Rotorua Regional Airport Limited

DESTINATION ROTORUA

ROTORUA REGIONAL AIRPORT LIMITED

Draft Statement of Intent 2005-2008

Board Statement

Board of Directors
Rotorua Regional Airport Ltd

Neil Oppatt (Chairman)
Bob Martin
Bill Kingi
Ray Cook

The 2004 – 2005 financial year has been a hugely significant period for Rotorua Regional Airport Limited. As directors, we have been privileged to be a part of the long awaited development and upgrading works which have taken place over the preceding months. During this time of physical construction and development, we have also been actively involved with the development of the company structure and formulating the way in which the company, in partnership with Rotorua District Council, will operate this vital component of the Rotorua transport network into the future.

As directed by Rotorua District Council, our 100% shareholder, RRAL has been working to facilitate the transfer of the infrastructure assets (land, buildings, runways, carpark, and apron) from the ownership of RRAL into the asset holdings of RDC. This transfer took place in February 2005 and the company's activities are now concerned primarily with operating the airport and maximising its economic return to the shareholder, with RDC using its planning and engineering resources to plan, fund and oversee future airport development. As a board, we believe that this transfer was a vital step toward establishing a facility capable of meeting the needs for trans-Tasman airline services.

The relationship between RRAL and RDC continues to be very effective and functional. The RRAL Board would like to acknowledge the contribution the RDC Engineering Department has made to the capital development programme. The RRAL Board and Management have enjoyed working with RDC engineers and this positive relationship is set to continue with the many and varied projects planned for the future of Rotorua Airport.

The management of RRAL has also changed during the last year, with CEO Bob Wynn leaving the company in March 2004. Matt Clarke was formally appointed to the position of Airport Manager in July 2004 and the Board has been very pleased with the way he has guided the company through this interesting and challenging period.

This Statement of Intent is a three year forecast which seeks to inform the shareholder of the new financial position, goals and objectives of Rotorua Regional Airport Limited. The next three years will certainly shape the long term future of our airport. The RRAL Board is looking to ensure that all steps are taken to ensure that we continue to improve and evolve to provide an efficient, attractive airport facility capable of exceeding the expectations of our shareholder, the Rotorua District Council, and also our customers, the travelling public.

Introduction

Rotorua Regional Airport Limited –

(a) is a limited liability company pursuant to the Companies Act 1993.

(b) is a Council-controlled Trading Organisation pursuant to Section 6 Local Government Act 2002.

This Statement of Intent –

(a) is prepared in compliance with Section 64 and the Eighth Schedule of the Local Government Act 2002.

(b) sets out the objectives and scope of activities proposed to be carried out by the Rotorua Regional Airport Ltd (RRAL) in the 3 year period commencing 1 July 2005.

The Local Government Act 2002 requires that Council-controlled organisations –

(a) review their Statement of Intent prior to the commencement of each financial year.

(b) have a financial year ending 30th June each year.

The Eighth Schedule of the Local Government Act states that the purpose of a statement of intent is to -

(a) state publicly the activities and intentions of a council-controlled organisation for the year and the objectives to which those activities will contribute.

(b) provide an opportunity for shareholders to influence the direction of the organisation.

(c) provide a basis for the accountability of the directors to their shareholders for the performance of the organisation.

On 31st July 2002 Rotorua District Council purchased the 50% shareholding in RRAL held by Central Avion Holdings Limited. The Council now holds 100% of the shares in RRAL.

During the 2004-2005 financial year the infrastructure assets of Rotorua Regional Airport Limited are expected to be transferred to the Rotorua District Council. RRAL will remain as the airport operating company leasing the assets from the company's sole shareholder, RDC.

The Rotorua District Council is now responsible for the ongoing capital development of the airport. The operating company's goals are primarily concerned with optimising the use of the infrastructure.

Mission Statement

"A user friendly, attractive airport 'hub' which meets the regional need for domestic and trans-Tasman airline services and is a safe, commercially viable operation optimising the social and economic benefits to the community shareholder."

Goals

Maintenance of domestic jet services

Qantas Airways have announced that they will continue to operate Boeing 737-300 aircraft between Christchurch and Rotorua throughout the winter of 2005. RRAL will look to facilitate continued jet services.

Establishment of trans-Tasman passenger services

RRAL continues to assist RDC with obtaining the planning consents required to extend the airport runway. RRAL continues to invite airlines to commence trans-Tasman flights as soon as we are able to host them.

An attractive customer friendly airport facility

The Stage One terminal development is almost complete. The new air conditioned terminal will be host to a Robert Harris café and retail area providing all travellers with a great place to visit. RRAL will use local imagery to present a fantastic, positive representation of our wonderful city and region.

Minimum cost and optimum benefit to community shareholder

RRAL has worked hard to ensure that long term tenancy agreements maximise the revenue generating capacity of the airport.

Objectives

- Meet the airport needs of the district and region
- Maintain an effective working relationship with the shareholder/landlord
- Meet the needs of the community for growth in aircraft movements and passenger numbers
- Establish trans-Tasman services utilising existing runway length
- Operate company as a 'stand alone' commercial business
- Optimise net earnings potential for reinvestment in airport development
- Mitigate adverse effects caused by airport operations and development
- Maintain a safe, secure airport facility
- Provide for general aviation activity consistent with primary purpose of providing for airline passenger services

Strategies

- Maximise revenue potential of terminal expansion – food/beverage, retail, and advertising
- Mitigate adverse effects caused by airport operations and development – noise, dust, flight path clearance
- Facilitate introduction of scheduled and charter services on Rotorua trans-Tasman routes by fostering relationships with airline customers
- Develop and increase existing revenue streams – secure parking, space rental, new services
- Reach compliance with international Civil Aviation Authority security regulations to enhance likelihood of trans-Tasman operations
- Work with RDC to develop parking and roading facilities to enhance the 'look and feel' of the airport facility
- Contribute to initiatives to secure the right to have an international airport servicing Rotorua
- Provide RDC with advice to assist with infrastructure development planning

Governance

The board's approach to governance dictates:

(a) that the company operate as a legal entity in it's own right separate from it's shareholder[1]

(b) that all decisions are made by the board of directors[2] in accordance with the company constitution and statement of intent

(c) the maintenance of an effective working relationship with the shareholder on issues of strategic importance

[1] Section 15 of the Companies Act 1993 refers
[2] Section 128 of the Companies Act 1993 and Section60 of the Local Government Act 2002 refer

Nature and Scope of Activities

The primary nature and scope of activities for the company is to operate an airport at Rotorua.

These activities include:

(a) Retaining the Civil Aviation Authority Aerodrome Operator Certificate by abiding by the laws and requirements outlined in the Civil Aviation Act.

(b) Operating a facility suitable for the required use of the public in a safe, lawful and efficient manner.

Over the next three years the company will actively pursue opportunities for passenger and revenue growth. RRAL will endeavour to present the airport facility to all users at a standard which residents and ratepayers can be proud of.

Capital Expenditure Proposals

RRAL capital expenditure will be limited to the budgeted replacement and repair of company owned assets.

Financial Forecasts

The following table forecasts the company's anticipated financial performance for the three year period ending 30th June 2008. Please note: the financial forecasts contained within this document are based upon the projections of Price Waterhouse in their capacity as financial advisors to Rotorua District Council.

Table 2: Financial Forecasts

Year ending 30 June :	2006	2007	2008
Total revenue	2,170,000	2,219,000	2,368,000
Total expenses	2,121,000	2,166,000	2,311,000
Surplus / deficit before tax	49,000	53,000	57,000
Provision for tax	16,000	17,000	19,000
Surplus / deficit after tax	33,000	36,000	38,000
Term Debt	412,000	412,000	412,000
Total assets (net current liabilities)	945,000	981,000	1,019,000
Total shareholders' funds	533,000	569,000	607,000
Net profit after tax to average shareholders' funds	6%	6%	6%
Debt equity percentage	44%	42%	40%

Performance Targets

The company will report to the shareholders on the following performance indicators:

(a) The ratio of net profit before and after tax/interest/revaluations (before extraordinary items) to average shareholder funds
(b) The ratio of net profit before and after tax/interest/revaluations to average total assets (including revaluations, net current liabilities).
(c) Interest cover ratio

Table 3: Performance Indicators

Year ending 30 June :	FORECAST		
	2006	2007	2008
(a) Return on Shareholders Funds (after tax and interest)	6%	6%	6%
(b) Return on Average Shareholders Funds (before tax and interest)	11.8%	10.8%	10.3%
(c) Return on Assets After Tax and Interest	3%	4%	4%
(d) Return on Assets Before Tax and Interest	5%	5%	6%
(e) Interest Cover (before tax and interest)	5.1	7.5	15.25

Capital Structure

The Capital Structure post the asset transfer will comprise of 500 $1 share owned by Rotorua District Council.

Dividend Policy

The company's policy prior to Council purchasing a 100% shareholding has been to distribute by way of dividend to shareholders 40% of net profit after tax provided where it is prudent to do so.

The shareholder has waived its right to require RRAL to pay a dividend provided that the company invests an equivalent amount into airport development.

Shareholders' Funds/Assets

Table 2 shows total projected shareholders' funds post asset transfer.

Shareholders' funds include share capital and reserves.

Assets include current assets and non-current assets which comprise fixed assets at historical cost and amortised over the expected life of the asset and deferred taxation.

Debt : Equity Ratio

The company aims to maintain a debt equity percentage between 40 – 45%.

Interest Cover

The company aims to have an interest cover above 2.

Acquisition of Shares

The company will not subscribe for, purchase, or otherwise acquire shares in any company or other organisation without first being authorised to do so by a special resolution of shareholders.

Shareholder Information

The company will provide shareholders with information on its current and future activities at a level sufficient for shareholders to assess the performance of the company against its objectives.

The company will endeavour to disclose as much information on its operation as is practicable and consistent with commercial and confidentiality considerations. As a minimum this will involve:

(a) Half Yearly:
Compliance with Section 66 Local Government Act 2002 including -
- i) a year-to-date unaudited statement of profit and loss compared with budget and result for the same period of the previous year.
- ii) balance sheet at the end of the period
- iii) statement of source and application of funds
- iv) updated performance indicators
- v) narrative on major developments, trends, and any revisions to financial forecasts in the light of performance which will be the subject of discussions with the shareholders

(b) Annual:

Compliance with Sections 67 and 68 Local Government Act 2002 including -
- i) annual report and accounts
- ii) budget for coming year

(c) As Necessary:

- i) details of any new developments not covered in the annual budget and Statement of Intent.
- iii) any other information justifiably sought by the shareholder

Compensation

Except for shareholder advances, the board is not proposing any activities for which it would seek compensation from any local authority[3]

Company Valuation

The book value of shareholders' funds as at 30 June 2005 will be:

Shares:	
Rotorua District Council	$500,000
Total Book Value of Shares	$500,000
Loan Finance:	
Rotorua District Council	$0

The value of the company's assets at 30 June 2005 will be:

Asset Type	$	Basis
Land	0	Valuation
Improvements	0	Valuation
Plant and equipment	517,000	Book Value

[3] *Clause 9(j) of the Eighth Schedule of the Local Government Act 2002 refers*

Accounting Policies

Accounting policies will be consistent with legal requirements in the Companies Act and generally accepted accounting standards as promulgated by the Institute of Chartered Accountants of New Zealand, modified as necessary for the circumstances of the company.

Auditors

Section 70 of the Local Government Act 2002 requires that Council-controlled Organisations be audited by the Auditor General.

Public Notification

The Act requires that any completed statement of intent and each modification adopted must be made available to the public within 1 month after the date on which it is delivered to the shareholders or adopted, as the case may be.