F.17

AIRWAYS
making your world possible

RECOVERY TO REBUILD

ANNUAL REPORT 2021

CONTENTS

426,775
FLIGHT COUNT

51,927
UAV FLIGHTS

$5.4M
GROUP PROFIT AFTER TAX

NIL
NEAR COLLISIONS

$19.0M
CAPITAL INVESTED

$5.2M
COMMERCIAL PROFIT AFTER TAX

$29.6M
GROUP LOSS AFTER TAX BEFORE THE NET IMPACT OF IMPAIRMENT REVERSALS

NIL
SERIOUS HARM INJURIES

100%
CORE SYSTEMS AVAILABILITY

CHAIR AND CHIEF EXECUTIVE'S REVIEW

Safe skies today and tomorrow

▶ **DENISE CHURCH**
CHAIR

▶ **GRAEME SUMNER**
CHIEF EXECUTIVE OFFICER

Following an unprecedented year, Airways' focus has been on supporting the recovery of the aviation industry in the wake of the COVID-19 pandemic.

Our aim is to support the emerging shape of the industry with services that are more flexible and agile, while always keeping our focus on ensuring safe skies for New Zealand.

We remain steadfast in our mission to deliver our strategy to enable a progressive airspace environment for the future – but in the current climate, how we get there will be different.

We appreciate our customers and partners have had a year like no other. We want to acknowledge that Airways, like the industry, continues to adjust and we have learned a number of lessons during a difficult year. We are committed to understanding the evolving needs of our customers and partners.

We will ensure we are well positioned to support the industry's recovery and we will continue to collaborate with our customers and stakeholders on initiatives to sustain safe, efficient and right sized services. We remain committed to removing the need for any further support from the Government by restoring our financial independence.

RECOVERY TO REBUILD

Demand for air travel will take some time to recover. Domestic markets continue to pick up and we expect international to follow once travel restrictions are eased. Still, forecasts indicate that it will take three to five years for air traffic to return to pre-pandemic levels.

Our primary focus remains on supporting the recovery of the aviation industry and its services to New Zealand in response to the pandemic. This requires us to continue taking further steps to right-size our business and realign our services to meet customer requirements and stakeholder expectations.

In May and June we undertook a review of our Service Framework and sought feedback from customers, stakeholders and the wider industry on whether there were any structural issues preventing us from providing our services in the most efficient and cost-effective way. As part of the review, Airways checked whether there was any appetite for contestable services to be treated differently to statutory monopoly (or base) services. On balance the feedback from submitters was that there was nothing to suggest we need to make any substantial changes to our current Service Framework, nor did submitters see merit in distinguishing between contestable and base services. In light of that, we respected the views of submitters and committed to make no major changes to our Service Framework at this time.

In line with the recovery of the New Zealand aviation industry, we are targeting a return to sustainable funding arrangements from 1 July 2022. To do this will require a review of and an increase to, our prices. We are committed to a full and transparent consultation on this with our customers and the wider industry toward the end of 2021.

RESPONSE TO COVID-19

Throughout the COVID-19 pandemic we have placed extra emphasis on the health and wellbeing of our people and on ensuring the safe continuity of Airways' services.

The pandemic and subsequent travel restrictions saw air traffic volumes decline by 95 percent in March 2020. Airways gratefully received a $70 million equity injection in March 2020 as part of the Government's aviation relief package to support our operations in the short-term. This was followed by a $95 million capital facility being made available by the Government due to the ongoing level of uncertainty faced by the industry. Airways anticipates drawing on this facility toward the end of 2021.

Airways has embarked on a cost reduction programme over the last year in response to COVID-19. As part of this all non-essential capital expenditure was deferred but not at the expense of continuing to meet our safety obligations. Sadly some of our staff left Airways through redundancy. We don't underestimate how impactful this is for those affected and we thank them for their professionalism and support.

A company-wide pay freeze was implemented and the Airways Board, Executive and some Senior Leadership team members took voluntary pay reductions of up to 20 percent for six months or ten percent for 12 months. Work from home plans were enacted and contingency rosters developed to enable social distancing for front-line operational staff during national and regional lockdowns.

73%

RECOVERY IN AIR TRAFFIC VOLUMES POST COVID-19

$70M

EQUITY INJECTION IN MARCH 2020 AS PART OF THE GOVERNMENT'S AVIATION RELIEF PACKAGE

$95M

CAPITAL FACILITY MADE AVAILABLE BY THE GOVERNMENT

CREATING THE AVIATION ENVIRONMENT OF THE FUTURE

Airways is committed to supporting the long-term recovery of the aviation industry by matching our services to the sector and to customer needs while keeping safety at the forefront of our operations.

We have a number of initiatives underway that are critical to achieving this. One example is our work to optimise the use of New Zealand's airspace. We want to simplify and standardise flight paths and procedures and continue the transition to our new Skyline-X air traffic management platform, operating from seismically-resilient centres in Auckland and Christchurch.

Investment in these systems and technologies remains a priority for Airways. Looking forward we will restart critical investment in surveillance systems and upgrades to Airways' network infrastructure.

Digital technology and operating models are increasingly driving change in the aviation industry.

Changes in aviation technology mean the onset of digital towers. At the leading edge of this we have started the Auckland Tower Replacement Programme that will consider, alongside other options, a full-service digital tower solution in Auckland.

We will work with the Government to ensure the future of the Unmanned Aerial Vehicles (UAV) regulatory framework is modern and enables integration and monitoring of UAVs into controlled airspace.

Airways International (AIL) will continue to play an integral role in achieving our recovery and growth aspirations. AIL is the commercial arm of Airways which delivers air traffic management consultancy services, training and technology products worldwide.

AIL pivoted quickly at the onset of the COVID-19 pandemic, shifting towards digitally focussed services and virtual learning environments and continued to win significant contracts throughout lockdown. AIL is a leader in its field and its contribution to NZ Inc over many years is something we are proud of.

More generally, Airways will develop and deploy digitally enabled products and services to support Air Navigation Service Providers (ANSPs) and the wider aviation community. We will grow the business globally through digital solutions that solve meaningful problems, are fit for purpose, repeatable and scalable.

This will provide new growth opportunities through partnerships and the development of new products and services.

SAFETY

Safety is at the forefront of everything Airways does, both operationally for our customers and where the health and safety of our people is concerned.

In the year to 30 June 2021, we safely facilitated approximately 426,775 flights through the 30 million square kilometres of airspace we control with no operational safety occurrences and no serious harm injuries.

We are proud of our proven track record of excellent safety practices and continue to take a leading role in safety development internationally, including our lead positions within the international Civil Air Navigation Services Organisation (CANSO).

We aim to continuously adapt and improve our safety practices and have brought in global experts from Presage to support us on a three-year journey to identify any improvements that can continue to enhance our Safety Culture.

426,775

FLIGHTS THROUGH THE 30 MILLION SQUARE KILOMETRES OF AIRSPACE WE CONTROL

OPERATIONAL PERFORMANCE

Airways has created best-in-class air traffic management systems which enable airlines operating in New Zealand to achieve optimal efficiency. In FY21 we were pleased to deliver 99.98 percent availability of our critical technology and services to our customers.

We will continue to pursue opportunities to ensure our future operational resilience through technological advancements and smart air traffic management systems. This will be spearheaded in the coming year with the transition to our new Skyline-X air traffic management platform, operating from our new seismically-resilient centres in Auckland and Christchurch.

We will continue to pursue opportunities to ensure our future operational resilience through technological advancements and smart air traffic management systems.

FINANCIAL PERFORMANCE

The financial performance of the Airways Group reflects the challenging aviation environment. The financial impact of COVID-19 has been profound and this year Airways is reporting an underlying loss of $29.6 million, before the net impact of impairment reversals. Based on the forward projections, the asset impairment taken last year of $48.7 million has reversed, resulting in a net profit after tax of $5.4 million.

Airways' capital investment was highly constrained over the last year due to COVID-19. Capital expenditure reduced to $19.0 million for FY21 from a pre-pandemic budgeted spend of $73.1 million. This meant only investments in systems and technology that are critical to maintaining safety were able to be progressed.

While there were no price increases last year, we did increase prices by three percent from July 2021.

Our commercial businesses under AIL continued to perform strongly despite the pandemic, delivering a profit of $5.2 million which helped to limit Airways' reliance on government funding.

AIRWAYS INTERNATIONAL LIMITED (AIL)

For many years AIL has partnered with organisations both in New Zealand and overseas to export our world-class products and services.

AIL pivoted quickly when the COVID-19 pandemic hit and realigned its sales activities towards digitally-focussed services, created impressive virtual learning environments and put measures in place to allow for remote project delivery. As a result, AIL's activities have been less impacted by COVID-19.

AIL is now well placed to deliver virtual learning where training and courses are delivered entirely online. In fact the Airways Knowledge Online (AKO) Virtual Academy has been developed and now has 12 fully online courses, with 188 enrolments across 24 course offerings in the seven months since the academy launch in December 2020. These students have come from 12 different countries to join our virtual classrooms and use Airbooks digital learning resources.

Despite the COVID-19 pandemic, AIL have won a number of new contracts over the past year and it is hoped that revenue from these will reduce our need for further government assistance.

We are proud of Airways' contribution to NZ Inc and our achievements globally due to the success of AIL.

OUR PEOPLE

Our people form the foundation of Airways and it is their professionalism and commitment that ensured our business pushed through an unprecedented year.

The majority of our people are employed in operational roles, as air traffic controllers or in technical positions supporting the design, implementation and maintenance of the infrastructure that underpins what we do. The remainder of our people work in corporate and auxiliary roles supporting our operational and subsidiary commercial business units.

There has been a change to the Executive team over the last year. Jamie Gray joined Airways as Head of Public Affairs in January following Emily Davies' resignation. We welcome Jamie and thank Emily for her service to Airways.

We would like to thank all our people for their ongoing passion and commitment to keeping New Zealand's skies safe through a challenging year.

TE AO MĀORI

We are developing a Te Ao Māori plan to support Airways peoples' cultural understanding, competence and confidence in Te Reo (Māori language), Tikanga Māori (customary practices) and Te Tiriti o Waitangi (Treaty of Waitangi).

We are at the beginning of this journey and will seek support from within the business to help shape this further.

DIVERSITY AND INCLUSION (D&I)

Airways continues to make positive progress on its D&I initiatives so that our people feel they can be their true selves at work. We recognise that everyone is unique and our individual differences and experiences combine for the benefit of the business.

The focus on D&I for Airways is important for our culture and capability to ensure our ongoing strategic and commercial success.

We have partnered with D&I experts, Diversity Works, to support us with delivering 'inclusive leadership' workshops for our senior leaders and we are implementing a new D&I policy while ensuring all current processes and policies align with and support our D&I efforts.

We continue to increase the number of women in leadership roles. Over the last financial year, the number of women on our senior leadership group has increased from 39 percent to 42 percent.

While we are satisfied with the progress we are making, we are still on a journey and are committed to a work environment and culture that reflects and fosters inclusiveness and where differences are valued and respected.

ENVIRONMENT

Airways has a responsibility to balance service delivery with respect for the world we live in. We aim to achieve our strategic goals in a socially and environmentally friendly way that works for us, our customers and all of New Zealand.

We use technology and innovative thinking to encourage more efficient air transport that reduces fuel burn, saves money and avoids unnecessary greenhouse gas emissions. We continue to work collaboratively with airports and airlines globally to reduce time spent in the sky meaning less fuel consumption and lower carbon emissions. Our best endeavours goal is to become a zero waste, zero emissions business by 2050.

A key consideration for management continues to be how sustainability principles form a central part of our strategy, meanwhile work continues on establishing baseline measures for energy usage and CO_2 emissions.

Unfortunately the impact of the COVID-19 pandemic has seen a halt on some sustainability initiatives. We remain committed to our targets and aim to restart key projects in the coming year.

Board of Directors

DENISE CHURCH
CHAIR, QSO

Denise was appointed as Chair of the Airways Board in January 2019. She is a Chartered Fellow of the Institute of Directors and has been Chair of the Institute of Environmental Science and Research (ESR) since July 2015. Denise is currently a Board member of Predator Free Wellington Ltd, and trustee of the South Youth Foundation. She has previously chaired the Boards of Zealandia (Karori Sanctuary Trust), Wellington Zoo Trust, and served on Boards in the health, science, education, conservation, and local government sectors. As a director and shareholder of Leadership Matters Limited, Denise pursues interests in strategy, leadership and governance.

Denise was Chief Executive of the Ministry for the Environment from 1996 to 2001, and her experience includes public, private and not for profit sector leadership roles. She holds BSc and Bcom degrees in Zoology, and Economics, an MSc in Resource Management from the University of Canterbury, and an MS in Urban and Regional Planning from the University of Wisconsin – Madison.

MARK PITT
DEPUTY CHAIR, BSC, ATPL

Mark was appointed to the Airways Board in November 2015. He has 25 years of flying experience comprised of military and airline flying and training. He has also held roles as CEO with Air NZ Link, Virgin Australia NZ and Virgin Samoa. He is a director of Airwork Holdings Ltd which services a number of international markets in aviation and owns and manages a wholesale distribution company, Quinn International Ltd.

Throughout his career, Mark has held senior leadership roles in highly competitive international markets, managed complex operations and commercial business functions and led strong international brands with a focus on innovation, quality and customer service.

LISA JACOBS
BCOM, LLB, FCA, CMINSTD

Lisa Jacobs was appointed to the Airways Board in November 2018.

She brings a strong legal, financial and risk management focus to the role. Lisa is the Chief Executive Officer of national law firm Anthony Harper and has extensive experience in the professional firm environment and investment management sector, where she has held both senior executive and Board roles.

Lisa holds a Bachelor of Commerce and a Bachelor of Laws from the University of Auckland, is a Fellow Chartered Accountant, and a Chartered Member of the Institute of Directors.

DARIN CUSACK

Darin was appointed to the Airways Board in April 2018. He is a member of the Institute of Directors.

Darin's current governance roles include directorships at Dunedin International Airport Ltd, YHA New Zealand, Absolute Solutions Group Ltd and the CSC Group Ltd. He brings senior leadership experience in the aviation and transport sectors spanning three decades, and has held Chief Executive and senior executive roles across airport, air traffic, aviation security and airline organisations throughout New Zealand and Tonga.

Most recently, Darin led the Pacific Aviation Investment Program on behalf of the World Bank Group across six countries and reforming the Pacific Aviation Safety Office and continues to work across the region supporting donor organisations in the development of investment programs and implementation on behalf of the World Bank Group, Asian Development Bank and Australian Infrastructure Financing Facility for the Pacific.

PAULA JACKSON
MBA, MINSTD

Paula was appointed to the Airways Board in January 2019. Her career spans 25 years in marketing and channel management, holding leadership and general management positions at ANZ, Telecom (Spark), Vodafone and Xero. Paula has held several director positions since commencing her governance career in 2013 and is an advisor and investor in technology start-ups. She is a member of the Institute of Directors and was selected for the Mentoring for Diversity program in 2017. She is currently the Deputy Chair at Quotable Value and is a director at Mercer (N.Z.) Limited, and Marsello. Paula has a Master of Business Administration from the University of Otago.

JOHN HOLT
BA, PGDIPBUSADMIN

John was appointed to the Airways Board in January 2019. He is the founder of Technology and Innovations New Zealand (TAINZ) and co- founder of internet business start-ups Sonar6 (sold to US company Cornerstone in 2012) Homes.co.nz.

His current directorships are with Technology and Innovations New Zealand Ltd, Anchorage Services Ltd, Crema Holdings Ltd, Technology and Innovations Ltd, TMH Property Ltd, TAINZ Ventures Ltd, Cloud Cannon Ltd, Kiwi Landing Pad Ltd, and Purpose Exchange Limited. He is also the Regional Chairperson for Bank of New Zealand and an Investment Committee Member for Return to Science.

John has a Bachelor of Arts degree in Military History and a Postgraduate Diploma in Business Administration. He has a lifelong interest in aviation and is a flying member of the Wellington Aero Club and Canterbury Aero Club.

MARK HUTCHINSON
BSC (HONS), MSC, PGDIP CLINICAL PSYCHOLOGY

Mark was appointed to the Airways Board in November 2019. He is Managing Partner of his own leadership consultancy, Divergent & Co.

Over two decades, Mark has applied his early background in clinical psychology to leadership consulting and organisational development across a range of industries in both the UK and New Zealand.

His experience in the UK included working with organisations such as RBS, Barclays and Sainsbury's and in New Zealand, Chorus, NZ Post, Waka Kotahi, Mercury Energy and Fletcher Building. His work now mainly involves supporting Chief Executives and their executive leadership teams to improve organisational performance, driving change by linking strategy to capability and culture.

NICOLA GREER
M COM (HONS)

Nicola was appointed to the Airways Board in June 2020. She has extensive experience in New Zealand, Australia and the UK in the banking and finance sectors, previously holding a range of roles within financial markets and asset and liability management at ANZ, Citibank and Goldman Sachs.

Nicola's current governance roles include directorships at Fidelity Life Assurance, South Port NZ, New Zealand Railways Corporation, and she is a Member of the New Zealand Markets Disciplinary Tribunal.

Nicola also has a significant background in the New Zealand commercial property market, successfully developing and owning commercial property across a variety of sectors.

Financial performance

2020 – 2021

Financial performance

Airways Group recorded an underlying full year loss of $29.6m, before the net impact of impairment reversal. After impairment reversal, the profit after tax was $5.4m

The Commercial business continues to perform strongly with a profit after tax of $5.2m for the year, exceeding budget by 49%

Core Air Navigation Services revenue was $122.0m for FY21, ahead of budget by $21.2m or 21.0%

Capital Expenditure was 33% behind budget

CORE BUSINESS

The Core business recorded an underlying Full Year loss of $34.8 million, before the net impact of impairment reversal. After impairment reversal, the profit after tax was $0.2 million.

Air Navigation Services revenue was better than expected at $122.0 million, compared to a budget of $100.8 million. The favourable variance is predominately driven by stronger than expected domestic recovery and the trans-Tasman bubble opening in April.

Due to the impact COVID-19 has had on future cashflows, the Core business recognised an impairment of $48.7 million for the year ended 30 June 2020. Based on the forward projections, the asset impairment taken last year reversed in FY21.

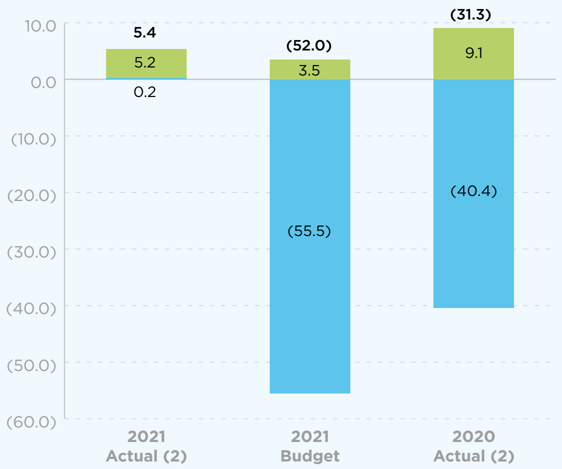
Capital spending is 33 percent behind our budget. Project execution was impacted due to Covid lockdown restrictions and loss of technical resource availability.

COMMERCIAL BUSINESS

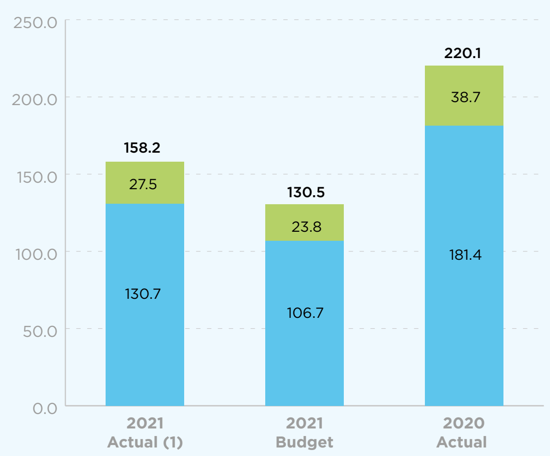
The Commercial business continues to perform strongly with a profit after tax of $5.2 million for the year, exceeding budget by 49 percent. However, this is a 43 percent decrease on the previous year and the environment remains challenging. To mitigate this, the Commercial business is investing in digital products and virtual training to allow cost effective projects to be delivered remotely to customers.

The Commercial businesses continue to remain an integral part of Airways' growth aspirations and the organisation will continue to manage and fund the Commercial business units independent of the core business.

PROFIT/(LOSS AFTER TAX) ($M)



REVENUE ($M)



CORE BUSINESS COMMERCIAL BUSINESS

1. 2021 revenue includes internal revenue of $9.9 million (2020: $10.6 million) eliminated in the Group Statement of Profit or Loss and Other Comprehensive Income

2. 2020 impairment of $48.7 million was reversed in 2021 resulting in a net profit after tax of $5.4m

Performance and progress against statement of corporate intent (SCI) metrics

	ACTUAL 2021	SCI TARGET
Operational		
Near collisions	Nil	Nil
Staff service availability	99.94%	99.88%
Core systems availability	100%	100%
Critical technology services availability	99.98%	99.95%
Cyber security maturity rating	3	>3
Core business customer satisfaction	Not measured	>80%
Commercial customer satisfaction	Not measured	>80%
Staff safety – serious harm injuries	Nil	Nil
Staff engagement	Not measured	>FY20
Group profit/(loss) after tax	$5.4m	($52.0m)
Commercial business profit after tax	$5.2m	$3.5m
Capital investment	$19.0m	$28.5m
Dividends	Nil	Nil
Total revenue	$148.3m	$119.4m
Earnings before interest, tax, depreciation and amortisation (EBITDA)	$37.5m	($38.0m)
Earnings before interest and tax (EBIT)	$13.4m	($67.8m)
Shareholder returns		
Dividend yield	Nil	Nil
Dividend payout	Nil	Nil
Return on equity	3.1%	(32.1%)
Return on equity, adjusted for NZ IFRS fair value movements and asset revaluations	3.0%	(31.8%)
Profitability and efficiency		
Return on capital employed	5.7%	(30.6%)
Return on assets	3.7%	(20.5%)
Operating margin	25.4%	(31.8%)
Net profit margin	3.7%	(43.5%)
Asset turnover	0.4	0.4
Leverage and solvency		
Equity multiplier	2.0	2.0
Gearing ratio (net including leases)	34.8%	43.8%
Interest cover (before capitalised interest)	7.2	(6.1)
Solvency (current ratio)	1.5	1.9
Growth and investment		
Revenue growth	(29.3%)	(43.0%)
EBITDAF growth	464.8%	(269.1%)
NPAT growth	117.3%	66.0%
Capital employed growth	2.3%	(10.6%)
Capital renewal	0.9	1.1

Definitions for the financial performance measures above can be found at the following link:
https://treasury.govt.nz/sites/default/files/2015-09/fpm-soes.pdf

Statement of profit or loss and other comprehensive income

For the year ended 30 June	Group 2021 ($000's)	Group 2020 ($000's)	Notes
Operating activities			
REVENUE			
Air traffic management revenue	123,886	178,464	A5.1
Other revenue	18,229	25,342	A5.1
Government grants	3,606	5,372	A5.2
Other gains and losses	2,188	–	A5.6
Interest income	360	201	
Total revenue	**148,269**	**209,379**	
Expenses			
Employee remuneration	110,743	120,001	A5.4
Employee related costs	5,475	11,155	
Depreciation	20,945	24,392	A10, A11
Amortisation	3,526	6,295	A10
Reversal of previous impairment losses	(44,618)	–	A3.2
Impairment	5,954	48,669	A10, A11
Other operating costs	31,320	37,223	A5.3
Rental expense	1,507	2,418	
Finance expense	3,288	2,904	
Total expenses	**138,140**	**253,057**	
Net profit/(loss) before taxation	**10,129**	**(43,678)**	
Taxation expense/(benefit)	4,700	(12,371)	A6
Net profit/(loss) after taxation attributable to equity shareholders	**5,429**	**(31,307)**	
Other comprehensive income			
That may be reclassified to profit or loss when conditions are met:			
Movement in cash flow hedge reserve	417	(25)	
Tax on other comprehensive income	(117)	7	
Total other comprehensive income	**300**	**(18)**	
Total comprehensive profit/(loss) for the year attributable to equity shareholders	**5,729**	**(31,325)**	

This statement is to be read in conjunction with the Notes to the Financial Statements on pages 22 to 50.

Balance sheet

As at 30 June	Group 2021 ($000's)	Group 2020 ($000's)	Notes
Assets			
CURRENT ASSETS			
Cash and cash equivalents	38,082	66,752	
Trade and other receivables	16,590	14,568	A8
Current tax asset	-	1,062	
Prepayments	2,161	2,734	
Derivative financial instruments	28	273	A7
Total current assets	**56,861**	**85,389**	
NON-CURRENT ASSETS			
Property, plant and equipment	207,548	183,202	A10
Right-of-use assets	71,289	66,159	A11
Intangibles	16,010	13,926	A10
Inventories	2,070	2,025	A12
Deferred tax asset	1,945	9,252	A6
Other non-current assets	8	51	
Derivative financial instruments	4	31	A7
Total non-current assets	**298,874**	**274,646**	
Total assets	**355,735**	**360,035**	

Balance sheet CONTINUED

As at 30 June	Group 2021 ($000's)	Group 2020 ($000's)	Notes
Liabilities			
CURRENT LIABILITIES			
Trade and other payables	9,800	11,924	A9
Lease liabilities	6,495	6,380	A11
Employee entitlements	20,966	20,613	A5.5
Derivative financial instruments	1,277	152	A7
Loan facility – unsecured	–	58,000	B1
Total current liabilities	**38,538**	**97,069**	
NON-CURRENT LIABILITIES			
Loan facility – unsecured	58,000	–	B1
Lease liabilities	69,891	76,064	A11
Employee entitlements	8,901	10,413	A5.5
Derivative financial instruments	163	1,976	A7
Total non-current liabilities	**136,955**	**88,453**	
Total liabilities	**175,493**	**185,522**	
Net assets	**180,242**	**174,513**	
Equity			
Share capital	111,100	111,100	A13
Reserves	(1,030)	(1,330)	
Retained earnings	70,172	64,743	
Total equity	**180,242**	**174,513**	

The Board of Directors of Airways Corporation of New Zealand Limited authorised these financial statements for issue on 24 August 2021. The Directors do not have the power to amend the financial statements once issued.

DENISE CHURCH
Chair

24 August 2021

LISA JACOBS
Director

24 August 2021

This statement is to be read in conjunction with the Notes to the Financial Statements on pages 22 to 50.

Statement of changes in equity

	Group Attributable to equity shareholders				
	Con-tributed equity	Hedge reserve	Retained profits	Total	Notes
Balance as at 30 June 2019	41,100	(1,312)	104,050	143,838	
COMPREHENSIVE INCOME					
Net loss after taxation	–	–	(31,307)	(31,307)	
OTHER COMPREHENSIVE INCOME					
Movements in hedge contracts	–	(25)	–	(25)	
Tax on other comprehensive income	–	7	–	7	
Total other comprehensive income	**-**	**(18)**	**-**	**(18)**	
Total comprehensive income	**-**	**(18)**	**(31,307)**	**(31,325)**	
TRANSACTIONS WITH OWNERS					
Issue of ordinary shares	70,000	–	–	70,000	
Dividends paid (19.5 cents per share)	–	–	(8,000)	(8,000)	
Total transactions with owners	**70,000**	**-**	**(8,000)**	**62,000**	
Balance as at 30 June 2020	**111,100**	**(1,330)**	**64,743**	**174,513**	
COMPREHENSIVE INCOME					
Net profit after taxation	–	–	5,429	5,429	
OTHER COMPREHENSIVE INCOME					
Movements in hedge contracts	–	417	–	417	
Tax on other comprehensive income	–	(117)	–	(117)	
Total other comprehensive income	**-**	**300**	**-**	**300**	
Total comprehensive income	**-**	**300**	**5,429**	**5,729**	
Transactions with owners	–	–	–	–	
Total transactions with owners	**-**	**-**	**-**	**-**	
Balance as at 30 June 2021	**111,100**	**(1,030)**	**70,172**	**180,242**	

This statement is to be read in conjunction with the Notes to the Financial Statements on pages 22 to 50.

Statement of cash flows

	Group		
For the year ended 30 June	**2021 ($000's)**	**2020 ($000's)**	**Notes**
Cash flows from operating activities			
CASH WAS PROVIDED FROM:			
Receipts from customers	139,948	214,904	
Receipts from government	3,528	5,461	A5.2
Interest received	360	201	
Income tax refund	3,552	–	
CASH WAS APPLIED TO:			
Payments to suppliers	(32,512)	(44,371)	
Payments to employees	(118,752)	(129,477)	
Interest paid	(3,281)	(2,981)	
Income tax paid	–	(9,633)	
Net cash flows (used in)/from operating activities	**(7,157)**	**34,104**	E2
Cash flows from investing activities			
CASH WAS PROVIDED FROM:			
Sale of property, plant and equipment	1,286	102	
Sale of investments	1	32	
CASH WAS APPLIED TO:			
Purchase of property, plant and equipment	(10,939)	(22,853)	
Purchase of intangible assets	(8,034)	(15,776)	
Net cash flows used in investing activities	**(17,686)**	**(38,495)**	
Cash flows from financing activities			
CASH WAS PROVIDED FROM:			
Drawdown of loan facility	–	8,000	
Issuance of shares	–	70,000	
Lease incentives received	–	3,000	
CASH WAS APPLIED TO:			
Principle elements of lease payments	(3,827)	(2,875)	
Payment of dividends	–	(8,000)	
Net cash flows (used in)/from financing activities	**(3,827)**	**70,125**	
Net (decrease)/ increase in cash held	**(28,670)**	**65,734**	
Cash at the beginning of the year	66,752	1,018	
Cash at the end of the year	**38,082**	**66,752**	

Interest paid above includes interest expense from leases of $2.9 million (2020: $2.7 million) and excludes capitalised interest of $2.0 million (2020: $2.4 million). Total interest paid for the year was $5.2 million (2020:$5.3 million). Amounts spent on the purchase of intangible assets during the year remain in work in progress (a component of property, plant and equipment) until the relevant asset is commissioned.

This statement is to be read in conjunction with the Notes to the Financial Statements on pages 22 to 50.

Structure of notes to the financial statements

A

Section A:
How the numbers are calculated – pages 23 to 41

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.

B

Section B:
Risk – pages 42 to 46

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

C

Section C:
Group structure – pages 47 to 48

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

D

Section D:
Unrecognised items – page 49

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.

E

Section E:
Other information – page 50

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

SECTION A
How the numbers are calculated

A1 BASIS OF PREPARATION

These financial statements are for the consolidated Group ("Airways"), consisting of Airways Corporation of New Zealand Limited and its subsidiaries: (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 New Zealand accounting standards and authoritative notices, as appropriate for for-profit tier 1 entities. They also comply with International Financial Reporting Standards); and
- The requirements of the Financial Reporting Act 2013, Companies Act 1993 and the State-Owned Enterprises Act 1986.

The financial statements have been prepared on a 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 Airways. 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.

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.

A3 CRITICAL ACCOUNTING ESTIMATES, JUDGEMENTS AND ERRORS

The preparation of financial statements requires the use of accounting estimates which, by definition, will seldom equal the actual results. Management also needs to exercise judgement in applying Airways accounting policies.

This note provides an overview of the areas that involved a higher degree of judgement or complexity and of items which are more likely to be materially adjusted due to inaccurate estimates and assumptions. Detailed information about each of these estimates and judgements is included in other notes together with information about the basis of calculation for each affected line item in the financial statements.

A3.1 COVID-19 PANDEMIC

Due to the ongoing border restrictions causing reduced air traffic levels, Airways continues to be financially exposed to the impacts of COVID-19. Domestic air traffic levels improved quicker than forecast during the year with the domestic market reaching 92 percent of pre-pandemic levels by June 2021. International flight volumes remain significantly lower than the pre-pandemic levels, however reached 35 percent of pre-pandemic levels in June 2021 due to the opening of the trans-Tasman bubble in April 2021.

The impacts of COVID-19 are critical and pervasive to the financial results of Airways. The table below provides an update to our balance sheet position in FY21 as a result of the continuing impacts of COVID-19.

SECTION A
How the numbers are calculated CONTINUED

COVID-19 Assessment

Balance sheet item	2021	2020	Note
Cash	No impact on the carrying value of cash on hand.	No impact on the carrying value of cash on hand.	-
Accounts receivable and prepayments	No changes to the prior year assessment.	Airways have updated the provision for expected credit losses for the increase in expected credit losses.	A8
Property, plant and equipment	Airways have reassessed the carrying value of property, plant and equipment based on an CGU impairment assessment.	Airways have reassessed the carrying value of Property, plant and equipment based on an CGU impairment assessment.	A10
Intangibles	Airways have reassessed the carrying value of intangibles based on an CGU impairment assessment.	Airways have reassessed the carrying value of intangibles based on an CGU impairment assessment.	A10
Right-of-use assets	No further rent abatement or changes have been made as a direct consequence of COVID-19.	As a direct consequence of the COVID-19 pandemic, Airways has received rent abatement for the period of the level 4 lockdown. This abatement qualifies for the practical expedient and have been accounted for as a variable lease payment adjustment.	A11
Inventory	No changes to the prior year assessment.	Airways inventory relates to spare parts and equipment used for maintenance of property, plant and equipment. There has been no specific impact to the net realisable value of these assets at balance date.	A12
Derivative financial instruments	No changes to the prior year assessment.	Derivatives are recorded at fair value and the carrying value at year-end reflects its market prices at the balance date. Airways has considered the impact of ineffectiveness on hedges.	B1
Trade and other payables	No changes to the prior year assessment.	Airways has accrued for additional professional services fees incurred, as a result of COVID-19.	A9
Provisions	No additional restructuring costs due to COVID-19 are provided for in the current year.	Airways have provided for restructuring costs as a result of COVID-19.	A9
Employee entitlements	No changes to the prior year assessment.	Employee entitlements are measured in accordance with the recognition and measurement requirements under NZ IAS 19 Employee benefits.	A5.5

SECTION A
How the numbers are calculated CONTINUED

COVID-19 Assessment

Balance sheet item	2021	2020	Note
Tax liabilities	Taxable loss for the year ended 30 June 2021 resulted in Airways recognising deferred tax assets arising from tax losses amounting to $7.8 million. The losses are expected to be offset against taxable profit forecast from 2023.	The decrease in profit for the year driven by COVID-19 has resulted in Airways overpaying provisional tax. Refund recorded at amount to be received.	A6
Lease liabilities	No changes to the prior year assessment.	Leases recorded as per lease contract (refer to right-of-use assets above).	A11
Loan facilities	Borrowings are held at amortised cost. Airways obtained an extension to its waiver of banking covenants until 31 December 2022, resulting in a reclassification of borrowings from current to non-current for the year ended 30 June 2021. The facilities are due to expire on July 2023 and January 2024.	Borrowings are held at amortised cost. The impact of COVID-19 has resulted in a breach in banking covenants which has resulted in a change in classification of borrowings from non-current to current. Subsequent to year-end, Airways obtained a letter of waiver from its bankers such the borrowings will be classified as non-current from the date of the waiver.	B1

A3.2 IMPAIRMENT

Cash generating unit

Airways identified its cash generating units ("CGU's") as Core and Commercial business units, being the lowest level of independent cashflows that are generated in the Group. Core CGU refers to Airways Corporation of New Zealand Limited (ACNZ). Airways International Limited, Airways Training Limited, Aeropath Limited and Airshare Limited are separate CGU's in the Commercial business unit. The details of each CGU's principle activities is disclosed in note C1. There are no changes to the identified CGU compared to the prior year.

An impairment test was performed for the Core CGU in 2020 resulting in an impairment of $48.7 million against the CGU's tangible and intangible assets. With significant improvement to the Core CGU outlook and performance in FY21, there is still an existence of external and internal indicators of impairment caused by COVID-19. It was determined that a further impairment test was required to test the carrying value of the Core CGU at 30 June 2021. Consistent to the prior year, no impairment testing was determined necessary for the Commercial CGU's.

The recoverable amount of the Core CGU was determined based on assessing the fair-value less cost of disposal (FVLCOD) of the underlying assets, using a discounted cash flow model, which requires the use of assumptions. The calculations include cash flow projections based on financial budgets for the next three years and projections for a further seven years, approved by the Board. Due to Airways pricing model and capital spend profile, a 10 year cash flow projection was considered more appropriate than a five year cash flow projection. Cashflows beyond the 10 year period are extrapolated using the estimated growth rates that are specific to the revenue pricing framework. Airways assumed 1.5 percent of the fair value as the cost associated with disposing of the CGU to be $3.5 million. The valuation is considered to be level 3 in the fair value hierarchy due to unobservable inputs used in the valuation.

SECTION A
How the numbers are calculated CONTINUED

KEY ASSUMPTIONS

There are significant uncertainties in relation to the impact of COVID-19 to Airways and the key assumptions used in the model to determine the FVLCOD. A number of inputs used in the model are based on future events which are outside the control of Airways, including sustained domestic market recovery and international borders opening. These uncertainties and risks are inherent in the valuation model to determine the FVLCOD.

The table below sets out the baseline key assumptions used to determine the CGU's FVLCOD:

Baseline key assumptions	30 June 2021	30 June 2020	Explanation
Long term growth rate	0%	0%	The growth rate used to extrapolate the cash flows beyond the budget period. Under Airways' pricing framework, Airways is only able to recover the return on capital from its customers and therefore has not performed a sensitivity on this assumption.
Pre-tax discount rate Post-tax discount rate	7.94% 5.95%	7.40% 5.86%	Weighted average cost of capital reflecting specific risks to the operational environment of the Core CGU. The inputs are consistent to Airways pricing methodology.
Pricing assumptions	2023	2023	Airways expects to reprice its services using its current pricing model in financial year ending 2023.
Capital expenditure	$34m – $68m	$27m – $65m	Capital expenditure is expected to be $48.2m and $60.5m for FY22 and FY23 respectively. The capital expenditure is based on Board approved budgets.
Flight volume	81% of pre-COVID-19 volumes	41%-68% of pre-COVID-19 volumes	Airways used pre-COVID-19 flight volumes of 81% for FY22. From FY23 Airways expects to recover its cost through its pricing model. The recovery estimates are based on cautious recovery with the international borders opening in July 2022.

Financial impacts of impairment reversal

A reversal of impairment of $44.6 million (which consists of $48.7 million impairment reversal adjusted by depreciation of $4.1 million) relating to the Core CGU has been recognised for the year ended 30 June 2021.

The recoverable amount was determined as $232.0 million being $65.8 million higher than the carrying amount of $166.2 million ($210.8 million after reversal of impairment).

A reversal of an impairment is allowed up to the point the carrying amount does not exceed the carrying amount that would have been determined (net of amortisation and depreciation) had no impairment loss been recognised for the asset in prior year.

Impairment reversal was determined based on a weighting of three scenarios, as follows:

Scenario	Weighting
Baseline assumptions	70%
International borders re-open from April 2022 (3 months earlier)	20%
Change in prices delayed by 12 months but a 10% increase in prices in FY23	10%

SECTION A
How the numbers are calculated CONTINUED

Impairment reversal has been allocated on a pro-rata basis, consistent to the impairment allocation in the prior year. The impairment reversal has been allocated to the following assets:

Balance sheet	Group carrying value pre-impairment reversal 30 June 2021	Impairment reversal Allocation (Core CGU)	%	Group carrying value post-impairment reversal 30 June 2021
Property, plant and equipment	176,056	31,492	70%	207,548
Right-of-use assets	60,057	11,232	25%	71,289
Intangible assets	14,116	1,894	5%	16,010
Total	**250,229**	**44,618**	**100%**	**294,847**

Allocation of impairment reversal to its asset type are further disclosed in note A10 and A11.

Impairment sensitivity

FVLCOD is sensitive to a number of key assumptions used to determine impairment.

The table below illustrates the possible change to impairment reversal subject to changes in key assumptions:

Sensitivity	Headroom pre reversal of impairment	Impairment reversal post sensitivity (max $48.7m)	Impairment reversal recognised in the financial statements	Impact of sensitivity
10% increase in domestic and international traffic volume in 2022 and 2023	$77.1m	$44.6m	$44.6m	–
10% decrease in domestic and international traffic volume in 2022 and 2023	$56.0m	$44.6m	$44.6m	–
Change in prices delayed 12 months, 10% price increase in FY23	$54.7m	$44.6m	$44.6m	–
Post-tax discount rate increase by 50 basis points	$38.0m	$38.0m	$44.6m	($6.6m)
Post-tax discount rates decrease by 50 basis points	$100.5m	$44.6m	$44.6m	–
Opening of border to international travellers 3 months earlier	$68.4m	$44.6m	$44.6m	–

A4 GOING CONCERN

The financial statements have been prepared on a going concern basis, which assumes that the Group will be able to continue trading, realise its assets and discharge its liabilities in the ordinary course of business for a period of at least 12 months from the date that these financial statements are approved.

As a direct consequence of COVID-19 the Group continues to experience a significant reduction in revenue due to much lower flight volumes. As a result, the Group incurred an underlying loss after tax of $29.6 million (before the net impact of impairment reversal) for the year ended 30 June 2021 (2020: loss after tax of $31.3 million) and incurred cash outflow from operating activities of $7.2 million (2020: generated cash inflow from operating activities of $34.1 million).

It is forecast Airways will continue to incur losses for the financial year ending 30 June 2022, and the financial position of Airways will further deteriorate from cash outflows used in operating and investing activities.

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SECTION A
How the numbers are calculated CONTINUED

To enable the Group to continue as a going concern for at least 12 months from the date of signing these financial statements, the following funding arrangements have been put in place:

- On 11 August 2020, the Group issued 95,000,000 ordinary un-paid shares to its owners which was subscribed by the Crown. This provides $95 million undrawn capital facility to the Group. On 31 May 2021, the Group received an extension of its original expiry date of 30 June 2022 to 31 December 2022.
- On 22 June 2021, the Group received an extension to its waiver of breach in banking covenants by Australia and New Zealand Banking Corporation ("ANZ"). The waiver is extended from its original expiry date of 31 December 2021 until 31 December 2022. The Group also has $32 million of undrawn financing facilities in place as at 30 June 2021, that if required, can be utilised by the Group.

Based on the capital and debt funding arrangements in place, the Group is able to continue as a going concern and pay its liabilities as and when they fall due, for a period of not less than 12 months from the date of signing these financial statements.

A5 PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME INFORMATION

This note provides further information about items in the statement of profit or loss and other comprehensive income, that are either individually significant or involve estimates or judgements in determining their value.

A5.1 REVENUE FROM CONTRACTS WITH CUSTOMERS

Airways recognises revenue in accordance with NZ IFRS 15 – Revenue from contracts with customers. Under this standard, specific performance obligations within contracts are identified, and the revenue assigned to the obligations is recognised as control of the good or service is transferred to the customer. Depending on how this control passes, revenue is recognised either at a point in time, or over time.

With respect to the different sources of revenue for the Group – the following accounting policies have been adopted:

Revenue type	Accounting policy	Overtime vs point in time
Air Traffic Management (ATM)	Recognised at completion of the flight or aircraft movement	Point in time
Consulting	For consultancy contracts with specified contractual obligations where Airways retains control until the work is completed, revenue is recognised once the obligations are satisfied	Point in time
	Revenue from on-going consultancy services, or where assets are being constructed for customers that do not have an alternative use for Airways and there are contractual rights to payment for work performed, is recognised as the service is provided or asset is constructed. Revenue recognition is based on the input method utilising direct costs incurred	Overtime
Software licences	For licenses with a defined term revenue recognition is based on straight line recognition across the life of the license	Overtime
	Revenue for perpetual licenses that grant a right to use is recognised once the license is available for use	Point in time
Training	Revenue recognition is based on the output method utilising the days of training provided	Overtime
Publications	Revenue from subscriptions to aeronautical information is recognised on a straight-line basis over the life of the subscription	Overtime
Data Services	Data services include the ongoing provision of access to Airways data and Revenue recognition is based on the output method utilising the days of services provided	Overtime

SECTION A
How the numbers are calculated CONTINUED

A5.1(A) DISAGGREGATION OF REVENUE FROM CONTRACTS WITH CUSTOMERS:

Revenue derived from the transfer of goods and services, both overtime and at a point in time, for each revenue type for the year is presented below.

30 June 2021

	ATM	Consult-ing	Data services	Software	Training	Publica-tions	Other	Total
Point in time	123,886	1,405	–	1,739	32	1,005	645	**128,712**
Overtime	–	4,001	3,478	1,130	4,794	–	–	**13,403**
Total	**123,886**	**5,406**	**3,478**	**2,869**	**4,826**	**1,005**	**645**	**142,115**

30 June 2020

	ATM	Consult-ing	Data services	Software	Training	Publica-tions	Other	Total
Point in time	178,464	2,727	–	371	–	1,080	1,371	**184,013**
Overtime	–	7,516	3,456	1,595	7,226	–	–	**19,793**
Total	**178,464**	**10,243**	**3,456**	**1,966**	**7,226**	**1,080**	**1,371**	**203,806**

A5.1(B) ASSETS & LIABILITIES RELATED TO CONTRACTS WITH CUSTOMERS

Airways has recognised the following assets and liabilities relating to all contract types with customers:

Contract assets	2021 ($000's)	2020 ($000's)
Current contract assets	285	598
Total current contract asset	**285**	**598**
Capitalised contract fulfilment costs (current)	–	501
Total contract assets	**285**	**1,099**

Once invoiced, ordinary payment terms are 20th of the following month.

Contract liabilities	2021 ($000's)	2020 ($000's)
Current contract liabilities	1,312	2,446
Total contract liabilities	**1,312**	**2,446**

All contract liabilities recognised as at 30 June 2020 have been subsequently recognised as revenue in the current year.

A5.2 GOVERNMENT GRANT – WAGE SUBSIDY

Airways received $3.5 million of COVID-19 wage subsidy extension grants from the Ministry of Social Development in August 2020.

The total amount of receipt was recognised in the Statement of profit or loss and other comprehensive income during the year ended 30 June 2021.

The grant has been recognised in the profit or loss on a systematic basis over the period in which the grants are intended to compensate.

SECTION A
How the numbers are calculated CONTINUED

A5.3 INDIVIDUALLY SIGNIFICANT ITEMS WITHIN OPERATING COSTS

For the year ended 30 June	2021 ($000's)	2020 ($000's)
Bad debts written off or provided for/(reversed)	(472)	819
Material and equipment costs	2,498	6,664
Travel	1,231	2,968
Communications	4,067	3,960
Maintenance	10,646	10,800
Utilities	1,686	1,674
Professional fees	6,762	4,295
Insurance	2,163	2,056

A5.4 EMPLOYEE REMUNERATION

For the year ended 30 June	2021 ($000's)	2020 ($000's)
Wages and salaries	95,438	102,730
Less: labour costs capitalised	(6,998)	(8,757)
KiwiSaver/superannuation contributions	9,010	9,118
Leave entitlement expense	13,293	16,910
	110,743	**120,001**

A5.5 EMPLOYEE ENTITLEMENTS

Superannuation

Airways contributes to various defined contribution schemes that are funded through fixed contributions into trustee administered funds.

Airways has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. The contributions are recognised as an employee benefit expense in profit or loss when they are due for payment to the funds.

Leave benefits

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

The principal assumptions used in determining Airways' liability for non-vested long service and retiring leave entitlements are set out in the table below. Possible changes in these assumptions are not expected to materially impact Airways' financial position or performance.

Assumption	2021	2020
Employee decrement assumptions	Airways specific	Airways specific
Long run wage increase	4.3%	2.5%
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.

SECTION A
How the numbers are calculated CONTINUED

The table below sets out the impact of these non-vested entitlements on the financial statements

	2021 ($000's)	2020 ($000's)
Movement in employee decrement assumptions		
Changes in discount rate	(766)	677
Additional entitlements recognised and paid during the year	181	154
Staff demographic and other movements	(294)	621
Total movement in non-vested long service and retiring leave recognised in profit or loss	**(879)**	**1,452**
Balance sheet obligations as at 30 June, within non-current employee entitlements:		
Long service leave	1,134	1,309
Retiring leave	7,767	9,104
	8,901	**10,413**

A5.6 OTHER GAINS AND LOSSES

Other gains and losses include a gain on sale of $1.2 million from the sale of the old Wellington Tower on 27 November 2020 and a $0.9 million gain on the partial surrender of a leased building in Christchurch.

A6 INCOME TAX AND RELATED BALANCES

This note provides an analysis of Airways' 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. Current tax is measured on the basis of laws enacted, or substantially enacted at the reporting year end.

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.

Deferred tax assets arising from tax losses are recognised only if it is probable that future taxable amounts will be available to utilise those losses.

SECTION A
How the numbers are calculated CONTINUED

For the year ended 30 June	2021 ($000's)	2020 ($000's)
RECONCILIATION OF PROFIT BEFORE TAXATION TO INCOME TAX EXPENSE		
Profit/(Loss) before taxation	10,129	(43,678)
Tax at the New Zealand tax rate of 28%	2,836	(12,230)
Tax effect of amounts which are either non-deductible or taxable in calculating taxable income:		
Non-taxable income/non-deductible expenses	1,644	578
Utilisation of tax losses for current/prior periods	(150)	(73)
Foreign tax credits foregone	15	–
Reinstatement of deferred tax assets	–	(732)
Other	355	86
Income tax expense/(benefit)	**4,700**	**(12,371)**
COMPONENTS OF INCOME TAX EXPENSE		
Current tax charge	(2,627)	2,544
Foreign tax credits foregone	15	–
Reinstatement of deferred tax assets	–	(732)
Movement in deferred tax	7,307	(14,183)
Other	5	–
Income tax expense/(benefit)	**4,700**	**(12,371)**

At 30 June 2021 Airways has imputation credits available for use in subsequent reporting periods of $38.0 million (2020: $41.7 million).

Deferred tax

Deferred tax assets and liabilities are offset on the face of the balance sheet. Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends to either settle on a net basis or to realise the asset and settle the liability simultaneously.

The components of deferred tax are set out below:

	Depreciation ($000's)	Provisions ($000's)	Tax losses ($000's)	Other ($000's)	Total ($000's)
Balance as at 1 July 2020	**(3,443)**	**8,793**	**–**	**3,902**	**9,252**
Deferred tax in respect of previous years	–	(401)	–	–	(401)
Deferred tax charged to net profit	(11,162)	(320)	–	(3,187)	(14,669)
Deferred tax arising from tax losses	–	–	7,763	–	7,763
Balance as at 30 June 2021	**(14,605)**	**8,072**	**7,763**	**715**	**1,945**
Balance as at 1 July 2019	(14,295)	8,630	–	2	(5,663)
Deferred tax in respect of previous years	(2)	2	–	–	–
Deferred tax charged to net profit	10,122	161	–	3,900	14,183
Deferred tax on reinstatement of building costs	732	–	–	–	732
Balance as at 30 June 2020	**(3,443)**	**8,793**	**–**	**3,902**	**9,252**

Airways recognised deferred tax assets arising from tax losses of $7.8 million in the current year. The losses are expected to be offset against taxable profit forecasted from 2023.

SECTION A
How the numbers are calculated CONTINUED

A7 FINANCIAL ASSETS AND LIABILITIES

Airways classifies all financial assets and liabilities as being measured either at Amortised Cost, Fair Value through Profit or Loss or Fair Value through Other Comprehensive Income (OCI). Financial liabilities (other than fair value through OCI) 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.

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 fair value of the hedging instrument deferred in the cash flow hedge reserve 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.

Financial assets and liabilities by category

	Derivatives used for hedging ($000's)	Amortised cost ($000's)	Total ($000's)
As at 30 June 2021			
Assets as per balance sheet			
Cash and cash equivalents	–	38,082	38,082
Trade and other receivables	–	16,590	16,590
Derivative financial instruments	32	–	32
Total	**32**	**54,672**	**54,704**
LIABILITIES AS PER BALANCE SHEET			
Trade and other payables	–	6,067	6,067
Employee entitlements	–	29,867	29,867
Derivative financial instruments	1,440	–	1,440
Lease liabilities	–	76,386	76,386
Borrowings and overdrafts	–	58,000	58,000
Total	**1,440**	**170,320**	**171,760**
As at 30 June 2020			
Assets as per balance sheet			
Cash and cash equivalents	–	66,752	66,752
Trade and other receivables	–	14,568	14,568
Derivative financial instruments	304	–	304
Total	**304**	**81,320**	**81,624**
LIABILITIES AS PER BALANCE SHEET			
Trade and other payables	–	7,145	7,145
Employee entitlements	–	31,027	31,027
Derivative financial instruments	2,128	–	2,128
Lease liabilities	–	82,444	82,444
Borrowings and overdrafts	–	58,000	58,000
Total	**2,128**	**178,616**	**180,744**

SECTION A
How the numbers are calculated CONTINUED

The derivatives used for hedging are considered level two financial instruments and are recognised on the balance sheet at their fair values, which are determined using observable inputs as follows:

i) Forward Exchange Contract values are determined using observable forward exchange market rates at the balance date.

ii) Interest Rate Swaps are valued using the "Projected" methodology. For floating rates this method projects all future floating cash flows and discounts these back to the revaluation date. For fixed rates, the individual cash flows are discounted from the cash flow date to the revaluation date. The discount rate used to calculate the NPV of the deal is the zero coupon curve, based on a blended swaps curve obtained from Reuters.

A8 TRADE AND OTHER RECEIVABLES

As at 30 June	2021 ($000's)	2020 ($000's)
Trade accounts receivable	16,305	13,469
Contract assets	285	1,099
Total trade and other receivables	**16,590**	**14,568**

Collectability of trade receivables is reviewed on an ongoing basis and uncollectible debts are written off. Airways uses the simplified model to determine expected credit loss. A provision for expected credit losses (ECL) is recognised for groups of trade receivables that have been grouped based on shared credit risk characteristics and the days past due. The amount of the ECL will reflect the specific circumstances of individual debtors, including the expected ability and intent to pay, however as a guide and based on previous historical observed default rates for different groupings:

i) debt which is greater than 90 days but less than one year overdue is provided for at 10%;

ii) debt which is greater than one year but less than two years old is provided for at 50%; and

iii) debt which is greater than two years old is provided for at 100%.

in addition to this, consideration is also given to other economic factors which could contribute to further expected credit losses. There have been no significant changes to the default rates compared to the prior year. Based on the calculation performed an ECL of $1.3 million was recognised for the year ended 30 June 2021.

The net impairment losses are recognised in profit or loss under other operating costs. Any subsequent recoveries of amounts previously provided for, or written off as bad debts, are credited against the same line item.

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

	Current ($000's)	1-90 days overdue ($000's)	91 days – 1 year overdue ($000's)	1-2 years overdue ($000's)	2+ years overdue ($000's)	Total ($000's)
As at 30 June 2021						
Unimpaired trade receivables	14,274	1,683	7	–	–	15,964
Impaired trade receivables	8	13	485	178	926	1,610
Total trade receivables due	**14,282**	**1,696**	**492**	**178**	**926**	**17,574**
Expected credit loss	(8)	(12)	(206)	(117)	(926)	(1,269)
Trade receivables recognised	**14,274**	**1,684**	**286**	**61**	**–**	**16,305**
As at 30 June 2020						
Unimpaired trade receivables	8,479	4,097	731	43	–	13,350
Impaired trade receivables	77	728	135	83	851	1,874
Total trade receivables due	**8,556**	**4,825**	**866**	**126**	**851**	**15,224**
Expected credit loss	(77)	(633)	(106)	(88)	(851)	(1,755)
Trade receivables recognised	**8,479**	**4,192**	**760**	**38**	**–**	**13,469**

SECTION A
How the numbers are calculated CONTINUED

A9 TRADE AND OTHER PAYABLES

As at 30 June	2021 ($000's)	2020 ($000's)
Trade accounts payable	3,249	1,969
Contract liabilities	1,312	2,536
Payroll related payables	1,926	1,636
Accrued liabilities	2,575	2,884
Provisions	604	2,492
Other payables	134	407
Total trade and other payables	**9,800**	**11,924**

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

Movement in provisions	Restructuring	Other provisions	Total
Opening balance as at 1 July 2020	1,729	763	2,492
Additional provision raised	–	580	580
Accrued balance utilised	(1,729)	(739)	(2,468)
Closing balance as at 30 June 2021	**–**	**604**	**604**

Other provisions primarily relate to expected costs to remove known asbestos. It is expected all sums provided for will be utilised or paid within one year.

A10 PROPERTY, PLANT & EQUIPMENT, AND INTANGIBLE ASSETS

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 expects 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 costs on these projects may include both internal labour and third-party costs. The investment case must demonstrate that:

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

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

Depreciation and amortisation

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

Impairment

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

SECTION A
How the numbers are calculated CONTINUED

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 sale of the asset less costs to sell (fair value less costs to sell). The corresponding impairment is recognised in profit or loss.

Property, plant & equipment

	Land ($'000's)	Buildings ($'000's)	Plant and equipment ($'000's)	Computer equipment ($'000's)	Furniture and fittings ($'000's)	Motor vehicles ($'000's)	Work in progress ($'000's)	Total ($'000's)
Average useful live	Not depreciated	20 to 50 years	5 to 35 years	3 to 10 years	5 to 20 years	5 to 10 years	Not depreciated	
Cost								
As at 1 July 2020	1,476	68,001	233,970	44,093	7,432	3,123	68,266	426,361
Additions at cost	–	1,428	4,995	8,324	156	351	19,305	34,559
Deduct disposals	(18)	(198)	(3,806)	(648)	(222)	(266)	–	(5,158)
Transfers from work in progress	–	–	–	–	–	–	(18,894)	(18,894)
As at 30 June 2021	**1,458**	**69,231**	**235,159**	**51,769**	**7,366**	**3,208**	**68,677**	**436,868**
Accumulated depreciation and impairment								
As at 1 July 2020	429	32,101	156,262	36,036	4,904	2,751	10,676	243,159
Depreciation charge	–	1,405	11,225	3,428	317	189	–	16,564
Reversal of previous impairment losses^	(196)	(6,465)	(12,550)	(977)	(592)	(36)	(10,676)	(31,492)
Impairment charge*	–	105	1	–	21	–	5,670	5,797
Deduct disposals	–	(187)	(3,543)	(500)	(212)	(266)	–	(4,708)
As at 30 June 2021	**233**	**26,959**	**151,395**	**37,987**	**4,438**	**2,638**	**5,670**	**229,320**
Net book value as at 30 June 2021	**1,225**	**42,272**	**83,764**	**13,782**	**2,928**	**570**	**63,007**	**207,548**

SECTION A
How the numbers are calculated CONTINUED

Property, plant & equipment – continued

	Land ($'000's)	Buildings ($'000's)	Plant and equipment ($'000's)	Computer equipment ($'000's)	Furniture and fittings ($'000's)	Motor vehicles ($'000's)	Work in progress ($'000's)	Total ($'000's)
COST								
As at 1 July 2019	1,476	66,324	221,016	38,723	7,038	3,246	61,165	398,988
Additions at cost	–	2,223	17,595	7,337	1,323	87	35,309	63,874
Deduct disposals	–	(546)	(4,641)	(1,967)	(929)	(210)	–	(8,293)
Transfers from work in progress	–	–	–	–	–	–	(28,208)	(28,208)
As at 30 June 2020	**1,476**	**68,001**	**233,970**	**44,093**	**7,432**	**3,123**	**68,266**	**426,361**
ACCUMULATED DEPRECIATION AND IMPAIRMENT								
As at 1 July 2019	233	24,210	133,656	31,564	4,758	2,674	–	197,095
Depreciation charge	–	1,684	12,653	4,935	380	215	–	19,867
Impairment charge	196	6,725	14,571	1,425	646	71	10,676	34,310
Deduct disposals	–	(518)	(4,618)	(1,888)	(880)	(209)	–	(8,113)
As at 30 June 2020	**429**	**32,101**	**156,262**	**36,036**	**4,904**	**2,751**	**10,676**	**243,159**
Net book value as at 30 June 2020	**1,047**	**35,900**	**77,708**	**8,057**	**2,528**	**372**	**57,590**	**183,202**

* An impairment charge of $5.8m was incurred in relation to the Group's decision to discontinue the Auckland contingent digital tower and Invercargill digital tower and the drone detection system projects. The impairment charge largely includes cost of assets and labour costs incurred to date.

^ See note A3.2 for details regarding the impairment reversal incurred during 30 June 2021.

The work in progress balance includes significant investments of $48.3 million in a new air traffic management (ATM) system (2020: $36.1 million). These balances will be transferred to Intangibles on completion of the project.

SECTION A
How the numbers are calculated CONTINUED

Intangible assets

	Internally generated software ($000's)	Licences & acquired software ($000's)	Total
Average useful life	3 to 10 years	3 to 10 years	
Cost			
As at 1 July 2020	61,598	20,951	82,549
Additions at cost	3,722	1	3,723
Deduct disposals	–	(39)	(39)
As at 30 June 2021	**65,320**	**20,913**	**86,233**
Accumulated amortisation and impairment			
As at 1 July 2020	50,529	18,094	68,623
Amortisation charge	2,677	849	3,526
Reversal of previous impairment losses^	(1,505)	(389)	(1,894)
Deduct disposals	–	(32)	(32)
As at 30 June 2021	**51,701**	**18,522**	**70,223**
Net book value as at 30 June 2021	**13,619**	**2,391**	**16,010**
Cost			
As at 1 July 2019	58,923	21,444	80,367
Additions at cost	2,791	266	3,057
Deduct disposals	(116)	(759)	(875)
As at 30 June 2020	**61,598**	**20,951**	**82,549**
Accumulated amortisation and impairment			
As at 1 July 2019	45,185	15,623	60,808
Amortisation charge	3,556	2,738	6,294
Impairment charge	1,905	492	2,397
Deduct disposals	(117)	(759)	(876)
As at 30 June 2020	**50,529**	**18,094**	**68,623**
Net book value as at 30 June 2020	**11,069**	**2,857**	**13,926**

^ See note A3.2 for details regarding the impairment reversal incurred during 30 June 2021.

SECTION A
How the numbers are calculated CONTINUED

A11 LEASES

Recognition and measurement

The determination of whether a contract is, or contains, a lease is based on the substance of the arrangement at the inception of the lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

At the commencement date of a lease agreement, Airways recognises a right-of-use asset and a lease liability.

Right-of-use assets are recognised when Airways, as a lessee, has the right to use an underlying asset for the lease term.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs, and
- restoration costs.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term.

Lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using Airways' incremental borrowing rate. The incremental borrowing rate is the rate that Airways would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions. Airways has used incremental borrowing rate as the discount rate for all leases.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value and short-term leases recognised on a straight-line basis by Airways comprise of IT-equipment and small items of office furniture.

Right-of-use assets

	Land and buildings ($000's)	Plant and Equipment ($000's)	Vehicles ($000's)	Total ($000's)
As at 1 July 2020	**63,561**	**2,347**	**251**	**66,159**
Depreciation charges	(3,930)	(358)	(93)	(4,381)
Additions to the right-of-use assets	111	–	–	111
Adjustments to existing right-of-use assets	(1,754)	37	–	(1,717)
Impairment	(115)	–	–	(115)
Reversal of previous impairment losses^	10,829	374	29	11,232
As at 30 June 2021	**68,702**	**2,400**	**187**	**71,289**
As at 1 July 2019	**15,231**	**2,900**	**406**	**18,537**
Depreciation charges	(4,028)	(390)	(107)	(4,525)
Additions to the right-of-use assets	63,840	-	-	63,840
Adjustments to the existing right-of-use-assets	(9)	278	-	269
Impairment	(11,473)	(441)	(48)	(11,962)
As at 30 June 2020	**63,561**	**2,347**	**251**	**66,519**

^ See note A3.2 for details regarding the impairment reversal incurred during 30 June 2021.

SECTION A
How the numbers are calculated CONTINUED

Lease liabilities

	2021 ($000's)	2020 ($000's)
Maturity analysis – contractual undiscounted cash flows		
Less than one year	6,495	6,077
One to five years	23,634	23,960
More than five years	80,188	98,698
Total undiscounted cash flows	**110,317**	**128,735**
Current lease liabilities	6,495	6,380
Non-current lease liabilities	69,891	76,064
Total lease liabilities	**76,386**	**82,444**

Amounts recognised in profit or loss

	2021 ($000's)	2020 ($000's)
Interest on lease liabilities	2,883	2,680
Gain on partial surrender of lease*	(947)	–
Expenses relating to short-term leases	308	1,050
Expenses relating to leases of low-value assets excluding short term leases	–	20

Amounts recognised in the statement of cashflows

	2021 ($000's)	2020 ($000's)
Total cash outflow for leases	7,018	6,624

* On 18 November 2020, Airways entered in to a revised Deed of Lease for the land and buildings situated at 26 Sir William Pickering Drive, resulting in a partial surrender of a lease component. The partial surrender of lease resulted in an accounting gain of $0.9m. The surrendered leased was re-entered into a new lease agreement on the same day with reduced lease term.

Lease profile

The details for the two significant lease liabilities and right-of-use assets as at 30 June 2021 are as follows:

	26 Sir William Pickering Drive, Russley, Christchurch	5 Leonard Isitt Drive, Auckland Airport, Auckland
Start date	23 October 2019	22 August 2019
Initial lease period	25 years	25 years
Extension options	10 years	10 years
Extension options exercised	No	No
Incremental borrowing rate	3.63%	4.43%

SECTION A
How the numbers are calculated CONTINUED

A12 INVENTORIES

Recognition and measurement

Inventories are measured at the lower of cost and net realisable value. The costs of individual items of inventory are determined using weighted average costs.

A13 SHARE CAPITAL AND RESERVES

Airways has capital of $111.1 million (2020: $111.1 million) issued ordinary shares which confer on the holders the right to vote at any general meeting of shareholders. This consists of 111,100,000 (2020: 111,100,000) authorised ordinary shares.

At 30 June 2021, Airways has on issue 95,000,000 authorised uncalled share capital to its owners amounting to a total value uncalled share capital of $95.0 million.

No additional ordinary shares were issued to its owners during the year ended 30 June 2021 (2020: 70,000,000 ordinary shares issued at $1 per share to its owners).

The Cash Flow Hedge Reserve records the portion of the gain or loss on a hedging instrument designated as a cash flow hedge that is determined to be an effective hedge.

SECTION B
Risk

B1 FINANCIAL RISK MANAGEMENT

Airways is exposed to a number of financial risks, which are managed through setting appropriate objectives and implementing prudent policies and controls. These objectives, policies and controls are managed through Airways' Treasury Policy and summarised below.

Liquidity risk

In the short term, Airways is exposed to liquidity risk through timing differences between: cash receipts from sales or facility drawdowns; and cash requirements for current capital expenditure and business operating costs. In addition, Airways is also exposed to liquidity risk in the long term 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 current debt facilities have the provision to accommodate 10% surplus funding over and above projected maximum level of debt, based on a 12-month rolling debt forecast;
3) Ensuring all facility renewals are secured at least three months prior to maturity, with the decision to re-negotiate or tender banking arrangements being made 12 months before maturity; and
4) Remaining 100% compliant with banking covenants at all times.

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

- Maintaining and monitoring cash-flow forecasts monthly, 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 monthly; and
- Monitoring compliance with banking covenants monthly 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				
Total facility	2021	2021 Drawdowns	2020	Remaining term	Interest rate
$60 million	$50 million	–	$50 million	2 years (expires July 2023)	Floating
$30 million	$8 million	–	$8 million	3 years (expires January 2024)	Floating

Due to the financial impacts of COVID-19, Airways continue to breach two of its three banking covenants for the year ended 30 June 2021. A waiver from the consequences of any breach of financial covenants was in place between 1 July 2020 to 31 December 2021, which was further extended to 31 December 2022. These were for complying with the interest coverage ratio and gearing ratio.

Neither funding facility is secured by Airways' assets.

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

SECTION B
Risk CONTINUED

Financial liability profile

	Less than 3 mths ($000's)	Between 3 mths & 1 year ($000's)	Between 1 & 2 years ($000's)	Between 2 & 5 years ($000's)	Greater than 5 years ($000's)	No stated maturity $000's
As at 30 June 2021						
Interest rate derivatives – outflow	(238)	(545)	–	–	–	–
Foreign currency exchange contracts – inflow*	6,246	5,552	3,658	1,716	–	–
Foreign currency exchange contracts – outflow	(6,494)	(5,773)	(3,828)	(1,730)	–	–
Trade and other payables	(6,067)	–	–	–	–	–
Employee entitlements	–	–	–	–	–	(29,867)
Term loan	(320)	(949)	(1,269)	(61,810)	–	–
Total	**(6,873)**	**(1,715)**	**(1,439)**	**(61,824)**	**–**	**(29,867)**
As at 30 June 2020						
Interest rate derivatives – outflow	(239)	(743)	(899)	–	–	–
Foreign currency exchange contracts – inflow*	6,293	7,631	3,420	959	–	–
Foreign currency exchange contracts – outflow	(6,316)	(7,488)	(3,453)	(997)	–	–
Trade and other payables	(7,151)	–	–	–	–	–
Employee entitlements	-	-	-	-	-	(31,027)
Term loan	(295)	(875)	(1,170)	(61,512)	–	
Total	**(7,708)**	**(1,475)**	**(2,102)**	**(61,550)**	**–**	**(31,027)**

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

Lease liabilities are classified as financial liabilities and its maturity profile has been separately disclosed in A11.

Airways has contingent liabilities in respect of financial guarantee contracts of $0.7 million for performance bonds (2020: $1.5 million).

SECTION B
Risk CONTINUED

Interest rate risk

Airways is exposed to interest rate risk through:

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

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

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

ATM service pricing period	Minimum hedging levels	Maximum hedging levels	Maximum swap rates
Current pricing period	25% forecast debt	90% forecast debt	Current pricing cost of debt assumption
Next pricing period	None	30% forecast debt	Current 10-year government bond rate, plus the current pricing debt margin

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

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

Airways' exposure to interest rate risk is set out in the charts below, which show the extent of hedging in place to cover the total floating rate borrowing at year end of $58 million (2020: $58 million). Further interest rate swaps were also in place to hedge highly probable future debt.

As at 30 June	2021 ($000's)	2020 ($000's)
Hedged borrowings	42,000	42,000
Un-hedged borrowings	16,000	16,000
Total term borrowings	**58,000**	**58,000**

The effective interest rate on borrowing in the current year was 3.8% (2020: 4.3%).

As 72% of the outstanding debt facilities are hedged (2020: 72%), possible fluctuations in interest rates are not expected to have a material impact on Airways' financial position or performance.

SECTION B
Risk CONTINUED

Foreign exchange risk

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

a) revenue streams denominated in foreign currencies

b) operational costs requiring payment in foreign currencies

c) capital expenditure requiring payment in foreign currencies

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

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

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

Airways' exposure to foreign exchange risk is set out in the table below, which shows the NZD value of financial exposures denominated in foreign currency (at their hedged rates, where applicable), and the quantum of forward exchange contracts in place to hedge them.

	Revenue		Expenditure*	
	Current trade debtors ($000's)	Revenue contracts not yet invoiced ($000's)	Current trade payables ($000's)	Expenditure commitments not yet invoiced ($000's)
As at 30 June 2021				
Amount unhedged	885	–	–	–
Amount hedged	773	4,038	–	(13,015)
Total NZD value	**1,658**	**4,038**	**–**	**(13,015)**
Percentage of exposure hedged	47%	100%	–	100%
As at 30 June 2020				
Amount unhedged	159	–	–	–
Amount hedged	1,068	1,445	–	(15,740)
Total NZD value	**1,227**	**1,445**	**–**	**(15,740)**
Percentage of exposure hedged	87%	100%	–	100%

* Operating and capital expenditure

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

SECTION B
Risk CONTINUED

Credit risk

Airways is exposed to credit risk through:

a) cash and cash equivalents on deposit with banks;
b) interest rate swaps and foreign exchange contracts with counterparties; and
c) customers with outstanding receivables.

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

- requiring a credit rating of A1 (short term) or A+ (long term) as rated by Standard and Poor's, or equivalent credit rating from another internationally recognised rating agency, for all banking and derivative counterparties
- setting a maximum exposure of $10m to any individual counterparty.

Adherence to these policies is continuously monitored and reported monthly.

Airways' exposure to credit risk is outlined in the balance sheet (showing cash and cash equivalents and derivative financial instruments) and note A8, setting out trade and trade receivables and the current provision in place against these balances.

Airways' five largest customers account for 73 percent (2020: 73 percent) of total revenue and 61 percent (2020: 39 percent) of total accounts receivable at balance date. No collateral is held over these receivables. No other 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 2, 6 Leonard Isitt Drive, Auckland, 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.

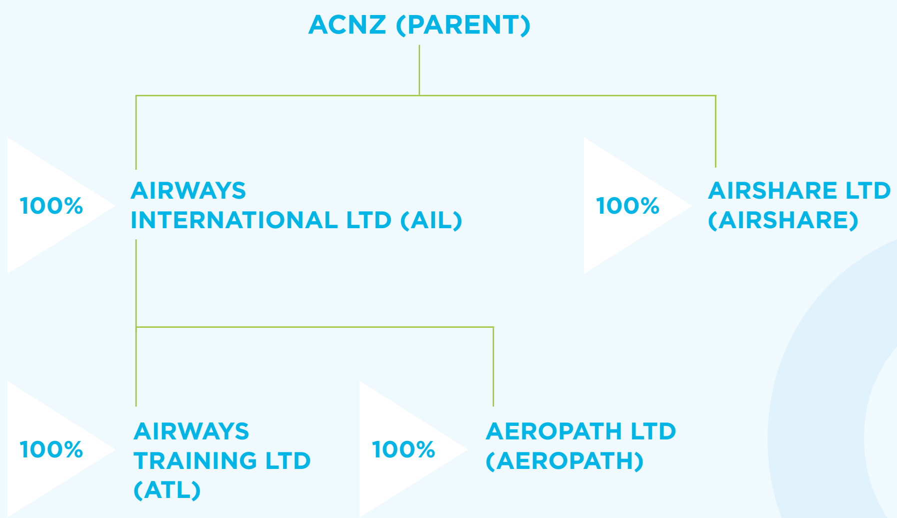
Subsidiaries are all entities over which Airways has control. Airways controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from 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 Airways are provided in the table below. All entities are incorporated in New Zealand.

	PRINCIPAL ACTIVITY
AIRWAYS CORPORATION OF NEW ZEALAND LIMITED (ACNZ)	PROVISION OF AIR TRAFFIC MANAGEMENT SERVICES.
AIRWAYS INTERNATIONAL LIMITED (AIL)	REVENUE MANAGEMENT, RECRUITMENT AND TRAINING, AND AIR NAVIGATION SERVICES AND MAINTENANCE OF SYSTEMS.
AIRWAYS TRAINING LIMITED (ATL)	NOT TRADING.
AEROPATH LIMITED (AEROPATH)	AERONAUTICAL INFORMATION MANAGEMENT, PROCEDURE DESIGN AND DEVELOPMENT SERVICES.
AIRSHARE LIMITED	DELIVERY OF UNMANNED AERIAL VEHICLE (UAV) AND DRONE TRAFFIC MANAGEMENT SERVICES.

The ownership structure of Airways as at balance date is shown in the diagram below.



SECTION C
Group structure CONTINUED

C2 TRANSACTIONS WITH AIRWAYS AND OTHER RELATED ENTITIES

Inter-company transactions and balances between entities within Airways are eliminated in the preparation of Group financial statements. 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 $85.6 million by Airways in the current financial year (2020: $120.6 million).

C3 TRANSACTIONS WITH MANAGEMENT AND DIRECTORS

For the year ended 30 June	2021 ($000's)	2020 ($000's)
Key management+ compensation		
Salaries and other short-term employee benefits*	3,111	3,962
Kiwisaver/ superannuation contributions	72	78
	3,183	**4,040**
DIRECTORS' FEES		
Directors' fees paid	275	276

+ Key management include the Chief Executive Officer and his direct reports.

* No salaries or other short term employee benefits were paid to Directors

C4 CEO REMUNERATION

Remuneration includes all short-term incentives entitled for the financial year but not yet paid at the balance date.

Single figure CEO remuneration

2021 ($000's)	Salary and fees	Taxable benefits	Subtotal	Pay for performance STI	LTI	Subtotal	Total remuneration
Graeme Sumner (CEO)	649	–	649	–	–	–	649

Single figure CEO remuneration

2020 ($000's)	Salary and fees	Taxable benefits	Subtotal	Pay for performance STI	LTI	Subtotal	Total remuneration
Graeme Sumner (CEO)	630	–	630	–	–	–	630

Five year summary – CEO remuneration		Single figure remuneration ($000's)	Percentage STI against maximum
2021	Graeme Sumner (CEO)	649	–
2020	Graeme Sumner (CEO)	630	–
2019	Graeme Sumner (CEO)	667	73.79%
2018	Graeme Sumner (CEO)	475	85.84%
2018	Pauline Lamb (CEO)	168	85.84%
2017	Pauline Lamb (CEO)	58	87.57%
2017	Ed Sims (CEO)	712	87.24%

SECTION D
Unrecognised items

D CAPITAL COMMITMENTS

The table below illustrates the total capital commitments for Airways at balance date. This programme will be funded through increased capital.

As at 30 June	2021 ($000's)	2020 ($000's)
Property, plant and equipment capital commitments	1,495	7,195
Intangible assets capital commitments	2,997	5,976
Total capital commitments	**4,492**	**13,171**

D2 CONTINGENT LIABILITIES

Airways has contingent liabilities in respect of financial guarantee contracts of $0.7 million for performance bonds (2020: $1.5 million).

D3 SUBSEQUENT EVENTS

On 18 August 2021 the New Zealand government implemented Alert Level 4 restrictions across the country in response to the resurgence of COVID-19 in the community. The restrictions were put in place for a minimum of three days with the Auckland and Coromandel regions expected to remain under these restrictions for a minimum of seven days. The Group considers the alert level changes to be a non-adjusting subsequent event. The move to Alert Level 4 restricts all non-essential travel which will have an adverse impact on the Group. There is significant uncertainty with regards to the severity and length of current restrictions with more time spent in higher alert levels increasing any adverse impact on the Group. At the time of signing these financial statements, the Government has advised the country will be in Level 4 lockdown until at least 27 August 2021, and Auckland until at least 31 August 2021. However, based on the information available at the date of signing the financial statements there is no material impact on the going concern of the Group or the carrying values of assets.

SECTION E

Other information

E1 AUDITOR'S REMUNERATION

For the year ended 30 June	2021 ($000's)	2020 ($000's)
PricewaterhouseCoopers for:		
Financial statement audit services as an agent of the Office of the Auditor-General	250	266
Economic Value Added Key Performance Indicator compliance engagement	11	10
Student fee protection trust compliance engagement	7	7
Total auditors remuneration	**268**	**283**

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

For the year ended 30 June	2021 ($000's)	2020 ($000's)
NET PROFIT/(LOSS) AFTER TAXATION	5,429	(31,307)
ADD NON CASH ITEMS		
Amortisation	3,526	6,295
Depreciation	20,945	24,392
Reversal of impairment losses	(44,618)	–
Impairment	5,954	48,669
Movement in deferred tax	7,307	(14,915)
Accounting gain on sale of assets	(1,241)	(19)
Accounting gain on partial surrender of lease	(943)	–
Total adjustments for items in profit not impacting cash flow	**(9,070)**	**64,422**
ADD MOVEMENTS IN WORKING CAPITAL ITEMS		
Decrease in payables	(793)	(10,699)
(Increase)/decrease in receivables	(2,723)	11,688
Total adjustments for items not in profit impacting cash flow	**(3,516)**	**989**
Net cash (outflow)/inflow from operating activities	**(7,157)**	**34,104**

Audit report

pwc

INDEPENDENT AUDITOR'S REPORT

To the readers of Airways Corporation of New Zealand Limited's financial statements for the year ended 30 June 2021

The Auditor-General is the auditor of Airways Corporation of New Zealand Limited (the Company) and its subsidiaries (the Group). The Auditor-General has appointed me, Mark Bramley, using the staff and resources of PricewaterhouseCoopers, to carry out the audit of the financial statements of the Group on his behalf.

Our opinion

In our opinion, the accompanying financial statements of Airways Corporation of New Zealand Limited (the Company), including its subsidiaries (the Group), present fairly, in all material respects, the financial position of the Group as at 30 June 2021, its financial performance and its cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards (IFRS)

What we have audited

The Group's financial statements comprise:

- the balance sheet as at 30 June 2021;
- the statement of profit or loss and other comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the Professional and Ethical Standard 1 *International Code of Ethics for Assurance Practitioners* (including International Independence Standards) (New Zealand) (PES 1) issued by the New Zealand Auditing and Assurance Standards Board and the *International Code of Ethics for Professional Accountants* (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

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

Independence

We are independent of the Group in accordance with the Auditor-General's Auditing Standards, which incorporate PES1, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Our firm carries out other assurance services for the Group in respect of the Group's compliance with the terms of the Student Fee Protection Trust Deed and in relation to the reporting of the Group's Economic Value Added (EVA) Performance Indicators. The provision of these other services has not impaired our independence as auditor of the Group.

Audit report CONTINUED

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current year. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Description of the key audit matter	How our audit addressed the key audit matter
Reversal of impairment of non-financial assets	
The carrying amount of the Group's property, plant and equipment (PP&E), intangible assets and right of use assets as at 30 June 2021 amounted to $294.8 million. As set out in Note A3.3 to the financial statements, this includes the reversal of an impairment to the Core Cash Generating Unit (CGU) in the amount of $44.6 million. This was an area of key focus for the audit due to the significance of the carrying value of non-financial assets, the inherent judgements involved in performing an impairment assessment and the inherent uncertainty of the ongoing impact of Covid-19 on the aviation industry in New Zealand and globally. The Group prepared discounted cash flow models using probability weighted forecast scenarios for the next 10 years on a Fair Value Less Cost of Disposal (FVLCD) basis. Key FVLCD assumptions include: • Economic Value Added (EVA) repricing in FY23 • flight volumes in FY22 • weighted average cost of capital (WACC); and • terminal growth rates. Refer to notes A3.3, A10 and A11 of the financial statements for further information.	We performed the following audit procedures in relation to the Core CGU impairment assessment: • understood and evaluated management's processes and controls in preparing the impairment assessment; • considered whether the valuation methodologies applied were appropriate; • held discussions with management and understood the processes undertaken and basis for determining the key assumptions in preparing the impairment assessment; • gained an understanding of the continued impact of Covid-19 on the Core CGU's performance and the forecast outlook for the aviation industry; • performed lookback procedures, comparing actual results achieved against forecasts and considered the impact on our assessment of forecast cash flows; • engaged our valuation expert to challenge and assess the reasonableness of the WACC and terminal growth rates by considering against external market forecasts and historical performance' • assessed the calculation and accounting for the reversal of the prior year impairment; and • assessed the disclosure of: – the FVLCD estimate; – impairment reversal; and – the sensitivity of changes in key assumptions in the financial statements against the requirements of NZ IFRS.

Audit report CONTINUED

Description of the key audit matter	How our audit addressed the key audit matter
Going concern	
The financial statements have been prepared on a going concern basis. As a direct consequence of Covid-19, the Group experienced a significant reduction in revenue due to much lower flight volumes in the prior year which continued into the current year. As a result, the Group incurred a loss before taxation and impairment reversals of $38.5 million and had net cash outflows of $28.7m for the year ended 30 June 2021. The Group has forecast that it will continue to incur losses during the financial year ending 30 June 2022 and that the cash position of the Group will further decrease due to continued net cash outflows. To enable the Group to continue as a going concern for at least 12 months from the date of signing the financial statements, the following arrangements have been made prior to balance date: • extension of the $95 million capital facility, subscribed for by the Crown, to 31 December 2022; • the Group's debt facility with Australia and New Zealand Banking Corporation (ANZ) was amended and a revised agreement was entered into on 22 June 2021. The Group was granted a waiver from an event of default or potential event of default resulting from a breach of its banking covenants until 31 December 2022 and the facility was extended until 31 July 2023. Given the significance of the going concern assumption to the financial statements this was considered to be a key audit matter. Refer to notes A4 and B1 of the financial statements.	We have performed the following audit procedures over this assessment: • understood and evaluated management's processes and controls in preparing the going concern assessment • analysed and discussed the cash flow forecasts for a 15-month period through to September 2022 with management; • ensured the cash flow forecasts are consistent with the forecasts used in the base case scenario for impairment testing; • performed various 'stress-tests' on the forecast cash flows to assess the level of forecasting risk; • read the amended and revised agreement with ANZ, including the terms of the waiver and assessed whether the debt was appropriately classified as a non-current liability at balance date; • read the amended share subscription agreement with the Shareholder (the Crown) confirming the committed capital facility; • performed subsequent events procedures to identify events that either mitigate or otherwise affect the Group's ability to continue as a going concern; and • we also considered the adequacy of the related disclosures in the financial statements against the requirements of NZ IFRS.

CHAIR AND CEO'S REVIEW
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PERFORMANCE AND PROGRESS AGAINST SCI METRICS
FINANCIAL STATEMENTS
EVA KEY PERFORMANCE INDICATORS
ADDITIONAL FINANCIAL INFORMATION
GOVERNANCE AT AIRWAYS

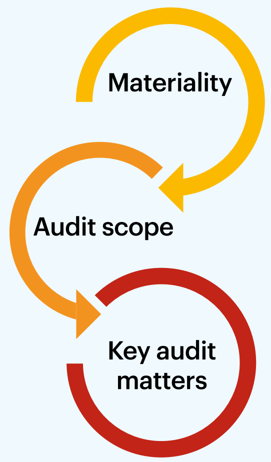
Audit report CONTINUED

Description of the key audit matter	How our audit addressed the key audit matter
Capitalisation of costs into PP&E and intangible assets The Group holds PP&E of $207.5 million and intangible assets of $16.0 million as at 30 June 2021. These balances are after the impairment reversal referred to in the KAM above. The capitalisation of costs into PP&E and intangible assets is a key audit matter as these assets represent a significant portion of the Group's net assets and judgement is applied by the Group when determining which costs to include in the carrying value of PP&E and intangible assets. Costs capitalised by the Group include both third party and employee related costs. Further disclosure in regard to PP&E and intangible assets held by the Group is included in note A10 of the financial statements.	We tested a sample of additions to PP&E and intangible assets. For each sample selected we agreed: • external costs to third party invoices; • internal labour hours to approved timesheets; and • internal labour cost rates applied to the labour hours were agreed to supporting evidence including underlying employment contracts for wage and salary rates. • For each item tested, we assessed the appropriateness of capitalisation against the recognition criteria in NZ IFRS, including assessing: • whether it is probable that economic benefit beyond a 12-month period will be generated by the asset by reference to the approved business investment case, project status report and discussions with the project manager; • if the costs were directly attributable to the asset. This involved considering invoice narrative for external costs and job description and time sheet records for internal costs; and • whether the Group has the technical and financial resources to complete the project. In assessing this we considered the nature of the projects, the Group's historic performance at completing projects of a similar nature and any decisions taken that may impact the future of the project.

Audit report CONTINUED

Our audit approach

Overview



An audit is designed to obtain reasonable assurance whether the financial statements are free from quantitative and qualitative material misstatement.

Overall quantitative group materiality: $2,400,000 which represents approximately 7.5% of the result before taxation, excluding the impact of the impairment reversal.

We chose the adjusted loss before tax as the benchmark because, in our view, it is the benchmark against which the performance of the Group is most commonly measured by users and is a generally accepted benchmark.

We performed a full scope audit over the consolidated financial information of the Group.

As reported above, we have three key audit matters, being:

- Reversal of impairment of non-financial assets
- Going concern
- Capitalisation of costs into PP&E and intangible assets

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Materiality

The scope of our audit was influenced by our application of materiality.

An audit is designed to obtain reasonable assurance about whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Group materiality for the financial statements as a whole as set out above. We also assess qualitative materiality, which includes other matters that, in our judgement, and in the context of our audit, might influence the economic decisions of the readers of the financial statements.

Quantitative materiality and qualitative considerations helped us to determine the scope of our audit, the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate, on the financial statements as a whole.

How we tailored our group audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

CHAIR AND CEO'S REVIEW
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Audit report CONTINUED

Other information

The Directors are responsible for the other information. The other information comprises the information included in the Annual report but does not include the financial statements and our auditor's report thereon. The Annual report is expected to be made available to us after the date of this auditor's report.

Our opinion on the financial statements does not cover the other information and we will not express any form of audit opinion or assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the financial statements

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

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

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

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements, as a whole, are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with the Auditor-General's Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

We did not evaluate the security and controls over the electronic publication of the financial statements.

As part of an audit in accordance with the Auditor-General's Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.

Audit report CONTINUED

- Conclude on the appropriateness of the use of the going concern basis of accounting by the Directors and, based on the audit evidence obtained, assess whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Our responsibilities arise from the Public Audit Act 2001.

Mark Bramley
On behalf of the Auditor-General
Auckland, New Zealand

24 August 2021

PricewaterhouseCoopers

EVA key performance indicators

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

For the year ended 30 June	Parent 2021	Parent 2020
DEBT AND EQUITY EMPLOYED		
Debt employed	177.2	182.8
Equity employed	118.3	132.1
Total Debt & Equity Employed	**295.5**	**314.9**
Charge on operating capital	17.2	16.3
Economic Value Added	(52.8)	(19.6)
SUMMARY OF PARAMETERS FOR COST OF CAPITAL		
Risk free rate – 3-year Government Stock	0.33%	0.70%
Market risk premium	7.00%	7.00%
Company tax rate	28%	28%
Business risk factor (asset beta)	0.60	0.60
Cost of capital	5.64%	5.89%

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

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

The cost of capital of 5.64% for the year ended June 2021 compares to a cost of capital of 6.59% used for determining 2020-22 air navigation pricing. The negative EVA for the current and the comparative year has been driven by reduction in flight volumes due to COVID-19.

Reconciliation of EVA to net profit/(loss) after Tax

For the year ended 30 June	Parent 2021	Parent 2020
Profit/(Loss) after tax	0.2	(40.4)
Deduct: Charge on operating capital	(17.2)	(16.3)
Add back: interest costs	2.3	2.1
(Deduct)/Add back: Impairment/(reversal)	(44.6)	48.7
Addback/(Deduct): non-cash tax charges	7.4	(15.1)
(Deduct)/Add back: non-cash employee costs	(0.9)	1.4
Economic Value Added	**(52.8)**	**(19.6)**

EVA audit report

INDEPENDENT ASSURANCE REPORT

Report to the readers of the EVA Key Performance Indicators of Airways Corporation of New Zealand Limited for the year ended 30 June 2021.

Assurance report pursuant to Economic Value Added Key Performance Indicators (the KPIs)

We audit the financial statements of Airways Corporation of New Zealand Limited ("Airways") on behalf of the Auditor-General. As a result, we have been engaged to provide reasonable assurance about whether Airways has complied with its economic value added (EVA) policies and principles in calculating the KPIs for the year ended 30 June 2021 on page 58 of this document.

Opinion

We have completed the reasonable assurance engagement in respect of the compliance of Airways with the EVA policies and principles adopted, in calculating the KPIs, for the year ended 30 June 2021.

In our opinion, Airways has complied, in all material respects, with EVA policies and principles, as outlined on page 58 of this document, in calculating the KPIs for the year ended 30 June 2021.

Basis for Opinion

We have conducted our engagement in accordance with Standard on Assurance Engagements (SAE) 3100 (Revised) *Assurance Engagements on Compliance*, issued by the New Zealand Auditing and Assurance Standards Board.

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

Director's Responsibilities

The Directors are responsible on behalf of Airways for the presentation of the KPI's compliance with the EVA policies and principles adopted by Airways, for the identification of risks that may threaten compliance with the EVA policies and principles adopted, controls that would mitigate those risks, and monitoring the Airway's ongoing compliance.

Our Independence and Quality Control

We have complied with the Professional and Ethical Standard 1 *International Code of Ethics for Assurance Practitioners* (including International Independence Standards) (New Zealand) or other professional requirements, or requirements in law or regulation, that are at least as demanding, which include independence and other requirements founded on the fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

In accordance with the Professional and Ethical Standard 3 (Amended) *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance Engagements* or other professional requirements, or requirements in law or regulation, that are at least as demanding, our firm maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards, and applicable legal and regulatory requirements.

We are independent of Airways. Our firm carries out other services for Airways in respect of Airways compliance with the terms of the Student Fee Protection Trust Deed. The provision of these other services has not impaired our independence.Assurance Practitioner's responsibilities

Our responsibility is to express an opinion on whether Airways has complied, in all material respects, with the EVA policies and principles adopted in preparing the KPIs for the year ended 30 June 2021 and report our opinion to you. SAE 3100 (Revised) requires that we plan and perform our procedures to obtain reasonable assurance about whether the Company has complied, in all material respects, with the EVA policies and principles.

An assurance engagement to report on Airways compliance with the EVA policies and principles adopted in preparing the KPIs for the year ended 30 June 2021, involves performing procedures to obtain evidence about the compliance activity and controls implemented. The procedures selected depend on our judgement, including the identification and assessment of risks of material non-compliance.

Inherent limitations

Because of the inherent limitations of an assurance engagement, together with the internal control structure, it is possible that fraud, error or non-compliance may occur and not be detected. A reasonable assurance engagement throughout the specified period does not provide assurance on whether compliance with the EVA policies and principles adopted in preparing the KPI's will continue in the future.

Use of report

This report has been prepared for the Directors in accordance with the EVA policies and principles adopted in preparing the KPIs for the year ended 30 June 2021 and is provided solely to assist you in establishing that compliance requirements have been met.

Our report should not be used for any other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility for any reliance on this report to anyone other than the Directors of the Airways, as a body, or for any purpose other than that for which it was prepared.

Our engagement was completed on 24 August 2021 and our opinion is expressed as at that date.

Mark Bramley

Mark Bramley
On behalf of the Auditor-General
Auckland, New Zealand

24 August 2021

PricewaterhouseCoopers

PricewaterhouseCoopers

Additional financial information

DIRECTORS' INSURANCE

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

DIRECTORS' FEES PAID 1 JULY 2020– 30 JUNE 2021

	Amount paid	Amount recognised in profit or loss
Denise Church	59,512	59,512
Mark Pitt	37,196	37,196
Lisa Jacobs	29,756	29,756
Paula Jackson	29,756	29,756
John Holt	29,756	29,756
Darin Cusack	29,756	29,756
Mark Hutchinson	29,756	29,756
Nicola Greer	29,756	29,756
Total	**275,244**	**275,244**

Directors experience and interests are disclosed in the profiles in the 'Board of Directors' section of this report and under "Our Board of Directors" section of the Airways website.

Additional financial information CONTINUED

Total remuneration over $100,000

Remuneration band	Total staff	Executive/senior Managers	Operational staff and managers
$100,001 - $110,000	36	2	34
$110,001 - $120,000	52	2	50
$120,001 - $130,000	50	2	48
$130,001 - $140,000	45	1	44
$140,001 - $150,000	44	6	38
$150,001 - $160,000	45	4	41
$160,001 - $170,000	34	3	31
$170,001 - $180,000	32	8	24
$180,001 - $190,000	49	8	41
$190,001 - $200,000	44	3	41
$200,001 - $210,000	38	4	34
$210,001 - $220,000	59	5	54
$220,001 - $230,000	49	–	49
$230,001 - $240,000	24	2	22
$240,001 - $250,000	10	2	8
$250,001 - $260,000	5	–	5
$260,001 - $270,000	2	–	2
$280,001 - $290,000	1	1	–
$290,001 - $300,000	1	–	1
$310,001 - $320,000	2	1	1
$320,001 - $330,000	1	1	–
$330,001 - $340,000	1	1	–
$360,001 - $370,000	1	1	–
$370,001 - $380,000	1	1	–
$390,001 - $400,000	1	–	1
$400,001 - $410,000	1	–	1
$450,001 - $460,000	1	–	1
$640,001 - $650,000	1	1	–
	630	**59**	**571**

Governance at Airways

Commitment to sound governance

Directors and management recognise the importance of robust and effective governance and are committed to delivering this at Airways. The following sections set out the systems and processes Airways has in place to foster high standards of ethical and safety conscious behaviour and sound decision making. It also explains how Airways ensures those systems and processes are supported by the right people and achieve the desired outcomes.

The Code of Conduct underpins governance at Airways, from the Board through to operational staff. It is a comprehensive guide communicated to all employees which sets out explicit expectations of the highest standards of integrity, good conduct and concern for the public interest, as well as providing clear guidelines for when these expectations are not being met. The Code of Conduct, along with a range of supporting policies outlining key expected behaviours of Airways' people, is published under the "Our People" section of the Airways website.

Governance framework

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

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

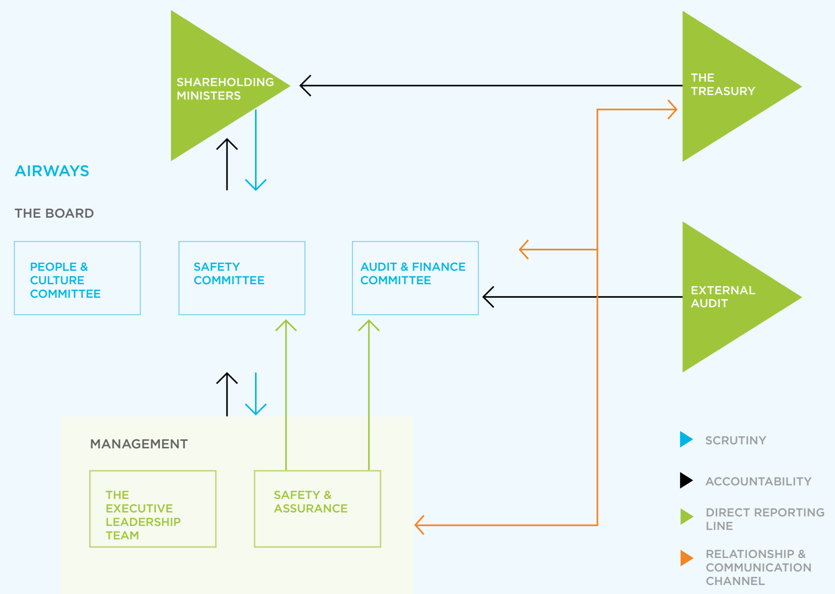
b) This accountability is achieved through the annual expectations letter issued by the Shareholding Ministers and the compilation of (and reporting against) the Statement of Corporate Intent (SCI) by the Airways Board. The SCI sets out the objectives, the nature and scope of activities, financial and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

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

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

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

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



CHAIR AND CEO'S REVIEW
AIRWAYS BOARD OF DIRECTORS
FINANCIAL PERFORMANCE
PERFORMANCE AND PROGRESS AGAINST SCI METRICS
FINANCIAL STATEMENTS
EVA KEY PERFORMANCE INDICATORS
ADDITIONAL FINANCIAL INFORMATION
GOVERNANCE AT AIRWAYS

Governance at Airways CONTINUED

RELEVANT ROLES AND RESPONSIBILITIES

The Board

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

Some of the key Board responsibilities are set out below and captured in the Board charter, published under the "Our Board" section of the Airways website:

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

Ensuring independence

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

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

Managing conflicts of interest

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

During the year, 26 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 10 to 11 (or relating to a now retired director).

Appointing new members and ensuring a balanced Board

All new Directors are appointed by the shareholder, with the Chair providing advice as part of the appointment process. For the Board to meet its duties and responsibilities it needs an appropriate mix of skills and backgrounds, a constructive board dynamic and opportunities for active learning.

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, entrepreneurial, and people and change leadership experience, and well developed governance skills and practices.

Governance at Airways CONTINUED

Continuing education

The Board recognises the importance of individual and collective education and skills development to maintain currency in a rapidly changing environment. Airways provides ongoing support for continuous professional learning and development to all Directors. Directors take responsibility for improving their own professional knowledge and skills, utilising and supplementing this support where required. Directors are also encouraged to have an individual governance development plan.

The Board undertook workshops on organisational resilience and identified governance lessons from 2020, and future resilience actions and practices. Directors also used both face-to-face and online opportunities to learn in areas such as strategy, resilience and safety

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 and includes 'look-back' and 'look-forward' reviews.

In January/February 2021, the Board engaged an external governance specialist to undertake a comprehensive review of the Board. This included individual interviews, Board observation and feedback. The review confirmed strength areas and identified areas for practice development. In addition, the Board also applies a regular practice of reflection and feedback at the conclusion of Board meetings.

The Board also monitors and adapts to new methods of working and collaborating to ensure governance remains future fit. An example of this adopting 'virtual' environments where Board meetings have been adjusted to make best use of the online environment where appropriate

Committees

The Board has established a number of committees, all supported by formal charters and focused on addressing some of the key Board responsibilities. The role, key responsibilities and members of the committees are set out below and in the charters published under the "Our Board" section of the Airways website. 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	Lisa Jacobs (Chair) Denise Church Paula Jackson Darin Cusack Nicola Greer

Governance at Airways CONTINUED

Committee	Objectives	Key roles and responsibilities	Members
Safety Committee	Inform the Board of the performance of Airways' safety management systems	• Review audit and assurance reports from Head of Safety and Assurance • Review safety reports from the Head of Safety and Assurance including key safety metrics, status reports on incident investigations and key safety issues • Understand key safety risks and how they are being managed	Mark Pitt (Chair) Denise Church Darin Cusack John Holt
People and Culture Committee	Setting strategic human resources and remuneration policies within the policy structure approved by the Board	• Oversight and guidance on core cultural and capability streams of work including talent and succession planning, workforce planning, employee experience and engagement, capability development, career progression, ways of working and union relationships. • Appropriate employment terms and conditions for the Chief Executive and the executives and managers who report directly to the Chief Executive. • The establishment of any new, and amendment of the terms of any existing, incentive plans for the Chief Executive and the executives and managers who report directly to the Chief Executive. • Oversight of the annual performance review of the Chief Executive. • Monitoring whether there is any gender or other inappropriate bias in remuneration for directors, senior executives, or other employees.	John Holt (Chair) Denise Church Mark Hutchinson

Directors' attendance

The Board held 13 meetings during the year ended 30 June 2021. 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	People and Culture Committee
Total meetings held	**13**	**4**	**4**	**4**
Denise Church	13	4	4	4
Darin Cusack	13	3	4	2
John Holt	11	1	4	4
Paula Jackson	13	4	0	0
Lisa Jacobs	13	4	1	0
Mark Pitt	13	1	4	0
Mark Hutchinson	13	1	0	4
Nicola Greer	13	4	0	0

Governance at Airways CONTINUED

External audit

The OAG appoints external auditors every three years. 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 through the audit cycle. Lead audit partners are also rotated every six years, in line with OAG requirements.

Annually, the AFC 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 supports the business to increase business performance and/or stakeholder satisfaction.

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

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

Remuneration

The Board and management are committed to remuneration practices that are fair, transparent and appropriate, and which contribute to strong governance and company performance. This starts with the Board, People and Culture Committee (whose responsibilities are outlined above) and is captured in Airways' Remuneration Policy. Levels of remuneration are set out in the Additional Financial Information section above.

BANKERS

ANZ Bank New Zealand Limited

Bank of New Zealand Limited

AUDITORS

Mark Bramley, with the assistance of PricewaterhouseCoopers on behalf of the Auditor-General

REGISTERED OFFICE

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