

STATEMENT OF INTENT

for the Year Ending 30 June 2023



dunedin
AIRPORT

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1. INTRODUCTION

This Statement of Intent ("Sol") sets out for Dunedin International Airport Limited the objectives, the nature and scope of the activities to be undertaken, and the performance targets and other measures by which the performance of the company may be judged in relation to its objectives. These performance targets and other measures will be reported against in Dunedin International Airport Limited's 2023 Annual Report.

This Sol is prepared by the Board of Directors of Dunedin International Airport Limited in accordance with Section 64(1) of the Local Government Act 2002 (LGA).

The airport operates under the Airport Authorities Act 1966 which states in Section 4 (3) the Company must be operated as a commercial undertaking.

2. CORPORATE GOVERNANCE STATEMENT

Dunedin International Airport Limited is a Council Controlled Trading Organisation (CCTO) and is governed by a board of independent directors appointed by the company's shareholders.

Dunedin International Airport Limited has two shareholders; Dunedin City Holdings Limited and Her Majesty the Queen (The Crown), whom each have a 50% shareholding in the company.

The directors' role is defined in Section 58 of the Local Government Act 2002. This section states that all decisions relating to the operation of the CCTO shall be made pursuant to the authority of the directorate of the CCTO and its Statement of Intent (SOI). The Board is responsible for the preparation of the SOI. Under the LGA, shareholders of a council-controlled organisation may, by resolution, require the board to modify the statement of intent in accordance with the LGA.

In addition to the obligations of the Local Government Act 2002, Dunedin International Airport Limited is also subject to the requirements of The Companies Act 1993 and is governed by directors in accordance with the law and best practice.

The Board meets on a regular basis to direct and control the company's activities. Directors are appointed by shareholders who are each entitled to appoint two directors.

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.

The shareholders review the SOI and three-year financial plan. Quarterly, six-monthly, and annual reports of financial and operational performance are provided to the shareholders.

As a company partly owned by Dunedin City Council, the Company is mindful of DCC's strategic framework and city objectives.

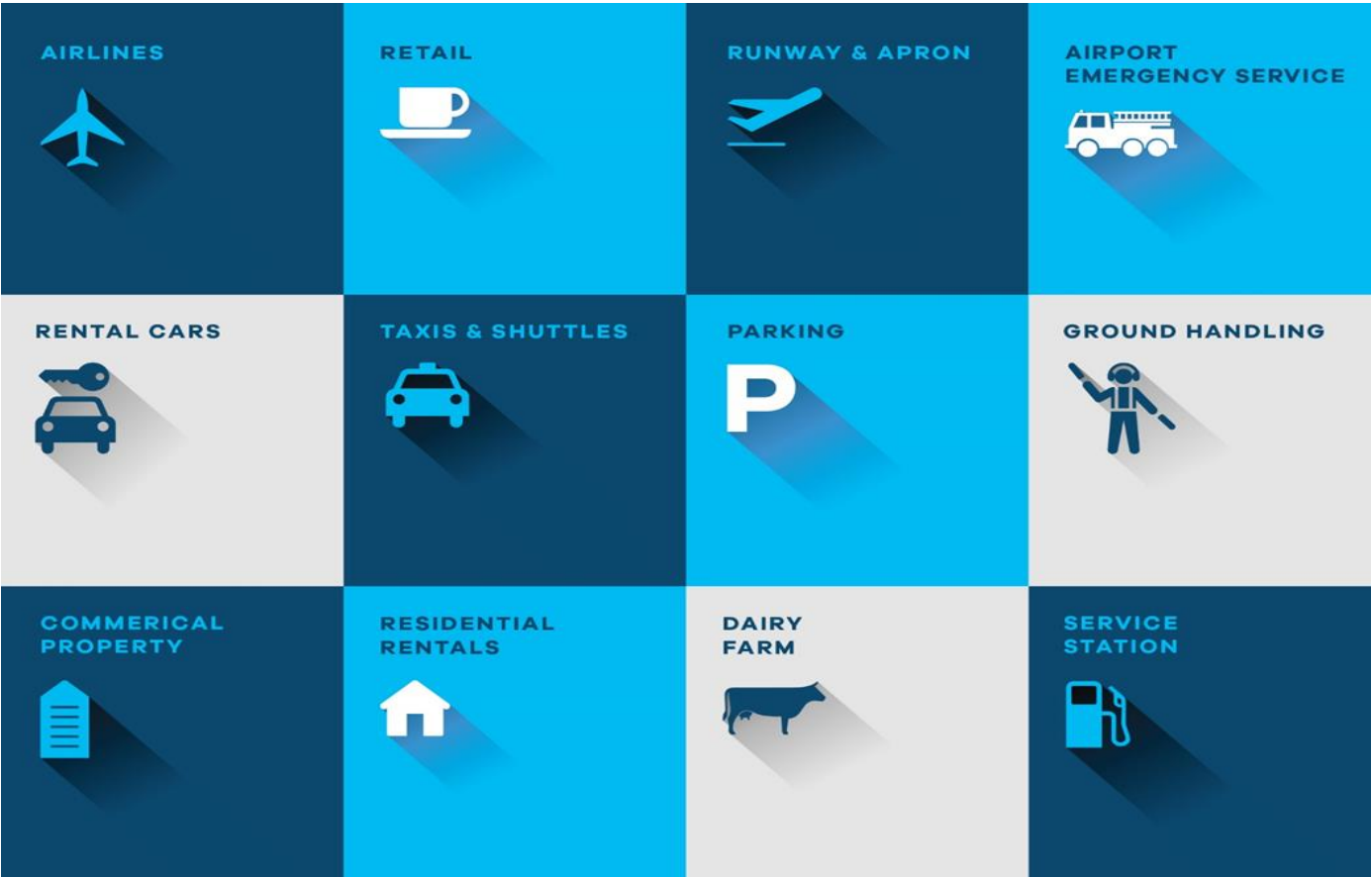
3. WHAT WE DO

The primary activity of the company is to operate a safe and efficient airport utilising sound business principles, for the benefit of both commercial and non-commercial aviation users and in accordance with the terms of its aerodrome certificate issued by the Civil Aviation Authority of New Zealand (CAA).

Operating an airport includes the provision of appropriate “landside” and “airside” infrastructure and facilities at the airport:

- 1) Landside functions include the provision of a terminal building, carpark, and passenger transportation. Additionally, it incorporates the management of commercial tenants and aeronautical related commercial buildings.
- 2) Airside functions include the provision of a safe and secure aircraft and passenger operating environment, including passenger and baggage screening in line with the CAA NZ operating requirements. This incorporates the responsibility for the design, provision and maintenance of runways, taxiways, and aprons.

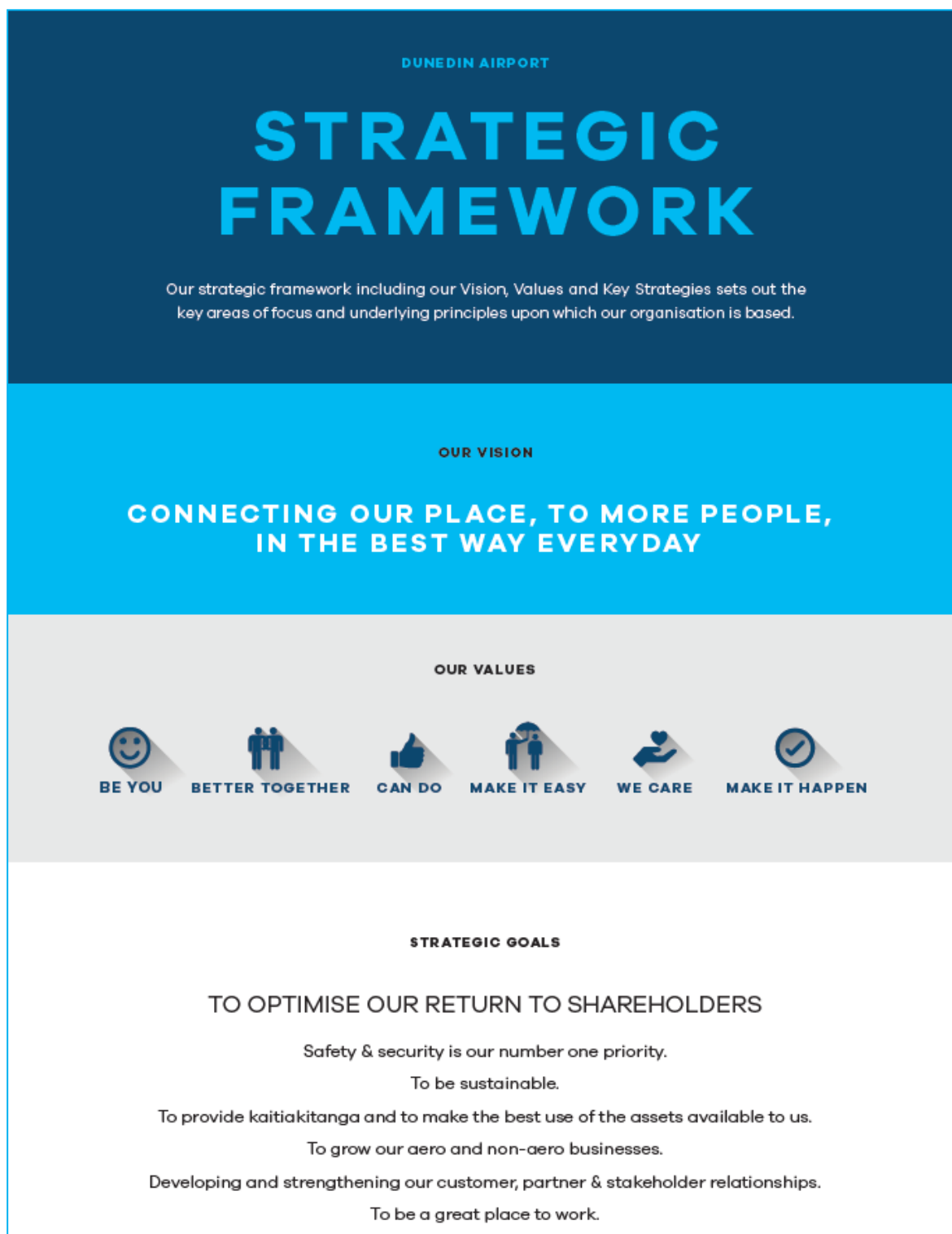
The company is also responsible for managing assets not currently used for airport activities, but which may be used in the future, for example, land held for airport expansion, environmental control purposes, or commercial operations inside the airport zone. This includes the operation of a dairy farm,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



The undertaking of any activity of a nature or scope outside of this would be subject to the prior approval of the shareholders.

4. HOW WE DO IT

Dunedin International Airport Limited's key objectives are to operate as a successful commercial entity and through that deliver sustainable benefits to customers and the travelling public, and to deliver growth in long-term value and dividends to shareholders. We do this within the following Strategic Framework:



5. GOALS, OBJECTIVES AND PERFORMANCE MEASURES

In preparing our goals, objectives and performance measures, we have considered our Shareholders Letters of Expectations for 2022/23 and have incorporated their specific focus areas for 2022/23, namely:

1. Dunedin International Airport Limited's role in post-Covid 19 regional recovery through our continued route development work;
2. Financial performance and long-term fiscal sustainability;
3. Development and implementation of our Sustainability Strategy, inclusive of a carbon zero target by 2030;
4. Development and implementation of our employee Wellbeing Strategy; and
5. Cyber-security.

COVID-19

The COVID-19 pandemic has caused considerable uncertainty in the aviation and tourism sectors globally. As such, it continues to present a major challenge for Dunedin Airport, our community, and New Zealand for the foreseeable future.

Dunedin Airports primary objective in this context is to safeguard our people, and to operate vital airport infrastructure for our place and to support its recovery. Further, ensuring Dunedin Airports financial, and operational sustainability through, and post, the COVID-19 environment is a priority.

The full extent of the impact of COVID-19 is not known. It has required airports and airlines globally to make considerable changes to the way they operate and plan for the future. In this regard, Dunedin Airport is in a relatively solid position. Our company is well financed with appropriate debt to equity levels, diversification of revenue streams, and comparatively low exposure to international passenger volumes.

Historic and forecast passenger numbers are included in Section 7.

It is in this context that the revised SOI and associated Strategic Goals and Actions have been prepared by Dunedin Airports board of directors and management.

OUR SAFETY, SECURITY & ENVIRONMENT

Strategic Goals	Actions	Performance Measures
SAFETY & SECURITY IS OUR NUMBER ONE PRIORITY.	To work with our staff and stakeholders to maximise safety on site for all staff, passengers, and visitors.	<ul style="list-style-type: none"> o No Serious Harm incidents at Dunedin Airport for any passenger or airport user. o No major airside security breach. o Review the Health and Safety Plan and objectives with the Health and Safety Committee each year. o Strike rate of <5 strikes per 10,000 aircraft movements on a 12-month moving average. o Lost Time Injury Frequency Rate (LTIFR) to remain below Worksafe benchmark level of 4.66.
TO BE SUSTAINABLE.	Act as a socially and environmentally responsible corporate citizen that contributes economically to Dunedin and the Lower South.	<ul style="list-style-type: none"> o Implement DIAL's carbon emissions strategy developed in the 2022 financial year and achieve our FY2023 targets. o Implement DIAL's waste reduction strategy developed in the 2022 financial year and achieve our FY2023 targets. o Measure and publicly report our Greenhouse Gas (GHG) emissions, and progress towards our emissions and waste reduction strategies and targets, in our Annual Report. o Implement our sustainability strategy developed in 2021/22. o DIAL has adopted a target to be net zero carbon by 2030. Over the 2023 financial year we will be building on our existing work to develop a roadmap to 2030. We will engage with our shareholders The Crown, DCHL, and Dunedin City Council regarding non-controllable emissions and the potential cost of offsetting residual emissions o Develop an Electrification Master Plan to understand future infrastructure needs to support electricity demand for electric vehicles (EVs) and electric aircraft. o Undertake a study of our economic contribution to the region.
	Maintain high quality dairy farming practices.	<ul style="list-style-type: none"> o Remain compliant with Fonterra dairy farm inspections. o Implement recommendations from the Fonterra Sustainable Farm Environment Plan and any specific initiatives for the dairy farm from our Sustainability Strategy.

COMMERCIAL

Strategic Goals	Actions	Performance Measures
TO PROVIDE KAITIAKITANGA AND TO MAKE THE BEST USE OF THE ASSETS AVAILABLE TO US.	Comply with financial covenants, policy and ongoing risk monitoring	<ul style="list-style-type: none"> ○ Fulfil lender borrowing facility financial covenant: <ul style="list-style-type: none"> ○ Earnings Ratio (EBITDA less distributions / interest expense) > 1.75 ○ Equity Ratio (total shareholders' funds / total assets) > 40% ○ Comply with the company's Dividend Policy as outlined in Section 8 below. ○ Comply with the company's Treasury Policy. ○ Six monthly risk analysis undertaken and reported to the Board. ○ Audit, Risk and Strategic Opportunities Committee to meet three times during the year.
	Generate commercial returns across our asset base	<ul style="list-style-type: none"> ○ Generate a 3.4% Return on Shareholders' Funds adjusted for IFRS fair value movements and asset revaluations. ** ○ Generate a 13.0% Return on Shareholders' Capital invested. ** <p>Note: historic and forecast performance against financial metrics, including those noted above are encompassed in Section 7.</p>
	Ensure the future of the airport is protected.	<ul style="list-style-type: none"> ○ Implement a comprehensive Asset Management Plan. ○ Undertake a comprehensive review our Airport Campus Master Plan. ○ Ensure any new development is considered in conjunction with the District Plan and Airport Master Plan. ○ Remain involved in protecting the airport from any adverse effects of any future external factors.

BUSINESS DEVELOPMENT

Strategic Goals	Actions	Performance Measures
TO GROW OUR AERO AND NON AERO BUSINESSES	Partner with our airline, airport, region, and tourism industry.	<ul style="list-style-type: none"> International Regular Scheduled Services reinstated to the airport. ** Achieve 810,700 passengers on Regular Scheduled Services for the 2022-2023 financial year. **
	Achieve increased non-aeronautical revenues from activities compared to the previous year.	<ul style="list-style-type: none"> Generate an operating surplus from the Momona Garage profit centre. Increase the year-to-date operating surplus from the Residential Housing profit centre against the prior year. Maintain total milk solids production in line with previous year. Increase total Passenger Spend Rate (PSR) of our individual retail partners against the prior year's total PSR. Commence development of a Cargo Strategy and Farm Strategy.

OUR CUSTOMERS, SHAREHOLDERS & COMMUNITY

Strategic Goals	Actions	Performance Measures
DEVELOPING AND STRENGTHENING OUR CUSTOMER, PARTNER & STAKEHOLDER RELATIONSHIPS	Provide a high standard of service to our customers.	<ul style="list-style-type: none"> Conduct a minimum of one customer insight survey. Achieve a majority of "very good" or better across all surveyed areas of customer service.
	Ensure all airside infrastructure maintenance causes no delays to airline operations.	<ul style="list-style-type: none"> No delays to regular scheduled passenger operations are incurred as a result of airside infrastructure.
	Implement initiatives to improve the performance of our relationships.	<ul style="list-style-type: none"> Conduct stakeholder engagement surveys once a year with our strategic partners to review the strength of the relationships.
	Provide sponsorship to community events and organisations.	<ul style="list-style-type: none"> Invest 0.25% of prior year operating revenue to sponsorship in line with our sponsorship application criteria. Not accept sponsorship or give naming rights to companies involved in activities deemed to be inconsistent with Dunedin City Council's and Dunedin

		Airport's ethical positions, i.e. tobacco, armaments, fossil fuel extraction, gambling and pornography.
	Engage with our community and share information.	<ul style="list-style-type: none"> Implement community initiatives identified in our Sustainability Strategy. Engage with our wider community to share information about our airport and sustainability initiatives. Arrange for Dunedin Airport staff to work within the community each year.
	Operate on a "no surprises" basis with shareholders.	<ul style="list-style-type: none"> Report to shareholders within 24 hours substantive matters which have the potential to significantly impact negatively on shareholders and the company with a particular focus on matters of interest to the media. Consult with shareholders on matters where the company's and shareholders requirements are in conflict.

OUR PEOPLE		
Goals	Objectives	Performance Measures
TO BE A GREAT PLACE TO WORK	To recognise and review Staff and Board performance and development.	<ul style="list-style-type: none"> Each staff member to have a formal Annual Performance Review. Each member of the Senior Leadership Team has a Personal Development Plan completed. Executive Team undertake a 360 review. People and Remuneration Committee to meet at least three times annually.
	Ensure that our staff are engaged with the company's Vision, Purpose and Values.	<ul style="list-style-type: none"> Continuously improve our annual staff engagement survey score. Act on any matters that require attention as appropriate. Continuously improve and maintain the Staff Wellbeing Programme.

Achieving those performance measures marked with '***' are dependent on New Zealand remaining in COVID-19 Traffic Light Levels Orange or Green.

6. PERFORMANCE MEASURES

The company will record its performance relating to the objectives stated in Section 5. in its Annual Report.

7. FINANCIAL AND PASSENGER FORECASTS AND ASSUMPTIONS

The tables below summarise key performance indicator information relating to financial metrics and passenger number data. The tables provide actual as well as budget data for the period to 2026/27.

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, in the short to medium term, the Airport is forecasting a considerable decrease in domestic and international passenger numbers vs pre-COVID-19 passenger levels.

PASSENGER NUMBERS (excluding general aviation)	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27
	ACTUAL	ACTUAL	FORECAST	BUDGET				
Domestic	756,656	759,117	595,858	810,721	851,257	902,333	974,519	1,071,971
International	34,232	-	-	-	-	-	-	-
TOTAL	790,888	759,117	595,858	810,721	851,257	902,333	974,519	1,071,971
Percentage Increase/(Decrease) from Prior Year	(26.4%)	(4.0%)	(21.5%)	36.1%	5.0%	6.0%	8.0%	10.0%

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

These impacts are highlighted in the Performance Measure table below:

PERFORMANCE MEASURE	ACTUAL	ACTUAL	FORECAST	BUDGET				
	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27
	\$000's	\$000's	\$000's	\$000's	\$000's	\$000's	\$000's	\$000's
Revenue (includes sundry income)	15,031	14,603	12,037	16,128	16,948	17,906	19,145	20,781
EBITDA	6,133	7,393	4,799	6,554	6,985	7,632	8,934	10,186
Net Profit after Taxation	3,636	2,083	379	1,140	1,037	1,475	1,527	2,277
Shareholders' Funds (average)	66,461	70,325	71,434	71,768	72,088	72,380	73,127	74,128
Cash Flow from Operations	3,563	5,810	3,124	4,617	5,705	5,634	7,796	6,630
Capital Expenditure	7,569	918	951	10,948	5,476	1,165	17,775	25
Term Loans	14,750	14,750	14,250	19,400	20,400	16,650	27,550	21,800
Dividend Paid**	2,372	-	624	228	1,308	622	885	916

** The dividend Paid is calculated by reference to the prior financial years Net Profit after Taxation, in line with the Dividend Policy outlined in Section 8.

			2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27
MEASURE	DESCRIPTION	CALCULATION	ACTUAL	ACTUAL	FORECAST	BUDGET				
Profitability/Efficiency										
Return on Assets	The profit a company is able to generate from its assets.	Net profit after tax / Total Assets	3.5%	2.0%	0.4%	1.1%	1.0%	1.4%	1.3%	2.1%
Return on Capital Employed	The efficiency and profitability of a company's capital from both debt and equity sources	EBIT adjusted for IFRS fair value movements / Average capital employed	32.8%	39.6%	13.1%	28.8%	26.9%	34.4%	35.9%	50.4%
Operating Margin	The profitability of the company per dollar of revenue	EBITDA / Revenue	40.8%	50.6%	39.9%	40.6%	41.2%	42.6%	46.7%	49.0%
Leverage/Solvency										
Equity Ratio	The relative portion of the equity used to finance the company's assets.	Total shareholders' funds / Total assets	66.2%	69.7%	71.8%	68.5%	67.6%	70.6%	63.7%	68.2%
Earnings Ratio (Interest Cover)	The number of times that earnings (less dividends) can cover interest	EBITDA (less dividends) / Interest paid	7.0	14.9	8.9	8.1	7.4	9.2	10.0	9.9

			2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27
MEASURE	DESCRIPTION	CALCULATION	ACTUAL	ACTUAL	FORECAST	BUDGET				
Gearing Ratio (net)	The ratio of debt (liabilities on which a company is required to pay interest) less cash, to debt less cash plus equity	Net debt / Net debt plus equity	17.57	17.11	16.65	21.17	22.09	18.61	27.28	22.57
Shareholders' Return										
Dividend Pay-out	Proportion of a company's net operating cash flows less allowance for capital maintenance paid out as a dividend to the shareholder	Dividends paid / Net cash flow from operating activities less depreciation expense	7.60	-	(1.19)	0.38	1.21	0.60	0.44	1.04
Return on Equity	How much profit a company generates with the funds the shareholder has invested in the company	Net profit after tax / Average equity	5.5%	3.0%	0.5%	1.6%	1.4%	2.0%	2.1%	3.1%
Return on equity adjusted for IFRS fair value movements and asset revaluations	Return on equity after removing the impact of IFRS fair value movements and asset revaluations	Net profit after tax adjusted for IFRS fair value movements (net of tax) / Average of share capital plus retained earnings	11.9%	6.5%	1.1%	3.4%	3.1%	4.3%	4.4%	6.4%

The following are assumptions made throughout the budget:

- The budget assumes 2022-23 passengers of 810,720.
- Nil international PAX are included in the 5-year budget period. Accordingly, the budget assumes \$nil Passenger Service Charge revenue, \$nil international route incentives and/or rebates, and reduced marketing spend in trans-Tasman markets.
- Notwithstanding a landing charge consultation on 1 July 2022, which may lead to increased landing charge revenue, airfield and terminal landing charges are based on current published prices, effective 1 July 2021.

We have assumed no increase in current flight schedules, that is, we have assumed no additional domestic services.

Landings/PAX have been assumed to grow by 5.0%, 6.0%, 8.0% and 10.0% respectively for the 2023-24 – 2026-27 forecast 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 2022-23 budget has assumed a 5.0% increase to the current carparking charges.
- Wages and Salaries have been forecast based on a 3.0% yearly increase.
- An interest rate of 4.25% (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 2026/27 is 3.0% for each year for both non-aeronautical income and expenditure items apart from landing charges, carpark and garage revenue which grows at 5.0%, 6.0%, 8.0% and 10.0% respectively from 2023/24 to 2026/27 on the back of forecast increasing 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.

8. DIVIDEND POLICY

- 8.1 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:

- (a) The company's financial performance and, in particular, the cash flows generated by the company from operations.

- (b) The ratio of the company's Shareholders funds to the assets.
- (c) The company's investment proposals and profitability thereof.
- (d) Private corporate sector dividend payments in relation to earnings, net worth, and financial structures.
- (e) The company's ability to raise loans and the terms thereof.
- (f) The company's capital expenditure programme.
- (g) The current cost of borrowings to the company.
- (h) The risks associated with the uncertainty of airline schedules in the short and medium term.
- (i) The Debt/Equity ratio

Any final dividend will be paid by 30 November.

9. REPORTING TO SHAREHOLDERS

9.1 Annually – January, a draft Statement of Intent.

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

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

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

All reporting requirements noted in 9.2 above will be delivered within legislative timeframe deadlines.

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

- (i) 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.
- (ii) Aircraft and passenger activity.
- (iii) Commentary on any matters relating to the performance of the company.

9.4 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.

10. ACCOUNTING POLICIES

10.1 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.

10.2 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

11. 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:

- (a) carry on any business other than the management and operation of Dunedin International Airport;
- (b) form any subsidiary company; or
- (c) 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.

12. 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 & Licences
Delta Limited	Maintenance Contracts
Dunedin Venues Management Limited	Corporate Membership
Dunedin City Treasury Limited	Specific Treasury Services

13. COMMERCIAL VALUE OF SHAREHOLDERS INVESTMENT IN THE AIRPORT COMPANY

The commercial value of the Shareholder's investment in the Company is considered by the Directors 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 2021 Annual Report, as at 30 June 2021 the value of Shareholder's funds in the Statement of Financial Position is \$71,457,000.

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