



HAWKE'S BAY AIRPORT

ANNUAL
REPORT

2018

HAWKE'S BAY AIRPORT LIMITED

HAWKE'S BAY AIRPORT LIMITED

REGISTERED OFFICE

Terminal Building
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Hawke's Bay
New Zealand

POSTAL ADDRESS

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BANKERS

ANZ Bank New Zealand Ltd

SOLICITORS

Willis Legal
Kensington Swan

AUDITORS

Staples Rodway Audit Limited
on behalf of the Auditor General



KIA ORA WELCOME

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ABOUT US

Hawke's Bay Airport Limited (HBAL) is owned and operated by Napier City Council (26%), Hastings District Council (24%) and the Crown (50%).

Prior to 1931, the area where Hawke's Bay Airport now stands was part of a tidal lagoon and a popular venue for sailing and fishing. The earthquake that struck on 3rd February 1931, with a magnitude of 7.9 on the Richter scale, raised the seabed by up to two metres and gave Napier many additional hectares of dry, flat land.

Hawke's Bay Airport was officially opened on the 15th of February 1964, although there had been flying from the airfield for many years. The first regular service between Napier and Gisborne commenced in 1935 from the Embankment airfield and transferred to the Beacons airfield, the current airport site, soon after.

Hawke's Bay Airport is now the 7th busiest in New Zealand and is located in one of the finest primary producing regions in the country.

We share a spectacular sanctuary with bird Wildlife within the Ahuriri Basin. A symbiotic relationship of flight between man, machine and nature.

From the air the recently completed Watchman Road and roundabout form the shape of the Kuaka (godwit). The roundabout is the eye of the bird and the traffic islands form the beak.

Hawke's Bay Airport is the Gateway to Hawke's Bay and aspires to be the most vibrant and successful regional airport in New Zealand, reaching 1 Million Passengers by 2025. Hawke's Bay Airport plays a key role injecting over \$38M direct economic impact to the Hawke's Bay Region.



HAWKE'S BAY AIRPORT
PLAYS A KEY ROLE
INJECTING OVER \$38M
DIRECT ECONOMIC IMPACT
TO THE HAWKE'S BAY REGION



A large-scale construction project is underway at an airport. In the foreground, two workers in orange high-visibility vests and white hard hats are working on a dark, textured surface, possibly a drainage system or a new road base. Behind them, a large yellow CAT bulldozer with 'HIGGINS' and 'VMP PHS' branding is parked. To the left, a yellow Hyundai excavator is visible. The background features a large, dark, corrugated metal building and rolling green hills under a clear blue sky. The overall scene is one of active infrastructure development.

A NEW RECORD 700K PASSENGER MOVEMENTS IN THE FINANCIAL YEAR

CHAIRMAN'S REPORT

I am pleased to report on the performance of Hawke's Bay Airport Limited for the financial year ended 30th June 2018.

Sadly, 2017 was a difficult year for the Airport with the passing of Nick Story, our previous CEO who had been battling illness for some time. We are thankful to Nick for the strong foundation that he built for the business and note the many initiatives that he started such as the Airport Terminal Expansion Design, the Watchman Road Project, and the implementation of structure to the Airport Team. Nick was a strategic thinker, a strong leader and very well respected in the business community. He has clearly left his mark on Hawke's Bay Airport.

The Board would also like to acknowledge our Management Team for its hard work, dedication and achievement. Despite a very challenging year, the Airport Company has witnessed another significant year of development and success.

It has been another unprecedented year of growth for the Airport Company as we progressed a number of key infrastructure projects along with several business development initiatives. Notably, in March 2018 we commenced work on our Terminal Expansion project. Construction is forging ahead and it is pleasing to see the roof nearly completed on the new arrivals hall.

The passenger growth in recent years continued with a new record of 700K passenger movements in the financial year. This enabled us to deliver another strong financial performance with revenue growing to \$6.6M and a net profit after tax of \$1.4M

A number of key staff have been appointed during the year:

In January 2018, Gareth Mentzer commenced as the Airport Operations Manager. Gareth has over 15 years' experience in a variety of Operational and Business Management roles working with businesses across New Zealand in a number of diverse industries. He brings with him a real depth of operational experience. While aviation is a new industry for Gareth he has quickly taken to the new environment and was certified as a Nominated Senior Person by the CAA after only four months in the role.

We also welcomed our new CFO, Jeanette Yule, who is an experienced senior finance executive with more than 15 years' experience in both domestic and global organisations. Her previous experience includes time as Chief Financial Officer, Head of finance, strategy

management and business partnering roles across the banking, energy and fresh produce sectors in New Zealand, Australia and Singapore. Jeanette holds an Executive MBA and is a member of the Chartered Accountants of Australia and New Zealand.

Following an extensive search the Board was delighted to appoint our new CEO, Stuart Ainslie to the position early in the New Year. Stuart commenced his role on the 12th of March 2018.

Stuart has held lead roles in the redevelopment of two international airports – Darwin, Australia and Port Moresby in Papua New Guinea and brings a deep understanding of the aviation industry. He has already made a significant impact in terms of refocusing our strategic direction and leading major revisions to our progressing Terminal Expansion Programme. We look forward to the strategic direction that the Company will take under Stuart's leadership.

In recognition of the continued unprecedented growth in passenger numbers the HBAL team has revisited two current capital projects.

The Board and Shareholders have approved a Special Resolution to upgrade the Terminal Expansion project in order to provide further capacity for growth and a better service for passengers. This brings the total forecast value of the project to \$20.2M. We are excited by the opportunities that the new facilities will provide for our airline business partners, travellers, retailers and the region as a whole.

We have also accelerated the restructuring and upgrading works to our Carpark Layout, along with a revised Payment, Exit and Entry System.

On behalf of the Airport Company's Board I would like to acknowledge and thank our shareholders and our stakeholders for their continued support throughout the year. In particular, I would like to thank those who have supported us through what has been a challenging but very successful year.



TONY PORTER
CHAIRMAN





CEO'S REPORT

With this being my inaugural CEO Report, firstly I would like to say a big thank you to the Airport Board, Management and staff for making me feel very welcome in Hawke's Bay especially as I started in a year of strong revenue growth and on the cusp of the terminal expansion construction. It truly is a special place to live and work and I'm privileged to be given the opportunity to play my part in leading Hawke's Bay Airport towards realising optimal growth.

When I joined the company it was evident that the business had seen unprecedented growth specifically in passenger numbers hence we reviewed terminal capacity and have upgraded the extension to ensure that our project delivers the necessary requirements to accommodate growth, enhance customer experience and optimise revenue.

In September 2017 the Airport announced a redevelopment of the airport terminal increasing its size from 2,500m² to 3,800m² to accommodate the growth in passenger movements and visitors to the Airport. Our review will increase the overall terminal to 4,340m², i.e. an increase in space of 74%.

As we work towards completing our new terminal development we are mindful that we take the opportunity to reflect the unique sense of place that Hawke's Bay Region represents. We will be focussing on delivering a place that provides visitors with a true taste of Hawke's Bay either by visually promoting the region within the terminal or via retail offerings of Hawke's Bay products such as food and beverage.

We have revised our vision to be the most vibrant and successful regional airport in New Zealand. We are also very aware of our environmental role in Ahuriri and surrounding areas and thus it's important that we have an active environmental management plan.

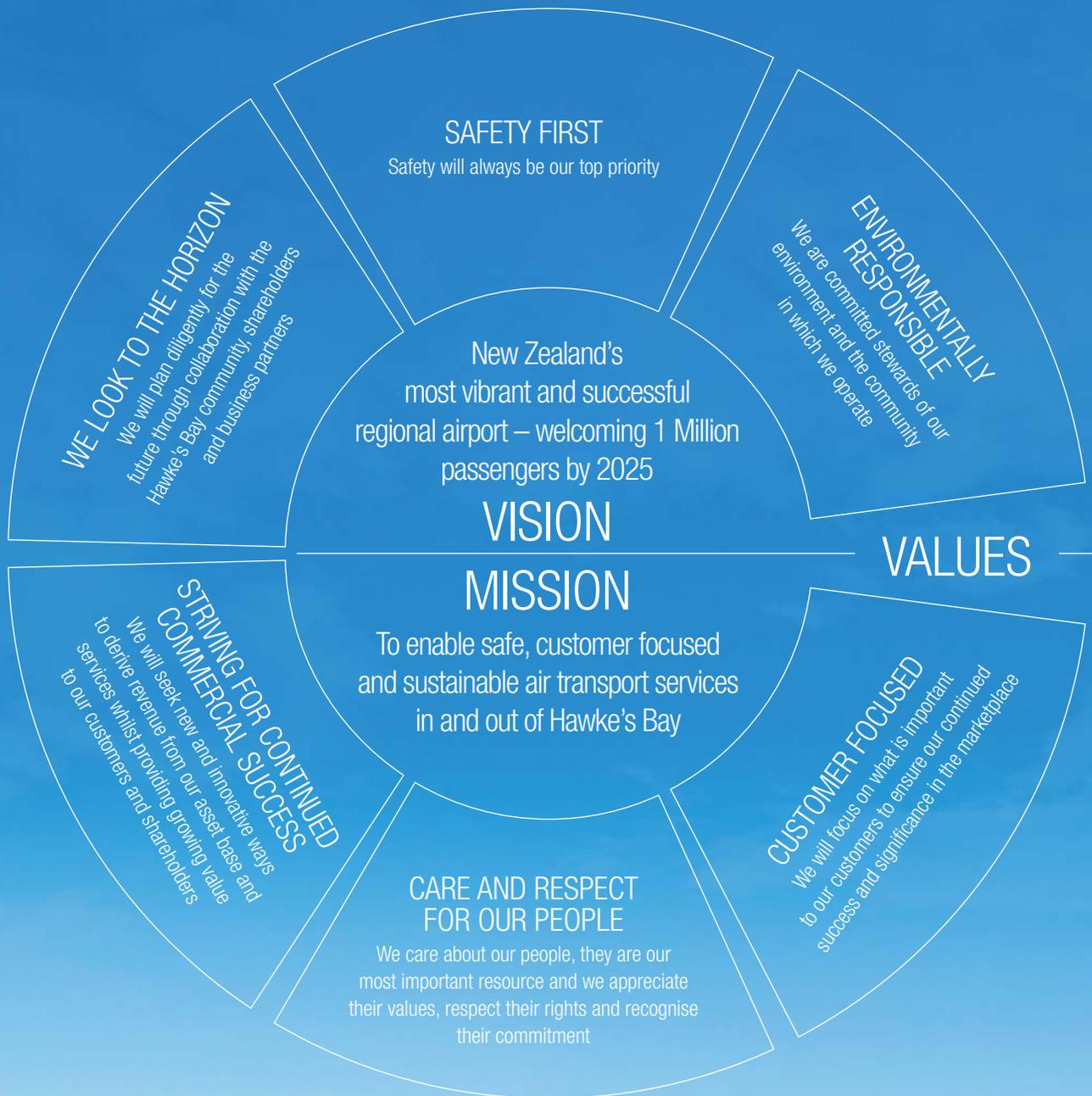
Towards the end of FY17/18 we conducted a full review of our Strategic Plan and identified five key strategic areas which are broadly reflected through this Annual Report.

We have also commenced work on our Airport Masterplan which will set the 20 year Vision Future Direction for Hawke's Bay Airport and the significant contribution that it makes to the regional economy. Key strategic focus areas moving forward will be ensuring adequate infrastructure to manage airline and passenger growth, development of a sustainable airfreight logistics hub, and commercial land development.

I would like to personally thank the team for their hard work and dedication over the last year and look forward to realising our strategic plans.

I am pleased to be presenting my first Annual Report with Hawke's Bay Airport Limited and look forward to working collaboratively with stakeholders and shareholders including the Hawke's Bay Business Community and our key business partners.

STUART AINSLIE
CHIEF EXECUTIVE OFFICER



KEY PROJECTS

WHOLE OF BUSINESS SAFETY CULTURE
RISK & BUSINESS INTELLIGENCE ANALYSIS

AIRFREIGHT DEVELOPMENT

AIRPORT MASTERPLAN

TERMINAL EXPANSION AND
AERONAUTICAL GROWTH

CAR PARKING BUSINESS OPTIMISATION

BUSINESS PARK AND LAND
BANK DEVELOPMENT

THE DEVELOPMENT OF A COLLABORATIVE
ENVIRONMENTAL MANAGEMENT STRATEGY

STRATEGIC PILLARS

OPERATIONS

Ensuring a safe, rewarding and delightful journey for our travellers,
Striving for excellence in everything we do.

COMMERCIAL

Maximising the returns across our Aeronautical Business
whilst delivering greater value and a strong sense of place.

PROPERTY

Making the best use of our land whilst safe guarding our Airport
to optimise returns and increase value to our shareholders.

PARTNERS

Engaging with our Customers, Stakeholders, Business Partners
and Community to grow our Airport in a way which benefits everyone.

PEOPLE

Working together to get the best outcomes
from our people in a great place to work and live.

BOARD OF DIRECTORS



TONY PORTER

CHAIRMAN

Tony has served as a director of HBAL since 1997 and was elected Chairman of Directors in July 2014. He has enjoyed a noteworthy engineering career in structural and bridge design, transportation asset management and business management, specialising over the latter years in asset management and procurement options for managing road networks.

Tony has a BE (Hons) in Civil Engineering, is a Fellow of the Institute of Professional Engineers and a Member of the Institute of Directors New Zealand.



SARAH PARK

CHAIR OF THE AUDIT AND FINANCE COMMITTEE

Sarah was appointed to the Board of HBAL in July 2014. She has a degree in Economics from the University of Edinburgh. Sarah has a good executive pedigree gained from working in the Mergers and Acquisitions and Capital Markets teams at HSBC Investment Bank (UK) and the PwC (NZ) and in the venture capital arena in the US and Asia. A strong foundational executive career has progressed into multiple roles in governance in New Zealand. Areas of experience and interest include infrastructure, biotech, genetics, agriculture, wine and viticulture, media, innovation, capital markets, M&A and Audit & Risk.



WENDIE HARVEY

Wendie was appointed to the HBAL board in July 2016 following an extensive legal career specialising in employment law and human resource management. Wendie brings over 25 years' experience as a lawyer, executive manager, business consultant and professional director.

Wendie's governance career reflects her interests in strategy development, infrastructure management and the promotion of health and safety in the workplace. Her appointments include the Boards of Port of Napier, Centralines Limited, QRS (Quality Road Services (Wairoa) Ltd), ETCO (Electrical Training Company Ltd) and Fire and Emergency New Zealand. Wendie also serves as a Commissioner on the New Zealand Gambling Commission and is a Council Member of the Eastern Institute of Technology.



TAINE RANDELL

Following an extensive professional rugby career in New Zealand and the UK, including Captaincy of the All Blacks, Taine pursued a career in finance and commodity markets both offshore and locally. These skills have enabled him to contribute to a number of governance roles in both commercial and social sectors.

Taine's current directorships include Kahungunu Asset Holding Company, Australian Lobster Company, Pania Reef Fisheries (GP) Ltd, Fiordland Lobster Company, Kiwigarden. Taine is also a trustee of the U-Turn Trust, an organisation that provides social services in Flaxmere.

SENIOR MANAGEMENT



STUART AINSLIE
CHIEF EXECUTIVE OFFICER

Stuart is a Senior Airport Executive with over 18 years' experience in public and privately-owned international hub and regional airports in the UK, Australia and Papua New Guinea. Stuart is a professionally qualified engineer with many years of senior leadership predominantly focused on airports, facilities and infrastructure including a number of years running his own aviation related consultancy.

Stuart has a sound understanding of all facets of how airports work from both a commercial and operational perspective. He is passionate about transformation, getting the best out of people and is excited about working with the broader community to further develop future prospects for the greater benefit of the Hawke's Bay Region.



JEANETTE YULE
CHIEF FINANCIAL OFFICER

Jeanette is an experienced senior finance executive with more than 15 years' experience in both domestic and global organisations. She has specific experience in Chief Financial Officer, Head of Finance, Strategy Management and Business Partnering roles across the banking, energy and fresh produce sectors.

Jeanette holds an Executive MBA and is a member of the Chartered Accountants of Australia and New Zealand. She worked in Australia for 10 years and has recently returned to New Zealand after 4 years in Singapore.



DEAN SMITH
COMMERCIAL MANAGER

Dean joined HBAL as Commercial Manager in November 2016 bringing with him over 15 years of professional experience spent primarily in the financial services and wine industries. He has a particular interest in developing long term, mutually beneficial and sustainable business relationships.

Dean holds Bachelor's degrees in both Commerce and Science from the University of Auckland.



GARETH MENTZER
OPERATIONS MANAGER

Gareth has over 15 years' experience in a variety of Operational and Business Management roles working with businesses across New Zealand and in a number of diverse industries.

Gareth holds a Bachelor's degree in Computing Systems with an emphasis on IT Management, he enjoys looking at what technology changes are available to improve systems and processes.



GRAHAM EAGLES
INFRASTRUCTURE MANAGER

Graham has 30 years' experience as a civil engineering designer and project manager in New Zealand and the UK. As a consultant he held a senior project management role and has been involved in the design management of a wide range of projects.

Graham has a Diploma in Civil Engineering along with an Engineering Practice Diploma, he is an associate member of IPENZ and member of IPWEA.

WE RECOGNISE
THE IMPORTANCE OF THE
AIRPORT AS A CRITICAL
ENABLER OF THE REGION'S
ECONOMIC GROWTH



OPERATIONS

*Ensuring a safe, rewarding and delightful journey for our travellers.
Striving for excellence in everything we do.*

AIRSIDE INFRASTRUCTURE

HBAL Management oversaw an annual Airfield Runway/Taxiway/Apron Inspection during May 2018 to assist with development of the airside asset management plan.

Management has completed works to review apron capacity and aircraft parking arrangements with a view to delivering optimal use and increased operational capacity on the apron area. This work will align with our longer-term development and master plans.

New Illuminated Movement Area Guidance Signs (MAGS) and hold point signage were installed airside as part of our continued CAA compliance requirements.

TERMINAL INFRASTRUCTURE

We recognise the importance of the Airport as a critical enabler of the region's economic growth.

A recent review of the terminal redevelopment identified that the previously proposed design was likely to reach capacity four years ahead of original forecasts due to the unprecedented passenger growth experienced since the design was finalised. This has prompted a change of project scope with an additional 540m² of floorspace added to ensure that upon completion the new terminal is fit for the future.

The redeveloped terminal will now be 74% larger than the footprint of the existing building.

Construction of the project is now well underway and will be completed via a staged program that will involve extending the existing footprint to both the north and the south of its current location.

Our Major Terminal Construction Contractor, Arrow International has had a great start with no lost time injuries and construction progressing on programme and budget.

The terminal has been designed in the shape of a Kuaka (godwit) bird in flight by local architects PMA, with supporting design inspiration from local artist and Mana Ahuriri representative Jacob Scott.

A key element of the project will be incorporating a strong sense of place with reference to the Kuaka, and additional design elements that reflect the Gateway Te Hau-Te Waharoa and Mana Ahuriri and Ngati Kahungunu Iwi aspirations.

Stage one, which includes the new arrivals hall and mechanised reclaim belt, is planned to be opened to the public before December 2018.





SAFETY & EMERGENCY MANAGEMENT

HBAL has recognised safety as our key priority. The Airport Management team engage monthly via a Terminal and Apron Users Group with tenants, retailers and airline partners to collaborate on ways to improve safety, security and daily operations.

Safety and security are key aspects to ensure that we have a safe and compliant airport business. As part of our review of the Airport Terminal Project we have looked at ways to future proof space to comply with potential changes to legislative security requirements within the terminal. This included making greater space in our baggage makeup area to accommodate for future x-ray screening when necessary.

Work has commenced on further developing our Risk Management Systems which are a key foundation of our Safety Management System. Work also continues to champion safety culture across all aspects our business.

NZ Civil Aviation Authority mandates that all part 139 certificate holders are required to have a Safety Management System implementation plan submitted to CAA by 30 July 2018. HBAL management submitted ours on the 3rd July 2018 with approval of the plan granted on the 13th July 2018. HBAL has an approved implementation date of 30th November 2019.

We aim to have a certified SMS by the end of FY2018/19. During April 2018 the new CEO and Operations Manager were certified by CAA as the Key Senior Appointed Persons.

On 27th March 2018, HBAL CAA conducted a routine Safety Audit. The audit involved the surveillance of 22 rule parts for compliance, HBAL passed this audit with full compliance across all 22 rule parts.

During early 2018 the Airport conducted exercises with the Hawke's Bay Police Negotiation Team to simulate the unlawful seizure of an aircraft. Staff familiarisation was conducted with the NZ Explosive Ordinance Disposal Squadron.

Every two years Airport Management test our Emergency Response systems with a planned emergency exercise involving all the Emergency Service Providers. The next full field based Emergency exercise is planned for November 2018.

WILDLIFE MANAGEMENT

The thriving bird life around Hawke's Bay Airport represents our unique environment but also presents unique safety challenges to turbo prop and jet aircraft.

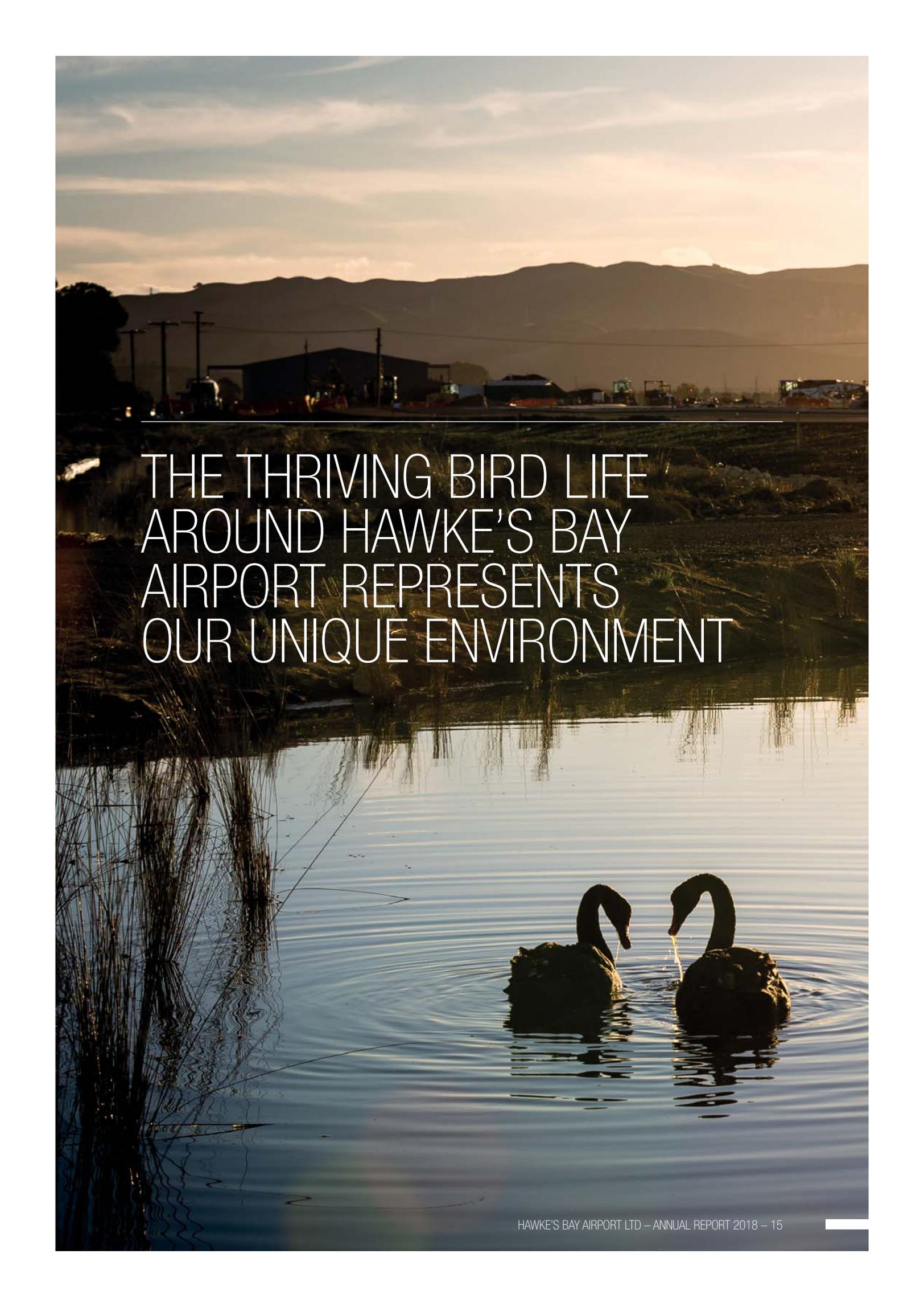
Wildlife management is a key challenge for Hawke's Bay Airport Operations Team specifically as we are located within the ecologically diverse Ahuriri Basin, with many bird species including the Kuaka, which provides much of the design inspiration for our terminal redevelopment.

Work has commenced on developing a comprehensive Wildlife Management Plan, training and implementation plan.

Hawke's Bay Airport is committed to ensuring that the Airport minimises the risk of bird strikes to aircraft.

AIRPORT WATER USAGE

During the last eighteen months the Airport has halved its water usage for the year to end of June 2018. This followed a concerted effort to identify and repair water leaks. The result of this work effectively means a saving of around 38.4 million litres over the last year.



THE THRIVING BIRD LIFE
AROUND HAWKE'S BAY
AIRPORT REPRESENTS
OUR UNIQUE ENVIRONMENT

COMMERCIAL

Maximising the returns from our Aeronautical Business whilst delivering greater value and a strong sense of place.

ROUTE DEVELOPMENT

Passenger numbers grew by 7% during the year, reaching a new record of 700K. Total passenger movements are now 47% ahead of the same time three years ago.

The year's best performing route in terms of total passenger growth was NPE/AKL, with NPE/CHC enjoying the largest percentage increase. It was particularly pleasing to note that all commercial routes experienced an increase in percentage loadings.

Following a period of consultation with our major airline partners, a decision was made to increase landing charges by 12.7% from 1st July 2018. This largely reflects the significant capital investment that will be made over the coming period, and also allows for the recovery of some additional compliance costs, specifically the increased resourcing of our Rescue Fire Team.

During the year investment was made in new business intelligence analysis software to enable us to understand our aeronautical and commercial business at a much deeper level. The team has commenced work on a route development strategy to identify where capacity can be added or new routes opened.

CAR PARKING

During the year car parking revenue increased by 11% this being largely driven by passenger growth with no material change to pricing structure implemented during the period.

As part of our continuous improvement program, a review of the carpark has started. This will see work commencing over FY18/19 to improve the carpark layout, signage and systems as we work to improve capacity, passenger safety, and customer experience.

CAR RENTALS

To accommodate construction activity on the terminal redevelopment site the ready-hire rental carpark was relocated into the north-east corner of the main carpark. The move also enabled the rental companies to lease additional space, which they strongly supported. In total, ready-hire carparking capacity increased by 60%, with a subsequent increase in rental income generated.

Ahead of the relocation new signs, markings and barriers were installed to clearly define the area and improve operational safety.

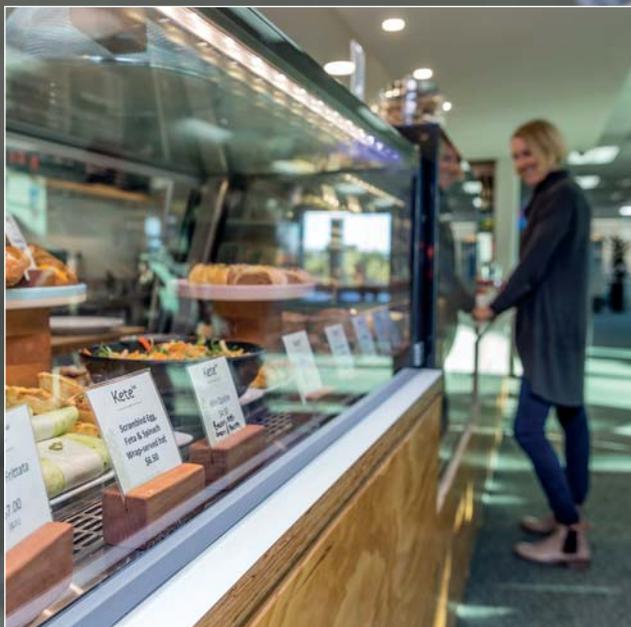
RETAIL AND AMENITIES

The redeveloped terminal will also include new airline check in areas, an automated baggage handling system, a dedicated arrivals gate, a central hospitality and retail area, expanded bathrooms, offices for our airline partners and an expanded Air New Zealand regional lounge. The rental car concierge area will also be relocated within the terminal.

The sense of place will extend to the food and beverage and retail offering. There will be a concerted effort to ensure that these become a platform to showcase locally produced food, wine and other merchandise.



TOTAL PASSENGER
MOVEMENTS ARE
NOW 47% AHEAD
OF THE SAME TIME
THREE YEARS AGO



PROPERTY

Making the best use of our land whilst safeguarding our Airport to optimise returns and increase value to our shareholders.

GATEWAY TO HAWKE'S BAY

Hawke's Bay Airport is a key gateway to this beautiful part of New Zealand. We acknowledge the important role we play in setting the first and last impressions for so many of the region's visitors.

We have been excited to see the The Watchman Road Project develop throughout the year. These much-anticipated works will significantly improve the aesthetic appeal and safety of the journey to and from the Airport.

The project will incorporate a number of artworks. Collectively these features will reinforce this area as a primary gateway into the region.

Progress at the Watchman Road site has progressed at a rapid pace with the new entry point ready for public traffic by September 2018. Work on Airport Link Road and tie in to the Airport will be completed by end August 2018. This will include widening of the existing roadway, drainage improvements, new water main construction and pavement construction.





MASTERPLAN

The last Airport Masterplan was completed in 2013 and since then we have experienced an unprecedented amount of growth. Planning work has begun to identify how we will embark on updating this important document as we look to refocus on how the Airport should grow over the coming 20-year period.

The process in shaping the masterplan will involve consulting widely with the community and our major stakeholders. There will also be strong consideration of how the Airport will integrate into the regions wider strategic ecosystem;

The following Development objectives were produced as the guiding principles of our Airport Masterplan.

- Ensure our enduring relevance through the provision of infrastructure and capacity to accommodate forecast growth in passenger numbers, aircraft movements and aviation support services.
- Provide for growth in a way that manages its impact on our local communities and facilitates economic growth across Hawke's Bay businesses, logistics and tourism providing a strong sense of place.
- Safeguard our Airport to ensure the enablement of our Strategic Plans whilst continuing to deliver a compliant airport business

- Realise increases in revenue by maximising our Airport land returns from the optimal mixed use of non-aviation development.
- Deliver long term plans that balance our impact on and around the unique environment of the Ahuriri Basin and support HBAL's commitment to Environmental Stewardship.

BUSINESS PARK

The new Airport link road is a key enabler for the business park as it will provide a significant lift to the profile and desirability of this strategically important piece of land.

Work has continued during the year to enhance the commercial viability of the business park. A key workstream has been challenging the land's existing zoning. A private plan change submission was lodged with the Napier City Council in January 2018 proposing the creation of a business precinct within the existing Airport Zone to permit a broader range of commercial activities.

THRIFTY WASHBAY

The previously vacant middle bay of the Rental Car Valet Building was converted to a wash bay in late 2017 and leased to Thrifty Car Rentals. The creation of this additional wash bay has made a huge difference to how Thrifty can operate at the Airport as previously car washing was carried out off site. The new facility has enabled a staff time saving of around 30 minutes per vehicle round trip.



CONNECTIONS
ENABLED BY THE
AIRPORT HAVE AN
INITIAL ECONOMIC
IMPACT OF OVER
\$214.5 MILLION

PARTNERS

Engaging with our Customers, Stakeholders, Business Partners and Community to grow our Airport in a way which benefits everyone. A great place to do business.

Airport Management is committed to building our importance to the Hawke's Bay Region as a community enabler in building the Hawke's Bay Brand.

Total connections enabled by the Airport have an initial economic impact of over \$214.5M with tourism spending equating to nearly one third of this across the wider Hawke's Bay Region.

COMMUNITY ENGAGEMENT

During the year the Airport Team engaged with a wide spectrum of the community, accepting invitations to speak to a number of community groups, meeting with a number of stakeholders and hosting school tours from Omakere School in Central Hawke's Bay, Tamatea Primary school and Henry Hill school.

Management has created a standard procedure for hosting groups with input from the Airport's Rescue Fire team whose staff are also involved. This procedure ensures that all Health and Safety protocols are adhered to and also covers an optional release from the school or group to enable HBAL to use images of the tours for its use on Social Media.

HBAL Management is keen to continue hosting these tours as it fits well with our strategic values and desire to connect more deeply with our community.

During the year management have also been an active participant in Think Hawke's Bay. Think Hawke's Bay is a collaboration of Business Hawke's Bay, Napier Port, Hawke's Bay Airport and Councils to deliver inwards investment, business attraction along with people and skills into Hawke's Bay under the Think Hawke's Bay brand.

CUSTOMER FOCUS

Work has continued to build our focus on customer experience. A new customer service role was resourced, providing a dedicated point of contact and improving the Airport's ability to respond promptly to what is a broad and growing number of general customer related inquiries.

Management have been working on the implementation of a new Airport Service Quality (ASQ) Monitor. This systematic approach to measuring customer satisfaction will be put in place from the end of 2018 enabling us to get a better understanding of our passenger's needs in relation to their experiences whilst travelling through our Airport. The ASQ program is used extensively by airports around the world. It will provide the business with measurable insights from which we can monitor the success of our customer focussed strategic initiatives. It will also enable us to benchmark our performance against other participating airports in New Zealand and around the globe.

ENVIRONMENTAL MANAGEMENT PLAN

Hawke's Bay Airport is proud of its beautiful natural environment and acknowledges the responsibility it bears to preserve this for future generations. We are committed to the development, implementation and continual improvement of a comprehensive Environmental Management System which will be developed alongside our Airport Masterplan. We intend to improve the level of engagement with our key Stakeholders, business partners and the community.



PEOPLE

Working together to get the best outcomes from our people in a great place to work and live.

During 2018 four new staff commenced with Hawke's Bay Airport. We welcomed Sara Cartwright, Customer Service Administrator, Gareth Mentzer, Operations Manager, Jeanette Yule, CFO and Stuart Ainslie, our new CEO.

As the Airport Business continues to grow it is important for us to ensure we have the right resourcing, skills and capability to position us for the future. This is a key part of our strategy moving forward.

During the period of the previous CEO's illness, the Airport Team was provided resource and technical support from a number of a key consultancies and resourcing agencies notably, PwC, Task Protection Services Ltd, Integrating Architecture, GRG Consulting, Airport Management Consultants and Able Personnel.

In March 2018 Arrow International Construction commenced construction work on our Terminal Expansion Project. This project has progressed

quickly and smoothly and we are proud to be working with the professional and safety focused project and construction team from Arrow.

We are committed to developing our business intelligence through capability and supporting systems that assist us to better understand, maintain and grow our business including key revenue streams, aeronautical and asset data.

Training and Development is important to us and our Operations Manager is currently undertaking a Diploma in Airport Operations through ACI.

In the future we are committed to ensuring that our organisation is adequately resourced and that Hawke's Bay Airport is not only seen as a great place to work but also a key enabler in the community and broader economy.



FINANCIAL PERFORMANCE

The Airport Company achieved all of its financial performance targets for the year compared to the Statement of Intent.

Net Profit After Tax of \$1.4M was 15% ahead of budget and is \$0.27M lower than last year due to the higher operating expenses. The total revenue of \$6.6M represents an increase of 9% on the prior year and was 5% ahead of budget driven by higher landing charges and car parking revenue.

Expenditure before interest and depreciation of \$3.0M which was 6% higher than budget and 35% ahead of last year mainly due to the increased costs in Task Protection Services (additional staff due to Civil Aviation Authority requirements), appointment of key staff, and legal and consultancy costs for terminal redevelopment.

The Return on Equity of 4.9% which is 0.6% higher than the Statement of Intent and the Company's Gearing Ratio of 12% was well below the Statement of Intent as a result of the terminal development starting later.

DIVIDEND TO SHAREHOLDERS

The company paid a record fully imputed dividend of \$687,001 to shareholders in December 2017.

A summary of the Airport Company's performance against our Statement of Intent is detailed in our Statement of Service Performance for the year ending 30 June 2018, this is included on page 30 of our Annual Report.



PERFORMANCE DASHBOARD



> \$38M
Direct economic
impact to the
Hawke's Bay Region



The total connections
enabled by the airport
have an initial economic
impact of over
\$214.5M



Car parking revenue
+11%



> \$20M
CAPEX
committed



+1.2%
Income per passenger
\$9.50



22,031
movements
per annum
+13%



163,000
tonnes landed
per annum





Passenger numbers
+7%



Best performing route
NPE/AKL



>25
bird species have
been identified during
Bird Patrols – over
2000
wildlife inspections
per year



\$38.4M litres
of water saved =
0.5M
bathtubs of water

Quickest growing route
NPE/CHC



>28,000
engagements with
our Facebook Page



96
bird species
identified in the
Ahuriri Estuary
and Scrape Lakes





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DIRECTORS REPORT

FOR THE YEAR ENDED 30 JUNE 2018

DIRECTORS

DIRECTORS REMUNERATION

The amount of \$105,000 per annum was paid to members of the board for the twelve months to 30 June 2018.

T M Porter	40,500
S N Park	21,500
T C Randell	21,500
W N Harvey	21,500
	<hr/>
	105,000

No other remuneration or benefits other than normal reimbursement of expenses has been paid or given to Directors.

There has been no change in Directors during the year.

BOARD COMMITTEES

As at 30 June 2018 the Company had the following committee:

AUDIT COMMITTEE: Members are Sarah Park (Chair), Tony Porter, Wendie Harvey and Taine Randell.

ENTRIES IN THE INTERESTS REGISTER

As at 30 June 2018, the Directors have declared general disclosure of interest in the following entities:

T M PORTER

Pornell Tractor Company Director

S N PARK

Scotch & Sparkles Ltd Director/Shareholder

Focus Genetics Management Limited Director

Focus Genetics Partnership Limited Director

Eurogrow Potatoes Limited Director

Hereworth School Trust Board Trustee

T C RANDELL

Fiordland Lobster Company Ltd Director

Australian Lobster Company (GP) Ltd Director

Lobster Management (GP) Limited Director

Salco GP Ltd Director

FLC Trustee Ltd Director

Deltop Holdings Ltd Director

ZSB Holdings Ltd Director/Shareholder

Kahungunu Asset Holding Company Ltd Director

Kahuitia General Partner Limited Director

Pania Reef Fisheries (GP) Limited Director

KAHC Investments Ltd Director

Kiwigarden Ltd Director

W N HARVEY

Centralines Limited	Director
Excellence in Business Solutions Limited	Director/Shareholder
Napier Port Limited	Director
Quality Roading Serviced Limited	Director
New Zealand Gambling Commission	Commissioner
Eastern Institute of Technology	Council Member
The Electrical Training Company Limited	Director
Tangihanga Joint Venture Board	Board Member

EMPLOYEE REMUNERATION

Employee Remuneration and other benefits exceeding \$100,000:

	2018	2017
\$100,000 - \$110,000	1	-
\$110,001 - \$120,000	-	-
\$120,001 - \$130,000	2	1
\$130,001 - \$140,000	-	-
\$140,001 - \$150,000	-	-
\$150,001 - \$160,000	-	-
\$160,001 - \$170,000	1	-
\$170,001 - \$180,000	-	-
\$180,000 - \$190,000	-	-
\$190,000 - \$200,000	-	1

AUDITORS

The Office of the Auditor General is appointed as auditor under Section 15 of the Public Audit Act 2001 and Section 70 of the Local Government Act 2002. Stuart Signal of Staples Rodway Audit Limited has been appointed to provide these services.

DIRECTORS RESPONSIBILITY STATEMENT

The Directors are responsible for ensuring that the financial statements and the Statement of Service Performance present fairly the financial position of the Company as at 30 June 2018 and its financial performance and cashflows for the year ended on that date.

The Directors consider that the financial statements of the Company have been prepared using appropriate accounting policies consistently applied, and supported by reasonable judgements and estimates and that all relevant financial reporting and accounting standards have been followed.

STATEMENT OF SERVICE PERFORMANCE

FOR THE YEAR ENDED 30 JUNE 2018

THE FOLLOWING IS A STATEMENT OF SERVICE PERFORMANCE RELATING TO THE KEY OBJECTIVES LISTED IN THE COMPANY'S STATEMENT OF CORPORATE INTENT FOR THE YEAR ENDING 30 JUNE 2018.

ACTIVITY	MEASURE	SOI	RESULT	%INCREASE	STATUS
			ACTUAL (DECREASE)		
CAA RECERTIFICATION	Renewal of Aerodrome Operating Certification				
OPERATE AS A SUCCESSFUL BUSINESS	Achieve Performance Targets:				
	- Passenger Numbers	669k	700k	5%	
	- Revenue	6,338,903	6,649,167	5%	
	- EBITDA	3,466,350	3,607,502	4%	
	- NPAT	1,254,896	1,444,945	15%	
	- ROE - annualised	4.3%	4.9%	0.6%	
	- Gearing	48%	12%	36%	
	- Dividend	501,958	687,001	37%	
	- Business Park rezoned				
	- Development of Business Park				
	- Review and update Strategic Plan				
APPROPRIATE INFRASTRUCTURE	Progress planning for:				
	- Terminal redevelopment				
	- Strengthen fire station				
	- New Airport entranceway				
HEALTH AND SAFETY	NZ Civil Aviation approved safety management implementation plan				
CONSOLIDATE WASTE AND RECYCLING MANAGEMENT	Bi annual audit of consumption Halved water usage - saving of 38.4m litres				
CUSTOMER FOCUS	Regular engagement with customers				
STAKEHOLDER ENGAGEMENT	4 meetings per annum with shareholders				

KEY:  – Meets or exceeds target  – Within 10% of target  – 10% or more below target

Full commentary in respect of the objectives measured above are given in the Chairman's Report on Page 5 and CEO's Report on page 7.

STATEMENT OF
COMPREHENSIVE INCOME
 FOR THE YEAR ENDED 30 JUNE 2018

	NOTE	2018 \$	2017 \$
Aviation		4,014,956	3,812,114
Carparking		2,102,473	1,855,247
Business Park		367,104	299,903
Other Revenue		164,634	145,571
Total Revenue	1	6,649,167	6,112,835
Less Operating Expenses	2	(3,041,665)	(2,249,919)
Operating Profit Before Financing Costs and Depreciation		3,607,502	3,862,916
Depreciation		(1,396,041)	(1,302,797)
Finance Income		948	2,747
Finance Expense		(71,701)	(44,350)
Net Profit before income tax		2,140,708	2,518,516
Income Tax Expense	3	(695,733)	(800,907)
Net Profit after income tax		1,444,975	1,717,609
Items that will not be reclassified into profit or loss:			
Deferred tax on revaluation	3	96,372	96,262
TOTAL COMPREHENSIVE INCOME		1,541,347	1,813,871

STATEMENT OF
CHANGES IN EQUITY
 FOR THE YEAR ENDED 30 JUNE 2018

	ISSUED CAPITAL	RETAINED EARNINGS	REVALUATION RESERVE	TOTAL EQUITY
2018				
BALANCE AT 1 JULY 2017	13,789,155	6,528,921	8,972,144	29,290,220
Profit for the period	-	1,444,975	-	1,444,975
Reclassification of depreciation on revalued assets	-	344,187	(344,187)	-
Movement in deferred tax on revaluation reserve	-	-	96,372	96,372
Total comprehensive income		1,789,162	(247,815)	1,541,347
Distributions to shareholders (note 5)	-	(687,001)	-	(687,001)
Movement in equity for the period	-	1,102,161	(247,815)	854,346
BALANCE AT 30 JUNE 2018	13,789,155	7,631,082	8,724,329	30,144,567

2017

BALANCE AT 1 JULY 2016	13,789,155	5,029,518	9,219,676	28,038,349
Profit for the period	-	1,717,609	-	1,717,609
Reclassification of depreciation on revalued assets	-	343,794	(343,794)	-
Movement in deferred tax on revaluation reserve	-	-	96,262	96,262
Total comprehensive income		2,061,403	(247,532)	1,813,871
Distributions to shareholders (note 5)	-	(562,000)	-	(562,000)
Movement in equity for the period	-	1,499,403	(247,532)	1,251,871
BALANCE AT 30 JUNE 2017	13,789,155	6,528,921	8,972,144	29,290,220

STATEMENT OF
FINANCIAL POSITION
 FOR THE YEAR ENDED 30 JUNE 2018

	NOTE	2018 \$	2017 \$
ASSETS			
Property plant and equipment	8	34,912,723	30,611,706
Investment property	9	4,535,317	4,627,960
Intangibles		3,384	3,364
Total non-current assets		39,451,424	35,243,030
Trade and other receivables	4	797,453	615,320
Cash and cash equivalents		277,979	695,568
Total current assets		1,075,432	1,310,888
TOTAL ASSETS		40,526,858	36,553,917
EQUITY			
Issued capital		13,789,155	13,789,155
Retained earnings		7,631,082	6,528,921
Revaluation Reserve		8,724,329	8,972,144
TOTAL EQUITY	5	30,144,567	29,290,220
LIABILITIES			
Deferred tax liability	3	3,577,996	3,806,233
Rentals in advance	7	1,180,264	1,264,506
Borrowings	6	4,026,792	-
Total non-current liabilities		8,785,051	5,070,739
Trade and other payables	7	1,549,248	2,097,358
Employee benefits		47,992	95,599
Total current liabilities		1,597,240	2,192,956
Total liabilities		10,382,291	7,263,695
TOTAL EQUITY AND LIABILITIES		40,526,858	36,553,917

These financial statements were authorised for issue by the board on 28 August 2018
 on behalf of Hawke's Bay Airport Limited



TONY PORTER
 CHAIRMAN



SARAH PARK
 DIRECTOR

STATEMENT OF
CASH FLOWS
 FOR THE YEAR ENDED 30 JUNE 2018

	NOTE	2018 \$	2017 \$
CASH FLOWS FROM OPERATING ACTIVITIES			
CASH WAS PROVIDED FROM:			
Revenues		6,540,467	6,066,889
Interest Received		948	2,747
		6,541,415	6,069,636
CASH WAS DISBURSED TO:			
Suppliers and Employees		(3,303,211)	(2,017,948)
Goods & Services Tax (Net)		(41,071)	(32,486)
Interest Paid		(46,636)	(44,994)
Income Tax Paid		(1,462,704)	(236,000)
		(4,853,622)	(2,331,428)
NET CASH FLOWS FROM OPERATING ACTIVITIES	10	1,687,793	3,738,208
CASHFLOWS FROM INVESTING ACTIVITIES			
CASH WAS DISBURSED TO:			
Capital Works		(5,445,173)	(2,095,395)
NET CASH FLOWS FROM INVESTING ACTIVITIES		(5,445,173)	(2,095,395)
CASHFLOWS FROM FINANCING ACTIVITIES			
CASH WAS PROVIDED FROM:			
Borrowings		4,026,792	-
CASH WAS DISBURSED TO:			
Dividends Paid		(687,001)	(562,000)
Debt Repayment		-	(900,000)
NET CASH FLOWS FROM FINANCE ACTIVITIES		3,339,791	(1,462,000)
Net increase/(decrease) in cash and cash equivalents		(417,589)	180,813
Add Opening Cash and Cash equivalents		695,568	514,755
CLOSING CASH AND CASH EQUIVALENTS AT END OF YEAR		277,979	695,568
REPRESENTED BY:			
Cash at Bank		261,816	685,785
Cash in hand		16,163	9,783
		277,979	695,568

ACCOUNTING POLICIES

FOR THE YEAR ENDED 30 JUNE 2018

SIGNIFICANT ACCOUNTING POLICIES

REPORTING ENTITY

Hawke's Bay Airport Limited is a company incorporated in New Zealand under the Companies Act 1993 and is owned by the Crown: 50%, Napier City Council: 26%, Hastings District Council: 24%.

The company is domiciled in New Zealand and its principal place of business is 111 Main North Road, Westshore, Napier. The company operates the Hawke's Bay Airport.

Hawke's Bay Airport Limited is defined as a Council-controlled organisation pursuant to Part 5 of the Local Government Act 2002.

The financial statements have been prepared as required by the Local Government Act 2002 and in accordance with all applicable financial reporting standards and other generally accepted accounting practices in New Zealand. They comply with the New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) as appropriate to profit oriented entities applying the Reduced Disclosure Regime.

MEASUREMENT BASE

The financial statements have been prepared on a going concern basis in accordance with historical cost concepts as modified by the revaluation of certain assets and liabilities as identified in specific accounting policies below.

PRESENTATION CURRENCY

These Financial Statements are presented in New Zealand dollars (\$), which is the functional currency of the company, rounded to the nearest dollar.

CRITICAL ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGMENTS

The preparation of financial statements in conformity with NZ IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the company's accounting policies.

The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances.

Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Management has exercised its judgment on the impairment assessment of Investment Property, and in the assessment of the recoverable amounts of Capital Work in Progress.

PARTICULAR ACCOUNTING POLICIES

1. REVENUES

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the company's activities. Revenue is shown net of Goods and Services Tax (if applicable), returns, rebates and discounts. The company recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the company and when specific criteria have been met for each of the company's activities. Revenues consist mainly of landing charges, car parking fees, terminal and leased land rentals and concessions. Lease income is recognised on a straight line basis over the term of the lease.

2. TRADE AND OTHER RECEIVABLES

Trade and other receivables are stated at net realisable value after provision for doubtful debts.

3. TAXATION

INCOME TAX EXPENSE

Income tax on profits for the period comprises current tax, deferred tax and any adjustment for tax payable in previous periods. Income tax is recognised in profit or loss as tax expense except when it relates to items credited directly to equity, in which case it is recorded in other comprehensive income.

CURRENT TAX

Current tax is the expected tax payable on the income for the period based on tax rates and tax laws which are enacted or substantively enacted by the reporting date.

DEFERRED TAX

Deferred tax arises by providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the equivalent amounts used for tax purposes.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the periods when the assets or liabilities giving rise to them are realised or settled.

Deferred tax assets, including those related to the tax effect of income tax losses available to be carried forward are recognised only to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences or unused tax losses can be realised. Deferred tax assets are reviewed each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

4. CASH FLOW STATEMENT

The following definitions have been used for the preparation of the Statement of Cash Flows:

Cash and Cash equivalents: Cash and cash equivalents are cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Operating activities: Transactions and other events that are not investing or financing activities.

Investing activities: Activities relating to the acquisition, holding and disposal of non-current assets and of investments, such as securities, not falling within the definition of cash.

Financing activities: Activities which result in changes in the size and composition of the capital structure of the Company, both equity and debt not falling within the definition of cash.

5. VALUATION OF PROPERTY, PLANT AND EQUIPMENT

PROPERTY, PLANT AND EQUIPMENT

In 2015 Property plant and equipment was revalued from their original cost when the assets were acquired from the Hawke's Bay Airport Authority on 1 July 2009.

The revaluations were completed by independent valuers and who have assessed the fair value of the assets.

Any revaluation increment was credited to the revaluation reserve and included in other comprehensive income, except to the extent that it reversed a previous decrease of the same asset previously recognised within net profit in the statement of comprehensive income, in which case the increase is recognised within net profit in the statement of comprehensive income.

Each year the difference between depreciation based on the revalued carrying amount of the asset charged to the income statement, and the depreciation based on the original cost is transferred from the revaluation reserve to retained earnings.

Property, plant and equipment comprises airfield and other infrastructure, car parks, buildings and equipment.

ASSETS UNDER CONSTRUCTION

The cost of assets under construction is recorded at incurred cost as at balance date.

Disposal of property plant and equipment When an item of plant property and equipment is disposed of any gain or loss is recognised in the profit or loss calculated at the difference between the sale price and the carrying value of the asset.

CYCLICAL MAINTENANCE UPGRADES

Significant expenditure involving renewal of runway surface components is capitalised and subject to depreciation at the appropriate rates.

6. INVESTMENT PROPERTY

Investment property, which is property held to earn rentals and/or for capital appreciation, is initially recognised at cost, including transaction costs. Costs include all expenditure relating to infrastructure development and construction. Investment property is depreciated using the cost model allowed under NZ IAS 40. Investment properties include all aspects of the business park development adjacent to the Airport.

7. DEPRECIATION

Depreciation is charged on a straight-line basis to write off the cost or value of property, plant and equipment and investment property over their expected economic lives.

The principal depreciation rates are as follows:

Airfield Infrastructure: Base	0.71% to 5.56%
Surface	6.67% to 10.00%
Business Park Infrastructure	0.00% to 10.00%
Buildings	2.50% to 10.00%
Plant & Equipment	2.90% to 40.00%
Car Park & Roading	1.67% to 5.00%
Fencing	5.00% to 15.00%
Lighting	4.00% to 10.00%
Furniture & Fittings	10.00%
Office Equipment	30.00%

8. INTANGIBLES

Intangibles comprise computer software that is not an integral part of the related hardware. This software has either been purchased or developed internally and is initially recorded at cost. Subsequent costs are included in the software'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 the Company and the cost of the item can be measured reliably. The costs of maintaining the software are charged to profit or loss. Software is amortised over three years using the straight line method.

9. FINANCIAL INSTRUMENTS RECOGNITION AND MEASUREMENT

Financial instruments are initially measured at fair value plus transactions costs, when the related contractual rights or obligations exist. Subsequent to initial recognition these instruments are measured as set out below.

LOANS AND RECEIVABLES

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are stated at amortised cost using the effective interest rate method less accumulated impairment losses. Trade and other receivables and cash and cash equivalents listed in the Company's statement of financial position are classified as loans and receivables.

FINANCIAL LIABILITIES

Non-derivative financial liabilities are recognised at amortised cost, comprising original debt less principal payments and amortisation. Trade and other payables, employee benefits and borrowings are classified as financial liabilities.

10. IMPAIRMENT TESTING OF ASSETS

At each reporting date, the Company reviews the carrying values of its assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to profit or loss.

11. GST

All amounts are shown exclusive of Goods and Services Tax (GST), except for receivables and payables that are stated inclusive of GST.

12. LEASES

The Company only has operating leases.

Rental income from operating leases is recognised on a straight line basis over the term of the relevant lease.

Operating lease payments are recognised as an expense on a straight line basis over the lease term. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred. In the event that leases incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight line basis.

13. CHANGES IN ACCOUNTING POLICIES

There have been no changes in accounting policies in the reported periods. The Company has opted to classify itself as a Tier 2 entity to take advantage of the Reduced Disclosure Regime.

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 30 JUNE 2018

1. OPERATING REVENUES

Aviation income includes all revenue from landing charges, aircraft parking, concessions, airfield and terminal rentals. Carparking includes all income from the short term, daily and long stay car parks. Business park revenue includes all rental income from tenants occupying sites on the business park investment property. Other revenue includes advertising, use of the conference facilities and other revenue. All revenue is net of discounts and rebates.

2. OPERATING EXPENSES

	2018	2017
	\$	\$
Audit Fees - audit of financial statements	28,809	15,640
Directors Fees	105,000	87,500
Lease of Land	34,000	31,167
Employee Benefits	733,527	542,486
Other Operating Expenses	2,140,329	1,573,126
	3,041,665	2,249,919

3. TAXATION

	2018	2017
	\$	\$
A. CURRENT YEAR RECONCILIATION		
Profit Before Taxation	2,140,708	2,518,516
Prima Facie Taxation @ 28%	599,398	705,184
ADJUSTED FOR THE EFFECT OF:		
Depreciation on revalued assets	96,372	96,262
Non deductible expenses	(38)	(539)
Prior Years (over)/under provision	-	-
INCOME TAX EXPENSE	695,733	800,907
COMPRISING		
Current Tax	827,598	887,832
Deferred Tax	(131,865)	(86,925)
	695,733	800,907

	2018	2017
	\$	\$
B. TAXATION PAYABLE/(RECEIVABLE)		
Balance @ 1 July	942,870	291,416
Reclassification to deferred tax	-	392
Prior Year (over)/under provision	-	-
Terminal Tax (paid)/refunded	(942,870)	(236,000)
Current Tax Payable	827,598	887,832
Provisional Tax paid	(519,834)	-
RWT paid on Interest	-	(770)
BALANCE AT 30 JUNE	307,764	942,870

C. IMPUTATION CREDIT ACCOUNT		
Imputation Credits carried forward	1,398,733	1,378,020
Decrease arising from tax refunded during the year	1,461,285	-
Increase arising from tax paid during the year	-	239,268
Applied to Dividends paid	(197,714)	(218,555)
BALANCE AT 30 JUNE	2,662,304	1,398,733

D. DEFERRED TAX RECONCILIATION		
Opening balance	3,806,233	3,989,812
Deferred tax expense	(228,237)	(183,579)
CLOSING BALANCE	3,577,996	3,806,233

RECONCILIATION OF DEFERRED TAX EXPENSE		
Reclassified from current tax	-	(392)
Credited to tax expense	(131,865)	(86,925)
Charged to other comprehensive income	(96,372)	(96,262)
	(228,237)	(183,579)

E. DEFERRED TAX ANALYSIS		
Holiday Pay	(5,725)	(12,266)
Impairment Provision	(194,992)	(194,992)
Provision for doubtful debt	(14,619)	-
Intangibles	(47)	(47)
Income in Advance	(356,409)	(380,009)
Runway Refurbishment	505,762	565,367
Revaluation of PPE	2,128,028	2,224,400
Asset Base and Depreciation Differences	1,515,997	1,603,780
Income Tax Losses	-	-
	3,577,995	3,806,233

4. TRADE AND OTHER RECEIVABLES

Accounts Receivable	572,916	433,565
Provision for doubtful debts	(52,428)	(81)
Prepayments	276,965	181,835
	797,453	615,320

5. EQUITY

	SHARES ON ISSUE	2018	2017
Ordinary shares	1004	13,789,155	13,789,155

All shares have equal voting rights and share equally in dividends and surpluses on winding up.

All shares are fully paid and have no par value.

On 01 December 2017 a dividend of \$684.26 cents per share was paid to the holders of ordinary shares (2017 \$559.75 cents per share).

The revaluation reserve arises on the revaluation of property, plant and equipment. When revalued property, plant and equipment is sold, the portion of the revaluation reserve that relates to that asset is transferred directly to retained earnings.

6. BORROWINGS

The company has a flexible facility up to \$2.5M, (2017: up to \$2M), and a term facility of \$14.7M (2017: \$nil) available from the ANZ Bank. At balance date the term facility was drawn down to \$4,026,792 (2017: \$nil) and the Flexible Facility was undrawn (2017: \$0).

The interest rate on the term facility was 3.52% p.a (2017: 3.38% p.a). The term facility matures on 29 January 2021.

The facilities are secured by a General Security Agreement.

7. TRADE AND OTHER PAYABLES

	2018 \$	2017 \$
General - Trade	452,900	436,289
- Capital Expenditure	836,839	538,554
Rentals in Advance	105,201	108,603
GST (Receivable)/Payable	(153,456)	71,042
Income Tax Payable	307,764	942,870
	1,549,248	2,097,358

Rentals in advance due beyond twelve months totals \$1,180,264 (2017: \$1,264,505).

8. PROPERTY, PLANT AND EQUIPMENT

	LAND & LAND IMPROVEMENTS	AIRPORT INFRASTRUCTURE & BUILDINGS	OTHER ASSETS	CAPITAL WORK IN PROGRESS	TOTAL
AT 30 JUNE 2017					
Cost	5,567,362	24,177,893	1,180,724	2,552,998	33,478,977
Acc dep	2,961	2,030,829	833,481	0	2,867,271
	5,564,401	22,147,064	347,243	2,552,998	30,611,706
OPENING NET BOOK VALUE					
Additions	0	20,760	0	5,460,908	5,481,668
Disposals	0	0	0	0	0
Depreciation	9,735	1,102,888	122,295	0	1,234,918
Transfers	0	2,632,856	136,067	(2,714,656)	54,267
CLOSING NET BOOK VALUE	5,554,666	23,697,792	361,015	5,299,250	34,912,723
AT 30 JUNE 2018					
Cost	5,567,362	26,831,509	1,316,791	5,299,250	39,014,912
Acc dep	12,696	3,133,717	955,776	0	4,102,189
	5,554,666	23,697,792	361,015	5,299,250	34,912,723

As shown in the Statement of Changes in Equity there was an additional depreciation charge of \$344,187 (2017: \$343,794) as a result of the revaluations on the Airport Infrastructure & Buildings assets.

As at 30 June 2015 the Land was valued by an independent valuer - Logan Stone Limited. The Airport Infrastructure & Buildings were valued by an independent valuer - PricewaterhouseCoopers.

The valuations were on the basis of current fair value. Logan Stone Limited determined the fair value by direct reference to recent market transactions on arms length terms for properties comparable in size and location, taking into account the highest and best use for the land, in particular the proximity of the car park land to the Airport Terminal. This is level 2 on the fair value hierarchy - see note 14.

PricewaterhouseCoopers used a discounted cashflow model as there was an absence of sale of similar properties and this is industry practice. This discounted cashflow was based on future forecast income and expenditure for each asset. This is level 3 on the fair value hierarchy - see note 14.

The key assumptions adopted in the discounted cashflow model were as follows:

- Cashflows have been CPI adjusted and discounted at a rate of 7.6% post tax.
- The terminal value for the carpark assets have been calculated using a terminal growth rate of 2%.
- The terminal value for the aeronautical assets is calculated based on the fixed asset value for those assets at the end of the discrete project period.

Additions subsequent to the revaluation are carried at cost.

9. INVESTMENT PROPERTY

	LAND & LAND IMPROVEMENTS	BUSINESS PARK & INFRASTRUCTURE & BUILDINGS	CAPITAL WORK IN PROGRESS	TOTAL
AT 30 JUNE 2017				
Cost	2,977,203	2,835,906	118,387	5,931,496
Accumulated depreciation and impairment	228,887	1,074,649	-	1,303,536
	2,748,316	1,761,257	118,387	4,627,960
OPENING NET BOOK VALUE				
Additions	2,748,316	1,761,257	118,387	4,627,960
Disposals	-	39,004	27,187	66,191
Depreciation	-	-	-	-
Transfers	-	158,834	-	158,834
Closing net book value	-	304	(304)	-
	2,748,316	1,641,731	145,270	4,535,317
AT 30 JUNE 2018				
Cost	2,977,203	2,875,214	145,270	5,997,687
Accumulated depreciation and impairment	228,887	1,233,483	-	1,462,370
	2,748,316	1,641,731	145,270	4,535,317

The company is developing a business park complex on the surplus airfield land. Stage 1 of the development was completed during the 2013 financial year.

The initial tenant of the business park has prepaid its rentals for the 21 year term of the lease. This income is being recognised over the term of the lease.

As at 30 June 2018 the company has considered whether any new indicators of impairment exist. The recoverable amount of the land has been considered separately for the developed and the undeveloped land. The recoverable amount of the developed land has been calculated by undertaking a lease capitalisation calculation on the net lease income from existing tenants. A lease capitalisation rate of 8% has been used, as this is considered to be reflective of current market rates.

The recoverable amount of the undeveloped land has been assessed by a third party valuation expert based on a value per square metre derived from knowledge of recent market transactions.

When the estimated value of the developed and undeveloped land is combined, the recoverable value is greater than the net book value per the financial statements. Therefore no impairment exists.

The Company will continue to monitor the ongoing financial performance of the business park at each reporting date to confirm whether previous impairments have reversed or further impairments should be recognised.

10. RECONCILIATION OF NET PROFIT AFTER INCOME TAX TO NET CASHFLOWS FROM OPERATING ACTIVITIES

	2018 \$	2017 \$
Operating Profit/(Loss) After Taxation	1,444,975	1,717,609
ADD/(LESS):		
Non Cash Items		
- Depreciation	1,396,041	1,302,797
- Doubtful Debts	52,212	-
- Deferred Tax	(131,865)	(86,925)
- (Profit)/Loss on Disposal on of Assets	-	-
Changes in Trade & Other Receivables	(234,346)	(25,180)
Changes in Payables & Income in Advance	(839,225)	829,906
NET CASH FLOWS FROM OPERATING ACTIVITIES	1,687,793	3,738,207

11. COMMITMENTS

OPERATING COMMITMENTS:

As at 30 June 2018 the company had 3.5 years remaining of a new five year contract with a provider of rescue fire, grounds maintenance and security services at \$760,000 per annum. This contract runs until 31 December 2021.

The company has entered into a lease agreement to lease land as part of the runway extension for a term of 35 years expiring on 30 April 2045 with ongoing rights of renewal.

	2018 \$	2017 \$
COMMITMENTS FOR MINIMUM LEASE PAYMENTS IN RELATION TO NON-CANCELABLE OPERATING LEASES ARE AS FOLLOWS:		
No longer than 1 year	34,000	33,000
1-5 years	136,000	132,000
Longer than 5 years	731,000	754,208
	901,000	919,208

COMMITMENTS FOR MINIMUM LEASE RECEIVABLES IN RELATION TO NON-CANCELABLE OPERATING LEASES ARE AS FOLLOWS:

No longer than 1 year	360,055	360,055
1-5 years	796,948	796,948
Longer than 5 years	301,135	661,190
	1,458,138	1,818,193

CAPITAL COMMITMENTS:

The Company is contractually committed to capital expenditure totally \$11,625,845 in respect of the terminal redevelopment projects. In the prior year at 30 June 2017 the Company had a contractual commitment of \$1,256,000 in respect of the new entranceway.

For further information on the new terminal expansion project refer to the Chairmans and Chief Executives Report.

12. CONTINGENCIES

There are no known contingent liabilities (2017: Nil).

13. TRANSACTIONS WITH RELATED PARTIES

Hawke's Bay Airport Limited is owned by Napier City Council, Hastings District Council and the Crown. The company enters into numerous transactions with government departments, Crown entities, State-owned enterprises and other entities controlled by the Crown and pays rates to the Napier City Council.

These transactions are not separately disclosed where they:

- Are conducted on an arm's length basis;
- Result from the normal dealings of the parties; and
- Meet the definition of related party transactions only because of the relationship between the parties being subject to common control or significant influence by the Crown

Amounts paid to key management personnel (Chief Executive, Chief Financial Officer, and the Directors) during the year were \$451,218 (2017: \$293,500).

14. FINANCIAL INSTRUMENTS

The Company is party to financial instruments as part of its normal day to day operations.

The main financial instruments are:

- Cash and cash equivalents
- Trade and other receivables
- Trade and other payables
- Borrowings

The Company has no off balance sheet financial instruments.

FAIR VALUE OF FINANCIAL INSTRUMENTS

For loans and receivables, held to maturity investments, available for sale and financial liabilities carrying amounts are a reasonable approximation of fair value.

The fair value estimates were determined by the following methodologies and assumptions.

CASH AND CASH EQUIVALENTS: The reported amounts approximate fair value.

TRADE AND OTHER RECEIVABLES: The reported amount approximates fair value because they are assessed for impairment and all amounts are receivable within three months of balance date.

TRADE AND OTHER PAYABLES: The reported amount approximates fair value because they are payable in the short term

BORROWINGS: The reported amounts approximate fair value because they are at market interest rates.

FAIR VALUE ESTIMATION

Assets and liabilities are recorded at fair value are valued according to the fair value hierarchy as follows:

LEVEL 1

Quoted prices (unadjusted) in active markets for identical assets or liabilities

LEVEL 2

Inputs rather than quoted prices included in level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices.)

LEVEL 3

Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

15. EVENTS SUBSEQUENT TO BALANCE DATE

Subsequent to balance date the Company received approval for a major transaction from all its shareholders enabling a further an increase to the terminal expansion of \$4.5M.

INDEPENDENT AUDITOR'S REPORT

TO THE READERS OF HAWKE'S BAY AIRPORT LIMITED'S FINANCIAL STATEMENTS AND PERFORMANCE INFORMATION FOR THE YEAR ENDED 30 JUNE 2018

The Auditor-General is the auditor of Hawkes Bay Airport Limited (the company). The Auditor-General has appointed me, Stuart Signal, using the staff and resources of Staples Rodway Audit Limited, to carry out the audit of the financial statements and the performance information of the company on his behalf.

OPINION

We have audited:

- the financial statements of the company on pages 31 to 43, that comprise the statement of financial position as at 30 June 2018, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information; and
- the performance information of the company on page 30.

In our opinion:

- the financial statements of the company on pages 31 to 43:
 - present fairly, in all material respects:
 - its financial position as at 30 June 2018; and
 - its financial performance and cash flows for the year then ended; and
 - comply with generally accepted accounting practice in New Zealand in accordance with New Zealand equivalents to International Financial Reporting Standards Reduced Disclosure Regime; and
- the performance information of the company on page 30 presents fairly, in all material respects, the company's actual performance compared against the performance targets and other measures by which performance was judged in relation to the company's objectives, for the year ended 30 June 2018.

Our audit was completed on 28 August 2018. This is the date at which our opinion is expressed.

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

BASIS FOR OUR OPINION

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the Professional and Ethical Standards and the International Standards

on Auditing (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board. Our responsibilities under those standards are further described in the Responsibilities of the auditor section of our report.

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

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

RESPONSIBILITIES OF THE BOARD OF DIRECTORS FOR THE FINANCIAL STATEMENTS AND THE PERFORMANCE INFORMATION

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

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

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

The Board of Directors' responsibilities arise from the Local Government Act 2002.

RESPONSIBILITIES OF THE AUDITOR FOR THE AUDIT OF THE FINANCIAL STATEMENTS AND THE PERFORMANCE INFORMATION

Our objectives are to obtain reasonable assurance about whether the financial statements and the performance information, 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 carried out in accordance with the Auditor-General's Auditing Standards will always detect a material misstatement when it exists. Misstatements are differences or omissions of amounts or disclosures,

and can arise from fraud or error. Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of readers taken on the basis of these financial statements and the performance information.

For the performance information, our procedures were limited to checking that the information agreed to the company's statement of intent.

We did not evaluate the security and controls over the electronic publication of the financial statements and the performance information.

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. Also:

- We identify and assess the risks of material misstatement of the financial statements and the performance information, 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 the internal control.
- We obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- We evaluate the appropriateness of the reported performance information within the company's framework for reporting performance.
- We conclude on the appropriateness of the use of the going concern basis of accounting by the Board of Directors and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company'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 and the performance information 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 company to cease to continue as a going concern.

- We evaluate the overall presentation, structure and content of the financial statements and the performance information, including the disclosures, and whether the financial statements and the performance information represent the underlying transactions and events in a manner that achieves fair presentation.

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

Our responsibilities arise from the Public Audit Act 2001.

OTHER INFORMATION

The Board of Directors is responsible for the other information. The other information comprises the information included on pages 2 to 29, but does not include the financial statements and performance information, and our auditor's report thereon.

Our opinion on the financial statements and the performance information 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 and the performance information, our responsibility is to read the other information. In doing so, we consider whether the other information is materially inconsistent with the financial statements and the performance information or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on our work, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

INDEPENDENCE

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

Other than the audit, we have no relationship with, or interests in, the company.



STUART SIGNAL
 STAPLES RODWAY AUDIT LIMITED
 ON BEHALF OF THE AUDITOR-GENERAL
 HASTINGS, NEW ZEALAND



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