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AIRWAYS

making your world possible

Airways Annual Report 2019 ▸ **2020**

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CHAIR AND
CHIEF EXECUTIVE'S REVIEW

DENISE CHURCH
CHAIR

GRAEME SUMNER
CHIEF EXECUTIVE OFFICER

Building a pathway back to growth

Airways' response to an extraordinary global challenge defines the second half of this financial year, however we also reflect with pride on the first half which was characterised by our strong performance as a State-Owned Enterprise.

This year Airways delivered on its core purpose of ensuring the safety of New Zealand skies, while advancing our strategy to create a progressive airspace environment for the future.

Over the course of the year we facilitated 822,662 safe journeys through the 30 million square kilometres of airspace we control, while recording zero serious operational safety occurrences. Importantly, there were no serious harm injuries involving our people.

We are also pleased to have delivered 99.98% critical technology and service availability to our airline customers for the year ending 30 June 2020.

Significant progress was made in achieving Airways' strategic goals in the early part of the year, with investment in new digitally focussed technologies within our core air traffic control business, and expansion of our international commercial business through new training and simulation technology deals.

Covid-19 caused rapid and unprecedented disruption to aviation globally. The financial impact of the pandemic on Airways has been severe and this year the Airways Group is reporting a loss of $31.3 million. However, Airways International, our commercial business, continued to outperform despite the crisis and has delivered a profit of $9.1 million, up 14% on the prior year's $8 million.

Airways International has partnered with New Zealand and overseas organisations to successfully export home grown products and services around the world over many years. We are proud of Airways' contribution to New Zealand Inc and our achievements globally via the success of Airways International.

This success has reduced the extent of Airways' reliance on government funding during the pandemic and will play an important role in bolstering our core business through the recovery and into future growth.

RESPONSE TO COVID-19

As the Covid-19 crisis quickly evolved from February, our immediate priority was to ensure the health and wellbeing of our people and continuity of Airways' services.

Work from home plans were enacted and contingency rosters were developed to enable social distancing for front-line operational staff on Airways' premises.

Air traffic volumes declined by 95% following the implementation of travel restrictions, and in March Airways gratefully received a $70 million equity injection as part of the Government's aviation relief package to support our operations in the short term.

In response to the revenue collapse, Airways undertook immediate cost saving measures to preserve cash and limit losses. All non-essential capital expenditure has been deferred, while continuing to meet our safety obligations.

A pay freeze was implemented for those on individual employment agreements and incentive payments were cancelled. Additionally, the Airways Board, Executive Leadership Team and senior leaders have taken pay reductions of up to 20% over six months. We have worked with our union stakeholders to minimise wage costs.

Sadly, a number of our valued people have left Airways through redundancy. We do not underestimate what this means for those staff who are affected, and we thank them for their professionalism and service to Airways.

Due to the level of uncertainty around industry recovery, the Government has provided Airways with a $95 million uncalled capital facility available through to the end of FY22. Our aim is to minimise reliance on government funding as far as is practicable in the future while meeting safety and operational requirements.

CREATING THE AVIATION ENVIRONMENT OF THE FUTURE

While the face of aviation has changed fundamentally, our focus has turned to supporting the long-term recovery of the industry and its services to New Zealand. We remain steadfast on delivering Airways' strategy of enabling a progressive airspace environment for the future, recognising that the way we will get there in this new environment will be different.

We have been working for a number of years to reassess how we provide air traffic services through New Zealand's airspace to ensure their long-term viability. Technology and other developments are enabling safe and commercially viable alternatives to the way these services have traditionally been provided. The dramatic decline in air traffic caused by the Covid-19 pandemic means this work is now more important than ever and we have taken a number of steps to right-size our business and realign our services to meet our customers' requirements, and the expectations of our shareholder.

In May we announced our decision to change the air traffic services we provide from seven regional aerodromes where commercial flight operations were limited. These are the air traffic control services provided from Hawke's Bay, Gisborne, New Plymouth, Rotorua and Invercargill airports, and the airfield flight information services (AFIS) provided at Kapiti Coast Airport and Milford Sound Piopiotahi Aerodrome.

The decision followed consultation with our people and their representative unions, and discussions with the affected airports, our airline customers and wider stakeholders. As we work through the service review phase for the changes, we have reached out to our customers, stakeholders, our people and their union to collaborate on a future services model that meets the needs of all industry participants for the long term.

Construction of Airways' new Auckland air traffic centre was completed in October, with a dawn blessing ceremony held to mark the milestone.

STRENGTHENING OUR RESILIENCE – NEW AIR TRAFFIC CENTRES AND ATM SYSTEM

Development of the new SkyLine-X air traffic management platform and physical works on the new air traffic centres in Christchurch and Auckland continued through the year.

Construction of the new Auckland and Christchurch air traffic centres was completed in October. The fit-out of both centres has recommenced following the end of Covid-19 restrictions.

The new centres will allow our teams to deliver more resilient services to our airline customers and the travelling public. A key feature of the buildings is that they are built to an IL4 level of resiliency, meaning they are capable of withstanding significant seismic events.

The new SkyLine-X air traffic management platform will integrate our domestic and oceanic systems, providing controllers with additional features to increase safety and efficiency. It is being developed in collaboration with global technology provider Leidos.

We expect to be able to complete the first phase of factory acceptance testing on the new platform later this year, and transition the domestic system to the new platform in early 2022.

COMMERCIAL BUSINESSES - EXPORTING AIRWAYS' EXPERTISE AND INNOVATION WORLDWIDE

The changing environment has seen our commercial business realign its sales activities towards digitally-focussed services and virtual learning environments.

At the outset of the Covid-19 crisis, the commercial team quickly put in place measures to allow for remote project delivery. As a result, our international activities have been less affected by the pandemic than the core business.

A number of new contracts were signed since the outbreak and it is hoped that revenues from these activities will reduce our need to rely on government funding in the future.

The most significant of these deals signed during the lockdown is a five-year contract with Norwegian air navigation services provider (ANSP) Avinor Air Navigation Services to install 16 TotalControl tower, surveillance and mobile simulators over five years. A new simulator maintenance contract has also been signed with South Africa's ANSP, Air Traffic Navigation Services.

"THE CHANGING ENVIRONMENT HAS SEEN OUR COMMERCIAL BUSINESS REALIGN ITS SALES ACTIVITIES TOWARDS DIGITALLY-FOCUSSED SERVICES AND VIRTUAL LEARNING ENVIRONMENTS."

In the first half of the year, our air traffic control training campuses in Christchurch and Palmerston North were at capacity with record numbers of domestic and international students. A further 34 students from the General Authority of Civil Aviation (GACA) in Saudi Arabia commenced air traffic control training in Palmerston North in May.

However, as part of the shift towards digitally focussed services, Airways International is transitioning from primarily classroom-based training to a virtual learning environment where training courses are delivered entirely online and virtually.

Following the border and global travel restrictions put in place due to Covid-19, the Airways Knowledge Online (AKO) Virtual Academy was developed to deliver Air Traffic Control (ATC) and Air Traffic Service (ATS) training programmes via virtual classrooms and using AirBooks digital learning resources.

AIRSHARE

In February AirShare launched as New Zealand's unmanned aerial vehicle traffic management system (UTM).

After initially partnering with an external provider, the AirShare mobile app was completely rebuilt with new tools and functionality to make it quicker and easier for drone operators to use and streamline the process for controllers approving flights.

The launch of the new platform was a significant step towards our wider goal of safely integrating drones into New Zealand airspace. Following the launch, an agreement was signed with Airservices Australia to provide a proof of concept as the ANSP explores options for implementing a UTM system in Australia.

AirShare operated as subsidiary of Airways from November 2018. This year the decision was made to bring it under the Airways International business to allow it to springboard off its successful New Zealand launch and early interest from international customers.

CONTINUOUS SAFETY IMPROVEMENT

A significant milestone was achieved during the year with the Airways Barrier Model and Barrier Safety Index (BSI) moving from a development project into operational use.

With the aim of delivering proactive safety tools, new dashboards for risk, threat and error, and human performance factors have been built to deliver valuable insights into why, where and how events occur. This enables the design of system, procedural and behavioural changes to reduce the frequency and consequences of safety events.

The next phase of the programme focuses on improving data capture and quality. This includes the redesign of the reporting system, supporting software, and a full review of the historical dataset to ensure statistical validity of the data model.

A SUSTAINABLE FOCUS

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 us, our people, our communities and for all of New Zealand. During the year we progressed our sustainability initiatives and worked to further embed sustainability principles into Airways' strategic and business planning processes. We made meaningful changes in the workplace to significantly reduce the amount of waste to landfill, including conducting waste audits at key sites during the year to determine the amount and type of waste Airways generates and installing waste separation facilities at key Airways sites. Progress was also made towards establishing baseline measures for energy usage and CO_2 emissions.

The ceasing of all projects due to Covid-19 has seen a halt on sustainability initiatives for the time being. We are committed to our targets and aim to re-start key projects as the business settles into the new normal. A key consideration for management continues to be how to ensure sustainability principles form a central part of our new future strategy.

"WE ARE PARTICULARLY PROUD OF PEOPLE AND THE LEVEL OF PROFESSIONALISM AND COMMITMENT THEY HAVE SHOWN THROUGH WHAT HAS BEEN A VERY DIFFICULT YEAR."

ACTING ON DIVERSITY AND INCLUSION

Creating a work environment and culture where all differences are valued, respected and leveraged is a key priority for Airways. We have made positive progress on our diversity initiatives this year, recognising that every individual is unique and brings different experiences to the benefit of our organisation.

This year we have partnered with Diversity Works to support the delivery of unconscious bias workshops for our Executive team. A Diversity and Inclusion Policy has been developed and we are considering our other existing processes and policies to ensure they align with this work.

Alongside this, we have implemented a Flexible Working Policy. Like many New Zealand businesses, the Covid-19 lockdown provided Airways with an opportunity to test the ability of our systems and practices to enable our people to work from home effectively, and to recognise the benefits. These lessons will support us in implementing more flexible working arrangements in the post Covid-19 world.

Encouragingly, in the past 18 months representation of women in Airways' senior leadership group has increased from 31% to 39%.

Over the year we have also celebrated several cultural and community events, including Diwali, International Women's Day, and Christchurch Pride week.

While we are pleased with the advancements we have made this year, we are still only at the beginning of this journey.

DEVELOPING OUR TE REO MĀORI PLAN

Te reo Māori is an inherent part of New Zealand's national identity, to be valued and used by wider Aotearoa New Zealand and we have identified our need to design a Māori language plan for Airways. This year we took our first steps in exploring how we will develop a blueprint to support Airways in building our people's Māori language and culture awareness in the long term.

Te Wiki o te reo Māori (Māori Language Week) provided an opportunity in the year to kick start our journey. To celebrate the week in September, our people were encouraged to learn their pepeha and share stories of learning the language. More formal activities included organised language tutorials with a Māori Language Commission accredited translator. We look forward to continuing our progress in the coming years.

ACKNOWLEDGING OUR PEOPLE

We are particularly proud of our people and the level of professionalism and commitment they have shown through what has been a very difficult year. Thank you to all our people for digging deep while facing personal challenges and continuing to keep New Zealand's skies safe.

During the year we have welcomed some new faces to our executive team and farewelled others.

Katie Wilkinson was appointed as Head of Air Traffic Services in January 2020 and Mark Daldorf joined Airways as Head of People and Capability in May following the resignations of Tim Boyle and Andrew Boyd respectively. Trent Fulcher stepped down as CEO of AirShare in June.

We thank Tim, Andrew and Trent for their service to Airways and wish them well in their new roles.

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 of the 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 Queen's Service Order.

MARK PITT
DEPUTY CHAIR
BSC, ATPL

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

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

LISA JACOBS
BCOM, LLB, 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.

DARIN CUSACK
MINSTD

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

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

Most recently, Darin led the Pacific Aviation Investment Program on behalf of the World Bank Group across six countries and reforming the Pacific Aviation Safety Office. Bringing operational and commercial acumen, Darin provides clear strategic direction supported by strong processes.

Darin has a focus on continual improvement, strengthening relationships, and the provision of safe and secure operations.

PAULA JACKSON
MINSTD

Paula was appointed to the Airways board in January 2019. She is the Deputy Chair of Quotable Value and Chair of Who's on Location. She is also a director of Mercer NZ, Marsello, Collect Group Limited and Paula Jackson Consulting.

Paula's career spans 25 years in leadership and senior marketing positions at ANZ, Spark (Telecom), Vodafone and Xero. She provides advisory and mentoring expertise to many technology and Software as a Service (Saas) companies.

Paula is a member of the Institute of Directors (MinstD) and is currently completing an MBA at Otago University.

JOHN HOLT
BA, PGDIPBUSADMIN

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

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

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

MARK HUTCHINSON
BSC (HONS), MSC, PGDIP CLPS

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

Mark has applied his background in psychology to both leadership consulting and organizational development across a range of industries over two decades in both the UK and New Zealand. His experience in the UK included working with organisations such as RBS, Barclays and Sainsbury's and in New Zealand, Chorus, NZTA, NZ Post, Trustpower & Fletcher Building. His work now mainly involves supporting chief executives and their executive leadership teams to improve organizational performance through linking strategy to capability and culture.

NICOLA GREER
MCOM (HONS)

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

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

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

Financial statements

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Financial performance

Airways Group delivered a loss after tax of $31.3 million, $57.0 million lower than plan driven by the impact of Covid-19 on the aviation industry.

CORE BUSINESS

The core business recorded an after tax loss of $40.4 million, $56.0 million lower than the prior year. Flight volumes (tonnage) decreased by 23.8% on the previous year due to the travel restrictions that were implemented as a result of Covid-19. To partly offset the decrease in revenue, Airways implemented a cost reduction program across all areas of the business.

Due to the impact Covid-19 has had on future cashflows, the core business has recognised an impairment of $48.7 million for the year ended 30 June 2020.

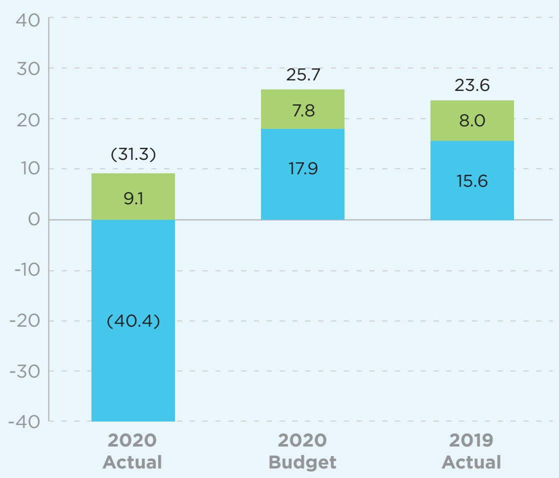
As a response to the crisis, capital expenditure was reduced to a minimum. Only projects identified as priority or critical to maintaining safe services were continued.

COMMERCIAL BUSINESS

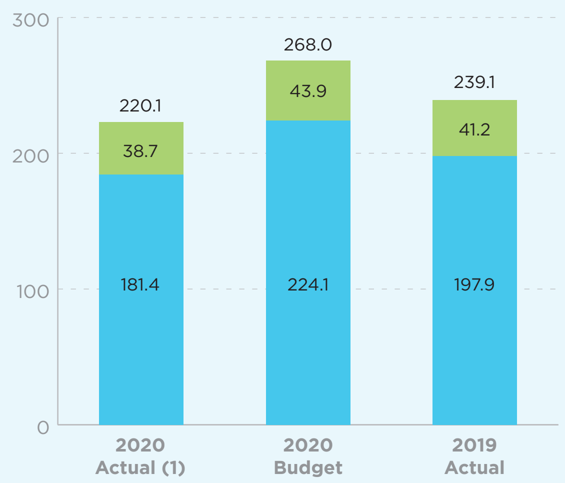
Our commercial businesses outperformed despite the crisis delivering a profit after tax of $9.1 million, 14% ahead of the prior year result of $8.0 million. A key highlight was significant growth in air traffic controller training services that kept our training campuses close to full capacity for the majority of the year. In addition, various projects and programmes for Airways International products and services were successfully delivered domestically and abroad.

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

PROFIT/(LOSS) AFTER TAX ($M)



REVENUE ($M)



CORE BUSINESS COMMERCIAL BUSINESS

1. 2020 revenue includes internal revenue of $10.6 million (2019: $9.8 million) eliminated in the Group Statement of Profit or Loss and Other Comprehensive Income

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

	Actual 2020	SCI Target
Operational		
Near collisions	Nil	Nil
Staff service availability	99.89%	99.88%
Core systems availability	99.99%	100%
Critical technology services availability	99.98%	99.95%
Cyber security maturity rating	3	>3
Customer		
Core business customer satisfaction	Not measured	>80%
Commercial customer satisfaction	Not measured	>80%
Leadership and People		
Staff safety – serious harm injuries	Nil	Nil
Staff engagement	Not measured	>FY19
Financial (values in $m)		
Group (loss)/profit after tax	($31.3m)	$25.7m
Commercial business profit after tax	$9.1m	$7.8m
Capital investment	$38.6m	$75.6m
Dividends	$8.0m	$13.0m
Total revenue	$209.4m	$258.1m
Earnings before interest, tax, depreciation and amortisation (EBITDA)	($10.3m)	$70.1m
Earnings before interest and tax (EBIT)	($40.8m)	$40.2m
Shareholder returns		
Dividend yield	3.2%	5.2%
Dividend payout	234.1%	48.7%
Return on equity	(19.7%)	17.1%
Return on equity, adjusted for NZ IFRS fair value movements and asset revaluations	(19.5%)	17.0%
Profitability and efficiency		
Return on capital employed	(19.0%)	17.1%
Return on assets	(13.3%)	12.4%
Operating margin	(4.9%)	26.2%
Net Profit margin	(15.0%)	9.6%
Asset turnover	0.6	0.7
Leverage and solvency		
Equity multiplier	2.1	2.4
Gearing ratio (net including leases)	27.8%	51.6%
Interest cover (before capitalised interest)	(1.9)	19.7
Solvency (current ratio)	0.9	0.8
Growth and investment		
Revenue growth	(8.7%)	13.2%
EBITDAF growth	(118.0%)	23.5%
NPAT growth	(232.8%)	9.8%
Capital employed growth	19.8%	22.6%
Capital renewal	1.5	2.9

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

	Group		
For the year ended 30 June	2020 ($000's)	RESTATED* 2019 ($000's)	Notes
Operating activities			
REVENUE			
Air traffic management revenue	178,464	200,841	A5.1
Other revenue	25,342	28,413	A5.1
Government grants	5,372	-	A5.2
Interest income	201	-	
TOTAL REVENUE	**209,379**	**229,254**	
EXPENSES			
Employee remuneration	120,001	115,264	A5.4
Employee related costs	11,155	9,430	
Depreciation*	24,392	18,184	A10, A11
Amortisation*	6,295	5,909	A10
Impairment	48,669	-	A3.3
Other operating costs	37,223	39,753	A5.3
Rental expense	2,418	7,531	
Finance expense	2,904	495	
TOTAL EXPENSES	**253,057**	**196,566**	
Net (loss)/profit before taxation	**(43,678)**	**32,688**	
Taxation (benefit)/expense	(12,371)	9,112	A6
Net (loss)/profit after taxation attributable to equity shareholders	**(31,307)**	**23,576**	
Other comprehensive income			
That may be reclassified to profit or loss when conditions are met:			
Movement in cash flow hedge reserve	(25)	(124)	
Deferred tax on other comprehensive income	7	35	A6
Total other comprehensive income	**(18)**	**(89)**	
Total comprehensive (loss)/income for the year attributable to equity shareholders	**(31,325)**	**23,487**	

*Refer to A3.4 for details regarding the restatement as a result of an error and the financial impact to the comparative balances.

This statement is to be read in conjunction with the Notes to the Financial Statements on pages 26 to 55.

Balance sheet

As at 30 June	Group 2020 ($000's)	RESTATED* 2019 ($000's)	Notes
Assets			
CURRENT ASSETS			
Cash and cash equivalents	66,752	1,018	
Trade and other receivables	14,568	26,266	A8
Current tax asset	1,062	-	
Prepayments	2,734	2,852	
Derivative financial instruments	273	115	A7
Total current assets	**85,389**	**30,251**	
NON-CURRENT ASSETS			
Property, plant and equipment*	183,202	201,893	A10
Right-of-use assets	66,159	-	A11
Intangibles*	13,926	19,559	A10
Inventories	2,025	1,928	A12
Deferred tax asset	9,252	-	A6
Other non-current assets	51	84	
Derivative financial instruments	31	3	A7
Total non-current assets	**274,646**	**223,467**	
Total assets	**360,035**	**253,718**	
Liabilities			
CURRENT LIABILITIES			
Trade and other payables	11,924	16,237	A9
Lease liabilities	6,380	-	A11
Employee entitlements	20,613	20,558	A5.5
Current tax liability	-	6,034	
Derivative financial instruments	152	379	A7
Loan facility – unsecured	58,000	-	B1
Total current liabilities	**97,069**	**43,208**	

Balance sheet CONTINUED

As at 30 June	Group 2020 ($000's)	RESTATED* 2019 ($000's)	Notes
NON-CURRENT LIABILITIES			
Loan facility - unsecured	-	50,000	B1
Lease liabilities	76,064	-	A11
Deferred tax liability	-	5,663	A6
Employee entitlements	10,413	9,441	A5.5
Derivative financial instruments	1,976	1,568	A7
Total non-current liabilities	**88,453**	**66,672**	
Total liabilities	**185,522**	**109,880**	
Net assets	**174,513**	**143,838**	
Equity			
Share capital	111,100	41,100	A13
Reserves	(1,330)	(1,312)	
Retained earnings	64,743	104,050	
Total equity	**174,513**	**143,838**	

*Refer to A3.4 for details regarding the restatement as a result of an error and the financial impact to the comparative balances.

The Board of Directors of Airways Corporation of New Zealand Limited authorised these financial statements for issue on 24 September 2020. The Directors do not have the power to amend the financial statements once issued.

DENISE CHURCH
Chair
24 September 2020

LISA JACOBS
Director
24 September 2020

This statement is to be read in conjunction with the Notes to the Financial Statements on pages 26 to 55.

Statement of changes in equity

	Group				
	Attributable to equity shareholders				
	Con-tributed equity	Hedge reserve	Retained earnings	Total	Notes
Balance as at 30 June 2018	**41,100**	**(1,223)**	**92,474**	**132,351**	
COMPREHENSIVE INCOME					
Net profit 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**	
COMPREHENSIVE INCOME					
Net loss after taxation	-	-	(31,307)	(31,307)	
OTHER COMPREHENSIVE INCOME					
Movements in hedge contracts	-	(25)	-	(25)	
Deferred tax on other comprehensive income	-	7	-	7	
Total other comprehensive income	**-**	**(18)**	**-**	**(18)**	
Total comprehensive income	**-**	**(18)**	**(31,307)**	**(31,325)**	
TRANSACTIONS WITH OWNERS					
Issue of ordinary shares	70,000	-	-	70,000	
Dividends paid (19.5 cents per share)	-	-	(8,000)	(8,000)	
Total transactions with owners	**70,000**	**-**	**(8,000)**	**62,000**	
Balance as at 30 June 2020	**111,100**	**(1,330)**	**64,743**	**174,513**	

This statement is to be read in conjunction with the Notes to the Financial Statements on pages 26 to 55.

Statement of cash flows

	Group		
For the year ended 30 June	2020 ($000's)	2019 ($000's)	Notes
Cash flows from operating activities			
CASH WAS PROVIDED FROM:			
Receipts from customers	214,904	228,646	
Receipts from government	5,461	-	A5.2
Interest received	201	13	
CASH WAS APPLIED TO:			
Payments to suppliers	(44,371)	(48,670)	
Payments to employees	(129,477)	(121,823)	
Interest paid	(2,981)	(493)	
Income tax paid	(9,633)	(10,037)	
Net cash flows from operating activities	**34,104**	**47,636**	E2
Cash flows from investing activities			
CASH WAS PROVIDED FROM:			
Sale of property, plant and equipment	102	56	
Sale of investments	32	-	
CASH WAS APPLIED TO:			
Purchase of property, plant and equipment	(22,853)	(26,272)	
Purchase of intangible assets	(15,776)	(20,152)	
Net cash flows used in investing activities	**(38,495)**	**(46,368)**	
Cash flows from financing activities			
CASH WAS PROVIDED FROM:			
Drawdown of loan facility	8,000	10,000	
Issuance of shares	70,000	-	
Lease incentives received	3,000	-	
CASH WAS APPLIED TO:			
Principal elements of lease payments	(2,875)	-	
Payment of dividends	(8,000)	(12,000)	
Net cash flows used in/(from) financing activities	**70,125**	**(2,000)**	
Net increase/(decrease) in cash held	**65,734**	**(732)**	
Cash at the beginning of the year	1,018	1,750	
Cash at the end of the year	**66,752**	**1,018**	

Interest paid above includes interest expense from leases of $2.68 million (2019: nil) and excludes capitalised interest of $2.36 million (2019: $2.08 million). Total interest paid for the year was $5.26 million (2019: $2.37 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 26 to 55.

Structure of notes to the financial statements

A

Section A:
How the numbers are calculated – pages 26 to 45

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 46 to 51

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 52 to 53

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 54

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 55

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

SECTION A
How the numbers are calculated

A1 BASIS OF PREPARATION

These financial statements are for the consolidated Group ("Airways"), consisting of Airways Corporation of New Zealand Limited and its subsidiaries: (refer to note C1 for further details). They have been prepared in accordance with:

- Generally Accepted Accounting Practice in New Zealand (as a result they comply with the New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and other applicable New Zealand accounting standards and authoritative notices, as appropriate for for-profit tier 1 entities. They also comply with International Financial Reporting Standards); and
- The requirements of the Financial Reporting Act 2013, Companies Act 1993 and the State-Owned Enterprises Act 1986.

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

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

Airways has applied the following standards for the first time in for their annual reporting period commencing 1 July 2019:

- NZIFRS 16 – Leases, issued in February 2016 (effective for periods beginning on or after 1 January 2019). The application of this standard has not resulted in the restatement of comparative balances. Refer to note A14.

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.

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

A3 CRITICAL ACCOUNTING ESTIMATES, JUDGEMENTS AND ERRORS

This note provides an overview of the areas that involved a higher degree of judgement or complexity and of items which are more likely to be materially adjusted due to inaccurate estimates and assumptions. Detailed information about each of these estimates and judgements is included in other notes together with information about the basis of calculation for each affected line item in the financial statements. In addition, this note also explains where there have been actual adjustments in the year as a result of an error.

A3.1 PROVISIONS (NOTE A9)

A number of restructuring events have occurred during the current and prior periods resulting in an estimate of restructuring provisions.

SECTION A
How the numbers are calculated CONTINUED

A3.2 COVID-19 PANDEMIC

Following the declaration of a global pandemic by the World Health Organisation on 11 March 2020, and the subsequent move to a level 4 alert by the New Zealand government, Airways experienced a significant decrease in the flight volumes for both domestic and international flights. This has resulted in a significant deterioration in the Air Traffic Management revenue of Airways between April to June 2020.

As a result, Airways has:

- Identified the Core business unit as a single Cash Generating Unit (CGU) and performed an impairment assessment in accordance with the requirements under NZ IAS 36 Impairment of Assets.
- Revised provision for expected credit losses to be realised in Airways' accounts receivables.

Balance sheet item	Covid-19 assessment	Note
Cash	No impact on the carrying value of cash on hand.	-
Accounts receivable and prepayments	Airways has updated the provision for expected credit losses for the increase in expected credit losses.	A8
Property, plant and equipment	Airways has reassessed the carrying value of property, plant and equipment based on an CGU impairment assessment.	A10
Intangibles	Airways has reassessed the carrying value of intangibles based on an CGU impairment assessment.	A10
Right-of-use assets	As a direct consequence of the Covid-19 pandemic, Airways has received rent abatement for the period of the level 4 lockdown. This abatement qualifies for the practical expedient and have been accounted for as a variable lease payment adjustment.	A11
Inventory	Airways inventory relates to spare parts and equipment used for maintenance of property, plant and equipment. There has been no specific impact to the net realisable value of these assets at balance date.	A12
Derivative financial instruments	Derivatives are recorded at fair value and the carrying value at year-end reflects its market prices at the balance date. Airways has considered the impact of ineffectiveness on hedges.	B1
Trade and other payables	Airways has accrued for additional professional services fees incurred, as a result of Covid-19.	A9
Provisions	Airways has provided for restructuring costs as a result of Covid-19.	A9
Employee entitlements	Employee entitlements are measured in accordance with the recognition and measurement requirements under NZ IAS 19 Employee benefits.	A5.5
Tax liabilities	The decrease in profit for the year driven by Covid-19 has resulted in Airways overpaying provisional tax. Refund recorded at amount to be received.	A6
Lease liabilities	Leases recorded as per lease contract (refer to right-of-use assets above).	A11
Loan facilities	Borrowings are held at amortised cost. The impact of Covid-19 has resulted in a breach in banking covenants which has resulted in a change in classification of borrowings from non-current to current. Subsequent to year-end, Airways obtained a letter of waiver from its bankers such the borrowings will be classified as non-current from the date of the waiver.	B1

SECTION A
How the numbers are calculated CONTINUED

A3.3 IMPAIRMENT

Cash generating unit

Airways identified its cash generating units ("CGUs") as Core and Commercial business units, being the lowest level of independent cashflows that are generated in the Group. Core CGU refers to Airways Corporation of New Zealand Limited (ACNZ). Airways International Limited, Airways Training Limited, Aeropath Limited and AirShare Limited are separate CGUs in the Commercial business unit. The details of each CGUs principal activities is disclosed in note C1. As at 30 June 2020, both external and internal indicators of impairment existed in the Core business unit and it was determined that impairment testing was required to test the carrying value of the assets in the Core CGU. No impairment testing was determined necessary for the Commercial CGUs.

The recoverable amount of the Core CGU was determined based on assessing the fair-value less cost of disposal (FVLCOD) of the underlying assets, using a discounted cash flow model, which requires the use of assumptions. The calculations include cash flow projections based on financial budgets for the next three years and projections for a further seven years, approved by the board. Due to Airways pricing model and capital spend profile, a 10 year cash flow projection was considered more appropriate than a five year cash flow projection. Cash flows beyond the 10-year period are extrapolated using the estimated growth rates that are specific to the revenue pricing framework. Airways assumed 1.5% of the fair value as the cost associated with disposing the CGU to be $2.56 million. The valuation is considered to be level 3 in the fair value hierarchy due to unobservable inputs used in the valuation.

Key assumptions

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

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

Key assumptions	30 June 2020	Explanation
Long term growth rate	0%	The growth rate used to extrapolate the cash flows beyond the budget period. Under Airways' pricing framework, Airways is only able to recover the return on capital from its customers and therefore has not performed a sensitivity on this assumption.
Pre-tax discount rate	7.40%	Weighted average cost of capital reflecting specific risks to the operational environment of the Core CGU. The inputs are consistent to Airways pricing methodology.
Post-tax discount rate	5.86%	
Pricing assumptions	2023	Airways expects to reprice its services using its current pricing model in financial year ending 2023.
Capital expenditure	$27m-$65m	As a response to the crisis, capital expenditure has been deferred and is expected to be $27.6m and $39.7m for FY21 and FY22 respectively. Deferral of capital spend results in a lower revenue in future years. The capital expenditure is based on board approved budget.
Flight volume	41%-68% of pre-Covid-19 volumes	Airways used pre-Covid-19 flight volumes ranging from 41% to 68% for FY21 and FY22. From FY23 Airways expects to recover its cost through its pricing model. The recovery estimates are based on cautious recovery in the domestic market and international borders opening in 2021.

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SECTION A
How the numbers are calculated CONTINUED

Financial impacts of impairment

Impairment of $48.7 million relating to the Core CGU have been recognised for the year ended 30 June 2020.

The recoverable amount was determined as $171.2 million.

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

Scenario	Weighting
Baseline assumptions	60%
Faster recovery of domestic market and international delayed by 6 months	30%
Change in prices delayed by 12 months	10%

Impairment has been allocated on a pro-rata basis to reduce the carrying amount of the assets in the Core CGU. The impairment has been allocated to the following assets:

Balance sheet	Group carrying value pre-impairment 30 June 2020	Impairment allocation (Core CGU)	%	Group carrying value post-impairment 30 June 2020
Property, plant and equipment	217,512	34,310	70%	183,202
Right-of-use assets	78,121	11,962	25%	66,159
Intangible assets	16,323	2,397	5%	13,926
Total	**311,956**	**48,669**	**100%**	**263,287**

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

Impairment sensitivity

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

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

Sensitivity	Impairment post sensitivity	Impairment recognised in the financial statements	Impact of sensitivity
10% increase in domestic and international traffic volume in 2021 and 2022	$36.6m	$48.7m	($12.1m)
10% decrease in domestic and international traffic volume in 2021 and 2022	$67.2m	$48.7m	$18.5m
Change in prices delayed by 12 months	$75.3m	$48.7m	$26.6m
Post-tax discount rate increase by 50 basis points	$80.4m	$48.7m	$31.8m
Post-tax discount rates decrease by 50 basis points	$17.6m	$48.7m	($31.1m)
Opening of border to international travellers delayed by 6 months	$61.5m	$48.7m	$12.8m
Additional capital expenditure spend of $10m in FY21	$50.9m	$48.7m	$2.2m

SECTION A
How the numbers are calculated CONTINUED

A3.4 RESTATEMENT OF PRIOR PERIOD ERROR

In August 2019, Airways conducted an annual review of fixed assets for insurance requirements. During the review process it was identified a number of intangible assets were incorrectly categorised as Property, Plant and Equipment.

The error has been corrected by restating each of the affected financial statement line items for the prior period as follows:

Balance sheet	30 June 2019	Increase/(Decrease)	30 June 2019 (restated)
Property, plant and equipment	202,320	(427)	201,893
Intangible assets	19,132	427	19,559
Net assets	**-**	**-**	**-**
Total equity	**-**	**-**	**-**

Statement of profit and loss and other comprehensive income	30 June 2019	Increase/(Decrease)	30 June 2019 (restated)
Depreciation	18,439	(255)	18,184
Amortisation	5,654	255	5,909
Total expenses	**-**	**-**	**-**
Net profit before taxation	-	-	-
Total comprehensive income	**-**	**-**	**-**

The following table supplements restated amounts in note A10 Property, Plant and equipment and Intangibles:

Property, plant and equipment	30 June 2019	Increase/(Decrease)	30 June 2019 (restated)
At cost	417,028	(18,040)	398,988
Accumulated depreciation	214,708	(17,613)	197,095
Additions at cost	85,963	(117)	85,846
Depreciation charge	18,439	(255)	18,184

Intangible assets	30 June 2019	Increase/(Decrease)	30 June 2019 (restated)
At cost	62,327	18,040	80,367
Accumulated amortisation	43,195	17,613	60,808
Additions at cost	2,729	117	2,846
Amortisation charge	5,654	255	5,909

Property, plant and equipment	30 June 2018	Increase/(Decrease)	30 June 2018 (restated)
At cost	373,901	(17,923)	355,978
Accumulated depreciation	197,194	(17,358)	179,836

Intangible assets	30 June 2018	Increase/(Decrease)	30 June 2018 (restated)
At cost	60,473	17,923	78,396
Accumulated amortisation	37,982	17,358	55,340

SECTION A
How the numbers are calculated CONTINUED

Within Property, plant and equipment a number of assets were restated in their sub-categories:

Plant and equipment	30 June 2019	Increase/ (Decrease)	30 June 2019 (restated)	30 June 2018	Decrease	30 June 2018 (restated)
At cost	235,473	(14,457)	221,016	226,187	(14,459)	211,728
Accumulated depreciation	148,314	(14,658)	133,656	137,062	(14,699)	122,363
Additions at cost	9,517	2	9,519	-	-	-
Depreciation charge	11,426	41	11,467	-	-	-

Computer equipment	30 June 2019	Increase/ (Decrease)	30 June 2019 (restated)	30 June 2018	Decrease	30 June 2018 (restated)
At cost	41,815	(3,092)	38,723	40,263	(2,975)	37,288
Accumulated depreciation	34,272	(2,708)	31,564	29,749	(2,466)	27,283
Additions at cost	1,846	(117)	1,729	-	-	-
Depreciation charge	4,794	(241)	4,553	-	-	-

Furniture and fittings	30 June 2019	Increase/ (Decrease)	30 June 2019 (restated)	30 June 2018	Decrease	30 June 2018 (restated)
At cost	7,529	(491)	7,038	7,427	(489)	6,938
Accumulated depreciation	5,006	(248)	4,758	4,705	(193)	4,512
Additions at cost	281	(2)	279	-	-	-
Depreciation charge	451	(55)	396	-	-	-

As the error relates to an incorrect classification of non-financial assets, there is no impact to opening retained earnings.

In the prior year, note D1 Capital commitments, disclosed both contracted and uncontracted external and internal costs. The comparative period has been restated to only disclose the contracted costs as at the balance date.

A4 GOING CONCERN

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

As a direct consequence of Covid-19 the Group experienced a significant reduction in revenue due to much lower flight volumes. As a result, the Group incurred a loss after tax of $31.3 million for the year ended 30 June 2020 (2019: profit after tax of $23.6 million) and current liabilities exceed current assets by $11.7 million at 30 June 2020 (2019: current liabilities exceed current assets by $13.0 million). In March 2020, the owners made a capital contribution of $70 million, after which the Group had net current liabilities at 30 June 2020, of $11.7 million.

The Group breached two of its three banking covenants in June 2020, resulting in the outstanding debt facilities being classified as current debt in the Balance Sheet as at 30 June 2020. It is forecasted the Group will continue to incur losses during the financial year ending 30 June 2021 and the financial position of the Group will further deteriorate from cash outflows used in operating activities.

SECTION A
How the numbers are calculated CONTINUED

To enable the Group to continue as a going concern for at least 12 months from the date of signing the financial statements, the following arrangements have come into effect subsequent to the balance date:

- On 10 August 2020, the Group issued 95,000,000 ordinary un-paid shares to its owners which was subscribed by the Crown. This provides a $95 million undrawn capital facility to the Group.
- The Group's debt facility with Australia and New Zealand Banking Corporation ('ANZ') was amended and a revised Agreement was entered on 9 July 2020. In the revised Agreement, ANZ granted the Group a waiver of breach in its current and future banking covenants until 31 December 2021. The Group also has $32 million of undrawn financing facilities in place as at 30 June 2020 that, if required, can be utilised by the Group.

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

A5 PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME INFORMATION

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

A5.1 REVENUE FROM CONTRACTS WITH CUSTOMERS

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

With respect to the different sources of revenue for the 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 Airways and there are contractual rights to payment for work performed, is recognised as the service is provided or asset is constructed. Revenue recognition is based on the input method utilising direct costs incurred	Overtime
Software licences	For licences with a defined term revenue recognition is based on straight line recognition across the life of the licence	Overtime
	Revenue for perpetual licenses that grant a right to use is recognised once the licence is available for use	Point in time
Training	Revenue recognition is based on the output method utilising the days of training provided	Overtime
Publications	Revenue from subscriptions to aeronautical information is recognised on a straight-line basis over the life of the subscription	Overtime
Data services	Data services include the ongoing provision of access to Airways data, and revenue recognition is based on the output method utilising the days of services provided	Overtime

SECTION A
How the numbers are calculated CONTINUED

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

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

30 June 2020

	ATM	Con-sulting	Data Services	Software	Training	Pub-lications	Other
Point in time	178,464	2,727	-	371	-	1,080	1,371
Overtime	-	7,516	3,456	1,595	7,226	-	-
Total	**178,464**	**10,243**	**3,456**	**1,966**	**7,226**	**1,080**	**1,371**

30 June 2019

	ATM	Con-sulting	Data Services	Software	Training	Pub-lications	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**

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

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

CONTRACT ASSETS	2020 ($000's)	2019 ($000's)
Current contract assets	598	2,623
Provision for loss	-	-
Total current contract asset	**598**	**2,623**
Capitalised contract fulfilment costs (current)	501	127
Capitalised contract fulfilment costs (non-current)	-	-
Total contract assets	**1,099**	**2,750**

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

CONTRACT LIABILITIES	2020 ($000's)	2019 ($000's)
Current contract liabilities	2,446	1,560
Non-current contract liabilities	-	6
Total contract liabilities	**2,446**	**1,566**

All contract liabilities recognised as at 30 June 2019 have been subsequently recognised as revenue in the current year.

A5.2 GOVERNMENT GRANT – WAGE SUBSIDY

Airways received $5.46 million of Covid-19 wage subsidy grants from the Ministry of Social Development in April 2020.

Of the $5.46 million received, $5.37 million was recognised in the Statement of profit or loss and other comprehensive income during the year ended 30 June 2020.

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

SECTION A
How the numbers are calculated CONTINUED

A5.3 INDIVIDUALLY SIGNIFICANT ITEMS WITHIN OPERATING COSTS

For the year ended 30 June	2020 ($000's)	2019 ($000's)
Bad debts written off or provided for/(reversed)	819	(257)
Material and equipment costs	6,664	11,380
Travel	2,968	4,251
Communications	3,960	3,300
Maintenance	10,800	10,361
Utilities	1,674	1,639
Professional fees	4,295	3,308
Insurance	2,056	1,896

Travel costs are lower than prior year due to reduced travel as a result of Covid-19.

Equipment costs are lower than prior year due to the completion of a significant lighting project in 2019.

A5.4 EMPLOYEE REMUNERATION

For the year ended 30 June	2020 ($000's)	2019 ($000's)
Wages and salaries	102,730	99,141
Less: labour costs capitalised	(8,757)	(10,106)
Kiwisaver/superannuation contributions	9,118	8,808
Leave entitlement expense	16,910	17,421
	120,001	**115,264**

A5.5 EMPLOYEE ENTITLEMENTS

Superannuation

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

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

Leave benefits

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

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

Assumption	2020	2019
Employee decrement assumptions	Airways specific	Airways specific
Long run wage increase	2.5%	2.5%
Discount rates *	Crown entity rates	Crown entity rates

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

SECTION A
How the numbers are calculated CONTINUED

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

	2020 ($000's)	2019 ($000's)
Movement in employee decrement assumptions		
Changes in discount rate	677	734
Additional entitlements recognised and paid during the year	154	353
Staff demographic and other movements	621	1,714
Total movement in non-vested long service and retiring leave recognised in profit or loss	**1,452**	**2,801**
Balance sheet obligations as at 30 June, within non-current employee entitlements:		
Long service leave	1,309	1,167
Retiring leave	9,104	8,274
	10,413	**9,441**

A6 INCOME TAX AND RELATED BALANCES

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

Income tax expense

The tax expense for the year comprises current and deferred tax. Tax is recognised in profit or loss, except to the extent it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is recognised in other comprehensive income or directly in equity, respectively. Current tax is measured on the basis of laws enacted, or substantially enacted at the reporting year end.

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

For the year ended 30 June	2020 ($000's)	2019 ($000's)
RECONCILIATION OF PROFIT BEFORE TAXATION TO INCOME TAX EXPENSE		
(Loss)/profit before taxation	(43,678)	32,688
Tax at the New Zealand tax rate of 28%	(12,230)	9,153
Tax effect of amounts which are either non-deductible or taxable in calculating taxable income:		
Non-taxable income/non-deductible expenses	578	36
Utilisation of tax losses for current/prior periods	(73)	(18)
Reinstatement of deferred tax assets	(732)	-
Other	86	(59)
Income tax expense	**(12,371)**	**9,112**
COMPONENTS OF INCOME TAX EXPENSE		
Current tax charge	2,544	11,760
Reinstatement of deferred tax assets	(732)	-
Movement in deferred tax	(14,183)	(2,648)
Income tax expense	**(12,371)**	**9,112**

At 30 June 2020 Airways has imputation credits available for use in subsequent reporting periods of $41.7 million (2019: $35.2 million).

SECTION A
How the numbers are calculated CONTINUED

Deferred tax

Deferred tax assets and liabilities are offset on the face of the balance sheet. Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets 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 2019	**(14,295)**	**8,630**	**2**	**(5,663)**
Deferred tax in respect of previous years	(2)	2	-	-
Deferred tax charged to net profit	10,122	161	3,900	14,183
Deferred tax on reinstatement of building costs	732	-	-	732
Balance as at 30 June 2020	**(3,443)**	**8,793**	**3,902**	**9,252**
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 profit	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)**

Airways Training Limited (ATL) has unrecognised tax losses of $0.536 million (2019: $0.795 million) which cannot be offset against the income of other members of Airways. Airways has no other unrecognised tax losses.

A7 FINANCIAL ASSETS AND LIABILITIES

Airways 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). Financial liabilities (other than fair value through OCI) are recognised initially at fair value, net of any costs incurred, and subsequently measured at amortised cost using the effective interest method. The carrying value of trade and other payables approximate their fair value.

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

Financial assets and liabilities by category

	Derivatives used for hedging ($000's)	Amortised cost ($000's)	Total ($000's)
As at 30 June 2020			
ASSETS AS PER BALANCE SHEET			
Cash and cash equivalents	-	66,752	66,752
Trade and other receivables	-	14,568	14,568
Derivative financial instruments	304	-	304
Total	**304**	**81,320**	**81,624**

SECTION A

How the numbers are calculated CONTINUED

	Derivatives used for hedging ($000's)	Amortised cost ($000's)	Total ($000's)
LIABILITIES AS PER BALANCE SHEET			
Trade and other payables	-	7,145	7,145
Employee entitlements	-	31,027	31,027
Derivative financial instruments	2,128	-	2,128
Lease liabilities	-	82,444	82,444
Borrowings and overdrafts	-	58,000	58,000
Total	**2,128**	**178,616**	**180,744**
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**

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

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

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

A8 TRADE AND OTHER RECEIVABLES

As at 30 June	2020 ($000's)	2019 ($000's)
Trade accounts receivable	13,469	23,643
Contract assets	1,099	2,623
Total trade and other receivables	**14,568**	**26,266**

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

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

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

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

SECTION A

How the numbers are calculated CONTINUED

In addition to this, consideration is also given to other economic factors which could contribute to further expected credit losses. In light of Covid-19 and the heightened credit risk associated with debt recoverability specific for customers using ATM services (typically airlines), an increase in default rates was factored into the calculation of the ECL. Based on the sensitivities performed, ECL of $1.755 million is within the range of possible outcomes.

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

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

	Current ($000's)	1–90 days overdue ($000's)	91 days–1 year overdue ($000's)	1–2 years overdue ($000's)	2+ years overdue ($000's)	Total ($000's)
As at 30 June 2020						
Unimpaired trade receivables	8,479	4,097	731	43	-	13,350
Impaired trade receivables	77	728	135	83	851	1,874
Total trade receivables due	**8,556**	**4,825**	**866**	**126**	**851**	**15,224**
Expected credit loss	(77)	(633)	(106)	(88)	(851)	(1,755)
Trade receivables recognised	**8,479**	**4,192**	**760**	**38**	**-**	**13,469**
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**

A9 TRADE AND OTHER PAYABLES

As at 30 June	2020 ($000's)	2019 ($000's)
Trade accounts payable	1,969	4,886
Contract liabilities	2,536	1,566
Payroll related payables	1,636	1,748
Accrued liabilities	2,884	5,557
Provisions	2,492	2,254
Other payables	407	226
Total trade and other payables	**11,924**	**16,237**

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 2019	1,053	640	561	2,254
Accrued balance utilised	(1,679)	(640)	(379)	(2,698)
Additional provisions raised	2,355	-	581	2,936
Closing balance as at 30 June 2020	**1,729**	**-**	**763**	**2,492**

The provisions balance includes a restructuring costs for employees that are confirmed to be made redundant as at the balance date. 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.

SECTION A
How the numbers are calculated CONTINUED

A10 PROPERTY, PLANT & EQUIPMENT AND INTANGIBLE ASSETS

Recognition and measurement

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

Where assets are generated internally, costs are only capitalised once a formal investment case has been prepared and approved in line with Airways' delegated financial authority policy. The costs on these projects may include both internal labour and third-party costs. The investment case must demonstrate that:

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

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

Depreciation and amortisation

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

Impairment

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

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 ($'000's) Restated	Computer equipment ($'000's) Restated	Furniture and fittings ($'000's)	Motor vehicles ($'000's)	Work in progress ($'000's)	Total ($'000's) Restated
Average useful life	Not depreciated	19 years	12 years	4 years	9 years	6 years	Not depreciated	
Cost								
As at 1 July 2019*	1,476	66,324	221,016	38,723	7,038	3,246	61,165	398,988
Additions at cost	-	2,223	17,595	7,337	1,323	87	35,309	63,874
Deduct disposals	-	(546)	(4,641)	(1,967)	(929)	(210)	-	(8,293)
Transfers from work in progress	-	-	-	-	-	-	(28,208)	(28,208)
AS AT 30 JUNE 2020	**1,476**	**68,001**	**233,970**	**44,093**	**7,432**	**3,123**	**68,266**	**426,361**

SECTION A
How the numbers are calculated CONTINUED

	Land ($'000's)	Buildings ($'000's)	Plant and equipment ($'000's) Restated	Computer equipment ($'000's) Restated	Furniture and fittings ($'000's)	Motor vehicles ($'000's)	Work in progress ($'000's)	Total ($'000's) Restated
Average useful life	Not depreciated	19 years	12 years	4 years	9 years	6 years	Not depreciated	
Accumulated depreciation and impairment								
As at 1 July 2019*	233	24,210	133,656	31,564	4,758	2,674	-	197,095
Depreciation charge	-	1,684	12,653	4,935	380	215	-	19,867
Impairment charge	196	6,725	14,571	1,425	646	71	10,676	34,310
Deduct disposals	-	(518)	(4,618)	(1,888)	(880)	(209)	-	(8,113)
As at 30 June 2020	**429**	**32,101**	**156,262**	**36,036**	**4,904**	**2,751**	**10,676**	**243,159**
Net book value as at 30 June 2020	**1,047**	**35,900**	**77,708**	**8,057**	**2,528**	**372**	**57,590**	**183,202**
Cost								
As at 1 July 2018*	1,480	38,524	211,728	37,288	6,938	3,119	56,901	355,978
Additions at cost*	-	28,001	9,519	1,729	279	296	46,022	85,846
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**	**221,016**	**38,723**	**7,038**	**3,246**	**61,165**	**398,988**
Accumulated depreciation and impairment								
As at 1 July 2018*	233	22,919	122,363	27,283	4,512	2,526	-	179,836
Depreciation charge*	-	1,454	11,467	4,553	396	314	-	18,184
Deduct disposals	-	(163)	(174)	(272)	(150)	(166)	-	(925)
As at 30 June 2019*	**233**	**24,210**	**133,656**	**31,564**	**4,758**	**2,674**	**-**	**197,095**
Net book value as at 30 June 2019	**1,243**	**42,114**	**87,360**	**7,159**	**2,280**	**572**	**61,165**	**201,893**

The cumulative work in progress includes significant investments of $36.1 million (post impairment) in a new air traffic management (ATM) system (2019: $36.1 million). These balances will be transferred to Intangibles on completion of the project.

*See note A3.4 for details regarding the restatement as a result of an error and the financial impact to the comparative balances.

See note A3.3 for details regarding the impairment charges incurred during 30 June 2020.

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 2019*	58,923	21,444	80,367
Additions at cost	2,791	266	3,057
Deduct disposals	(116)	(759)	(875)
As at 30 June 2020	**61,598**	**20,951**	**82,549**
Accumulated depreciation and impairment			
As at 1 July 2019*	45,185	15,623	60,808
Amortisation charge	3,556	2,738	6,294
Impairment charge	1,905	492	2,397
Deduct disposals	(117)	(759)	(876)
As at 30 June 2020	**50,529**	**18,094**	**68,623**
Net book value as at 30 June 2020	**11,069**	**2,857**	**13,926**
Cost			
As at 1 July 2018*	57,023	21,373	78,396
Additions at cost*	2,016	830	2,846
Deduct disposals	(116)	(759)	(875)
As at 30 June 2019*	**58,923**	**21,444**	**80,367**
Accumulated depreciation and impairment			
As at 1 July 2018*	41,830	13,510	55,340
Amortisation charge*	3,419	2,490	5,909
Deduct disposals	(64)	(377)	(441)
As at 30 June 2019*	**45,185**	**15,623**	**60,808**
Net book value as at 30 June 2019*	**13,738**	**5,821**	**19,559**

*See note A3.4 for details regarding the restatement as a result of an error and the financial impact to the comparative balances.

See note A3.3 for details regarding the impairment charges incurred during 30 June 2020.

A11 LEASES

Recognition and measurement

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

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

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

SECTION A
How the numbers are calculated CONTINUED

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

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

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

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

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

Right-of-use assets

	Land and buildings ($000's)	Plant and Equipment ($000's)	Vehicles ($000's)	Total ($000's)
As at 1 July 2019	**15,231**	**2,900**	**406**	**18,537**
Depreciation charges	(4,028)	(390)	(107)	(4,525)
Additions to the right-of-use assets	63,840	-	-	63,840
Adjustments to existing right-of-use assets	(9)	278	-	269
Impairment	(11,473)	(441)	(48)	(11,962)
As at 30 June 2020	**63,561**	**2,347**	**251**	**66,159**

See note A3.3 for details regarding the impairment charges incurred during 30 June 2020.

Lease liabilities

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

Amounts recognised in profit or loss

	2020 ($000's)
Interest on lease liabilities	2,680
Expenses relating to short-term leases	1,050
Expenses relating to leases of low-value assets excluding short term leases	20

SECTION A
How the numbers are calculated CONTINUED

Amounts recognised in the statement of cashflows

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

Lease profile

The details for the two significant lease liabilities and right-of-use assets at 30 June 2020 are as follows:

	20-30 Sir William Pickering Drive, Russley, Christchurch	5 Leonard Isitt Drive, Auckland Airport, Auckland
Start date	23 October 2019	22 August 2019
Initial lease period	25 years	25 years
Extension options	10 years	10 years
Extension options exercised	No	No
Incremental borrowing rate	4.43%	4.43%

Transition impacts in adoption NZ IFRS 16 leases is disclosed in note A14.

A12 INVENTORIES

Recognition and measurement

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

A13 SHARE CAPITAL AND RESERVES

Airways has capital of $111.1 million (2019: $41.1 million) issued ordinary shares which confer on the holders the right to vote at any general meeting of shareholders. This consists of 111,100,000 (2019: 41,100,000) authorised ordinary shares.

On 30 March 2020, Airways issued 70,000,000 ordinary shares at $1 per share to its owners (2019: nil), for a total consideration of $70 million.

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.

A14 CHANGES IN ACCOUNTING POLICIES

This note explains the impact of the adoption of NZ IFRS 16 Leases on Airways' financial statements.

Airways has adopted NZ IFRS 16 retrospectively from 1 July 2019, using the simplified modified retrospective approach. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 July 2019.

Adjustments recognised on adoption of NZ IFRS 16

On adoption of NZ IFRS 16, Airways recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of NZ IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 July 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 July 2019 was 4.23%.

SECTION A
How the numbers are calculated CONTINUED

	July 2019 ($000's)
Operating lease commitments disclosed as at 30 June 2019	112,063
Discounted using the lessee's incremental borrowing rate at the date of initial application	83,991
Less: operating lease commitments that did not commence at the date of initial recognition	(65,213)
Less: short-term leases recognised on a straight-line basis as expense	(829)
Less: adjustments relating to changes in the lease payment rates	(1,361)
Add: contracts re-assessed as leases under NZ IFRS 16	1,949
Lease liability recognised as at 1 July 2019	**18,537**
Of which are:	
Current lease liabilities	3,017
Non-current lease liabilities	15,520
	18,537

Operating lease commitments that did not commence at the date of initial recognition of $65.2 million relates to two IL4 buildings in Auckland and Christchurch. Airways was committed to these leases as at 30 June 2019, but the leases did not commence on 1 July 2019.

The associated right-of-use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 30 June 2019. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

The recognised right-of-use assets relate to the following types of assets:

	Jun 2020 ($000's)	Jul 2019 ($000's)
Land & Buildings	63,561	15,231
Plant & Equipment	2,347	2,900
Vehicles	251	406
Total right-of-use assets	**66,159**	**18,537**

The change in accounting policy affected the following items in the balance sheet on 1 July 2019:

- right-of-use assets – increase by $18.5 million
- lease liabilities – increase by $18.5 million

In applying NZ IFRS 16 for the first time, Airways has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics
- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 July 2019 as short-term leases
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application, and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

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:

	Amount				
Total facility	2020	2020 Drawdowns	2019	Remaining term	Interest rate
$60 million	$50 million	-	$50 million	2 years (expires July 2022)	Floating
$30 million	$8 million	$8 million	-	4 years (expires February 2024)	Floating

Due to the financial impacts of Covid-19, Airways have breached two of its three banking covenants for the year ended 30 June 2020.

Subsequent to the balance date, Airways obtained a waiver for the breach of financial covenants required under the loan agreements, until 31 December 2021. These were for complying with the interest coverage ratio and gearing ratio. As this was received after balance date the debt facility has been classified as a current liability at 30 June 2020.

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 2020						
Interest rate derivatives – outflow	(239)	(743)	(899)	-	-	-
Foreign currency exchange contracts – inflow*	6,293	7,631	3,420	959	-	-
Foreign currency exchange contracts – outflow	(6,316)	(7,488)	(3,453)	(997)	-	-
Trade and other payables	(7,151)	-	-	-	-	-
Employee entitlements						(31,027)
Term loan	(295)	(875)	(1,170)	(61,512)	-	
Total	**(7,708)**	**(1,475)**	**(2,102)**	**(61,550)**	**-**	**(31,027)**
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)**

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

* Term loan is classified as current debt in the balance sheet due to covenant breach. As a result of subsequent waiver received from its bankers, Airways expects the loan to be repaid at the end of the term loan.

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

Airways has contingent liabilities in respect of financial guarantee contracts of $1.468 million for performance bonds (2019: $1.073 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 $58 million (2019: $50 million). Further interest rate swaps were also in place to hedge highly probable future debt.

As at 30 June	2020 $000's	2019 $000's
Hedged borrowings	42,000	44,500
Unhedged borrowings	16,000	5,500
Total term borrowings	**58,000**	**50,000**

The effective interest rate on borrowing in the current year was 4.27% (2019: 5.28%).

As 72% of the outstanding debt facilities are hedged (2019: 89%), possible fluctuations in interest rates are not expected to have a material impact on Airways' financial position or performance.

The effects of interest rate swaps on Airways financial position and performance are as follows:

Interest rate swaps	2020 $000's	2019 $000's
Carrying amount (current and non-current)	(1,873)	(1,442)
Notional Amount	42,000	44,500
Maturity date	2022	2022
Hedge ratio	1:1	1:1
Change in fair-value of outstanding hedge instrument since 1 July	(173)	123
Change in value of hedged item used to determine hedge ineffectiveness	173	(123)
Weighted average hedge rate for the year	2.59%	2.82%

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 2020				
Amount unhedged	159	-	-	-
Amount hedged	1,068	1,445	-	(15,740)
Total NZD value	**1,227**	**1,445**	**-**	**(15,740)**
Percentage of exposure hedged	87%	100%	-	100%
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%

* 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

The effects of foreign currency forwards on Airways financial position and performance are as follows:

Foreign currency forwards	2020 $000's	2019 $000's
Carrying amount (current and non-current)	26	(122)
Notional amount	13,226	10,362
Maturity date	2020 to 2023	2019 to 2021
Hedge ratio	1:1	1:1
Change in discounted spot value of outstanding hedging instrument since inception of hedge	(148)	(312)
Change in value of hedged item used to determine hedging effectiveness	148	(247)
Weighted average hedged rate for outstanding hedging instruments (including forward points)	0.94 AUD/NZD	0.92 AUD/NZD
	0.56 EUR/NZD	0.58 EUR/NZD
	0.65 USD/NZD	0.68 USD/NZD
	6.10 NOK/NZD	-
	0.50 GBP/NZD	-

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.

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

Airways' five largest customers account for 73% (2019: 74%) of total revenue and 39% (2019: 69%) of total accounts receivable at balance date. No collateral is held over these receivables. One of these customers is Virgin Australia Pty Limited, placed in to voluntary administration during April 2020. The outstanding debt from Virgin Australia Pty Limited has been accounted for in the provision for expected credit losses. No other unusual risk has been identified by Airways in relation to these companies, however overdue debts are continuously monitored to identify and address any potential specific credit risks.

SECTION B
Risk CONTINUED

Hedging reserves

Airways' hedging reserves relate to the following hedging instruments:

	Forward currency contracts ($000's)	Interst rate swaps ($000's)	Total ($000's)
Opening balance 1 July 2019	**(88)**	**(1,224)**	**(1,312)**
Add: Change in fair value of hedging instrument recognised in OCI	148	(173)	(25)
Less: Deferred Tax	(41)	48	7
Closing balance 30 June 2020	**19**	**(1,349)**	**(1,330)**
Opening balance 1 July 2018	**90**	**(1,313)**	**(1,223)**
Add: Change in fair value of hedging instrument recognised in OCI	(247)	123	(124)
Less: Deferred Tax	69	(34)	35
Closing balance 30 June 2019	**(88)**	**(1,224)**	**(1,312)**

In addition to the amounts disclosed in the reconciliation of hedging reserves above, the hedge ineffectiveness of foreign currencies incurred during the year are $65,215 (2019: $5,243).

B2 CAPITAL MANAGEMENT

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

SECTION C
Group structure

C1 GROUP ENTITIES AND OWNERSHIP

Airways Corporation of New Zealand Limited is a limited liability company incorporated and domiciled in New Zealand. The address of its registered office is Level 2, 6 Leonard Isitt Drive, Auckland, New Zealand. It is also a State-Owned Enterprise established under the State-Owned Enterprise Act 1986 with shares held in equal numbers by the Minister for State-Owned Enterprises and the Minister of Finance, on behalf of the Crown.

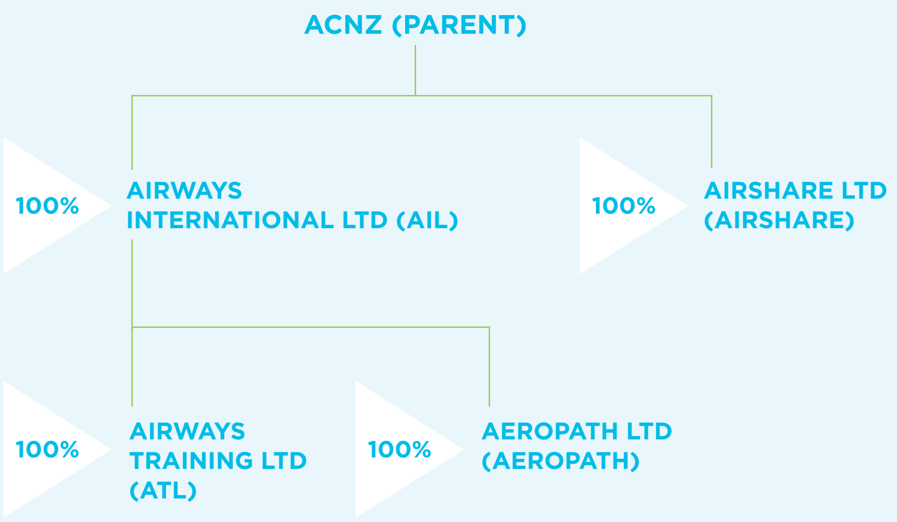
Subsidiaries are all entities over which Airways has control. Airways controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from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

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

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

	PRINCIPAL ACTIVITY
AIRWAYS CORPORATION OF NEW ZEALAND LIMITED (ACNZ)	PROVISION OF AIR TRAFFIC MANAGEMENT SERVICES
AIRWAYS INTERNATIONAL LIMITED (AIL)	REVENUE MANAGEMENT, RECRUITMENT AND TRAINING, AND AIR NAVIGATION SERVICES AND MAINTENANCE OF SYSTEMS
AIRWAYS TRAINING LIMITED (ATL)	AVIATION ENGLISH TRAINING
AEROPATH LIMITED (AEROPATH)	AERONAUTICAL INFORMATION MANAGEMENT, PROCEDURE DESIGN AND DEVELOPMENT SERVICES
AIRSHARE LIMITED	DELIVERY OF UNMANNED AERIAL VEHICLE (UAV) AND DRONE TRAFFIC MANAGEMENT SERVICES.

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



SECTION C
Group structure CONTINUED

C2 TRANSACTIONS WITH THE GROUP AND OTHER RELATED ENTITIES

Inter-company transactions and balances between entities within Airways are eliminated in the preparation of Group financial statements. Airways, a State-Owned Enterprise, transacts with other New Zealand government-related entities. The most significant of these transactions are with Air New Zealand (a Mixed Ownership Model company), who were charged $120.6 million by Airways in the current financial year (2019: $135.0 million).

C3 TRANSACTIONS WITH MANAGEMENT AND DIRECTORS

For the year ended 30 June	2020 $000's	2019 $000's
KEY MANAGEMENT+ COMPENSATION		
Salaries and other short-term employee benefits (including termination benefits of nil (2019: nil) *	3,962	3,032
Kiwisaver/ superannuation contributions	78	48
	4,040	**3,080**
DIRECTORS' FEES		
Directors' fees paid	276	308

+ Key management include the Chief Executive Officer and his direct reports.
* No salaries or other short term employee benefits were paid to Directors.

C4 CEO REMUNERATION

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

Single figure CEO remuneration

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

Single figure CEO remuneration

2019 $000's	Salary and fees	Taxable benefits	Subtotal	Pay for performance STI	LTI	Subtotal	Total remuneration
Graeme Sumner (CEO)	549	-	549	118	-	118	667

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

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SECTION D
Unrecognised items

D1 CAPITAL COMMITMENTS

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

As at 30 June	2020 $000's	RESTATED* 2019 $000's
Property, plant and equipment capital commitments	7,195	12,833
Intangible assets capital commitments	5,976	9,217
Total capital commitments	**13,171**	**22,050**

*Refer to A3.4 for details regarding the restatement as a result of an error and the financial impact to the comparative balances

D2 CONTINGENT LIABILITIES

Airways has contingent liabilities in respect of financial guarantee contracts of $1.468 million for performance bonds (2019: $1.073 million).

D3 SUBSEQUENT EVENTS

On 10 August 2020, Airways issued 95,000,000 ordinary unpaid shares to its owners which was subscribed by the Crown.

On 9 July 2020, Airways entered in to an amended and revised agreement with Australia and New Zealand Banking Corporation, resulting in a waiver extension to breach in banking covenants until 31 December 2021.

On 28 July 2020, Airways applied for a wage subsidy extension to the Ministry of Social Development, amounting to a total $3.428 million.

D

SECTION E
Other information

E1 AUDITOR'S REMUNERATION

For the year ended 30 June	2020 $000's	2019 $000's
PricewaterhouseCoopers for:		
Financial statement audit services as an agent of the Office of the Auditor-General	266	178
Economic Value Added (EVA) Key Performance Indicator compliance engagement	10	9
Student fee protection trust compliance engagement	7	6
Assurance services – pricing plan	-	52
Total auditors remuneration	**283**	**245**

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

For the year ended 30 June	2020 $000's	2019 $000's
NET (LOSS)/PROFIT AFTER TAXATION	(31,307)	23,576
ADD NON CASH ITEMS		
Amortisation	6,295	5,654
Depreciation	24,392	18,439
Impairment	48,669	-
Movement in deferred tax	(14,915)	(2,648)
Accounting loss/(gain) on sale of assets	(19)	23
Total adjustments for items in profit not impacting cash flow	**64,422**	**21,468**
ADD MOVEMENTS IN WORKING CAPITAL ITEMS		
(Decrease)/increase in payables	(10,699)	4,312
Decrease/(increase) in receivables	11,688	(1,720)
Total adjustments for items not in profit impacting cash flow	**989**	**2,592**
Net cash inflow from operating activities	**34,104**	**47,636**

E

Audit report

NZ IFRS

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INDEPENDENT AUDITOR'S REPORT

To the readers of Airways Corporation of New Zealand Limited's financial statements for the year ended 30 June 2020.

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

We have audited the financial statements of the Group, which comprise:

- the balance sheet as at 30 June 2020;
- the statement of profit or loss and other comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, including key accounting policies.

OUR OPINION

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Group as at 30 June 2020, its financial performance and its cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards (IFRS).

BASIS FOR OPINION

We conducted our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the 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 *Auditor's responsibilities for the audit of the financial statements* section of our report.

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

We are independent of the Group in accordance with the Auditor-General's Auditing Standards, which incorporate Professional and Ethical Standard 1: *International Code of Ethics for Assurance Practitioners* issued by the New Zealand Auditing and Assurance Standards Board, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

In addition to the audit, we have carried out assurance engagements for the Group in respect of the Group's compliance with the terms of the Student Fee Protection Trust Deed and in relation to the reporting of the Group's Economic Value Added (EVA) Performance Indicators in accordance with the disclosed policies. The provision of these other services has not impaired our independence as auditor of the Group.

Audit report CONTINUED

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KEY AUDIT MATTERS

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

KEY AUDIT MATTERS	HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTER
Impairment of non-financial assets due to Covid-19 The carrying amount of the Group's property, plant and equipment (PP&E), intangible assets and right-of-use assets as at 30 June 2020 before impairment, amounted to $312.0 million. As set out in Note A3.3 to the financial statements, an impairment charge of $48.7 million in relation to the Core CGU, was allocated on a pro-rata basis to reduce the carrying amounts of these assets. This was an area of key focus for the audit due to the significance of the carrying value of the non-financial assets, the inherent judgement involved in performing an impairment assessment and the inherent uncertainty of the impact of Covid-19 on the aviation industry in New Zealand and globally. Airways identified its cash generating units ("CGUs") as Core and Commercial business units, being the lowest level of independent cash flows that are generated in the Group. Core CGU refers to Airways Corporation of New Zealand Limited (ACNZ). As at 30 June 2020, both external and internal indicators of impairment existed in the Core business unit alone and it was determined that impairment testing was required to test the carrying value of the assets in the Core CGU. The Group prepared discounted cash flow models using probability weighted forecast scenarios for the next 10 years on both a Fair Value Less Cost of Disposal ("FVLCD) and Value-in-use ("VIU") basis and recognised the impairment based on the higher recoverable amount, being FVLCD. Key FVLCD assumptions include: • Economic Value Added ("EVA") repricing in FY23; • flight volumes in FY21 and FY22; • deferral of some capital expenditure in FY21 and FY22; • weighted average cost of capital (WACC); and • terminal growth rates. Refer to notes A3.3, A10 and A11 of the financial statements for further information.	We performed the following audit procedures in relation to the Core CGU impairment assessment: • assessed and challenged management's determination of CGUs; • considered whether the valuation methodologies applied were appropriate; • held discussions with management and understood the processes undertaken and basis for determining the key assumptions in preparing the impairment assessment; • gained an understanding of the impact of Covid-19 on the Core CGU's performance and the forecast outlook for the aviation industry; and • performed lookback procedures, comparing actual results achieved against forecasts and considered the impact on our assessment of forecast cash flows. • engaged our valuation experts to: – challenge and assess the reasonableness of the WACC and terminal growth rates by considering against external market forecasts and historical performance; – assess key revenue assumptions including the impact of Covid-19 on FY21 and FY22 air traffic volumes and whether the FY23 pricing assumptions were consistent with the EVA framework; and – assess the scenarios and risk weightings applied by management to determine a recoverable amount. • assessed the reasonability of the capital expenditure forecasts over the 10-year period, including the judgement regarding the scope for deferral of some capital spend in FY21 and FY22; • understood the differences between the FVLCD and VIU, confirmed that the correct amount of impairment was recognised and that it had been allocated appropriately to PP&E, intangible assets and right-of-use assets; and • assessed disclosures of the FVLCD, impairment and sensitivities in the financial statementsagainst the requirements of NZ IFRS.

Audit report CONTINUED

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KEY AUDIT MATTERS	HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTER
Going concern	
The financial statements have been prepared on a going concern basis. As a direct consequence of Covid-19, the Group experienced a significant reduction in revenue due to much lower flight volumes. As a result, the Group incurred a loss after taxation of $31.3 million for the year ended 30 June 2020. In March 2020, the shareholder made a capital contribution of $70 million, after which the Group had net current liabilities at 30 June 2020, similar to the prior year end, of $11.7 million. The Group breached two of its three banking covenants in June 2020, resulting in balances outstanding on the Group's debt facilities being classified as current liabilities as at 30 June 2020. It is forecasted the Group will continue to incur losses during the financial year ending 30 June 2021 and the financial position of the Group will further deteriorate with net cash outflows from operating activities. To enable the Group to continue as a going concern for at least 12 months from the date of signing the financial statements, the following arrangements have come into effect subsequent to balance date: • The Group issued 95,000,000 ordinary unpaid shares to its owners, subscribed for by the Crown. This provides a $95 million undrawn capital facility to the Group. • The Group's debt facility with Australia and New Zealand Banking Corporation ('ANZ') was amended and a revised agreement was entered into on 9 July 2020. The Group was granted a waiver from an event of default or potential event of default resulting from a breach of its banking covenants until 31 December 2021. Given the significance of the going concern assumption to the financial statements this was considered to be a key audit matter. Refer to note A4, note B1 and note D3 of the financial statements.	We have performed the following audit procedures over this assessment: • Analysed and discussed the cash flow forecasts for a 16-month period through to October 2021 with management. • Ensured the cash flow forecasts are consistent with the forecasts used in the base case scenario for impairment testing (above). • Performed various 'stress-tests' on the forecast cash flows to assess the level of forecasting risk. • Read the amended and revised Agreement with ANZ, including the terms of the waiver, signed subsequent to year end and assessed whether the debt was appropriately classified as a current liability at balance date. • Confirmed the existence, legality and enforceability of the share subscription agreement with the Shareholder (the Crown). • Performed subsequent events procedures to identify events that either mitigate or otherwise affect the Group's ability to continue as a going concern including consideration of the expected impacts of the second Covid-19 lockdown on the forecast cash flows. We also considered the adequacy of the related disclosures in the financial statements against the requirements of NZ IFRS.

Audit report CONTINUED

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KEY AUDIT MATTERS	HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTER
Capitalisation of costs into PP&E and intangible assets	
The Group holds PP&E of $183.2 million and intangible assets of $13.9 million as at 30 June 2020. These balances are after the impairment referred to in the KAM above. The capitalisation of costs into PP&E and intangible assets is a key audit matter as these assets represent a significant proportion of the Group's net assets and judgement is applied by the Group when determining which costs to include in the carrying value of PP&E and intangible assets. Costs capitalised by the Group include both third party costs and internal costs, such as employee labour costs. Further disclosures on PP&E and intangible assets held by the Group are included in note A10 of the financial statements.	To address the key audit matter, we tested a sample of additions for PP&E and intangible assets. For each addition sampled we agreed: • external costs to third party invoices; • internal labour hours to approved timesheets; • 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 approved business investment case, project status report, and meetings with the project manager; • if the costs were directly attributable to the asset. This involved considering invoice narrative for external costs and job description and time sheet records for internal costs; and • whether the Group has the technical and financial resources to complete the project. In assessing this we considered the nature of the projects and the Group's historic performance at completing projects of a similar nature.

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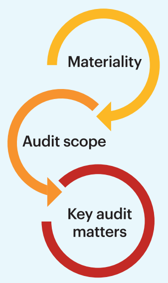
OUR AUDIT APPROACH

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 materiality: $1,628,000, which represents a weighted average of approximately 7.5% of net surplus before taxation from continuing operations over the past three years, excluding the impairment charge.
- 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.
- We chose to use a weighted average of the last three years and to normalise it as described above because, in our view, it provides a more stable measure of the Group's performance.

The following have been determined as key audit matters:

- Impairment of non-financial assets due to Covid-19
- Going concern
- 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 materiality for the financial statements as a whole as set out above. We also assess qualitative materiality, which includes other matters that, in our judgement, and in the context of our audit, might influence the economic decisions of the readers of the financial statements. Quantitative materiality and qualitative considerations helped us to determine the scope of our audit, the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

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 industry in which the Group operates.

Audit report CONTINUED

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INFORMATION OTHER THAN THE FINANCIAL STATEMENTS AND AUDITOR'S REPORT

The Directors are responsible on behalf of the Group for the other information. The other information comprises the information included in the Annual Report, but does not include the financial statements and our auditor's report thereon.

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 and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, 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.

DIRECTORS' RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

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

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

The Directors' responsibilities arise from the Financial Reporting Act 2013, Companies Act 1993 and the State-Owned Enterprises Act 1986.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

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

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Auditor-General's Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of 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 in accordance with the Auditor-General's Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

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

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or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the Group audit.We remain solely responsible for our audit opinion.

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

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

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

Our responsibilities arise from the Public Audit Act 2001.

Mark Bramley

Mark Bramley
On behalf of the Auditor-General
Auckland, New Zealand
25 September 2020

PricewaterhouseCoopers

PricewaterhouseCoopers

EVA key performance indicators

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

For the year ended 30 June	Parent 2020	Parent 2019
DEBT AND EQUITY EMPLOYED		
Debt employed	182.8	95.8
Equity employed	132.1	141.8
Total debt & equity employed	**314.9**	**237.6**
Charge on operating capital	16.3	14.8
Economic Value Added	(19.6)	1.6
SUMMARY OF PARAMETERS FOR COST OF CAPITAL		
Risk free rate – 3-year Government Stock	0.7%	1.64%
Market risk premium	7.00%	7.00%
Company tax rate	28%	28%
Business risk factor (asset beta)	0.60	0.6
Cost of capital	5.89%	6.48%

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

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

The cost of capital of 5.89% for the year ended June 2020 compares to a cost of capital of 6.59% used for determining 2020-22 air navigation pricing. The negative EVA for the current year has been driven by reduction in flight volumes due to Covid-19.

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

For the year ended 30 June	Parent 2020	Parent 2019
(Loss)/profit after tax	(40.4)	15.6
Deduct: charge on operating capital	(16.3)	(14.8)
Add back: interest costs	2.1	0.6
Add back: impairment	48.7	-
Deduct: non-cash tax charges	(15.1)	(2.5)
Add back: non-cash employee costs	1.4	2.7
Economic value added	**(19.6)**	**1.6**

EVA audit report

INDEPENDENT ASSURANCE REPORT

Report to the readers of the EVA Key Performance Indicators of Airways Corporation of New Zealand Limited for the year ended 30 June 2020.

ASSURANCE REPORT PURSUANT TO ECONOMIC VALUE ADDED KEY PERFORMANCE INDICATORS (THE KPIS)

We audit the financial statements of Airways Corporation of New Zealand Limited ("Airways") on behalf of the Auditor-General. As a result, we have been engaged to provide reasonable assurance about whether Airways has complied with its economic value added (EVA) policies and principles in calculating the KPIs for the year ended 30 June 2020 on page 63 of this document.

OPINION

We have completed the reasonable assurance engagement in respect of the compliance of Airways with the EVA policies and principles adopted, in calculating the KPIs, for the year ended 30 June 2020.

In our opinion, Airways has complied, in all material respects, with the EVA policies and principles, as outlined on page 63 of this document, in calculating the KPIs for the year ended 30 June 2020.

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, for the identification of risks that may threaten compliance with the EVA policies and principles adopted, controls that would mitigate those risks, and monitoring Airway's ongoing compliance.

OUR INDEPENDENCE AND QUALITY CONTROL

We have complied with the independence and other ethical requirements of Professional and Ethical Standard 1 (Revised) *Code of Ethics for Assurance Practitioners* issued by the New Zealand Auditing and Assurance Standards Board, which include independence and other requirements founded on the fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

The firm applies Professional and Ethical Standard 3 (Amended) *Quality Control for Firms that Perform Audits and Reviews of Financial Statement and Other Assurance Engagements* and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards, and applicable legal and regulatory requirements.

We are independent of Airways. Other than in our capacity as auditors and providers of other assurance services in respect of Airways compliance with the terms of the Student Fee Protection Trust Deed, we have no relationship with, or interests in Airways.

ASSURANCE PRACTITIONER'S RESPONSIBILITIES

Our responsibility is to express an opinion on whether Airways has complied, in all material respects, with the EVA policies and principles adopted in preparing the KPIs for the year ended 30 June 2020 and report our opinion to you. 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 adopted in preparing the KPIs, involves performing procedures to obtain evidence about the compliance activity and controls implemented. The procedures selected depend on our judgement, including the identification and assessment of risks of material non-compliance.

INHERENT LIMITATIONS

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

USE OF REPORT

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

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

Our engagement was completed on 25 September 2020 and our opinion is expressed as at that date.

Mark Bramley
On behalf of the Auditor-General
Auckland, New Zealand
25 September 2020

PricewaterhouseCoopers

Additional financial information

Directors' insurance

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

Directors' fees paid 1 July 2019 – 30 June 2020

	Amount paid	Amount recognised in profit or loss
Denise Church	63,840	63,840
Mark Pitt	37,195	37,195
Lisa Jacobs	31,920	31,920
Paula Jackson	31,920	31,920
John Holt	31,920	31,920
Darin Cusack	31,920	31,920
Mark Hutchinson (appointed November 2019)	21,100	21,100
Nicola Greer (appointed June 2020)	2,164	2,164
Mary-Jane Daly (ceased October 2019)	13,526	13,526
Milton Bennett Medary (ceased October 2019)	10,820	10,820
Total	**276,325**	**276,325**

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	41	3	38
$110,000 - $120,000	44	1	43
$120,000 - $130,000	58	1	57
$130,000 - $140,000	58	3	55
$140,000 - $150,000	50	2	48
$150,000 - $160,000	45	2	43
$160,000 - $170,000	44	5	39
$170,000 - $180,000	36	5	31
$180,000 - $190,000	39	7	32
$190,000 - $200,000	41	5	36
$200,000 - $210,000	49	7	42
$210,000 - $220,000	61	4	57
$220,000 - $230,000	37	2	35
$230,000 - $240,000	25	2	23
$240,000 - $250,000	5	1	4
$250,000 - $260,000	2	-	2
$260,000 - $270,000	3	-	3
$280,000 - $290,000	1	1	-
$290,000 - $300,000	1	-	1
$300,000 - $310,000	3	2	1
$320,000 - $330,000	1	1	-
$340,000 - $350,000	1	1	-
$350,000 - $360,000	1	-	1
$360,000 - $370,000	2	2	-
$370,000 - $380,000	1	-	1
$400,000 - $410,000	1	1	-
$410,000 - $420,000	1	-	1
$550,000 - $560,000	1	1	-
$590,000 - $600,000	1	1	-
$740,000 - $750,000	1	1	-
	654	**61**	**593**

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 "Governance and Leadership" section of the Airways website.

Governance framework

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

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

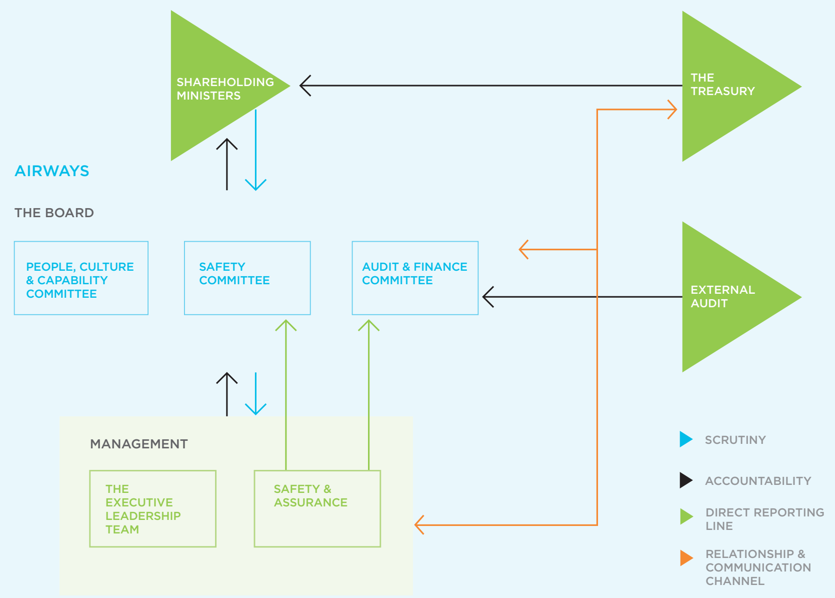
b) This accountability is achieved through the annual expectations letter issued by the Shareholding Ministers and the compilation of (and reporting against) the Statement of Corporate Intent (SCI) by the Airways Board. The SCI sets out the objectives, the nature and scope of activities, financial and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

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

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

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

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



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

Governance at Airways CONTINUED

RELEVANT ROLES AND RESPONSIBILITIES

The Board

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

Some of the key Board responsibilities are set out below and captured in the Board charter, published under the "Governance and Leadership" 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, 17 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 13 to 15 (or relating to a now retired director).

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 conducted a self review and identified Board practices to be adopted and developed.

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 "Governance and Leadership" section of the Airways website. While these committees are responsible for certain activities and decisions, ultimate accountability still resides with the Board, who receive reports and meeting minutes back from all Committees covering their proceedings.

Committee	Objectives	Key roles and responsibilities	Members
Audit and Finance Committee	Assist the Board in meeting its internal controls, financial reporting, audit and legal/ regulatory compliance responsibilities	• Review audit and assurance reports from Head of Safety and Assurance • Understand key financial, commercial and business recovery risks and how they are being managed • Understand the internal control environment and any identified deficiencies • Review key governance policies and any material breaches thereof • Review annual and interim financial statements and related issues and complex transactions • Manage the external audit relationship • Oversee the internal audit function • Review effectiveness of legal and regulatory compliance systems	Lisa Jacobs (Chair) Denise Church Paula Jackson Darin Cusack Mary-Jane Daly (retired 31/10/2019) Bennett Medary (retired 31/10/2019)
Safety Committee	Inform the Board of the performance of Airways' safety management systems	• Review audit and assurance reports from Head of Safety and Assurance • Review safety reports from the Head of Safety and Assurance including key safety metrics, status reports on incident investigations and key safety issues • Understand key safety risks and how they are being managed	Mark Pitt (Chair) Denise Church Darin Cusack John Holt
People, 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	John Holt (Chair) Denise Church Mark Hutchinson Paula Jackson Mary-Jane Daly (retired 31/10/2019) Bennett Medary (retired 31/10/2019)

Governance at Airways CONTINUED

Directors' attendance

The Board held 16 meetings during the year ended 30 June 2020. 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				
Denise Church	16	4	3	2
Darin Cusack	16	3 of 3	4	-
John Holt	16	-	4	3
Paula Jackson	14	2 of 2	-	1 of 1
Lisa Jacobs	16	4	1 of 1	-
Mark Pitt	15	-	1 of 1	1 of 1
Mark Hutchinson	12 of 12	-	1 of 1	2 of 2
Mary-Jane Daly*	3 of 3	1 of 1	-	1 of 1
Bennett Medary *	3 of 3	1 of 1	-	1 of 1
Nicola Greer+	1 of 1	-	-	-

* retired directors
\+ new directors

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.

Directory

BANKERS

ANZ Bank New Zealand Limited

Bank of New Zealand Limited

AUDITORS

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

REGISTERED OFFICE

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Airways Annual Report 2019 2020