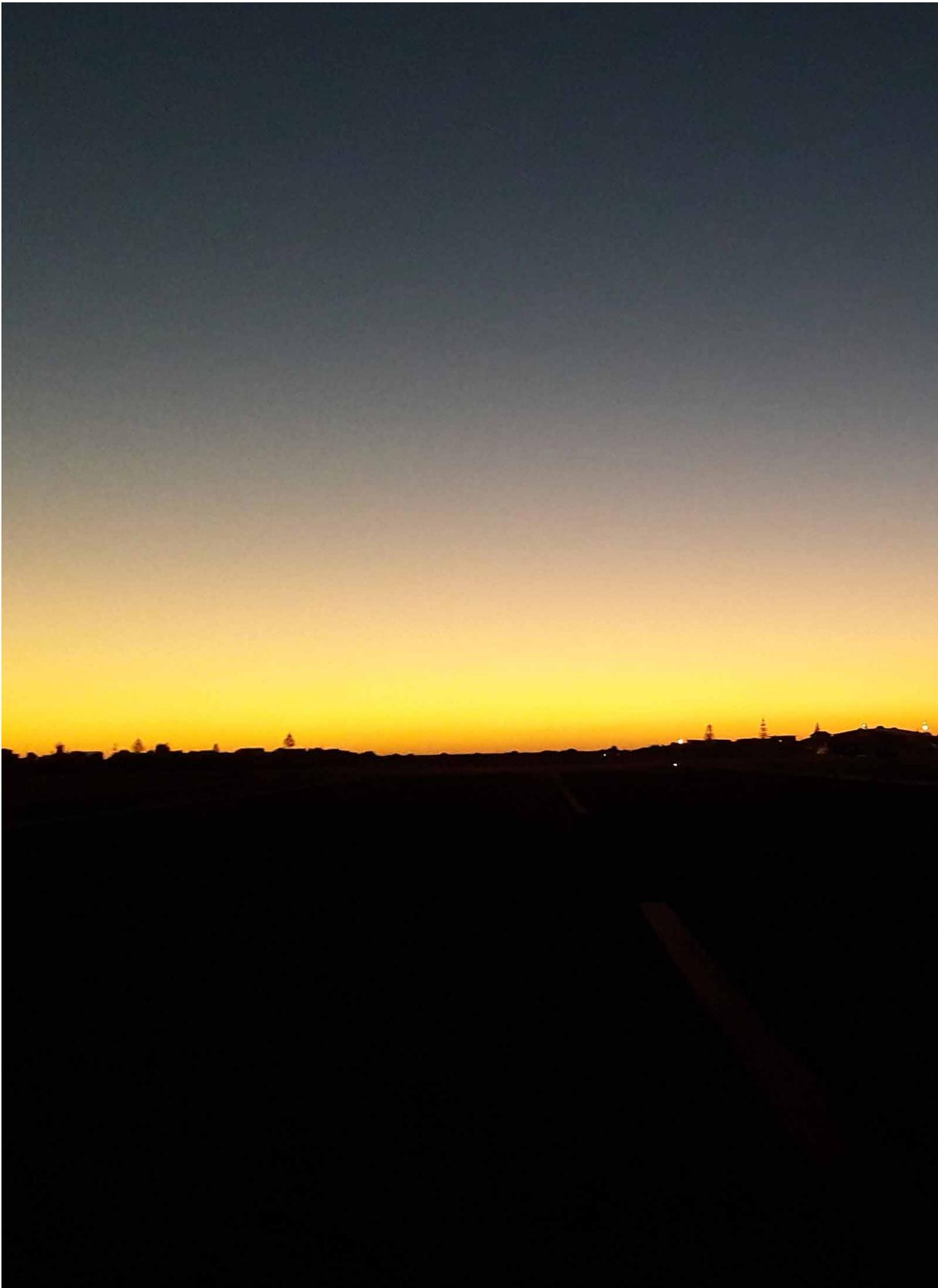


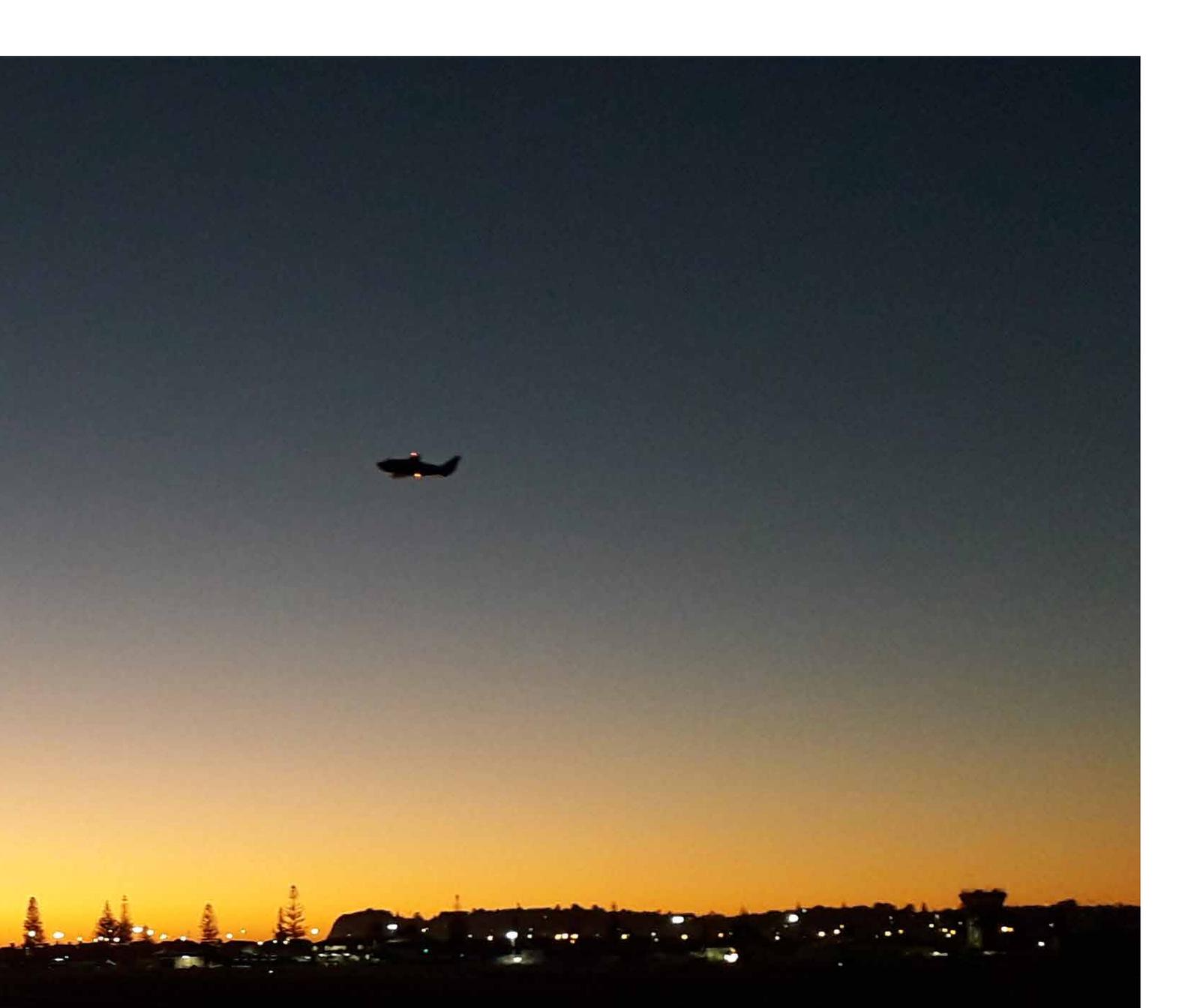


HAWKE'S BAY AIRPORT

STATEMENT
OF INTENT
2019

HAWKE'S BAY AIRPORT LIMITED





INTRODUCTION

This Statement of Intent (“SOI”) is prepared by the Board of Directors of Hawkes Bay Airport Ltd (“HBAL”) in accordance with Section 64 (1) of the Local Government Act 2002.

This SOI sets out for HBAL the objectives, the nature and scope of the activities to be undertaken and the performance targets and other measures by which the performance of the company may be judged in relation to its objectives.

HBAL’s achievements against the objectives outlined in last year’s Statement of Intent are referred to in this year’s Annual Report.

The SOI is a public and legally required document, reviewed and agreed annually with shareholders and covers a three-year period. This SOI covers the period from 1 July 2020 to 30 June 2022.

ABOUT US

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 management are continually working on short and long-term strategic plans for the development of the region's air gateway. The airport serves the General Aviation and Regular Passenger Transportation sectors as well as enabling airfreight connectivity to and from the region – there is an aspiration to develop a successful Air-freight hub.

OWNERSHIP & 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 who 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.



THERE IS AN
ASPIRATION TO
DEVELOP A
SUCCESSFUL
AIR-FREIGHT HUB



VALUE

Importance to local economy

Hawke's Bay is a relatively specialised regional economy with a small, but stable population.

The region is New Zealand's largest producer of apples, pears, stone fruit and squash. Hawke's Bay farms produce premium beef and lamb, which is exported to markets around the world and is the oldest and second largest wine-growing region.

Hawke's Bay is a beautiful part of Aotearoa New Zealand, with amazing landscapes and natural resources creating a unique environment. This plays a big part in attracting innovative people and business to the Hawke's Bay region.

Airports around the world have been shown to play an increasingly important role in the economic life of regions and nations with far reaching economic effects. Their impact is felt beyond the direct supply chains of airports themselves. In fact, airports provide connections. At the core, these connections are about mobility – moving people and freight/cargo between points thereby enabling businesses and entrepreneurs to connect, share ideas, link production processes, generate wealth and lift the standard of living.

The total value of economic activity taking place in the Hawkes Bay Airport environs is put at \$37.5m (gross output). At a combined level (summing all passenger movements and associated effects) the connections enabled by the airport have an initial effect of some \$214.5m¹. The primary contributors are business connections (\$97.1m) and tourism spending (\$71.8m).

Hawkes Bay Airport is a key contributor to the Economic Growth of the Region and supports the Matariki REDS vision of making Hawke's Bay New Zealand's most innovative region, the leading exporter of premium primary produce, and a hub for business growth.

The Matariki – Hawke's Bay Regional Economic Development Strategy (REDS) and Action Plan 2016 applies to the geographical areas of Central Hawke's Bay District, Hastings District, Napier City, Wairoa District and small parts of Rangitikei District and Taupo District. The boundary coincides with the Hawke's Bay Regional Council.

¹ ME Consulting, October 2017

SITUATIONAL OVERVIEW

Hawke's Bay Airport is situated approximately 10 minutes from Napier City's Central Business District and 20 minutes from Hastings.

The airport is serviced by various airlines generating some 700K passenger movements in the 2017/18 year. This is over three times the number of passengers serviced fifteen years ago when 230,000 passengers moved through the airport.

It is estimated that 87% of movements are to other New Zealand cities and of this 70% are direct (61% of all movements). This means that the remaining 30% (26% of the total) relates to passengers connecting via other airports (e.g. a movement with two flights). Thirteen per-cent of movements relate to international passengers – inbound and outbound.

The commencement of Jetstar in 2015 was a significant catalyst for growth and competitive counter responses. Over the last three years to End FY17/18 passenger numbers have grown by 47%.

During FY18/19 annualised passenger numbers are expected to cross 750,000 passenger movements. Load Factors are >80% for RPT movements with average 8% growth over the last two years.

Tourism New Zealand has scaled back its visitor growth expectations for this year to 2.5%, this is almost half of the Ministry of Business, Innovation and Employment's forecast of around 4.6%.

The predicted growth slowdown comes on the back of what Tourism New Zealand is seeing domestically, plus increasing global economic headwinds and a slowdown which is predicted to take grip of the tourism sector internationally.

The passenger growth assumptions adopted for the FY2020 – 2022 period of this SOI have been informed in consultation with industry forecasting experts. A slowing of growth to 4.0% is anticipated in FY2020 with growth restrained by fleet capacity and an assortment of external factors. A slight rebound to 4.5% is assumed in FY2021, on the back of anticipated new investment in the national fleet, before stabilising back to 4.0% in FY2022.

The forecast assumes some growth from smaller regional airlines, this is an area that HBAL will be actively working on as part of its route development strategy. The objective being to diversify revenue, fortify passenger growth and improve regional connectivity.

TERMINAL REDEVELOPMENT

The terminal was last refurbished in 2003. The current terminal footprint was based on accommodating 500,000 passenger movements per annum, not the 730,000 it currently facilitates.

As a result, HBAL Board and Management completed a major review of investment of the terminal infrastructure which was approved via a Major Shareholder Transaction resolution during July 2018 taking the total committed terminal expansion expenditure to \$22.4m and increasing the terminal footprint by a total of 75%. The Terminal Construction is well underway with Stage 1 completed in January 2019 and Stage 2 due to complete in early September 2019. Stage 3 which will see the full terminal completed by August 2020. The upgraded terminal will cater for annual passenger of between 1-1.1 mppa.

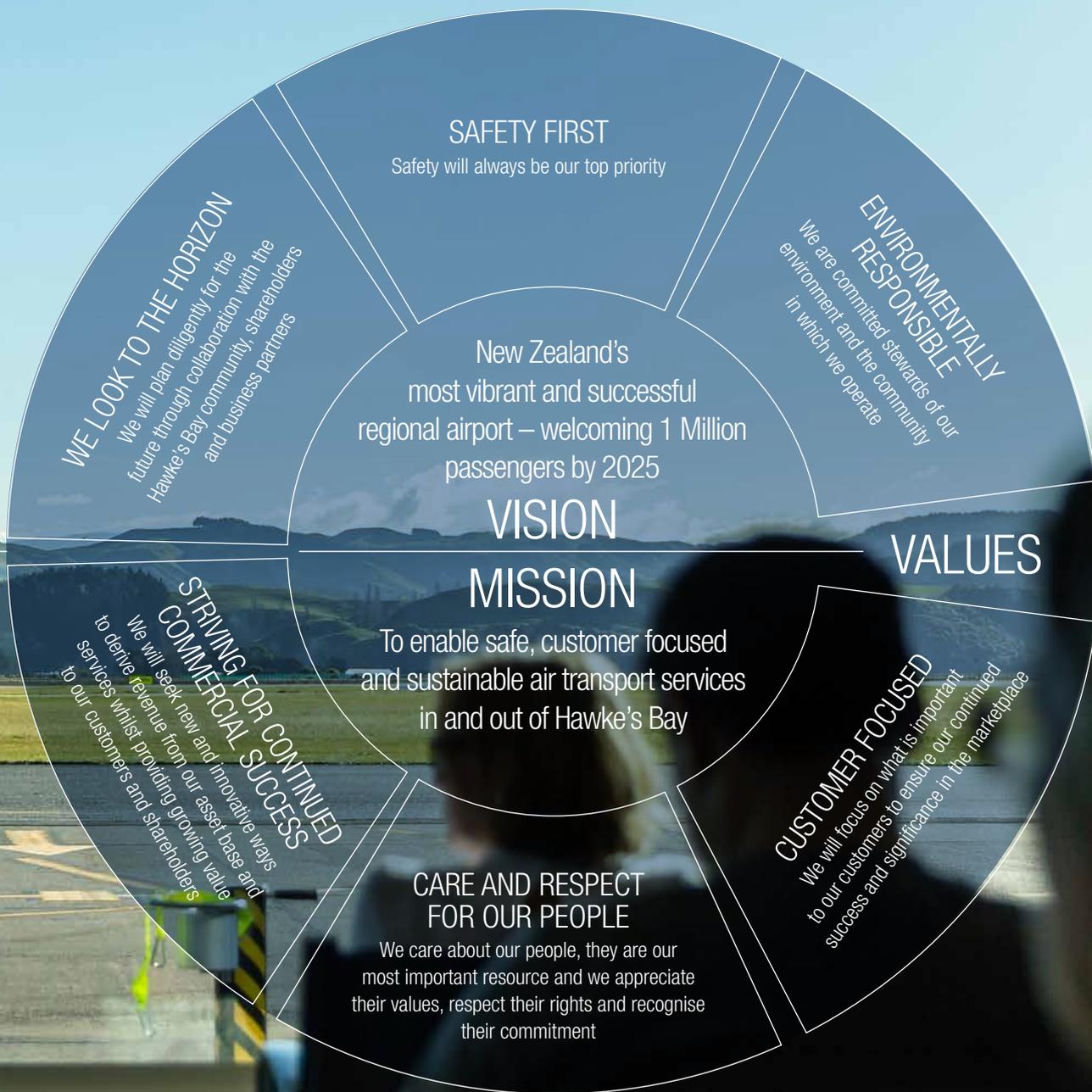
The next significant infrastructure development is the expansion of apron aircraft parking stands commencing FY20/21.





VISION, MISSION & VALUES





LOOKING AHEAD

During mid 2018 the HBAL Board approved a reviewed strategic plan for Hawkes Bay Airport identifying the key strategic areas to maintain focus on delivering its vision.

STRATEGIC PLAN 2019 - 2024



Hawkes Bay Airport is a critical Transport Hub, essential to enabling and connecting businesses, tourists, residents, freight, medical services and general aviation both domestically and internationally. The organisation acknowledges sustainability as part of its DNA hence work has commenced on developing a Sustainability Framework (Fig 1).

The existing Business Park strategy is being reconsidered as part of a revised broader Property Strategy to optimise the land use of the 183Ha site for the appropriate mix of development refocusing the property strategy from Business Park Centric to Commercial Precinct.

HBAL management have identified advancements in Air Freight Capability as an area of significant opportunity for the region and have embarked on a feasibility study to better understand the economics, logistical and operational requirements.

Work has commenced on a 20-year Master Plan to determine the most appropriate Resource Management Act ("RMA") planning framework to shape the long-term strategic direction for HBAL. Key workstreams include noise boundaries, aeronautical and non-aeronautical land use, terminal, runways and taxiway capacity. This work is being aligned with the Napier City Council District Plan review which is underway.

Forecast work is currently underway to identify the key growth assumptions necessary to underpin the Masterplan Review.

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 safeguarding 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. A great place to do business.



PEOPLE

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

SUSTAINABILITY FRAMEWORK

Hawkes Bay Airport Ltd (HBAL) is located in the unique, beautiful and culturally significant Ahuriri estuary ecosystem. We consider it our responsibility and privilege to be one of the many kaitiaki of this very special place and we take our stewardship role seriously.

HBAL are committed stewards of the environment and the community in which we operate. We take responsibility for the environmental impacts of our activities and minimise

the use of natural resources, while working towards a goal of carbon neutrality.

The HBAL Board of Directors have committed to a Sustainability Framework which is underpinned by the four key pillars below. The sustainability framework is ultimately the foundation to our medium to long term strategic imperatives and airport masterplan.

FIGURE 1 - SUSTAINABILITY FRAMEWORK

	GOAL	OUTCOME
FINANCIAL RETURN 	Stimulate economic growth via intelligent solutions with attractive payback periods to deliver lifecycle savings & revenue	<ul style="list-style-type: none"> • Support local & regional businesses • Facilitate local procurement opportunities • Attract inward investment • Expand global business networks • Enhance retail product
ENVIRONMENTAL EXCELLENCE 	Focus on innovation, new technology & asset utilisation to deliver exceptional environmental outcomes	<ul style="list-style-type: none"> • Carbon neutrality • Reduce noise annoyance • Improve air quality • Optimise natural resource use • Pollution prevention & control • Wildlife control • Future-proofing
SOCIAL OPPORTUNITY 	Invest in & positively contribute to sustainable and healthy communities whilst being a good neighbour	<ul style="list-style-type: none"> • Local job creation & skills training • Support local charities & communities initiatives • Staff engagement • Diversity & inclusion • Effective noise management
OPERATIONAL EFFICIENCY 	Optimise the airfield layout & core processing nodes to enhance punctuality, operational flexibility & resilience	<ul style="list-style-type: none"> • Terminal capacity • Simple spatial & functional layouts • Efficient operational procedures • Intuitive way-finding • Safety & security • Passenger & staff well-being



KEY OBJECTIVES

BUSINESS PLAN FY 2019/20

STRATEGIC IMPERATIVE	ACTIVITY AND OUTCOME	MEASURE	TARGET DATE
Optimise shareholder value and returns	Achieve Financial and Operational Targets as per SOI	SOI	30/06/2020
SUSTAINABILITY	I. Implement Sustainability Framework	Develop & Implement	30/06/2020
	II. Establish Energy & Carbon Baseline	Policy & Framework	31/03/2020
	III. Develop a Three Water Policy	Develop and Implement	31/03/2020
OPERATIONS	I. Enhance understanding of our travellers and key customer	Bi-Annual ASQ	End FY 19/20
	II. Implement our Safety Management System	CAA certified SMS	30/11/2019
	III. Complete Stage 2 of the Terminal Expansion Project	Stage Completion	31/10/2019
	IV. Develop our digital strategy incorporating improved business efficiency, passenger journey enhancement and advertising solutions	Digital Roadmap in place	30/06/2020
	V. Design and development of apron capacity plan to guarantee level of service to airline operators and enable future airside business development	Apron Expansion Construction Plan in place	End FY19/20
	VI. Bi-annual Strategic Risk Review	Review implemented	31/12/19 recurring
	VII. Wildlife Management Plan	Operational Improvement/Reduction in Bird Strike/10000 movements	31/12/19 recurring
COMMERCIAL	I. Implement Car Park System Enhancement	Project Complete	31/08/2019
	II. Review Aeronautical Revenue & route development strategy	Revised CoU & Review GA Landing Charges	31/12/2019
	III. Develop terminal retail in line with the revised Terminal Expansion to provide a balanced shopping environment for consumers, with a mix of local owner-operators and corporate-owned stores	New Concessions Agreements Place	31/10/2019
	IV. Complete Airfreight Feasibility Study	Feasibility Study Complete	30/09/2019

STRATEGIC IMPERATIVE	ACTIVITY AND OUTCOME	MEASURE	TARGET DATE
Optimise shareholder value and returns	Achieve Financial and Operational Targets as per SOI	SOI	30/06/2020
PROPERTY	I. Finalise the 20 Year Masterplan incorporating forecasts/noise/land use	Completed Masterplan	31/10/2019
	II. Stimulate Property development opportunities to leverage land bank returns	Marketing Plan in place	31/12/2019
	III. Property Development underway for new tenancies	>2 new property developments complete	31/03/2020
PARTNERS	I. Proactively engage with the HB community, local and central government and other key stakeholders.	Supportive environment for wider airport	31/07/19 recurring
	II. Undertake stakeholder and public consultation as part of masterplan development.	Community to work as one team	31/08/2019
	III. Continued collaboration with Mana Whenua on terminal development sense of place/masterplan	Regular Meetings	31/07/2019 recurring
	IV. Partnership with key business, airline & community groups	>4 Formalised Partnerships	30/06/2020 recurring
PEOPLE	To create a HBAL Airport team culture where the focus is external, on our customers and our key stakeholders, where excellent service is the norm and our business enjoys a strong reputation for delivering a high standard of services, facilities and initiatives.		
	I. Review economies of scale and insourcing versus outsourcing of key operational resources	Capability Review Completed	End FY 19/20
	II. Invest in Teams Development & Training	Organisational Strategy developed for 2019 - 2024	31/12/2019
	III. Develop Team Capability	Resources/Expense in line with Financial Forecast	End FY 19/20

KEY PROJECTS:

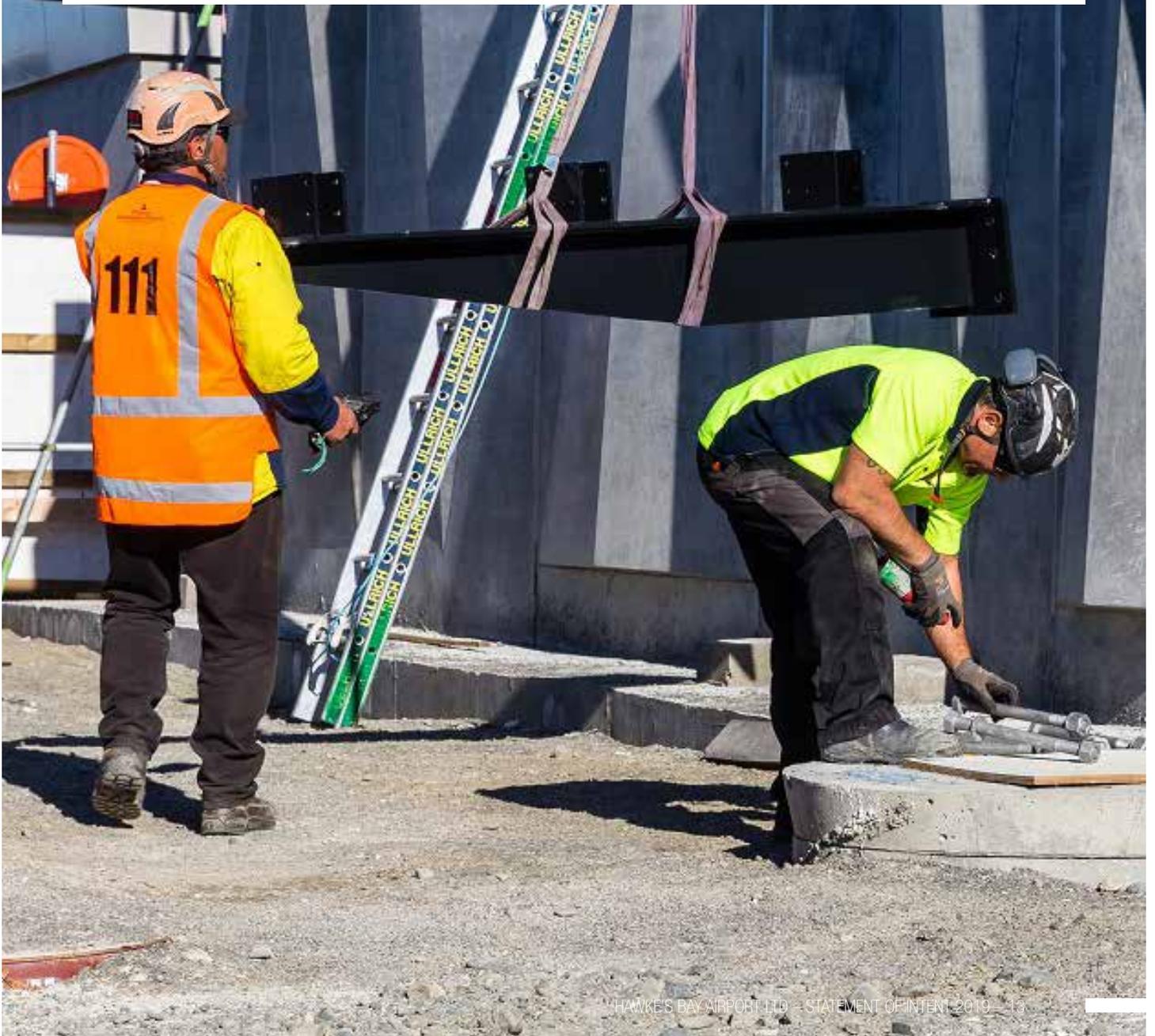
BUSINESS PLAN FY 2020-22

	Target PAX	Airport Masterplan	Property & Retail Development	Car Parking Improvement Project	Air Freight Development	Whole of Business Safety Culture	Terminal & Apron Expansion	Sustainability Framework
FY19/20	750K	Aeronautical Technical Studies Complete		New Car Park System Installed	Air Freight Feasibility Complete		Stage 2 Departures Complete	Sustainability Framework Complete
	Q1							
	Q2	Preliminary Consultation	Property Marketing Strategy	Internal Road Enhancements Complete	Infrastructure/ Business case Review	Safety Management System Certified		
	Q3	Draft Masterplan & Consultation					New Retail Concessions Awarded	Three Waters Policy Developed
Q4	Finalised Masterplan/RMA Review		Review park Commercial Model/Tariff Structure		Safety Campaign/ Branding Rollout			
FY20/21							Terminal Forecourt Works Complete	Environment Management System
	Q1							
	Q2		New Terminal Retail Complete					
	Q3	Lodge Notice of Requirement District Plan		Premium Car Parking Complete	Major Infrastructure Project		Stage 3 Terminal Expansion Complete	
Q4	Proposed District Plan							
FY21/22	805K			Car Park Infrastructure Expansion (Capacity Trigger)			Apron Expansion Complete	Carbon Accreditation
	Q1							
	Q2	District Plan Hearings						
	Q3							
Q4	850K							

FINANCIAL FORECASTS

The performance targets include continued growth in passenger numbers and increases in landing charges, rental and concession income.

Ongoing capital expenditure relating to the terminal development and associated improvements continues to impact interest and depreciation expenses. Forecast operating surpluses from the enhanced revenue streams as the terminal development is completed provides for improvement in the return on equity and net gearing ratios.



	STATEMENT OF INTENT		
	FY2020	FY2021	FY2022
Passenger Numbers	772,358 4.0%	807,114 4.5%	839,399 4.0%
FINANCIAL PERFORMANCE (\$)			
Airside Revenue	4,386,229	4,580,432	5,215,149
Landside Revenue (Note 1)	3,523,641	4,193,679	4,352,381
Business Park Revenue	423,266	432,356	443,212
Group Revenue	8,333,136	9,206,467	10,010,741
Operating Expenses	3,874,048	3,980,527	3,764,150
EBITDA	4,459,088	5,225,941	6,246,591
Depreciation & Amortisation	1,486,001	1,844,950	2,116,142
EBIT	2,973,087	3,380,991	4,130,450
Interest Income	0	0	0
Interest Paid (Interest charged to P & L)	370,216	624,373	598,355
Profit Before Tax	2,602,871	2,756,617	3,532,095
Tax	728,804	771,853	988,987
PROFIT AFTER TAX	1,874,067	1,984,764	2,543,108
FINANCIAL POSITION			
Net Debt	19,145,590	18,218,545	17,418,446
Total Assets	57,428,494	57,785,351	58,945,090
Shareholder Funds	32,579,571	33,814,709	35,563,911
Ratio of Shareholder Funds to Total Assets	57%	59%	60%
CASHFLOW SUMMARY			
Operating Cashflow	2,976,010	4,028,872	5,044,005
Investing Cashflow	8,099,536	2,352,200	3,450,000
Dividend	749,627	793,906	1,017,243
FINANCIAL METRICS			
Return on Equity	5.8%	5.9%	7.2%
Net Gearing Ratio	37%	35%	32%
Equity	57%	59%	60%
Leverage Ratio	4.26	3.42	2.69

CAPITAL EXPENDITURE

HBAL continues to invest in its infrastructure in line with passenger growth, Civil Aviation security requirements and identified opportunities to grow its non-aeronautical revenue base such as its Business Park.

Budgeted capital expenditure is summarised in the table below. From time to time, HBAL may consider additional capital expenditure programmes if supported by a robust business case and the provision of debt funding.

	FY2020	FY2021	FY2022
	\$	\$	\$
Terminal (incl WIP movement)	5,382,936	-	-
Roading Development	604,400	300,000	250,000
Car Parking	130,000	-	500,000
Business Park	-	-	-
Airfield Infrastructure	720,200	1,220,200	710,000
Buildings	662,000	12,000	-
Aviation Security and Fencing	-	805,000	1,000,000
Land Development/Property	340,000	-	475,000
Office Equipment	5,000	5,000	5,000
Plant and Equipment	210,000	10,000	510,000
Vehicles	45,000	-	-
	8,099,536	2,352,200	3,450,000

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.

DISTRIBUTIONS

The company will endeavour to deliver an annual dividend to shareholders as per the Company's policy of 40% of the operating surplus after taxation, however the company would highlight that the recent voluntary administration of the head contractor on the HBAL terminal expansion project, Arrow International Ltd, increases risk to the business and may necessitate a request for dividend relief. It is the company's intention to keep shareholders fully informed in this regard.

In arriving at any dividend recommendation, the Directors will consider:

- the scale of the company's capital expenditure programme and therefore demands on capital for the period covered by this statement;
- The company's financial performance and the cash flows generated from operations, including impact of the terminal development project;
- The ratio of the company's shareholder funds to the assets;
- The company's ability to raise debt finance and the terms thereof;
- The risks associated with the uncertainty of airline schedules in the short and medium term;

Any final dividend declared will be paid no later than 31 December.

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.

ACQUISITION PROCEDURES

The acquisition of any interest in a company or organisation will 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.

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.

ESTIMATE OF COMMERCIAL VALUE

The value of Shareholders investment in the company as at 31 December 2018 is \$30,581,747.

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 2018 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 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. The completion of the terminal development in 2020 is seen as a significant milestone which will initiate a further revaluation of assets.



Tony M Porter
Chairman
Hawke's Bay Airport limited

28th June, 2019



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