dunedin AIRPORT

STATEMENT OF INTENT
for the year ending 30 June 2024

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INTRODUCTION

This Statement of Intent (SOI) is prepared by the board of directors of Dunedin International Airport Limited (DIAL) in accordance with Section 64(1) of the Local Government Act 2002.

DIAL is a council-controlled trading organisation (CCTO) as defined in the Local Government Act 2002 (LGA).

This SOI sets out the objectives, nature and scope of activities to be undertaken by DIAL and the performance targets and other measures by which the performance of the company may be judged in relation to its objectives.

DIAL's performance against these objectives will be reported against in the Statement of Service performance (SSP) which forms part of its Annual Report.

The SOI is a public and legally required document, being created annually by its shareholders, and covers a three-year period. This SOI covers the period from 01 July 2023 to 30 June 2026.

The planned activities and performance measures take consideration of expectations outlined to DIAL by its shareholders.

OWNERSHIP & GOVERNANCE

DIAL is owned by two shareholders, made up of:

- Dunedin City Holdings (DCHL) - 50%
- The Crown - 50%

DIAL is governed by a board of 4 independent directors, with each shareholder entitled to appoint two directors.

As per Section 58 of the LGA, the role of a director of a CCTO is to assist the organisation to meets its objectives and any other requirements in its SOI. This does not limit or affect the other duties that a director of a CCTO has.

Additional to this, the directors are subject to the requirements of the Companies Act 1993 and govern the company in accordance with best practice.

The board is responsible for the preparation of the SOI. Under the LGA, shareholders of a CCTO may, by resolution, require the board to modify the statement of intent in accordance with the LGA.

As a company partly owned by Dunedin City Council (DCC), DIAL is mindful of the DCC's strategic framework and city objectives. Further to this, DIAL will not accept sponsorship or give naming rights to companies involved in activities deemed to be inconsistent with DCC's ethical positions.

The board accepts that it is responsible for the overall control system operating within the company but recognises that no cost-effective internal control system will permanently preclude all errors or irregularities. The control systems reflect the specific risks associated with the business of the company.

Quarterly, six-monthly, and annual reports of financial and operational performance are provided to the shareholders.

REGULATORY CONTEXT

DIAL operates within a regulatory framework defined within legislation. In addition to the obligations of the Local Government Act 2002 and Companies Act 1993, DIAL is:

- An 'aerodrome operator' under Civil Aviation Rule Part 139 and the Civil Aviation Act 1990;
- An 'airport authority' under the Airport Authorities Act 1966;
- A 'lifeline utility' under the Civil Defence Emergency Management Act 2002;
- A 'network utility operator' and 'requiring authority' under the Resource Management Act 1991.

As an airport with more than $10 million in annual revenue, DIAL is considered a specified airport company for the purposes of the Airport Authorities Act 1993. As such, DIAL complies with the Airport Authorities (Airport Companies Information Disclosure) Regulations 1999.

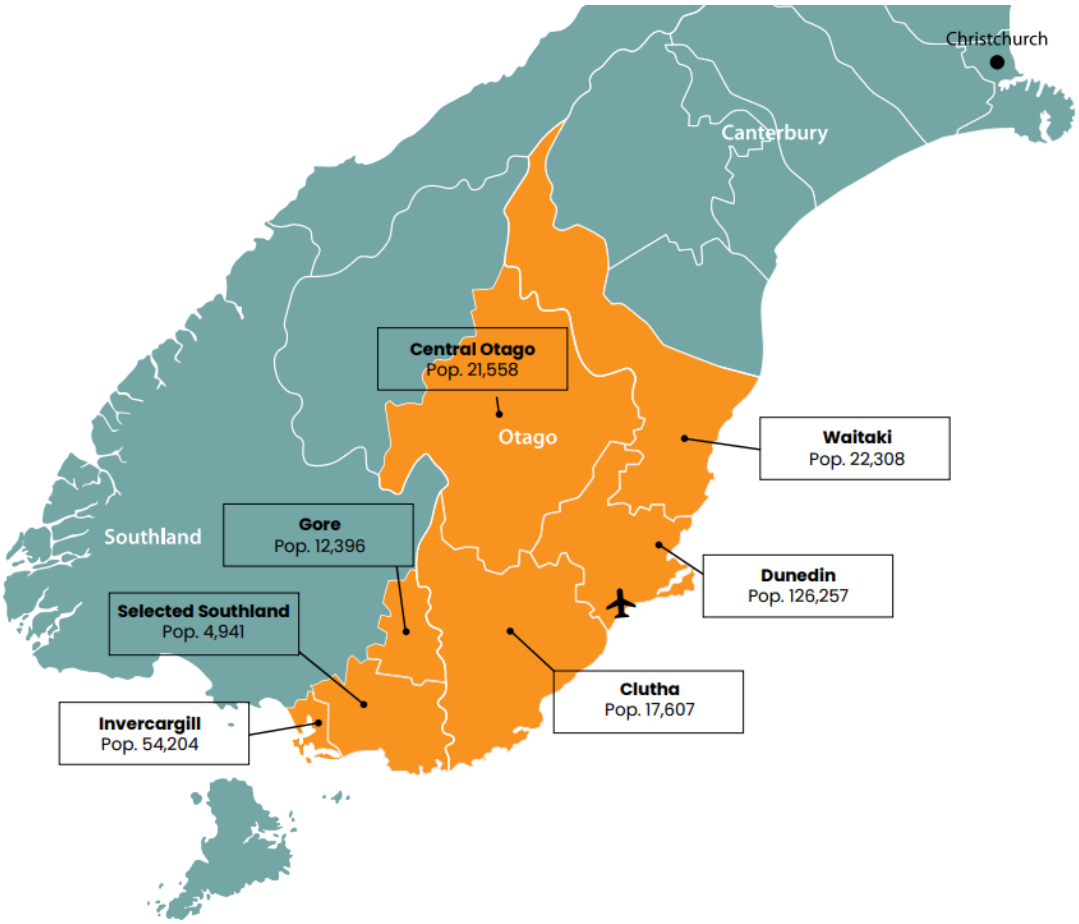
As an 'airport authority' under the Airport Authorities Act 1996, Dunedin Airport operates as a commercial undertaking.

The Civil Aviation Act 2023 received Royal assent on 05 April 2023 and will be in force from 5 April 2025. This new Act replaces the Civil Aviation Act 1990 and Authorities Act 1966.

NATURE AND SCOPE OF ACTIVITIES

Dunedin Airport was established under the Airport Authorities Act 1966 and incorporated on 30 September 1988. DIAL's primary activity is the safe and efficient operation of Dunedin Airport, for the purposes of creating long term shareholder value and enabling air connectivity to the communities of Dunedin and the lower South Island.

Dunedin Airport is located approximately 30 minutes from the Dunedin CBD, serving the wider Otago Region made up of the Dunedin City, Waitaki, Central Otago and Clutha districts.

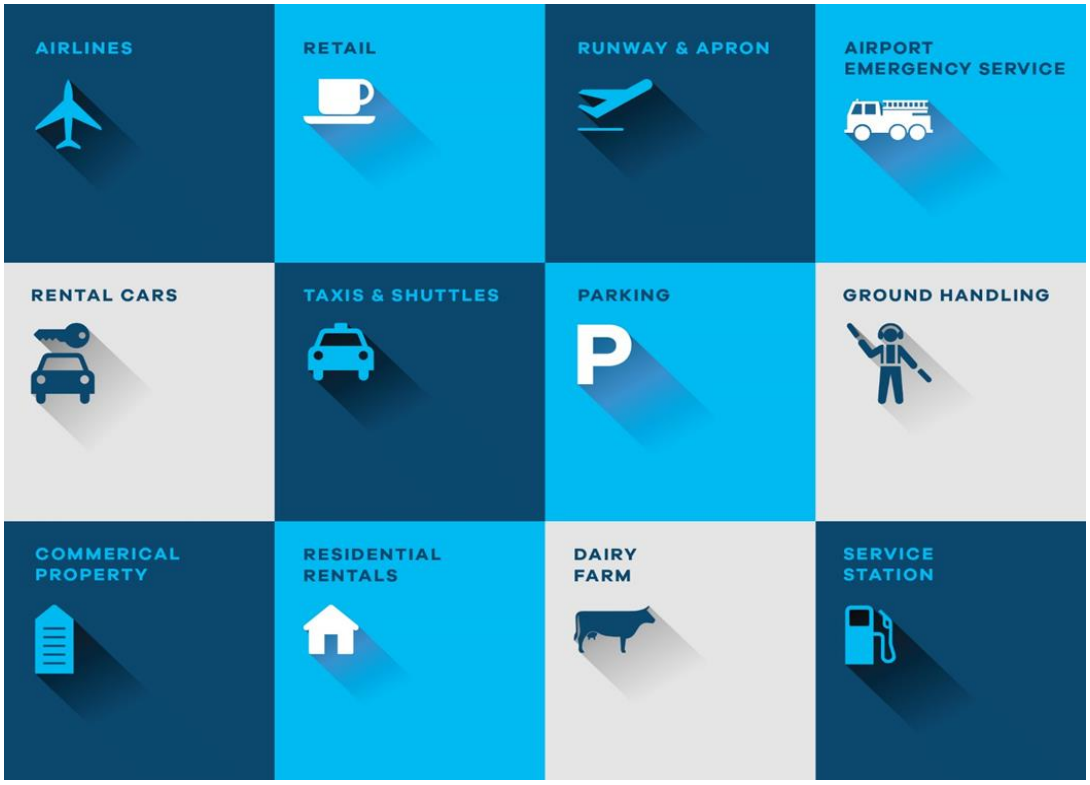


DIAL is made up of team of hardworking, dedicated, and skilled staff who bring the Airport to life whilst ensuring a safe, secure and memorable customer experience.

Operations

The operation of the airport includes the provision of "landside" and "airside" infrastructure and associated facilities across the airport campus:

- Landside functions include the provision of a terminal facilities, carparking, and passenger transportation. This includes working with commercial tenants, business partners and government agencies.
- Airside functions include the provision of safe and secure aircraft and passenger facilities. DIAL is responsible for the provision of aeronautical infrastructure which includes runways, taxiways, aprons and associated facilities for the operation of the airport.



As a lifeline utility, DIAL ensures the operational resilience of Dunedin Airport, allowing the airport to function as efficiently as possible during, and after an emergency.

The company is also responsible for managing assets not currently used for airport activities, but which may be used in the future. For example, land held for airport expansion, environmental control purposes, or commercial operations inside the airport zone. This includes the operation of a dairy farm, a service station, and a residential property portfolio.

Commercial Value

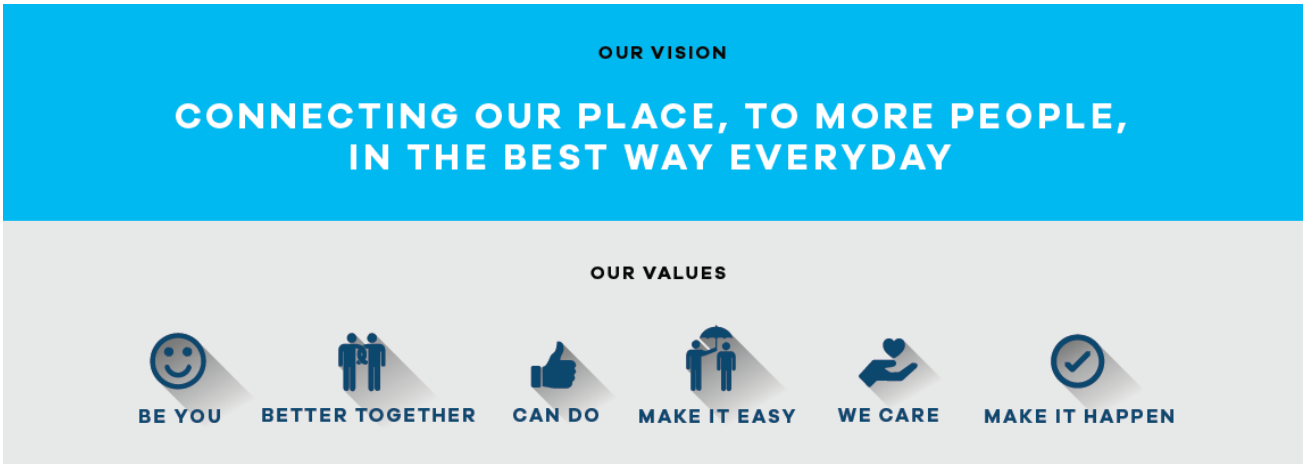
The commercial value of the Shareholder's investment in the company is considered by the board to be not less than the Shareholder's funds as disclosed in the Statement of Financial Position published in the last Annual Report.

As disclosed in the Company's 2022 Annual Report, as at 30 June 2022 the value of Shareholder's funds in the Statement of Financial Position is $82,097,000.

The commercial value will be considered annually when the Statement of Intent is completed.

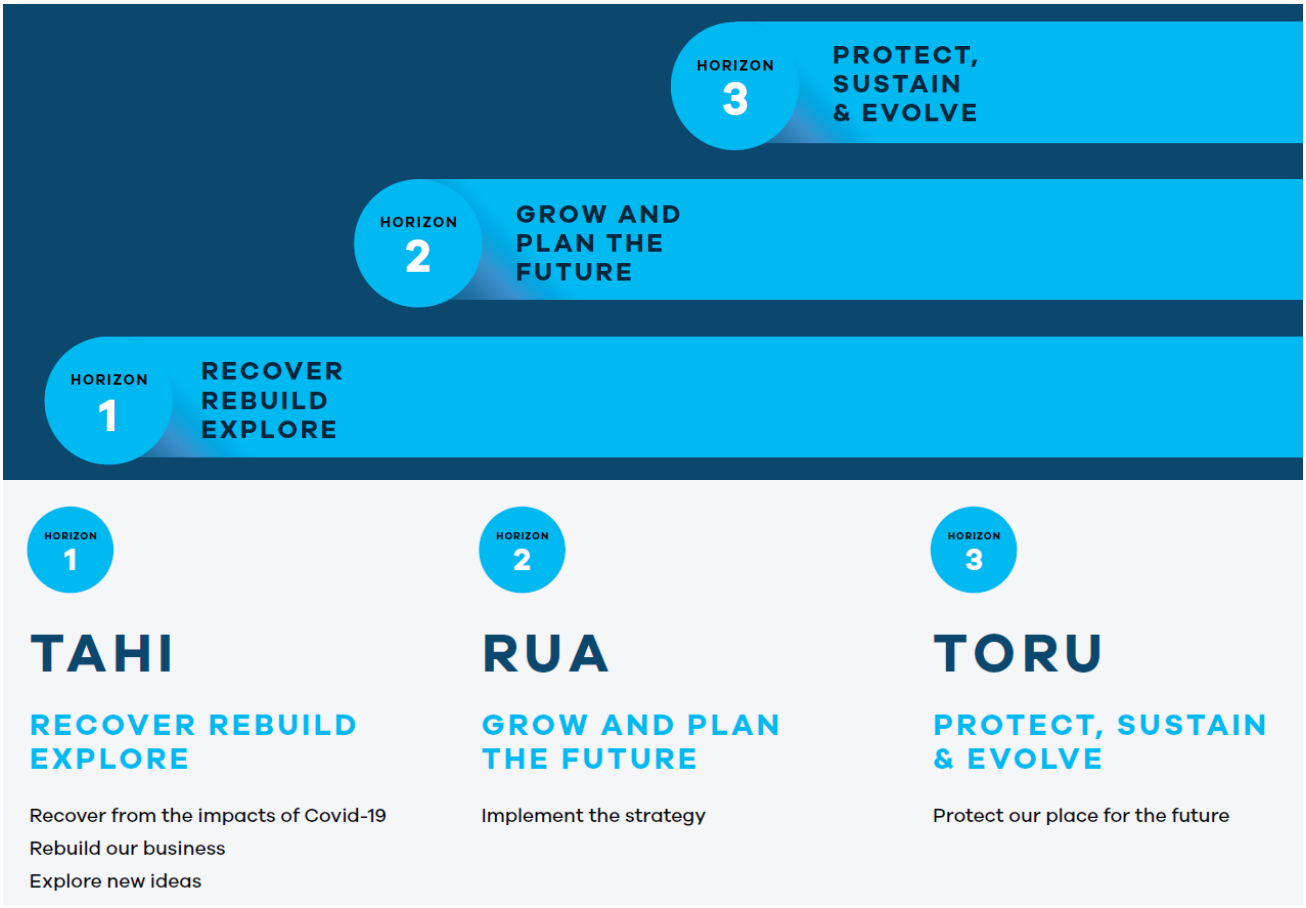
OUR VALUES, VISION & STRATEGY

DIAL is motivated by its vision in connecting our place, to more people in the best way every day. Underpinning this is our strong organisational values.



After spending a significant amount of time in an environment of uncertainty, we are now looking to the future and planning what we want for Dunedin Airport. Remaining cognisant of the trials and tribulations of COVID, the DIAL board and executive team refreshed the strategy in 2022 that now lifts the gaze towards the horizon.

'The Way Forward or 'Te Huarahi Whakamua', is made up of 3 horizons:



Strategic Pou

Supporting our vision, are our Strategic Pillars or Pou. These Pou provide the strong foundations necessary deliver on our vision.

The implementation of our strategy begins with our Governors. Good corporate governance has become a key focus area for our business as we position ourselves to achieve our strategic objectives.

In this regard our Directors have implemented improvements and efficiencies in governance processes through sub-committees, embracing board reporting technology, and the continued evolution in the quality of board papers. This continual improvement ensures our business's processes are aimed at producing results which optimise the strategic use of its available resources.

While understanding our internal confines is critical, we cannot achieve our goals or establish priorities without an awareness of the environment in which we are operating. This context is provided below.

The Business Environment

The outlook remains positive for the future with New Zealand's door to the world open once again as we move forward in this post COVID era. The return of international visitors to Aotearoa is cause for celebration, however it is important we remain vigilant with respect to the macroeconomic picture.

High inflation, low unemployment and the threat of a global economic recession could present headwinds for our business partners and Dunedin Airport. Coincident to high rates of inflation, borrowing costs are increasing and so are the costs of living for our people, airport community and the travelling public.

The wider geopolitical situation with respect to energy prices, global supply chain pressures, climate change and the evolution of COVID-19 sub variants remain key issues in the coming years.

OBJECTIVES & PERFORMANCE MEASURES

Feeding into DIAL's business planning process, letters of expectations from shareholders have been considered in the development of the company's specific focus areas for 2023/2024.

This includes:

- Continue working to recover and rebuild the airport business following the impacts of COVID-19.
- Continue working toward re-establishment of trans-Tasman services and/or new domestic route development.
- Investment in future development and growth opportunities to increase shareholder value.
- Continue building on our future-focussed relationship with mana whenua.
- Continuing on our Emissions reduction and decarbonisation plan, ensuring Dunedin Airport drives down its Scope 1 & 2 emissions, and facilitates the necessary infrastructure requirements needed to support decarbonisation of aviation.
- Cyber Security.
- A strong focus on financial performance as the company continues through its Te Huarahi Whakamua.

It is in this context that the revised SOI and associated Objectives & Performance Measures have been prepared by DIAL's board of directors and executive management team.

Key Objectives

SAFETY & SECURITY IS OUR NUMBER ONE PRIORITY	
Objectives	**Key Performance Measures**
Strive for 'Zero harm' to anyone as a result of our operations	Nil Serious harm to our staff, airports users or contactors
	Nil Runway Incursions
	*LTIFR <4.66
	Achieve FY24 DIAL Safety Plan targets
Actively manage wildlife hazard and risk of bird strike	Strike rate <5 strikes per 10,000 on 12-month moving average

*LTIFR – Lost Time Injury Frequency Rate

TO BE SUSTAINABLE	
Objectives	**Key Performance Measures**
Implement DIAL's Sustainability Strategy	Achieve FY24 sustainability targets
Maintain full compliance with the Resource Management Act (RMA)	Zero breaches
Implement DIAL's Carbon and Waste Reduction strategy	Measure and report our Carbon emissions in the Annual Report
	Achieve FY24 Carbon and waste reduction targets

TO PROVIDE KAITIAKITANGA AND TO MAKE THE BEST USE OF OUR ASSETS	
Objectives	**Key Performance Measures**
Maintain our assets to ensure no delays caused by DIAL to scheduled passenger operations	Zero on time performance (OTP) delays to regular passenger transport (RPT) operations due to airport infrastructure
Plan, renew and upgrade core infrastructure to ensure sustainable long-term viability and resilience of the airport campus	Implement Water Storage master plan
	Implement Wastewater master plan
	Implement Electrification master plan

	Develop Stormwater management strategy
Provide a high standard of service to our customers.	'Very good' or greater achieved across all areas in customer insight survey

TO GROW OUR BUSINESS	
Objectives	**Key Performance Measures**
Re-establish and build our international air route connectivity	New international air route
Optimise and sustainably grow domestic passenger volumes	Year on Year improvement in Domestic passenger volumes, with strong seat load factors (SLF)
Optimise non-aero revenue derived from passenger traffic	Year on year increase in net Passenger Spend Rate (PSR)
	Year on year increase in net Income per Passenger (IPP)
	Execute our access strategy (ground transport)
Develop a long term, sustainable strategy for our commercial land holdings i.e., Farms, Village, Service station and commercial property.	Finalise Air Cargo strategy
	Implement our Farm Strategy

DEVELOP & STRENGTHEN OUR CUSTOMER, PARTNER & SHAREHOLDER RELATIONS	
Objectives	**Key Performance Measures**
Implement initiatives to improve the performance of our-relationships.	Conduct stakeholder engagement surveys once a year with our strategic partners to review the strength of the relationships
	Continue and build on our relationship with local iwi
Provide sponsorship to community events and organisations.	Invest 0.25% of prior year operating revenue to sponsorship
Operate on a "no surprises" basis with shareholders	Substantive matters reported to shareholders within 24 hours, which have potential to significant impact negatively on DIAL or our shareholders

TO BE A GREAT PLACE TO WORK	
Objectives	**Key Performance Measures**
Maintain and optimise the wellbeing of our people	Achieve FY24 Wellbeing plan targets
Ensure that our people are engaged with the company's Vision, Purpose, and Values	Improvement in our annual engagement survey score
Cultivate, maintain, and optimise an equitable & diverse workforce	Develop a People and Culture Strategy
	Develop a Diversity, Equity and Engagement Strategy by 30 June 2024

Our performance against these key objectives will be reported annually in the Statement of Service Performance (SSP) which forms part of the company's annual report.

FINANCIAL PERFORMANCE & FORECASTS

The events of the past three years with respect to the impacts the COVID-19 pandemic had on global aviation and tourism, has created considerable challenges for DIAL and its business partners. DIAL's primary objective over this period was to safeguard its people and maintain an operational airport to support connectivity.

DIAL has navigated through this period well, with the company in a relativity secure, and sustainable position. The company remains well financed, with a stable workforce and diverse revenue streams. Strong pent-up demand domestically has also limited Dunedin Airport's exposure to the disruption to inbound international visitors.

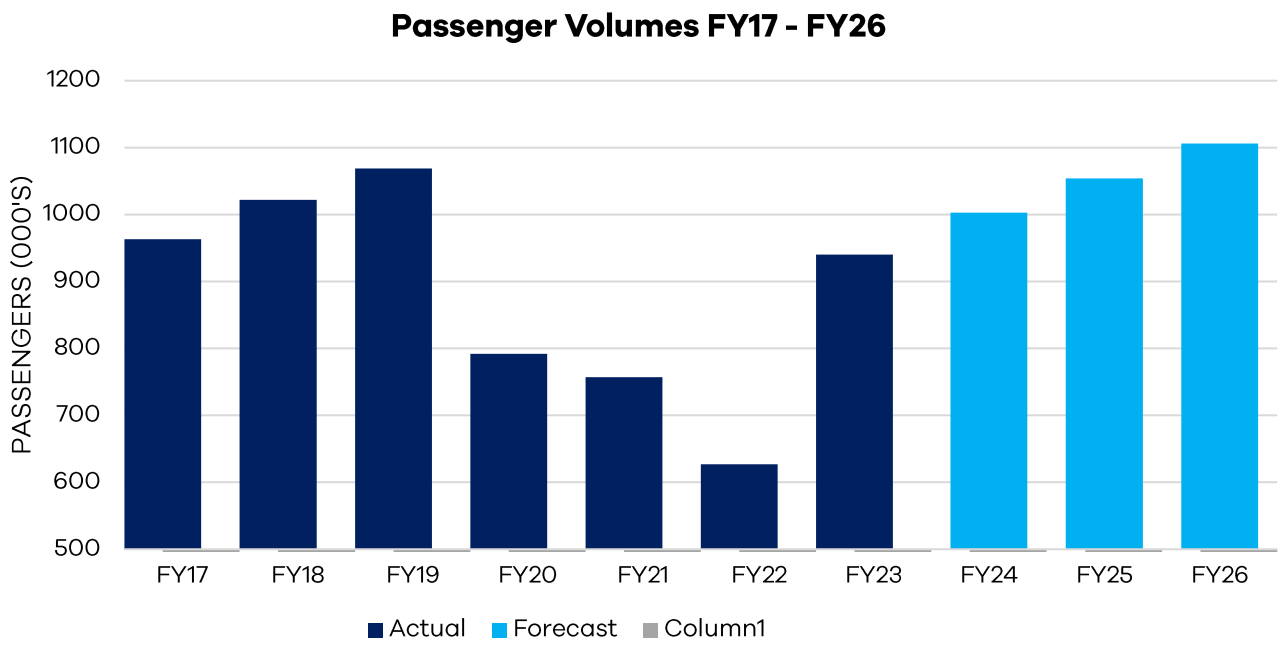
Notwithstanding the macroeconomic context and geopolitical issues, the forward outlook has become more optimistic as the aviation sector, and tourism is getting back on its feet with passenger volumes at Dunedin Airport now at circa 96% of pre COVID levels.

International services have yet to be reinstated, however this has been and will remain a focus for DIAL moving forward as we continue our engagement and partnerships with airlines.

The tables below summarise key financial performance indicators information relating to financial metrics and passenger volumes. The tables provide actual as well as budget data for the period to 2025/26.

The impacts on the airports financial performance as a result of the COVID-19 pandemic are not insignificant, as shown in the passenger numbers table below. However, in the short to medium term, while we continue to focus in the reinstatement of international services, the Airport is forecasting a strong recovery in domestic passenger numbers to pre-COVID-19 passenger levels.

Aircraft and Passenger Movements



PASSENGERS (000'S)	FY21/22 ACTUAL	FY22/23 FORECAST	FY23/24	FY24/25 BUDGET	FY25/26
Total Passengers	627	940	1,003	1,054	1,106
Percentage Change from Prior Year	(17%)	50%	7%	5%	5%
Aircraft Movements	7,968	9,436	10,336	10,853	11,395

Financial Performance

Airport revenue and operating cashflows correlate closely with passenger numbers, both directly from Airport Charges but also indirectly from carparking, terminal concession sales, and Momona petrol station sales.

Accordingly, the impacts of the reduced passenger numbers shown above significantly influence financial performance.

($OOO'S)	FY21/22 ACTUAL	FY22/23 FORECAST	FY23/24	FY24/25 BUDGET	FY25/26
Revenue (incl. sundry income)	13,222	20,780	22,260	23,556	24,641
EBITDA	5,121	10,933	9,950	11,180	12,298
Net Profit after Taxation (NPAT)	464	4,743	3,312	2,697	2,605
Shareholders' Funds (average)	76,777	83,957	86,050	86,638	87,486
Cash Flow from Operations	3,827	8,769	7,665	8,336	9,464
Capital Expenditure	800	5,358	12,854	11,541	21,280
Term Borrowings	13,250	11,250	18,750	24,500	38,000
Dividend Paid**	624	1,023	2,846	1,987	1,618

** The dividend Paid is calculated by reference to the prior financial years Net Profit after Taxation, in line with the Dividend Policy outlined in this document.

MEASURE	FY21/22 ACTUAL	FY22/23 FORECAST	FY23/24	FY24/25 BUDGET	FY25/26
Profitability/Efficiency					
Return on Assets	0.4%	4.1%	2.7%	2.1%	1.8%
Return on Capital Employed	14.0%	81.8%	65.7%	59.5%	62.5%
Operating Margin	38.7%	52.6%	44.7%	47.5%	49.9%
Leverage/Solvency					
Equity Ratio	72.1%	74.6%	70.2%	67.4%	61.2%
Earnings Ratio (Interest Cover)	9.3	17.6	7.8	7.2	6.4
Gearing Ratio (net)	13.90	11.59	17.85	21.97	30.16
Shareholders Return					
Dividend Pay-out	(9.75)	0.20	0.81	0.83	0.61
Return on equity	0.6%	5.6%	3.8%	3.1%	3.0%
Return on equity adjusted for IFRS fair value movements and asset revelations	1.3%	13.6%	8.9%	7.2%	6.8%

Notes

1. *Return on assets = (Net profit after tax / Total Assets)*
2. *Return on Capital Employed = (EBIT adjusted for IFRS fair value movements / Average capital employed)*
3. *Operating Margin = (EBITDA / Revenue)*
4. *Equity Ratio = (Total shareholders' funds / Total assets)*

   Shareholders Funds = share capital, plus retained earnings, plus hedge and property plant and equipment revaluation reserves.

   Total Assets = the aggregate of the carrying value all current and non-current assets.
5. *Earnings Ratio (interest cover) = (EBITDA (less dividends) / Interest paid)*
6. *Gearing ratio = (net debt / net debt plus equity)*
7. *Dividend Pay-out = (Dividends paid / Net cash flow from operating activities less depreciation expense)*
8. *Return on equity = (Net profit after tax / Average equity)*
9. *Return on equity (adjusted) = Net profit after tax adjusted for IFRS fair value movements (net of tax) / Average of share capital plus retained earnings.*

Forecast Assumptions

The following are assumptions made throughout the forecast:

- The budget assumes 2023-24 passengers of 1,003,405.
- Notwithstanding a landing charge consultation on 1 July 2023, which may lead to changed in landing charge revenue, airfield and terminal landing charges are based on current published prices, effective 1 July 2023.
- We have assumed no increase in current flight schedules, that is, we have assumed no additional domestic services other than those published at date of budget development.
- Landings/PAX have been assumed to grow by 5% and 5% respectively for the 2024-25 and 2025-26 budget periods.
- Runway, apron and taxiway OPEX and CAPEX forecasts are based on a defined maintenance program. As a result of inspection, our maintenance plan may be subject to change.
- The 2023-24 budget has assumed a 5% increase to the current carparking charges.
- Wages and Salaries have been forecast based on a 5% yearly increase.
- An interest rate of6.3% (including Westpac's 1.3% margin) has been applied to budgeted debt. Interest rate swaps derivatives are included based on the age profile of swaps in place at time of forecast.
- No fair value movement has been budgeted for interest rate hedge instruments, nor the airports investments.
- No infrastructural asset revaluations have been budgeted.
- Inflation allowance for 2023/24 to 2025/26 is 3% for each year for both non-aeronautical income and expenditure items apart from landing charges, carpark and garage revenue which grows in line with the percentage change in forecast passenger numbers.

- This excludes apron, runway, and taxiway operational expenditure which is based on defined maintenance plans.
- The cash flow statement assumes a 1-month lag between recognition of a capital addition, and payment. As such, additions per the cashflow may not equal additions per fixed assets.

ACCOUNTING POLICIES

General Accounting Policies

The accounting policies recognised by the External Reporting Board ('XRB') for the measurement and reporting of financial performance, and financial position, will be adopted by Dunedin International Airport Limited.

Accounting Policies

The accounting policies which materially affect the measurement and reporting of financial performance and financial position have been applied on a basis consistent with those used in previous years.

The accounting policies are listed in full in the annual report of the company and on the company website; www.dunedinairport.co.nz.

DIVIDEND POLICY

The company's dividend policy is to pay 60% of the operating surplus after tax, adjusting for fair value movements in any investments in equity securities. The actual level of dividend will be determined by the directors each year in light of the circumstances that then exist.

In arriving at a dividend recommendation, directors will take into account:

- The company's financial performance and, in particular, the cash flows generated by the company from operations.
- The ratio of the company's Shareholders funds to the assets.
- The company's investment proposals and profitability thereof.
- Private corporate sector dividend payments in relation to earnings, net worth, and financial structures.
- The company's ability to raise loans and the terms thereof.
- The company's capital expenditure programme.
- The current cost of borrowings to the company.
- The risks associated with the uncertainty of airline schedules in the short and medium term.
- The Debt/Equity ratio

Any final dividend will be paid no later than 30 November.

REPORTING TO SHAREHOLDERS

Annually – January, a draft Statement of Intent.
Annually – 30 June, a finalised Statement of Intent agreed by the shareholders.

The Directors will deliver to the shareholders an annual report and audited financial statements, which will consist of no less than:

- A Director's Report including -
  - a review of operations,
  - a comparison of actual performance with targeted performance recommendation in respect of dividend (if any).
- Statement of Financial Position;
- Statement of Comprehensive Income & Statement of Movements in Equity;
- Statement of Cash flows;
- Notes to the financial statements;
- Auditor's Report.

All reporting requirements noted above will be delivered within legislative timeframe deadlines.

Quarterly Reporting

Within 30 days of the end of each quarter, including Half Yearly, the directors will deliver to the shareholders a report consisting of:

- Financial review detailing actual performance against budget for revenue, expenditure, and taxation. This will include a Statement of Comprehensive Income, a Statement of Financial Position, and a Statement of Cash Flows.
- Aircraft and passenger activity.
- Commentary on any matters relating to the performance of the company.

Working with the Shareholders

The Company will undertake to keep the shareholders informed of all substantive matters, as set out in the performance targets above. The Company will work to build a culture of accountability and constructive working practices between the shareholder and/or its subsidiaries, and the Company. It is expected that any conflicts that may arise between the shareholder and/or its subsidiaries, and the Company will be resolved directly between the shareholder the Company, in accordance with appropriate governance practices.

ACQUISITION OF SHARES IN ANY COMPANY OR ORGANISATION

The Company will only invest in the shares of another company or invest in an entity if the investment is considered to be likely to produce added value to the Company. In order to maximise benefit to the Shareholder, shares or assets may also be sold in response to, or in anticipation of, on-going changes in the marketplace.

If the Directors intend that the Company:

- carry on any business other than the management and operation of DIAL;
- form any subsidiary company; or
- acquire more than 20% of the shares in any other company,

the Company will obtain prior approval of the Shareholder through special resolution, or the transaction must be contingent on a special resolution of Shareholders.

TRANSACTIONS WITH RELATED PARTIES

The shareholders of Dunedin International Airport Limited are Dunedin City Holdings Limited and the Crown - each holding 50%.

DUNEDIN CITY COUNCIL

The Dunedin City Council is the sole shareholder in Dunedin City Holdings Limited. Transactions between related parties will be on a wholly commercial basis. Charges from Dunedin City Council and its other companies and charges to Dunedin City Council and its other companies will be made for services provided as part of the normal trading activities of Dunedin International Airport Limited.

A summary of related parties, and transaction type are noted in the table below:

Related Party	Transaction Type
Dunedin City Council	Rates and Licences
Delta Limited	Maintenance Contracts
Dunedin Venues Management Limited	Corporate Membership
Dunedin City Treasury Limited	Specific Treasury Services