



2009/10 Interim Report

For the six months ended 31 December 2009

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report for the six months ended 31 december 2009

In the second quarter of the financial year, there have been promising signs that airline schedules have stabilised. However, the flow-on effect of the global recession will continue to challenge Airways' financial performance for the remainder of the financial year. Domestically, aircraft movements have decreased 7% compared to the same period last year, and internationally the recession continues to slow our customer's decision processes, resulting in delays in Airways securing international contracts.

At a group level, Airways exceeded budget in the first half of the 2009/10 financial year. Year to date (YTD) NOPAT of \$3.2m is \$0.3m ahead of budget. While group revenue of \$70.8m YTD is \$3.8m below budget, cost savings have largely offset this.

Continuing revenue pressure is expected to challenge the full year result.

Our non-financial objectives for 2009/10 are progressing to plan.

Financial Performance

Air Navigation Services (NZ ANS)

YTD NOPAT for the NZ ANS business of \$2.5m is \$1.0m ahead of budget. While ANS YTD revenue of \$62.0m is \$0.5m below budget, this has been offset by \$2m of cost savings, which are a combination of timing, and permanent cost savings, with approximately \$1m arising from Airways' "Weathering the Storm" cost cutting programme.

ANS Systems and Airways Training

ANS Systems and Airways Training YTD revenue is \$2.9m below budget due mainly to a sluggish international market. While Airways has had success in securing a contract to implement an Aviation Billing System (Flight Yield) in the Kingdom of Saudi Arabia, and offshore Air Traffic Control Training contracts totalling \$3.5m, overall the global recession has contributed to delays in securing new consulting contracts, and to the expected uplift on existing contracts. The lower revenue levels have been partially offset by cost savings with YTD NOPAT \$0.7m below budget.

Interim Dividend

Airways paid an interim dividend in October 2009 of \$2m. A second interim dividend is scheduled for February 2010. The final level of dividend will be reviewed in June 2010 when the year end position will be clearer.

Key Performance Indicators

For the period 1/07/09 to 31/12/09	Actual	Expected
Loss of separation incidents (A1/A2)	9	≤12
System Availability	99.998%	≥99.99%

Airways' principal safety metrics are encouraging. Loss of separation incidents have continued to maintain the downward trend from the first quarter of this financial year, and systems availability remains high. Progress on the Airways Strategic Safety Plan is on track with all initiatives scheduled to begin in this quarter now underway.

The Employment Relations (Breaks, Infant Feeding and Other Matters) Amendment Act 2008 ("the Act")

The breaks issue has now been largely resolved through an agreement with the union (NZALPA), individual agreements with each employee in solo watch regional towers (including a time in lieu provision), and additional staffing in three Main Trunk units. The breaks legislation has proven to be costly and extremely disruptive.

To avoid ongoing cost and disruption the proposed amendment to the legislation will need to be passed in a timely fashion as the agreement contemplated the amendment coming into effect.

Progress on Key Objectives

2009/10 Objectives	Progress at Half Year
Motivated and Prepared Workforce	
Continue to build employee engagement by improving Leadership (e.g. annual performance appraisals for all staff, improved management of poor performance, better communication of how business unit or team goals link to those of the company).	Progressing to Plan
Align Airways' brand with domestic, internal and international audiences and raise the profile of the brand to support international marketing and local recruitment.	Progressing to Plan
Helping Customers to Succeed	
Deliver on key Vision 2015 objectives, especially with respect to Performance-Based Navigation.	Progressing to Plan
Continue to develop and implement a range of initiatives aimed at improving our customers performance, and at optimising Airways' labour and technology productivity.	Progressing to Plan
Safe and Reliable	
Continue to maintain levels of safety which are comparable with best international practice in terms of loss of separation and incident reporting culture.	Progressing to Plan
Ensure that critical maintenance is completed and that the average systems availability of 99.95% is achieved with a goal of 99.995% for critical systems.	Progressing to Plan
Implement a risk management process which links up with an audit process.	Progressing to Plan
Implement a collaborative information-sharing capability within Airways.	Progressing to Plan
Grow the Business	
Secure at least one multi-year, >\$1m pa ATC Training sale.	Progressing to Plan
Launch a Finder and Placement service for ATCs.	On Hold
Complete Flight-Yield Billing System installation in China, and Fiji, and contract for two other sites.	At Risk to the extent that a second Flight Yield contract is yet to be signed.
Commercially Successful	
Return a positive EVA performance.	At Risk – Revenue is \$3.8m behind budget partly offset by cost savings
Manage the Balance Sheet within debt and equity covenants.	Progressing to Plan
Work closely with our airline, general aviation and pilot training customers to move toward transparent location specific pricing.	Deferred until other pricing initiatives complete
Enhance the pricing strategy negotiated with BARNZ with negotiations on expansion of the partnership into a value based proposition.	Progressing to Plan – Negotiations commenced February 2010



Con Anastasiou
Chairman



Ashley Smout
Chief Executive Officer



(All figures in \$NZ thousands unless otherwise stated)

For the six months ended 31 December 2009	Dec 2009	Dec 2008
Revenue		
Air Navigation Services	62,023	62,616
International & Tech Ventures	8,760	7,623
	70,783	70,239
Expenses		
Labour costs	43,772	43,615
Other operating costs	13,809	12,258
Depreciation	7,849	8,662
Tax charge	400	115
	65,830	64,650
Net operating profit after tax	4,953	5,589
Less charge on operating capital	(4,598)	(4,898)
Operating Economic Value Added	355	691
Less customer rebates (net of tax)	-	-
Shareholder Economic Value Added	355	691

EVA Explanations:

Charge on Operating Capital

The charge on operating capital is the cost of a normal return to the providers of capital. It is calculated by multiplying the average capital employed by the cost of capital. The cost of capital is a percentage that represents a normal rate of return on operating assets for investing in a particular business.

Economic Value Added (EVA)

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

This statement is to be read in conjunction with the Notes to the Financial Statements on pages 8 – 10.



shareholder's movement in equity capital

(All figures in \$NZ thousands unless otherwise stated)

For the six months ended 31 December 2009	Dec 2009	Dec 2008
Opening equity capital	93,935	95,079
Charge on equity capital	3,525	3818
Other movements in equity capital	210	445
	3,735	4,263
Dividends paid:		
Current year dividend	(2,000)	(2,000)
	(2,000)	(2,000)
Closing equity capital	95,670	97,342

EVA Explanations:

Charge on Equity Capital

The charge on equity capital is the cost of a normal return to the providers of equity capital. It is calculated by multiplying the average amount of equity by the cost of equity. The cost of equity is a percentage that represents a normal rate of return on equity for investing in a particular business. The cost of equity includes the cost of capital plus an additional premium for financing risk. The financing risk premium is dependent on the gearing of the business.

This statement is to be read in conjunction with the Notes to the Financial Statements on pages 8 – 10.



(All figures in \$NZ thousands unless otherwise stated)

As at 31 December 2009	Dec 2009	Dec 2008
Capital employed		
Long-term assets	129,710	129,166
Current assets		
Trade accounts receivable	17,969	19,275
Other Current Assets	8,185	8,454
	26,155	27,729
Current liabilities		
Trade accounts payable	687	443
Other Current liabilities	6,627	7,721
	7,314	8,164
Net working capital	18,841	19,565
Total capital employed	148,551	148,731
Debt		
Borrowing	38,000	35,000
Capitalised leases	14,881	16,389
	52,881	51,389
Equity		
Shareholders' capital	41,100	41,100
Other Equity	54,570	56,242
	95,670	97,342
Total Capital Invested	148,551	148,731

This statement is to be read in conjunction with the Notes to the Financial Statements on pages 8 – 10.

**NOTE 1 EVA Principles and Policies**

There are no generally accepted EVA reporting standards. It is therefore important to state the basis and assumptions upon which the results have been calculated.

EVA principles and policies are consistent with those applied in the corresponding period last year.

a. General Principles

Income and expenditure is recorded at - or close to - the time it is received or paid at the actual monetary value, except where noted below.

All expenditure is included in the calculation of Net Operating Profit After Tax (NOPAT) on a basis that reflects the periods over which related economic benefits are realised.

b. Financing Costs

No financing costs are included in the calculation of NOPAT.

c. Charge for Capital Employed (Capital Charge)

The capital charge in the EVA Financial Statements is calculated on the average operating capital. A cost of capital, that represents a normal return for operating risk, is calculated for each business unit. A capital charge is applied to work in progress.

d. Cost of Capital

The risk free rate used in the cost of capital is the five year Government Stock rate which is updated each month.

e. Taxation

The total tax cost in the EVA Financial Statements is the actual income tax paid on normal operations.

f. Trade Accounts Receivable

Accounts receivable are stated at their realisable value.

g. Stock

Stock is stated at weighted average cost or at market value (if this is significantly different). Any change in value is recognised through NOPAT.

h. Leases

Significant operating leases are capitalised. Lease rentals are discounted at the inherent interest rate to determine the cost of the assets.

The cost of the leased assets is included in the Statement of Economic Position both in financing (capital invested) and operating assets (capital employed).

The leased assets included in operating capital are depreciated through NOPAT.

i. Changes in Policies

There have been no changes in accounting policies.

j. Customer Rebate

Customer Rebates (recognised net of tax in the Statement of Economic Position) are part of a service agreement with the Airways customer group, the Board of Airline Representatives in New Zealand Incorporated.

	Abbreviation	Dec 2009	Dec 2008
NOTE 2 Cost of Capital*			
Summary of parameters for cost of capital:			
Risk free rate – 5 year Government Stock	RFR	5.06%	5.98%
Market risk premium	MRP	8.0%	8.0%
Company tax rate	Td	30.0%	30.0%
Business risk factor (asset beta)	Bu		
Air Navigation Services		0.30	0.30
International and Tech Ventures (weighted average)		0.57	0.87
Airways Corporation of New Zealand Limited (weighted average)		0.33	0.34

*An example is presented in note 3.

EVA Explanations:

To calculate the cost of capital it is necessary first to identify the return available from investing in Government Stock. This is called “the risk free rate”. Airways chooses five year Government Stock as the risk free rate on the basis that the shareholder is making a long-term investment decision. The actual rate is a 6 month average e.g. July 2009 to December 2009. The risk free rate is reduced to an after tax return by deducting tax at the current tax rate. A percentage premium is then added to the after tax free rate to compensate for investing in a business rather than risk free Government Stock. The amount of the premium depends upon the level of risk of each business. To determine the premium, a risk factor is calculated for each business. This risk factor is known as the asset beta and it represents an assessment of the risk attached to the operating assets of the business. Airways' air navigation activity is considered a low risk and has an asset beta of 0.30. Airways' other business units each have their own asset betas. Recent updated studies and empirical evidence demonstrates that an investor should expect to receive an average premium above the risk free rate of 8 percent after tax by investing in a diverse portfolio of shares in the New Zealand market, as measured over a long period of time.

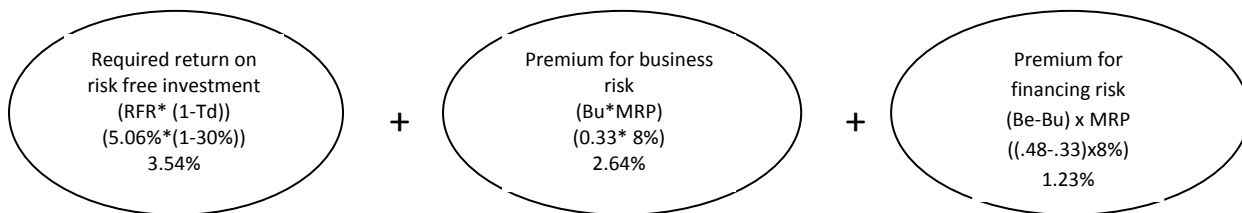
Therefore, a shareholder in Airways with its asset beta of 0.33 should expect to receive a premium of 2.64 percent (0.33 x 8 percent) above the risk free rate for choosing to accept the operating risks of Airways.

	Abbreviation	Dec 2009	Dec 2008
NOTE 3 Cost of Equity Capital			
Equity risk factor (equity beta)	Be	.48	.44

EVA Explanations:

The cost of capital is derived from the risk associated with the operations (assets) of a business and not the manner in which it is financed. The cost of capital is unaffected by the gearing. The use of debt finance as capital in a business introduces credit risk to the providers of equity. Therefore, the equity providers will expect a return which includes the cost of capital (reward for business risk) plus an additional return for credit risk (reward for financing risk). The cost of equity increases according to the amount of debt financing. It must be remembered that the cost of capital remains constant regardless of the gearing. However the cost of equity will be directly affected by the gearing. Costs of capital and equity for Airways are calculated using the following formula: (figures shown are those for the December 2009 year to date).

|-----Cost of Capital 6.18%-----|



|-----Cost of Equity 7.41%-----|

NOTE 4 Subsequent Events

There are no subsequent events to report.



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

For the six months ended 31 December 2009	Group	
	Dec 2009	Dec 2008
Revenue		
Service Delivery	63,030	62,920
Other income	7,753	7,316
Finance Income	11	15
	70,794	70,251
Expenses		
Depreciation	6,532	7,426
Amortisation	455	282
Employee remuneration	43,672	43,318
Other operating expenses	12,508	11,922
Rental expense on operating leases	2,151	1,921
Finance expense	820	1,305
	66,138	66,174
Net operating surplus before taxation	4,656	4,077
Taxation	(1,397)	(1,223)
Net operating surplus after taxation	3,259	2,854

This statement is to be read in conjunction with the Notes to the Financial Statements on pages 16 – 20.



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

For the six months ended 31 December 2009	Group	
	Dec 2009	Dec 2008
Profit after tax	3,259	2,854
Movement on foreign exchange cash flow hedge reserve	582	(501)
Movement on interest rate derivative cash flow hedge reserve	43	(520)
Deferred tax for current year on items recognised directly to equity	229	(172)
Total other comprehensive income	854	(1,193)
Total comprehensive income for the year	4,113	1,661
Attributable to:		
Equity shareholders	4,113	1,661

This statement is to be read in conjunction with the Notes to the Financial Statements on pages 16 – 20.



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

As at 31 December 2009	Group		
	Dec 2009	Dec 2008	Jun 2009 Audited
ASSETS			
Current Assets			
Cash and Cash Equivalents	5,502	5,060	1,831
Trade and Other Receivables	21,276	20,015	16,181
Current Tax Assets	1,212	1,466	2,609
Derivative Financial Instruments	965	267	417
Total Current Assets	28,955	26,808	21,038
Non-Current Assets			
Property, Plant and Equipment	109,377	108,992	111,711
Intangibles	4,371	2,553	3,633
Investments	121	298	121
Parts Inventory	1,281	1,430	1,258
Other Non-Current Assets	84	84	84
Derivative Financial Instruments	842	-	898
Total Non-Current Assets	116,076	113,357	117,705
TOTAL ASSETS	145,031	140,165	138,743
LIABILITIES			
Current Liabilities			
Trade and Other Payables	6,345	4,657	4,666
Employee Entitlements	14,472	13,848	14,490
Derivative Financial Instruments	185	1,000	819
Total Current Liabilities	21,002	19,505	19,975
Net Long-term Borrowing			
Loan Facility – Unsecured	38,000	35,000	35,000
Total Net Long-Term Borrowing	38,000	35,000	35,000

This statement is to be read in conjunction with the Notes to the Financial Statements on pages 16 – 20.

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

As at 31 December 2009	Group		
	Dec 2009	Dec 2008	Jun 2009 Audited
Non-Current Liabilities			
Deferred Tax Liability	3,949	2,849	3,583
Deferred Income	22,525	23,754	22,525
Employee Entitlements	5,439	5,176	5,514
Derivative Financial Instruments	191	661	334
Total Non-Current Liabilities	32,104	32,440	31,956
Total Liabilities	91,106	86,944	86,931
NET ASSETS	53,925	53,221	51,812
EQUITY			
Share Capital	41,100	41,100	41,100
Reserves	924	(847)	70
Retained Earnings	11,901	12,968	10,642
TOTAL EQUITY	53,925	53,221	51,812

This statement is to be read in conjunction with the Notes to the Financial Statements on pages 16 – 20.



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

For the six months ended 31 December 2009	Group	
	Dec 2009	Dec 2008
Cash flow from operating activities		
Cash was provided from:		
Receipts from Customers	68,554	66,413
Interest Received	13	14
Cash was applied to:		
Payments to Suppliers	(17,574)	(11,990)
Payments to Employees	(44,736)	(47,048)
Interest Paid	(806)	(1,904)
Goods and Services Tax	1,179	321
Payment of Income Tax	57	(99)
Net cash flows from operating activities	6,687	5,707
Cash flows from investing activities		
Cash was provided from:		
Sale of Property, Plant and Equipment	1	(64)
Cash was applied to:		
Purchase of Property, Plant and Equipment	(5,008)	(11,787)
Labour Costs Capitalised	991	1,281
Net cash flows from investing activities	(4,016)	(10,570)
Cash flows from financing activities		
Cash was provided from:		
Loan Facility	3,000	8,000
Cash was applied to:		
Payment of Dividends	(2,000)	(2,000)
Net cash flows from financing activities	1,000	6,000
Net (decrease)/increase in cash held	3,671	1,137
Cash at the beginning of the year	1,831	3,923
Cash at the end of the period	5,502	5,060

This statement is to be read in conjunction with the Notes to the Financial Statements on pages 16 – 20.

**NOTE 1 Reporting Entity**

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 26, Majestic Centre, 100 Willis St, Wellington, New Zealand. Airways Corporation of New Zealand Limited 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 and its wholly owned subsidiaries, Airways International Limited (AIL), Airways Training Limited, Airways Equipment Limited (AEL), and Zero Holdings Limited. All companies are registered under the Companies Act 1993. Airways refers to the "Group": Airways Corporation of New Zealand, as well as its wholly owned subsidiaries. The term "Parent" refers to Airways Corporation of New Zealand Limited.

Airways is designated as a profit-oriented entity for financial reporting purposes.

Airways' principal business is air navigation services within New Zealand.

In addition to this Airways is involved in International:

- (i) Air navigation services and maintenance of systems
- (ii) Consultancy
- (iii) Training
- (iv) Selling aviation related publications, and
- (v) Software development, sale and implementation.

NOTE 2 Basis of Preparation**(a) Statement of Compliance**

These interim financial statements for the six months ended 31 December 2009 have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand and IAS 34, 'Interim Financial Reporting'. 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. These Interim Financial Statements should be read in conjunction with the 2009 Annual Report.

The financial statements have also been prepared in accordance with the requirements of the Financial Reporting Act 1993, Companies Act 1993 and the State-Owned Enterprises Act 1986.

(b) Basis of Measurement

The principal accounting policies adopted in the preparation of the financial statements are consistent with those followed in the preparation of the financial statements prepared as at June 2009, except as described below.

The financial statements have been prepared on the historical cost basis as modified by the revaluation of derivative financial instruments.

The Airways financial statements for the year ended 30 June 2008 were the first annual financial statements that comply with NZ IFRS.

(c) Functional and Presentation Currency

Items included in the financial statements of each of Airways' entities are measured using the currency of the primary economic environment in which it operates ('the functional currency'). The consolidated financial statements are presented in New Zealand dollars, which is Airways' functional and presentation currency and all values unless otherwise stated are rounded to the nearest thousand dollars (\$'000).

(d) Standards, amendments and interpretations to existing standards that have been adopted by Airways.

(i) NZ IAS 1 (Revised), 'Presentation of financial statements' (effective from 1 January 2009). The revised standard prohibits the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity. All non-owner changes in equity are required to be shown in a performance statement, but entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the income statement and statement of comprehensive income). Airways has applied NZ IAS 1 (Revised) from 1 July 2009, and has chosen to present two statements, the income statement and statement of comprehensive income.

NOTE 3 Statement of changes in equity

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

	Group			
	Contributed Equity	Hedge Reserve	Retained Profits	Total
Balance at 1 July 2008	41,100	346	12,114	53,560
Profit after tax	-	-	2,854	2,854
Foreign exchange hedges transferred to:				
Income Statement	-	159	-	159
Movement in value of:				
New foreign exchange hedges	-	(105)	-	(105)
Foreign exchange hedges held throughout the year	-	(555)	-	(555)
New Interest rate hedges	-	(92)	-	(92)
Interest rate hedges held throughout the year	-	(428)	-	(428)
Deferred tax on items charged directly to:				
Equity	-	(172)	-	(172)
Total comprehensive income for the period	41,100	(847)	14,968	55,221
Dividends paid	-	-	(2,000)	(2,000)
Balance as at 31 December 2008	41,100	(847)	12,968	53,221
Balance as at 30 June 2009	41,100	70	10,642	51,812
Profit after tax	-	-	3,259	3,259
Foreign exchange hedges transferred to:				
Income Statement	-	1	-	1
Movement in value of:				
New foreign exchange hedges	-	135	-	135
Foreign exchange hedges held throughout year	-	446	-	446
New Interest rate hedges	-	42	-	42
Interest rate hedges held throughout the year	-	1	-	1
Deferred tax on items charged directly to:				
Equity	-	229	-	229
Total comprehensive income for the period	41,100	924	13,901	55,925
Dividends paid	-	-	(2,000)	(2,000)
Balance as at 31 December 2009	41,100	924	11,901	53,925

Share Capital - The Parent has paid up capital of \$41.1 million (2008: \$41.1 million) issued and fully paid ordinary shares which confer on the holders the right to vote at any general meeting of Shareholders. This consists of 41,100,000 fully paid ordinary shares.

The cash flow hedge reserve records the portion of the gain or loss on a hedging instrument in a cash flow hedge that is determined to be an effective hedge.

NOTE 4 Capital Commitments

At balance date Airways and Parent had total capital commitments of \$11.73 million as at December 2009 (2008: \$17.97 million at December 2008). Airways will fund this programme through operating cash flow and increased debt (whilst remaining within current loan facilities and covenants).

NOTE 5 Operating Lease Commitments

Lease commitments under non-cancellable operating leases:

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

	Group	
	Dec 2009	Dec 2008
Less than one year	3,623	3,430
One to two years	3,290	3,248
Two to five years	7,179	7,169
Over five years	11,006	11,038
Total Operating Lease Obligations	25,098	24,885

These lease commitments relate to the signed leases or agreements to lease.

NOTE 6 Contingent Liabilities

There are no contingent liabilities in addition to those identified in the notes above (2008: Nil).

NOTE 7 Subsequent Events

There have been no significant events occurring since balance date requiring disclosure.

NOTE 8 Reconciliation of the Net Cash Flow from Operating Activities to Reported Profit

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

For the six months ended 31 December 2009	Group	
	Dec 2009	Dec 2008
Net profit after taxation	3,259	2,854
Add non cash items:		
Accounting loss on sale of fixed assets	9	64
Amortisation	455	282
Depreciation	6,532	7,426
Total adjustments for items not in profit impacting cash flow	6,996	7,772
Add movements in working capital items:		
(Decrease) in payables	(269)	(2,200)
(Increase)/decrease in receivables	(3,299)	(2,719)
Total adjustments for items not in profit impacting cash flow	(3,568)	(4,919)
Net cash inflow from operating activities	6,687	5,707

Corporate Directory

Registered Office:

Level 26
Majestic Centre
100 Willis Street
PO Box 294
Wellington
New Zealand

Internet Address:

www.airways.co.nz

Auditors:

Fred Hutchings, with the assistance of
PricewaterhouseCoopers on behalf of the Auditor-
General

Bankers:

ANZ National Bank Limited
Bank of New Zealand Limited

Directors:

Con Anastasiou
Susan Paterson
Anthony Briscoe
Craig Ellison
Hoani Hipango
Susan Huria
Terry Murdoch
David Park
Susan Putt
Graeme Reeves

Chairman
Deputy Chairman

retired 30 October 2009
retired 30 October 2009
appointed 1 January 2010
appointed 1 January 2010