



STATEMENT OF INTENT

2018/2019

INTRODUCTION

This Statement of Intent is presented by the Directors of Nelson Airport Ltd in accordance with section 64 of the Local Government Act 2002.

This Statement of Intent is for the 2018/19 Financial Year to 30 June 2019, and for the two following financial years.

The purpose of this document is to publically state the objectives, activities and intentions of Nelson Airport Ltd (the Company). The Company acknowledges the Letter of Expectation from Shareholders of 5 December 2017.

A full copy of this Statement of Intent will be available via the Nelson Airport website (www.nelsonairport.co.nz).

Nelson Airport Ltd is a Council Controlled Trading Organisation under section 6 of the Local Government Act 2002.

VISION & MISSION

The Company's Vision is:

To be the best Regional Airport in New Zealand.

The Company's Mission is:

To connect Nelson Tasman to the world and contribute to the economic prosperity of the region

PLANNING FRAMEWORK

For the financial period 2019 to 2021, the Statement of Intent concentrates on the following:

- Growing airline capacity and passenger demand remains a priority as does engaging pro-actively and positively with key stakeholders and the community;
- Delivering the new terminal redevelopment project;
- Delivering ground transport infrastructure, aircraft apron upgrades and new commercial opportunities that arise from these developments;
- Establishing a recovery management plan to better manage natural or unforeseen disruptive events;
- Establishing a sustainability policy;
- Completing a Civil Aviation Authority approved Safety Management System.

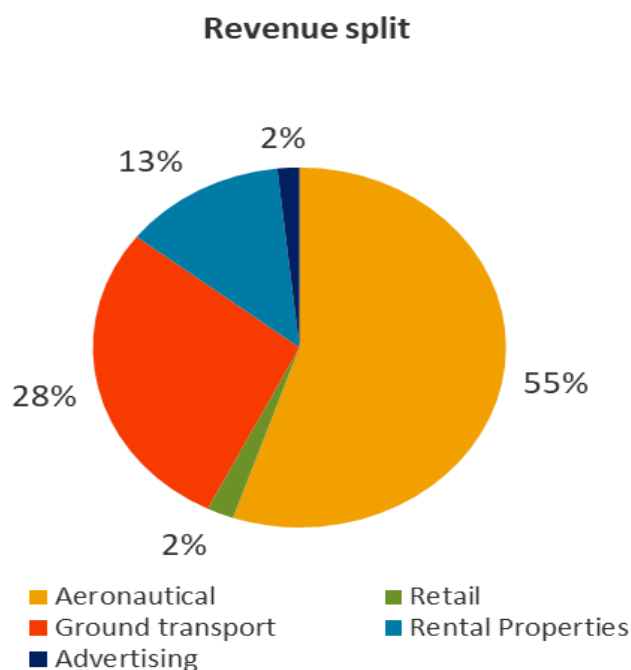
NATURE & SCOPE OF ACTIVITIES

Nelson Airport Limited was incorporated in 1996 and purchased the assets and undertakings of the Nelson Regional Airport Authority in March 1999.

The Company owns and operates Nelson Airport as a regional airport for turbo-prop aircraft, helicopters and general aviation. In addition, a cluster of industries servicing these aircraft are based on airport. A major contributor to the importance of Nelson Airport and the Nelson Tasman Region is the Air New Zealand Regional Maintenance business which holds significant real estate interests and employs over 200 skilled staff. Nelson Airport has restricted international status which allows the reception and processing of smaller international flights including foreign registered turbo prop aircraft that visit Nelson for engineering and maintenance services as well as private and non-scheduled aircraft.

In addition to managing airfield operations the Company manages all aspects of the airport including all land, pavements, roading, building and land leases, ground transport operations such as parking, terminal operations and various commercial concessions servicing customers on the airport precinct.

The revenue streams earned by the Company reflect the scope of airport activities. The diagram below illustrates a summarised view of the current revenue split, based on the 2017/18 full year forecast.



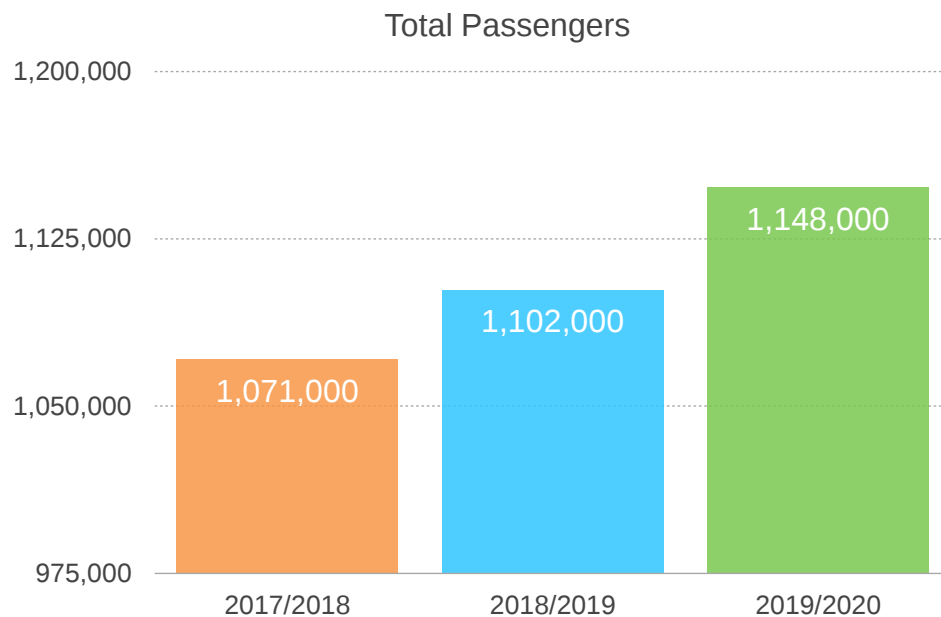
The continuing growth in airline capacity along with the recognition of the value of all of the aeronautical assets has supported the actual and forecast growth in aeronautical revenues. Construction of the new terminal is well underway and this provides additional opportunities for the business to maximise non-aeronautical revenues as activity levels through the airport continue to grow.

In addition to passenger related income the Company generates revenue from the property it controls. The Company may grant sub leases of the land, buildings or installations vested in

the Company for any purpose that contributes to the safe and efficient operation of the airport.

The graph below shows the growth in passenger numbers and the current forecast growth.

The passenger forecast has been built using a schedule-based forecasting methodology. This uses the airline's planned schedules, along with historical and estimated load factors applied to enable accurate seasonality profiling.



HEALTH, SAFETY AND RISK MANAGEMENT

Nelson Airport has established and maintains an effective governance framework in accordance with relevant legislation to ensure a thorough Health and Safety Management System and an effective oversight process is in place across the Nelson Airport scope of operating activities. The Directors are committed to Health and Safety through effective governance and ensure that Nelson Airport works with all people and organisations connected with Nelson Airport to ensure we have the appropriate people, systems and equipment to achieve our vision.

The Company needs to have the ability to identify and address key risk areas and the agility to quickly close any gaps through:

- Identifying and understanding the risks that matter;
- Investing in managing risks that are mission critical to the Company;
- Effectively and continually assessing risks across the whole Company and driving accountability and ownership;
- Demonstrating the effectiveness of risk management to workers, customers, management and regulators.

Ongoing review and reporting of risks is carried out as follows:

- Key risks are reviewed by management on a regular basis;
- Following management review the key risks are presented to the Board for review;
- A senior management team member sponsors each identified key risk;
- Risk owners lead reviews of the risk ratings with as much objectivity as possible and facilitate a discussion in order to determine how best to manage these risks as low as reasonably practicable;
- Enhanced staff awareness of health and safety, combined with robust recording and reporting processes, ensure that any new risks are identified, analysed and managed as they arise.

The Company is currently finalising a comprehensive new structured Safety Management System in accordance with Civil Aviation Authority rules. The new Safety Management System will coordinate all health, safety and risk management activities and reporting throughout the Company and the wider airport precinct where the Company has health and safety responsibilities. The Company will deliver a draft of the Safety Management System to the Civil Aviation Authority by July 2018 for their review and approval.

NELSON RESOURCE MANAGEMENT PLAN

Nelson Airport has engaged a locally based planning consultancy, to review and update our Environment Management Plan (EMP) and has had input from expert consultants on the noise designation in particular. This work would overlap with Council's preparation of the new Nelson Plan. This work would serve to support a Section 32 assessment for the forthcoming Plan Change process. Likewise, the EMP should contain a refreshed format for noise management in line with current reviews already underway.

Nelson Airport, along with Air New Zealand, are committed to managing and monitoring procedures to comply with the Nelson Resource Management Plan. These include the following key aspects:

- Ensure compliance with requirements outlined in the Nelson Resource Management Plan;
- Minimise community exposure to aircraft noise associated with engine testing;
- Minimise risk to other parties;

RECOVERY MANAGEMENT

With a number of significant natural disasters in recent years, NAL has reviewed its emergency planning procedures. As a result of these reviews we have made improvements to our emergency and recovery planning. These have included purchasing multi channelled hand-held radios, branded all-weather protection clothing for all staff and a review of roles for staff during emergencies. In addition, NAL has plans for a backup generator, as well as the establishment of an emergency operations centre. NAL also has a dynamic risk register incorporating all known risks to the business including all mitigation measures.

TERMINAL REDEVELOPMENT

The construction of the new terminal and landside developments is now well advanced with 70% of the ground transport infrastructure completed and Stage A of the terminal opening in October 2018. Jetstar and Air New Zealand will operate from Stage A while the demolition and remaining check in, lounges and office areas of the terminal construction are completed in Stage B. Sounds Air, Air2There, Golden Bay Air and Originair will operate from Airport House during Stage B construction.

Construction of the new Airways Control Tower is well advanced with internal fit out and commissioning underway for opening in August 2018.

The terminal redevelopment along with our recent history of increasing aircraft traffic has a significant impact on the apron and a comprehensive apron redevelopment study has been completed. Tenders are current being evaluated and improvements will be delivered alongside the terminal and landside construction projects over the next 12-18 months.

Governance and overview of these major projects is given close scrutiny by the Project Control Group, comprising senior executives, representatives of our architectural design, costing and project management plus Board representation. This group in turn reports in writing and by attendance at monthly Board meetings on progress and issues in addition to seeking necessary authorisations.

SUSTAINABILITY

The company has ensured sustainability was a key consideration throughout the new terminal design and build phases incorporating such features as a timber structure constructed from sustainable local forests and a passive heating/cooling regime incorporating innovative solar chimneys and automatic, natural ventilation of public areas.

Staff have been challenged to ensure sustainability is at the forefront of daily business decisions but more importantly the current revision of the Strategic Plan recognises sustainability as a *strategic imperative* for the first time and outlines the vision to:

Have a policy that reflects our commitment to sustainable practices in everything we do.

Management have committed to the development of a comprehensive sustainability policy by the end of 2018/19. The Policy will shape the company's ongoing commitment to sustainability and provide a framework within which to develop specific sustainability initiatives. The sustainability policy will address airport stakeholders, measurement metrics and ongoing reporting of sustainability performance.

AVIATION SECURITY

Nelson Airport is a non-security designated aerodrome under Civil Aviation Rule Part 139. The airport is audited annually by the Civil Aviation Authority and this audit focusses on our compliance against this rule.

The new terminal has provision for accommodating passenger and baggage security screening infrastructure should that be required in the future by the CAA.

The Company continues to enhance the Closed-Circuit Television (CCTV) network, running a network of both indoor and outdoor coverage.

STRATEGIES, OBJECTIVES & KEY PERFORMANCE INDICATORS

The Company has developed six strategic areas to improve business performance and encourage growth. These strategies are underpinned by series of activities and key performance indicators.

1. Infrastructure

Objective	Activity	FY19 KPI's
Timely investment in high quality and efficient infrastructure that supports airlines and key stakeholders	Complete Stage A of new terminal and complete ground transport infrastructure	Stage A construction activities completed
	Complete new apron layout designs	Apron works progressed
	Stage B construction well advanced	Stage B proposed completion late 2019

2. People

Objective	Activity	FY19 KPI's
Putting people at the heart of our business	Continuous improvement in staff engagement, support and well-being programmes	Staff are engaged, and talent is attracted for growth roles
	Develop a public relations strategy to ensure that all marketing, branding, and communications activities are aligned with the strategic objectives.	Community feels informed and engaged
	Continuous improvement health, safety and risk management leadership and reporting.	No LTI's

3. Sustainability

Objective	Activity	FY19 KPI's
Having a policy that reflects our commitment to sustainable practices in everything we do.	Research best practice airport sustainability programmes	Board approved Sustainability Policy
	Ensure new infrastructure design supports growth of new technologies to contribute to greater sustainability	Sustainable features of the new terminal well promoted and understood
	Engage all airport stakeholders, and align sustainable policies	Stakeholders aligned with sustainable policy (i.e. retail waste)

4. Financial

Objective	Activity	FY19 KPI's
Manage financial performance to achieve forecasts and compliance	Manage financial performance to achieve targets as set out in the Statement of Intent.	Operational EBITDA \$7m
	Timely and accurate financial reports to comply with the relevant statutory requirements.	Unqualified audit report
	Real dividend growth	Dividend \$800k

5. Customers

Objective	Activity	FY19 KPI's
Keeping customers at the core and building relationships that enhance the experience and business performance	Identify future aviation business development opportunities for new routes and additional frequency on both existing and new airline customers.	1.1m passengers
	Create a clear customer experience vision and strategy	Customer strategy completed
	Highlight our economic value in the region, we are a reputable corporate entity, "partnering proudly not apologetically"	Economic impact research report commissioned and completed

6. Risk and Compliance

Objective	Activity	FY19 KPI's
Risks managed, and best practice guidelines followed	Prepare a Safety Management System in accordance with new CAA rules.	Implement a compliant Safety Management System
	PFOS Management Plan approved by EPA and works completed to replace PFOS foam	Plan and resources in place to meet Compliance Order obligations
	Prepare a -Sustainability Policy that sets out our environmental obligations and targets for resources, and supporting long-term ecological balance	Policy completed and integrated and solar farm strategy completed

Note that the financial targets included in the tables above are consistent with the Prospective Summary Financial Statements provided in this document.

MEDIUM TERM MILESTONES & ACTIVITIES

2019/20-2020/21

Strategy	Activity / Milestone
Customers	Consult on revised aeronautical charges schedule by 30 June 2021.
	> 1,150,000 passengers pa by June 2020.
	Work closely with NRDA under a service agreement to support passenger growth to the region.
Infrastructure	New landside facilities, including new terminal access and parking precincts, open by December 2018.
	New Terminal fully commissioned by late 2019.
Financial	Total Revenues pa > \$15m by June 2021.
	EBITDA pa > \$9m by June 2021.
	Bolt Road developments commenced by June 2020.
Risk and Compliance	Safety Management System approved by CAA and fully implemented within the business by 1 February 2021.
	Safety culture firmly embedded throughout the Company
	No CAA findings from Audit
People	Best practice training & development policy in place and delivering enhanced organisational capability.
	A place where people want to work.
	An ongoing staff Health and Wellbeing programme established with good engagement from staff.
Sustainability	Sustainability best practice well embodied in culture
	-
	Green Lease schedules included in all new tenant leasing.

GOVERNANCE

The Board's approach to governance of the company is to preserve and enhance Shareholder value in the long term.

The Board is responsible for the strategic direction and oversight of the Company and is accountable to the Shareholders within the framework provided by the constitution of the Company, the provisions of the Companies Act 1993 and The Local Government Act 2002.

The Board must;

- Ensure the company meets its objectives as defined in this Statement of Intent;
- Ensure the company complies with its legal obligations;
- Make any decisions as to policy that is not the preserve of general management and day to day administration;
- Employ the Chief Executive including entering into a performance management agreement, reviewing performance and setting remuneration;
- Ensure sound financial management of the company;
- Ensure the company meets all health and safety obligations.

The Board consists of five, non-executive Directors appointed by the Shareholders in accordance with the Constitution.

The Board meets at least eleven times per year. The individual Directors' attendance record is maintained and reported in the Annual Report.

The company employs sound financial management and systems providing monthly reports to the Board on monthly and year-to-date performance. The Board also receives a Chief Executive's Report at each Board Meeting which addresses issues related to the company's performance against its objectives. All Directors will use their best endeavours to ensure the company achieves the objectives as defined in this document and will comply with the requirements of its constitution and this Statement of Intent.

Governance over the major development projects is given close scrutiny by the Project Control Group on which the Board has a presence. The Project Control Group reports back to the Board at each Board meeting.

The Board regularly reviews the top risks from the company's live risk register on a rolling basis.

All Board Members comply with the New Zealand Institute of Directors' Code of Proper Practice for Directors.

Fees for the Board are set by the Shareholders in accordance with a policy jointly approved by Nelson City Council and Tasman District Council.

THE VALUE OF SHAREHOLDERS INVESTMENT IN THE COMPANY

The Directors assessment of the value of the Shareholders investment in the Company is \$54.2m. This value is the value of Total Shareholders' Funds at the conclusion of the six month period to December 2017. The fair value of assets is supported by registered valuations of land, buildings, infrastructure and the leasehold interest in the aerodrome land as at 1st July 2015.

A reassessment of the value of the Shareholders investment in the Company will be undertaken as required from time to time by the Shareholders or Directors

INFORMATION TO BE PROVIDED TO SHAREHOLDERS

GENERAL

The company operates on a 'no surprises' basis in respect of significant Shareholder-related matters, especially on matters likely to cause community or political concerns, to the extent possible in the context of commercial sensitivity and confidentiality obligations.

HALF-YEARLY REPORT

- To be delivered to Shareholders by 28th February.

The half-yearly report will include:

- A Directors' report which includes commentary on the company's operations and performance against non-financial performance measures;
- A condensed Statement of Comprehensive Income;
- A condensed Statement of Changes in Equity;
- A condensed Statement of Financial Position;
- A condensed Statement of Cash Flows;
- Appropriate Notes to the condensed Financial Statements.

The half-yearly report will be published on the company's website following adoption by Shareholders.

When presenting the half yearly report the Board will indicate any significant movement expected in the final year-end position.

STATEMENT OF INTENT

- Draft to be delivered to Shareholders by 1st March;
- Comments from Shareholders on draft Statement of Intent, if any, to be provided to the company by 1st May;
- Completed Statement of Intent to be delivered to Shareholders by 30th June after consideration of any Shareholder comments;
- Completed Statement of Intent to be made available to the public within one month of delivery to Shareholders.

The Statement of Intent will contain prospective financial information in the form of forecasts for the current year and following two years. The financial forecasts will include; a summary Statement of Comprehensive Income; Statement of Financial Position; Cashflow Statement; Earnings Before Interest and Tax (EBIT); Earnings before Interest, Tax, Depreciation and Amortisation (EBITDA); Debt to Equity Ratio; Working Capital; Capital Expenditure; Return on Equity; and Ratio of Shareholders' Funds to Total Assets.

ANNUAL REPORT

- To be delivered to Shareholders by 30th September and not less than 20 working days before the date fixed for holding the Annual Shareholders' Meeting;
- To be made available to the public by 30th September.

Within three months after the end of the financial year the Board will deliver an audited Annual Report which fulfils the requirements of the local Government Act 2002 and prepared to comply with the requirements of the Financial Reporting Act 2013.

The Annual Report will include:

- A Directors' Report including a summary of the financial results, a review of operations, a comparison of performance in relation to objectives and any recommendation as to dividend;
- A Statement of Comprehensive Income disclosing actual and budgeted revenue and expenditure and comparative actual figures from the previous year;
- A Statement of Changes in Equity with actuals and comparative figures from the previous year;
- A Statement of Financial Position with actuals and comparative figures from the previous year;
- A Statement of Cash Flows with actuals and comparative figures from the previous year;
- An Auditor's Report on the above statements and the measure of performance in relation to objectives.

ANNUAL SHAREHOLDERS' MEETING

- Annual Shareholders' Meeting to be held by 31st December;
- Annual Report to be delivered to Shareholders not less than 20 working days prior to the Annual Shareholders' Meeting;
- Written Notice of Meeting to be delivered by not less than ten working days before the meeting.

Written notice of the time and place of a meeting of Shareholders' will be sent to every Shareholder and to every Director and Auditor of the Company not less than ten working days before the meeting. The notice must be in accordance with the requirements of Schedule 1 of the Companies Act 1993.

PROSPECTIVE SUMMARY FINANCIAL STATEMENTS

The company adopts General Purpose Financial Reporting utilising the revaluation model based on the accounting concept of Fair Value. The Prospective Summary Financial Statements have been prepared utilising the concept of Fair Value.

Aeronautical charges form approximately half of the company's revenues. Aeronautical charges were reset by the Company for a five year period effective from 1 July 2016, following a thorough consultation process with major customers.

The estimated final construction cost for the new terminal and related projects are reflected in the prospective financial statements and are based on detailed estimates provided by independent quantity surveyors.

2018/19 figures have been provided for comparison purposes and are provisional, being based on recent forecasts.

The Company has secured a \$40m commercial loan facility from Westpac, the terms of which have been agreed between the parties. A portion of the interest cost of the facility is floating and a portfolio of interest rate swaps has been secured to mitigate interest rate risk. The level of swaps put in place is to cover approximately half of the forecast debt over the period to March 2025.

PROSPECTIVE FINANCIAL STATEMENTS

Prospective Summary Statement of Comprehensive Income (\$ million)

	<u>2017/18</u>	<u>2018/19</u>	<u>2019/20</u>	<u>2020/21</u>
Total Revenues	10.2	11.7	13.2	13.9
Total Operating Expenses	3.7	4.7	4.6	4.9
EBITDA before extraordinary	6.5	7.0	8.6	9.1
Depreciation & Amortisation	1.4	2.9	4.1	4.3
Finance Expense / (Income)	0.0	1.7	2.4	2.4
Profit before Income Tax & Extraordinaries	5.0	2.3	2.1	2.4
Income Tax	1.6	1.1	1.3	1.4
Extraordinary write-down	0.0	0.3	0.0	0.0
Net Profit after Tax	3.4	0.9	0.9	1.0

Notes

The Extraordinary write-down relates to items decommissioned due to the new terminal development projects.

Stage A of new terminal assumed to be opened by October 2018. Stage B assumed to be open by October 2019.

Prospective Summary Statement of Capital Expenditure

(\$ million)

	<u>2018/19</u>	<u>2019/20</u>	<u>2020/21</u>
Terminal & Landside Development Projects	20.2	1.2	0.0
Apron, Taxiways and Runway	4.2	1.0	1.0
Landside Roading	0.0	0.0	0.2
Commercial Developments	0.1	2.3	0.6
Engine Runbay/Soundbay Development	0.0	0.0	0.5
Emergency Response Infrastructure	0.3	0.0	0.0
Other Capex Projects	0.4	0.2	0.3
Total Forecast Capex	<u>25.3</u>	<u>4.7</u>	<u>2.5</u>

Notes

Emergency response infrastructure includes an emergency generator and a NAL operations centre.

Prospective Summary Statement of Financial Position

As at year end

(\$ million)

	<u>2018/19</u>	<u>2019/20</u>	<u>2020/21</u>
<u>Assets</u>			
Current Assets	1.6	1.7	1.7
Property, Plant and Equipment	97.8	98.4	96.7
Intangible Assets	0.0	0.0	0.0
Total Assets	<u>99.4</u>	<u>100.2</u>	<u>98.3</u>
<u>Liabilities</u>			
Current Liabilities	2.7	1.5	1.8
Total Loan Finance	36.8	38.7	36.4
Total Other Non-current Liabilities	4.7	4.7	4.7
Total Liabilities	<u>44.2</u>	<u>45.0</u>	<u>42.9</u>
<u>Total Net Assets</u>	<u>55.2</u>	<u>55.2</u>	<u>55.4</u>
<u>Total Equity</u>	<u>55.2</u>	<u>55.2</u>	<u>55.4</u>

Prospective Key Ratios and Indicators

As at year end

	Note	2018/19	2019/20	2020/21
Working Capital (\$ x 1,000,000)	1	(1.2)	0.3	(0.1)
Working Capital Ratio	2	0.6	1.2	1.0
Return on Equity	3	4.2%	3.8%	4.3%
Consolidated SH Funds to Total Assets Ratio	4	0.6	0.6	0.6
Debt to Equity Ratio	5	5.3	4.5	4.0
Leverage Ratio	6	5.3	5.1	5.0

Notes

- Working Capital = (Current Assets - Current Liabilities)
Cash balances will be maintained at minimal levels whilst the MOCL finance facility remains active.
- Working Capital Ratio = (Current Assets / Current Liabilities)
Cash balances will be maintained at minimal levels whilst the MOCL finance facility remains active.
- Return on Equity = (Net Profit before Tax & Extraordinaries / Total Shareholders Equity)
- Consolidated Shareholders Funds to Total Assets Ratio = (Total Shareholders Equity / Total Assets).
- Debt to Equity Ratio = (Total third party debt at year end / Total Shareholders Equity)
- Leverage Ratio = (Total third party debt at year end / EBITDA before Extraordinaries)

Prospective Summary Statement of Cashflows

(\$ million)

	2018/19	2019/20	2020/21
Cash Opening Balance	0.2	0.4	0.5
Cash In			
Cash from Operations	13.3	15.1	16.0
Cash drawn from Loan Facility	24.0	3.9	1.2
Total Cash Inflows	37.3	18.9	17.2
Cash Out			
Operational Expenses	5.1	5.0	5.3
Income Tax Paid	1.4	1.2	1.3
Dividends	0.78	0.80	0.82
Capital Expenditure	30.9	7.1	2.7
GST Paid/(Received)	(2.9)	0.4	1.2
Loan Repayments	1.7	4.3	5.9
Total Cash Outflows	37.1	18.9	17.3
Cash Closing Balance	0.4	0.5	0.3

Notes;

Cash balances will be maintained at minimal levels over the above period due to the existence of the Westpac loan facility.

ACCOUNTING POLICIES

Nelson Airport Limited reports financially under the new Accounting Standards Framework implemented by the Financial Accounting External Reporting Board to effect changes enacted by the new Financial Reporting Act 2013. For financial reporting purposes the Company is a “for-profit public sector entity”. By virtue of the size of the business and by election the Company reports under the “Reduced Disclosure Regime” to “Tier 2” requirements.

From the 2015/16 financial year the Company has undertaken General Purpose Financial Reporting utilising the revaluation model based on the accounting concept of Fair Value. Significant valuation work was undertaken towards this end and underpins the reporting of Property, Infrastructure and Leasehold Interest at fair value.

The Company regularly reports internally on a monthly accounting cycle with actuals for the Balance Sheet and Income Statement being presented to management and the Board monthly. Progress against budgets and forecasts is regularly monitored internally and reported against.

The reporting entity for accounting and financial reporting purposes is Nelson Airport Limited. The company has a balance date of 30th June.

Accounting policies are set out in detail in the company’s Annual Report.

DIVIDEND POLICY

The company will use its best endeavours to pay an annual ordinary cash dividend to Shareholders that is both higher than that declared in the previous financial year and is at a level that delivers an annual growth rate of higher than the Consumer Price Index for the last published annual period.

PROCEDURE FOR ACQUISITION OF OTHER INTERESTS

If the Directors believe that the company should invest in or otherwise acquire any interest in any other organisation they will obtain the prior approval of the Shareholders by special resolution, unless the total cost is less than \$50,000. In this case prior approval will not be required, but Shareholders will be advised in writing within 14 days.

COMPENSATION FROM LOCAL AUTHORITIES

There is no indication of any matter or activities for which the Company may seek compensation from any Local Authority.