

HAWKE'S BAY AIRPORT LIMITED

INTERIM REPORT

FOR THE SIX MONTHS ENDED 31 DECEMBER 2015



Hawke's Bay Airport Ltd Directory

Directors

Tony Porter (Chairman)
Jim Scotland (Deputy Chairman)
Sarah Park (Chair of the Audit and
Finance Committee)
Taine Randell

Chief Executive

Nick Story

Aeronautical & Infrastructure Manager

Olivia Pierre



From left: Taine Randell, Sarah Park, Tony Porter, Jim Scotland

Accountant

PwC

Registered Office

Terminal Building
Hawke's Bay Airport
111 Main North Road
PO Box 721
NAPIER 4140

Bankers

ANZ Bank New Zealand Ltd

Solicitors

Willis Toomey Robinson Scannell Hardy



Nick Story - Chief Executive



Olivia Pierre - Aeronautical & Infrastructure Manager

Auditors

Staples Rodway Hawkes Bay Partnership on behalf of the Auditor General

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Hawke's Bay Airport Limited

Report to Shareholders

for the Half Year ending 31 December 2015

We report against our Statement of Intent targets which include continued growth in Passenger Numbers, Revenue and Profitability and other activities in accordance with our Mission Statement.

Performance Highlights - Financial

- Passenger Numbers for the Half Year were 270,511 which was 11.3% above budget and an increase of 32,482 passengers, 13.5% over the same period last year from Air New Zealand, Jetstar's arrival in December and Sounds Air's arrival in November. The full year forecast is 536,000 passengers, an increase of 12.5%.
- Total Revenue of \$2,519,047 was 3.6% above budget and an increase of \$318,125 or 14.4% on the same period last year reflecting the increase in landing charges that took effect on 1 July, 2015, increased car parking revenue from higher passenger numbers and one month of Jetstar.
- Operating Expenses were \$30,265 or 3.2% below budget due to reduced general expenses.
- Profit after Tax at \$645,294 was \$7,435 or 1.2% above budget and increased by \$23,809 or 3.8% on the same period last year. The full year profit after tax forecast is \$1.3m.
- Net Operating Cashflow was just short of \$1m.
- Capital expenditure of \$910,404 at the half year was only 20% of the full year budget of \$4,473,000. Jetstar's arrival has necessitated a change in the timelines for key infrastructure development projects, with the terminal redevelopment to now occur in the next financial year. The capex forecast for the full year is approximately \$1.8m.
- Directors declared a fully imputed dividend of \$527,371 which was paid to Shareholders in December.

Performance Highlights – Other Activity

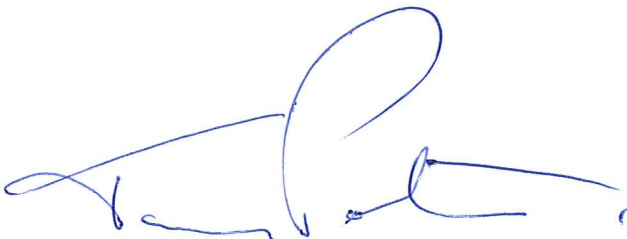
- A special meeting of Shareholders held in September where Shareholders supported the Airport Company's plans for the terminal development project.
- The new café 'Kete Kai' operated by Orton Tailored Cuisine opened for business in October.

- Sounds Air commenced scheduled passenger services between Hawke's Bay and Blenheim in November with 6 return flights each week.
- A new rental car valet and vehicle storage facility was completed and handed over to the rental car companies in November allowing us to proceed with our car parking extension project.
- Jetstar commenced scheduled passenger services between Hawke's Bay and Auckland from 1 December operating 3 arrival and 3 departure services per day, increasing the seats available on this sector by 8,800 for the month.

While we continued to enjoy growth in our Airport activities, unfortunately we continued to struggle to attract tenants for the business park. Management and the Board are currently focused on finding possible solutions to the barriers faced in successfully developing the park.

The Terminal Development Project, Car Park extension works and new Airport entranceway will be the key focus areas for the remainder of the financial year.

Our un-audited Interim Report includes more detailed financial information including a Summary of Financial Performance, Statement of Movements in Equity, Summary of Financial Position, Statement of Cash Flows and Notes to the Accounts for the six months to 31 December 2015.



Tony Porter
Chairman of Directors
Hawke's Bay Airport Limited

Financial Performance vs SOI Objectives

Measure	THIS YEAR				LAST YEAR			BUDGET
	HY Actual HY 2015/16	HY Budget FY2015/16	Variance	Variance %	HY Actual FY2014/15	Variance	Variance %	Budget FY2015/16
Passengers	270,511	243,029	27,482	11.3	238,235	32,276	13.5	476,435
Categories in current SOI								
Finance Performance (\$)								
Revenue								
Airside	1,486,751	1,512,865	-26,114	-1.7	1,185,810	300,941	25.4	2,612,045
Landside	923,859	797,454	126,405	15.9	861,946	61,913	7.2	1,835,117
Business Park	108,437	120,102	-11,665	-9.7	154,161	-45,724	-29.7	361,070
TOTAL REVENUE	2,519,047	2,430,421	88,626	3.6	2,201,917	317,130	14.4	4,808,231
Operating Expenses								
	920,672	950,937	-30,265	-3.2	863,523	57,149	6.6	1,904,673
EBITDA	1,598,375	1,479,484	118,891	8.0	1,338,394	259,981	19.4	2,903,558
Depreciation & Ammortisation								
	628,560	549,169	79,391	14.5	414,045	214,515	51.8	1,098,340
Interest Income								
	5,879	0	5,879		0	5,879		0
Interest Paid (charged to P&L)								
	29,550	44,400	-14,850	-33.4	59,238	-29,688	-50.1	79,500
Profit before Tax								
	946,144	885,915	60,229	6.8	865,111	81,033	9.4	1,725,718
Tax								
	300,851	248,056	52,795	21.3	243,627	57,224	23.5	483,201
PROFIT AFTER TAX	645,293	637,859	7,434	1.2	621,484	23,809	3.8	1,242,517
FINANCIAL POSITION								
Total Net Assets								
	27,183,364	23,898,883	3,284,481	13.7	16,901,006	10,282,358	60.8	23,898,883
Debt								
	1,400,000	3,825,000	-2,425,000	-63.4	2,000,000	-600,000	-30.0	3,825,000
Shareholders Funds								
	27,183,364	18,245,601	8,937,763	49.0	16,901,006	10,282,358	60.8	18,245,601
CASHFLOW SUMMARY								
Net Operating Cashflow								
	972,124	1,284,254	-312,130	-24.3	1,087,596	-115,472	-10.6	2,568,509
Capital Expenditure								
	910,404	1,938,000	-1,027,596	-53.0	479,246	431,158	90.0	4,473,000
Dividend								
	527,371	497,000	30,371	6.1	360,000	167,371	46.5	497,007
FINANCIAL METRICS								
Return on Equity								
	6.9%	6.8%	0.1%	1.5	7.4%	-0.5%	-6.8	6.8%
Net Gearing Ratio								
	4.9%	17.0%	-12.1%	-71.2	11.8%	-6.9%	-58.6	17.0%
Shareholders Funds/Total Net Assets								
	100.0%	76.0%	24.0%	31.6	80.7%	19.3%	23.9	76.0%

Hawkes's Bay Airport Ltd
For The Six Months Ended 31 December 2015

Summary of Financial Performance

	HBAL Unaudited 6 months to 31-Dec-15	HBAL Unaudited 6 months to 31-Dec-14	HBAL Audited Year to 30-Jun-15
Airside	1,486,751	1,185,810	2,908,362
Landside	923,859	861,499	1,340,377
Business Park	108,437	154,161	127,986
Total revenue	2,519,047	2,201,470	4,376,725
 Operating Expenses	 920,672	 863,493	 1,637,107
 Operating profit before financing costs and depreciation	 1,598,375	 1,337,977	 2,739,618
 Depreciation	 (628,560)	 (414,045)	 (814,729)
Finance Income	5,879	447	4,328
Finance expense	(29,550)	(59,268)	(99,488)
 Profit before income tax	 946,144	 865,111	 1,829,729
 Income tax	 (300,851)	 (243,627)	 (511,301)
 Profit for the period	 645,293	 621,484	 1,318,428
 Revaluation of property, plant & equipment	 -	 -	 9,467,492
 Total Comprehensive Income	 645,293	 621,484	 10,785,920

Hawkes's Bay Airport Ltd
For The Six Months Ended 31 December 2015

Statement of Movements in Equity

	HBAL Unaudited 6 months to 31-Dec-15	HBAL Unaudited 6 months to 31-Dec-14	HBAL Audited Year to 30-Jun-15
Equity at beginning of year	27,065,442	16,639,522	16,639,522
Profit for period	645,293	621,484	1,318,428
Revaluation of property, plant & equipment	-	-	9,467,492
Distributions to Shareholders	(527,371)	(360,000)	(360,000)
Closing equity	<u>27,183,364</u>	<u>16,901,006</u>	<u>27,065,442</u>

Hawkes's Bay Airport Ltd
For The Six Months Ended 31 December 2015

Summary of Financial Position

	HBAL Unaudited 6 months to 31-Dec-15	HBAL Unaudited 6 months to 31-Dec-14	HBAL Audited Year to 30-Jun-15
Assets			
Property, plant and equipment	29,345,018	18,025,611	29,742,437
Investment property	4,601,984	3,903,085	4,007,149
Intangibles	9,714	5,466	11,142
Total non-current assets	33,956,716	21,934,162	33,760,728
Trade and other receivables	515,080	566,076	427,716
Cash and cash equivalents	179,228	386,665	644,879
Total current assets	694,308	952,741	1,072,595
Total Assets	34,651,024	22,886,903	34,833,323
Equity			
Issued capital	13,789,155	13,789,155	13,789,155
Revaluation reserve	9,467,492	-	9,467,492
Retained earnings	3,926,718	3,111,851	3,808,795
Total equity	27,183,365	16,901,006	27,065,442
Liabilities			
Deferred tax liability	4,113,213	2,031,908	4,166,134
Rentals in advance	1,391,522	1,582,379	1,434,012
Interest bearing loans and borrowings	1,400,000	2,000,000	1,400,000
Total non-current liabilities	6,904,735	5,614,287	7,000,146
Trade and other payables	542,974	360,863	751,978
Employee benefits	19,950	10,747	15,757
Total current liabilities	562,924	371,610	767,735
Total liabilities	7,467,659	5,985,897	7,767,881
Total equity and liabilities	34,651,024	22,886,903	34,833,323

Hawkes's Bay Airport Ltd
For The Six Months Ended 31 December 2015

Statement of Cash Flows

	HBAL Unaudited 6 months to 31-Dec-15	HBAL Unaudited 6 months to 31-Dec-14	HBAL Audited Year to 30-Jun-15
Cash flows from operating activities			
Cash was provided from:			
Revenues	2,437,342	2,145,512	4,256,049
Interest received	5,879	447	4,328
Goods & Service Tax (Net)	(41,079)	23,519	38,229
	<u>2,402,142</u>	<u>2,169,478</u>	<u>4,298,606</u>
Cash was disbursed to:			
Suppliers and employees	975,814	847,930	1,621,114
Interest paid	42,126	59,268	99,488
Income tax paid	412,078	174,684	373,243
	<u>1,430,018</u>	<u>1,081,882</u>	<u>2,093,845</u>
Net cash flows from operating activities	<u>972,124</u>	<u>1,087,596</u>	<u>2,204,761</u>
Cash flows from investing activities			
Cash was disbursed to:			
Capital works	910,404	479,246	738,197
Net cash flows from investing activities	<u>(910,404)</u>	<u>(479,246)</u>	<u>(738,197)</u>
Cash flows from financing activities			
Cash was disbursed to:			
Dividends paid	527,371	360,000	360,000
Debt repayment	-	11,160	611,160
Net cash flows from financing activities	<u>(527,371)</u>	<u>(371,160)</u>	<u>(971,160)</u>
Net increase/(decrease) in cash held	(465,651)	237,190	495,404
Add opening cash brought forward	644,879	149,475	149,475
Closing cash carried forward	<u><u>179,228</u></u>	<u><u>386,665</u></u>	<u><u>644,879</u></u>

Accounting Policies

For the period ending 31 December 2015

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. They also comply with International Financial Reporting Standards.

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 Judgements

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 judgement on the impairment assessment of Investment Property, and in the revaluation of Property, Plant and Equipment.

Accounting Policies

For the period ending 31 December 2015

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 Other Investments

Consist of Bank term deposits having an original maturity date exceeding three months and are recorded at amortised cost.

4 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.

5 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.

Accounting Policies

For the period ending 31 December 2015

Particular accounting policies (continued)

6 Valuation Of Property, Plant And Equipment

Property, Plant and Equipment

In the previous financial year property plant and equipment were been revalued from their original cost when the assets were acquired from the Hawke's Bay Airport Authority on 1 July 2009.

The change in accounting policy was adopted so that the net book value of the assets at 30 June 2015 fairly reflected the underlying value of the Company's assets.

The revaluations have been completed by independent valuers who have assessed the fair value of the assets. Any revaluation increment is credited to the revaluation reserve and included in other comprehensive income, except to the extent that it reverses 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.

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.

7 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.

8 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%

Accounting Policies

For the period ending 31 December 2015

Particular accounting policies (continued)

9 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.

10 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.

Financial assets at fair value through profit or loss

A financial asset is classified in this category only when the Company becomes a party to the contractual provisions of the financial asset. Realised and unrealised gains and losses arising from changes in the fair value of these assets are included in profit or loss in the period in which they arise. The Company has no financial assets at fair value through profit or loss in the reported periods.

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.

Held-to-maturity investments

These investments have fixed maturities, and it is the Company's intention to hold these investments to maturity. Any held-to-maturity investments held by the Company are stated at amortised cost using the effective interest rate method less accumulated impairment losses. The company has no held-to-maturity investments.

Available-for-sale financial assets Available-for-sale financial assets include any financial assets not included in the above categories. Available-for-sale financial assets are reflected at fair value. Unrealised gains and losses arising from changes in fair value are taken to comprehensive income. The company has no available-for-sale financial assets.

Financial liabilities

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

Accounting Policies

For the period ending 31 December 2015

Particular accounting policies (continued)

11 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.

12 GST

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

13 Changes In Accounting Policies

Other than as described above in respect of the revaluation of property, plant and equipment, there have been no changes in accounting policies in the reported periods.

14 NZ IFRS Issued But Not Yet Effective

The following new standards, amendments to standards and interpretations have been issued, but are not yet effective and have not been adopted early:

- NZ IFRS 9 Financial instruments is effective for annual periods beginning on or after 1 January 2018. NZ IFRS 9 is part of the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement. The standard introduces amended requirements for classifying and measuring financial assets and liabilities. The Company has not yet considered the impact of the new standard.
- NZ IFRS 15 Revenue addresses recognition of revenue from contracts with customers. It replaces the current revenue recognition guidance in IAS 18 Revenue and IAS 11 Construction contracts and is applicable to all entities with revenue. It sets out a five step model for revenue recognition to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The Company has yet to assess IFRS 15's full impact. The Company will adopt this standard for the year ended 30 June 2018.

1. PROPERTY, PLANT AND EQUIPMENT

	Historical Cost 30/6/15	Revaluation	Balance 30/6/15	Additions	Depreciation	Disposals	Balance 31/12/15
Cost or Valuation	\$	\$	\$	\$	\$	\$	\$
Land and Land Improvements	2,344,515	3,222,847	5,567,362	-	-	-	5,567,362
Airport Infrastructure & Buildings	16,992,577	6,377,774	23,370,351	-	-	-	23,370,351
Other	1,112,766	-	1,112,766	-	-	-	1,112,766
Capital Work in Progress	280,648	-	280,648	167,794	-	-	448,442
	20,730,506	9,600,621	30,331,127	167,794	-	-	30,498,921
Accumulated Depreciation	\$	\$	\$	\$	\$	\$	\$
Land and Land Improvements	29,413	(29,413)	-	-	1,012	-	1,012
Airport Infrastructure & Buildings	2,254,493	(2,254,493)	-	-	564,201	-	564,201
Other	588,690	-	588,690	-	-	-	588,690
Capital Work in Progress	-	-	-	-	-	-	-
	2,872,596	(2,283,906)	588,690	-	565,213	-	1,153,903
Net Book Value	\$	\$	\$	\$	\$	\$	\$
Land and Land Improvements	2,315,102	3,252,260	5,567,362	-	(1,012)	-	5,566,350
Airport Infrastructure & Buildings	14,738,084	8,632,267	23,370,351	-	(564,201)	-	22,806,150
Other	524,076	-	524,076	-	-	-	524,076
Capital Work in Progress	280,648	-	280,648	167,794	-	-	448,442
	17,857,910	11,884,527	29,742,437	167,794	(565,213)	-	29,345,018

2. INVESTMENT PROPERTY

	Balance 30/06/15	Additions	Depreciation	Disposals	Balance 31/12/15
Cost	\$	\$	\$	\$	\$
Land and land improvements	2,977,203	-	-	-	2,977,203
Business Park Infrastructure and Buildings	1,878,603	-	-	-	1,878,603
Capital Work in Progress	161,997	656,753	-	-	818,750
	5,017,803	656,753	-	-	4,855,806
Accumulated Depreciation	\$	\$	\$	\$	\$
Land and land improvements	161,687	-	26,807	-	188,494
Business Park Infrastructure and Buildings	152,567	-	35,111	-	187,678
Capital Work in Progress	-	-	-	-	-
	314,254	-	61,918	-	376,172
Net Book Value	\$	\$	\$	\$	\$
Land and land improvements	2,815,516	-	(26,807)	-	2,788,709
Business Park Infrastructure and Buildings	1,726,036	-	(35,111)	-	1,690,925
Capital Work in Progress	161,997	656,753	-	-	818,750
	4,703,549	656,753	(61,918)	-	5,298,384
Less Provision for Impairment	(696,400)	-	-	-	(696,400)
	4,007,149	656,753	(61,918)	-	4,601,984