F.17

Airways New Zealand
STATEMENT OF CORPORATE INTENT
2016-17 – 2018-19

AIRWAYS
making your world possible

CONTENTS

Airways New Zealand is a world-leading provider of air traffic management services and a key enabler of the region's aviation system, optimising air traffic flows across the entire aviation network. It is responsible for one of the largest Flight Information Regions in the world of 30 million square kilometres, and manages more than 1 million air traffic movements per year.

Renowned globally for driving innovation and development in the aviation sector, Airways has the expertise, leading-edge thinking, and nimble decision-making to serve the domestic aviation industry and our customers around the world.

Introduction

Airways Corporation of New Zealand Limited (ACNZ) is a State-Owned Enterprise (SOE) established under the State-Owned Enterprise Act 1986 (the Act) and is a public company registered under the Companies Act 1993. The shareholders are the Minister for State-Owned Enterprises and the Minister of Finance, each of whom holds 20.55 million fully paid shares of $1.

ACNZ has three 100% owned subsidiaries – Airways International Limited, Airways Training Limited and Aviation English Services. This Statement of Corporate Intent (SCI) refers to the Airways Group (Airways), including ACNZ and its subsidiaries. It is prepared in accordance with the Act and sets out Airways' business goals and objectives for the period 1 July 2016 to 30 June 2019.

Airways' achievements against the objectives outlined in last year's SCI are referred to in the 2015-16 annual report.

AIRWAYS' OBJECTIVES

The principal objective of every SOE, as defined by the Act, is to be a successful business and to:

- be as profitable and efficient as comparable businesses
- be a good employer
- exhibit a sense of social responsibility.

Airways is focused on delivering safe air navigation services in the New Zealand airspace, and commercialising its intellectual property into a portfolio of highly profitable businesses that provide world-class products and services. Airways' aim is to:

- ensure all aircraft and passengers operating in New Zealand's controlled airspace reach their destination safely and efficiently
- enhance shareholder value by achieving a return that meets or exceeds Airways' cost of capital.

MISSION, PURPOSE AND VALUES

Mission To ensure the safe and efficient enablement of New Zealand's aviation system with leading-edge technology and experienced professional staff

Purpose To be safe (always), successful (ongoing) and sustainable (for the future)

Values We value safety, each other, excellence and success

Airways New Zealand provides world-leading air traffic management (ATM) services to the New Zealand and international aviation markets.

The industry in which Airways operates is undergoing a period of unprecedented change. Its traditional business model is based on ground-based radar, centralised control, proprietary systems, specialist skills and sovereign provision – a model that is rapidly transforming in a number of directions. The evolution of satellite-based navigation, decentralised control facilitated by advanced flight deck systems, open systems enabling 'nose-to-tail' internet connectivity on aircraft, automation and the airlines' desire for industry consolidation all bring exciting new developments and challenge.

With long-term forecast air passenger growth of 5%[1] for Asia Pacific as a whole, the New Zealand aviation industry will need innovative solutions to fund this technological and cultural transition.

Airways prides itself on being one of the world's safest, most efficient and most innovative ATM service providers. We use capability and experience to turn external developments into growth opportunities.

In 2012 Airways implemented a new, transformational strategy to take advantage of these industry changes. Our goal was to transform Airways from a traditional, one-dimensional business model into a portfolio of different businesses designed to thrive in the evolving industry. The ambition was to double revenue, triple value and create 200 new jobs by 2020 (Airways' '2:3:200' goal). The two key business units established by the strategy were:

System Operator: Tasked with reshaping Airways' traditional air traffic control into an aviation system enabler, a key driver of New Zealand's dynamic tourism industry.

Airways Global Services (AGS): Tasked with commercialising Airways' intellectual property by creating innovative solutions to customer needs that hold a first or second position within their target markets.

During the initial years of strategic implementation, Airways established and has continued to refine its business model, achieving solid progress towards its 2:3:200 goal. Airways has also delivered significant benefits to customers, shareholders and the New Zealand public in the form of safe, reliable and efficient services and a steady growth in returns and shareholder value. Building on the results achieved during the 2015-16 financial year, the key challenges in continuing to deliver on the remainder of the 2:3:200 goal are to:

a) align our business structure and our investments to take advantage of the benefits offered by new technologies now emerging; and

b) derive greater value from our strategic partnerships to grow the non-statutory business.

[1] Based on IATA long-term forecasts as at November 2015.

Rising to these challenges, the primary areas of focus in 2016-17 for System Operator are:

a) delivering the 2016-17 capital programme, establishing satellite-based navigation and next generation ATM systems; and

b) successfully implementing and delivering the first phase of a new operational strategy that is designed to provide long-term improvements in the safety, reliability and efficiency of ATM services.

The primary areas of focus for Airways Global Services (AGS) in 2016-17 are to:

a) ensure strategic partnerships deliver long-term value from the underlying businesses;

b) expand the international academic partnership model and digital training platforms; and

c) establish a commercially focused product development capability.

The Safety & Assurance and Corporate Services teams will continue to support System Operator and AGS by promoting a just and safety focused organisational culture and providing fit-for-purpose advice and support.

Building on these areas of focus, each business unit will implement the following strategies during 2016-17:

System Operator	Airways Global Services	Safety & Assurance/ Corporate Services
• Enhance Airways' safety culture through clear accountabilities and the use of predictive safety performance measures • Foster a customer-centric ethos, to support consistent, recognised value to stakeholders through diversification of revenue streams and business opportunities • Invest in infrastructure and operational enhancements that provide long-term value for all stakeholders	• Rigorously assess and develop the AGS product portfolio • Prudent management of overhead and support structures, delivering lean and efficient performance • Partner effectively to improve market reach • Target high value market niches that can deliver repeatable revenue streams	• Create a positive, proactive and preventative work culture • Deliver excellent service and expert advice • Proactively protect and enhance Airways' reputation • Establish and promote a company-wide Just Culture

Nature and scope of AIRWAYS' BUSINESS

SYSTEM OPERATOR

The System Operator goal is to optimise the entire ATM network to provide the safest and best economic outcome for all industry participants. It is the System Operator's responsibility to sustain a safe and effective air traffic service throughout New Zealand and the Pacific region.

The System Operator concept expands Airways' role from a traditional, safe separation function to an aviation system enabler, optimising traffic flows across the aviation network. Airways has a network-wide perspective that makes taking a thought leadership and central facilitator role practical and effective.

To deliver on this concept, System Operator will employ the following strategies in 2016-17:

- Enhance Airways' safety culture through clear accountabilities: by using predictive safety performance measures; and supporting a workforce that is actively engaged in improving safety performance and supported with the right tools
- Diversify revenue streams and business opportunities through a broader role in the Pacific by: reducing reliance on a relatively smaller number of airline customers; and improving the seamless provision of safe and efficient services throughout New Zealand and the Pacific region
- Invest in infrastructure and operational enhancements that provide long-term value for all stakeholders including: satellite-based navigation and surveillance; next generation ATM systems; and a simplified operational model to ensure the benefits of this infrastructure investment are realised.

NEW ZEALAND'S FLIGHT INFORMATION REGION

Airways provides services to domestic and international air traffic within New Zealand's Flight Information Region (FIR) which totals 30 million square kilometres – one of the largest areas of sovereign airspace in the world. Within this FIR, System Operator controls approximately 1.1 million aircraft movements per year.

CORE SERVICES

System Operator's core business comprises the following key services:

- **Air traffic control services:** This is primarily the separation of aircraft in flight, to standards determined by the appropriate regulatory authority (the Civil Aviation Authority in New Zealand)
- **Air traffic management services:** This is the management of aircraft in flight to maximise access to the most efficient flight paths as determined by the customer, limited only by the constraints of safe delivery of an ATM service. ATM also includes optimising the flow of aircraft across the aviation network – enabling increased capacity in the network, improved fuel savings, and improved on-time performance
- **Navigation services:** These are the navigation infrastructure and supporting services used by aircraft to navigate.

OTHER SERVICES

Other services offered by System Operator include:

- Management and operation of air navigation services to Pacific-based air navigation service providers (ANSPs)
- Aviation equipment installation and maintenance
- Flight inspection services.

SYSTEM OPERATOR CUSTOMERS

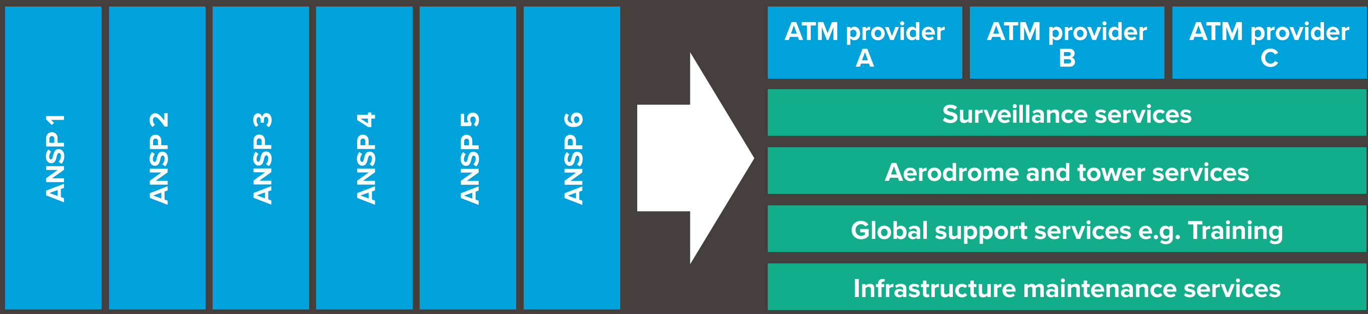
System Operator is committed to working with Airways' aviation customers and stakeholders in enabling a safe and efficient aviation network. Major customer groups are:

- Airlines and commercial aircraft operators
- General aviation
- The Royal New Zealand Air Force
- Airports
- Pacific ANSPs.

Airways Global Services

Airways Global Services (AGS) leads Airways' commercial direction. It operates internationally, usually in partnership with other aviation industry leaders to provide services predominantly to other ANSPs. AGS has identified business opportunities that Airways can capitalise on in the ATM sector, and is engaged in converting these into ongoing businesses with recurring revenue streams.

AGS aims to capitalise on the trend for ANSPs to migrate from a traditional insourced approach to an increasingly outsourced approach, thereby creating the opportunity for global service businesses. From the overall ~$30 billion ANSP market, AGS will continue to identify areas of outsourcing potential and invest in businesses which have the potential to hold a leading position within that overall ANSP service provision.



The two main strategic philosophies underpinning the AGS strategy are:

- **Strategy 1 – Venturing:** rigorously assessing and developing the AGS portfolio through both continuous, objective assessment of existing businesses, and through developing new business opportunities. The latter requires a willingness to envisage, establish, and invest in new businesses and, through a disciplined gating process, focus resources and investment on the highest potential outcomes.
- **Strategy 2 – Partnering:** effectively partnering to improve market reach. Recognising Airways' small scale, geographical challenges and limited access to risk capital. This involves establishing mutually beneficial arrangements with other organisations to achieve better quality business outcomes faster, and at lower risk.

These two strategies are focused on targeting market niches with high value, annuity revenue streams. In the longer term, the AGS target product and service mix will be: software-based, utilising a subscription or license revenue model; highly scalable, built on a model of 'build it once and sell it many times'; and able to deliver long-term, repeatable revenue streams. Over time, it will also focus on potentially higher value customers within the aviation industry including airlines and airports, rather than solely being a supplier to ANSPs.

AGS PRODUCTS AND SERVICES

The AGS portfolio currently includes:

- Flightyield, a revenue management solution
- Airways Training, comprising domestic campuses, academic partnerships and an online training platform (Aviation Knowledge Online/'AKO')
- GroupEAD, a joint venture with GroupEAD Europe, providing next generation aeronautical information, data quality and procedure design solutions across the Asia Pacific region.


PRESS/TEMP
992.7
-0.6
7.6
229
chossc02
Pending Grass
Arrival
H1 TO H3 UFN
Grass
GRASS RUNWAY CLOSED
Runway
West
In Zone
East
DELIVERY
GROUND
FDA Pending
SEQUENCE
Departure Taxi
DEP MAP
Reject
0:00
New Strip
Edit Strip
Clone
Find
Sep
Archive
FREQUENTIS
wacom

Safety & Assurance and **CORPORATE SERVICES**

Safety & Assurance provides assurance to our stakeholders on the following areas:

- Health and safety
- Operational safety
- Resilience and continuity
- Audit, risk and business improvement.

This ensures the right systems and culture are in place to get customers and staff home safely.

The overarching vision for Safety & Assurance is to increase maturity and continuously improve safety, risk and management practices across the business, all underpinned by an organisation-wide Just Culture philosophy.

Corporate Services provides dedicated advice and support to the business on people, finance, legal and public affairs matters to enhance, value and protect the Airways brand. The overarching vision for Corporate Services is to act as the trusted advisor to the Airways Board, management and staff. Value will be delivered to the business through fit-for-purpose services which provide sound commercial advice and judgement within a robust governance framework.

Performance

TARGETS AND MEASURES

KEY MEASURES OF SUCCESS

The key business, financial and leadership targets for the business over the next three years are set out below.

Business	2015-16 Forecast	2016-17 Target	2017-18 Target	2018-19 Target
• Near collision events	Nil	Nil	Nil	Nil
• Serious harm injuries	1	Nil	Nil	Nil
• System availability	99.96%	99.95%	99.95%	99.95%
• Customer satisfaction in customer survey	85%	FY16 + 2%	FY17 + 2%	FY18 + 2%
Financial				
• Group NOPAT	$23.50m	$18.12m	$21.26m	$24.36m
• Capex – value creating investments*	$35.00m	$41.12m	$44.02m	$46.44m
• Return on capital (statutory business)	15.67%	6.90%	6.90%	6.90%
• Non-statutory NOPAT (AGS and SO Other)	$3.2m	$7.39m	$9.36m	$11.18m
Leadership				
• Staff engagement	69%	FY16 + 2%	FY17 + 2%	FY18 + 2%
• Succession (suitable candidates for senior roles)	3	≥3	≥3	≥3
• Visibility – internal event platforms (per week)	2	≥2	≥2	≥2

*This capex profile reflects a lower trajectory compared to the 2015-16 SCI as a result of key ATM and surveillance investments taking place over an extended timeframe.

KEY STRATEGIC INITIATIVES

The key strategies to be employed by each business unit during 2016-17 are set out in the first section of this document. The key initiatives that will enable to business to deliver on those strategies are set out below:

System Operator	Airways Global Services	Safety & Assurance/Corporate Services
• Enhance safety culture and training programme • Deliver on key customer efficiency expectations • Implement and deliver the first phase of the operational strategy • Identify and develop long-term customer relationships • Adopt a system approach to technology design, development and deployment	• Deliver structural governance and product changes in Flightyield • Establishing the next stages of the academic partnerships and Aviation Knowledge Online • Strengthen key international relationships for the domestic campuses • Refine and deliver the long-term GroupEAD business model • Make 'invest, hold or exit' decisions on all existing opportunities • Establish a dedicated Airways product development capability	• Develop and implement a Just Culture strategy • Enhance tools to support safety and risk management maturity in the business • Refresh Airways' corporate brand • Continuous improvement in core processes • Deliver enhanced leadership and change management training • Complete Auckland and Christchurch property strategies

FINANCIAL FORECASTS ($NZm)

Airways is on target to deliver a positive full-year result of Group NOPAT of $23.5 million for 2015-16, ahead of both budget ($16.5 million) and the prior year ($15.1 million).

System Operator (Statutory Services) full year NOPAT is forecast to be $20.3 million versus budget of $10.7 million. NOPAT has benefited from the general price increase, a continued strengthening in air traffic volumes and sound cost management. This has also translated to a strong full-year EVA forecast of $14.17 million.

Non-Statutory Services full-year NOPAT is expected to be $3.2 million versus budget of $5.8 million. The main variance is the result of a slow uptake of the Flightyield service. While these delays continue, costs are being carefully managed and the AGS business is forecasting a positive full-year cashflow of $1.1 million.

Airways is forecasting to invest $35 million in service improvement (capital) projects for 2015-16, in line with budget and $2.9 million higher than the prior year. Airways remains on target to deliver the service improvement benefits planned for the 2013-16 pricing period, including the addition of further investment in Queenstown facilities to support the airport's current expansion programme as agreed with airlines outside of the current pricing consultation.

Revenue, NOPAT and other key financial targets and indicators for 2016-17 to 2018-19 are set out below:

All figures are NZ$m unless otherwise stated	2015-16 Forecast	2016-17 Target	2017-18 Target	2018-19 Target
Revenue				
System Operator – Statutory Services	**183.69**	**179.67**	**183.99**	**191.15**
System Operator – Other Services	11.95	14.96	17.88	20.89
Airways Global Services	19.82	28.55	34.74	40.12
	31.77	**43.51**	**52.62**	**61.01**
Group revenue	**215.46**	**223.18**	**236.61**	**252.16**
NOPAT				
System Operator – Statutory Services	**20.30**	**10.73**	**11.90**	**13.18**
System Operator – Other Services	2.80	3.50	4.10	4.71
Airways Global Services	0.40	3.89	5.26	6.47
	3.20	**7.39**	**9.36**	**11.18**
Group NOPAT*	**23.50**	**18.12**	**21.26**	**24.36**
* The Group NOPAT forecasts are lower than indicated in the 2015-16 SCI, reflecting delays in establishing the international businesses within AGS.				
Key financial indicators				
Headcount	785.0	794.8	797.8	801.8
Dividends	$9.0m	$7.0m	$8.0m	$9.0m

Airways prepares Financial Statements in accordance with GAAP. The GAAP Financial forecasts set out above comply with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and other applicable Financial Reporting Standards, as appropriate for profit oriented entities, except for the following:

- Revenue is determined at the individual business unit level and as a result, the Group revenue number above includes internal revenue earned by Airways Global Services from the Statutory Business. This internal revenue is eliminated in the annual financial statements, which are prepared at a Group level only. This has no impact on Group NOPAT.
- The contribution to Airways Global Services from the GroupEAD business unit is recorded as if GroupEAD were a full subsidiary, whereas their contribution is equity accounted in the Group financial statements. This has the result of increasing AGS and Group revenue, but does not impact NOPAT.

A complete list of GAAP accounting policies is attached in Appendix A. Airways also uses Economic Value Added (EVA) principles to guide pricing decisions.

DIVIDEND POLICY

The Directors will recommend such dividend payments as are consistent with Airways' earnings, capital structure, capital expenditure and future investment requirements and will seek to return a dividend of between 75% and 100% of available cash from the statutory business to the shareholders over the medium term, subject to targeting a gearing ratio below 40% for System Operator over the medium term[1]. The five-year rolling time horizon reflects Airways' need for long-term strategic planning in respect of the lifecycle replacement of key capital assets. Where there are significant capital projects forecast outside of this horizon, the Board will consider whether further free cash flow should be retained in the business and dividends reviewed accordingly.

The level of dividend will be reviewed annually as part of the business planning process and at each declaration date. Dividends are usually paid in October and February and a final dividend not later than 30 June of each year.

While Airways is forecasting negative or nil free cash flow over the period from 2016-17 to 2018-19, annual dividends of $7, $8, and $9 million respectively are provided for within this plan. This reflects the Board's view on the importance of providing a stable dividend stream and return to its shareholders. Airways' dividend policy will be reviewed during 2016-17 and dividend forecasts updated accordingly.

Corporate and social **RESPONSIBILITY**

Airways' corporate and social responsibility objectives are to provide a safe, cost effective and environmentally friendly air navigation service within New Zealand's airspace. Airways will focus on the below key areas in 2016-17.

SAFETY

Safety underpins all activity at Airways. Airways works with its customers to guide aircraft and their passengers to their destination safely and efficiently. The health and safety of Airways' staff is a key focus. Airways holds significant lead roles on the Safety Sub-Committee of industry body the Civil Air Navigation Services Organisation (CANSO), and CEO Ed Sims was appointed Chair of CANSO's Executive Committee in 2016. Airways is also a key member of the Business Leaders' Health and Safety Forum. Airways offers an annual aviation safety scholarship in memory of air traffic controller Jilly Murphy who passed away in the Canterbury earthquake of 22 February 2011.

CARBON EMISSIONS

Airways plays a leading role with airline customers in reducing New Zealand's aviation greenhouse gas emissions. To this end, Airways has a number of important programmes which will assist the airlines to fly the most direct routes with a minimum of delay, hence reducing fuel consumption and emissions. Airways estimates it will provide $16.7 million of fuel savings in 2016, and with it large CO_2 emission reductions, slightly ahead of the savings in the previous year. Airways also chairs the ANSP members of the Asia and Pacific Initiative to Reduce Emission (ASPIRE).

AVIATION INDUSTRY SUPPORT

Airways plays a critical aviation system enabler role in the New Zealand economy. It supports aviation's pivotal position in tourism, transport and exporting through the provision of safe, resilient and increasingly efficient airspace management. While Airways largely operates 'below the radar', it has a responsibility to deliver service reliability and continuity of service in a safe manner to support New Zealand Inc. and the Airways brand. Airways offers an annual scholarship for a young person to attend the Walsh flying school in Matamata, called the Glenn C Ashton Memorial Scholarship, in memory of an air traffic controller who passed away in 2000. As part of Airways' support of the general aviation community, the company also sponsors a number of regional and national events.

GROWTH

Airways has a track record of innovation and is recognised globally as an industry leader. Airways plans to grow through commercialising its intellectual property, creating high quality jobs for New Zealanders and enhancing shareholder value.

[1] Medium term refers to a five-year rolling horizon.

Reporting to shareholding Ministers

In compliance with the Act and in accordance with the requirements of the shareholding Ministers, the following reports will be presented to shareholders.

ANNUAL REPORT

Within three months after the end of each financial year an annual report including:

- audited financial statements for the year
- notes to the financial statements including accounting policies
- a report from the Chair which will include:
  - a review of operations
  - changes in the nature and scope of Airways' activities
  - a summary of achievements measured against performance targets
  - comments on the outlook for the next 12 months
  - statement of dividend payable.

INTERIM REPORT

Within two months of the end of each half-year an interim report including:

- an abridged, unaudited statement of Airways' financial performance and position
- a qualitative report from the Directors on Airways' performance compared with the objectives set out in the SCI, any significant changes in intent and scope during the half-year and the outlook for the next half-year.

QUARTERLY REPORT

Within one month of the end of each quarter a quarterly report comprising a commentary and summary of financial statistics indicating performance against targets for the preceding quarter.

INVESTMENT PROJECT REVIEW

Provide a report covering all post-project investment reviews conducted in the previous calendar year, by 28 February each year. This applies to all projects greater than $5 million for Airways, as the shareholder's book value of equity for Airways is below $100 million.

Policy for share acquisitions

Any share, equity or asset acquisitions (or sales) will reflect Airways' business strategy requirements for achieving its vision. Airways will consult shareholding Ministers on equity investment or capital expenditure above:

- $10 million on an individual item of capital expenditure or investment in New Zealand
- $5 million investment in an individual overseas project, or other significant investments, even if they do not meet the above thresholds.

Compensation from **THE CROWN**

Section 7 of the Act allows for the Crown to enter into an agreement with Airways whereby the Crown would pay Airways for undertaking a non-commercial activity. Airways does not currently undertake any such activities but reserves the right to seek payment where Airways is restrained from acting in a normal business-like manner.

The Crown's investment in Airways

The Directors estimate of the current commercial value of the Crown's investment in the Airways group is $211.2 million (2014-15 $177.7 million). Key points about the manner in which that value was assessed are:

- The valuation was calculated as at 30 June 2016
- The FCF (Free Cash Flow) to Enterprise methodology was used to calculate the Net Present Value (NPV) of the entire Airways Group, including all subsidiaries, on an after-tax basis
- The NPV was based on the expected nominal future cash flows set out in the Airways Group's three-year business plan, with forward projections then also made about years 4 to 10. A terminal value of $168.9 million (present value) was included. A growth rate of 0% per annum was assumed in the terminal value calculation for all business units
- The discount rate was based on the projected average cost of capital (long-term averages of 6.90% for the System Operator – Statutory Services, 8.20% for the System Operator – Other Services and 11.00% for the AGS businesses)
- The valuation was prepared by the Airways finance team, and reviewed by Ireland, Wallace & Associates Limited, prior to approval by the Board
- The current commercial value of the Crown's investment of $211.2 million (the equity value) was calculated by taking the enterprise value of $253.6 million and deducting net debt of $42.4 million.

The valuation compares with a commercial value as at 30 June 2015 of $177.7 million. The key reasons for the increase in commercial value are:

- **System Operator – Statutory Services** (up $21.8 million): Net new investment of $18 million
- **System Operator – Other** (up $8.8m): Higher expected earnings and lower risk free rates
- **AGS** (up $1.1 million): Lower risk free rates, offset by lower expected earnings
- **Decrease in Group debt** (down $1.8 million): Lower net borrowings, offset by an increase in implied debt from capitalised property leases.

Valuation sensitivity and range	Range	Low	High
Base valuation		**$211.2m**	**$211.2m**
• Change in growth factor used in terminal value calculation	0%–1%	-	$29.1m
• Change in AGS terminal Free Cash Flow	+/- $1.0m p.a.	($3.3m)	$3.4m
Estimated valuation range		**$207.9m**	**$243.7m**

Appendix A: Accounting policies

A1 BASIS OF PREPARATION

The financial statements are for the consolidated Group ("Airways"), consisting of Airways Corporation of New Zealand Limited and its subsidiaries: Airways International limited, Airways Training Limited and Aviation English Services (refer to note C1 for further details). They are prepared in accordance with:

- Generally Accepted Accounting Practice in New Zealand (as a result they comply with the New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and other applicable Financial Reporting Standards, as appropriate for profit-oriented 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 are prepared on the historical cost basis as modified by the revaluation of derivative financial instruments and are presented in New Zealand dollars, which is Airways' presentation currency and the functional currency of all entities within the Group. All values are rounded to the nearest thousand dollars ($'000) unless otherwise stated.

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

Airways has not adopted any new standards, interpretations or amendments to existing standards in the current financial year. The following standards and amendments to existing standards with an impact on Airways have been published and are mandatory for future accounting periods however Airways has not early adopted them:

- NZ IFRS 15 (2014), 'Revenue from Contracts with customers', issued in July 2014 (effective for periods beginning on or after 1 January 2017, with early adoption allowed). Management expect this standard to have some impact on the timing of revenue recognition for contracts where multiple service components are provided to customers, however this impact has not yet been quantified. Airways intend to adopt this standard in the 2018-19 financial year.
- NZIFRS 16 (2016), 'Leases', issued in February 2016 (effective for periods beginning on or after 1 January 2019, with early adoption allowed). Management expect this standard to increase both assets and liabilities on the balance sheet and front load the recognition of lease expenses in the statement of profit and loss to earlier years of lease terms, however these impacts have not yet been quantified. Airways intend to adopt this standard in the 2020-21 financial year.

A3 PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME INFORMATION

A3.1 Revenue

Airways' principal business is the provision of air traffic management services however it is also involved in a number of related revenue generating activities. Airways' revenue streams, and the associated recognition policies, are set out in the table below:

Revenue type	Accounting policy
• Air traffic management	Recognised as flights or other aircraft movements occur.
• Consulting	Revenue from discrete consultancy services is recognised based on the percentage of expected project time and material costs completed, using the expected project margin. Revenue from ongoing, recurring consultancy services is recognised as the service is provided.
• Training	Recognised as courses are delivered.

A3.4 Employee entitlements

Superannuation

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

Leave benefits

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

A4 INCOME TAX AND RELATED BALANCES

Income tax expense

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

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

Deferred tax

Deferred tax assets and liabilities are offset on the face of the balance sheet.

A5 FINANCIAL ASSETS AND LIABILITIES

Airways' financial assets and liabilities are classified as either derivatives used for hedging, liabilities at amortised cost or loans and receivables, depending on the purpose for which the transactions were entered into. Management determines the classification at initial recognition and re-evaluates this designation at every reporting date.

Financial liabilities (other than derivatives used for hedging) are recognised initially at fair value, net of any costs incurred, and subsequently measured at amortised cost using the effective interest method. The carrying value of trade and other payables and cash and cash equivalents approximates their fair value.

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

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

The derivatives used for hedging are considered level 2 financial instruments and are recognised on the balance sheet at their fair values, which are determined using observable inputs as follows:

- Forward Exchange Contracts values are determined using observable forward exchange market rates at the balance date
- 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.

A6 TRADE AND OTHER RECEIVABLES

Collectability of trade receivables is reviewed on an ongoing basis and uncollectible debts are written off. A provision for doubtful receivables is recognised when there is objective evidence that Airways may not be able to collect some or all amounts due according to the original terms. The amount of the provision will reflect the specific circumstances of individual debtors, including the expected ability and intent to pay, however as a guide and based on previous experience:

- Debt which is greater than 90 days but less than one year overdue is discounted by the current cost of capital;
- Debt which is greater than one year but less than two years old is discounted by 50% of the carrying value; and
- Debt which is greater than two years old is discounted by 100% of the carrying value.

The amount of the provision is recognised in the statement of profit or loss and other comprehensive income.

A7 TRADE AND OTHER PAYABLES

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

A8 PROPERTY, PLANT & EQUIPMENT AND INTANGIBLES

Recognition and measurement

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

Where assets are generated internally, costs are only capitalised once a formal investment case has been prepared and approved in line with Airways' delegated financial authority policy. The investment case must demonstrate that:

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

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

Depreciation and amortisation

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

Land	not depreciated
Buildings structure:	
- Freehold	10-40 years
- Leasehold	8-40 years
Plant and equipment	3-30 years
Computer equipment	3-20 years
Furniture and fittings	5-25 years
Motor vehicles	3-10 years
Intangibles	2-10 years
Capital work in progress	not depreciated

Impairment

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

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

C1 GROUP ENTITIES AND OWNERSHIP

Airways Corporation of New Zealand Limited is a limited liability company incorporated and domiciled in New Zealand. The address of its registered office is Level 7, 100 Willis Street, Wellington, New Zealand. It is also is a State-Owned Enterprise established under the State-Owned Enterprise Act 1986 with shares held in equal numbers by the Minister for State-Owned Enterprises and the Minister of Finance, on behalf of the Crown.

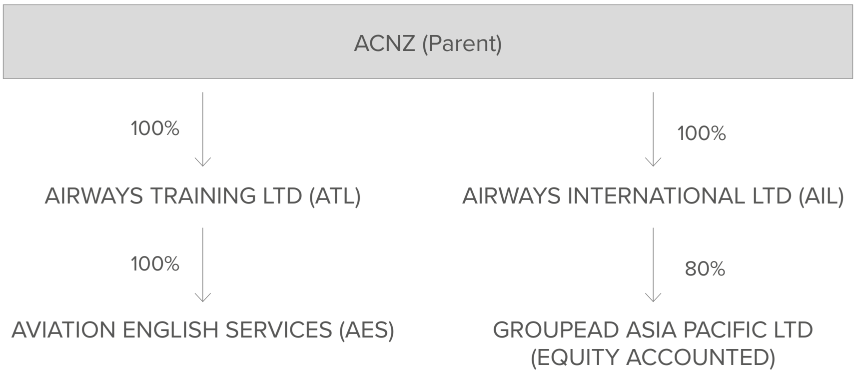
These Group consolidated financial statements are for Airways Corporation of New Zealand Limited (ACNZ) and its subsidiaries: Airways International Limited (AIL); Airways Training Limited (ATL); and Aviation English Services (AES). "Airways" refers to the Group, and the term "Parent" refers to ACNZ as a separate legal entity.

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

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

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

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



C2 JOINT ARRANGEMENTS AND OTHER INVESTMENTS

Investments in joint arrangements are classified as either joint operations or joint ventures, depending on the contractual rights and obligations of each investor. Joint ventures are accounted for using the equity method, whereas investments in joint operations are reflected through the recognition of Airways' portion of assets, liabilities, revenues and expenses incurred.

Appendix B: Financial performance metrics ($NZm)

Year ended 30 June	2014-15 Actual	2015-16 Forecast	2016-17 Target	2017-18 Target	2018-19 Target
Profitability					
Total revenue	186,348	215,460	223,178	236,610	252,160
EBITDA	43,890	56,117	50,306	55,016	59,067
EBIT	23,069	35,193	27,675	32,132	36,698
NOPAT	15,102	23,500	18,120	21,264	24,355
Shareholders' returns					
Total shareholder return [1]	28.1%	23.9%	-	-	-
Dividend yield	2.5%	4.6%	3.3%	3.8%	4.3%
Dividend payout	27.1%	37.5%	28.3%	33.8%	35.2%
Return on equity	18.4%	24.1%	16.2%	17.3%	17.8%
ROE, adj for IFRS movements & assets revaluations	18.2%	23.9%	16.2%	17.3%	17.8%
Profitability/efficiency					
Return on capital employed	19.4%	25.8%	18.2%	19.2%	19.2%
Return on assets	13.7%	18.7%	13.4%	14.4%	14.8%
Operating margin	23.6%	26.8%	23.1%	23.8%	23.9%
Net profit margin	8.1%	11.2%	8.3%	9.2%	9.9%
Asset turnover	1.1	1.0	1.0	1.0	0.9
Leverage/solvency					
Equity multiplier	2.0	1.9	1.8	1.8	1.8
Gearing ratio (net)	28.5%	22.3%	25.5%	27.2%	28.5%
Interest cover	17.9	21.2	20.1	21.2	20.6
Solvency (current ratio)	0.8	1.0	0.8	0.8	0.8
Growth/investment					
Revenue growth	2.8%	12.5%	4.0%	6.1%	6.7%
EDITDAF growth	16.7%	27.9%	(10.4%)	9.4%	7.4%
NPAT growth	27.6%	55.8%	(23.0%)	17.4%	14.5%
Capital employed growth	9.8%	18.9%	5.5%	14.2%	14.2%
Capital renewal	1.5	1.7	1.8	1.9	2.1

[1] Company valuations are not forecast from 2016-17.

Definitions for the financial performance measures above can be found at the following link: www.treasury.govt.nz/statesector/commercial/guidance/fpm-soes.pdf

Appendix C: Summary of EVA performance

BACKGROUND

EVA provides an economic measure of performance and explicitly recognises the expected return to investors. EVA underpins our statutory business pricing framework, which is premised on achieving a fair return on the capital invested in the regulated business (Statutory Services), reflected by an EVA result of zero.

Key parameters and inputs into the EVA framework have been presented to our customers through the consultation process for the 2017-19 pricing round.

The summary EVA metrics outlined below are for the System Operator – Statutory Services business only.

EVA TARGETS

Statutory Services – EVA (NZ$m)	2015-16 Forecast	2016-17 Target	2017-18 Target	2018-19 Target
Total Capital Employed				
Debt employed	58.85	72.09	81.66	96.03
Equity employed	123.65	124.87	133.10	139.60
	182.50	**196.96**	**214.76**	**235.63**
Charge On Operating Capital	12.98	13.23	14.37	15.70
Economic Value Added	14.17	-	-	-
Return on capital (ROC)	**15.67%**	**6.90%**	**6.90%**	**6.90%**

Cost of Capital – Key Parameters				
Risk free rate – 3 years Government Stock	2.41%	2.23%	2.23%	2.23%
Market risk premium	7.0%	7.0%	7.0%	7.0%
Target gearing	40%	40%	40%	40%
Business risk factor (asset beta)	0.60	0.60	0.60	0.60
WACC range percentile	75th	67th	67th	67th
Cost of Capital	**7.49%**	**6.90%**	**6.90%**	**6.90%**


Sky Chefs
Auckland

DIRECTORY

BANKERS

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

REGISTERED OFFICE

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

AIRWAYS
making your world possible