2014/2015

Waikato Regional Airport Limited

Statement of Intent

June 2014

Hamilton International Airport

1.0 Introduction

This statement is presented by the Directors in accordance with s.64 (1) Local Government Act 2002 and sets out the Board's intentions for the Company for the year ended 30 June 2015 and succeeding two financial years.

2.0 Strategic Intent

The Airport has identified its core purpose and key objectives that recognise the strategic intent of the business:

Core Purpose

1. Enabler of air services to the region
2. Operate a first class, safe and compliant regional airport
3. Strategic positioning of the business to enhance capital value

Key Objectives

1. Operate an efficient and compliant airport
2. Enhance the traveller experience
3. Maintain a viable aeronautical business
4. Maximise revenue diversification through non-aeronautical business opportunities

3.0 In Pursuing its Goals the Company will:

- At all times behave in a professional and ethical manner in all its business dealings with its customers and stakeholders
- Be a good employer
- Identify and recognise Shareholders' expectations, within the bounds of corporate prudence

4.0 Nature and Scope of Activities to be Undertaken

(4.1) Operate an efficient and compliant airport

Operate a safe, secure and compliant airport by providing for essential projects together with any compliance expenditure warranted

(4.2) Enhance the traveller experience

Maximise traveller satisfaction and airport experience

(4.3) Maintain a viable aeronautical business

Identify opportunities to develop new, and expand existing, domestic passenger services

Promote development and growth of the general aviation sector

Protect future aeronautical opportunities by completing the runway designation, to allow the main runway to be extended up to 2984m when supported by an appropriate business case

Position the airport as an efficient, cost-effective international port of arrival for private, corporate and medical aircraft

(4.4) Maximise revenue diversification through non-aeronautical business opportunities

Support the development of land within the bounds of a sound strategic approach to long term planning for the airport precinct

Identify and market for lease all available surplus airport-owned land

(4.5) Ensure appropriate internal and external resource to enable a commercially driven and high performing organisation

Knowledgeable and capable, high performing and appropriately resourced management team to ensure sound reporting and accountability, and delivery of the strategic plan

(4.6) Capital Expenditure

Planned major capital expenditure included in the 3 year forecast is:

	2015 (000s)	**2016** (000s)	**2017** (000s)
Runway and Apron	[1]650	-	-
Car Park Control Gear	-	-	500
Other Projects	740	630	505
	1,390	**630**	**1,005**

[1] $5.5m was included in prior year Statements of Intent for a runway reseal and apron / taxiway reseal planned for the year ending 30 June 2014. Only the runway reseal component was undertaken during the year ending 30 June 2014. Of the $5.5m, $650k relates to the apron and taxiway resealing works and this is deferred to the year ending 30 June 2015.

(4.7) Strategic Activities

Key activities for the 2014/15 year are:

- Protection and growth of domestic passenger services
- Completion of runway designation appeal process
- Maximise property lease income
- Five year review of Titanium Park Joint Venture

5.0 Shareholders' Funds to Total Assets

Years ending 30 June	**2015**	**2016**	**2017**
Shareholders' funds to total assets	74%	75%	76%

Definitions:

Shareholders' funds	Total assets less the total liabilities.
Total assets	The value of all assets reported in the Company's statement of financial position at the end of each reporting period.

6.0 Statement of Accounting Policies

Reporting Entity

The financial statements are those of Waikato Regional Airport Limited (trading as Hamilton International Airport). Waikato Regional Airport Limited ('the Company') is a company registered under the Companies Act 1993, and a reporting entity for the purposes of the Financial Reporting Act 1993 and a Council Controlled Organisation under the Local Government Act 2002.

The Group consists of Waikato Regional Airport Limited and its subsidiaries Titanium Park Limited ('TPL') and Hamilton & Waikato Tourism Limited ('HWTL').

The primary objective of Waikato Regional Airport Limited is to provide goods or services for the community or social benefit rather than making a financial return. Accordingly, Waikato Regional Airport Limited has designated itself and the group as public benefit entities for the purposes of New Zealand equivalents to International Financing Reporting Standards (NZ IFRS).

Basis for Preparation

The financial statements of the Company have been prepared in accordance with the Companies Act 1993, the Local Government Act 2002, the Airport Authorities Act 1966 and the Financial Reporting Act 1993.

These financial statements have been prepared in accordance with NZ GAAP. They comply with NZ IFRS, and other applicable Financial Reporting Standards, as appropriate for public benefit entities.

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

The financial statements have been prepared on a historical cost basis, modified by the revaluation of land and buildings, infrastructure assets, investment property, and financial instruments (including derivative instruments).

The financial statements are presented in New Zealand dollars and all values are rounded to the nearest thousand dollars ($000). The functional currency of Waikato Regional Airport Limited is New Zealand dollars.

Subsidiary and Consolidation

The purchase method is used to prepare the consolidated financial statements, which involves adding together like items of assets, liabilities, equity, income and expenses on a line-by-line basis. All significant intragroup balances, transactions, income and expenses are eliminated on consolidation. TPL is a participant in Titanium Park Joint Venture and TPL's interest in the Joint Venture is accounted for using the line by line (proportionate) method of consolidation.

The company's investment in its subsidiaries is carried at cost in the parent entity financial statements.

Specific Accounting Policies

The following particular accounting policies, which materially affect the measurement of financial results and financial position, have been applied:

a) Trade and Other Receivables

Trade and other receivables are initially measured at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for impairment.

A provision for impairment of receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted using the effective interest method.

b) Cash and Cash Equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts.

Bank overdrafts are shown within borrowings in current liabilities in the consolidated balance sheet.

c) Inventories

Stock on hand has been valued at the lower of cost and net realisable value on a weighted average cost basis, after due allowance for damaged and obsolete stock.

Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

d) Property, Plant and Equipment

Property, plant and equipment consist of:

- *Operational Assets* - These include land, buildings, security fences, furniture and fittings, computer equipment, motor vehicles and plant and equipment.
- *Infrastructure Assets* – These include runways, aprons and taxiways, other paved areas and underground-reticulated systems.

Property, plant and equipment is shown at cost, less accumulated depreciation and impairment losses.

Classification

There are ten classes of property, plant and equipment:

- Freehold Land
- Freehold Buildings
- Runways, Aprons and Taxiways
- Other Paved Areas
- Motor Vehicles
- Plant & Equipment
- Computer Equipment
- Furniture & Fittings
- Fencing
- Underground Reticulated Systems

Additions

The cost of an item of property, plant and equipment is recognised as an asset if, and only if, it is probable that future economic benefits or service potential associated with the item will flow to the Company and the cost of the item can be measured reliably.

In most instances, an item of property, plant and equipment is recognised at cost. Where an asset is acquired at no cost, or for a nominal cost, it is recognised at fair value when control over the asset is obtained.

Disposals

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount of the asset. Gains and losses on disposals are included in the surplus/loss.

Subsequent Costs

Costs incurred subsequent to initial acquisition are capitalised only when it is probable that future economic benefits or service potential associated with the item will flow to the Company and the cost of the item can be measured reliably.

Depreciation

Depreciation is provided on a straight line basis on all property, plant and equipment at rates that will write off the cost of the assets over their estimated useful lives.

The estimated useful lives of the major classes of assets are:

Buildings	5 - 59 years
Runways, Aprons and Taxiways	5 - 74 years
Other Paved Areas	9 - 14 years

Motor Vehicles	5 - 15 years
Furniture and Fittings	3 - 50 years
Plant and Equipment	2 - 50 years
Computer Equipment	2 - 6 years
Fencing	10 - 47 years
Reticulated Systems	4 - 74 years

The residual value and useful life of an asset is reviewed, and adjusted if applicable, at each financial year-end. On 1 July 2012the useful lives of runways, aprons & taxiways, other paved areas, and reticulated systems were adjusted to reflect the valuation undertaken on those assets at 30 June 2012.

Revaluation

Those asset classes that are revalued are valued on a five-yearly valuation cycle on the basis described below. All other assets are carried at depreciated historical cost. The carrying values of revalued items are reviewed at each balance date to ensure that those values are not materially different to fair value.

Operational Land and Buildings

At fair value determined from market-based evidence. All valuations are undertaken or reviewed by an independent registered valuer and are usually carried out on a five-yearly cycle.

Infrastructure Assets

At fair value determined on a depreciated replacement cost basis by an independent registered valuer and are usually carried out on a five-yearly cycle.

e) Intangible Assets

Software Acquisition

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software.

Costs associated with maintaining computer software are recognised as an expense when incurred.

Costs associated with the development and maintenance of the Company's website are recognised as an expense when incurred.

Amortisation

Computer software licences are amortised on a straight-line basis over their estimated useful life of 3 years. Amortisation begins when the asset is available for use and ceases at the date that the asset is disposed of. The amortisation charge for each period is recognised in the surplus/loss.

f) Taxation

Income tax expense in relation to the surplus or loss for the period comprises current tax and deferred tax.

Current tax is the amount of income tax payable based on the taxable profit for the current year, plus any adjustments to income tax payable in respect of prior years. Current tax is calculated using rates that have been enacted or substantively enacted by balance date.

Deferred tax is the amount of income tax payable or recoverable in future periods in respect of temporary differences and unused tax losses. Temporary differences are differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit.

Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which the deductible temporary differences or tax losses can be utilised.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, using tax rates that have been enacted or substantively enacted by balance date.

Current tax and deferred tax is charged or credited to the statement of comprehensive income, except when it relates to items charged or credited directly to equity, in which case the tax is dealt with in equity.

g) Goods and Services Tax

All items in the financial statements are stated exclusive of GST, except for receivables and payables, which are stated on a GST inclusive basis. Where GST is not recoverable as input tax then it is recognised as part of the related asset or expense.

The net amount of GST recoverable from, or payable to, the Inland Revenue Department (IRD) is included as part of receivables or payables in the balance sheet.

The net GST paid to, or received from the IRD, including the GST relating to investing and financing activities, is classified as an operating cash flow in the statement of cash flows. Commitments and contingencies are disclosed exclusive of GST.

h) Investments

Investments in bank deposits are initially measured at fair value plus transaction costs.

After initial recognition, investments in bank deposits are measured at amortised cost using the effective interest method. Gains and losses when the asset is impaired or derecognised, are recognised in the surplus/loss.

At each balance date the Company assesses whether there is any objective evidence that an investment is impaired. Any impairment losses are recognised in the surplus/loss.

i) Employee Entitlements

Short-term benefits

Employee benefits that the Company expects to be settled within 12 months of balance date are measured at nominal values based on accrued entitlements at current rates of pay.

These include salaries and wages accrued up to balance date, annual leave earned to, but not yet taken at balance date, and sick leave.

The Company recognises a liability for sick leave to the extent that absences in the coming year are expected to be greater than the sick leave entitlements earned in the coming year. The amount is calculated based on the unused sick leave entitlement that can be carried forward at balance date, to the extent that the Company anticipates it will be used by staff to cover those future absences.

The Company recognises a liability and an expense for bonuses where contractually obliged or where there is a past practice that has created a constructive obligation.

j) Statement of Cash Flows

Operating activities include cash received from all income sources of the Company and record the cash payments made for the supply of goods and services.

Investing activities are those activities relating to the acquisition and disposal of non-current assets.

Financing activities comprise the change in equity and debt capital structure of the Company.

k) Operating Leases

Operating lease payments, where the lessors effectively retain substantially all of the risks and benefits of ownership of the leased items, are recognised in the determination of the operating surplus in equal instalments over the lease term.

l) Revenue

Revenue is measured at the fair value of consideration received.

Operating Revenue

Operating revenue is recognised when earned.

Interest Income

Interest income is recognised using the effective interest method.

Rental Income

Rental income arising on property owned by the Company is accounted for on a straight line basis over the lease term.

m) Borrowing Costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset. Capitalisation of borrowing costs ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use are completed.

n) Financial assets

The Company classifies its financial assets into the following four categories:

- Financial assets at fair value through profit or loss
- Held to maturity investments
- Loans and receivables
- Financial assets at fair value through other comprehensive income

The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting date.

Financial assets are initially measured at fair value plus transaction costs unless they are carried at fair value through profit or loss in which case the transaction costs are recognised in the surplus/loss.

Purchases and sales of investments are recognised on trade date, the date on which the Company commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Company has transferred substantially all the risks and rewards of ownership.

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. The quoted market price used is the current bid price.

The fair value of financial instruments that are not traded in an active market are determined using valuation techniques. The Company uses a variety of methods and makes assumptions that are based on market conditions existing at each balance date. Quoted market prices or dealer quotes for similar instruments are used for long term debt instruments held. Other techniques, such as estimated

discounted cash-flows, are used to determine fair value for the remaining financial instruments.

The four categories of financial assets are:

- **Financial assets at fair value through profit or loss**

  This category has two sub-categories: financial assets held for trading and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within 12 months of the balance sheet date.

  After initial recognition they are measured at their fair values. Gains or losses on re-measurement are recognised in the surplus/loss.

  Financial assets in this category include interest rate swaps.

- **Held to maturity**

  Held to maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company has the positive intention and ability to hold to maturity.

- **Loans and receivables**

  These are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

  After initial recognition they are measured at amortised cost using the effective interest method. Gains and losses when the asset is impaired or derecognised are recognised in the surplus/loss. Loans and receivables are classified as "trade and other receivables" in the balance sheet.

- **Financial assets at fair value through other comprehensive income**

  Financial assets at fair value through other comprehensive income are those that are designated into the category at initial recognition or are not classified in any of the other categories above.

  After initial recognition these investments are measured at their fair value.

  Gains and losses are recognised in other comprehensive income except for impairment losses, which are recognised in the surplus/loss.

  On de-recognition the cumulative gains or losses previously recognised in other comprehensive income is reclassified from equity to the surplus/loss.

o) Impairment of financial assets

At each balance sheet date the Company assesses whether there is any objective evidence that a financial asset or group of financial assets is impaired. Any impairment losses are recognised in the surplus/loss.

p) Accounting for derivative financial instruments

The Company uses derivative financial instruments to hedge exposure to interest rate risks arising from financial activities.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value at each balance date.

The gain or loss from re-measuring derivatives at fair value is recognised in the surplus/loss.

The Company is party to financial instruments with off balance sheet risk to meet financing needs. These financial instruments include a bank overdraft facility and

interest rate swap agreements. The Company enters into interest rate swap agreements to reduce the impact of changes in interest rates on its borrowings. Any difference to be paid is accrued as interest rates change, and is recognised as a component of interest expense over the life of the agreement.

Revenues and expenses in relation to all financial instruments are recognised in the surplus/loss and are shown in the balance sheet at their estimated fair value.

q) Investment property

Properties leased to third parties under operating leases are classified as investment property unless the property is held to meet service delivery objectives, rather than to earn rentals or for capital appreciation.

Investment property is measured initially at its cost, including transaction costs.

After initial recognition, the Company measures all investment property at fair values as determined annually by an independent valuer.

Gains or losses arising from a change in the fair value of investment property are recognised in the surplus/loss.

r) Impairment of non-financial assets

Non-financial assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that have a finite useful life are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

Value in use is depreciated replacement cost for an asset where the future economic benefits or service potential of the asset are not primarily dependent on the assets ability to generate net cash inflows and where the entity would, if deprived of the asset, replace its remaining future economic benefits or service potential.

The value in use for cash generating assets is the present value of expected future cash flows.

If an asset's carrying amount exceeds its recoverable amount the asset is impaired and the carrying amount is written down to the recoverable amount. For revalued assets the impairment loss is recognised against the revaluation reserve for that class of asset. Where that results in a debit balance in the revaluation reserve, the balance is recognised in the surplus/loss.

For assets not carried at a revalued amount, the total impairment loss is recognised in the surplus/loss.

The reversal of an impairment loss on a revalued asset is credited to the revaluation reserve. However, to the extent that an impairment loss for that class of asset was previously recognised in the surplus/loss, a reversal of the impairment loss is also recognised in the surplus/loss.

For assets not carried at a revalued amount the reversal of an impairment loss is recognised in the surplus/loss.

s) Non-Current assets held for sale

An asset is classified as held for sale if its carrying amount will be recovered principally through a sale transaction rather than continuing use. On classification as 'Held for Sale', non-current assets and disposal groups are recognised at the lower of carrying amount and fair value less costs to sell. Impairment losses on initial classification as 'Held for Sale' are included in the surplus/loss.

t) Trade and other payables

These amounts represent liabilities for goods and services provided to the Company prior to the end of the financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

u) Borrowings

Borrowings are initially recognised at their fair value. After initial recognition, all borrowings are measured at amortised cost using the effective interest method.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

v) Share Capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

w) Critical accounting estimates and assumptions

In preparing these financial statements the Company has made estimates and assumptions concerning the future. These estimates and assumptions may differ from the subsequent actual results. Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations or future events that are believed to be reasonable under the circumstances. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Property, plant and equipment useful lives and residual values

At each balance date the Company reviews the useful lives and residual values of its property, plant and equipment. Assessing the appropriateness of useful life and residual value estimates of property, plant and equipment requires the Company to consider a number of factors such as the physical condition of the asset, expected period of use of the asset by the Company, and expected disposal proceeds from the future sale of the asset.

An incorrect estimate of the useful life or residual value will impact on the depreciable amount of an asset, therefore impacting on the depreciation expense recognised in the statement of comprehensive income, and carrying amount of the asset in the balance sheet. The Company minimises the risk of this estimation uncertainty by:

- physical inspection of assets;
- asset replacement programmes;
- review of second-hand market prices for similar assets; and
- analysis of prior asset sales.

The Company has not made significant changes to past assumptions concerning useful lives and residual values. The carrying amounts of property, plant and equipment are disclosed in note 9.

7.0 Performance Targets

The following annual performance targets include only the contracted and committed Titanium Park land sale in the year ending 30 June 2015.

		Year Ended 30 June		
Based on consolidated company forecasts		**2015**	**2016**	**2017**
7.1	Earnings before interest, taxation & depreciation (EBITDA)	$2.88m	$2.21m	$2.33m
7.2	Net surplus after tax	$111k	-$683k	-$817k
7.3	Net profit after tax to average shareholders' funds	0.00%	-0.01%	-0.01%
7.4	Net profit after tax to total assets	0.00%	-0.01%	-0.01%
7.5	Net cash flow (operating & investing)	-$375k	$161k	$41k
7.6	Total liabilities/shareholders' funds (debt/equity ratio)	26:74	25:75	24:76
Applicable to parent company operations only		**2015**	**2016**	**2017**
7.7	Percentage of non-landing charges revenue	64.44%	64.33%	63.93%
7.8	Interest cover	2.91	2.72	2.81
	The interest cover measures the number of times the net profit before interest, tax and depreciation (EBITDA) covers interest paid on debt			
7.9	To achieve the Airport Certification Standards as required by the Civil Aviation Authority			
7.10	Collect, document and act (where viable) on customer feedback forms to continuously monitor and improve the customer experience. Maintain a database to ensure recurring negative feedback is promptly acted upon			

8.0 Dividend Policy

In view of the priority to reduce debt, the Directors propose to recommend that no dividend be paid for the next three years and that the Dividend payment decisions for subsequent years are determined at the annual general meeting each year.

9.0 Information to be provided to Shareholders

9.1 The Annual Report of the Company will include:

- Chairman & General Managers' Report;
- Statement of Comprehensive Income;
- Statement of Movements in Equity;
- Statement of Financial Position; and
- Statement of Cash Flows.

9.2 An Interim Report circulated to Shareholders each half-year will include:

- Chairman's Report; and
- Summary of the unaudited financial results for the six months ended 31 December.

10.0 Future Investment Proposals

If the Company wishes to subscribe for, purchase, or otherwise acquire shares in any other company or any other organisation it can do so only after first obtaining approval from the majority of shareholders at either a General Meeting or at a Special Meeting convened for that purpose.

11.0 Commercial Value of the Shareholders Investment

No valuation of shares has been completed.

The consolidated balance sheet of WRAL as at 30 June 2013 shows shareholder equity of $59.7m. Company investment in Titanium Park Joint Venture is recorded at cost. Company Property, Plant & Equipment is based upon a 2011 valuation except for land which was revalued as at 30 June 2013. Company assets such as runways, aprons, taxiways and the terminal building are based upon depreciated replacement cost.

12.0 Compensation from Local Authorities

There are no activities of the Company for which the Directorate would seek compensation from any local authority.