Hawke's Bay Airport Ltd Annual Report

For the year ended 30 June 2016

HAWKE'S BAY AIRPORT

Hawke's Bay Airport Ltd Annual Report

For the year ended 30 June 2016

CONTENTS

Hawke's Bay Airport Ltd Directory

Directors

Tony Porter
(Chairman)

Jim Scotland
(Deputy Chairman – retired 30/06/16)

Sarah Park
(Chair of the Audit and Finance Committee)

Taine Randell
(Appointed 01/04/15)

Wendie Harvey
(Appointed 01/07/16)

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

Chief Executive

Nick Story

Aeronautical & Infrastructure Manager

Olivia Pierre

Nick Story - Chief Executive

Olivia Pierre - Aeronautical & Infrastructure Manager

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

Auditors

Staples Rodway Hawkes Bay Partnership on behalf of the Auditor General

HAWKE'S BAY AIRPORT LTD
PO Box 721, Napier 4140
admin@hawkesbay-airport.co.nz
www.hawkesbay-airport.co.nz

Chairman and CEO's Report

Tony Porter
Chairman

Nick Story
Chief Executive

We are pleased to report on the performance of Hawke's Bay Airport Limited, for the financial year ended 30 June 2016.

It has been an exciting year for the Airport Company. Record growth in passenger numbers and aircraft movements contributed to the Company exceeding 500,000 passenger movements for the first time in the Company's history and delivering another strong financial performance for the year.

A summary of the Airport Company's performance against our Statement of Service Performance objectives as detailed in our Statement of Intent for the year ending 30 June 2016 is included on page 10 of our Annual Report.

Highlights

Health & Safety and Compliance

A Risk Management framework was implemented during the year, enabling the Airport Company to identify and review key risks on a semi-annual basis. The Board approved our new Health & Safety Policy and Statement and we met our objective to record zero harm and zero lost time injuries during the year.

The annual CAA Safety Audit Report was completed during the year and reaffirmed the Airport Company's compliance with the requirements of our Aerodrome Operating Certificate issued under CAA Rule Part 139 which relates to aerodrome certification, operation and use.

Growth in Passenger Numbers and Aircraft Movements

Passenger Numbers

Total passenger numbers increased by 18.9%, or 89,942 to reach 566,431 for the full year. This rate of growth compares favourably to the long term average annual growth rate of 3%.

The increase in passenger numbers was driven by continued growth in Air New Zealand's business throughout the year, coupled with the arrival of two new entrant airlines to service the Hawke's Bay market.

New Entrant Airlines

We were delighted to welcome both Sounds Air and Jetstar during the year. Sounds Air commenced scheduled services between Marlborough and Hawke's Bay in November, operating 6 arrival and departure services per week. Sounds Air were closely followed by Jetstar, who commenced scheduled services between Hawke's Bay and Auckland in December and operate 4 return services per day.

Financial Performance

The Airport Company achieved all of its financial performance targets for the year with the exception of the Return on Equity, which was as a result of the target being set before the asset revaluation was anticipated. The total revenue of $5,269,654 that was achieved for the year, represented an increase of 20.4% on the previous year ($4,376,725) and was $460,000 or 9.6% ahead of budget.

Operating Expenses at $1,851,141 for the full year, were -2.8% below the budget of $1,904,289, reflecting a focus on cost containment and 13% higher than the prior year of $1,637,107.

The revenue growth and expenditure below budget saw EBITDA for the full year at $3,418,513, which was $678,895 or 24.8% ahead of the previous year and $514,582 or 17.7% ahead of budget.

NPAT for full year at $1,403,906 was 13.4% ahead of budget of $1,238,464 and $85,478 or 6.5% ahead of the previous year. The Return on Equity was 5.1% which was below the budget of 6.8% as a result of additional depreciation charged on the revalued property, plant and equipment and as the target was set prior to the revaluation being anticipated. The Company's gearing ratio at 3.1% was below the budget of 17%, however this is expected to increase once the terminal development project gains momentum. Bank borrowing was reduced by $500,000 during the year, resulting in total term debt of $900,000 at balance date. The Company was pleased to reduce its borrowings, particularly as it also funded an additional $1.6m of capital projects during the year.

Dividend to Shareholders

The Company paid a record fully imputed dividend of $527,371 to Shareholders in December 2015.

Review of Landing Charges

The five yearly review of landing charges was completed during the year.

Business Park Development

Work progressed during the year, to implement our strategy to unlock the value of the business park land. The proposed new entranceway to the Airport will further improve the profile and accessibility of the business park.

Infrastructure

The significant increase in aircraft movements and passenger numbers at Hawke's Bay Airport has placed associated demands on our infrastructure. Considerable progress was made during the year on our plans to ensure the Airport Company has appropriate infrastructure in place to manage our growth and improve our "customer experience".

Terminal Building and Airport Fire Station

Shareholders approved the business case for the terminal development project including a new Airport Fire Station which is a key priority for the Airport Company. The developed design stage was substantially completed during the year following extensive stakeholder consultation to ensure the redeveloped terminal meets our airline customers' current and future operational requirements and is a welcoming gateway to Hawke's Bay. The tender process to select a main contractor is the next key stage of the project, with construction works programmed to start in the new financial year and be completed in 2018.

Aircraft Parking

In response to increased aircraft activity, both scheduled and unscheduled aircraft movements, forward planning is underway to ensure we will be able to accommodate an increased number of aircraft parking on the apron.

New Entranceway to Airport

We have agreed to enter into a multi-party funding agreement with NZTA and Napier City Council to develop a new roundabout at the SH2/Watchman Road/Meeanee Quay intersection and a new main entrance to the Airport via Watchman Road and through the Airport business park.

Car Parking

In response to the significant growth in passenger numbers, the existing car parking layout was optimised by remodelling the main carpark and converting a number of the short term (P120) spaces to all day parks.

In line with increased passenger numbers and visitors to the Airport, we are planning for the development of additional car parking spaces to meet short and medium term demand for parking. An additional 140 secure car parks are presently being developed and will be completed in the new financial year.

Rental Car Valet Facility

Construction of the new rental car valet and vehicle storage facility on the business park was completed and handed over to the rental car companies in November. It was completed on time and within budget.

Stakeholder Engagement and Customer Focus

We enjoy regular engagement with our neighbouring Westshore Residents and Development Association and other community groups and we also hosted a number of school visits to the Airport.

We undertook a customer engagement survey with customers, visitors and airport users which provided valuable insights as a basis for enhancements to our infrastructure, including the car park enhancements and extension works.

In support of our objective to enhance our customer's experience at the Airport, a new Airport café, 'Kete Kai' operated by Orton Tailored Cuisine, opened for business in October. We are delighted with the very positive feedback received from café customers, which is reflected by the significant increase in café turnover.

Sponsorship

The Airport Company continues to develop its partnership with Hawke's Bay Tourism and has committed to an annual sponsorship payment of $40,000 to our Regional Tourism Organisation to support its objective to grow visitor numbers to Hawke's Bay, an objective around which we are both very closely aligned.

We continue to work closely with the Eastern Institute of Technology including our annual presentation of a scholarship to a student of Travel and Tourism.

Statement of Intent

The Statement of Intent for the Year Ended 30 June 2017, along with the two following years, was approved by the Company's Shareholders. This document includes an overview of the Company's strategy, key objectives, financial performance targets and capital expenditure plan and is published on our website.

Acknowledgements

On behalf of the Airport Company's Board and Management team, we would like to acknowledge and thank our customers, suppliers, shareholders and other stakeholders for their continued support throughout the year.

We wish to especially recognise and thank Jim Scotland who retired from the Board on 30 June after 7 years' service as a Director of the Airport Company and Deputy Chairman of the Board. Jim has made a significant contribution during his time on the Board. His significant governance experience, wisdom and commercial acumen have added significant value to the business. We welcome Wendie Harvey as Jim's successor on the Board with effect from 1 July 2016.

We also thank our Board for its governance and our Management team for its continued dedication and achievements. It has been an exciting year of unprecedented growth for the Airport Company, setting the scene for a number of exciting infrastructure development projects and business development initiatives that we have in the pipeline to ensure momentum continues around the growth we are experiencing and to position the Airport Company for the future we are anticipating, for the benefit of our Shareholders, Stakeholders and wider Hawke's Bay community.

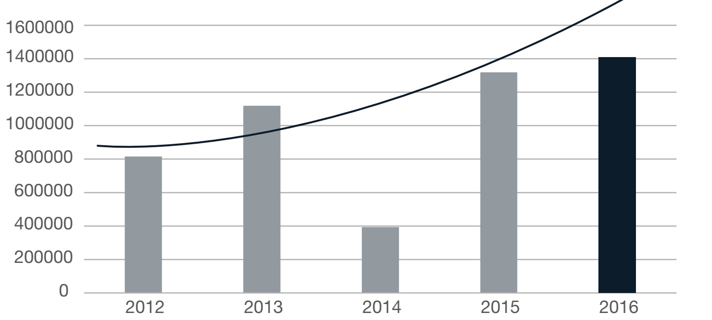
Tony Porter
Chairman
Hawke's Bay Airport Limited

Nick Story
Chief Executive
Hawke's Bay Airport Ltd

Performance graphs

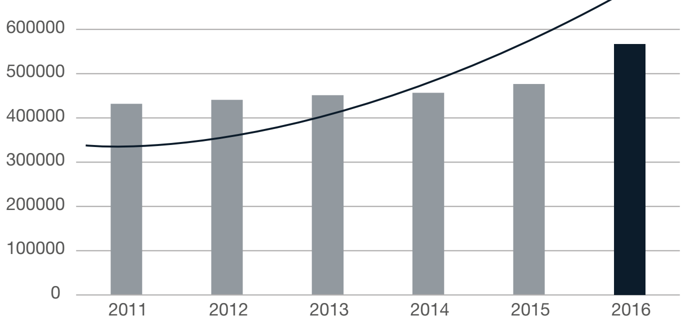
For the year ended 30 June 2016

NPAT

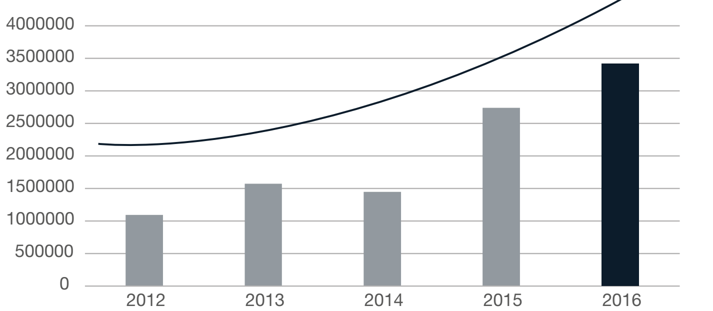


Note: 2014 included an impairment charge of $696,400

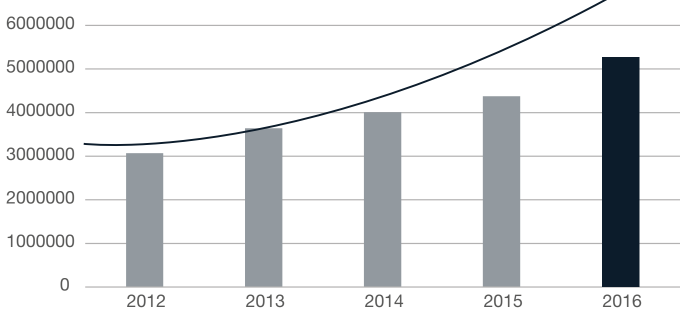
Passengers



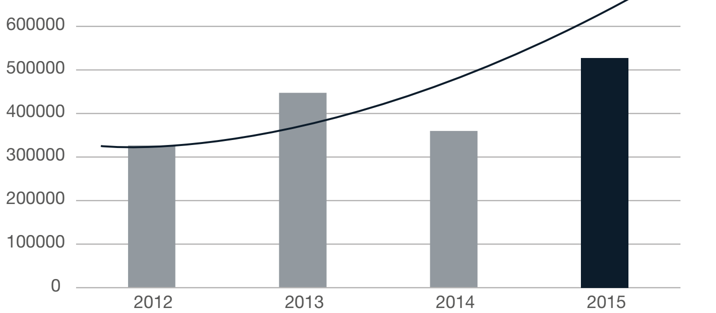
EBITDA



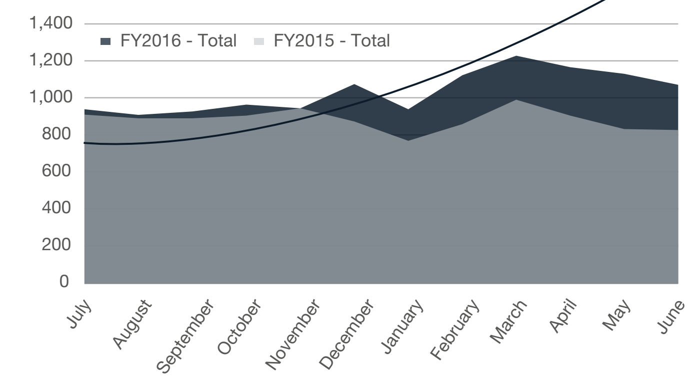
Revenue



Dividend



Aircraft movements



Directors Report

For the year ended 30 June 2016

Directors

Directors Remuneration

The amount of $70,000 per annum was paid to members of the board for the twelve months to 30 June 2016.

T M Porter	28,000
J A Scotland - until 30 June 2016	14,000
S N Park	14,000
T C Randell	14,000
	70,000

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

Following the retirement of JA Scotland on 30 June 2016 WN Harvey was appointed to the Board from 1 July 2016.

Board Committees

As at 30 June 2016 the Company had established the following committee:
Audit Committee: Members are Sarah Park (Chair) and Jim Scotland (until 30 June 2016) and Taine Randell (from 1 July 2016).

Entries in the interests register

As at 30 June 2016, the Directors have declared general disclosure of interest in the following entities:

T M Porter	
Opus International Consultants	Shareholder

J A Scotland	
Scotland Services Ltd	Director/Shareholder
Ahuriri Properties Ltd	Director
Landmac Holdings Ltd	Director
The Crown Hotel (2006) Ltd	Retired 1 September 2015
3R Group Ltd	Director
Hawkes Bay Regional Investment Company Ltd	Director
Longburn Intermodal Freight Hub Ltd	Director

S N Park	
Scotch & Sparkles Ltd	Director/Shareholder
Focus Genetics Management Ltd	Director
Focus Genetics Partnership Limited	Director

T C Randell	
Fiordland Lobster Company Ltd	Director
Australian Lobster Company (GP) Ltd	Director
Salco GP Ltd	Director
FLC Trustee Ltd	Director
Deltop Holdings Ltd	Director
ZSB Holdings Ltd	Director/Shareholder
Kahungunu Asset Holding Company Ltd	Director
Kaitiaki Land Services Ltd	Director
KAHC Investments Ltd	Director
Te Aranga Ltd	Director
Te Wairoa Ltd	Director
Kiwigarden Ltd	Director

Employee Remuneration

Employee Remuneration and other benefits exceeding $100,000

	2016	2015
$100,000 - $110,000	1	-
$110,001 - $120,000	-	-
$120,001 - $130,000	-	-
$130,001 - $140,000	-	-
$140,001 - $150,000	-	-
$150,001 - $160,000	-	1
$160,001 - $170,000	-	-
$170,001 - $180,000	-	-
$180,000 - $190,000	1	-

Auditors

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

Directors Responsibility Statement

The Directors are responsible for ensuring that the financial statements and the Statement of Service Performance present fairly the financial position of the Company as at 30 June 2016 and its financial performance and cashflows for the year ended on that date.

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

Statement of Service Performance

For the year ended 30 June 2016

The following is a Statement of Service Performance relating to the Key Objectives listed in the Company's Statement of Corporate Intent for the year ending 30 June 2016.

Activity	Measure	Status*
CAA recertification	Renewal of Aerodrome Operating Certificate	🟢
Operate a Successful Business	Achieve Performance Targets:	
	• Revenue	🟢
	• EBITDA	🟢
	• NPAT	🟢
	• Return on Equity - Annualised	🔴
	• Gearing	🟢
	• Dividend	🟢
	• Review of Landing Charges	🟢
	• Development of Business Park	🟢
Appropriate Infrastructure	Progress planning for:	
	• Terminal redevelopment	🟢
	• New rescue fire station	🟢
	• Carparking layout	🟢
	• Rental Car Valet Facility	🟢
Health & Safety Focus	Zero harm & zero L.T.Is	🟢
Risk management Plan	Formalise Risk Framework	🟢
Customer Focus	Regular engagement with customers	🟢
Stakeholder Engagement	4 Meetings per annum with Shareholders	🟢

KEY

🟢 *Meets or Exceeds target* 🟠 *Within 10% of target* 🔴 *10% or more below target*

Further commentary in respect of the objectives measured above is given in the Chairman and CEO's report on pages 4 to 5.

Statement of Comprehensive Income

For the year ended 30 June 2016

	Note	2016 $	2015 $
Aviation		3,539,656	2,908,362
Carparking		1,407,717	1,203,517
Business Park		200,080	127,986
Other Revenue		122,202	136,860
Total Revenue	**1**	**5,269,654**	**4,376,725**
Less Operating Expenses	**2**	**(1,851,141)**	**(1,637,107)**
Operating Profit Before Financing Costs and Depreciation		**3,418,513**	**2,739,618**
Depreciation		(1,272,788)	(814,729)
Finance Income		8,927	4,328
Finance Expense		(60,515)	(99,488)
Net Profit before income tax		**2,094,137**	**1,829,729**
Income Tax Expense	3	(690,231)	(511,301)
Net Profit after income tax		**1,403,906**	**1,318,428**
Items that will not be reclassified into profit or loss:			
Revaluation of Property, Plant & Equipment	8	-	11,884,527
Deferred tax on revaluation	3	96,372	(2,417,034)
Total Comprehensive Income		**1,500,278**	**10,785,921**

Statement of Changes in Equity

For the year ended 30 June 2016

	Issued Capital	Retained Earnings	Revaluation Reserve	Total Equity
Balance at 1 July 2015	**13,789,155**	**3,808,795**	**9,467,492**	**27,065,442**
Profit for the period	-	1,403,906	-	1,403,906
Reclassification of depreciation on revalued assets	-	344,188	(344,188)	-
Movement in deferred tax on revaluation reserve	-	-	96,372	96,372
Total comprehensive income		**1,748,094**	**(247,816)**	**1,500,278**
Distributions to shareholders (note 5)	-	(527,371)	-	(527,371)
Movement in equity for the period	-	1,220,723	(247,816)	972,907
Balance at 30 June 2016	**13,789,155**	**5,029,518**	**9,219,676**	**28,038,349**
Balance at 1 July 2014	**13,789,155**	**2,850,367**	**-**	**16,639,521**
Profit for the period	-	1,318,428	-	1,318,428
Revaluation of property, plant and equipment	-	-	11,884,527	11,884,527
Deferred tax on revaluation	-	-	(2,417,034)	(2,417,034)
Total comprehensive income	**-**	**1,318,428**	**9,467,493**	**10,785,921**
Distributions to shareholders (note 5)	-	(360,000)	-	(360,000)
Movement in equity for the period	-	958,428	9,467,493	10,425,921
Balance at 30 June 2015	**13,789,155**	**3,808,795**	**9,467,493**	**27,065,442**

Statement of Financial Position

As at 30 June 2016

	Note	2016 $	2015 $
Assets			
Property plant and equipment	8	29,601,204	29,742,437
Investment property	9	4,599,306	4,007,149
Intangibles		7,020	11,142
Total non-current assets		**34,207,531**	**33,760,728**
Trade and other receivables	4	590,140	427,716
Cash and cash equivalents		514,755	644,879
Total current assets		**1,104,895**	**1,072,595**
Total Assets		**35,312,426**	**34,833,323**
Equity			
Issued capital		13,789,155	13,789,155
Retained earnings		5,029,518	3,808,795
Revaluation reserve		9,219,676	9,467,492
Total equity	5	**28,038,349**	**27,065,442**
Liabilities			
Deferred tax liability	3	3,989,812	4,166,134
Rentals in advance	7	1,349,495	1,434,012
Borrowings	6	900,000	1,400,000
Total non-current liabilities		**6,239,307**	**7,000,146**
Trade and other payables	7	965,376	751,978
Employee benefits		69,394	15,757
Total current liabilities		**1,034,770**	**767,735**
Total liabilities		**7,274,077**	**7,767,881**
Total equity and liabilities		**35,312,426**	**34,833,323**

These financial statements were authorised for issue by the board on 30 August 2016 on Behalf of Hawke's Bay Airport Limited.

TM Porter
Chairman

SN Park
Director

Statement of Cash Flows

For the year ended 30 June 2016

	Note	2016	2015
Cash flows from operating activities		$	$
Cash was provided from:			
Revenues		5,157,852	4,256,049
Interest Received		8,927	4,328
Goods & Services Tax (Net)		(26,502)	38,229
		5,140,278	4,298,606
Cash was disbursed to:			
Suppliers and Employees		(1,916,559)	(1,621,114)
Interest Paid		(71,332)	(99,488)
Income Tax Paid		(678,171)	(373,243)
		(2,666,062)	(2,093,845)
Net Cash Flows from Operating Activities	10	2,474,216	2,204,761
Cashflows from investing activities			
Cash was disbursed to:			
Capital Works		(1,576,969)	(738,197)
Net Cash Flows from Investing Activities		(1,576,969)	(738,197)
Cashflows from financing activities			
Cash was provided from:			
Borrowings		-	-
Cash was disbursed to:			
Dividends Paid		(527,371)	(360,000)
Debt Repayment		(500,000)	(611,160)
Net Cash Flows from Finance Activities		(1,027,371)	(971,160)
Net increase/(decrease) in cash and cash equivalents		(130,124)	495,404
Add Opening Cash and Cash equivalents		644,879	149,475
Closing Cash and Cash equivalents at end of year		**514,755**	**644,879**
Represented by:			
Cash at Bank		507,574	637,748
Cash in hand		7,181	7,131
		514,755	**644,879**

Notes to the Accounts

For the year ended 30 June 2016

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 prior year in the revaluation of Property, Plant and Equipment.

Notes to the Accounts

For the year ended 30 June 2016

Particular accounting policies

1 Revenues

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

2 Trade and Other Receivables

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

3 Taxation

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

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

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

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

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

4 Cash Flow Statement

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

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

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

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

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

5 Valuation Of Property, Plant And Equipment

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

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

The revaluations were completed by independent valuers and who have assessed the fair value of the assets. Any revaluation increment was credited to the revaluation reserve and included in other comprehensive income, except to the extent that it reversed a previous decrease of the same asset previously recognised within net profit in the statement of comprehensive income, in which case the increase is recognised within net profit in the statement of comprehensive income.

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

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

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

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

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

6 Investment Property

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

7 Depreciation

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

The principal depreciation rates are as follows:

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

8 Intangibles

Intangibles comprise computer software that is not an integral part of the related hardware. This software has either been purchased or developed internally and is initially recorded at cost. Subsequent costs are included in the software's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The costs of maintaining the software are charged to profit or loss. Software is amortised over three years using the straight line method.

9 Financial Instruments Recognition and Measurement

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

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

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

10 Impairment Testing Of Assets

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

11 GST

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

Notes to the Accounts

For the year ended 30 June 2016

12 Leases

The Company only has operating leases.

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

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

13 Changes In Accounting Policies

Other than as described above in respect of the revaluation of property, plant and equipment in the prior period, 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 is in the process of considering the impact of this new standard but does not expect it to have a material impact.
- 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 is in the process of considering the impact of this new standard but does not expect it to have a material impact.
- NZ IFRS 16 Leases NZ IFRS 16, 'Leases', replaces the current guidance in NZ IAS 17. Under NZ IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Under NZ IAS 17, a lessee was required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). NZ IFRS 16 now requires a lessee to recognise a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts. Included is an optional exemption for certain short-term leases and leases of low-value assets; however, this exemption can only be applied by lessees.

  For lessors, the accounting for leases under NZ IFRS 16 is almost the same as NZ IAS 17.

  The standard is effective for accounting periods beginning on or after 1 January 2019.

  The Company is in the process of considering the impact of this new standard.

1. Operating Revenues

Aviation income includes all revenue from landing charges, aircraft parking, concessions, airfield and terminal rentals.

Carparking includes all income from the short term, daily and long stay car parks.

Business park revenue includes all rental income from tenants occupying sites on the business park investment property.

Other revenue includes advertising, use of the conference facilities and other revenue.

	2016	2015
2. Operating Expenses	$	$
Amortisation	-	-
Audit Fees - audit of financial statements	44,708	20,132
Directors Fees	70,000	70,000
(Gain)/Loss on Sale of Assets	-	(13,992)
Lease of Land	34,167	33,000
Employee benefits	340,321	257,281
Other Operating Expenses	1,361,945	1,270,686
	1,851,141	1,637,107

3. Taxation

	2016	2015
A. Current Year Reconciliation		
Profit Before Taxation	2,094,137	1,829,729
Prima Facie Taxation @ 28%	586,358	512,324
Adjusted for the effect of:		
Depreciation on revalued assets	96,372	-
Non deductible expenses	1,462	-
Prior Years (over)/under provision	6,039	(1,023)
Income Tax Expense	690,231	511,301
Comprising		
Current Tax	770,181	550,483
Deferred Tax	(79,950)	(39,181)
	690,231	511,302

	2016	2015
B. Taxation Payable/(Receiveable)		
Balance at 1 July	201,905	24,663
Prior Year (over)/under provision	6,039	-
Terminal Tax (paid)/refunded	(207,944)	(24,663)
Current Tax Payable	764,142	550,482
Provisional Tax paid	(470,227)	(347,564)
RWT paid on Interest	(2,499)	(1,013)
Balance at 30 June	291,416	201,905

Notes to the Accounts

For the year ended 30 June 2016

C. Imputation Credit Account	2016 $	2015 $
Imputation Credits carried forward	906,814	673,572
Decrease arising from tax refunded during the year	(4,134)	-
Increase arising from tax paid during the year	680,429	373,242
Applied to Dividends paid	(205,089)	(140,000)
Balance at 30 June	1,378,020	906,814

D. Deferred Tax Reconcilaition		
Opening balance	4,166,134	1,788,281
Deferred tax expense	(176,322)	2,377,853
Closing balance	3,989,812	4,166,134
Reconciliation of Deferred Tax Expense		
Charged to tax expense	(79,950)	(39,181)
Charged to other comprehensive income	(96,372)	2,417,034
	(176,322)	2,377,853

E. Deferred Tax Analysis		
Holiday Pay	(4,929)	(3,911)
Impairment Provision	(194,992)	(194,992)
Intangibles	(47)	(47)
Income in Advance	(403,609)	(427,209)
Runway Refurbishment	624,972	684,557
Revaluation of PPE	2,320,662	2,417,034
Asset Base and Depreciation Differences	1,647,755	1,690,702
Income Tax Losses	-	-
	3,989,812	4,166,134

4. Trade and other receivables

Accounts Receivable	387,619	297,695
Provision for doubtful debts	(2,464)	-
Prepayments	204,986	130,021
	590,140	427,716

The aging of accounts receivable balance based on contractual terms (greater than 30 days) is shown below:

Current	343,908	247,445
Past due but not impaired	41,246	50,250
Impaired	2,464	-
Total	387,619	297,695

5. Equity	Shares on issue	2016 $	2015 $
Ordinary shares	1004	13,789,155	13,789,155

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

All shares are fully paid and have no par value.

On 16 December 2015 a dividend of $525.27 cents per share was paid to the holders of ordinary shares (2015: $358.57 cents per share).

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

6. Borrowings

The company has a flexible cost of funds facility up to $1m, (2015: up to $1m) and a short term advance facility up to $0.9m (2015: up to $4m) available from the ANZ Bank. At balance date the short term advance was drawn down to the extent of $900,000 (2015: $1,400,000) and the Flexible Facility $0 (2015: $0). The contractual maturity of the short term advance facility is when it expires on 31 October 2017.

The interest rate is currently 3.38% p.a. (2015: 5.2% p.a.).

The facilities are secured by a General Security Agreement.

7. Trade and other payables

General - Trade	246,991	298,041
- Capital Expenditure	272,368	43,987
Rentals in Advance	111,572	112,748
GST Payable	43,028	95,297
Income Tax Payable	291,416	201,905
	965,376	751,978

Rentals in advance due beyond twelve months totals $1,349,495 (2015: $1,434,012).

Notes to the Accounts

For the year ended 30 June 2016

8. Property, Plant and Equipment

	Historical cost 30/06/15	Revaluation 30/06/15	Balance 30/06/15	Additions	Depreciation	Disposals	Balance 30/6/16
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	10,246	-	-	1,123,012
Capital Work in Progress	280,648		280,648	977,923	-	-	1,258,571
	20,730,506	9,600,621	30,331,127	988,169	-	-	31,319,296
Accumulated Depreciation	$	$	$	$	$	$	$
Land and Land Improvements	29,413	(29,413)	-		1,481		1,481
Airport Infrastructure & Buildings	2,254,493	(2,254,493)	-		1,006,733		1,006,733
Other	588,690	-	588,690		121,187		709,877
Capital Work in Progress	-	-	-		-		-
	2,872,596	(2,283,906)	588,690	-	1,129,402	-	1,718,092
Net Book Value	$	$	$	$	$	$	
Land and Land Improvements	2,315,102	3,252,260	5,567,362	-	(1,481)	-	5,565,881
Airport Infrastructure & Buildings	14,738,084	8,632,267	23,370,351	-	(1,006,733)	-	22,363,618
Other	524,076	-	524,076	10,246	(121,187)	-	413,135
Capital Work in Progress	280,648	-	280,648	977,923	-	-	1,258,571
	17,857,910	11,884,527	29,742,437	988,169	(1,129,402)	-	29,601,204

As shown in the Statement of Changes in Equity there was an additional depreciation charge of $344,188 as a result of the revaluations on the Airport Infrastructure & Buildings assets, therefore if these assets were stated at historical cost they would have an opening net book value at 1 July 2015 of $14,738,084 and a depreciation charge for the year of $662,545, resulting in a closing net book value of $14,075,539 at 30 June 2016.

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

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

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

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

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

9. Investment Property

	Balance 30/06/15	Additions	Transfer from Capital WIP	Depreciation	Disposals	Balance 30/6/16
Cost	$	$	$	$	$	$
Land and land improvements	2,977,203	-	-	-	-	2,977,203
Business Park Infrastructure and Buildings	1,878,603	718,682	161,997	-	-	2,759,282
Capital Work in Progress	161,997	12,740	(161,997)	-	-	12,740
	5,017,803	731,422	-	-	-	5,749,225
Accumulated Depreciation	$	$	$	$	$	$
Land and land improvements	161,687	-	-	33,619	-	195,306
Business Park Infrastructure and Buildings	152,567	-	-	105,646	-	258,213
Capital Work in Progress	-	-	-	-	-	-
	314,254	-	-	139,265	-	453,519
Net Book Value	$	$	$	$	$	$
Land and land improvements	2,815,516	-	-	(33,619)	-	2,781,897
Business Park Infrastructure and Buildings	1,726,036	718,682	161,997	(105,646)	-	2,501,070
Capital Work in Progress	161,997	12,740	(161,997)	-	-	12,740
	4,703,549	731,422	-	(139,265)	-	5,295,706
Less Provision for Impairment	(696,400)	-	-	-	-	(696,400)
	4,007,149	731,422	-	(139,265)	-	4,599,306

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

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

The direct operating expenses (rates and electricity), other than depreciation shown above, in respect of the business park were $37,887 for the year (2015: $37,423).

As at 30 June 2016 the company has considered whether any new indicators of impairment exist.

The recoverable amount of the investment property has been determined based on value in use calculations. These calculations use post-tax cashflow projections based on the financial budgets approved by the Board covering a twenty year period. Cashflows beyond the twenty year period are extrapolated using the estimated growth rates stated below. The growth rate does not exceed the long term average growth rate for the business in which it operates.

The key assumptions used in for value in use calculations are as follows:

Additional tenancies - an incremental increase due to increased tenancies for 5 years and inflation adjusted from year 6.

Growth rate 1%

Discount rate 8.5%

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

Notes to the Accounts

For the year ended 30 June 2016

10. Reconciliation of net profit after income tax to net cashflows from operating activities	2016 $	2015 $
Operating Profit/(Loss) After Taxation	1,403,906	1,318,427
Add/(Less):		
Non Cash Items - Depreciation	1,272,788	814,729
- Amortisation	-	-
- Deferred Tax	(79,950)	(39,182)
- (Profit)/Loss on Disposal on/of Assets	-	(13,992)
Changes in Trade & Other Receivables	(158,562)	5,154
Changes in Payables & Income in Advance	36,034	119,624
Net Cash flows from Operating Activities	2,474,216	2,204,760

11. Commitments

Operating commitments:

As at 30 June 2016 the company had 0.5 years remaining of a five year contract with a provider of rescue fire, grounds maintenance and security services at $364,704 per annum. This contract runs until 31 December 2016.

As at 30 June 2016 the company had two years remaining of a three year commitment with Hawke's Bay Tourism to contribute $40,000 per annum.

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

	2016 $	2015 $
No longer than 1 year	33,000	33,000
1 -5 years	132,000	132,000
Longer than 5 years	787,208	820,208
	952,208	985,208

Capital commitments:

At 30 June 2016 the Company had a contractual commitment of $393,864 in respect of the terminal redevelopment.

12. Contingencies

There are no known contingent liabilities. (2015: $0).

Notes to the Accounts

For the year ended 30 June 2016

13. Transactions with related parties

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

These transactions are not separately disclosed where they:

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

The Company has engaged Opus International Consultants Ltd to provide engineering and other consulting services.

Mr Tony Porter, the Chairman of the Company, has a minor shareholding in Opus.

The Company paid consultancy fees of $293,850 to Opus on normal commercial terms during the financial year. (2015: consulting fees $24,040), of this amount $155,190 was outstanding at balance date (2015: nil). These have been both capital and operating in nature.

As included in note 11, of the contractual capital commitments at balance date an amount of $143,942 is committed to Opus.

Amounts paid to key management personnel (Chief Executive and the Directors) during the year were $274,500 (2015: $224,375).

14. Financial instruments

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

The main financial instruments are:

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

The Company has no off balance sheet financial instruments.

Risk Management Policies

The Company's investment policy objective is to maximise investment income within a prudent level of investment risk. Any financial investments, representing cash for working capital purposes, must be invested for no longer than 180 days to ensure the funds remain available to meet future cash flow requirements. Investments must only be placed with a New Zealand-registered bank with a Standard & Poors Credit Rating of AA-.

Credit Risk Exposure

Credit risk is the risk that the other party to a financial instrument will fail to discharge their obligation resulting in the company incurring a financial loss. This usually occurs when debtors fail to settle their obligations owing to the entity.

Maximum exposure to credit risk (accounts receivable and cash and cash equivalents) is disclosed in the body of the financial statements. These amounts are recorded net of any provision for possible losses.

The Company is not exposed to any significant concentrations of credit risk.

Liquidity Risk

Liquidity risk is the risk that the company may encounter difficulties raising funds to meet commitments associated with financial instruments. Liquidity risk arises on borrowings, trade and other payables and employee benefits.

The company manages liquidity risk by monitoring forecast cash flows and maintaining adequate cash reserves and borrowing limits.

Capital risk management

The company manages its capital to ensure it will be able to continue as a going concern while maximising the return to shareholders. The capital structure consists of issued capital, reserves and retained earnings.

Fair Value of Financial Instruments

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

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

Cash and cash equivalents: The reported amounts approximate fair value.

Trade and other receivables: The reported amount approximates fair value because they are assessed for impairment and all amounts are receivable within three months of balance date.

Trade and other payables: The reported amount approximates fair value because they are payable in the short term.

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

Interest Rate Risk

Interest rate risk is the risk that the fair values or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The company is sensitive to interest rates in relation to its borrowings, cash and cash equivalents. If interest rates were to increase/(decrease) by 1% the profit and equity of the company would increase/(decrease) by $14,000 (2015: $17,055).

In doing the calculation the assumption is that the rate change would be as at the beginning of the period and no other rate changes would be effective during the period.

There has been no change to the company's exposure to interest rate risk or the way it manages and measures interest rate risk in the reporting period.

Fair value estimation

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

Level 1
Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2
Inputs rather than quoted prices included in level 1 that are observable for the asset or liability, either directly (that is as prices) or indirectly (that is derived from prices).

Level 3
Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

15. Events subsequent to balance date

There are no events subsequent to balance date.

Independent auditor's report

staplesrodway
CHARTERED ACCOUNTANTS

To the readers of Hawke's Bay Airport Limited's financial statements and performance information

For the year ended 30 June 2016

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

Opinion on the financial statements and the performance information

We have audited:

- the financial statements of the company on pages 11 to 27, that comprise the statement of financial position as at 30 June 2016, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information; and
- the performance information of the company on page 10 and the relevant commentary on pages 4 to 5.

In our opinion:

- the financial statements of the company:
  - present fairly, in all material respects:
    - its financial position as at 30 June 2016 and
    - its financial performance and cash flows for the year ended; and
  - comply with generally accepted accounting practice in New Zealand in accordance with New Zealand equivalents to International Financial Reporting Standards'.
- the performance information of the company presents fairly, in all material respects, the company's actual performance compared against the performance targets and other measures by which performance was judged in relation to the company's objectives, for the year ended on 30 June 2016.

Our audit was completed on 30 August 2016. This is the date at which our opinion is expressed.

The basis of our opinion is explained below. In addition, we outline the responsibilities of the Board of Directors and our responsibilities, and explain our independence.

Basis of opinion

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and carry out our audit to obtain reasonable assurance about whether the financial statements and the performance information are free from material misstatement.

Material misstatements are differences or omissions of amounts and disclosures that, in our judgement, are likely to influence readers' overall understanding of the financial statements and the performance information. If we had found material misstatements that were not corrected, we would have referred to them in our opinion.

An audit involves carrying out procedures to obtain audit evidence about the amounts and disclosures in the financial statements and in the performance information. The procedures selected depend on our judgement, including our assessment of risks of material misstatement of the financial statements and the performance information, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the preparation of the company's financial statements and performance information in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.

An audit also involves evaluating:

- the appropriateness of accounting policies used and whether they have been consistently applied;
- the reasonableness of the significant accounting estimates and judgements made by the Board of Directors;
- the appropriateness of the reported performance information within the company's framework for reporting performance;
- the adequacy of the disclosures in the financial statements and in the performance information; and
- the overall presentation of the financial statements and the performance information.

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements and the performance information. Also, we did not evaluate the security and controls over the electronic publication of the financial statements and the performance information.

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

Responsibilities of the Board of Directors

The Board of Directors is responsible for the preparation and fair presentation of financial statements for the company that comply with generally accepted accounting practice in New Zealand. The Board of Directors is also responsible for preparation of the performance information for the company.

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

The Board of Directors is responsible for such internal control as it determines is necessary to enable the preparation of financial statements and the performance information that are free from material misstatement, whether due to fraud or error. The Board of Directors is also responsible for the publication of the financial statements and the performance information, whether in printed or electronic form.

Responsibilities of the Auditor

We are responsible for expressing an independent opinion on the financial statements and the performance information and reporting that opinion to you based on our audit. Our responsibility arises from the Public Audit Act 2001.

Independence

When carrying out the audit, we followed the independence requirements of the Auditor-General, which incorporate the independence requirements of the External Reporting Board

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

S G Signal
Staples Rodway Hawkes Bay Partnership
On behalf of the Auditor-General
Hastings, New Zealand


Jetstar

HAWKE'S BAY AIRPORT LTD
PO Box 721, Napier 4140
admin@hawkesbay-airport.co.nz
www.hawkesbay-airport.co.nz

HAWKE'S BAY AIRPORT