

Hawke's Bay Airport Limited

Statement of Intent

For the year ended 30 June 2018 and the two following years.

1.0 Governance

Governance sits with the Board of Directors of Hawke's Bay Airport Limited, which is responsible for the strategic and overall direction of the organisation. Directors are appointed by the company's shareholders; the Napier City Council (26%), Hastings District Council (24%) and the Crown (50%).

The Board has four Directors, two of whom are appointed by the Napier City Council and the Hastings District Council and two whom are appointed by the Crown. The Board meets regularly with Management to review the company's performance and provides quarterly, half yearly and annual business performance reports to shareholders.

2.0 Nature and Scope of Activities

2.1 Mission Statement

The mission of Hawke's Bay Airport Limited is: -

- to provide convenient, safe and sustainable services and facilities for airlines, air travellers, employees, our community of tenants, contractors and all other visitors to the airport
- to support regional economic development through the provision of strategic infrastructure
- to generate appropriate returns on assets employed and shareholder's equity
- to position the business for growth and embrace collaboration and strategic alliances with others

2.2 Vision Statement

- Our vision is to be a welcoming gateway to Hawke's Bay and to be recognised as a major contributor to the economic development and wellbeing of the Hawke's Bay community.

2.3 Values

- We are customer focused
- We are commercially driven
- We are committed to safety and security
- We think strategically and plan for the long term
- We work as a team
- We act with integrity

2.4 Strategy

Our Strategic Imperative: To maintain operational capability in an efficient, safe and sustainable manner, position the business for the future, achieve growth across all revenue streams and manage risk.

Our Strategic Objectives:

1. Operate an airport that is fit for purpose.
2. Preserve the Airport's ability to operate and maintain a high level of security consciousness and awareness across the Airport community.
3. Operate HBAL as a successful business, growing revenue, profitability and shareholder value on an annual basis.
4. Generate additional revenue from non-aeronautical activities.
5. Proactively manage health and safety risks and provide a safe, healthy and thriving environment through consultation, co-operation and co-ordination between persons conducting a business or undertaking (PCBU) within the Airport community.
6. Operate the Airport in a socially and environmentally sustainable manner.
7. Maintain and enhance business-critical infrastructure, services and facilities for all users of the Airport.
8. Realise the long-term value of the business park.

HBAL will pursue the following strategy:

1. Redevelop and construct an efficient and fit for purpose terminal building and Airport Rescue Fire Service Building.
2. Maintain operational capability with minimal disruption throughout the terminal development project.
3. Rezone and freehold the Business Park land and minimise the land development costs.
4. Continue to strengthen our relationships with all operators of air services and with all tenants and prospects.
5. Improve the security culture and consciousness at the Airport
6. Improve the customer experience at the Airport for all travellers, meeters and greeters.
7. Maintain active membership and contribution to New Zealand Airports Association.
8. Maintain effective engagement and relationships with key stakeholders and the wider stakeholder community.
9. Form strategic alliances and collaborate with other airports.
10. Investigate potential for JV partnerships to develop the airport land.

3.0 Key Objectives: Business Plan FY 2017/18

ACTIVITY	OUTCOME	TARGET DATE
Operate a successful business	Achieve Financial Targets	30/06/18
Appropriate Infrastructure	Effect CAPEX Investments	30/06/18
Health & Safety focus	Continue to work toward zero harm	ongoing
Progress Terminal Redevelopment	Project complete	30/06/19
Strengthen Rescue Fire Station	Project complete	30/06/18
New Airport Entranceway	Project complete	30/06/18
Business Park rezoned	Project complete	30/06/18
Key Customer Relationships	Meetings with key customers	Ongoing
Consolidate waste and recycling management	Bi-annual audit of consumption	June, December
Review Strategic Plan	Current, Refreshed Strategic Plan	30/06/18

3.1 Financial Performance Targets

The performance targets include continued growth in passenger numbers and increases in landing charges, rental and concession income. Significant further capital expenditure is proposed which will increase interest and depreciation expenses and the gearing ratio over the next 3 financial years.

	FY2017/18	FY2018/19	FY2019/20
Passenger Numbers	669,500	689,585	710,273
FINANCIAL PERFORMANCE (\$)			
Airport Revenue (note 1)	3,200,264	4,025,259	5,067,319
Landside Revenue (note 2)	2,799,703	3,300,820	3,563,536
Business Park Revenue	338,936	383,936	395,454
Group Revenue	6,338,903	7,710,015	9,026,309
Operating Expenses	2,872,553	2,973,334	3,022,655
EBITDA	3,466,350	4,736,681	6,003,654
Depreciation & Amortisation	1,306,487	1,588,362	1,642,252
EBIT	2,159,863	3,148,319	4,361,402
Interest Income	26,184	519	519
Interest Paid (interest charged to P&L)	443,136	756,411	770,107
Profit before Tax	1,742,911	2,392,427	3,591,814
Tax	488,015	669,879	1,005,708
Profit after Tax	1,254,896	1,722,548	2,586,106
FINANCIAL POSITION (\$)			
Net Debt	14,083,000	16,173,000	14,631,000
Total Assets (note 3)	49,160,000	52,151,000	52,144,000
Shareholders Funds (note 4)	29,335,000	30,369,000	31,920,000
CASHFLOW SUMMARY (\$)			
Operating Cashflow	2,301,000	3,078,000	4,088,000
Capital Expenditure	12,240,000	4,479,000	1,511,000
Dividend	501,958	689,019	1,034,442
FINANCIAL METRICS			
Return on Equity	4.3%	5.7%	8.1%
Net Gearing Ratio	48.0%	53.3%	45.8
Shareholders Funds/Total Assets	60%	58%	61%

Note 1: Airside Revenue includes aircraft landing and parking charges

Note 2: Landside Revenue includes car parking, rents, concessions, advertising and other income

Note 3: Total Assets is the total of all current and non-current assets

Note 4: Shareholders Funds is the total of share capital and retained earnings

3.2 Capital Expenditure

	FY2017/18	FY2018/19	FY2019/20
	\$	\$	\$
Terminal	9,400,000	3,000,000	
Roading Development	1,000,000		
Car Parking	760,000	740,000	
Business Park	500,000	260,000	-
Airfield Infrastructure	560,000	371,000	159,000
Buildings	20,000	52,000	12,000
Security Fencing			800,000
Land Development			500,000
Office Equipment		6,000	
Plant and Equipment		50,000	
Vehicles			40,000
	12,240,000	4,479,000	1,511,000

4.0 Accounting Policies

The accounting policies adopted by HBAL are consistent with New Zealand's International Financial Reporting Standards and generally accepted New Zealand accounting practices. The policies are included within HBAL's Annual Report that is available on the Company's website; www.hawkesbay-airport.co.nz/about/company/annual-report

5.0 Distributions

The Board has considered an alternative dividend policy based on an agreed proportion of free cash flow measure, rather than net profit after tax (NPAT). However, the Board has decided to retain its current dividend policy of 40% NPAT. Had the proportion of free cash flow measure been adopted as policy, no free cash would have been available for distribution to Shareholders during the period of significant capital expenditure in our infrastructure. Retention of the current dividend policy (40% NPAT) will enable annual dividends to be paid to shareholders throughout the capital expenditure programme.

6.0 Information to be provided to Shareholders

Shareholders will receive:

- An annual report including audited financial statements within 3 months of balance date.
- A 6-monthly report including non-audited financial statements within 2 months of balance date.
- A Quarterly Report within 2 months of the end of each quarter.

- A Statement of Intent submitted for shareholders' consideration in accordance with the Local Government Act 2002
- Other interim financial reports as agreed with the shareholders
- Reports on matters of material interest to shareholders. Shareholders will continue to be kept informed of key developments, consistent with the Crown's 'No Surprises' policy.

7.0 Acquisition Procedures

The acquisition of any interest in a company or organisation will only be considered when it is consistent with the long-term commercial objectives of the company. Any material acquisition will be the subject of consultation with shareholders.

Major transactions as defined by the Companies Act 1993 will require shareholder approval.

8.0 Compensation Sought from Local Body Shareholders

At the request of the shareholders the company may undertake activities that are not consistent with normal commercial objectives.

The company may seek, in these circumstances, a specific subsidy to meet the full commercial cost of providing such activities, however none are contemplated in the planning period.

9.0 Estimate of Commercial Value

The net book value of Shareholders investment in the company as at 31 December 2016 is \$28,466,588.

The non-current assets owned by HBAL were revalued at 30 June 2015 to their current market value resulting in an uplift in value of \$9.5 million (net of the deferred tax impact). The individual assets and liabilities included on the balance sheet at 30 June 2016 are therefore not considered by the Directors or Management to be materially different from the current market value.

HBAL will continue to undertake a revaluation approach to its assets on a regular cycle of every 3 years or when there has been a significant change in the market, to consider the gap between current book values of the assets and liabilities versus the commercial value of the business.



Tony M Porter
Chairman
Hawke's Bay Airport Limited
2 June, 2017