



**INVERCARGILL AIRPORT LIMITED**

**STATEMENT  
OF  
INTENT**

**Financial Year Ending  
30 June 2012**

# **INVERCARGILL AIRPORT LIMITED**

## **STATEMENT OF INTENT**

**Financial Year Ending 30 June 2012**

### **INTRODUCTION**

This statement is presented by the Directors pursuant to the requirements of the Local Government Act and sets out the Board's overall intentions for the Company for the financial year ended 30 June 2011 and the two succeeding financial years.

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# INVERCARGILL AIRPORT LIMITED

## **CORE BUSINESS**

IAL is an airport authority that provides core assets and services to facilitate air traffic movement into and out of Invercargill.

## **COMMERCIAL OBJECTIVES**

- Airside demand is always met
- The ratio of airside revenue is less than 50% of company receipts
- Airside standards are maintained
- Revenue generation is optimized
- IAL realises commercial rental rates for its property portfolio
- Invercargill are hosts to the NZAF
- Buildings are upgraded to a standard that the city is proud of
- IAL takes an active role in enticing business onto the airport property
- The airport is the gateway to Southland and represents its culture and values
- IAL is active in various industry types and segments
- IAL is a leader in Southland tourism development
- IAL is recognised as wielding substantial influence at local and national government levels
- IAL exceeds public expectations for services and facilities

## **THE NATURE AND SCOPE OF COMMERCIAL ACTIVITY**

- Property development company
- Food & Beverage
- Tourism
- Airport Co.
- Farming
- Landlords (property co.) (parking operators)
- Advertising
- Freight Services

## STATEMENT OF ACCOUNTING POLICIES

### **Reporting Entity**

Invercargill Airport Limited ("the Company") is a Council controlled trading organisation as defined in the local Government Act 2002 and is registered under the Companies Act 1993. The Company is 55% owned by the Invercargill City Holdings Limited and its ultimate parent is Invercargill City Council (the Council). The New Zealand Government owns the remaining 45% of the share capital of the Company.

The primary objective of the Company is to operate the Invercargill airport and associated assets. Accordingly, the Company has designated itself as a profit orientated entity for the purposes of New Zealand equivalents to International Financial Reporting Standards ("NZ IFRS").

### **Basis of preparation**

The financial statements of the Company have been prepared in accordance with the requirements of the Companies Act 1993, the Financial Reporting Act 1993 and the Airport Authorities Act 1966. These financial statements have been prepared in accordance with NZ GAAP. They comply with NZ IFRS, and other applicable Financial Reporting Standards, as appropriate for profit orientated entities.

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

The financial statements have been prepared on a historical cost basis, modified by the revaluation of runways and taxiways, and investment property.

The financial statements are presented in New Zealand dollars and the functional currency of the Company is New Zealand dollars.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions are recognised in the Income Statement.

### **Revenue**

Revenue is measured at the fair value of consideration received.

Revenue from the rendering of services is recognised by reference to the stage of completion of the transaction at balance date, based on the actual service provided as a percentage of the total services to be provided.

Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates. Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be reliably estimated and there is no continuing management involvement with the goods.

Interest income is recognised using the effective interest method.

Grant revenue is recognised as revenue when it becomes receivable unless there is an obligation to return the funds if conditions are not met.

### **Borrowing costs**

Borrowing costs are recognised as an expense in the period in which they are incurred.

### **Income Tax**

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

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

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

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

Deferred tax is not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition of an asset and liability in a transaction that is not a business combination, and at the time of the transaction, affects neither accounting profit nor taxable profit. Deferred tax is recognised on taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the company can control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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

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

### **Operating leases**

An operating lease is a lease that does not transfer substantially all the risks and rewards incidental to ownership of an asset. Lease payments under an operating lease are recognised as an expense on a straight-line basis over the lease term.

### **Cash and cash equivalents**

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

### **Investment Policy**

Available for sale investments are term deposits initially recognised at fair value. After initial recognition these investments are measured at their fair value, with gains and losses recognised directly in equity, except for impairment losses which are recognised in the Income Statement. On derecognition the cumulative gain or loss previously recognised in equity is recognised in the Income Statement. At each balance sheet date the Company assesses whether there is any objective evidence that the investment is impaired.

### **Trade and other receivables**

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

A provision for impairment of receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables.

**The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted using the effective interest method.**

### **Inventories**

Inventories (such as spare parts and consumables) held for distribution or consumption in the provision of services that are not supplied on a commercial basis are measured at the lower of cost and current replacement cost.

Inventories held for use in the production of goods and services on a commercial basis are valued at the lower of cost and net realisable value. The cost of purchased inventory is determined using the FIFO method.

The write down from cost to current replacement cost or net realisable value is recognised in the Income Statement.

### **Financial assets**

The Company classifies its financial assets (excluding derivatives) as loans and receivables.

Financial assets and liabilities are initially measured at fair value plus transaction costs.

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

After initial recognition they are measured at amortised cost using the effective interest method.

Gains and losses when the asset is impaired or derecognised are recognised in the Income

**Statement. Loans and receivables are classified as "trade and other receivables" in the Balance Sheet.**

### **Impairment of financial assets**

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

## Property, plant and equipment

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

### Additions

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

In most instances, an item of property, plant and equipment is recognised at its cost. Where an asset is acquired at no cost, or for a nominal cost, it is recognised at fair value as at the date of acquisition.

### Disposals

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount of the asset. Gains and losses on disposals are included in the Income Statement. When revalued assets are sold, the amounts included in asset revaluation reserves in respect of those assets are transferred to retained earnings.

### Subsequent costs

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

Depreciation is provided on either a straight-line or diminishing value basis on all property, plant and equipment other than land which is not depreciated. Depreciation is set at rates that will write off the cost (or valuation) of the assets to their estimated residual values over their useful lives. The useful lives and associated depreciation rates of major classes of assets have been estimated as follows:

Fences	1% - 6.65%	SL	
Runway, Apron and Taxiway	3.00%	SL	
Top surface	8.30%	SL	
Basecourse and sub-base	1.00%	SL	
Roads, Carparks and Stopbanks	3.00%	SL	
Terminal Building	3.00%	SL	
Other Buildings	3.00%	SL	
Crash Fire Vehicle, Other Vehicles, Tractors and Mowing Equipment		10% - 12%	DV
Plant – General	7.50% - 50%	DV	
Furniture and Fittings	9.50% - 33%	DV	

The residual value and useful life of an asset is reviewed, and adjusted if applicable, at each financial year end.

### Revaluation

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

### Valuation

Invercargill Airport Limited's assets are valued at cost, less accumulated depreciation and impairment except for Runway, Apron and Taxiway (Runway assets) which are revalued every three to five years. For the purposes of financial reporting the Runway assets are treated as one asset. The valuation of the Runway assets is performed using the discounted cashflow methodology over the assets as a whole and values apportioned to each component on a pro rate basis or on the basis of a review of the physical conditions of component parts.

Accounting for revaluations:

The Company accounts for revaluations of property, plant and equipment on an individual asset or component basis and impairment applied at this level also.

The results of revaluing are credited or debited to an asset revaluation reserve for each asset.

Where this results in a debit balance in the asset revaluation reserve, this balance is expensed in the Income Statement.

Any subsequent increase on revaluation that off-sets a previous decrease in value recognised in the Income Statement will be recognised first in the Income Statement up to the amount previously expensed, and then credited to the revaluation reserve for that asset.

### **Investment property**

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

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

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

Gains or losses arising from a change in the fair value of investment property are recognised in the Income Statement.

### **Impairment of non-financial assets**

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

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

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

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

The reversal of an impairment loss on a revalued asset is credited to the revaluation reserve.

However, to the extent that an impairment loss for that asset was previously recognised in the Income Statement, a reversal of the impairment loss is also recognised in the Income Statement.

For assets not carried at a revalued amount (other than goodwill) the reversal of an impairment loss is recognised in the Income Statement.

### **Employee benefits**

Short-term benefits

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

These include salaries and wages accrued up to balance date, annual leave earned to, but not yet taken at balance date, retiring and long service leave entitlements expected to be settled within 12 months.

Obligations for contributions to defined contribution superannuation schemes are recognised as an expense in the income statement as incurred.

### **Borrowings**

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

### **Good and Service Tax (GST)**

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

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

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

Commitments and contingencies are disclosed exclusive of GST.

### **Critical accounting estimates and assumptions**

In preparing these financial statements, the Company has made estimates and assumptions concerning the future. These estimates and assumptions may differ from the subsequent actual

results. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations or future events that are believed to be reasonable under the circumstances. The estimates, assumptions and critical judgements in applying accounting policies that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are in relation to determining the fair values of the runway and taxiway assets is discussed in note 9 of these financial statements.

#### **NEW STANDARDS ADOPTED**

The following new standards and amendments to standards are mandatory for the first time for the financial year beginning 1 July 2009

NZ IAS 1 (Amendment), Presentation of Financial Statements - the revised NZ IAS 1 requires an entity to present all owners changes in equity, separately from non-owners changes in equity, in a Statement of Changes in Equity. All non-owners changes in equity (i.e comprehensive income) are required to be presented in one Statement of Comprehensive Income or in two statements (a separate Income Statement and a Statement of Comprehensive Income). Components of comprehensive income are not permitted to be presented in the Statement of Changes in Equity. This format has been followed in these Financial Statements.

Borrowing Costs (NZ IAS 23 - Amendment) - This standard required capitalisation of borrowing costs directly attributable to acquisitions, construction or production of a qualifying asset. This format has not had a material impact on Invercargill Airport Limited.

#### **NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE**

In preparing these financial statements in accordance with NZ IFRS, the following standards have been issued but are not applicable at this time.

NZ IFRS 9 Financial Instruments will eventually replace NZ IAS 39 Financial Instruments: Recognition and Measurement.

The new standard is required to be adopted for the year ended 30 June 2014. Invercargill Airport Limited has not yet assessed the effect of the new standard and expects it will not be early adopted

## PERFORMANCE TARGETS

### Financial

EBIT% - PERCENTAGE EARNINGS BEFORE TAX AND INTEREST ON ASSETS EMPLOYED

	YTD Jun 10	Extrapolated 2011 Actuals	Budget 11/12	Forecast 12/13	Forecast 13/14
Net Profit Before Tax (NPBT)	(540,673)	3,274	(158,120)	(190,612)	(174,614)
Interest	(18,691)	(195,257)	(311,334)	(282,894)	(253,609)
Net Profit Before Interest and Taxation	(521,982)	198,531	153,213	92,282	78,994
Total Assets	15,529,000	14,611,041	23,719,543	24,965,553	24,222,561
EBIT%	<b>-3.36%</b>	<b>1.36%</b>	<b>0.65%</b>	<b>0.37%</b>	<b>0.33%</b>

PERCENTAGE OF EQUITY TO TOTAL ASSETS

	YTD Jun 10	Extrapolated 2011 Actuals	Budget 11/12	Forecast 12/13	Forecast 13/14
Equity	6,366,560	6,369,834	14,211,714	16,021,102	15,846,488
Total Assets	15,529,000	14,611,041	23,719,543	24,965,553	24,222,561
EBIT%	<b>41.00%</b>	<b>43.60%</b>	<b>59.92%</b>	<b>64.17%</b>	<b>65.42%</b>

Notes:

Total assets are defined as the sum of all current, fixed and investment assets of the group. For the purpose of this ratio equity is defined as the paid-up capital plus any retained tax paid profits. They include undistributed profits which have been accumulated in accounts known as either "Revenue Reserves" or "Capital Reserves" and shareholders' advances.

	YTD Jun 10	Extrapolated 2011 Actuals	Year Ending 30 June 2011	Year Ending 30 June 2012	Year Ending 30 June 2013
	(\$000,s)	(\$000,s)	(\$000,s)	(\$000,s)	(\$000,s)
Operating Revenue	2,623	2,482	2,498	2,544	2,578
Expenditure	<u>3,145</u>	<u>2,283</u>	<u>2,344</u>	<u>2,451</u>	<u>2,499</u>
Results from Operating Activities	(522)	199	153	92	79
Net Finance Income	(19)	(195)	(311)	(283)	(254)
Operating surplus / (deficit) before tax	(541)	3	(158)	(191)	(175)
Tax	<u>141</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Retained Earnings	(682)	3	(158)	(191)	(175)
Dividend	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
	(682)	3	(158)	(191)	(175)

**CSR Targets for 2011/2012:**

Terminal building	IAL utilizes Influence to further regional development in Southland	Employment and workplace	Environmental practices
Terminal upgrades will be commenced in 2012 The target is to provide a public benefit (whilst stimulating the local economy) within project timelines and approved budgets.	Director and executive lobbying will take place to ensure that government policy and especially security costs are aligned with IAL objectives. Target is an equal playing field for all international or regional airports.	CSR objectives will be included in the General Manager's performance appraisal in 2011/12. A further target is a clear CAA safety audit	Target of 0 issues of non compliance with the District Plan

### **Customer Service**

To ensure that IAL is responsive to meeting the expectations of customers in the provision of airport facilities and services.

The terminal upgrade and refurbishment project will be commenced in 2012 and is geared towards meeting this expectation. The target is that the project is brought in on time, within quality parameters and within budget.

### **Training**

To ensure that all employees have access to and are encouraged to undertake training that enables them to meet the needs of the company within a changing industry, legislative and public environment.

The target is that appropriate training courses for all staff are planned for.

### **Tourism**

To participate and contribute to any tourism initiative that promotes Southland as a destination

The target is to continue to liaise with Venture Southland in terms of tourism initiatives and to contribute, as a member to industry forum groups.

<b>INFORMATION TO BE REPORTED</b>
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The following information will be available to shareholders based on an annual balance date of 30 June.

### **Draft Statement of Intent**

On or before 1 March each year, the Directors will deliver to the shareholders a Draft Statement of Intent that fulfils the requirements of Section 64 of the Local Government Act 2002.

### **Completed Statement of Intent**

On or before 30 June each year the Directors shall deliver to the shareholders a completed Statement of Intent which fulfils the requirements of Section 64 of the Local Government Act 2002.

### **Half Yearly Report**

Within two months after the end of the first half of each financial year, the Directors shall deliver to the shareholders an unaudited report containing the following information as a minimum in respect of the half-year under review:

- (a) A revenue statement disclosing actual revenue and expenditure, with comparative figures from the previous half yearly report.
- (b) A statement of financial position at the end of the half year.
- (c) A statement of cash flows.
- (d) A commentary on the results for the first six months together with a report on the outlook for the second six months with reference to any significant factors that are likely to have an effect on IAL's performance, including an estimate of the financial result for the year based on that outlook.

### **Annual Report**

Within three months after the end of each financial year, the Directors shall deliver to the shareholders an annual report and audited financial statements in respect of that financial year, containing the following information as a minimum:

- (a) **A Directors' report including a summary of the financial results, a review of operations, a comparison of performance in relation to objectives and any recommendation as to dividend.**
- (b) A revenue statement disclosing actual revenue and expenditure, and comparative figures.
- (c) A statement of financial position at the end of the year.
- (d) A statement of cash flows.
- (e) An **Auditor's** report on the above statements and on the measurement of performance in relation to objectives.

### **Monthly Report**

A summary of the financial position on a monthly basis will be presented to the major shareholder.

### **Quarterly Report**

Within six weeks of the end of the financial quarter, management shall deliver a detailed report to Government shareholder, containing the following information as a minimum.

- (a) A report detailing significant variances
- (b) A statement of financial performance disclosing actual revenue and expenditure, and comparative figures.
- (c) A statement of movement in equity and comparative figures.
- (d) A statement of financial position and comparative figures.
- (e) A statement of cash flows.
- (f) A summary of results including non-financial information.

<b>PROPOSED DISTRIBUTIONS</b>
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The directors recognise that IAL is unlikely to distribute dividends over the next 5 year period. This is because of capital works projects planned over this period. After this time period and subject to normal commercial considerations (including tax liability), the directors propose to recommend dividends of up to 40% of tax paid profits before extraordinary items.

## **GOVERNANCE**

The Directors of Invercargill Airport Limited are appointed by Invercargill City Holdings Limited and New Zealand Government to oversee the governance of the company and will act in accordance with the guidelines set by the Shareholders.

The Directors acknowledge their fiduciary responsibilities. However the day to day management of the company is delegated to the management team.

The Directors hold regular board meetings at which management reports are received and discussed.

## **ACQUISITION PROCEDURES**

The nature of the Invercargill Airport Limited activities will be that of normal policy decisions of an Airport Company.

The undertaking by Invercargill Airport Limited of any activity of a nature or scope not provided for in the above Clause would be subject to the prior approval of the Invercargill Airport Limited shareholders. In particular the prior approval of the shareholders would be required to the company forming, acquiring or divesting an interest in any company.

## **SHAREHOLDERS INVESTMENT**

To determine the value of the shareholders investment in Invercargill City Airport Limited, a valuation which includes the runway resurfacing has been commissioned by an independent third party.