



Papa Rererangi i Puketapu Ltd
New Plymouth Airport

Report for the period ended
31 December 2019

| | |
|--------------------|-----------------|
| Philip Cory-Wright | Chair |
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1. Introduction

This report for the period ended 31 December 2019 is presented by Papa Rererangi i Puketapu Ltd (PRIP) in accordance with the requirements of Sections 64 and 65 of the Local Government Act 2002 referencing the company's Statement of Intent and PRIP's monitoring and reporting requirements respectively.

2. Responsibilities

PRIP was established in July 2017 and is 100% owned by New Plymouth District Council (NPDC). The company operates as a Council Controlled Trading Organisation (CCTO) through an independent skills-based Board of Directors and employs its own Chief Executive and staff.

PRIP operates under a Statement of Intent (SOI) agreed to by its Directors and NPDC.

PRIP's prime purpose is to operate New Plymouth Airport on a sustainable commercial basis and to ensure the ongoing safe and successful operation of the Airport. PRIP owns passenger terminals, aircraft hangars, airside infrastructure, car parking areas, roading and underground utilities. These facilities are sited on land occupied under lease from the New Plymouth District Council.

PRIP's prime objectives are to:

- operate the Airport in full compliance with the regulations set down by the New Zealand Civil Aviation Authority
- ensure that the business is run on a sustainable commercial basis
- optimise the use of its assets
- generate a reasonable rate of return on investment

The key to this is to ensure the ongoing safe and successful operation of the Airport, whilst also facilitating the growth of tourism and trade by working collaboratively with key stakeholders to sustainably increase passenger numbers.

The Airport provides services to allow the safe and efficient facilitation of travellers and freight and, ancillary to this, it leases terminal space and land at the Airport.

The Airport is viewed as an essential infrastructure asset for New Plymouth and has a key role to play in the economic performance, growth and development of the Taranaki region. As part of this, PRIP will work collaboratively with the airlines, NPDC, Venture Taranaki, the Chamber of Commerce and other local key stakeholders to work towards the region's common strategic goals.

3. Executive summary

The first six months of FY2020 has provided good results with overall Airport revenue slightly above budget at \$2.94m and expenditure on budget at \$1.49m. Whilst expenditure was 22% above the first six months of FY2019, revenue was 34% above the equivalent period last year, resulting in earnings before income tax and depreciation at \$1.45m, being 2% above budget and 50% above FY2019.

The number of passengers passing through the Airport was 3.7% down as compared to the same period last year but on budget for FY2020, despite Jetstar decreasing services during the period and ceasing New Zealand regional operations altogether at the end of November. Whilst the stopping of the Jetstar flights is seen as a negative impact from a customer service point of view, the effect on the FY2020 Airport revenue budget will not be too excessive. Air New Zealand's passenger numbers are currently tracking 5% ahead of forecast and the airline has announced that they will add further capacity in the New Year following December's increase.

From an operational perspective, the Airport facilities were maintained during the period to avoid any disruption of scheduled commercial flights other than for weather or airline related problems and the Airport was managed in full compliance with the approved operating procedures of the Civil Aviation Authority Rule Part 139.

Work on the new terminal project is progressing well and, with the building structure now largely completed, the outstanding activities to be worked on early in the New Year will be the completion of the chevron ceiling, some floor finishes and fit-outs of the café and the two retail outlets. Commissioning will commence late January and run through to early March with a remaining final clean up in time for going operational mid-March.

4. PRIP establishment

There are various agreements that have been established between the Council and PRIP for the ongoing operation of the Airport namely:

- Service Level Agreement
- Loan Facility Agreement
- General Security Deed
- Intergroup Asset Transfer
- Deed of Lease of Airport Land

The loan facility agreement is in place to fund the current Airport Terminal redevelopment and other short term projects through a working capital facility. All capital and interest repayments associated with this loan were covered during the period through Airport operational revenue and there has been no reliance on the general ratepayer.

With regards the Airport's compliance with the New Zealand Civil Aviation Authority (CAA) Part 139, a three party agreement is in place between PRIP, NPDC and the CAA allowing PRIP to manage the Airport operations on behalf of NPDC as the Aerodrome Operator Certificate holder.

5. Operational summary

The following key performance measures are noted for the period ended 31 December 2019.

Revenue for the first six months was slightly above budget at \$2.94m, representing a 36% increase in the equivalent period last year as a result of new landing charges being introduced at the beginning of July.

Operating expenditure at \$1.49m was on budget and, coupled with slightly better revenue than forecast, meant that earnings before income tax and depreciation at \$1.45m was 2% above budget and 50% above the same period of FY2019.

The total passenger numbers for the first six months of FY2020 was recorded at 224,836 which was 3.7% down on the first six months of FY2019 and 0.3% below the FY2020 budget.

Air New Zealand, despite a forecasted drop in numbers for FY2020 over FY2019, actually recorded an additional 3,517 passengers above the equivalent period last year. For the first

half of FY2020, Air New Zealand is tracking 5% ahead of the Airport's original forecast for the airline.

Jetstar ceased regional New Zealand operations at the end of November which has obviously affected the FY2020 numbers, however, with the increased capacity by Air New Zealand for December and better than forecast passenger numbers, the overall impact has been reduced.

During the first half of the financial year, the Airport facilities were effectively maintained to avoid any disruption of scheduled commercial flights other than for weather or airline related problems.

The table below summarises the performance for the first six months of FY2020.

| <u>Period ended 31 December 2019</u> | | | | | |
|--------------------------------------|---------------|-----------------------|------------------|------------------|---------------|
| | FY2020 SOI | Full year forecast | Period Actual | Period Budget | Previous year |
| Operating revenue | \$ 6,620,000 | \$ 6,127,294 | \$ 2,936,998 | \$ 2,911,794 | \$ 2,186,753 |
| Operating expenditure | \$ 3,440,000 | \$ 3,059,360 | \$ 1,488,428 | \$ 1,486,290 | \$ 1,219,647 |
| EBITDA | \$ 3,180,000 | \$ 3,067,934 | \$ 1,448,570 | \$ 1,425,504 | \$ 967,106 |
| Depreciation & amortisation | \$ 1,500,000 | \$ 1,500,000 | \$ 693,526 | \$ 750,000 | \$ 670,254 |
| Finance expense | \$ 1,200,000 | \$ 1,200,000 | \$ 447,729 | \$ 420,000 | \$ 201,148 |
| Passenger numbers | 471,000 | 441,701 | 224,836 | 225,451 | 233,586 |

6. Financial performance against Statement of Intent

The FY2020 Statement of Intent (SOI) outlining PRIP's anticipated financial performance was based on the assumed forecasted passenger growth and proposed Airport commercial activity at the time. Based on previous growth figures, a 3% increase on the FY2019 numbers was used, resulting in forecasted annual passengers for FY2020 of 471,000.

However, subsequent to the FY2020 SOI being finalised, the commercial airlines indicated that passengers numbers were predicted to fall from FY2019 levels, with Air New Zealand anticipating a 3% drop and Jetstar 6%. This had the effect of reducing the forecasted SOI FY2020 passenger numbers from 471,000 to 441,700 and a consequent drop in revenue.

During the second quarter of FY2020, Jetstar announced that the company would cease regional New Zealand operations at the end of November. This has compounded the

reduction effect on the original forecasted SOI FY2020 passenger numbers and a more recent reforecast has now estimated the total passengers for the year at 434,500.

PRIP's FY2020 budget was set using the previous revised numbers and at this time this is still being used to track against actuals as in the operational summary above. At this stage there has been no adjustment to the FY2020 SOI financials.

7. Stakeholder relations

NPDC, as the 100% Shareholder, has nominated an advisor who attends the PRIP Board meetings as an observer. The Council's Chief Operating Officer (CCO) holds this position and, as well as the Board meeting attendance, the CCO meets regularly with the Chief Executive of PRIP to ensure strong communications and alignment between the Council and the Airport company.

PRIP management is also working in close collaboration with the Venture Taranaki Trust and the Chamber of Commerce to promote the district from tourism and economic development perspectives and, with the new terminal coming on stream in early 2020, to showcase the Airport as a strategic gateway to the Taranaki region.

PRIP will continue to build upon the strong relationship with Puketapu Hapu that has developed with the Airport over the years and, in particular, with the close involvement during the Airport Terminal Redevelopment project.

Regular meetings are still continuing with the Hapu and the Project team and the Hapu are now focused on the creation and manufacture of the new terminal's internal art works. Further, a group consisting of representatives from the Airport, Puketapu Hapu and NPDC has been established to work on the proceedings for the opening of the new terminal.

A critical project of concern for the Hapu is the Airport's proposal to extend the sealed main runway. During the period, a feasibility study commenced which included a multi criteria analysis (MCA) workshop being held, attended by members of the Airport team, Puketapu Hapu, Air New Zealand and other key stakeholders with specialist consultancy input. The study will be finalised early in the new year.

PRIP is aware of future decisions that may impact on local Iwi and Hapu and will ensure an appropriate level of consultation at all times. PRIP is also aware of the statutory obligations of the Council and will act at all times in a manner that is consistent with these and also those pursuant to agreements with third parties, including Iwi, Hapu, or other Maori organisations.

8. Terminal redevelopment project

A key focus for both management and governance at the current time is the completion and delivery of the new Airport terminal. The Project team, under the direction of the PRIP Chief Executive, are closely monitoring all aspects of the build and are confident that the development will be delivered to the required quality, scope and within budget.

Work on the project is progressing well and, following extensive services relocations and replacement, a new approach road to the terminal is well underway. Roading works outside the terminal entrance have also commenced.

Inside the terminal the ceiling install, plastering and painting is 90% completed with only the area above the café outstanding. Floor tiling install is progressing to plan with work ongoing in the final zone. The chevron ceiling blade install, which needs to fit around tiling works and install of mechanical ducting, is 70% completed.

The installation of both baggage handling systems has commenced and the commissioning and testing of the systems is expected late January early February.

The design and extent of window manifestations for the mezzanine, departures lounge and lobbies has been confirmed and, after consultation with Venture Taranaki and Airport management, the regional logo “Taranaki Like No Other” will be installed at strategic locations in the arrivals and departure lobbies.

Fit-out has commenced on the new retail and café operations and work is progressing linking up electrical, data and communications. Contractors working for Air New Zealand have completed the airline’s regional lounge fit-out and will move into their main office space and check in areas in the New Year.

On the exterior, work on the airside soffit linings under the roof overhang is advancing to plan and installers will move to the landside linings in co-ordination with the landscaping programme of work.

With the building structure largely completed, the outstanding activities to be worked on during January and February will be the completion of the chevron ceiling, some floor finishes and the fit-outs of the café and two retail outlets. Commissioning will commence late January and run through to early March with a final clean up in time for going operational mid-March.

The Project team are aware of the need to keep Airport customers and the community well-informed of the status of the project and, in conjunction with the Council’s communications team, are continuing to work on a series of communication bulletins that are being released through the press and social media giving details of project progress.

9. Civil Aviation Rule (CAA) Part 139

Following the successful application by PRIP management to renew the CAA aerodrome operator certificate (AOC) until 30 April 2024, the Airport Safety Manager, who took a leading role in the development of the Airport's Safety Management System, has resigned from the company.

A recruitment process has been carried out and management have been successful in appointing a new Airport Safety Manager who will commence in April 2020. The new employee comes from a background in aviation safety having worked for the Royal Air Force in the UK for a number of years and more recently in the capacity of Safety Manager for another New Zealand regional airport.

10. Proposed Civil Aviation Bill

Government officials have drafted a new Civil Aviation Bill which aims to repeal and replace the Civil Aviation Act 1990 and also the Airport Authorities Act 1966 with a single statute. It carries forward policy decisions made by government as a result of work completed by the Ministry on a number of projects.

PRIP continues to watch the proposed Civil Aviation Bill with interest. The Bill is expected to be introduced to Parliament in the near future. An earlier exposure version for industry consultation highlighted a number of changes that may affect PRIP and the Council, particularly around significant capital expenditure and setting landing charges. PRIP will keep the Council informed on the progress of this Bill and may ask that you join with us in making a submission on this Bill once it has been introduced to Parliament.

11. Strategic outlook

Car parking

Car parking is the biggest portion of the Airport's non-aeronautical revenue and the ability to create sufficient parking spaces and set appropriate charges are critical elements.

As previously advised, a car parking management strategy is being developed to explore options to increase the number of car parking spaces, including a review of the existing layout and various options to either extend or construct new areas. The strategy is aimed at taking

a more holistic Airport precinct approach and considers the whole customer experience from when entering the gate on Airport Drive.

Phase 1 of this strategy is a proposal to construct a new car parking area on the site of the old terminal. The proposal has been put before the Board and approved by Directors, with work commencing once the old building has been demolished and materials removed from site.

In developing the design, it became clear that it would be impractical to develop the car park in isolation without also addressing the broader vehicular circulation of the entire Airport site. Therefore, the new design will see Katatone Road (Airport perimeter road) become two-way along its full length, removing the need for service vehicles to drive directly across the frontage of the new terminal through the drop-off/pick up area. The design also provides for improved taxi and shuttle facilities, both in number and location, and an outdoor public airside viewing area.

As advised, and in line with the business case, a further review of car parking charges will be undertaken mid-2020, once the Airport terminal redevelopment is completed.

Route development

Following the statement by Jetstar Airways to cease New Zealand regional services at the end of November, Air New Zealand announced that they will add additional capacity on the sectors previously serviced by Jetstar for the month of December.

For New Plymouth this added an extra 19 return flights between the Airport and Auckland for the month and, after a further review, the airline has now extended this additional capacity through to the end of March.

Following consultation with Air New Zealand prior to the holiday break, the airline has made changes to their winter schedule (April to October 2020) which will effectively see an overall 5% increase in capacity during the period over the previous year.

This will mainly be on the New Plymouth to Auckland route with timing changes on the New Plymouth to Wellington sector. Unfortunately, due to poor demand on the New Plymouth to Christchurch route, there will be a small decrease in capacity on this sector from April onwards.

The third tier airline operator, Originair, was successful in obtaining an air operator certificate for commercial flights in December and is proposing to recommence the Nelson to New Plymouth service once the new terminal building is fully operational. Previously the airline used Jetstar's ground handling services, however, Originair is currently establishing its own team with training now in progress.

Runway extension

At the current time the Airport's main runway 05 – 23 (1,310m long) is the shortest runway in the country that Air New Zealand operate their ATR72 aircraft and, under certain weather conditions, take-off and landing weight restrictions may apply.

For some time now proposals to extend the runway both in easterly and westerly directions have been looked at, but not in great detail. Issues complicate the extensions due to a significant cultural feature at the western end and a drop-off in surface levels to the east.

PRIP is keen to pursue all runway extension possibilities as it is vital to consider the long-term sustainability of the facility. This strategic proposal is an important aspect in safeguarding the Airport for the benefit of the Taranaki region.

The overall project can be broken down into four stages:

Stage one

Undertake a multi-criteria analysis (MCA) workshop attended by key stakeholders with specialist consultancy input. The workshop was held during the period and Puketapu Hapu were very appreciative of being invited to be involved at the beginning of such an important project. There was an excellent briefing given of the history of the land and the Hapu's beginnings.

Currently, the consultants are assessing the outcomes of the workshop and reviewing options for extending on the existing alignment to see what length of runway is achievable to improve safety (inclusion of modified runway end safety areas) but have a minimal impact of the significant cultural features.

A report will be completed early in the New Year recommending options to take forward to Stage 2.

Stage two

This will be far more complex and involve:

- Planning requirements
- Public consultation
- Stakeholder engagement
- Concept design

- Noise contour analysis
- Preliminary geotechnical work
- Analysing reverse sensitivity issues of existing properties

Stage three

Detailed design of the preferred option.

Stage four

Tender and construction

The current draft timeline for the project is to finalise a preferred option to take forward to Stage 2 during FY2021 with Stage 3 commencing FY2022 and construction programmed to be completed during FY2023.

Sustainability

The Zero Carbon Bill is currently being considered by the Environment Selection Committee. The proposed power enables the Minister to request certain organisations to provide information on climate change adaptation, with the aim to ensure that organisations prepare effectively for climate change and report publicly on their work. The Airport meets the criteria through being a Council Controlled Organisation and a lifeline utility.

At present there is no formal requirement for organisations to report on the risks that climate change could pose to their operations, however, the Bill will formalise a process of risk assessment and management in climate change adaptation that the new proposed Climate Change Commission would use to develop its national adaptation plan and report progress on its implementation.

The Airport has achieved significant support from tenants and key stakeholders and the initial Green Lease agreement between the Airport and Air New Zealand as part of the airline's new lease arrangements at New Plymouth Airport, has now expanded to include measuring, monitoring and targeted reduction philosophy being rolled out to other tenants within the new terminal as a result of similar Green Lease appendices within their individual leases.

Management are ensuring processors are in place within the new terminal to accurately capture data to begin measuring and assessing a baseline position. By capturing and mapping this data, management will be in a position to understand the terminal's emission profile which will assist the continued development of the Airports Sustainability Policy framework.

New Plymouth Airport is working towards the Airport's Council International Airports Carbon Accreditation and a working template has been developed to capture emission data and associated source categories.

The collection and mapping of emissions data is the first stage in the journey and, once accurate base data has been captured for the new terminal, the focus can move towards stage two, the formulation of a carbon emissions reduction target and the development of a Carbon Management Plan to achieve these targets.

- Stage 1 Mapping
- Stage 2 Reduction
- Stage 3 Optimisation
- Stage 4 Neutrality

New Plymouth Airport has also recently joined Auckland, Wellington, Christchurch and Dunedin airports to form the New Zealand Airports Association Sustainability Committee and the group is currently looking at strategies and what role New Zealand Airports can play in developing and facilitating a nationwide sustainability programme for airports.