to the commercial market and proposes to establish more autonomous commercial business units that will operate more independently of Airways' corporate structures and overheads and will report into a dedicated governance board.

This decision followed a thorough review of Airways' commercial businesses that identified the need for a strategic shift in commercial focus, culture and innovation.



We are committed to developing our talented people and creating an organisation of high-performing leaders

INVESTING IN OUR FUTURE LEADERS

This year has seen the continuation of our innovative leadership programme, as well as the realisation of a number of staff development opportunities, particularly in the area of technology.

Leadership Edge

Throughout the year we have enhanced the capability of our senior leadership team by increasing their awareness of their personal impact. This programme has been supported with a 360-degree review tool called Leadership Circle and an executive coaching programme.

Inspiring Leaders

Seventy-four of our newer leaders have been supported in their roles by attending Inspiring Leaders training, where they learn the distinction between management and leadership and understand the fundamentals of how to inspire their teams.

Scholarship Advantage

Launched in May 2016, Scholarship Advantage supports the aspirations of our future technical and people leaders. Our people are encouraged to apply for funding to explore their ideas for innovation at Airways, study for qualifications to augment their work or to attend industry-related conferences.

Professional Advantage

Our annual Professional Advantage conference in October 2015 gave 88 of our technical experts an opportunity to hear from leaders in innovation and technology. By hosting this conference we continue to demonstrate our commitment to understanding and embracing advanced and innovative solutions for the future of our business.

Safety Summit

The third annual Airways safety summit was held in April 2016, themed 'Safety in Collaboration'. A variety of presentations, combined with workshops, enabled operational staff, project managers and safety representatives to explore the importance of collaboration to enhance safety.

AIRWAYS' BOARD AND EXECUTIVE

Left to right: Terry Murdoch, Dr Chris Moxon, Judy Kirk, Susan Paterson, Bennett Medary, Mary-Jane Daly, Mark Pitt and Grant Kemble.

EXECUTIVE

Ed Sims
Chief Executive Officer

James Young
Chief Financial Officer

Pauline Lamb
Chief Operating Officer and General Manager System Operator

Jamie Macdonald
General Manager Global Services

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. In 2015 she was appointed an Officer of the Order of New Zealand (ONZM) for her services to corporate governance.

Having trained and practised 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.

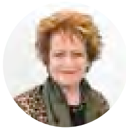
Susan is also Chair of Theta Systems Limited and a director of Sky TV, the Electricity Authority, Goodman NZ, Arvida and Les Mills NZ Limited. Susan has a keen interest in sport, education and the environment. She is Chair of 'Home of Cycling' (Avantidrome), a Commissioner of the Tertiary Education Commission, Chair of the Sector Workforce Engagement Programme, past Chair of Auckland Hockey and a past board member of a number of companies including Abano, Transpower, St. Cuthbert's College, the NZ Ecolabelling Trust and the Energy Efficiency and Conservation Authority (EECA).

MARY-JANE DALY
Deputy Chair – BCom, MBA, CMInstD

Mary-Jane was appointed to the Airways Board in May 2014. She is Deputy Chair of the Earthquake Commission, an independent director of Kiwi Property Group Limited and Cigna Life Insurance New Zealand, and Chair of the New Zealand Green Building Council.

Mary-Jane has a strong background in insurance and banking, having held a range of roles in New Zealand and the United Kingdom. She has led significant business units in large organisations and also has extensive financial and risk management skills from a variety of contexts. As well as her management experience in the corporate sector with Fonterra and IAG, Mary-Jane has held positions at the Bank of New Zealand, National Australia Bank and Toronto-Dominion Bank in London.

Mary-Jane holds a Bachelor of Commerce from Canterbury University and an MBA from City University in London.



JUDY KIRK
ONZM

Judy was appointed to the Airways Board in January 2016. She is an experienced director with a wide knowledge of fundraising and business. Judy is a Justice of the Peace and was appointed an Officer of the New Zealand Order of Merit in 2011 for services to the community.

Judy has been Chair of the Lotto NZ Board since May 2009 and was appointed a director of Metservice NZ in 2011 and Deputy Chair in 2015. She is a director and shareholder of JMK Consulting and a member of the Institute of Directors. Judy previously chaired the New Zealand Lottery Grants Board national welfare committee and the Rotorua regional lottery distribution committee for five years. She also served as President of the New Zealand National Party for seven years.

BENNETT MEDARY
BCom, PMP, IITP, MInstD

Bennett joined the Airways Board in November. He is Chair of Preno, a web-based software developer for front desk management of boutique hotels, and also chairs the New Zealand Technology Industry Association. Bennett is on the Boards of SimplHealth

Solutions, The Simpl Group, MBBO Holdings and Medary Services, is a trustee of the New Zealand Hi-Tech Trust, the New Zealand Co-Chair of the Australia and New Zealand Leadership Forum on Innovation, lead mentor at Lightning Lab Auckland and a strategic advisor to a number of New Zealand companies.

Outside of work he is an avid aviator and mariner and has been an owner of Future Flight Limited, a flight operations and training business at Ardmore Airport.

TERRY MURDOCH

MInstD

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

MARK PITT

BSc, ATPL

Mark Pitt has 25 years' experience as a pilot, initially as an international military pilot and later as a domestic airline pilot instructor. He joined the Airways Board in November 2015.

He was the Chief Executive of Air New Zealand subsidiary Mount Cook Airline, Managing Director and Chair of Virgin Samoa and, most recently, Managing Director and Chief Executive of Virgin Australia New Zealand. Mark has also served as a director of a number of Boards, including Virgin Australia New Zealand and the Board of Airline Representatives New Zealand Incorporated (BARNZ).

Mark is owner and director of distribution company Quinn International Limited and manufacturing and distribution company G&M Pty Limited in Australia and runs a consultancy called Frontseat, which specialises in leadership and marketing.

DR CHRIS MOXON

Ph.D, BSc (Hons)

Chris brings international sales and executive-level consulting experience to Airways. Appointed to the Airways Board in December 2012, Chris has worked for 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 the Chief Executive Officer of Perpetual Guardian, a New Zealand trustee company (formerly Complectus Ltd, parent company of the Perpetual Guardian group).

For most of his career Grant has been a lawyer, specialising in commercial and corporate law and working with a range of international and domestic clients. Most recently Grant was a partner at Russell McVeagh and was the Chair of its Board for a period.

Grant was appointed to the Airways Board in May 2013.

FINANCIAL **PERFORMANCE**

GROUP

As a State-Owned Enterprise, Airways is measured by its shareholder on the basis of its safety, operational and financial performance. During 2016 Airways has performed well in all three areas.

For the 2015-16 financial year, the Group recorded a Net Operating Profit After Tax (NOPAT) of $23.2 million, which is significantly ahead of both budget ($16.5 million) and the prior year ($15.1 million), as set out in table 1 below.

This strong financial result has been driven by increased flight volumes (both domestic and international), with Airways continuing to perform the role of critical enabler of New Zealand's aviation sector and broader tourism growth. While higher volumes have resulted in increased revenues, customers have also benefited from a price reduction provided for under the Pricing Framework. Ongoing cost control has also contributed to this strong NOPAT performance, although these cost savings have been partly offset by increases in long-term leave provisions, driven in part by changes in market discount rates.

Full-year NOPAT for Airways' non-statutory businesses is behind budget but ahead of the prior year. Although some ongoing challenges for the new international partnerships continue, the Training, System Operator Other Services, and GroupEAD businesses have performed better than planned. Overall, the non-statutory businesses have achieved a full-year NOPAT of $3.4 million, ahead of the prior year but behind target.

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

Business unit	NOPAT			Revenue		
	2016 Actual	2016 Budget	2015 Actual	2016 Actual	2016 Budget[1]	2015 Actual
System Operator – Air Traffic Management (ATM) business	19.7	10.7	12.9	185.1	170.6	169.7
Non-statutory Services:						
System Operator – Other Services	3.1	2.8	2.5	12.1	13.6	11.1
Airways Global Services	0.4	3.0	(0.3)	12.5[2]	27.7	10.4[3]
	3.5	5.8	2.2	24.6	41.3	21.5
Group	23.2	16.5	15.1	209.7	211.9	191.2

[1] Budget revenue for Airways Global Services includes GroupEAD Asia Pacific revenue of $7.4 million, whereas this entity is equity accounted in the Actuals
[2] Includes internal revenue of $4.6 million eliminated in the Group Statement of Profit or Loss
[3] Includes internal revenue of $4.9 million eliminated in the Group Statement of Profit or Loss

Group NOPAT of $23.2 million is 41% above budget and 54% above the prior year

SYSTEM OPERATOR – AIR TRAFFIC MANAGEMENT (ATM) BUSINESS

Investment in improved service efficiency and resilience

System Operator delivered $35.4 million of capital investment during 2016, successfully completing key 2013-16 pricing commitments, as well as additional investment at Queenstown Airport, agreed with customers outside the initial pricing consultation. Key investments in the current year included:

- Queenstown buildings and lighting: enabling extended operating hours and supporting tourism growth for the region
- Significant progress on a new Wellington control tower, with above-ground construction now underway
- Continued development and implementation of satellite-based procedures, delivering more efficient flight paths and supporting the future transition to satellite-based navigation.

The 2016 capital programme has also involved significant investment in lifecycle replacement, including navigational equipment and the High Frequency Radio system underpinning oceanic communication with aircraft. This ongoing lifecycle replacement programme has contributed to our strong service availability performance during 2015-16 of 99.97%.

Inflight delays, at an average of 22.1 seconds per flight, have been below target in the current year (see table 2 for details). While the level of delay remains well below the long-term trend, and normal operational delays remain very low, performance in 2015-16 has been influenced by:

- Significant increases in traffic across the network, with a volume increase of 8% from 2015, creating capacity management challenges for Airways, airports and airlines
- Extended taxiway and runway work at Auckland Airport from January – March 2016, reducing available runway length and contributing 3.9 seconds to the full-year average delay figure
- A significant deterioration from the previous year in weather conditions at Auckland Airport (51% increase in poor weather days), resulting in higher weather-driven delays.

Building on the investment in flow management tools over recent years, Airways has been working with airports and airlines throughout 2016 to develop and implement the new Airport Collaborative Decision Making tool (A-CDM). A-CDM will complement the existing Collaborative Flow Manager (CFM) and Arrivals Manager (AMAN) tools and is expected to address some of the underlying capacity challenges experienced this year. This has been part of the broader collaborative work with airports and airlines to effectively identify and manage capacity issues across the network.

Financial performance

Similar to the broader New Zealand aviation industry, System Operator has seen significant traffic growth during 2015-16. Domestic and international volumes are up 7.9% and 8.1% respectively from 2014-15, generating an additional $14 million of air traffic management revenue.

Domestically, the main contribution to revenue growth has been from routes between Auckland and other main centres, where traffic volumes are up 11% on average from 2014-15. Regional activity has been mixed, with significant growth in new Jetstar routes being partially offset by other regional changes. Internationally, additional services on routes between Sydney and New Zealand have been the biggest driver of revenue growth ($1.7 million ahead of budget), supported by a number of new routes from both established carriers and new entrants.

FINANCIAL PERFORMANCE CONTINUED

A continued focus on cost management has also supported the strong statutory NOPAT result, underpinned by focused procurement support and key category reviews. In particular, savings on our new head office lease, insurance premiums and computer maintenance have delivered a $1.0 million reduction in operating expenditure, compared to budget.

Offsetting these cost savings, a drop in long-term risk-free rates has increased our long-term leave provision and resulted in an unbudgeted expense of $1.0 million. While these factors are a challenge to predict and manage, we are looking at ways of reducing our exposure in future years.

Overall, our operational efficiency continues to rank well against other ANSPs, with Airways ranked seventh (of 27 ANSPs surveyed) for both lowest total cost and lowest overhead cost per flight hour[1], retaining our top quartile position.

[1] Sourced from CANSO Global ANSP Performance Report 2015.

Table 2: Business performance and leadership indicators

	2016 Actual	2016 Target	2015 Actual
Business performance			
Safety performance - near collision incidents	Zero	Zero	Zero
Staff safety - serious harm injuries	One	Zero	Zero
Inflight delay/holding (seconds per flight)	22.1	14.2	13.1
Service availability	99.97%	99.95%	99.95%
Service improvement (capital) projects ($ million)	35.4	35.0	32.1
Leadership			
Staff engagement	69%	>75%	72%
Succession (suitable candidates for senior roles)	3	>2	>3 for 81% of roles
Visibility - internal event platforms (per week)	2	>1	2

An ongoing focus on procurement and cost control has supported a positive NOPAT result

SYSTEM OPERATOR – OTHER SERVICES

The System Operator – Other Services business achieved a NOPAT of $3.1 million for the period. It has also benefited from growth in traffic volumes (up 7% on the prior year), with revenue from the Pacific upper airspace managed by Airways ahead of budget.

System Operator has continued to expand our presence in the Pacific, through successful contract wins with the Ministry of Foreign Affairs and Trade (MFAT) (delivering a range of navigation, surveillance and procedural design services into seven Pacific nations) and Samoa (delivering a range of infrastructure installation and consultancy services). These contracts have strengthened our relationship with a number of key customers and position Airways well for future Pacific work.

AIRWAYS GLOBAL SERVICES (AGS)

Airways Global Services achieved a NOPAT of $0.4 million for 2015-16, after recognising one-off re-structuring costs of $0.4 million. This result was below budget of $3 million but ahead of 2014-15. There have been a number of significant milestones achieved during the year across the Global Services portfolio, although some of the challenges with international partnerships have continued through from previous years.

AGS has delivered a positive NOPAT result of $0.4 million, ahead of the prior year, although below budget

Training

Continued investment in key international relationships has borne fruit in 2015-16, with domestic campuses hosting students from eight countries and reaching record utilisation levels. The Puerto Rico campus is also now in full operation, however establishing full training programmes in the Emirates and China campuses remains an ongoing challenge.

The most recently developed component of the training strategy, Aviation Knowledge Online, took a significant step forward during the year with the launch of airBooks, a world-first online resource for delivery of foundation ATC training. Modest sales of $0.1 million have been recognised in 2015-16 and positive customer interest is boding well for future growth.

GroupEAD Asia Pacific

The new MFAT contract secured this year, being delivered in conjunction with System Operator, has been a significant milestone for GroupEAD Asia Pacific and has provided a strong basis to develop relationships with the seven Pacific states included in the agreement. Key contracts with Airways and the Civil Aviation Authority (CAA) continue to be delivered in line with expectations.

Flightyield

Financial results for 2015-16 are below budget, as negotiations continue to secure the first fully-hosted Flightyield customer. Nonetheless, a pipeline of opportunities reinforces the value provided by the service.

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

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

	ACTUAL 2016	SCI TARGET
Profitability (values in $NZ thousands)		
Total revenue	205,131	202,763
Earnings before interest, tax, depreciation and amortisation (EBITDA)	54,935	47,059
Earnings before interest and tax (EBIT)	33,586	25,839
NOPAT	23,229	16,539
Shareholder returns		
Total shareholder return[1]	23.9%[1]	2.8%
Dividend yield	4.6%	2.8%
Dividend payout	36.2%	32.3%
Return on equity	24.5%	17.6%
Return on equity, adjusted for IFRS movements and asset revaluations	24.3%	17.6%
Profitability/efficiency		
Return on capital employed	25.2%	19.2%
Return on assets	18.2%	14.2%
Operating margin	26.8%	23.2%
Net Profit margin	11.3%	8.2%
Asset turnover	1.1	1.1
Leverage/solvency		
Equity multiplier[2]	1.9	1.9
Gearing ratio (net)	27.2%	28.7%
Interest cover	22.2	16.2
Solvency (current ratio)	0.9	0.9
Growth/investment		
Revenue growth	10.1%	5.8%
EBITDAF growth	25.2%	7.7%
NPAT growth	53.8%	10.7%
Capital employed growth	13.8%	12.6%
Capital renewal[3]	1.7	1.7

[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 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

This statement is to be read in conjunction with the Notes to the Financial Statements on pages 36 to 56

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

2015-16 initiatives	Progress to June 2016	Status
System Operator		
Enhance safety management programme	The updated Safety Management Plan was completed and key safety-focused campaigns delivered. The 2016 Normal Operational Safety Survey was completed and the final report delivered.	Complete
Operations and ATM platform strategies defined	Both strategies were defined, approved by the Board and included in the pre-consultation pricing process.	Complete
Flight Information Service (Airways Lite model) for regional airports implemented	Significant progress was made with two aerodromes to trial the new service model, however, resource constraints have meant the CAA is unable to review the safety case at this stage.	Behind plan
Develop and implement remotely piloted aircraft systems (RPAS) strategy	Research into long-term strategies commenced and the airshare.co.nz website functionality continues to grow. Consideration of pricing components of the strategy were put on hold until 2017 to allow for completion of the ATM services pricing consultation for 2017-19.	Complete
Pricing implementation plan agreed with customers	The pricing consultation process proceeded in line with plan and final prices were released in June 2016.	Complete
Deliver $35 million service enhancement capital programme	The capital programme reached its target of $35 million and all key benefits outlined in the 2013-16 pricing plan were delivered.	Complete
Pacific revenues secured on sustainable basis	Significant contracts with Samoa and seven other Pacific states, funded by MFAT, were secured during the year, positioning Airways well for long-term relationships and revenue growth.	Complete
Airways Global Services		
Drive performance of training campuses	Study programmes are underway at the Inter American University of Puerto Rico, however, challenges still remain at the Emirates and China campuses.	Behind plan
Realise value in GroupEAD Asia Pacific and Flightyield as viable businesses	The GroupEAD business is performing in line with plan. Flightyield continues to struggle to secure a first customer, despite a strong pipeline and robust value proposition.	Complete Behind plan
Incubate high potential business opportunities	Investment in further business opportunities is on hold until the existing businesses are more established.	Behind plan
Make the right 'buy, hold, sell' decisions	Airways continues to ensure the performance of all opportunities is objectively and rigorously monitored to maximise value.	Complete
Shared Services and Governance		
Drive forward value creation strategy	Ongoing support was provided for the operational and ATM strategies and an external strategic review was completed in the second half of the year, helping to inform Airways' value creation strategy.	Complete
Enhance Occupational Safety and Health performance	Training for new Health and Safety at Work Act 2015 obligations was developed and rolled out to the business. A new online tool to improve the effectiveness of contractor management was released.	Complete
Deliver leadership capability	The key components of the current leadership programme continued in 2015-16 with good success. The leadership programme is currently under review, with the aim of enhancing and refining its effectiveness, particularly in respect of new leaders.	Complete
Enhance business continuity and national crisis response capability	Four planned crisis exercises were completed during the year, covering a range of possible crises from a severe earthquake through to a fire in a major operational facility.	Complete
Enhance safety incident investigation and risk outcomes	A new risk assessment tool is now in place and being used by the Safety team to assess loss of separation events, in conjunction with the Airways risk assessment framework.	Complete

STATEMENT OF PROFIT OR LOSS
AND OTHER COMPREHENSIVE INCOME

NZ IFRS

	GROUP		
FOR THE YEAR ENDED 30 JUNE	2016 ($'000)	2015 ($'000)	NOTES
OPERATING ACTIVITIES			
REVENUE			
Air traffic management revenue	189,078	173,832	A3.1
Other revenue	16,053	12,426	A3.1
TOTAL REVENUE	205,131	186,258	
EXPENSES			
Employee remuneration	105,949	101,564	A3.3
Employee related costs	5,846	4,248	
Depreciation and impairment	16,301	16,185	A8
Amortisation and impairment	5,048	4,636	A8
Other operating costs	33,525	30,923	A3.2
Rental expense on operating leases	5,815	6,274	
Net finance expense	1,573	2,377	
TOTAL EXPENSES	174,057	166,207	
Share of profit from joint ventures	939	551	C2.1
NET SURPLUS BEFORE TAXATION	32,013	20,602	
Taxation expense	8,784	5,500	A4
NET SURPLUS AFTER TAXATION ATTRIBUTABLE TO EQUITY SHAREHOLDERS	23,229	15,102	
OTHER COMPREHENSIVE INCOME			
That will be reclassified to profit or loss when conditions are met:			
Movement in cash flow hedge reserve	(1,167)	(1,185)	
Deferred tax on other comprehensive income	327	332	A4
TOTAL OTHER COMPREHENSIVE INCOME	(840)	(853)	
TOTAL COMPREHENSIVE INCOME FOR THE YEAR ATTRIBUTABLE TO EQUITY SHAREHOLDERS	22,389	14,249	

This statement is to be read in conjunction with the Notes to the Financial Statements on pages 36 to 56

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 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)	-	(853)	
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	
COMPREHENSIVE INCOME					
Net surplus after taxation	-	-	23,229	23,229	
OTHER COMPREHENSIVE INCOME					
Movements in hedge contracts	-	(1,167)	-	(1,167)	
Deferred tax on other comprehensive income	-	327	-	327	A4
TOTAL OTHER COMPREHENSIVE INCOME	-	(840)	-	(840)	
TOTAL COMPREHENSIVE INCOME	-	(840)	23,229	22,389	
TRANSACTIONS WITH OWNERS					
Dividends paid (21.9 cents per share)	-	-	(9,000)	(9,000)	
TOTAL TRANSACTIONS WITH OWNERS	-	-	(9,000)	(9,000)	
BALANCE AS AT 30 JUNE 2016	41,100	(2,179)	61,643	100,564	

This statement is to be read in conjunction with the Notes to the Financial Statements on pages 36 to 56

BALANCE SHEET

NZ IFRS

	GROUP		
AS AT 30 JUNE	2016 ($'000)	2015 ($'000)	NOTES
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	1,479	1,176	
Trade and other receivables	27,457	22,603	A6
Prepayments	1,590	1,474	
Derivative financial instruments	178	375	A5
TOTAL CURRENT ASSETS	30,704	25,628	
NON-CURRENT ASSETS			
Property, plant and equipment	137,286	124,979	A8
Intangibles	23,276	20,974	A8
Inventory	1,388	1,666	
Investment in joint venture	1,400	561	C2.1
Other non-current assets	74	314	
Derivative financial instruments	31	4	A5
TOTAL NON-CURRENT ASSETS	163,455	148,498	
TOTAL ASSETS	194,159	174,126	
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables	14,643	14,213	A7
Employee entitlements	17,643	18,421	A3.4
Current tax liability	2,460	831	
Derivative financial instruments	325	267	A5
Loan facility - unsecured	39,000	-	B1
TOTAL CURRENT LIABILITIES	74,071	33,732	

This statement is to be read in conjunction with the Notes to the Financial Statements on pages 36 to 56

BALANCE SHEET CONTINUED

NZ IFRS

	GROUP		
AS AT 30 JUNE	2016 ($'000)	2015 ($'000)	NOTES
NON-CURRENT LIABILITIES			
Loan facility - unsecured	-	36,000	B1
Deferred tax liability	7,254	6,709	A4
Employee entitlements	9,494	8,520	A3.4
Derivative financial instruments	2,776	1,990	A5
TOTAL NON-CURRENT LIABILITIES	19,524	53,219	
TOTAL LIABILITIES	93,595	86,951	
NET ASSETS	100,564	87,175	
EQUITY			
Share Capital	41,100	41,100	A9
Reserves	(2,179)	(1,339)	
Retained Earnings	61,643	47,414	
TOTAL EQUITY	100,564	87,175	

The Board of Directors of Airways Corporation of New Zealand Limited authorised these financial statements for issue on 16 August 2016. The Directors do not have the power to amend the financial statements once issued.

Susan Paterson
Chair
16 August 2016

Mary-Jane Daly
Director
16 August 2016

This statement is to be read in conjunction with the Notes to the Financial Statements on pages 36 to 56

STATEMENT OF
CASH FLOWS

NZ IFRS

	GROUP		
FOR THE YEAR ENDED 30 JUNE	2016 ($'000)	2015 ($'000)	NOTES
CASH FLOWS FROM OPERATING ACTIVITIES			
CASH WAS PROVIDED FROM:			
Receipts from customers	200,762	185,323	
Interest received	95	97	
CASH WAS APPLIED TO:			
Payments to suppliers	(40,479)	(35,883)	
Payments to employees	(110,451)	(105,465)	
Interest paid	(1,697)	(2,449)	
Income tax paid	(6,283)	(6,026)	
NET CASH FLOWS FROM OPERATING ACTIVITIES	41,947	35,597	E2
CASH FLOWS FROM INVESTING ACTIVITIES			
CASH WAS PROVIDED FROM:			
Sale of property, plant and equipment	23	28	
Loans repaid by related parties	240	-	
Dividend from related parties	100	-	
CASH WAS APPLIED TO:			
Purchase of property, plant and equipment	(22,297)	(20,512)	
Purchase of intangible assets	(13,710)	(11,243)	
NET CASH FLOWS FROM INVESTING ACTIVITIES	(35,644)	(31,727)	
CASH FLOWS FROM FINANCING ACTIVITIES			
CASH WAS PROVIDED FROM:			
Drawdown of loan facility	4,000	-	
CASH WAS APPLIED TO:			
Repayment of loan facility	(1,000)	-	
Payment of dividends	(9,000)	(4,000)	
NET CASH FLOWS FROM FINANCING ACTIVITIES	(6,000)	(4,000)	
NET INCREASE IN CASH HELD	303	(130)	
Cash at the beginning of the year	1,176	1,306	
CASH AT THE END OF THE YEAR	1,479	1,176	

Interest paid above excludes capitalised interest. Total interest paid for the year was $2.476 million (2015 $2.449 million).

This statement is to be read in conjunction with the Notes to the Financial Statements on pages 36 to 56

STRUCTURE OF NOTES TO THE FINANCIAL STATEMENTS

SECTION A: HOW THE NUMBERS ARE CALCULATED (PAGES 37-46)

This section provides: further information on the basis of preparation of the financial statements; and detail on components of the primary statements that are material or require significant judgement or estimates in determining their value.

SECTION B: RISK (PAGES 47-50)

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

SECTION C: GROUP STRUCTURE (PAGES 51-54)

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

SECTION D: UNRECOGNISED ITEMS (PAGE 55)

This section provides information on other financial interests and exposures which are not recognised in the primary financial statements, but which management consider important in understanding the complete financial position of the Group.

SECTION E: OTHER INFORMATION (PAGE 56)

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

KEY JUDGEMENT

Areas where significant financial judgement maybe required are highlighted like this throughout the accounts.

SECTION A:
HOW THE NUMBERS ARE CALCULATED

A1 Basis of preparation

These financial statements are for the consolidated Group ("Airways"), consisting of Airways Corporation of New Zealand Limited and its subsidiaries: Airways International Limited, Airways Training Limited 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 with an impact on Airways have been published and are mandatory for future accounting periods however Airways has not early adopted them:

(i) NZ IFRS 15 (2014), 'Revenue from Contracts with customers', issued in July 2014 (effective for periods beginning on or after 1 January 2018, with early adoption allowed). Management expect this standard to have some impact on the timing of revenue recognition for contracts where multiple service components are provided to customers, however this impact has not yet been quantified. Airways intend to adopt this standard in the 2018-19 financial year.

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

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.
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	2016 ($'000)	2015 ($'000)
Consulting revenue	7,430	5,262
Training revenue	4,841	1,826
Other revenue	3,782	5,338
Total other revenue	16,053	12,426

KEY JUDGEMENT

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

A3.2 Individually significant items within operating costs

FOR THE YEAR ENDED 30 JUNE	2016 ($'000)	2015 ($'000)
Bad debts written off or provided for/(reversed)	(152)	(107)
Material and equipment costs	4,422	3,820
Travel	3,826	3,738
Communications	3,005	3,168
Maintenance	7,672	9,101
Utilities	1,834	1,695
Cloud based infrastructure transition costs	1,026	-
Procedure design services provided by related parties (refer note C3)	2,045	1,747
Professional fees	4,958	3,578
Insurance	1,736	1,822

The increase in professional fees in 2016 is the result of initial investment in an eight year plan to transform the operational model for delivery of ATM Services, and due diligence and follow up work resulting from the network outage in June 2015.

A3.3 Employee remuneration

FOR THE YEAR ENDED 30 JUNE	2016 ($'000)	2015 ($'000)
Wages and salaries	92,390	91,436
Less: labour costs capitalised	(8,172)	(9,539)
KiwiSaver/superannuation contributions	8,812	8,192
Leave entitlement expense	12,919	11,475
	105,949	101,564

SECTION A: HOW THE NUMBERS ARE CALCULATED CONTINUED

A3.4 Employee entitlements

Superannuation

Airways operates various defined contribution schemes which are funded through fixed contributions into trustee administered funds. Airways has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. The contributions are recognised as an employee benefit expense when they are due for payment to the funds.

Leave benefits

Liabilities for annual leave, long service leave and retiring leave are accrued and recognised in the balance sheet. These liabilities equal the present value of the estimated future outflows as a result of employee services provided at balance date. Long service leave that has vested with employees is recognised as a current liability within employee entitlements. Actuarial estimates of future demographic trends and employee remuneration are used to calculate the long service leave and retiring leave liabilities that have not yet vested with staff.

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.

KEY JUDGEMENT

Judgement is exercised in using the consumer price index, long run wage index and crown entity discount rates to determine Airways' liability for non-vested long service and retiring leave entitlements. Airways receives advice on these assumptions from external actuaries and these judgements have not had a material impact on the financial statements in the current year.

ASSUMPTION	2016	2015
Consumer Price Index increase	2.0%	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.

	2016 ($'000)	2015 ($'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	974	687
Balance sheet obligations as at 30 June, within non-current employee entitlements:		
Long service leave	1,210	1,079
Retiring leave	8,284	7,441
	9,494	8,520

SECTION A:
HOW THE NUMBERS ARE CALCULATED CONTINUED

A4 Income tax and related balances

This note provides an analysis of the Group's income tax expense, shows which amounts are recognised directly in equity and in other comprehensive income, and how the tax expense is affected by non-assessable and non-deductible items.

Income tax expense

The tax expense for the year comprises current and deferred tax. Tax is recognised in profit or loss, except to the extent it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is recognised in other comprehensive income or directly in equity, respectively.

Deferred tax is recognised in respect of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amount used for taxation purposes. The amount of deferred tax is based on the expected manner of realisation of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the reporting year end.

FOR THE YEAR ENDED 30 JUNE	2016 ($'000)	2015 ($'000)
RECONCILIATION OF SURPLUS BEFORE TAXATION TO INCOME TAX EXPENSE		
Surplus before taxation	32,013	20,602
Tax at the New Zealand tax rate of 28% (2015: 28%)	8,964	5,769
Tax effect of amounts which are either non-deductible or taxable in calculating taxable income:		
Non-taxable income/non-deductible expenses	(192)	(140)
Utilisation of tax losses for current/prior periods	(39)	-
Foreign tax credits foregone	62	-
Other	(11)	(129)
INCOME TAX EXPENSE	8,784	5,500

COMPONENTS OF INCOME TAX EXPENSE		
Current tax charge	7,848	4,163
Foreign tax credits foregone	62	-
Movement in deferred tax	874	1,337
INCOME TAX EXPENSE	8,784	5,500

At 30 June 2016 Airways has imputation credits available for use in subsequent reporting periods of $22.4 million (2015: $20.3 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 2015	(13,479)	6,927	(157)	(6,709)
Deferred tax charged to net surplus	(1,082)	537	(327)	(872)
Deferred tax on items charged to other comprehensive income	-	-	327	327
Other	-	(159)	159	-
BALANCE AS AT 30 JUNE 2016	(14,561)	7,305	2	(7,254)
BALANCE AS AT 1 JULY 2014	(13,597)	8,013	(120)	(5,704)
Prior period tax adjustment	-	(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)

Aviation English Services (AES) has unrecognised tax losses of $1.162 million (2015: $1.295 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 increase within the year ending 30 June 2017 by $0.261 million (2015: decrease by $2.051 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 approximate their fair value.

Loans and receivables are recognised initially at fair value, plus any transaction costs, and subsequently measured at amortised cost using the effective interest method, less provision for any impairment. The carrying value of trade and other receivables and cash and cash equivalents approximate their fair value.

Airways uses forward exchange contracts to hedge expenditure and revenue denominated in foreign currency and interest rate swaps to hedge interest repayments on its term debt. The effective portion of changes in the fair value of hedging instruments is recognised in equity until the underlying transaction being hedged occurs. At this point, the value of the hedging instrument is recognised in profit or loss (as interest costs, or foreign currency denominated revenue or expenses as appropriate) or on the balance sheet (within the recognised value of any hedged asset or stock purchase). If the hedged transaction is no longer expected to take place, then the cumulative, unrealised balance recognised in equity is recognised immediately in profit or loss.

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 2016				
ASSETS AS PER BALANCE SHEET				
Cash and cash equivalents	1,479	-	-	1,479
Trade and other receivables	27,457	-	-	27,457
Derivative financial instruments	-	209	-	209
TOTAL	28,936	209	-	29,145
LIABILITIES AS PER BALANCE SHEET				
Trade and other payables	-	-	11,117	11,117
Employee entitlements	-	-	27,137	27,137
Derivative financial instruments	-	3,101	-	3,101
Borrowings and overdrafts	-	-	39,000	39,000
TOTAL		3,101	77,254	80,355
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

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	2016 ($'000)	2015 ($'000)
Trade accounts receivable	26,027	20,877
Other receivables	1,430	1,726
Total trade and other receivables	27,457	22,603

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.

KEY JUDGEMENT

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

The amount of the provision is recognised in profit or loss.

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

	Current ($'000)	1 - 90 days overdue ($'000)	91 days - 1 year overdue ($'000)	1 - 2 years overdue ($'000)	2+ years overdue ($'000)	Total ($'000)
As at 30 June 2016						
Unimpaired trade receivables	19,244	6,148	178	-	7	25,577
Impaired trade receivables	-	-	399	191	801	1,391
Total trade receivables due	**19,244**	**6,148**	**577**	**191**	**808**	**26,968**
Provision	-	-	(33)	(123)	(785)	(941)
Trade receivables recognised	19,244	6,148	544	68	23	26,027
As at 30 June 2015						
Unimpaired trade receivables	17,647	2,334	140	-	-	20,121
Impaired trade receivables	-	-	729	178	936	1,843
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

SECTION A:
HOW THE NUMBERS ARE CALCULATED CONTINUED

A7 Trade and other payables

AS AT 30 JUNE	2016 ($'000)	2015 ($'000)
Trade accounts payable	4,151	4,287
Payroll related payables	2,213	1,936
Accrued liabilities	6,489	6,633
Provisions	1,615	1,133
Other payables	175	224
Total trade and other payables	14,643	14,213

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 and 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:

- the economic and other benefits of the asset are clearly articulated and consistent with Airways' strategy
- the cost associated with the project is within Airways' budget
- there are sufficient staffing and technical resources available to complete the project (either internally or externally)
- the asset to be created is technically feasible.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to Airways and the cost of the item can be measured reliably. The carrying amount of any replaced parts is written off.

Depreciation and amortisation

The cost of all fixed and intangible assets (excluding freehold land and work in progress), less their estimated residual value, is written off on a straight line basis over the asset's estimated useful economic life. Asset useful lives and residual values are assessed annually and adjusted if required.

Impairment

All assets are reviewed for potential indicators of impairment at every balance date and whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. For work in progress, these indicators include any changes to the scope or expected outcome of individual projects.

In addition, impairment tests are carried out at every balance date for intangible assets within work in progress regardless of whether indicators of impairment exist.

These tests involve re-assessing the feasibility of the project, the expected cost to completion and the expected economic benefit to be realised. Where the expected economic benefit provided by the asset is lower than the expected cost to completion, the difference is booked as an impairment to the current carrying value in work in progress unless a higher amount could be realised through the sale of the asset less costs to sell (fair value less costs to sell).

KEY JUDGEMENT

Significant judgement is exercised in assessing potential indicators of impairment and carrying out any required impairment tests. No impairments have been recognised in the current year.

SECTION A:
HOW THE NUMBERS ARE CALCULATED CONTINUED

Property, plant and 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)
Average useful life	Not depreciated	19 years	12 years	5 years	8 years	6 years	Not depreciated	
COST								
As at 1 July 2015	7,078	30,185	184,912	30,089	8,625	2,891	23,553	287,333
Additions at cost	-	5,880	14,386	5,583	247	301	36,085	62,482
Asset transfers/reclassifications	-	-	1,766	-	(1,766)	-	-	-
Deduct disposals/transfers from work in progress	-	(118)	(8,975)	(62)	(1,109)	(116)	(33,291)	(43,671)
AS AT 30 JUNE 2016	7,078	35,947	192,089	35,610	5,997	3,076	26,347	306,144
ACCUMULATED DEPRECIATION								
As at 1 July 2015	2,511	20,777	118,247	13,806	5,276	1,737	-	162,354
Depreciation charge	-	698	9,749	5,121	299	434	-	16,301
Asset transfers/reclassifications	-	-	149	-	(149)	-	-	-
Deduct disposals/transfers from work in progress	-	(105)	(8,397)	(76)	(1,101)	(118)	-	(9,797)
AS AT 30 JUNE 2016	2,511	21,370	119,748	18,851	4,325	2,053	-	168,858
NET BOOK VALUE AS AT 30 JUNE 2016	4,567	14,577	72,341	16,759	1,672	1,023	26,347	137,286
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/transfers from work in progress	-	(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

SECTION A:
HOW THE NUMBERS ARE CALCULATED CONTINUED

Intangible assets

	INTERNALLY GENERATED SOFTWARE ($'000)	LICENCES & ACQUIRED SOFTWARE ($'000)	TOTAL
Average useful life	6 years	5 years	
COST			
As at 1 July 2015	25,225	21,541	46,766
Additions at cost	6,495	1,155	7,650
Deduct disposals	(255)	(323)	(578)
AS AT 30 JUNE 2016	31,465	22,373	53,838
ACCUMULATED AMORTISATION			
As at 1 July 2015	16,676	9,116	25,792
Amortisation charge	2,997	2,051	5,048
Deduct disposals	(146)	(132)	(278)
AS AT 30 JUNE 2016	19,527	11,035	30,562
NET BOOK VALUE AS AT 30 JUNE 2016	**11,938**	**11,338**	**23,276**
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**

$4.908 million of the closing WIP balance disclosed on page 45 relates to intangible projects in progress (2015: $7.941 million). These balances will be transferred to Intangibles on completion of the project.

A9 Share capital and reserves

Airways has capital of $41.1 million (2015: $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:

1) Maintaining sufficient, short term funding capacity to accommodate the worst case short-term event (currently defined as a delay of one month's revenue due to an inability to invoice customers e.g. as a result of a system or other process failure);
2) Ensuring debt facilities have the provision to accommodate 10% surplus funding over and above the projected maximum level of debt for the next three years, based on the most up to date forecasts;
3) Ensuring all facility renewals are secured at least three months prior to maturity, with the decision to re-negotiate or tender banking arrangements being made 12 months before maturity; and
4) Remaining 100% compliant with banking covenants at all times.

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

- Maintaining and monitoring cash-flow forecasts on a monthly basis, to provide views on monthly, quarterly and annual cash-flow requirements;
- Maintaining debt funding in at least three tranches to ensure funds can be drawn down on a monthly basis; and
- Monitoring compliance with banking covenants on a monthly basis and reporting semi-annually to banking providers.

Airways has two bank funding facilities. The key terms of these facilities are set out in the table below:

	Amount drawn down			
Total facility	2016	2015	Term	Interest rate
$60 million	$39 million	$36 million	3 years (expires January 2017)	Floating
$5 million	-	-	None (uncommitted)	Floating

On 18th July 2016 the $60 million facility was increased to $65 million and the term extended to 2021.

All banking covenants relating to interest coverage, levels of shareholder funds and gearing ratios which are in place for the drawn down facility have been complied with throughout the financial year (2015: full compliance).

Neither funding facility is secured by Airways' assets.

Airways' exposure to liquidity risk is represented by the maturity profile of financial liabilities, as shown below. These cashflows are shown at their undiscounted, contractual values.

SECTION B: **RISK** CONTINUED

Financial liability profile

AS AT 30 JUNE	LESS THAN 3 MONTHS ($'000)	BETWEEN 3 MONTHS & 1 YEAR ($'000)	BETWEEN 1 & 2 YEARS ($'000)	BETWEEN 2 & 5 YEARS ($'000)	GREATER THAN 5 YEARS ($'000)	NO STATED MATURITY ($'000)
GROUP 2016						
Interest rate derivatives – outflow	(200)	(604)	(654)	(1,500)	(243)	-
Foreign currency exchange contracts – inflow*	2,966	98	-	-	-	-
Foreign currency exchange contracts – outflow	(2,861)	(109)	-	-	-	-
Trade and other payables	(11,117)	-	-	-	-	-
Employee entitlements	-	-	-	-	-	(27,137)
Term loan	(298)	(39,295)	-	-	-	-
TOTAL	(11,510)	(39,910)	(654)	(1,500)	(243)	(27,137)

On 18th July 2016 the term of the loan facility underpinning the $39 million of borrowing in place at balance date was extended from January 2017 to June 2021.

AS AT 30 JUNE	LESS THAN 3 MONTHS ($'000)	BETWEEN 3 MONTHS & 1 YEAR ($'000)	BETWEEN 1 & 2 YEARS ($'000)	BETWEEN 2 & 5 YEARS ($'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)

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

Interest rate risk

Airways is exposed to interest rate risk through:

a) differences between cost of debt assumptions used when setting air traffic management (ATM) service pricing for three-yearly periods, and actual interest rates available when debt is drawn down

b) fluctuations in interest rates on unhedged, floating debt.

Airways' primary objective in managing interest rate risk is to secure interest rates below pricing assumptions and the long-term average cost of debt, ensuring revenue from customers is sufficient to cover interest costs. This is achieved through the use of interest rate swaps to secure fixed debt funding costs for forecast positions, subject to the following limits:

SECTION B: RISK CONTINUED

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

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

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

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

Airways' exposure to interest rate risk is set out in the 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.

	2016 ($'000)	2015 ($'000)
Hedged borrowings	26,500	35,000
Un-hedged borrowings	12,500	1,000
Total term borrowings	39,000	36,000
Effective interest rate	5.79%	5.54%

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

Foreign exchange risk

Airways is exposed to foreign exchange risk through:

a) revenue streams denominated in foreign currencies
b) operational costs requiring payment in foreign currencies
c) capital expenditure requiring payment in foreign currencies.

Airways' primary objective in managing foreign exchange risk is to protect foreign exchange rates implicit in project or expenditure approvals and foreign revenue streams. This is achieved by using forward exchange contracts to hedge: a) all transactions greater than NZD $50,000 and with a transaction date greater than one month; and b) all transactions greater than NZD $500,000 regardless of transaction date. In addition, management monitor all residual exposures to ensure they do not become material.

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

- no purchase order or invoice request for foreign exchange exposures above control limit levels can be approved without a hedge in place;
- residual exposures are monitored and reported internally on a monthly basis; and
- all hedging transactions are approved in accordance with delegated financial authorities.

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.

SECTION B:
RISK CONTINUED

	2016		2015	
	Total NZD value ($'000)	Amount hedged ($'000)	Total NZD value ($'000)	Amount hedged ($'000)
Current trade debtors	1,006	670	2,198	1,857
Revenue contracts not yet invoiced	941	941	838	838
Current trade payables	(412)	(137)	(167)	(52)
Expenditure commitments not yet invoiced	(1,223)	(1,223)	(4,956)	(4,956)

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

Credit risk

Airways is exposed to credit risk through:

a) cash and cash equivalents on deposit with banks;

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

c) customers with outstanding receivables.

Airways' primary objective in managing credit risk is to minimise financial loss resulting from counterparties failing to meet obligations. The policies that have been established to meet this objective include:

- requiring a credit rating of A1 (short term) or A+ (long-term) as rated by Standard and Poor's, or equivalent credit rating from another internationally recognised rating agency, for all banking and derivative counterparties
- setting a maximum exposure of $10 million 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 79% (2015: 78%) of total revenue and 67% (2015: 60%) 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 7, Majestic Centre, 100 Willis Street, Wellington, New Zealand. It is also a State-Owned Enterprise established under the State-Owned Enterprise Act 1986 with shares held in equal numbers by the Minister for State-Owned Enterprises and the Minister of Finance, on behalf of the Crown.

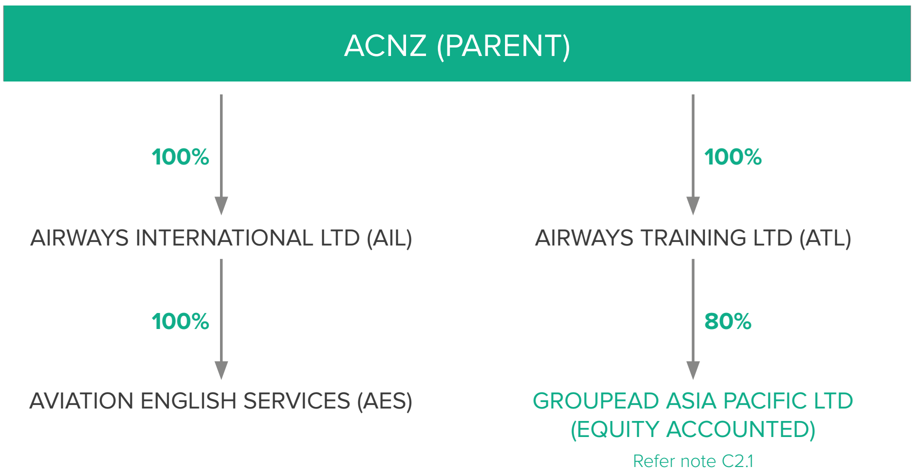
Subsidiaries are all entities over which Airways has control. Airways controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to Airways and are deconsolidated from the date that control ceases.

Accounting policies of subsidiaries are consistent with the policies adopted by the Parent, and all subsidiaries share a 30 June balance date. The parent recognises its investment in subsidiaries at cost, less impairment.

Key details for each subsidiary in the Group are provided in the table below. All entities are incorporated in New Zealand.

	PRINCIPAL ACTIVITY
Airways International Ltd (AIL)	Aeronautical information management, revenue management, recruitment and training, and air navigation services and maintenance of systems
Airways Training Limited (ATL)	Holding company
Aviation English Services (AES)	Aviation English training

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



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

(i) 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.

KEY JUDGEMENT

Significant judgement has been exercised in determining that GroupEAD Asia Pacific should be equity accounted. This judgement has not changed from last year.

As a result, joint control of GroupEAD AP exists and the Group has equity accounted for its investment at balance date. Under the equity method the Group recognised the initial recognition at cost, and the carrying amount has been increased to recognise the Group's share of the profit of GroupEAD AP after the date of incorporation. The Group's investment in GroupEAD AP is carried at $1.400 million (2015: $0.561 million).

Summarised financial information for GroupEAD AP is provided below:

AS AT 30 JUNE	2016 ($'000)	2015 ($'000)
Current assets	4,677	2,482
Total assets	**4,677**	**2,482**
Current liabilities	2,982	1,484
Non-current liabilities	(3)	295
Total liabilities	**2,979**	**1,779**
Net assets	1,698	703
Less: Interests of other joint venturer	(298)	(142)
Group's share of net assets	1,400	561
FOR THE YEAR ENDED 30 JUNE		
Revenue	7,431	6,648
Expenses	(6,311)	(5,955)
Total comprehensive income	1,120	693
Less: interests of other joint venturer	(181)	(142)
Group's share of total comprehensive income	939	551

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. All businesses 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.

	2016 ($'000)	2015 ($'000)
Transactions with joint ventures		
GroupEAD AP revenue charged to ACNZ	(3,997)	(3,974)
ACNZ operating costs recharged to GroupEAD AP	4,009	3,682
ACNZ revenue charged to GroupEAD AP	580	580
Interest charged to GroupEAD AP	2	5
Loans repaid by GroupEAD AP	240	-
Balances with joint ventures		
Intercompany balances due from GroupEAD AP	483	280
Loans advanced from AIL to GroupEAD AP	-	240

The loan to GroupEAD AP was repaid in 2016.

Airways, a State-Owned Enterprise, transacts with other New Zealand government-related entities. The most significant of these transactions are with Air New Zealand (a Mixed Ownership Model company), who were charged by Airways $128.7 million in revenue in the current financial year (2015: $105.1 million).

SECTION C:
GROUP STRUCTURE CONTINUED

C4 Transactions with management and directors

FOR THE YEAR ENDED 30 JUNE	2016 ($'000)	2015 ($'000)
KEY MANAGEMENT COMPENSATION		
Salaries and other short-term employee benefits, (including termination benefits of $0.115 million)*	1,906	1,862
KiwiSaver/superannuation contributions	61	46
	1,967	1,908
DIRECTORS' FEES		
Directors' fees paid	275	286

Key management are considered to be the Chief Executive Officer, his General Manager 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).

AS AT 30 JUNE	2016 ($'000)	2015 ($'000)
Property, plant and equipment capital commitments	20,644	40,638
Intangible asset capital commitments	5,039	1,450
TOTAL CAPITAL COMMITMENTS	25,683	42,088

D2 Operating lease commitments

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

AS AT 30 JUNE	2016 ($'000)	2015 ($'000)
Less than one year	4,461	4,644
One to two years	4,010	4,276
Two to five years	4,238	8,133
Over five years	1,818	2,087
TOTAL OPERATING LEASE OBLIGATIONS	14,527	19,140

D3 Contingent liabilities

Airways has contingent liabilities in respect of financial guarantee contracts of $0.4 million for performance bonds (2015: $0.1 million).

D4 Subsequent events

On 18th July 2016 the term of the loan facility underpinning the $39 million of borrowing in place at balance date was extended from January 2017 to June 2021.

SECTION E: OTHER INFORMATION

E1 Auditor's remuneration

FOR THE YEAR ENDED 30 JUNE	2016 ($'000)	2015 ($'000)
PricewaterhouseCoopers for:		
Financial statement audit services as an agent of the Office of the Auditor-General	164	174
Student fee protection trust audit	9	9
Financial statement audit services for joint venture	13	13
Other assurance services in respect of pricing compliance	46	-
Other advisory services in respect of IT security	50	29
	282	225

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

FOR THE YEAR ENDED 30 JUNE	2016 ($'000)	2015 ($'000)
NET SURPLUS AFTER TAXATION	23,229	15,102
ADD NON CASH ITEMS		
Amortisation	5,048	4,636
Depreciation and impairment	16,301	16,185
Movement in deferred tax	872	1,337
Accounting loss on sale of assets	28	10
Share of loss/(profit) from joint venture	(939)	(550)
TOTAL ADJUSTMENTS FOR ITEMS IN SURPLUS NOT IMPACTING CASH FLOW	21,310	21,618
ADD MOVEMENTS IN WORKING CAPITAL ITEMS		
Increase/(decrease) in payables	2,259	(803)
Decrease/(increase) in receivables	(4,851)	(320)
TOTAL ADJUSTMENTS FOR ITEMS NOT IN SURPLUS IMPACTING CASH FLOW	(2,592)	(1,123)
NET CASH INFLOW FROM OPERATING ACTIVITIES	41,947	35,597

INDEPENDENT
AUDITOR'S REPORT

NZ IFRS

pwc

To the readers of Airways Corporation of New Zealand Limited group's financial statements for the year ended 30 June 2016

The Auditor-General is the auditor of Airways Corporation of New Zealand and its New Zealand domiciled subsidiaries and other controlled entities (collectively referred to as 'the Group'). The Auditor-General has appointed me, Kevin Brown, using the staff and resources of PricewaterhouseCoopers, to carry out the audit of the financial statements of the Group on her behalf.

Opinion

We have audited the financial statements of the Group on pages 31 to 56, that comprise the balance sheet as at 30 June 2016, 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 2016; and
- its financial performance and cash flows for the year then ended; and
- comply with generally accepted accounting practice in New Zealand in accordance with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

Our audit was completed on 16 August 2016. 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.

INDEPENDENT
AUDITOR'S REPORT CONTINUED

NZ IFRS

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 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 2016	PARENT 2015
DEBT AND EQUITY EMPLOYED		
Debt employed	67.7	57.5
Equity employed	120.5	107.4
Total Debt & Equity Employed	188.2	164.9
Charge on operating capital	13.2	13.1
Economic Value Added	10.3	4.8
SUMMARY OF PARAMETERS FOR COST OF CAPITAL		
Risk free rate – 3-year Government Stock	2.39%	3.63%
Market risk premium	7.00%	7.00%
Company tax rate	28%	28%
Business risk factor (asset beta)	0.6	0.60
Cost of capital	7.48%	8.50%

EVA measures the extent to which a business is performing above or below expectations. A positive EVA means the business is adding value after allowing for a normal reward to the providers of capital.

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

The cost of capital of 7.48% for the year ended June 2016 compares to a cost of capital of 7.80% used for determining 2013-16 air navigation pricing. The positive EVA for the current year has been driven by higher than forecast traffic volumes.

Reconciliation of EVA to Net Operating Profit After Tax

FOR THE YEAR ENDED 30 JUNE	PARENT 2016	PARENT 2015
NOPAT	19.7	12.9
Deduct: Charge on operating capital	(13.2)	(13.1)
Add back: interest costs	1.7	2.4
Add back: non-cash tax charges	0.9	1.4
Add back: non-cash employee costs	1.2	1.0
Add back: Impairment charges not recognised under EVA	-	0.2
Economic Value Added	10.3	4.8

INDEPENDENT
AUDITOR'S REPORT

NZ IFRS

pwc

Report to the readers of the EVA key performance indicators of Airways Corporation of New Zealand Limited for the year ended 30 June 2016

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 59 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 59 of this document.

The Directors' responsibilities include establishing and maintaining a system of internal control relevant to the preparation of the KPIs to ensure they are free from material misstatement, whether due to fraud or error.

Auditor's responsibilities

Our responsibility is to obtain reasonable assurance that the KPIs have been calculated in accordance with the EVA policies and principles adopted by Airways.

Basis of opinion

An assurance engagement includes examining, on a test basis, evidence relevant to the KPIs.

Our engagement has been conducted in accordance with International Standard on Assurance Engagements 3000 (New Zealand) (Revised) "Assurance Engagements other than Audits or Reviews of Historical Financial Information".

We planned and performed our assurance engagement so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient and appropriate evidence to obtain reasonable assurance that the KPIs have been calculated in accordance with the EVA policies and principles adopted by Airways.

Where applicable, we did not evaluate the security and controls over the electronic publication of the presented information.

We have no relationship with or interests in Airways other than in our capacities as assurance providers in conducting this engagement and other assurance services, as auditors of Airways on behalf of the Auditor-General.

Unqualified opinion

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

Based on our reasonable assurance engagement, the EVA KPIs on page 59 have been calculated in accordance with the EVA policies and principles adopted by Airways.

Our engagement was completed on 16 August 2016 and our opinion is expressed as at that date.

PricewaterhouseCoopers

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

PricewaterhouseCoopers

ADDITIONAL
FINANCIAL INFORMATION

DIRECTORS' INSURANCE

Airways has arranged Directors' and Officers' liability insurance which includes cover for Directors against loss from any claims made against them arising from acts in their capacity as Directors. Certain actions are specifically excluded.

DIRECTORS' FEES PAID 1 JULY 2015–30 JUNE 2016

DIRECTOR	AMOUNT PAID*	ANNUAL FEE*
Susan Paterson	$59,250	$59,250
Mary-Jane Daly	$33,875	$33,875
Terry Murdoch	$30,250	$30,250
Chris Moxon	$23,000	$30,250
Grant Kemble	$30,250	$30,250
Judy Kirk – *joined January 2016*	$14,500	$14,500
Bennett Medary – *joined November 2015*	$14,500	$21,750
Mark Pitt – *joined November 2015*	$19,333	$19,333
Susan Huria – *retired November 2015*	$10,917	$10,917
Robin Gunston – *retired November 2015*	$10,917	$10,917
David Park – *retired November 2015*	$13,333	$13,333
TOTAL	$260,125	274,625

*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	37		37
$110,000 - $120,000	53		53
$120,000 - $130,000	61		61
$130,000 - $140,000	51	1	50
$140,000 - $150,000	49		49
$150,000 - $160,000	55		55
$160,000 - $170,000	39	1	38
$170,000 - $180,000	38		38
$180,000 - $190,000	39		39
$190,000 - $200,000	55	1	54
$200,000 - $210,000	61	3	58
$210,000 - $220,000	31		31
$220,000 - $230,000	23		23
$230,000 - $240,000	11	2	9
$240,000 - $250,000	8	1	7
$250,000 - $260,000	2	1	1
$260,000 - $270,000	3	2	1
$270,000 - $280,000	1		1
$280,000 - $290,000	2	2	
$290,000 - $300,000	1	1	
$300,000 - $310,000	1		1
$370,000 - $380,000	1	1	
$400,000 - $410,000	1		1
$460,000 - $470,000	1	1	
$650,000 - $660,000	1	1	
	625	18	607

All figures in the above table include 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 and achieve the desired outcomes.

Airways' governance structures are supported by the Airways Code of Conduct - a comprehensive guide communicated to all employees which outlines expectations of the highest standards of integrity, good conduct and concern for the public interest, as well as providing clear guidelines for when these expectations are not being met.

The Code of Conduct can be found on the Airways website at www.airways.co.nz/assets/Documents/Code-of-Conduct-A4.pdf.

GOVERNANCE FRAMEWORK

Airways operates under a range of legislative and regulatory obligations, however the key principles of Airways' governance framework are established by the Companies Act 1993, State Owned Enterprises Act 1986, the Owners Expectation Manual and the Civil Aviation Authority (CAA) Act 1990. Those key principles are:

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

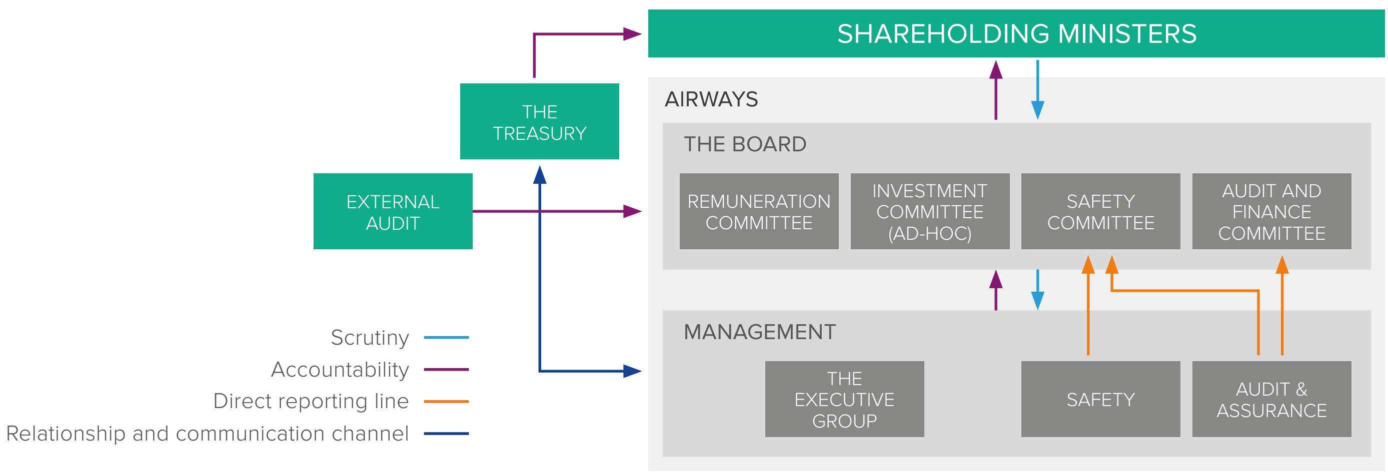
b) This accountability is achieved through the annual expectations letter issued by the shareholding Ministers and the compilation of (and reporting against) the Statement of Corporate Intent (SCI) by the Airways Board. The SCI sets out the objectives, the nature and scope of activities, financial and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

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

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

e) Airways must adhere to all applicable Civil Aviation rules and regulatory requirements to ensure continuing operational certification from the CAA, including establishing and maintaining an effective Safety Management System.

The key parties in Airways' governance structure, and the lines of reporting and accountability between them, are set out in the following diagram:



GOVERNANCE
AT AIRWAYS CONTINUED

RELEVANT ROLES AND RESPONSIBILITIES

The Board

The Board's key role is to represent and promote the interests of the shareholders, by providing leadership in the development of Airways' vision, strategy and activities. It is ultimately accountable for adding long-term value to Airways while ensuring all obligations are met.

Some of the key Board responsibilities are set out below and captured in the Board charter:

- ensuring clear goals, and strategies for achieving them, are established through the annual business plan and SCI
- holding management responsible for delivering on that plan
- ensuring appropriate risk management policies and strategies are established and regularly monitored
- establishing, participating in and monitoring effective governance structures and internal controls that address Airways' key financial, commercial and safety risks
- ensuring financial statements are produced
- establishing appropriate processes and internal controls to ensure those financial statements are high quality and reliable
- ensuring appropriate representations and certifications are received from the CEO and CFO regarding the accuracy and reliability of the financial statements and the supporting processes and internal controls
- reporting to the shareholding Ministers on performance and other required matters
- providing leadership in building effective relationships with key stakeholders
- managing CEO appointment and performance
- providing leadership and guidance on remuneration policies and strategies
- ensuring systems are in place to manage statutory and regulatory compliance.

Ensuring independence

A key component of the Board's ability to deliver robust governance is maintaining independence, in both fact and appearance, from management and from any personal interests.

To ensure this, the Board has no executive Directors, and Directors are not permitted to provide business or professional services to Airways, unless specifically authorised by the shareholders. These, and other, expectations for non-executive Directors are explicitly captured in the Board charter.

Managing conflicts of interest

All Directors recognise the importance of maintaining independence and are required to record all interests, material or otherwise, in the Interests Register which is updated and reviewed at each Board meeting. Where conflicts between a Director's interests and matters being reviewed by the Board do exist, the relevant Director refrains from voting and will not take part in any of the preceding discussion.

During the year, 23 new entries were made to the Interests Register. These disclosures are all either shareholdings less than 5% of the relevant director's net worth or company directorships or other roles listed in the directors' profiles on pages 12 to 13 (or relating to a now retired director). None of the new entries represented interests requiring management in connection with Airways' conflict policies.

Appointing new members and ensuring a balanced Board

All new Directors are appointed by the shareholder, usually in consultation with the Chair. In order for the Board to meet its duties and responsibilities, it is crucial that they have an appropriate mix of skills and backgrounds.

Director tenure is actively monitored by both the Board and the shareholder. Appropriate succession planning for Chair roles (at both Board and committee level) and the requirement for a balanced Board are key considerations in all new appointments.

Currently, the Board has a sound mix of commercial, industry, technology and entrepreneurial experience across all members.

Continuing education

Airways provides ongoing support for continuous professional learning and development to all Directors. Airways also expects that Directors will take responsibility for continuously improving their own professional knowledge and skills, utilising and supplementing this support where required.

Monitoring performance

Each year, the Board critically evaluates its collective performance, processes and procedures. The performance of individual Directors is also reviewed and evaluated annually.

In 2016, the Board set its own goals and undertook its own evaluation of performance.

GOVERNANCE
AT AIRWAYS CONTINUED

Committees

The Board has established a number of committees, all supported by formal charters and focused on addressing some of the key Board responsibilities. The role, key responsibilities and members of the committees are set out below. While these committees are responsible for certain activities and decisions, ultimate accountability still resides with the Board, who receive reports and meeting minutes back from all committees covering their proceedings.

Committee	Objectives	Key roles and responsibilities	Members
Audit and Finance Committee	Assist the Board in meeting its internal controls, financial reporting, audit and legal/regulatory compliance responsibilities	• Review audit and assurance reports from Head of Safety and Assurance • Understand key financial, commercial and business recovery risks and how they are being managed • Understand the internal control environment and any identified deficiencies • Review key governance policies and any material breaches thereof • Review annual and interim financial statements and related issues and complex transactions • Manage the external audit relationship • Oversee the internal audit function • Review effectiveness of legal and regulatory compliance systems	Mary-Jane Daly (Chair) Bennett Medary Chris Moxon
Safety Committee	Inform the Board of the performance of Airways' safety management systems	• Review audit and assurance reports from Head of Safety and Assurance • Review safety reports from the Head of Safety and Assurance Standards including key safety metrics, status reports on incident investigations and key safety issues • Understand key safety risks and how they are being managed	Mark Pitt (Chair) Terry Murdoch Grant Kemble
ATM Project Committee	Assist the Board to deliver effective leadership and direction to the Airways management team responsible for the ATM System Project	• Review strategically important documentation, provide advice, and guidance to maximise the opportunity to the Airways business; • Provide informed views to the main Board on the procurement process; • Provide more detailed insight of business needs to other Board members during Board approval processes.	Bennett Medary (Chair) Chris Moxon
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	Judy Kirk (Chair) Susan Paterson

GOVERNANCE
AT AIRWAYS CONTINUED

Directors' attendance

The Board held seven meetings during the year ended 30 June 2016. 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	7	4	4	3
Susan Paterson	7	1^	3^	3
Susan Huria*	3 (of 3)	-	-	1 (of 1)
Terry Murdoch	6	-	4	-
David Park*	3 (of 3)	-	1 (of 1)	-
Chris Moxon	7	2 (of 2)	-	-
Robin Gunston*	3 (of 3)	-	1 (of 1)	1 (of 1)
Grant Kemble	7	1 (of 1)	3 (of 3)	-
Mary-Jane Daly	7	4	1^	1^
Mark Pitt+	4 (of 4)	1 (of 2)	3 (of 3)	-
Bennett Medary+	4 (of 4)	3 (of 3)	-	-
Judy Kirk+	3 (of 3)	-	-	2 (of 2)

* Retired directors. + New directors. ^ Directors were not standing members of the committee but still attended. Formal committee membership is detailed on the previous page.

External audit

The OAG appoints external auditors annually, following consultation with the Board. External audit's primary line of communication with Airways is through the Audit and Finance Committee (AFC), who review: the proposed audit scope and approach (to ensure there have been no restrictions placed on it); the results of the audit and management's responses to audit findings; and the auditors' performance.

External auditors are required to maintain independence from Airways and this is reviewed by the AFC continuously through the audit cycle. Annually, the Board meet the external auditors without management present to ensure they have no issues or concerns the Board needs to be made aware of.

Safety, internal audit and assurance

The Safety and Assurance team provides the CEO and Board with assurance that Airways is meeting its governance and operational requirements, and that risks are managed through planning and delivering the annual audit programme. They are also responsible for championing practise improvements across Airways that deliver increases to business performance, financial performance and/or stakeholder satisfaction.

Some of the key outcomes they are responsible for include:

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

The Safety and Assurance team is also responsible for providing an effective Safety Management System (SMS) that allows the business to manage operational and people safety on a risk prioritised basis. The team, utilising the SMS, provides assurance to the Board, CEO and business that safety risks are being effectively and appropriately managed.

Management, with support from the Safety and Assurance team, are responsible for developing and supporting a just, free and open reporting culture within Airways.

DIRECTORY

BANKERS

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

AUDITORS

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

REGISTERED OFFICE

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

www.airways.co.nz