WANGANUI AIRPORT JOINT VENTURE

STATEMENT OF INTENT FOR YEAR COMMENCING 1 JULY 2015

This statement is submitted by the partners of the Wanganui Airport Joint Venture in accordance with section 64 of the Local Government Act 2002. It sets the overall intentions and objectives of the Joint Venture for the three financial years beginning on 1 July 2015.

The airport is operated under a Joint Venture agreement between the Wanganui District Council and the New Zealand Government established under the Airport Authorities Act (1966). The Joint Venture is a deemed company under the Income Tax Act (2004).

1 Definitions

"JV" means Joint Venture between the Crown and Council.
"CCO" means the Wanganui Airport Joint Venture, being a Council Controlled Organisation.
"Council" means the Wanganui District Council.
"Crown" means the New Zealand Government.

2 Objectives

2.1 The JV's primary objectives are to:
- 2.1.1 Provide high quality facilities and service commensurate with existing levels of aviation activity and in accordance with all the appropriate Acts, Regulations and Rules pertaining to airport and aviation operations in line with the size of Wanganui Airport.
- 2.1.2 Operate the airport in a sound and business like manner.
- 2.1.3 Improve the long term value and financial performance of the airport while improving the economic value of the airport to Wanganui.

3 Governance

3.1 The JV partners have delegated governance and statutory management responsibilities to the Wanganui District Council.

4 Nature and scope of activities

4.1 The airport provides takeoff, landing, ground handling and passenger terminal facilities for scheduled airline services.
4.2 It also provides a base for commercial, training and recreational aviation activity.
4.3 The ongoing development of aviation and associated service and infrastructure is subsequently intended to support activity, business and employment.

5 Consolidated shareholders funds

5.1 For the year ended 30 June 2014, consolidated shareholders funds as a ratio to total assets was 87%. Per the JV's Draft Annual Report 2014, equity was $10.8M and total assets were $12.4M.

5.2 The target ratio of consolidated shareholders' funds to total assets shall not significantly alter to that stated in 5.1 for the period covered by this SOI. This target ratio does not take into account unusual or one-off type transactions that impact this ratio. The appropriateness of this target ratio will be reviewed annually by the Partners.

6. Accounting policies

6.1 The Statement of accounting policies for the year ended 30 June 2014 is attached in Appendix 1.

7 Performance targets

7.1 The forecast performance targets for the next three years are:

- 7.1.1 Reduction of the current loss position to 'break even' or to a level acceptable to the partners in the light of the CCO's economic value to Wanganui.
- 7.1.2 Compliance with all aspects of Part 139 of the Civil Aviation Rules with a minimum of one requirement per inspection.
- 7.1.3 Delivery of an activity plan and subsequent achievement of the individual targets outlined within that plan.

8 Distributions to shareholders

8.1 Under the JV agreement the partners contribute equally to losses and share any profits.

8.2 The JV will not have any funding to pay a dividend in the foreseeable future. Resources will be allocated to the sustainability of the service and reduction of the operating deficit.

9 Information to be provided to shareholders

9.1 To better achieve the stated objectives, an activity plan is produced to set out the Board's short and long term strategies and include an annual budget.

9.2 The CCO will produce reports in accordance with the Local Government Act 2002 and generally accepted accounting practice.

9.3 The financial statements will be prepared and audited by 30 September.

9.4 The CCO will produce monthly management reports in accordance with Wanganui District Council management reporting systems.

10 Procedure for acquisition or sale of shares and property

10.1 Before the JV subscribes for, purchases or acquires shares in any other company, or acquires any interest in any business or property whatsoever the JV shall give at least 21 days notice to WDC and in turn the Crown of such proposals prior to the JV deciding whether or not to proceed.

10.2 The JV shall not proceed to purchase without an ordinary resolution first being completed by WDC.

11 Compensation

11.1 Other than normal business transactions provided to WDC there are no activities for which the JV will be seeking compensation from any local authority.

12 Commercial value

12.1 The estimate of the commercial value of the JV is $10,819,000. The investment is made up by way of equity as at 30 June 2014.

12.2 The JV, upon request from the JV partners, will provide within their Annual Report an assessment of the then current commercial value of the shareholding.

13 Other matters

13.1 The JV operates in accordance with the Joint Venture agreement at all times.

APPENDIX 1

Statement of accounting policies

REPORTING ENTITY

The Wanganui Airport (WAJV) is a joint venture between the Wanganui District Council and the New Zealand Government established under the Airport Authorities Act 1966. WAJV is a Council Controlled Organisation (CCO) of the Wanganui District Council (WDC) as defined by section 6 of the Local Government Act 2002 and is domiciled in New Zealand.

The primary objective of WAJV is to provide high quality facilities and service commensurate with existing levels of aviation activity and in accordance with all the appropriate Acts, Regulations and Rules pertaining to airport and aviation operations of the size of Wanganui Airport, operate the airport in a sound and business like manner and improve the long term value and financial performance of the airport along with improving the economic value of the airport to Wanganui. Accordingly, WAJV is a public benefit entity for the purposes of New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS).

The financial statements of WAJV are for the year ended 30 June 2014. The financial statements were authorised on XX September 2014 by the Wanganui District Council.

BASIS OF PREPARATION

Statement of compliance
The financial statements of WAJV have been prepared in accordance with the requirements of the Local Government Act 2002, which includes the requirement to comply with New Zealand generally accepted accounting practice (NZ GAAP).

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 public benefit entities.

For the purposes of complying with NZ GAAP, WAJV is eligible to apply Tier 2 For-profit Accounting Standards (New Zealand equivalents to International Financial Reporting Standards – Reduced Disclosure Regime ('NZ IFRS RDR')) on the basis that it does not have public accountability and is not a large for-profit public sector. The WAJV has elected to report in accordance with NZ IFRS RDR and has applied disclosure concessions.

Measurement base
The financial statements have been prepared on a historical cost basis, modified by the revaluation of land and buildings, certain infrastructural assets, investment property, and certain financial instruments (including derivative instruments).

Functional and presentation currency
The financial statements are presented in New Zealand dollars and all values are rounded to the nearest thousand dollars ($000). The functional currency of WAJV is New Zealand dollars.

Changes in accounting policies

There are no new and amended standards adopted by the WAJV in these financial statements.

Standards, amendments and interpretations issued that are not yet effective and have not been early adopted

At the date of authorisation of the financial report, a number of standards and interpretations were issued but not yet effective.

Standards, amendments and interpretations issued that are not yet effective and have not been early adopted, and which are relevant to the WAJV include:

NZIFRS 9 Financial Instruments will eventually replace NZ IAS 39 Financial Instruments: Recognition and Measurement. NZ IAS 39 is being replaced through 3 main phases: Phase 1 Classification and Measurement; Phase 2 Impairment Methodology; and Phase 3 Hedge Accounting. Phase 1 has been completed and has been published in the new financial instrument standard NZ IFRS 9.

NZ IFRS 9 uses a single approach to determine whether a financial asset is measured at amortised cost or fair value. The approach is based upon how an entity manages its financial assets and the contractual cash flow characteristics of the financial assets. The financial liability requirements are the same as those in NZ IAS 39 except for when an entity elects to designate a financial liability at fair value through the surplus/deficit. The new standard is to be adopted for reporting periods beginning on or after 1 January 2017. The standard is not expected to have a material effect on the WAJV.

SIGNIFICANT ACCOUNTING POLICIES

The following accounting policies, which materially affect the measurement of results and financial position, have been applied:

Revenue
Revenue is measured at the fair value of consideration received or receivable.

Provision of services
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.

Vested assets
Where a physical asset is acquired for nil or nominal consideration, the fair value of the asset received is recognised as income. Assets vested in WAJV are recognised as income when control over the asset is obtained.

Sale of goods
Revenue from sales of goods is recognised when a product is sold to the customer.

Parking infringements
Parking infringements are recognised when tickets are issued.

Interest and dividends
Interest income is recognised using the effective interest method.

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

Income Tax
Income tax expense is the aggregate of current period movements in relation to both current and deferred tax.

Current tax is the amount of income tax payable based on the taxable surplus for the current year, plus any adjustments to income tax payable in respect of prior years. Current tax is calculated using tax rates (and tax laws) that have been enacted or substantively enacted at 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 surplus.

Deferred tax is measured at the tax rates that are expected to apply when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at balance date. The measurement of deferred tax reflects that tax consequences that would follow from the manner in which WAJV expects to recover or settle the carrying amount of its assets and liabilities.

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 surpluses 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 the accounting surplus nor taxable surplus.

Current and deferred tax is recognised against the surplus or deficit for the period, except to the extent that it relates to a business combination, or to transactions recognised in other comprehensive income or directly in equity.

Leases

Finance leases

A finance lease is a lease that transfers to the lessee substantially all the risks and rewards incidental to ownership of an asset, whether or not title is eventually transferred.

At the commencement of the lease term, WAJV recognises finance leases as assets and liabilities in the statement of financial position at the lower of the fair value of the leased item or the present value of the minimum lease payments.

The finance charge is charged to the statement of comprehensive income over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability.

The amount recognised as an asset is depreciated over its useful life. If there is no certainty as to whether WAJV will obtain ownership at the end of the lease term, the asset is fully depreciated over the shorter of the lease term and its useful life.

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

Bank overdrafts are shown within borrowings in current liabilities in the statement of financial position.

WDC from time to time funds the working capital of WAJV. At balance date this is represented as a current liability in the statement of financial position. The WDC current account is included in the statement of cash flows as it represents actual WAJV cash in flows and out flows.

Debtors and other receivables
Debtors 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.

Inventories
Inventories (such as spare parts and other items) 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, adjusted when applicable, for any loss of service potential. Where inventories are acquired at no cost or for nominal consideration, the cost is the current replacement cost at the date of acquisition.

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 amount of any write-down for the loss of service potential or from cost to net realisable value is recognised in the statement of comprehensive income in the period of the write-down.

Property plant and equipment
Property, plant and equipment consists of:

Operational assets – these include land, buildings, motor vehicles and plant and equipment.

Infrastructure assets – this includes the airport runway.

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

Revaluation
Land, buildings and infrastructural assets are revalued with sufficient regularity to ensure that their carrying amount does not differ materially from fair value and at least every three years. All other asset classes are carried at depreciated historical cost.

WAJV assesses the carrying values of its revalued assets annually to ensure that they do not differ materially from the assets' fair values. If there is a material difference, then the off-cycle asset classes are revalued.

WAJV accounts for revaluations of property, plant and equipment on a class of asset basis.

The net revaluation results are credited or debited to other comprehensive income and are accumulated to an asset revaluation reserve in equity for that class of asset. Where this would result in a debit balance in the asset revaluation reserve, this balance is not recognised in other comprehensive income but is recognised in the surplus or deficit. Any subsequent increase on revaluation that reverses a previous decrease in value recognised in the surplus or deficit will be recognised first in the surplus or deficit up to the amount previously expensed, and then recognised in other comprehensive income.

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 WAJV and the cost of the item can be measured reliably.

Work in progress is recognised at cost less impairment and is not depreciated.

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 statement of comprehensive income. When revalued assets are sold, the amounts included in asset revaluation reserves in respect of those assets are transferred to retained earnings.

Depreciation
Depreciation is provided on a straight-line basis on all property, plant and equipment other than land, 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:

Buildings	50 years	2%
Plant and equipment	5 to 50 years	2-20%
Infrastructural assets		
Airport runway	50 years	2%

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

Intangible assets

Software acquisition and development
Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software.

Costs that are directly associated with the development of software for internal use by WAJV, are recognised as an intangible asset. Direct costs include the software development employee costs and an appropriate portion of relevant overheads.

Staff training costs are recognised as an expense when incurred.

Costs associated with maintaining computer software are recognised as an expense when incurred.

Amortisation
The carrying value of an intangible asset with a finite life is amortised on a straight-line basis over its useful life. Amortisation begins when the asset is available for use and ceases at the date that the asset is derecognised. The amortisation charge for each period is recognised in the statement of comprehensive income.

The useful lives and associated amortisation rates of major classes of intangible assets have been estimated as follows:

Computer software	3 years	33%

Impairment of property, plant and equipment and intangible assets
Intangible assets that have an indefinite useful life, or not yet available for use, are not subject to amortisation and are tested annually for impairment. Assets that have a finite useful life are reviewed for indicators of impairment at each balance date. When there is an indicator of impairment the asset's recoverable amount is estimated. An impairment loss is

recognised for the amount by which the asset's carrying amount exceeds it recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

Value in use is depreciated, replacement cost for an asset where the future economic benefits or service potential of the asset are not primarily dependent on the asset's ability to generate net cash inflows and where the entity would, if deprived of the asset, replace its remaining future economic benefits or service potential.

The value in use for cash-generating assets and cash generating units 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 class of asset. Where that results in a debit balance in the revaluation reserve, the balance is recognised in the statement of comprehensive income.

For assets not carried at a revalued amount, the total impairment loss is recognised in the statement of comprehensive income.

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 class of asset was previously recognised in statement of comprehensive income, a reversal of the impairment loss is also recognised in the statement of comprehensive income.

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

Creditors and other payables
Creditors and other payables are initially measured at fair value and subsequently measured at amortised cost using the effective interest method. The balance includes the current account held with Wanganui District Council which is current and no interest is charged.

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

Borrowings are classified as current liabilities unless WAJV has an unconditional right to defer settlement of the liability for at least 12 months after the balance date or if the borrowings are expected to be settled within 12 months of balance date.

Employee entitlements
Short-term employee entitlements
Employee benefits that WAJV 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, and sick leave.

WAJV recognises a liability for sick leave to the extent that absences in the coming year are expected to be greater than the sick leave entitlements earned in the coming year. The amount is calculated based on the unused sick leave entitlement that can be carried forward at balance date, to the extent that WAJV anticipates it will be used by staff to cover those future absences.

WAJV recognises a liability and an expense for bonuses where contractually obliged or where there is a past practice that has created a constructive obligation.

Long-term employee entitlements
Entitlements that are payable beyond 12 months after the end of the period in which the employee renders the related service, such as long service leave and retiring leave, have been calculated on an actuarial basis. The calculations are based on likely future entitlements accruing to staff, based on years of service, years to entitlement, the likelihood that staff will reach the point of entitlement and contractual entitlements information; and the present value of the estimated future cash flows. The discount rate is based on the weighted average of interest rates for government stock with terms to maturity similar to those of the relevant liabilities. The inflation factor is based on the expected long-term increase in remuneration for employees.

Presentation of employee entitlements

Sick leave, annual leave, vested long service leave, and non-vested long service leave and retirement gratuities expected to be settled within 12 months of balance date, are classified as a current liability. All other employee entitlements are classified as a non-current liability.

Superannuation schemes

Defined contribution schemes

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

Equity

Equity is the community's interest in WAJV and is measured as the difference between total assets and total liabilities. Equity is disaggregated and classified into a number of reserves.

The components of equity are:

- retained earnings
- property, plant and equipment reserves
- fair value through equity reserves

WAJV's objectives, policies and processes for managing capital are described in note 20.

Property revaluation reserves

This reserve relates to the revaluation of property, plant, and equipment to fair value.

Goods 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 statement of financial position.

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 WAJV has made estimates and assumptions concerning the future which may differ from the subsequent actual results. Estimates and assumptions 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 and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Property, plant and equipment useful lives and residual values

At each balance date WAJV reviews the useful lives and residual values of its property, plant and equipment. Assessing the appropriateness of useful life and residual value estimates of property, plant and equipment requires the WAJV to consider a number of factors such as the physical condition of the asset, expected period of use of the asset by WAJV, and expected disposal proceeds from the sale of the asset. An incorrect estimate of the useful life or residual value will impact on the depreciable amount of an asset, therefore impacting on the depreciation expense recognised in the statement of comprehensive income, and carrying amount of the asset in the statement of financial position. WAJV minimises the risk of this estimation uncertainty by:

- an annual review by an independent contractor of the value of the infrastructure assets to determine if any material changes exist.
- physical inspection of assets
- asset replacement programs
- review of second hand market prices for similar assets
- analysis of prior assets sales; and
- completing a revaluation of the infrastructure assets every third year

WAJV has not made significant changes to past assumptions concerning useful lives and residual values. The carrying amounts of property, plant and equipment are disclosed in note 8.