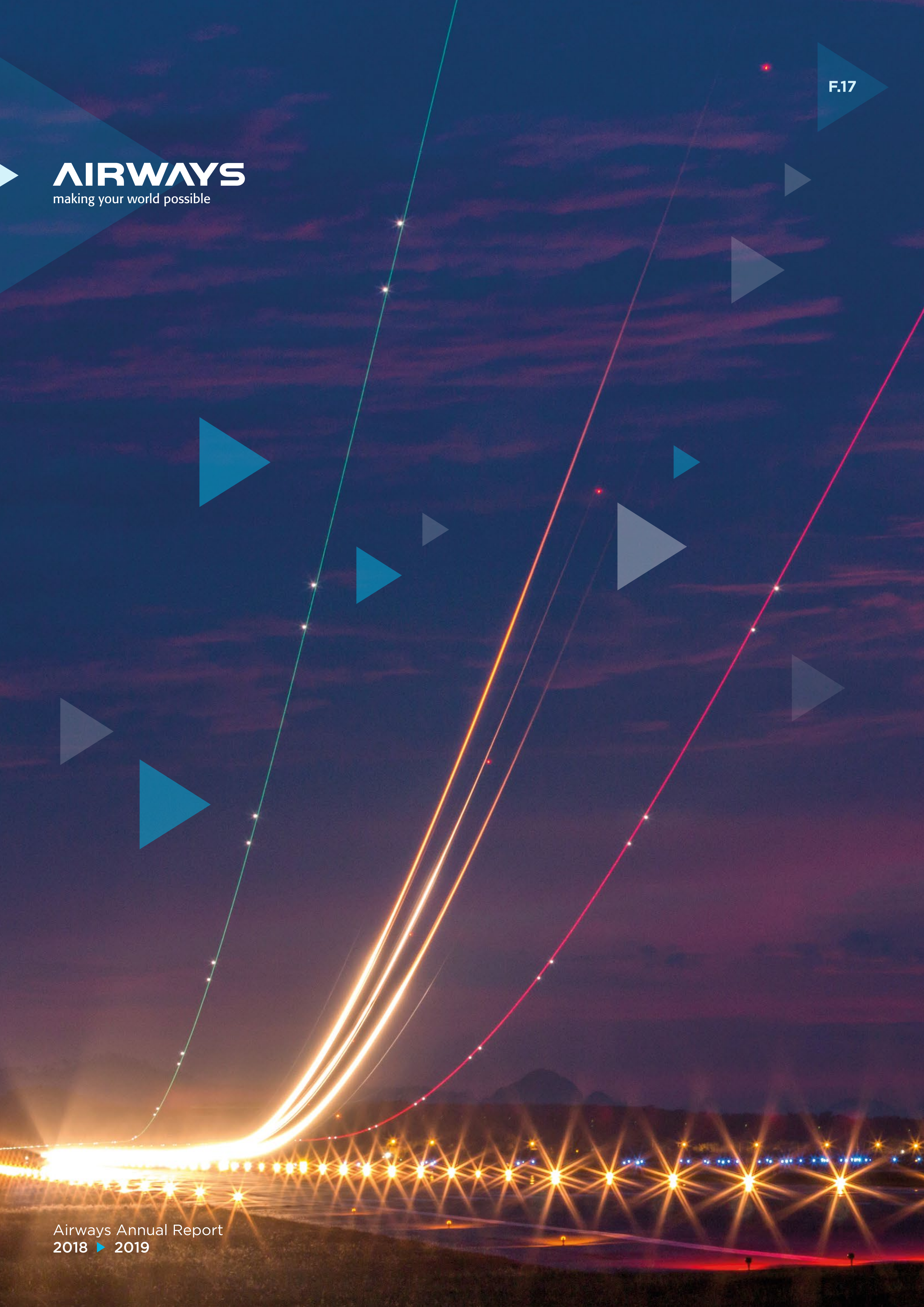


F.17

AIRWAYS

making your world possible

Airways Annual Report

2018 ▶ 2019

CREATING THE AVIATION ENVIRONMENT OF THE FUTURE

Our performance

CONTENTS

998,783
FLIGHT MOVEMENTS

38,014
UAV FLIGHTS

$23.6M
GROUP NOPAT

99.56%
AIR TRAFFIC SERVICE AVAILABILITY

02
NEAR COLLISIONS

300,000
MINUTES OF IN-FLIGHT DELAY AVOIDED

$2.65M
INVESTMENT IN STAFF TRAINING

01
SERIOUS HARM INJURY

$8M
COMMERCIAL BUSINESS NOPAT

$12M
DIVIDEND TO NZ GOVERNMENT

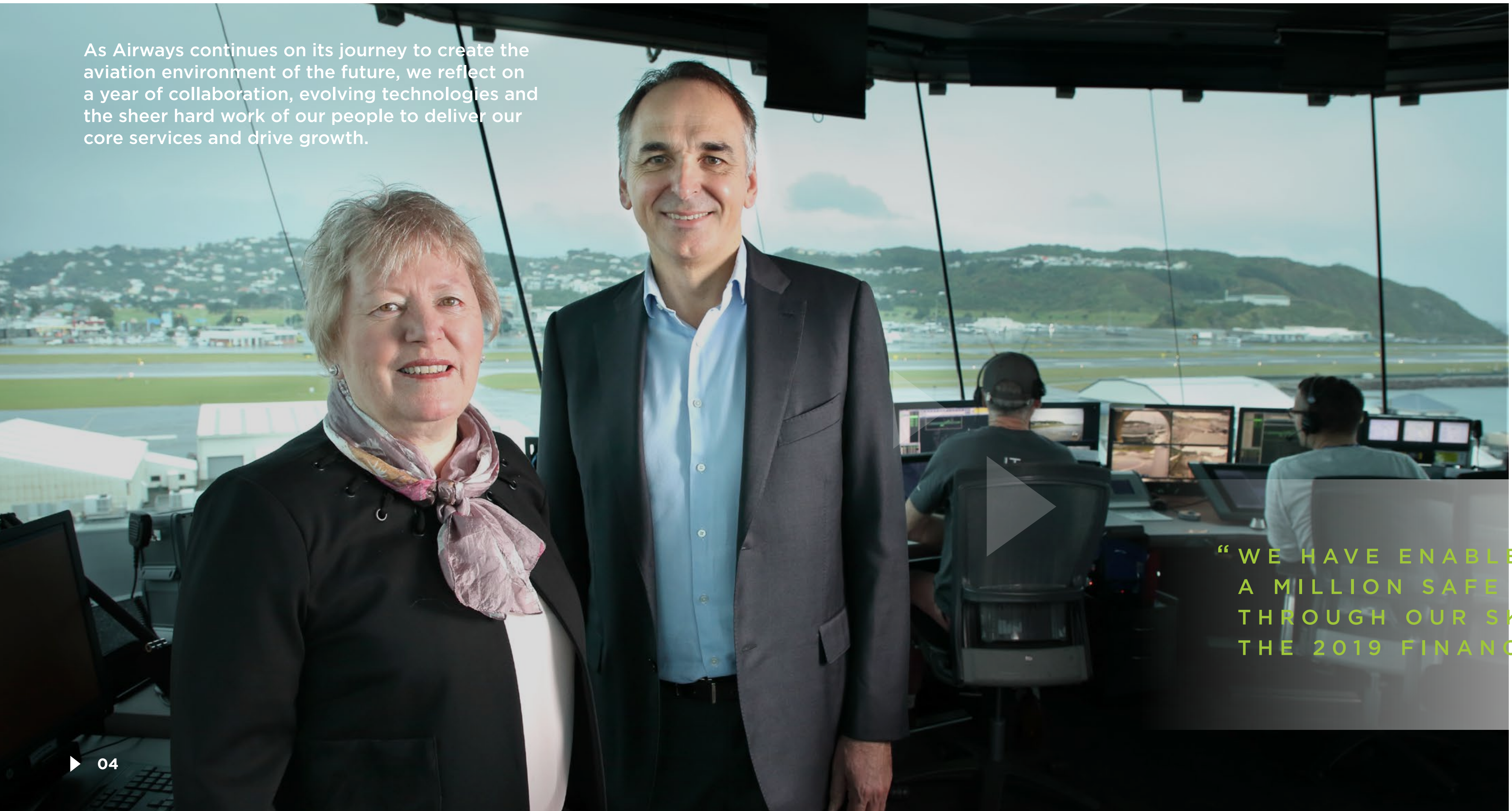
CHAIR AND
CHIEF EXECUTIVE'S REVIEW

DENISE CHURCH
CHAIR

GRAEME SUMNER
CHIEF EXECUTIVE OFFICER

Safe skies today and tomorrow

As Airways continues on its journey to create the aviation environment of the future, we reflect on a year of collaboration, evolving technologies and the sheer hard work of our people to deliver our core services and drive growth.



Airways' central focus on delivering safe and efficient air navigation services for New Zealand and beyond has been unwavering and we have enabled almost a million safe journeys through our skies during the 2019 financial year.

Providing flexible, responsive and excellent service to our customers is critically important to us and this is reflected in our performance across the national network.

Unplanned staff unavailability unfortunately resulted in a reduction of services for some locations during the year. Contingency procedures were required on a number of occasions for Hawke's Bay Airport and, while these procedures enabled all flights to operate safely, we regret that there was disruption to some flights.

Airways continues to work closely with our people and customers as we look to new technologies and ways of working that will improve resilience and support us to deliver more flexible, safe and sustainable services nationwide.

"WE HAVE ENABLED ALMOST A MILLION SAFE JOURNEYS THROUGH OUR SKIES DURING THE 2019 FINANCIAL YEAR."

SAFETY IS PARAMOUNT

We are committed to achieving the highest level of safety performance across our organisation and, as the aviation environment evolves, we are working to proactively identify safety enhancements and learn from events.

While loss of separation events remained stable during the year, two near collision events between aircraft were recorded in controlled airspace – one in the airspace surrounding Rotorua Airport and another on the approach into Wellington International Airport. Safety improvement initiatives are underway as part of ongoing investigations following both events.

The health and safety of our people is paramount and we are disappointed to report one serious harm injury involving a contractor undertaking work for Airways. A number of recommended improvements have been implemented to reduce risk and further ensure safe working practices following an investigation into the incident. We are pleased to report that the contractor has returned to work.

ENGAGING WITH CUSTOMERS

In June 2019 Airways confirmed new prices for our air traffic management services to airlines, light aircraft and general aviation operators. Following a robust and collaborative consultation process with our key customers, we announced an increase in prices for airlines of 21.4% over three years, from July 2019 to June 2022. Prices for general aviation operators will be kept in line with inflation, increasing by an average of 2.5% each year over the three years. To the matter of pricing, Airways prices have increased by an average of 2.5% per year over the past 10 years.

Throughout the price setting process we looked to achieve a sensible balance between the need to invest in New Zealand's aviation network, while maintaining prices that are internationally competitive.

Customer feedback put forward during the consultation endorsed Airways' broad vision for creating the aviation environment of the future. This includes the introduction of future-focused services, including digital air traffic control towers and UAV (drone) traffic management.

AIRWAYS BOARD CHANGES:

Judy Kirk was farewelled as Airways' Board Chair in December 2018. Denise Church was appointed Board Chair in January 2019, bringing a wide range of governance and management experience.

Chris Moxon stepped down as a director in October 2018. Lisa Jacobs joined the board in November 2018, followed by John Holt and Paula Jackson in January 2019.

Twelve submissions were received and carefully considered before our final prices were determined.

CORE BUSINESS CUSTOMER SATISFACTION

Each year Airways asks airports, airlines and aviation partners (industry associations and the GA community) to take part in customer satisfaction research. The objective is to identify opportunities for Airways to add value to our customers in the coming year.

This year only 45 respondents took part in the research. We thank those who took the time to take part in either an online or telephone interview with our independent research provider.

Overall satisfaction from respondents was as follows:
Very satisfied 47% | Neutral 47% | Dissatisfied 7%

We note the decline in satisfaction from our airline partners this year, where we have had changes to pricing and departure from our normal service standard. We are strongly resolved to improve service in the coming year.

We would like to thank our customers for their active participation.

FINANCIAL PERFORMANCE

This year the Airways group achieved a Net Operating Profit after Tax of $23.6 million, in line with budget (refer to NOPAT reconciliation on page 28).

Airways International Ltd maintained steady growth across the commercial portfolio with a NOPAT of $8 million, a 25 per cent increase on the previous year.

"DRONES AND AUTONOMOUS FLYING VEHICLES REMAIN THE SINGLE BIGGEST GAME CHANGER FOR AVIATION AND AIRWAYS SHARES IN A WIDER INDUSTRY VISION TO SAFELY INTEGRATE THESE AIRCRAFT INTO THE EXISTING AIR TRAFFIC NETWORK."

Investment in key customer relationships, continued product development and an ongoing flow of students into our training campuses has driven this result.

The Middle East continues to be a focus as we further strengthen our business and relationships in this region. During the year we established a training academy in Kuwait and installed a 320-degree tower simulator in Beirut, Lebanon.

In FY19 we were pleased to welcome 111 international air traffic students to our Christchurch and Palmerston North training campuses.

INVESTING IN THE FUTURE

Through ongoing capital investment and a focus on developing technology enabled solutions, we are making headway towards our vision to create the aviation environment of the future.

In August 2018 we opened two new air traffic control towers at Wellington International Airport and Nelson Airport. To celebrate the openings of both towers we held ceremonies attended by staff, our customers, key stakeholders, iwi and members of the aviation community.

These two modern towers are a significant investment for Airways and will support the growing aviation needs of both locations. They are also likely to be the last two 'bricks and mortar' towers to open in New Zealand, as we look to digital tower technology to deliver safer and more efficient aerodrome services that are better aligned to our customers' needs.

Development of New Zealand's first digital tower at Invercargill Airport is underway after a contract to design and build the system was awarded in February to Austrian technology company Frequentis. The Airways Board also approved a business investment case for the procurement of a contingent digital tower for Auckland International Airport.

We are proud to report the completion of all ground infrastructure for the nationwide Automatic Dependent Surveillance Broadcast (ADS-B) network – a major milestone for New Southern Sky, the Government's airspace modernisation programme. Fifteen ADS-B sites were installed throughout the regions, bringing the total number of sites to 26. The regional sites will be connected into the air traffic management platform in 2019.

The network is on track to be fully operational in time for the anticipated mandate for all aircraft operating in controlled airspace to be ADS-B capable by the end of 2021.

ADS-B will replace radar as New Zealand's main aircraft tracking technology when the secondary surveillance radar system is decommissioned in 2022.

This technology uses GPS to detect and track the movement of aircraft more precisely than radar, and in areas where radar coverage is limited. The system is already detecting aircraft in areas of limited radar coverage such as the Hawke's Bay, Gisborne and much of the South Island's West Coast.

Drones and autonomous flying vehicles remain the single biggest game changer for aviation and Airways shares in a wider industry vision to safely integrate these aircraft into the existing air traffic network. The development of a nationwide unmanned aerial vehicle traffic management (UTM) system is key to realising this vision and we have made solid progress during the year.

AirShare has been established as a subsidiary of Airways. The drone user hub – originally developed in 2014 – has been relaunched as a consumer app with advanced functionality to assist drone users to fly safely.

OUR PEOPLE

As always, our people are at the heart of Airways' success and we thank them for their ongoing hard work, commitment and dedication.

Our people are key to growing our capabilities and continually pushing beyond the boundaries as we deliver the changes required for Airways to fulfil its vision of creating the aviation environment of the future,

A number of structural changes within the Air Traffic Services and Airways International areas of the business were implemented during the year, aimed at streamlining our business processes and delivering a better service to our customers. As part of these changes we welcomed two new appointments to the Airways Executive team – Ed Overy as Chief Information Officer and Sharon Cooke as CEO of Airways International. Katie Breatnach joined Airways as Head of Legal and Company Secretary in July 2019.

Development of our staff culture has also been a key focus – Airways' Culture Development Group has made important steps this year to help make Airways a great place to work. We would also like to acknowledge the successful completion of collective agreement negotiations with the New Zealand Air Line Pilots Association and the Aviation and Marine Engineers Association - the representative unions for air traffic controllers, and engineering and technical staff.

Denise Church Airways Board Chair	Graeme Sumner Airways CEO

CHAIR AND CEO'S REVIEW
INVESTING IN THE FUTURE
INTEGRATING DRONES INTO OUR AIRSPACE
AIRWAYS INTERNATIONAL
SUSTAINABILITY
AIRWAYS BOARD OF DIRECTORS
FINANCIALS
FINANCIAL PERFORMANCE
PERFORMANCE AND PROGRESS AGAINST SCI METRICS
FINANCIAL STATEMENTS
EVA KEY PERFORMANCE INDICATORS
ADDITIONAL FINANCIAL INFORMATION
GOVERNANCE AT AIRWAYS

Investing in the future

"A DIGITAL TOWER FOR INVERCARGILL AIRPORT IS THE FIRST STEP IN OUR JOURNEY TO MODERNISE THE WAY WE PROVIDE AIR TRAFFIC SERVICES AT AIRPORTS, AS PART OF OUR FUTURE AERODROME SERVICES PROGRAMME."

SkyLine-X ATM system

24/7 services on one operating platform

Christchurch and Auckland

$58m investment

Our ongoing investment in technologies and infrastructure supports the growth and evolution of New Zealand aviation through improvement in safety and resilience, creation of flexible and sustainable regional services and enhanced sustainability of Airways' business.

NEW AIR TRAFFIC CENTRES AND ATM SYSTEM

The construction of two new air traffic control centres in Auckland and Christchurch is well underway and due for completion this year. These highly resilient buildings are being constructed with the capability to withstand significant seismic events and retain their operational functionality following an earthquake, severe weather event or major disaster.

During the year we worked with our people on the layout of controller work positions to ensure optimum operational capability, as well as the look and feel for the new centres. Once construction is complete the buildings will be fitted out with the new SkyLine-X air traffic management (ATM) platform, ready for controllers to begin managing airspace from the new facilities at the end of 2020.

Airways has partnered with global science and technology company Leidos to co-develop the $58 million SkyLine-X platform, which will integrate our domestic and oceanic ATM systems. SkyLine-X will provide controllers with additional features to

CHAIR AND CEO'S REVIEW
INVESTING IN THE FUTURE
INTEGRATING DRONES INTO OUR AIRSPACE
AIRWAYS INTERNATIONAL
SUSTAINABILITY
AIRWAYS BOARD OF DIRECTORS
FINANCIALS
FINANCIAL PERFORMANCE
PERFORMANCE AND PROGRESS AGAINST SCI METRICS
FINANCIAL STATEMENTS
EVA KEY PERFORMANCE INDICATORS
ADDITIONAL FINANCIAL INFORMATION
GOVERNANCE AT AIRWAYS

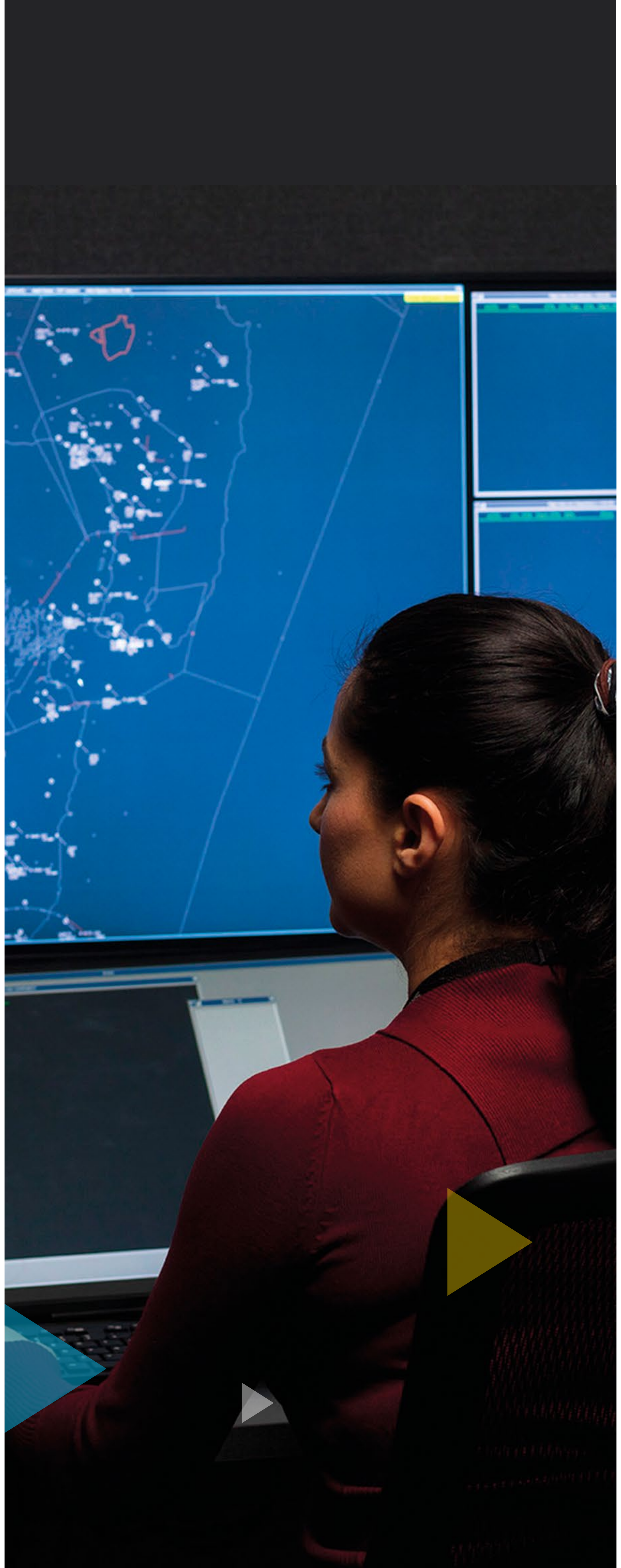
increase safety and efficiency, including medium and long-term conflict alerting, time-based separation and arrival and departure management tools.

In collaboration with Leidos, we have successfully completed three of the four software builds for the new platform. Some of the new technology is being introduced into our current platform and will support easier migration into the new system.

A key feature of our new ATM platform is a new $7 million IP based voice communications system, providing controllers with air-to-ground and ground-to-ground voice communications. Moving from a radio-based system to a fully digitised one, developed by Rohde and Schwarz, is critical to enabling Airways to operate across two centres in Auckland and Christchurch, as well as 19 control towers.

$7m

IP based voice communications system



DIGITAL AIR TRAFFIC CONTROL TOWERS

A digital tower for Invercargill Airport is the first step in our journey to modernise the way we provide air traffic services at airports as part of our Future Aerodrome Services Programme (FASP).

As a first step, Airways has been working with stakeholders to determine the future service requirements at attended aerodromes around New Zealand. Digital towers are a core component of the programme, focused on ensuring we are able to provide safe, more flexible and efficient services for our customers now and in the future.

In February 2019 we awarded a contract to Austrian technology provider Frequentis to develop the digital system for Invercargill Airport. We are working in partnership to deploy the system which is due to go live in 2021 and will be operated at first by controllers based at the airfield.

Planning is also underway for the installation of a digital system at Auckland International Airport. This will initially act as a back-up contingency system for the existing tower, before a full replacement is potentially implemented in the future.

By replicating the view a controller would have from a conventional tower, using high definition cameras and surveillance sensors, digital tower technology offers increased safety, less disruption in poor weather and could improve regional connectivity. In the future, controllers could manage air traffic from a centralised hub away from the airfield providing services for a number of locations.

Airways has been following the development of digital towers around the world since 2012 and is confident that the capability and cost of digital technologies presents significant opportunities for services in New Zealand.

QUEENSTOWN APPROACH SERVICES

Changes made to the way we deliver the approach service into Queenstown Airport have brought it in to line with our best practice services at other main international airports in Auckland, Wellington and Christchurch.

The Queenstown approach service is now being delivered using surveillance technology from our Christchurch radar centre, and is the culmination of a two-year work effort by people from across our business. Previously the service was delivered using a procedural system from Queenstown Tower.

Moving to this approach will allow our teams to deliver the service with a greater level of safety and will help to more efficiently manage flight increases into Queenstown as the region continues to grow.

All approach services will be provided using surveillance technology once the anticipated mandate for all aircraft operating in controlled airspace to be ADS-B capable comes into effect. This is expected in 2021.

> "AIRWAYS HAS BEEN WORKING WITH STAKEHOLDERS TO DETERMINE THE FUTURE SERVICE REQUIREMENTS AT ATTENDED AERODROMES AROUND NEW ZEALAND."

Integrating drones into New Zealand airspace

As commercial and recreational drone use continues to grow at a rapid pace in New Zealand, the need to safely integrate Unmanned Aerial Vehicles (UAVs) into the aviation system is critical.

We've worked closely with the Civil Aviation Authority (CAA), the Ministry of Transport (MOT) and the Ministry of Business, Innovation and Employment (MBIE) this year to develop a joint vision for the safe integration of UAVs and autonomous flying vehicles into New Zealand airspace. Three key progress areas have been identified: the development of a UAV traffic management system (UTM), aerodrome safety, and supporting the wider development of national UAV infrastructure.

Airways has taken significant steps forward in each of these areas during the year as we support the safe growth and development of the New Zealand drone sector.

AIRSHARE

Airways is committed to doing everything we can to enhance aviation safety and ensure the safe passage of aircraft in controlled airspace as drone use increases.

Central to this is AirShare, which was first launched in 2014 and became a subsidiary of Airways in December 2018. AirShare has evolved from a one-stop-shop website providing information on how to operate drones safely, to a stand-alone business with a wider purpose to develop a safe, transparent and efficient UTM system for New Zealand.

The first AirShare mobile app was released in March 2019, allowing users to see where they can fly, file a flight plan and gain approvals to access controlled airspace. The app provides proximity and surveillance data for better situational awareness and sends automated text alerts for boundary infringements.

The AirShare website was also refreshed, focusing on ease of use for logging flights, learning the rules, and growing the AirShare database of more than 14,000 registered drone operators. Engagement with drone operators throughout New Zealand is a key focus as AirShare works to grow awareness of the platform and create useful tools for users.

14,000
registered drone operators

"OUR PRIMARY FOCUS IS TO ENSURE SAFE INTEGRATION OF UAVS INTO THE EXISTING AVIATION SYSTEM, ACROSS BOTH CONTROLLED AND UNCONTROLLED AIRSPACE."

AERODROME SAFETY

With an average of two unauthorised drone sightings currently reported per week in controlled airspace, it is critical that Airways has the ability to detect and track drones to prevent collisions with other aircraft – particularly in the approach areas of New Zealand's major airports.

Drone detection technology is rapidly advancing and finding the right solution is proving to be a global challenge.

We are currently trialling technologies that will positively detect UAVs around airports and track their flight path. Our investigations included a trial of two drone detection systems at Auckland International Airport to analyse and gain a deeper understanding of the technology. We discovered that each technology has unique benefits and have identified that multiple systems may be needed simultaneously to validate and improve drone detection reliability.

NATIONAL UAV INFRASTRUCTURE

National UAV infrastructure will lay the foundation for safe and efficient beyond-visual-line-of-sight (BVLOS) operations and will ensure airspace is safe and optimised as UAV traffic increases.

In early 2019 AirShare led field trials at Bethells Beach, Auckland, of technologies that could support BVLOS operations. Tests were undertaken to identify if the LTE mobile phone network and Automatic Dependent Surveillance Broadcast (ADS-B) technology could be used as a way to provide command and control capability, and greater situational awareness.

The findings of these trials, undertaken in partnership with Spark, Auckland Council and drone company X-Craft, will be used to develop and promote processes and systems for safely managing UAV flights that cannot be directly observed by the operator.

The findings and recommendations from AirShare's trial will be presented back to a cross-government working group involving Airways, AirShare, CAA, MBIE and MOT.

Airways International

Airways' innovation and expertise is being exported around the globe. Solid growth across our commercial portfolio during the year has enhanced the value of Airways and our reputation as a world-leading provider of ATC training and simulation services.

A refresh of the commercial business model saw all Airways' commercial activities aligned under the umbrella of Airways International Ltd, established in June 2018. This strategy aims to ensure our commercial products and services are well positioned to thrive as they meet the unique and complex needs of the air navigation service provider (ANSP) and aviation industry.

350

NZ and international ATC students trained

TRAINING AND SIMULATION IN THE MIDDLE EAST

The Middle East remains a key market for Airways International. During the year we further developed our business and relationships in the region through ATC training, and deployment and installation of two TotalControl ATC simulation facilities.

We established an ATC training academy in Kuwait in September 2018 in partnership with the Australian College of Kuwait (ACK). Airways International installed two tower simulators and two surveillance simulators in the ACK facility before providing a one-year training programme for Kuwaiti ATC students who graduated in July this year.

The Kuwait contract was a bespoke training solution incorporating Airways simulation, competency-based training and e-learning using our AirBooks interactive learning resources, and our SureSelect computer-based ATC skill simulation tests to select students for training.

In Lebanon, an LCD tower simulator and two surveillance simulators were installed and commissioned for the Directorate General of Civil Aviation (DGCA), at Beirut-Rafic Hariri International Airport. This was the culmination of a 12-month project for Airways International.

CHAIR AND CEO'S REVIEW
INVESTING IN THE FUTURE
INTEGRATING DRONES INTO OUR AIRSPACE
AIRWAYS INTERNATIONAL
SUSTAINABILITY
AIRWAYS BOARD OF DIRECTORS
FINANCIALS
FINANCIAL PERFORMANCE
PERFORMANCE AND PROGRESS AGAINST SCI METRICS
FINANCIAL STATEMENTS
EVA KEY PERFORMANCE INDICATORS
ADDITIONAL FINANCIAL INFORMATION
GOVERNANCE AT AIRWAYS

DGCA managers and air traffic controllers undertook simulation testing and training in New Zealand in April, before the simulators were shipped to Lebanon for installation and commissioning in May. The facility will be used to train DGCA's ATC controllers and students using simulated scenarios that mimic the real world.

About 350 New Zealand and international students undertook ATC training at Airways International's training academy during the year, at our purpose-built training facilities in Christchurch and Palmerston North, and at their own facilities. Two groups of Saudi Arabian students from the General Authority of Civil Aviation started ATC training in Palmerston North during the year. Courses are also underway in Christchurch for Emirati, Pasifika, Vietnamese and Hong Kong students.

In addition to the Middle East market and New Zealand based training, instructors delivered courses offshore in Ghana, Bahrain, Vietnam and Singapore.

INTERNATIONAL PARTNERSHIPS

Collaboration with other ANSPs and aviation service providers is a core element of Airways International's strategy to grow and expand our reach in global markets.

In March 2019 we signed a memorandum of understanding (MOU) with MITRE Corporation, agreeing to combine our expertise and shared capabilities to address aviation challenges across Asia Pacific. Our first step as part of this partnership is the development of a data analytics tool that enables better decision making for ANSPs and delivers demonstrable safety and efficiency gains for customers.

Airways International also established a strategic partnership with Leidos during the year, signing an MOU committing to collaborate on the development of next generation air traffic management technologies and training and simulation solutions. The organisations' co-development of the SkyLine-X air traffic management platform has laid the foundation for future collaboration on ATM projects around the world.

AVIATION SERVICES

The Aviation Services business unit of Airways International provides equipment installation and maintenance services, upper airspace services and aviation consultancy to airport and ANSP customers in New Zealand and worldwide.

In August 2018 Aviation Services commenced an airfield lighting project at RNZAF Base Ohakea. New LED taxiway and runway edge lights and Movement Area Guidance signs are being installed, and around 100km of cabling is being laid as part of this New Zealand Defence Force major upgrade which is due for completion in November.

PROCEDURE AND AIRSPACE DESIGN, AND FLIGHT INSPECTION

Our Aeropath business completed a significant procedure design project in the Philippines during the year, developing the concept for a proposed new international airport development. It is hoped that this project, run through a consortium, will lead to further consultancy opportunities in the Philippines for Aeropath.

Our procedure design, charting and flight inspection work in the South Pacific continues to cement Airways' commitment to enhancing aviation safety and developing sustainable and efficient services that will make a difference in the region.

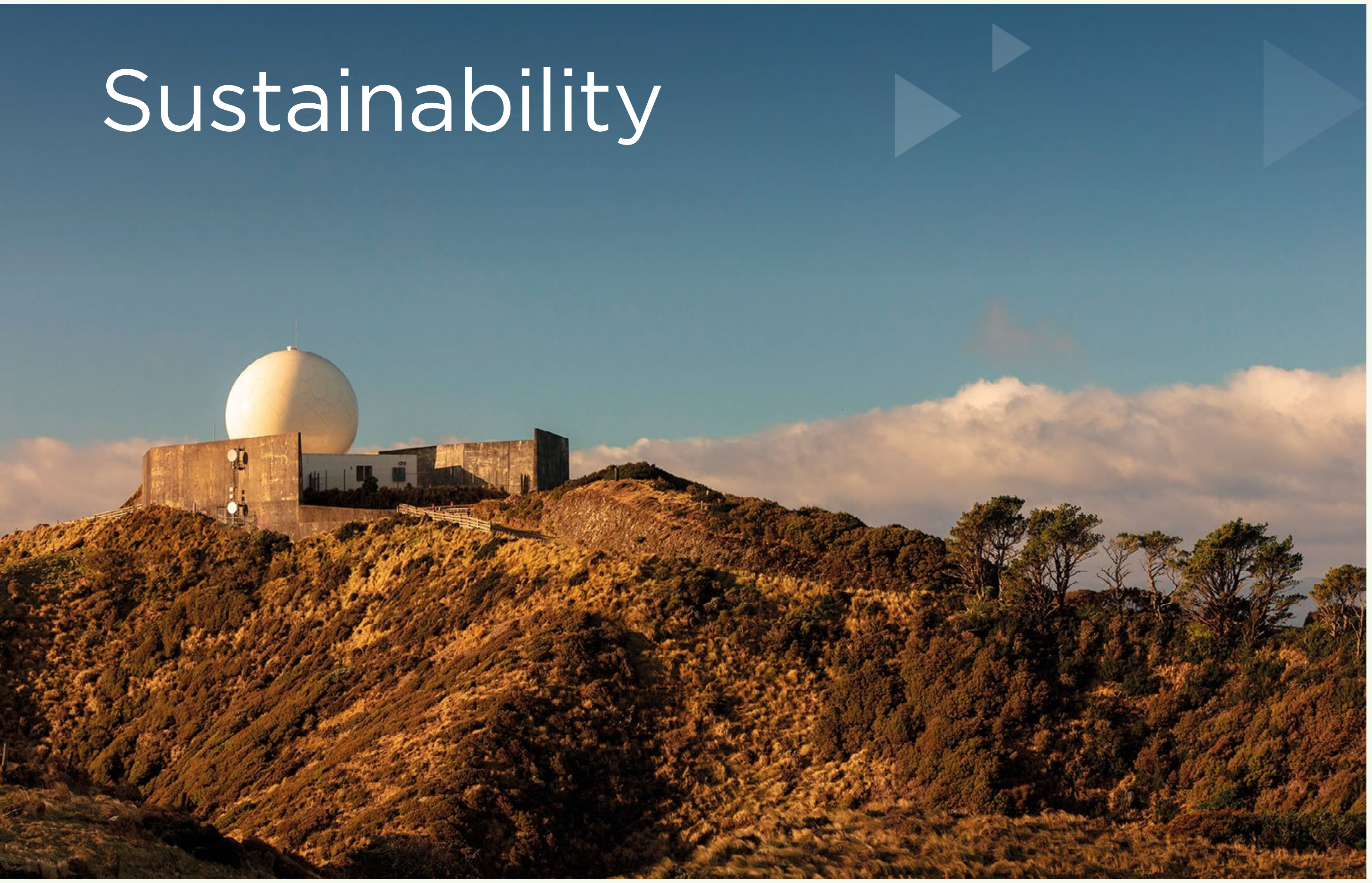
Airways has been working with the New Zealand Ministry of Foreign Affairs and Trade (MFAT) since 2013 on a multi-year Pacific Aeronautical Charting and Procedures (PACP) programme. The $2.4 million project to update flight procedures and aviation charts for 38 aerodromes across the Pacific, was largely completed during the year. Aeropath and Airways worked closely with MFAT to ensure new flight procedures were implemented in time to support the Pacific Islands Forum held in Tuvalu in September.

The PACP programme comprised of more accurate surveying of runways and designing satellite-based approach procedures to improve the ability of aircraft to land safely, especially in poor weather.

Aeropath and Airways also participated in a testbed project during the year, exploring the development of a regional satellite-based augmentation system (SBAS) to improve the accuracy of GNSS approach procedures.

Run in conjunction with FrontierSI Australia, the project was a major step in the possible implementation of an SBAS system to be operated by the Australian Government, which New Zealand may gain access to in the future. The trial commenced in October 2017 and testing was completed in July 2018.

"COLLABORATION WITH OTHER ANSPS AND AVIATION SERVICE PROVIDERS IS A CORE ELEMENT OF AIRWAYS INTERNATIONAL'S STRATEGY TO GROW AND EXPAND OUR REACH IN GLOBAL MARKETS."



Sustainability

We are committed to making a positive contribution to the world we live in – achieving Airways' strategic goals in a socially and environmentally sustainable way that works for our business, our people, and for all of New Zealand.

During the year we developed our first sustainability framework, to be fully integrated into Airways' strategy and business plans. The framework brings together the sustainability initiatives already underway or completed at Airways and sets a direction for our future progress. It focuses on four pillars of commitment: our contribution, our team, our communities and our footprint.

To ensure a firm foundation for our sustainability journey we interviewed our people, customers, and Government stakeholders to understand what they cared about and the opportunities they see for Airways to lead in achieving footprint reductions in the aviation industry.

Workshops were held to review these insights against Airways' vision and purpose and the Government's Living Standards Framework. The sustainability framework was developed as an outcome of this work and finalised in September 2018.

OUR PERFORMANCE SO FAR

This year Airways employed a dedicated sustainability advisor to manage our initiatives. Our progress to date has been focused on reducing waste and tackling carbon emissions.

A focus on waste

A key sustainability initiative for Airways is to design and implement waste collection that diverts material from landfill and forms a basis for a zero waste organisation.

The starting point was to understand the waste we generate, our existing waste facilities and services, and identify opportunities for improvement. This investigation involved surveying each of our domestic facilities, conversations with our existing waste providers, data interrogation where available and engagement with our staff.

As an initial step we are working to minimise disposable materials entering our business. One staff-led initiative completed during the year was providing reusable Keep Cups at all our premises – a key step embraced whole-heartedly by our people. We estimate that the 1,000 cups purchased have the potential to remove over 50,000 disposable takeaway cups from landfill every year.

Tackling carbon emissions

Airways generates greenhouse gases primarily through our fleet of vehicles, electricity use and company travel. We also have a significant influence over the carbon emissions of our airline customers through the efficient direction of aircraft. We are reducing our impact in the skies through our introduction and use of Performance Based Navigation procedures, and with our Collaborative Arrivals Manager tool which minimises delays and maximises efficiencies for airlines.

Performance Based Navigation

Performance Based Navigation (PBN) plays an integral part in Airways' commitment to reduce the environmental footprint of the aviation industry.

Identified as a number one priority for the International Civil Aviation Association (ICAO) and aviation industry, PBN is a key component of the Civil Aviation Authority's New Southern Sky (NSS) national airspace and air navigation programme.

Airways' PBN implementation programme is delivering environmental and economic benefits through the reduction of CO_2 emissions, fuel savings and lower aircraft operating costs. With PBN procedures, aircraft follow optimised flight paths, allowing for safer, more predictable flights.

Our $9 million programme of work to develop and deploy PBN procedures and technology into our airspace across 17 controlled aerodromes is nearing completion. PBN implementation projects at Napier and Gisborne will conclude in November 2020, the final two of 50 separate projects completed over seven years.

During the year PBN procedures were deployed into Christchurch, Nelson and Whenuapai. In November 2018 we partnered with Christchurch Airport, the Board of Airline Representatives New Zealand (BARNZ) and New Southern Sky (NSS) to complete a PBN flight path trial. Another trial commenced in Wellington in September 2018, in conjunction with our partners Wellington Airport, BARNZ and NSS. Trials of PBN flight paths help us to gather information about their environmental and efficiency benefits, and also to fully understand impacts on local residents.

PBN procedures in New Zealand airspace are estimated to provide benefits of around $3.6 million per year, including more than $1 million in fuel savings for our airline customers.

The improved efficiency has also allowed our airline customers to avoid 4,800 tonnes of carbon emissions and resulted in 76,000 minutes of saved flight time.

Annual savings through PBN

$3.6m
in direct benefits

76,000
minutes of flight time

$1m
of fuel savings for our customers

2m
passengers with reduced flight times

4,800
tonnes of CO_2 avoided

"WE ESTIMATE THAT THE 1,000 CUPS PURCHASED HAVE THE POTENTIAL TO REMOVE OVER 50,000 DISPOSABLE TAKEAWAY CUPS FROM LANDFILL EVERY YEAR."

Collaborative Arrivals Manager

Airways' Collaborative Arrivals Manager (CAM) is now in its 10th year of creating significant fuel and cost savings, minimising delays and maximising efficiencies across the aviation supply chain. CAM is a web-based flight scheduling manager that allows greater control over the time of arrival and enables airlines to manage their schedules flexibly and responsively. Rather than entering into delay vectoring and contributing to holding congestion, inbound flights schedule their departures to synchronise with available arrival slots. Since it was first introduced in Auckland in 2008 and subsequently rolled out to Wellington and Christchurch in 2009, CAM has achieved:

- 500,000 tonnes CO_2 avoided
- 6% fuel savings per year
- Over 300,000 minutes of inflight delay saved per year.

CAM works seamlessly with PBN to achieve efficiencies across Airways' air traffic services. We will continue to pursue opportunities to reduce the aviation industry's greenhouse gas footprint through technological advancements and smart ATM.

Our sustainability framework

Tō tātou poutarāwaho tikanga tokonga roa

We have a responsibility to make a positive contribution to the world we live in—for today and for tomorrow. We are committed to succeeding as a business in a socially and environmentally sustainable way that works for us, our people, our communities and for all of New Zealand.

And that's why we are taking positive action today to shape what the aviation environment of tomorrow looks like. We all have a part to play in achieving this. Your ideas, your actions and your total commitment will ensure that our tamariki and mokopuna can continue to enjoy an exciting and sustainable world of air travel.

THIS FRAMEWORK IS HOW WE'LL CHAMPION A BETTER TOMORROW, TOGETHER.

Pillars Ngā pou	**Our Contribution** Tō tātou takoha	**Our Team** Tō tātou tira	**Our Communities** Ō tātou hapori	**Our Footprint** Tō tātou tapuwae
Our Commitment Tō tātou oati	**We support a thriving and successful aviation industry.**	**Our workplace culture is one of trust, collaboration and achievement.**	**We shape a safe and sustainable future for our aviation community, to benefit all communities.**	**We achieve zero emissions and zero waste.**
The Challenge Te whakataki	Aviation connects New Zealanders and our economy to the world, but is changing on all sides. Supporting value creation opportunities for our aviation partners will open possibilities for Airways and other Kiwi businesses.	Our industry and our business are constantly changing, which will affect our people in many ways.	The demand on our airspace is changing. The growth in small commercial operations and drone use is broadening our community. We need new regulation and procedures to maintain safety and manage the social and environmental impacts.	Natural resources are being used up faster than they can regenerate, and vital environmental systems are being degraded faster than they can recover. This threatens our standard of living and the wellbeing of future generations.
Our Aim Tō mātou whāinga	To positively contribute to New Zealand by: ▶ Helping the industry develop successful and sustainable air transport methods. ▶ Developing commercially successful products and services that make a positive contribution to New Zealand's communities, economy and reputation.	To prioritise our culture and capability by: ▶ Being recognised as a great place to work, with a culture of trust, collaboration and innovation. ▶ Being inclusive, diverse and equitable. ▶ Supporting our people's learning and development to stay at the forefront of their fields and tackle new challenges.	To work collaboratively in enabling our community of airspace users, and related infrastructure providers and operators, to find innovative solutions that: ▶ Reduce carbon emissions ▶ Mitigate noise ▶ Keep our airspace safe ▶ Develop our future leaders	To be a leader in environmental responsibility by: ▶ Smart design choices. ▶ Relentlessly pursuing energy and fuel efficiency. ▶ Offsetting greenhouse gas emissions we can't eliminate. ▶ Ensuring all materials used are recovered, repurposed or recycled at the end of their service life.
Key Performance Areas Ngā Wāhanga Takinga Mahi Matua	1. Efficiency of aircraft movements. 2. Aviation sector performance and development. 3. Innovation.	1. Engagement and trust levels. 2. Knowledge retention and development. 3. Diversity.	1. Safety. 2. Noise mitigation. 3. Carbon emissions from air transport.	1. Carbon emissions. 2. Operational waste. 3. Materials management.

Board of Directors

DENISE CHURCH
CHAIR
QSO

Denise was appointed as Chair of the Airways Board in January 2019, bringing a wide range of governance and management experience.

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 a board member of Predator Free Wellington Ltd, trustee of the South Youth Foundation, president-elect for Rotary Club of Wellington, and a director and shareholder of Leadership Matters Limited.

Denise was Chief Executive of the Ministry for the Environment from 1996 to 2001. She has previously served on the Health IT Board, the Science Board, the Boards of Karori Sanctuary Trust, Ako Aotearoa, FRST, Landcare Research, and the Wellington Zoo Trust.

In 2002 Denise was appointed as a companion of the Queens Service Order.

MARY-JANE DALY
DEPUTY CHAIR
BCOM, MBA, CMINSTD

Mary-Jane was appointed to the Airways Board in May 2014. She is a Director of Auckland Transport, Kiwi Property Group, Onepath Life (NZ) Limited and Cigna Life Insurance New Zealand Limited. Mary-Jane is also the Deputy Chair of the Earthquake Commission and Trustee of the Mark Daly Trust.

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

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

DARIN CUSACK

Darin was appointed to the Airways Board in April 2018. He is a Director of Absolute Solutions Group Limited and brings senior leadership experience in the aviation and transport sectors spanning three decades.

Most recently, Darin led the Pacific Aviation Investment Program for the World Bank across five countries and reforming the Pacific Aviation Safety Office. Bringing operational and commercial acumen, Darin provides clear strategic direction, supported by strong processes. He has held chief executive and senior executive roles across airport, air traffic, aviation security and airline organisations throughout New Zealand and Tonga and is a member of the Institute of Directors. Darin has a focus on continual improvement, strengthening relationships, and the provision of safe and secure operations.

JOHN HOLT

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 Mobi2Go Ltd. 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 had a lifelong interest in aviation and is a flying member of the Wellington Aero Club and Canterbury Aero Club.

PAULA JACKSON
MINSTD

Paula Jackson was appointed to the Airways Board in January 2019. She is a Member of the Institute of Directors (MInstD) and was selected for the Mentoring for Diversity programme in 2017.

Paula is a director for Quotable Value NZ Ltd, Collect Limited and Who's on Location Ltd, where she is also Chair, and a trustee for Wellington Culinary Events Trust. She is also the director of her own consulting business Paula Jackson Consulting Limited, where she provides marketing, advisory and mentoring expertise to predominantly technology and Software as a Service (SaaS) organisations. Paula's career spans 25 years in marketing, holding leadership and general management positions at ANZ, Telecom (Spark), Vodafone and Xero. Paula began an MBA at Otago University in 2019.

LISA JACOBS
BCOM, LLB, CA, 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 Chartered Accountant, and a Chartered Member of the Institute of Directors.

BENNETT MEDARY
BCOM, PMP, IITP, MINSTD

Bennett was appointed to the Airways Board in November 2015. He is an avid aviator and mariner who has a strong belief in technology as an enabler for change, transformation and competitive advantage.

He was founder and previously the Chair of The Simpl Group of technology companies. Bennett is currently the Chair of Preno, a global software start-up offering a modern hotel management system for boutique properties, and a director of Medary Services Limited.

MARK PITT
BSC, ATPL

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

He holds directorships with Quinn International Ltd. G & M International Investments Pty Ltd and Airwork Holdings Ltd. Mark was the Chief Executive of Air New Zealand subsidiary Mount Cook Airline, Managing Director and Chairman of Virgin Samoa and, most recently, Managing Director and Chief Executive of Virgin Australia New Zealand. Mark has also served as a director on a number of boards, including Virgin Australia New Zealand and the Board of Airline Representatives New Zealand Incorporated (BARNZ).

Financial statements

2018 ▸ 2019

Financial performance

Airways Group delivered NOPAT of $23.6 million in line with plan

Core business slightly under performed largely due to revaluation losses on long term leave liabilities driven by falls in long term interest rates

Commercial business outperformed with strong contributions coming from all business units

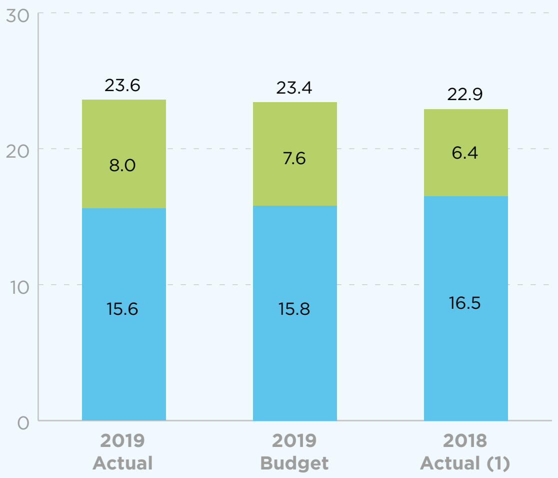
COMMERCIAL BUSINESS NOPAT UP

25%

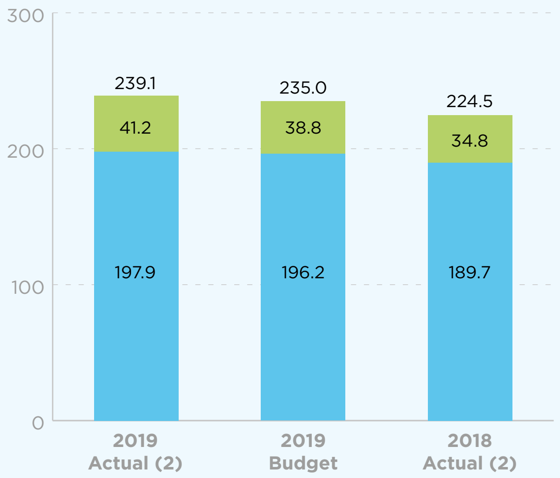
ON PRIOR YEAR

Capital investment of $46 million is behind plan but in line with pricing commitments to customers

NOPAT ($M)



REVENUE ($M)



▶ CORE BUSINESS ▶ COMMERCIAL BUSINESS

1. The $4.3 million net gain on sale of Queenstown land has been excluded from 2018 NOPAT, otherwise NOPAT equates to net surplus after taxation in the Group Statement of Profit or Loss and Other Comprehensive Income

2. 2019 revenue includes internal revenue of $9.8 million (2018: $10.1 million) eliminated in the Group Statement of Profit or Loss and Other Comprehensive Income.

STATUTORY BUSINESS

Flight volumes increased by 1.8% on the previous year, with domestic increases of 2.0% and international increases of 1.4%. Operating costs were higher than plan primarily due to revaluation losses on long term leave liabilities driven by continued falls in long term interest rates. A continued focus on cost control across key areas of discretionary spend has partly offset the revaluation losses.

The capital investment programme is behind initial budget targets but in line with pricing commitments to customers. Key next generation projects remain on track, notably the new ATM platform and new IP based communication infrastructure to support the new Air Traffic Control centres being constructed in Auckland and Christchurch

Delays on the capital plan have come from the flexible contingent runway (FCR), which is moving in line with progress from Auckland International Airport Limited, and investment in new digital towers in Invercargill and Auckland (contingent) which are being rolled out in a more staged and considered way to ensure all stakeholders are comfortable with progress.

COMMERCIAL BUSINESS

Revenue increased by 18.4% on the previous year. Investment in key customer relationships and continued product development has supported strong contributions from all business units. Key contributions have come from the installation of a simulator in Lebanon, procedure design in Philippines, new training campus in Kuwait and continued strong volumes in the domestic training business.

The refreshed team structure put in place at the start of the year has supported the 25% growth in NOPAT from the 2017–18 financial year.

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

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

	Actual 2019	SCI Target
Leadership and People		
Staff culture	To be measured in 2020	>FY18
Staff safety – serious harm injuries	1	Nil
Financial (values in $M)		
Group NOPAT	23.6	23.4
Commercial business NOPAT	8.0	7.6
Capital investment	46.3	71.7
Dividends	12.0	12.0
Total revenue	239.1	235.0
Earnings before interest, tax, depreciation and amortisation (EBITDA)	57.3	56.9
Earnings before interest and tax (EBIT)	33.2	33.4
Shareholder returns		
Dividend yield	4.9%	5.0%
Dividend payout	51.0%	44.0%
Return on equity	17.1%	16.9%
Return on equity, adjusted for IFRS fair value movements and asset revaluations	16.9%	16.7%
Profitability and efficiency		
Return on capital employed	18.0%	16.5%
Return on assets	13.7%	13.0%
Operating margin	23.9%	24.1%
Net Profit margin	10.3%	9.9%
Asset turnover	0.9	0.8
Leverage and solvency		
Equity multiplier	1.8	1.9
Gearing ratio (net)	25.4%	35.2%
Interest cover (before capitalised interest)	22.3	17.8
Solvency (current ratio)	0.7	0.7
Growth and investment		
Revenue growth	6.6%	5.6%
EBITDAF growth	5.2%	2.9%*
NPAT growth	3.0%	2.0%*
Capital employed growth	12.4%	24.6%
Capital renewal	1.9	3.1

* Restated to exclude the gain on sale of land in 2017-18

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 2019 ($000's)	Group 2018 ($000's)	Notes
Operating activities			
REVENUE			
Air traffic management revenue	200,841	193,109	A3.1
Other revenue	28,413	21,367	A3.1
Total revenue	**229,254**	**214,476**	
OTHER INCOME			
Gain on sale of surplus land	–	4,263	A8
Total other income	**–**	**4,263**	
Total income	**229,254**	**218,739**	
EXPENSES			
Employee remuneration	115,264	109,258	A3.3
Employee related costs	9,430	9,503	
Depreciation	18,439	17,703	A8
Amortisation	5,654	4,929	A8
Other operating costs	39,753	35,276	A3.2
Rental expense on operating leases	7,531	5,980	
Net finance expense	495	58	
Total expenses	**196,566**	**182,707**	
Net surplus before taxation	**32,688**	**36,032**	
Taxation expense	9,112	8,876	A4
Net surplus after taxation attributable to equity shareholders	**23,576**	**27,156**	
Other comprehensive income			
That may be reclassified to profit or loss when conditions are met:			
Movement in cash flow hedge reserve	(124)	1,190	
Deferred tax on other comprehensive income	35	(333)	A4
Total other comprehensive income	**(89)**	**857**	
Total comprehensive income for the year attributable to equity shareholders	**23,487**	**28,013**	

This statement is to be read in conjunction with the Notes to the Financial Statements on pages 36 to 58.

Balance sheet

As at 30 June	Group 2019 ($000's)	Group 2018 ($000's)	Notes
Assets			
CURRENT ASSETS			
Cash and cash equivalents	1,018	1,750	
Trade and other receivables	26,266	25,618	A6
Prepayments	2,852	2,150	
Derivative financial instruments	115	172	A5
Total current assets	**30,251**	**29,690**	
NON-CURRENT ASSETS			
Property, plant and equipment	202,320	176,707	A8
Intangibles	19,132	22,491	A8
Inventory	1,928	1,581	
Other non-current assets	84	84	
Derivative financial instruments	3	55	A5
Total non-current assets	**223,467**	**200,918**	
Total assets	**253,718**	**230,608**	
Liabilities			
CURRENT LIABILITIES			
Trade and other payables	16,237	16,778	A7
Employee entitlements	20,558	19,350	A3.4
Current tax liability	6,034	4,312	
Derivative financial instruments	379	519	A5
Total current liabilities	**43,208**	**40,959**	

This statement is to be read in conjunction with the Note to the Financial Statements on pages 36 to 58.

Balance sheet CONTINUED

As at 30 June	Group 2019 ($000's)	Group 2018 ($000's)	Notes
NON-CURRENT LIABILITIES			
Loan facility – unsecured	50,000	40,000	B1
Deferred tax liability	5,663	8,345	A4
Employee entitlements	9,441	7,518	A3.4
Derivative financial instruments	1,568	1,435	A5
Total non-current liabilities	**66,672**	**57,298**	
Total liabilities	**109,880**	**98,257**	
Net assets	**143,838**	**132,351**	
Equity			
Share Capital	41,100	41,100	A9
Reserves	(1,312)	(1,223)	
Retained Earnings	104,050	92,474	
Total equity	**143,838**	**132,351**	

This statement is to be read in conjunction with the Notes to the Financial Statements on pages 36 to 58.

The Board of Directors of Airways Corporation of New Zealand Limited authorised these financial statements for issue on 22 August 2019. The Directors do not have the power to amend the financial statements once issued.

DENISE CHURCH
Chair

22 August 2019

MARY-JANE DAILY
Director

22 August 2019

CHAIR AND CEO'S REVIEW
INVESTING IN THE FUTURE
INTEGRATING DRONES INTO OUR AIRSPACE
AIRWAYS INTERNATIONAL
SUSTAINABILITY
AIRWAYS BOARD OF DIRECTORS
FINANCIALS
FINANCIAL PERFORMANCE
PERFORMANCE AND PROGRESS AGAINST SCI METRICS
FINANCIAL STATEMENTS
EVA KEY PERFORMANCE INDICATORS
ADDITIONAL FINANCIAL INFORMATION
GOVERNANCE AT AIRWAYS

Statement of changes in equity

	Group				
	Attributable to equity shareholders				
	Con-tributed equity	Hedge reserve	Retained profits	Total	Notes
Balance as at 30 June 2017	**41,100**	**(2,080)**	**76,318**	**115,338**	
COMPREHENSIVE INCOME					
Net surplus after taxation	–	–	27,156	27,156	
OTHER COMPREHENSIVE INCOME					
Movements in hedge contracts	–	1,190	–	1,190	
Deferred tax on other comprehensive income	–	(333)	–	(333)	A4
Total other comprehensive income	**–**	**857**	**–**	**857**	
Total comprehensive income	**–**	**857**	**27,156**	**28,013**	
TRANSACTIONS WITH OWNERS					
Dividends paid (26.8 cents per share)	–	–	(11,000)	(11,000)	
Total transactions with owners	**–**	**–**	**(11,000)**	**(11,000)**	
Balance as at 30 June 2018	**41,100**	**(1,223)**	**92,474**	**132,351**	
COMPREHENSIVE INCOME					
Net surplus after taxation			23,576	23,576	
OTHER COMPREHENSIVE INCOME					
Movements in hedge contracts		(124)		(124)	
Deferred tax on other comprehensive income		35		35	
Total other comprehensive income		**(89)**		**(89)**	
Total comprehensive income		**(89)**	**23,576**	**23,487**	
TRANSACTIONS WITH OWNERS					
Dividends paid (29.2 cents per share)			(12,000)	(12,000)	
Total transactions with owners			**(12,000)**	**(12,000)**	
Balance as at 30 June 2019	**41,100**	**(1,312)**	**104,050**	**143,838**	

This statement is to be read in conjunction with the Notes to the Financial Statements on pages 36 to 58.

Statement of cash flows

	Group		
For the year ended 30 June	2019 ($000's)	2018 ($000's)	Notes
Cash flows from operating activities			
CASH WAS PROVIDED FROM:			
Receipts from customers	228,646	213,111	
Interest received	13	25	
CASH WAS APPLIED TO:			
Payments to suppliers	(48,670)	(38,974)	
Payments to employees	(121,823)	(117,602)	
Interest paid	(493)	(60)	
Income tax paid	(10,037)	(7,529)	
Net cash flows from operating activities	**47,636**	**48,971**	E2
Cash flows from investing activities			
CASH WAS PROVIDED FROM:			
Sale of property, plant and equipment	56	7,231	
CASH WAS APPLIED TO:			
Purchase of property, plant and equipment	(26,272)	(29,212)	
Purchase of intangible assets	(20,152)	(16,762)	
Net cash flows from investing activities	**(46,368)**	**(38,743)**	
Cash flows from financing activities			
CASH WAS PROVIDED FROM:			
Drawdown of loan facility	10,000	1,000	
CASH WAS APPLIED TO:			
Payment of dividends	(12,000)	(11,000)	
Net cash flows from financing activities	**(2,000)**	**(10,000)**	
Net increase in cash held	**(732)**	**228**	
Cash at the beginning of the year	1,750	1,522	
Cash at the end of the year	**1,018**	**1,750**	

Interest paid above excludes capitalised interest. Total interest paid for the year was $2.369 million (2018: $2.290 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 36 to 58.

Structure of notes to the financial statements

A

Section A:
How the numbers are calculated – pages 37 to 49

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 50 to 54

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 55 to 56

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 57

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 58

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

KEY JUDGEMENT:
Areas where significant financial judgement may be required are highlighted like this throughout the accounts.

SECTION A
How the numbers are calculated

A1 BASIS OF PREPARATION

These financial statements are for the consolidated Group ("Airways"), consisting of Airways Corporation of New Zealand Limited and its subsidiaries: (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 the Group. All values are rounded to the nearest thousand dollars ($'000) unless otherwise stated.

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

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

(i) NZIFRS 16 – Leases, issued in February 2016 (effective for periods beginning on or after 1 January 2019). Airways will adopt this standard in the 2019-20 financial year using the simplified transition approach and will not restate comparative amounts for the period prior to first adoption. On adoption, Airways estimate this standard will:

Increase lease assets by approximately	$15.7 million
Increase lease liabilities by approximately	$15.7 million

In the first quarter after adoption, Airways also expects two additional leases to come on to the balance sheet for new operational facilities in Auckland and Christchurch. These leases are expected to increase both assets and liabilities by approximately a further $45.8 million.

Lease related expenses in the profit or loss will be front loaded to the earlier years of lease terms where interest bearing liabilities are higher. For the year ending 30 June 2020 Airways expects an:

Increase in financing expenses and depreciation by approximately	$6.7 million
Decrease in lease costs of approximately	$5.3 million
Net impact on the P&L (before tax) of approximately	$1.4 million

The model developed to estimate these impacts requires management to make a number of key judgements including:

- the incremental borrowing rate used to discount lease assets and liabilities
- the expected lease term including potential rights of renewals
- estimated lease costs for leases which have not yet been finalised on the date of adoption
- determining that expired land leases where Airways is still in possession and paying rent fall out of the scope of the standard and are exempt.

Current estimates for the impact on profit or loss are likely to change for the year ended 30 June 2020, as key estimates for future events are finalised, new lease contracts are entered into and changes are made to existing lease contracts.

CHAIR AND CEO'S REVIEW
INVESTING IN THE FUTURE
INTEGRATING DRONES INTO OUR AIRSPACE
AIRWAYS INTERNATIONAL
SUSTAINABILITY
AIRWAYS BOARD OF DIRECTORS
FINANCIALS
FINANCIAL PERFORMANCE
PERFORMANCE AND PROGRESS AGAINST SCI METRICS
FINANCIAL STATEMENTS
NOTE STRUCTURE
HOW THE NUMBERS ARE CALCULATED
RISK
GROUP STRUCTURE
UNRECOGNISED ITEMS
OTHER INFORMATION
AUDIT REPORT
EVA KEY PERFORMANCE INDICATORS
ADDITIONAL FINANCIAL INFORMATION
GOVERNANCE AT AIRWAYS

SECTION A
How the numbers are calculated CONTINUED

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 PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME INFORMATION

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

A3.1 REVENUE FROM CONTRACTS WITH CUSTOMERS

The Group adopted NZ IFRS 15 – Revenue from Contracts with Customers on 1 July 2018. The full retrospective approach has been used on adoption but no changes were required to comparative balances. 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 Airways 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 the Group 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 licences 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

A3.1(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 2019

	ATM	Consulting	Data Services	Software	Training	Publications	Other
Point in time	200,841	2,325	370	1,667	7	457	1,201
Overtime	–	10,945	3,173	1,429	6,513	326	–
Total	**200,841**	**13,270**	**3,543**	**3,096**	**6,520**	**783**	**1,201**

30 June 2018

	ATM	Consulting	Data Services	Software	Training	Publications	Other
Total	**193,109**	**7,641**	**3,182**	**1,137**	**6,970**	**742**	**1,695**

A3.1(B) ASSETS & LIABILITIES RELATED TO CONTRACTS WITH CUSTOMERS

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

CONTRACT ASSETS	2019 ($000's)	2018 ($000's)
Current contract assets	2,623	1,311
Provision for loss	-	-
Total current contract asset	**2,623**	**1,311**
Capitalised contract fulfilment costs (current)	127	–
Capitalised contract fulfilment costs (non-current)	–	–
Total contract assets	**2,750**	**1,311**

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

CONTRACT LIABILITIES	2019 ($000's)	2018 ($000's)
Current contract liabilities	1,560	725
Non-current contract liabilities	6	–
Total contract liabilities	**1,566**	**725**

All contract liabilities recognised as at 30 June 2018 have been subsequently recognised as revenue in the current year.

SECTION A
How the numbers are calculated CONTINUED

A3.2 INDIVIDUALLY SIGNIFICANT ITEMS WITHIN OPERATING COSTS

For the year ended 30 June	2019 ($000's)	2018 ($000's)
Bad debts written off or provided for/(reversed)	(257)	100
Material and equipment costs	11,380	6,174
Travel	4,251	4,207
Communications	3,300	3,218
Maintenance	10,361	9,292
Utilities	1,639	1,662
Professional fees	3,308	3,654
Insurance	1,896	1,497
Provision for expected losses on onerous contract	–	1,980

Equipment costs are up on prior year as a result of costs incurred in delivering commercial business projects. This is offset by an increase in the commercial revenue.

KEY JUDGEMENT:

Significant judgement was exercised in determining the quantum of a provision for the expected loss on a contract to install airfield lighting. Judgement has been applied in assessing the likely cost of exiting the contract, determining the likely costs to fulfil the contractual obligations, and estimating the likelihood of being able to minimise losses. This project is expected to be completed in the first half of FY20 with the original provision recognised in FY18 sufficient to capture the onerous portion.

A3.3 EMPLOYEE REMUNERATION

For the year ended 30 June	2019 ($000's)	2018 ($000's)
Wages and salaries	99,141	97,470
Less: labour costs capitalised	(10,106)	(10,176)
Kiwisaver/superannuation contributions	8,808	8,653
Leave entitlement expense	17,421	13,311
	115,264	**109,258**

A3.4 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

SECTION A
How the numbers are calculated CONTINUED

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

KEY JUDGEMENT:

Significant judgement was exercised in FY18 to move from generic decrement rates to calculating Airways specific decrement rates to better reflect expected future obligations. The same approach in determining decrement rates has been applied in FY19. Airways receives advice on these assumptions from external actuaries, and the impact of the change in decrement rates are shown in the table below.

Assumption	2019	2018
Employee decrement assumptions	Airways specific	Airways specific
Long run wage increase	2.5%	3.0%
Discount rates *	Crown entity rates	Crown entity rates

*Discount rates adopted are those specified by Treasury for reporting purposes for Crown entities and can be found at: **http://www.treasury.govt.nz/publications/guidance/reporting/accounting/discountrates.**

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

	2019 ($000's)	2018 ($000's)
Movement in employee decrement assumptions	–	(2,020)
Changes in discount rate	734	–
Additional entitlements recognised and paid during the year	353	
Staff demographic and other movements	1,714	513
Total movement in non-vested long service and retiring leave recognised in profit or loss	**2,801**	**(1,507)**
Balance sheet obligations as at 30 June, within non-current employee entitlements:		
Long service leave	1,167	996
Retiring leave	8,274	6,522
	9,441	**7,518**

A4 INCOME TAX AND RELATED BALANCES

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

Income tax expense

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

SECTION A
How the numbers are calculated CONTINUED

For the year ended 30 June	2019 ($000's)	2018 ($000's)
RECONCILIATION OF SURPLUS BEFORE TAXATION TO INCOME TAX EXPENSE		
Surplus before taxation	32,688	36,032
Tax at the New Zealand tax rate of 28% (2018: 28%)	9,153	10,089
Tax effect of amounts which are either non-deductible or taxable in calculating taxable income:		
Non-taxable income/non-deductible expenses	36	(1,176)
Utilisation of tax losses for current/prior periods	(18)	(36)
Foreign tax credits foregone	-	39
Other	(59)	(40)
Income tax expense	**9,112**	**8,876**
COMPONENTS OF INCOME TAX EXPENSE		
Current tax charge	11,760	9,692
Foreign tax credits foregone	-	39
Movement in deferred tax	(2,648)	(855)
Income tax expense	**9,112**	**8,876**

At 30 June 2019 Airways has imputation credits available for use in subsequent reporting periods of $35.2 million (2018: $29.5 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)	Other ($000's)	Total ($000's)
Balance as at 1 July 2018	**(15,533)**	**7,186**	**2**	**(8,345)**
Deferred tax in respect of previous years	-	76	-	76
Deferred tax charged to net surplus	1,238	1,368	(35)	2,571
Deferred tax on items charged to other comprehensive income	-	-	35	35
Balance as at 30 June 2019	**(14,295)**	**8,630**	**2**	**(5,663)**
Balance as at 1 July 2017	**(15,623)**	**6,754**	**2**	**(8,867)**
Deferred tax charged to net surplus	90	432	333	855
Deferred tax on items charged to other comprehensive income	–	–	(333)	(333)
Balance as at 30 June 2018	**(15,533)**	**7,186**	**2**	**(8,345)**

Airways Training Limited (ATL) has unrecognised tax losses of $0.795 million (2018: $0.861 million) which cannot be offset against the income of other members of the Group. The Group has no other unrecognised tax losses.

SECTION A
How the numbers are calculated CONTINUED

A5 FINANCIAL ASSETS AND LIABILITIES

From 1 July 2018, Airways has adopted NZ IFRS 9, Financial Instruments, using a full retrospective approach. Given the relatively simple financial instruments held by the Group and low credit risk of most Airways customers, the impacts of adopting this standard have been immaterial. Following the adoption of this standard, Airways now classifies all financial assets & liabilities as being measured either at Amortised Cost, Fair Value through Profit or Loss or Fair Value through Other Comprehensive Income (OCI). The table reflects the comparative presentation changes following the adoption of NZ IFRS 9.

	NZ IAS 39 Classification	NZ IFRS 9 Classification
FINANCIAL ASSET		
Cash & Cash Equivalent	Loans & Receivables	Financial asset at amortised cost
Trade & Other receivables	Loans & Receivables	Financial asset at amortised cost
Derivative financial instruments	Fair value through OCI	Fair value through OCI
FINANCIAL LIABILITY		
Trade & other payables	Financial liabilities at amortised cost	Financial liabilities at amortised cost
Employee entitlements	Financial liabilities at amortised cost	Financial liabilities at amortised cost
Derivative financial instruments	Fair value through OCI	Fair value through OCI
Borrowings & overdrafts	Financial liabilities at amortised cost	Financial liabilities at amortised cost

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.

SECTION A
How the numbers are calculated CONTINUED

Financial assets and liabilities by category

	Fair value through OCI ($000's)	Amortised cost ($000's)	Total ($000's)
As at 30 June 2019			
ASSETS AS PER BALANCE SHEET			
Cash and cash equivalents	–	1,018	1,018
Trade and other receivables	–	26,266	26,266
Derivative financial instruments	118	-	118
Total	**118**	**27,284**	**27,402**
LIABILITIES AS PER BALANCE SHEET			
Trade and other payables	–	10,948	10,948
Employee entitlements	–	29,999	29,999
Derivative financial instruments	1,947	–	1,947
Borrowings and overdrafts	–	50,000	50,000
Total	**1,947**	**90,947**	**92,894**
As at 30 June 2018			
ASSETS AS PER BALANCE SHEET			
Cash and cash equivalents	–	1,750	1,750
Trade and other receivables	–	25,618	25,619
Derivative financial instruments	227	–	227
Total	**227**	**27,368**	**27,596**
LIABILITIES AS PER BALANCE SHEET			
Trade and other payables	–	8,959	8,959
Employee entitlements	–	26,868	26,868
Derivative financial instruments	1,954	–	1,954
Borrowings and overdrafts	–	40,000	40,000
Total	**1,954**	**75,827**	**77,781**

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.

SECTION A
How the numbers are calculated CONTINUED

A6 TRADE AND OTHER RECEIVABLES

As at 30 June	2019 ($000's)	2018 ($000's)
Trade accounts receivable	23,643	24,271
Contract assets	2,623	1,347
Total trade and other receivables	**26,266**	**25,618**

Collectability of trade receivables is reviewed on an ongoing basis and uncollectible debts are written off. The Group 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 economics factors which could contribute to further expected credit losses. In relation to customers using ATM services (typically airlines), these factors include significant increases or decreases in forecast flight volumes, both of which are indicators of changing credit risk. For other customers, this assessment is completed based on the specific economic circumstances for all material debtors such as financial stability. Amounts are written off as a bad debt when evidence suggests there is no reasonable expectation of recovery, including receiver reports.

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–year overdue ($000's)	1–2 years overdue ($000's)	2+ years overdue ($000's)	Total ($000's)
As at 30 June 2019						
Unimpaired trade receivables	19,306	4,124	7	–	–	23,437
Impaired trade receivables	–	–	182	148	874	1,204
Total trade receivables due	**19,306**	**4,124**	**189**	**148**	**874**	**24,641**
Expected credit loss	–	–	(37)	(95)	(866)	(998)
Trade receivables recognised	**19,306**	**4,124**	**152**	**53**	**8**	**23,643**
As at 30 June 2018						
Unimpaired trade receivables	19,773	3,725	21	2	1	23,522
Impaired trade receivables	13	43	772	319	859	2,006
Total trade receivables due	**19,786**	**3,768**	**793**	**321**	**860**	**25,528**
Expected credit loss	(11)	(38)	(212)	(163)	(833)	(1,257)
Trade receivables recognised	**19,775**	**3,730**	**581**	**158**	**27**	**24,271**

SECTION A
How the numbers are calculated CONTINUED

A7 TRADE AND OTHER PAYABLES

As at 30 June	2019 ($000's)	2018 ($000's)
Trade accounts payable	4,886	4,526
Contract liabilities	1,566	1,257
Payroll related payables	1,748	1,809
Accrued liabilities	5,557	4,761
Provisions	2,254	4,218
Other payables	226	207
Total trade and other payables	**16,237**	**16,778**

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

Movement in provisions	Restructuring	Onerous contract	Other provisions	Total
Opening balance as at 1 July 2018	1,453	1,980	785	4,218
Accrued balance utilised	(1,387)	(1,340)	(554)	(3,281)
Additional provisions raised	987	–	330	1,317
Closing balance as at 30 June 2019	**1,053**	**640**	**561**	**2,254**

The provisions balance includes an onerous airfield lighting contract and a staff restructuring provision. Other provisions relate primarily to expected costs to remove known asbestos. It is expected all sums provided for will be utilised or paid within one year.

A8 PROPERTY, PLANT & EQUIPMENT, INTANGIBLES AND ASSETS AVAILABLE FOR SALE

Recognition and measurement

All classes of property, plant and equipment and intangibles are initially recorded at cost. Cost is determined by including all charges directly associated with bringing the assets to their location in working condition. Capital work in progress includes expenditure on partially completed assets that Management 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 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.

NOTES TO THE FINANCIAL STATEMENTS

SECTION A
How the numbers are calculated CONTINUED

Impairment

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

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

These tests involve re-assessing the feasibility of the project, the expected cost to completion and the expected economic benefit to be realised. Where the expected economic benefit provided by the asset is lower than the expected cost to completion, the difference is booked as an impairment to the current carrying value in work in progress unless a higher amount could be realised through 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	19 years	12 years	4 years	9 years	6 years	Not depreciated	
Cost								
As at 1 July 2018	1,480	38,524	226,187	40,263	7,427	3,119	56,901	373,901
Additions at cost	–	28,001	9,517	1,846	281	296	46,022	85,963
Deduct disposals	(4)	(201)	(231)	(294)	(179)	(169)	–	(1,078)
Transfers from work in progress	–	–	–	–	–	–	(41,758)	(41,758)
As at 30 June 2019	**1,476**	**66,324**	**235,473**	**41,815**	**7,529**	**3,246**	**61,165**	**417,028**
Accumulated depreciation								
As at 1 July 2018	233	22,919	137,062	29,749	4,705	2,526	–	197,194
Depreciation charge	–	1,454	11,426	4,794	451	314	–	18,439
Deduct disposals	–	(163)	(174)	(272)	(150)	(166)	–	(925)
As at 30 June 2019	**233**	**24,210**	**148,314**	**34,271**	**5,006**	**2,674**	**–**	**214,708**
Net book value as at 30 June 2019	**1,243**	**42,114**	**87,159**	**7,544**	**2,523**	**572**	**61,165**	**202,320**

CHAIR AND CEO'S REVIEW
INVESTING IN THE FUTURE
INTEGRATING DRONES INTO OUR AIRSPACE
AIRWAYS INTERNATIONAL
SUSTAINABILITY
AIRWAYS BOARD OF DIRECTORS
FINANCIALS
FINANCIAL PERFORMANCE
PERFORMANCE AND PROGRESS AGAINST SCI METRICS
FINANCIAL STATEMENTS
NOTE STRUCTURE
HOW THE NUMBERS ARE CALCULATED
RISK
GROUP STRUCTURE
UNRECOGNISED ITEMS
OTHER INFORMATION
AUDIT REPORT
EVA KEY PERFORMANCE INDICATORS
ADDITIONAL FINANCIAL INFORMATION
GOVERNANCE AT AIRWAYS

SECTION A
How the numbers are calculated CONTINUED

	Land ($'000's)	Buildings ($'000's)	Plant and equip-ment ($'000's)	Com-puter equip-ment ($'000's)	Furniture and fittings ($'000's)	Motor vehicles ($'000's)	Work in progress ($'000's)	Total ($'000's)
Average useful live	Not depreci-ated	19 years	12 years	4 years	9 years	6 years	Not depreci-ated	
Cost								
As at 1 July 2017	1,480	36,750	205,473	38,866	6,741	3,217	44,772	337,299
Additions at cost	–	1,858	23,879	1,752	1,046	74	47,061	75,670
Deduct disposals	–	(84)	(3,165)	(355)	(360)	(172)	–	(4,136)
Transfers from work in progress	–	–	–	–	–	–	(34,932)	(34,932)
As at 30 June 2018	**1,480**	**38,524**	**226,187**	**40,263**	**7,427**	**3,119**	**56,901**	**373,901**
Accumulated depreciation								
As at 1 July 2017	233	22,147	128,487	24,556	4,613	2,376	–	182,412
Depreciation charge	–	836	10,563	5,544	438	322	–	17,703
Deduct disposals	–	(64)	(1,988)	(351)	(346)	(172)	–	(2,921)
As at 30 June 2018	**233**	**22,919**	**137,062**	**29,749**	**4,705**	**2,526**	**–**	**197,194**
Net book value as at 30 June 2018	**1,247**	**15,605**	**89,125**	**10,514**	**2,722**	**593**	**56,901**	**176,707**

The work in progress balance includes significant investments of $31.5 million in a new air traffic management (ATM) system. Airways capitalised interest associated with qualifying assets of $2.1 million during the year ended 30 June 2019 (2018: $2.2 million).

SECTION A
How the numbers are calculated CONTINUED

Intangible assets

	Internally generated software ($000's)	Licences & acquired software ($000's)	Total ($000's)
Average useful life	7 years	5 years	
Cost			
As at 1 July 2018	40,141	20,332	60,473
Additions at cost	2,016	713	2,729
Deduct disposals	(116)	(759)	(875)
As at 30 June 2019	**42,041**	**20,286**	**62,327**
Accumulated amortisation			
As at 1 July 2018	25,300	12,682	37,982
Amortisation charge	3,248	2,406	5,654
Deduct disposals	(64)	(377)	(441)
As at 30 June 2019	**28,484**	**14,711**	**43,195**
Net book value as at 30 June 2019	**13,557**	**5,575**	**19,132**
Cost			
As at 1 July 2017	34,549	22,639	57,188
Additions at cost	5,929	129	6,058
Deduct disposals	(337)	(2,436)	(2,773)
As at 30 June 2018	**40,141**	**20,332**	**60,473**
Accumulated amortisation			
As at 1 July 2017	22,349	13,368	35,717
Amortisation charge	3,221	1,708	4,929
Deduct disposals	(270)	(2,394)	(2,664)
As at 30 June 2018	**25,300**	**12,682**	**37,982**
Net book value as at 30 June 2018	**14,841**	**7,650**	**22,491**

Of the total closing WIP balance disclosed on page 48, $36.1 million relates to intangible projects in progress (2018: $19.6 million), primarily reflecting the ongoing development of the new ATM system. These balances will be transferred to Intangibles on completion of the project.

Material intangible assets

Airways holds the following material intangible assets:

Description	Carrying value	Remaining amortisation period
TechnologyOne FMIS	$1.516m	June 2020
AIM system	$2.070m	May 2025

A9 SHARE CAPITAL AND RESERVES

Airways has capital of $41.1 million (2018: $41.1 million) issued ordinary shares which confer on the holders the right to vote at any general meeting of shareholders. This consists of 41,100,000 authorised ordinary shares. The Cash Flow Hedge Reserve records the portion of the gain or loss on a hedging instrument designated as a cash flow hedge that is determined to be an effective hedge.

SECTION B
Risk

B1 FINANCIAL RISK MANAGEMENT

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

Liquidity risk

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

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

- Maintaining and monitoring cash-flow forecasts 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:

Total facility	Amount 2019	2019 Drawdowns	2018	Remaining term	Interest rate
$60 million	$50 million	$10 million	$40 million	3 years (expires June 2021)	Floating
$30 million	-	-	-	5 years (expires February 2024)	Floating

All banking covenants relating to interest coverage, levels of shareholder funds and gearing ratios which are in place for the drawn down facility have been complied with throughout the financial year (2018: full compliance).

Neither funding facility is secured by Airways' assets.

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

SECTION B
Risk CONTINUED

Financial liability profile

	Less than 3 mths ($000's)	Between 3 mths & 1 year ($000's)	Between 1 & 2 years ($000's)	Between 2 & 5 years ($000's)	Greater than 5 years ($000's)	No stated maturity ($000's)
As at 30 June 2019						
Interest rate derivatives – outflow	(182)	(565)	(551)	(439)	–	–
Foreign currency exchange contracts – inflow*	5,221	5,673	1,105	2,269	–	–
Foreign currency exchange contracts – outflow	(5,217)	(5,684)	(1,131)	(2,365)	–	–
Trade and other payables	(10,948)	–	–	–	–	–
Employee entitlements	–	–	–	–	–	(29,999)
Term loan	(414)	(1,231)	(1,640)	(54,925)	–	–
Total	**(11,540)**	**(1,807)**	**(2,217)**	**(55,460)**	**–**	**(29,999)**
As at 30 June 2018						
Interest rate derivatives – outflow	(194)	(554)	(582)	(563)	–	–
Foreign currency exchange contracts – inflow*	4,036	8,445	7,520	3,295	–	–
Foreign currency exchange contracts – outflow	(4,060)	(8,333)	(7,479)	(3,325)	–	–
Trade and other payables	(8,959)	–	–	–	–	–
Employee entitlements	–	–	–	–	–	(26,868)
Term loan	(365)	(1,084)	(1,449)	(44,348)	–	–
Total	**(9,526)**	**(1,526)**	**(1,990)**	**(44,941)**	**–**	**(26,868)**

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

Airways has contingent liabilities in respect of financial guarantee contracts of $1.073 million for performance bonds (2018: $0.764 million).

SECTION B
Risk

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 $50 million (2018: $40 million). Further interest rate swaps were also in place to hedge highly probable future debt.

As at 30 June	2019 $000's	2018 $000's
Hedged borrowings	44,500	38,000
Un-hedged borrowings	5,500	2,000
Total term borrowings	**50,000**	**40,000**

The effective interest rate on borrowing in the current year was 5.28% (2018: 5.56%).

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 ($'000)	Revenue contracts not yet invoiced ($'000)	Current trade payables ($'000)	Expenditure commitments not yet invoiced ($'000)
As at 30 June 2019				
Amount unhedged	248	–	(123)	–
Amount hedged	870	1,148	–	(12,880)
Total NZD value	**1,118**	**1,148**	**(123)**	**(12,880)**
Percentage of exposure hedged	78%	100%	–	100%
As at 30 June 2018				
Amount unhedged	77	–	(82)	–
Amount hedged	1,080	1,440	(145)	(20,531)
Total NZD value	**1,157**	**1,440**	**(227)**	**(20,531)**
Percentage of exposure hedged	93%	100%	64%	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 $10 million to any individual counterparty.

Adherence to these policies is continuously monitored and reported monthly. There have been no breaches during the current or previous financial year.

Airways' exposure to credit risk is outlined in the balance sheet (showing cash and cash equivalents and derivative financial instruments) and note A6, setting out trade and trade receivables and the current provision in place against these balances.

Airways' five largest customers account for 74% (2018: 73%) of total revenue and 69% (2018: 67%) of total accounts receivable at balance date. No collateral is held over these receivables. No unusual risk has been identified by Airways in relation to these companies, however overdue debts are continuously monitored to identify and address any potential specific credit risks.

B2 CAPITAL MANAGEMENT

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

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.

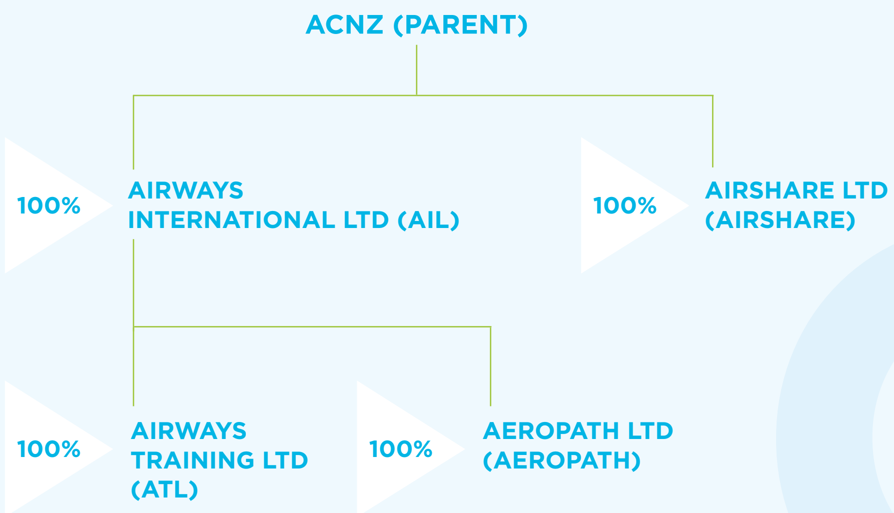
Subsidiaries are all entities over which Airways has control. Airways controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from 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 the Group 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)	AVIATION ENGLISH TRAINING
AEROPATH LIMITED (AEROPATH)	AERONAUTICAL INFORMATION MANAGEMENT, PROCEDURE DESIGN AND DEVELOPMENT SERVICES
AIRSHARE LIMITED	A NEW ENTITY INCORPORATED 16 NOVEMBER 2018 TO DELIVER UNMANNED AERIAL VEHICLE (UAV) AND DRONE TRAFFIC MANAGEMENT SERVICES (CURRENTLY NOT TRADING)

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



SECTION C
Group structure CONTINUED

C2 TRANSACTIONS WITH THE GROUP AND OTHER RELATED ENTITIES

Inter-company transactions and balances between entities within the Group are eliminated in the preparation of Group financial statements. 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 $135.0 million by Airways in the current financial year (2018: $129.0 million).

C3 TRANSACTIONS WITH MANAGEMENT AND DIRECTORS

For the year ended 30 June	2019 ($000's)	2018 ($000's)
KEY MANAGEMENT+ COMPENSATION		
Salaries and other short-term employee benefits (including termination benefits of nil (2018: $0.274 million)*	3,032	2,646
Kiwisaver/ superannuation contributions	48	45
	3,080	**2,691**
DIRECTORS' FEES		
Directors' fees paid	308	282

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

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

SECTION D
Unrecognised items

D1 CAPITAL COMMITMENTS

The table below illustrates the total capital commitments (both contracted and non-contracted) for Airways at balance date. This programme will be funded through operating cash flow and increased debt (whilst remaining within current loan facilities and covenants).

As at 30 June	2019 ($000's)	2018 ($000's)
Property, plant and equipment capital commitments	40,556	32,168
Intangible assets capital commitments	28,850	43,569
Total capital commitments	**69,406**	**75,737**

D2 OPERATING LEASE COMMITMENTS

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

As at 30 June	2019 ($000's)	2018 ($000's)
Less than one year	6,408	4,501
One to two years	5,767	5,486
Two to five years	16,357	16,315
Over five years	83,530	35,119
Total operating lease obligations	**112,062**	**61,421**

Operating commitments have increased as a result of the inclusion of leases for new operational buildings that are scheduled to start early in the 2019/20 financial year. From 1 July 2019, following the adoption of NZ IFRS16, these leases will be recognised on balance sheet.

D3 CONTINGENT LIABILITIES

Airways has contingent liabilities in respect of financial guarantee contracts of $1.073 million for performance bonds (2018: $0.764 million).

D4 SUBSEQUENT EVENTS

There were no subsequent events requiring disclosure.

SECTION E
Other information

E1 AUDITOR'S REMUNERATION

For the year ended 30 June	2019 ($000's)	2018 ($000's)
PricewaterhouseCoopers for:		
Financial statement audit services as an agent of the Office of the Auditor-General	187	180
Student fee protection trust audit	6	10
Assurance services – pricing plan	52	
Review of sensitive expenditure	–	18
Total auditors remuneration	**245**	**208**

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

For the year ended 30 June	2019 ($000's)	2018 ($000's)
NET SURPLUS AFTER TAXATION	23,576	27,156
ADD NON CASH ITEMS		
Amortisation	5,654	4,929
Depreciation and impairment	18,439	17,703
Movement in deferred tax	(2,648)	(855)
Accounting loss/(gain) on sale of assets	23	(3,790)
Total adjustments for items in surplus not impacting cash flow	**21,468**	**17,987**
ADD MOVEMENTS IN WORKING CAPITAL ITEMS		
Increase/(decrease) in payables	4,312	6,409
Decrease/(increase) in receivables	(1,720)	(2,581)
Total adjustments for items not in surplus impacting cash flow	**2,592**	**3,828**
Net cash inflow from operating activities	**47,636**	**48,971**

Audit report

NZ IFRS

pwc

INDEPENDENT AUDITOR'S REPORT

To the readers of the financial statements of Airways Corporation of New Zealand Limited.

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

OUR OPINION

We have audited the financial statements of the Group on pages 31 to 58, that comprise the balance sheet as at 30 June 2019, the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date and the notes to the financial statements, which include key accounting policies.

In our opinion, the financial statements of the Group:

- present fairly, in all material respects:
  - its financial position as at 30 June 2019; and
  - its financial performance and cash flows for the year then ended; and
- comply with generally accepted accounting practice in New Zealand in accordance with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards (IFRS).

Our audit was completed on 27 August 2019. This is the date at which our opinion is expressed.

The basis for our opinion is explained below. In addition, we outline the responsibilities of the Board of Directors and our responsibilities relating to the financial statements, we comment on other information and we explain our independence.

BASIS FOR OPINION

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

We have fulfilled our responsibilities in accordance with the Auditor-General's Auditing Standards.

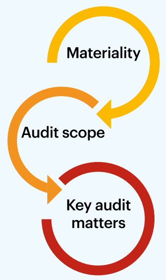
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Audit report CONTINUED

NZ IFRS

OUR AUDIT APPROACH

OVERVIEW



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

Overall quantitative group materiality: $2.45 million, which represents approximately 7.5% of net surplus before taxation.

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

Our key audit matter is:

- Capitalisation of costs into property, plant and equipment (PP&E) and intangible assets.

MATERIALITY

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

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Group materiality for the financial statements as a whole as set out above. We also assess qualitative materiality, which includes other matters that, in our judgement, and in the context of our audit, might influence the decisions of the users of the financial statements. Quantitative materiality and qualitative considerations helped us to determine the scope of our audit, the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

AUDIT SCOPE

We designed our audit by assessing the risks of material misstatement in the financial statements and our application of materiality. As in all of our audits, we also addressed the risk of management override of internal controls including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

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

Audit report CONTINUED

NZ IFRS

KEY AUDIT MATTER

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.

KEY AUDIT MATTER	HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTER
Capitalisation of costs into property, plant and equipment (PP&E) and Intangible assets The Company operates in a capital intensive industry. In order to maintain and enhance service levels the Company needs to continually invest funds in its infrastructure. This requires a significant annual capital expenditure programme. The Group holds property, plant and equipment of $203 million and intangible assets of $18 million at 30 June 2019. During the period, the Group capitalised $46.5m (2018: $47.1m) of costs, primarily associated with an ongoing project to replace the current Air Traffic Management (ATM) system and the construction of new operations facilities at Auckland and Christchurch airports. Further disclosures on the PP&E and Intangible assets held by the Group are included in note A8 of the financial statements. The capitalisation of costs into PP&E and Intangible assets is a key audit matter as it represents a significant proportion of the Group's net assets and judgement is applied by the Company when determining which costs to include in the carrying value of PP&E and Intangible assets. The costs should: • deliver economic benefit to the entity beyond a 12 month period • be able to be measured reliably • be directly attributable to the asset being constructed, and • contribute to an asset which is technically feasible and for which the Company has sufficient internal or external resources to complete. Costs capitalised by the Company include both third party costs and internal costs, such as employee labour costs.	To address the key audit matter we tested a sample of additions for PP&E and Intangible assets. For each addition sampled, we agreed the item to appropriate audit evidence. This evidence included third party invoices and approved timesheets for internal labour hours. Internal labour cost rates applied to the labour hours were agreed to supporting evidence including underlying wages and salaries. For each item tested, we assessed the appropriateness of capitalisation against the recognition criteria in the accounting standards, including: • assessing whether it is probable that economic benefit beyond a 12 month period will be generated by the asset by reference to the project status report, meetings with the project manager and using our own judgement • assessing if the costs were directly attributable to the asset. This involved considering invoice narrative for external costs and job description and time sheet records for internal costs, and • assessing whether the Company has the technical and financial resources to complete the project. In assessing this we considered the nature of the projects and the Company's historic performance at completing projects of a similar nature. From our procedures, no material exceptions were noted.

Audit report CONTINUED

NZ IFRS

RESPONSIBILITIES OF THE BOARD OF DIRECTORS FOR THE FINANCIAL STATEMENTS

The Board of Directors is responsible, on behalf of the Group, for preparing financial statements that are fairly presented and that comply with generally accepted accounting practice in New Zealand.

The Board of Directors is responsible for such internal control as it determines is necessary to enable it to prepare financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors is responsible on behalf of the Group for assessing the Group's ability to continue as a going concern. The Board of Directors is also responsible for disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

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

RESPONSIBILITIES OF THE AUDITOR 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 are differences or omissions of amounts or disclosures, and can arise from fraud or error. Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of readers 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 performed in accordance with the Auditor-General's Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. Also:

- We 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
- We 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;
- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors;
- We conclude on the appropriateness of the use of the going concern basis of accounting by the Board of Directors and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If 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 the auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern
- We 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

Audit report CONTINUED

NZ IFRS

- We obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial statements. The auditor is responsible for the direction, supervision and performance of the group audit. The auditor remains solely responsible for the audit opinion, and
- We communicate with the Board of 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.

Our responsibilities arise from the Public Audit Act 2001.

OTHER INFORMATION

The Board of Directors is responsible for the other information in the Annual Report. The other information comprises the information included in the Annual Report, but does not include the financial statements, and our auditor's report thereon or the EVA key performance indicators on page 64 and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do 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. In doing so, we 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 our work, 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.

INDEPENDENCE

We are independent of the Group in accordance with the independence requirements of the Auditor-General's Auditing Standards, which incorporate the independence requirements of Professional and Ethical Standards 1 (revised): *Code of Ethics for Assurance Practitioners* issued by the New Zealand Auditing and Assurance Standards Board.

Our firm carries out other services for the Group in the areas of assurance services relating to the Group's compliance with the terms of the Student Fee Protection Trust Deed, in relation to the reporting of the Group's Economic Value Added (EVA) Performance Indicators in accordance with the disclosed policies, and assurance procedures over the Company's pricing controls. The provision of these other services has not impaired our independence as auditor of the Group.

For and on behalf of the Auditor-General

PricewaterhouseCoopers

Kevin Brown
27 August 2019

PricewaterhouseCoopers
Wellington, New Zealand

EVA key performance indicators

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

For the year ended 30 June	Parent 2019	Parent 2018
DEBT AND EQUITY EMPLOYED		
Debt employed	95.8	81.2
Equity employed	141.8	137.6
Total debt & equity employed	**237.6**	**218.8**
Charge on operating capital	14.8	14.0
Economic Value Added	1.6	1.4
SUMMARY OF PARAMETERS FOR COST OF CAPITAL		
Risk free rate – 3-year Government Stock	1.64%	2.04%
Market risk premium	7.00%	7.00%
Company tax rate	28%	28%
Business risk factor (asset beta)	0.6	0.6
Cost of capital	6.48%	6.74%

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

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

The cost of capital of 6.48% for the year ended June 2019 compares to a cost of capital of 6.90% used for determining 2017–19 air navigation pricing. The positive EVA for the current year has been driven by higher than forecast traffic volumes.

Reconciliation of EVA to Net Operating Profit after Tax

For the year ended 30 June	Parent 2019	Parent 2018
NOPAT	15.6	20.7
Deduct: Charge on operating capital	(14.8)	(14.0)
Add back: interest costs	0.6	0.5
Deduct: non-cash tax charges	(2.5)	(0.5)
Deduct: non-cash employee costs	2.7	(1.0)
Deduct: gain on sale of surplus land not included in EVA result	–	(4.3)
Economic value added	**1.6**	**1.4**

EVA audit report

INDEPENDENT AUDITOR'S REPORT

Report to the readers of the EVA key performance indicators of Airways Corporation of New Zealand Limited for the year ended 30 June 2019

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 in all material respects with its economic value added (EVA) policies and principles in calculating the KPIs for the year ended 30 June 2019 on page 64 of this document.

OPINION

In our opinion, Airways has complied, in all material respects, with its EVA policies and principles, as outlined on page 64 of this document, in calculating KPIs for the year ended 30 June 2019.

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.

DIRECTORS' RESPONSIBILITIES

The Directors are responsible on behalf of Airways for the preparation of the KPIs in compliance with the EVA policies and principles adopted by Airways. The EVA policies and principles adopted by Airways are outlined on page X of this document.

The Directors' responsibilities include identifying risks that threaten preparing KPIs in accordance with the EVA policies and principles adopted by Airways and identifying, designing and implementing controls which will mitigate those risks and monitor ongoing compliance.

OUR INDEPENDENCE AND QUALITY CONTROL

We have complied with the independence and other relevant ethical requirements related to assurance engagements which are consistent with the Auditor-General's:

- independence and other ethical requirements, which incorporate the requirements of Professional and Ethical Standard 1 (Revised) *Code of Ethics for Assurance Practitioners* issued by the New Zealand Auditing and Assurance Standards Board, relating to assurance engagements, which include independence and other requirements founded on the fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.
- quality control requirements, which incorporate the quality control requirements of Professional and Ethical Standard 3 (Amended) *Quality Control for Firms that Perform Audits and Reviews of Financial Statement and Other Assurance Engagements* issued by the New Zealand Auditing and Assurance Standards Board, 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.

AUDITOR'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 by Airways in preparing the KPIs for the year ended 30 June 2019. SAE 3100 (Revised) requires that we plan and perform our procedures to obtain reasonable assurance about whether Airways has complied, in all material respects, with the EVA policies and principles.

An assurance engagement to report on Airway's compliance with the EVA policies and principles involves performing procedures to obtain evidence about the compliance activity. The procedures selected depend on our judgement, including the identification and assessment of risks of material non-compliance with the EVA policies and principles as adopted by Airways in preparing the KPIs.

We are independent of Airways. We are the auditor of Airways, we also perform a pricing controls assurance engagement. The provision of these other services has not impaired our independence.

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 with compliance requirements 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 as adopted by Airways in preparing the KPIs will continue in the future.

Our engagement was completed on 27 August 2019 and our opinion is expressed as at that date.

Kevin Brown
27 August 2019

PricewaterhouseCoopers
Wellington, New Zealand

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 2018 – 30 June 2019

	Amount paid	Amount recognised in Profit or Loss
Judith Kirk (ceased December 2018)	38,651	35,794
Denise Church (appointed January 2019)	32,461	32,461
Mary-Jane Daly	46,767	43,910
Chris Moxon (ceased October 2018)	17,011	14,154
Lisa Jacobs (appointed November 2018)	21,641	21,641
Paula Jackson (appointed January 2019)	16,230	16,230
John Holt (appointed January 2019)	16,230	16,230
Bennett Medary	38,651	35,794
Mark Pitt	38,651	35,794
Darin Cusack	35,794	35,794
Grant Kemble (retired May 2018)	2,857	–
Terry Murdoch (retired May 2018)	2,857	–
Total	**307,801**	**287,802**

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
$100,000 – $110,000	42	–	42
$110,000 – $120,000	42	2	40
$120,000 – $130,000	63	–	63
$130,000 – $140,000	47	2	45
$140,000 – $150,000	61	3	58
$150,000 – $160,000	48	2	46
$160,000 – $170,000	31	6	25
$170,000 – $180,000	45	2	43
$180,000 – $190,000	36	5	31
$190,000 – $200,000	33	5	28
$200,000 – $210,000	63	4	59
$210,000 – $220,000	56	–	56
$220,000 – $230,000	28	2	26
$230,000 – $240,000	20	4	16
$240,000 – $250,000	5	1	4
$250,000 – $260,000	4	–	4
$260,000 – $270,000	3	–	3
$280,000 – $290,000	1	1	–
$290,000 – $300,000	1	1	–
$310,000 – $320,000	1	1	–
$320,000 – $330,000	1	1	–
$360,000 – $370,000	2	2	–
$370,000 – $380,000	1	1	–
$380,000 – $390,000	1	1	–
$630,000 – $640,000	1	1	–
	636	**47**	**589**

Governance at Airways

Commitment to sound governance

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

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

Governance framework

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

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

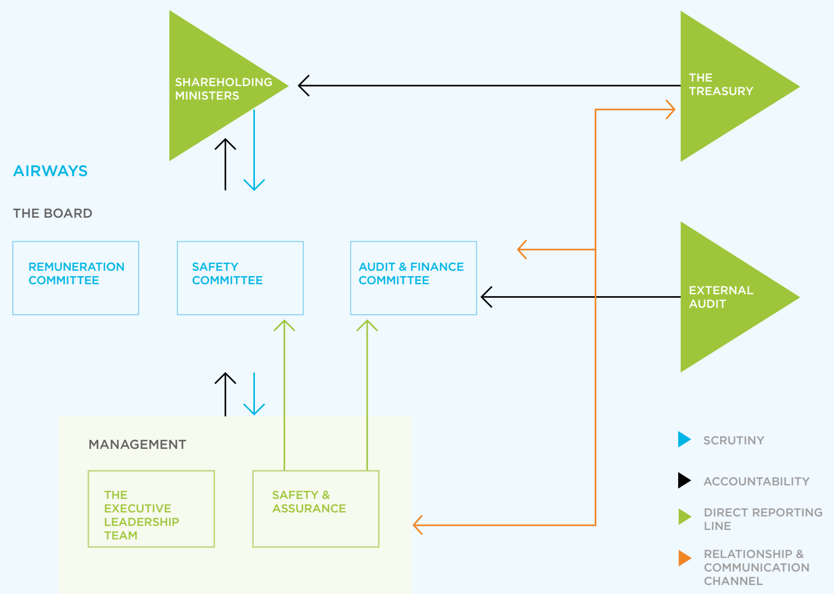
b) This accountability is achieved through the annual expectations letter issued by the Shareholding Ministers and the compilation of (and reporting against) the Statement of Corporate Intent (SCI) by the Airways Board. The SCI sets out the objectives, the nature and scope of activities, financial and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

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

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

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

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



Governance at Airways CONTINUED

RELEVANT ROLES AND RESPONSIBILITIES

The Board

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

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

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

Ensuring independence

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

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

Managing conflicts of interest

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

During the year, 25 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 24 to 25 (or relating to a now retired director). None of the new entries represented interests requiring management in connection with Airways' conflict policies.

Appointing new members and ensuring a balanced Board

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

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

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

Governance at Airways CONTINUED

Continuing education

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

Monitoring performance

Each year, the Board critically evaluates its collective performance, processes and procedures. The performance of individual Directors is also reviewed and evaluated annually. In 2019, the Board set its own goals and engaged a representative from the Institute of Directors to facilitate their evaluation of performance.

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	Mary-Jane Daly (Chair) Bennett Medary Lisa Jacobs (joined 1/11/2018) Chris Moxon (retired 31/10/2018)
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) Darin Cusack John Holt (joined 1/1/2019) Judith Kirk (retired 31/12/2018) Denise Church (joined 1/1/2019)
People, Culture & Capability Committee	Assist the Board in establishing remuneration policies and practices	• Set and review remuneration policies • Review and recommend remuneration for the CEO and his direct reports • Set and review the terms of the company's short and long term incentive plans • Obtain and consider independent remuneration advice	Bennett Medary (Chair) Mary-Jane Daly Denise Church (joined 1/1/2019) Paula Jackson (joined 1/1/2019) John Holt (joined 1/1/2019) Judith Kirk (retired 31/12/2018)

Governance at Airways CONTINUED

Directors' attendance

The Board held ten meetings during the year ended 30 June 2019. 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, Culture & Capability Committee
Total meetings held	**10**	**4**	**5**	**5**
Denise Church+	5 of 5	1^	3 of 3	2 of 2
Darin Cusack	10		5	
Mary-Jane Daly	9	4		4
John Holt+	5 of 5		3 of 3	1 of 1
Paula Jackson+	5 of 5			2 of 2
Lisa Jacobs+	6 of 6	2 of 2		
Bennett Medary	10	4		5
Mark Pitt	10		5	
Judith Kirk*	5 of 5		1 of 2	3 of 3
Chris Moxon*	4 of 4	1 of 1		

* retired directors
+ new directors
^ directors are not standing members of the Committee but still attended. Formal Committee membership is detailed on the previous page.

External audit

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

External auditors are required to maintain independence from Airways and this is reviewed by the AFC continuously through the audit cycle. Lead audit partners are also rotated every six years, in line with OAG requirements.

Annually, the Board meet the external auditors without management present to ensure they have no issues or concerns the Board needs to be made aware of.

Safety, internal audit and assurance

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

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, Culture & Capability Committee (whose responsibilities are outlined above) and is captured in Airways' Remuneration Policy. Director remuneration is fixed at levels agreed with the Shareholder on an annual basis. Levels of remuneration are set out in the Additional Financial Information section above.

CHAIR AND CEO'S REVIEW
INVESTING IN THE FUTURE
INTEGRATING DRONES INTO OUR AIRSPACE
AIRWAYS INTERNATIONAL
SUSTAINABILITY
AIRWAYS BOARD OF DIRECTORS
FINANCIALS
FINANCIAL PERFORMANCE
PERFORMANCE AND PROGRESS AGAINST SCI METRICS
FINANCIAL STATEMENTS
EVA KEY PERFORMANCE INDICATORS
ADDITIONAL FINANCIAL INFORMATION
GOVERNANCE AT AIRWAYS

Directory

BANKERS

ANZ Bank New Zealand Limited

Bank of New Zealand Limited

AUDITORS

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

REGISTERED OFFICE

Level 2
6 Leonard Isitt Drive
Auckland
New Zealand

AIRWAYS.CO.NZ

insightcreative.co.nz

AIRWAYS.CO.NZ

AIRWAYS

Airways Annual Report 2018 2019

Position for FSC logo

Blurb here if required. Rum aut a si te moluptaspis aut acessit ionecab oresti accus magniae. Ut elecum quidebi taquasi tatqui des ipsaper ciducil luptatem qui cus, voluptatum vollam dis ea nus.