



Papa Rererangi i Puketapu Ltd
New Plymouth Airport

Annual report for the year ended
30 June 2020

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1. Introduction

This report for the period ended 30 June 2020 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 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. 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 was established to fund the Airport Terminal redevelopment and other short term projects through a working capital facility. Even though the impact of the COVID-19 pandemic on Airport operational revenue has seriously affected PRIP's revenue stream, interest repayments associated with this loan have been covered but assistance has been required from Council to cover all Airport costs. Moving forward it is anticipated that as the recovery process takes place, PRIP will once again be in a secure financial position to cover all capital and interest repayments through Airport revenue without the need to rely on ratepayer funding.

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.

4. Operational summary

FY2020 has been a challenging year for PRIP with Jetstar ceasing operations in November 2019, Air New Zealand cutting back on services over the first six months of the year and the impacts of the COVID-19 global pandemic over the last quarter.

Passenger numbers in the FY2020 Statement of Intent were originally forecast to reach an annual record of 471,000, however, with Jetstar stopping all domestic regional services and a downturn from Air New Zealand, a reforecast in November 2019 lowered the FY2020 numbers by 30,000 to 441,000.

As a result of Jetstar pulling out, Air New Zealand announced additional capacity into New Plymouth from November through to April to try and make up some of the shortfall. This was working well and, up until mid-March, passenger numbers were tracking at just 2% below the reforecast and overall Airport revenue was less than 1% below budget.

However, following the rapidly increasing Coronavirus infection rate and the resulting worldwide pandemic, the New Zealand Government introduced a national lockdown at midnight on 26 March which severely restricted travel around the country to essential workers only and closed New Zealand's borders.

This had a dramatic effect on Airport operations and the terminal had to close from 4 April with Air New Zealand ceasing all regional air services.

As passenger numbers have a direct impact on other Airport revenue such as car parking and customer spend in the terminal, overall operational revenue dropped considerably.

Reviewing the period 1 April to 30 June:

Month	Passengers		Airport revenue	
	Forecast	Actual	Forecast	Actual
April	38,478	25	\$ 554,640	\$ 102,146
May	36,530	2,457	\$ 561,959	\$ 71,597
June	35,222	10,657	\$ 540,084	\$ 164,674
Total	110,230	13,139	\$ 1,656,683	\$ 338,417

With the nationwide Alert Level being lowered to 1, the terminal reopened on 13 May and confidence in flying started to return. Assuming no more restrictions on flying, recovery was forecast to gradually increase over a period of 12 to 18 months to a level of circa 65% of pre COVID-19 numbers by June 2021.

However, the rebound was quicker than expected and by the end of June 2020 New Plymouth Airport was already back to approximately 60% of prior aircraft movements, although, load factors were not as high as previous. This level of recovery was also being reflected around the other regional airports.

During the year the Airport introduced additional safety and security measures with an increased operational staff presence during the Airport opening hours, allowing for an enhanced public interaction and support. Despite the major redevelopment that has taken place at the Airport during the year, the facilities have remained operational, apart from the period of 4 April to 13 May, and there has been no diversion of regular passenger transport services resulting from Airport operations.

Up until March 2020, all operating costs associated with the day to day operations of the Airport had been covered from revenue, however, for the final quarter of the year, additional

funding was required from NPDC. It is expected that once operations have recovered to a sufficient level, all Airport operational expenditure, interest and capital repayments on the loan facility will be fully serviced from Airport income.

The table below summarises the overall performance for the twelve months of FY2020 from 1 July 2019 to 30 June 2020.

<u>Period ended 30 June 2020</u>	FY2020 SOI	FY2020 actual	FY2019 actual
Operating revenue	\$ 6,127,294	\$ 4,560,487	\$ 4,983,687
Operating expenditure	\$ 3,162,397	\$ 2,959,856	\$ 2,870,876
EBITDA	\$ 2,964,897	\$ 1,600,631	\$ 2,112,811
Depreciation & amortisation	\$ 1,500,000	\$ 501,386	\$ 1,312,185
Finance expense	\$ 1,200,000	\$ 1,049,422	\$ 485,721
Other income	\$ -	-\$ 485,118	\$ -
Net profit before tax	\$ 264,897	-\$ 435,295	\$ 314,905
Passenger numbers	471,000	324,214	456,766

Other income includes:

- Gain / Loss on disposal of assets – disposal of old terminal and associated property, plant and equipment

5. Recapitalisation

As a result of the COVID-19 pandemic, domestic air travel has been seriously disrupted and this has had a huge impact on Airport revenue. Forecasts have determined that passenger recovery could take up to three years to reach pre COVID-19 levels but, in the meantime, with Airport revenue being low and expected to take several years to recover, PRIP may well struggle to support itself financially and will have to rely on assistance from the shareholder, New Plymouth District Council.

Initially, the main aim was to ensure that PRIP could meet its commitments for the last quarter of FY2020 and, following an extensive review of operational expenditure, 30% cuts in costs were made for the fourth quarter including all PRIP staff agreeing to a 20% cut in salaries and the Directors also taking a 20% reduction in fees. Capital expenditure was also taken into consideration and items that were scheduled for the remainder of FY2020 were deferred until later in FY2021.

Consequently, NPDC supported PRIP on a short term basis by increasing the current loan facility. Further, the Council also agreed to bring forward the recapitalisation of the Airport company that was originally planned to be carried out after the new terminal and associated external works had been completed – the intention being to complete the recapitalisation process by 30 June 2020.

NPDC engaged independent financial advisors PwC to carry out a detailed review of the Airport operations and to fully understand the implications of recapitalisation. PRIP also undertook a full financial review of the Airport business based on a three year recovery model, current industry forecasting and taking into consideration that passenger numbers drive all Airport revenue, including non-aeronautical income.

The outcome was that due to the significant impact COVID-19 has had on the operations of New Plymouth Airport, without recapitalisation PRIP would likely become insolvent during FY2021 and, as the 100% shareholder, NPDC approved the recapitalisation of the Airport business at \$22m, allowing for a sensitivity margin of 15% as recommended by the independent financial advisors PwC.

Consequently, in accordance with the Section 107(2) of the Companies Act 1993, a formal resolution for the issue of the 22,000,000 ordinary shares at \$1 per share to the shareholder (New Plymouth District Council) was approved and signed by the PRIP Directors.

6. Government's wage subsidy

As a result of the impact of COVID-19, Airport revenue fell by 80% and PRIP was eligible to apply for the Government's wage subsidy.

PRIP duly applied and the following was granted by the Ministry of Social Development with payment being received as follows:

Wage subsidy (12 weeks)	\$ 63,177.60
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7. Airport tenants

Due to the impact of COVID-19 and the fall in passenger numbers from a forecast 110,000 to just 13,000 over the last three months of FY2020, some terminal tenants have been affected and have lost considerable income.

PRIP has been working with these tenants and, taking a collaborative approach to retain the operators in the new terminal, has offered support packages wherever possible to assist over the three month period and during the recovery process through the early part of FY2021.

8. Airways New Zealand

In early April Airways New Zealand announced that they were proposing to withdraw their air traffic services at seven airports. The proposal was as a result of the COVID-19 impact on their revenue and the need to right-size their operation, including a 30% reduction in staff numbers.

The seven ports affected are:

Manned towers

- Napier
- New Plymouth
- Invercargill
- Rotorua
- Gisborne

Flight Information Service (FIS)

- Kapiti Coast
- Milford Sound

New Plymouth Airport, under compliance with the Civil Aviation Rule Part 139, is responsible for the provision of air traffic services (ATS) and this is contracted to Airways under a service level agreement. The service is funded by the user (airlines and general aviation) and not by the Airport. Currently the Airport's Exposition states that air traffic control is provided for scheduled operations of aircraft with 30 or more passenger seats.

As a result of the proposal and a potential change to the Airport's Exposition, an aeronautical study is required to be undertaken by an independent expert and will involve extensive consultation with all affected parties, including detailed technical analysis by taking into consideration:

- Current and predicted growth in aircraft movements
- Split between commercial and general aviation
- Split between instrument flight rules (IFR) and visual flight rules (VFR)
- Characteristics of each airport
- Topography
- Weather patterns
- Current air space protocols

The outcomes of the study will then have to be assessed by the CAA who will have the final approval.

New Plymouth Airport is working with Napier and Gisborne airports on a combined approach to the aeronautical study and, with Airways, will share the overall cost. The whole process could take up to six months to complete and, in the meantime, Airways have stated that the current levels of service will be maintained, including the manning of the tower, until the study is finalised and outcomes known.

9. Terminal redevelopment project

The new terminal opened for service at 5:30am on 17 March 2020, however, the official opening by the Prime Minister, which was programmed for 19 March, was cancelled due to the developing situation with the Coronavirus pandemic.

Unfortunately, at the beginning of April, the terminal was closed in response to the national COVID-19 Alert Level 4 lockdown but reopened on 13 May following the country's move to Alert Level 1. Comments received to date have been very positive and the project has been successful in reaching the finals of the New Zealand Building Industry Awards 2020, with the results being announced on 30 October.

Further, and as a testament to the great cultural artwork in the terminal created by Rangi Kipa, the Department of Internal Affairs along with designers and contractors, were recently hosted in the new terminal by Rangi. The Department is keen to explore how they might approach an integrated design in their new Archives building in the Heritage precinct in Wellington. There are also other interested parties who are arranging to visit the new terminal in due course.

During the period, work commenced on a project to improve the internal roading layout and construct a new car park following the demolition of the old terminal. This work was put on hold during the lockdown under Alert Level 4 but recommenced in mid-May once at Alert Level 1. This work is progressing well and will incorporate an airside viewing area to the east of the new building and a new taxi pick-up lane. As part of the works, the Airport perimeter road will become two-way, therefore, stopping the necessity for delivery vehicles and fuel trucks from having to use the access road in front of the new terminal.

Once the terminal reopened in mid-May, a COVID-19 safety plan was introduced based on the Ministry of Health guidelines. Contact tracing was put in place utilising the Airport's designated QR code linked to the New Zealand Government's tracing application. Initially, the terminal entry was for ticketed passengers only but as of 2 June meeters and greeters were allowed into the building on the condition they either use the QR code or give their details in an Airport contact tracing register.

10. Civil Aviation Rule (CAA) Part 139

The Aerodrome Operator Certificate (AOC) is owned by NPDC and is managed on behalf of the Council by PRIP. The certificate is renewed on a five year basis.

During the year the renewal of the AOC was completed following an extensive two day audit by the Civil Aviation Authority (CAA) and the certificate was renewed for another five year term. The CAA were very impressed with how PRIP are operating the Airport on behalf of the Certificate owner.

Further, the Airport's safety management system received a glowing report and this has now moved from 'present and suitable' to 'present, suitable and operating' – a first for any New Zealand regional airport.

11. Proposed Civil Aviation Bill

Previous reports have advised Council on the draft Civil Aviation Bill being proposed by the Minister of Transport (MOT) to amalgamate the Civil Aviation and the Airport Authorities Acts.

As an update, the Ministry has advised that the COVID-19 lockdown had put the progress of parliamentary business back three months and that the draft Bill would have its first reading in Parliament following the election and progress in the next term of Government.

Following on from this the MOT has released a discussion document for targeted consultation before it completes drafting work on the Civil Aviation Bill and submissions are due in by 24 July 2020. The New Zealand Airports Association will be submitting on behalf of all the airports around the country.

The Ministry has addressed some airport-related issues that were raised in the Exposure Draft of the Bill which was subject to consultation towards the end of 2019. This includes the important issue of an airports' ability to set prices after consultation and this is retained in the Cabinet decisions on the Bill but the phrase "as they see fit" will be removed. This is a compromise that was put forward by New Zealand Airports in the initial submission on the Draft Bill.

This effectively means that the previous method of setting landing charges following consultation with the airport's substantial customers will continue and the airport will have the ability to determine landing charges.

Other significant airport policies from the exposure draft:

- Whether airports should be required to act commercially – this provision is removed on the basis that airport operators including Councils should be free to operate airports on whichever basis they choose
- The power to alter or cancel airport leases without compensation is retained

However, there is a significant new policy framework introduced and this is the main topic for the current round of consultation. The proposal is that the granting of an airport authority status be replaced by a licensing regime managed by the Secretary for Transport and that existing airport authorities would transition to the proposed regime.

PRIP continues to watch the proposed Civil Aviation Bill with interest and will keep the Council informed on any progress.

12. 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 during the year, New Plymouth Airport became a Chamber of Commerce Regional Partner.

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.

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.

13. Strategic outlook

a) Passenger numbers recovery

PRIP has been in regular consultation with Air New Zealand and other regional airports on passenger recovery models following the outbreak of COVID-19, based on the latest information available. Passenger recovery has been difficult to accurately forecast as the airline has made frequent adjustments to their schedule to meet demand and the changes in the Government's Alert Levels.

Initially Air New Zealand were forecasting the following passenger recovery based on the Alert Levels:

Alert Level	4	1% of pre COVID-19 numbers
	3	2%
	2	5%
	1	10%

A total recovery to pre COVID-19 levels was based over a further four years assuming that Alert Level 1 was achieved mid-FY2021 and New Zealand reopened the borders to unrestricted international travel.

- FY2021 65% of pre COVID-19 levels
- FY2022 75%
- FY2023 85%
- FY2024 100%

With the Alert Level moving to 1 much earlier than anticipated, Air New Zealand gradually introduced more capacity into the network than previously planned. For New Plymouth Airport this started at circa 20% of the pre COVID-19 movements but quickly increased and during June stood at around 50% as compared to June 2019 (354 movements and opposed to 700).

As the Government's social distancing protocols were relaxed, Air New Zealand has seen load factors increase and the airline has reintroduced their 68 seater ATR aircraft on the Auckland sector to complement their 50 seater Q300's to Wellington.

Initially, the link to the south island was only achievable through Wellington, however, a daily direct service between New Plymouth and Christchurch was reinstated later in June and the airline started to overnight two aircraft on the apron for early morning services to Auckland and Wellington.

Assuming no further outbreaks of COVID-19, Air New Zealand are suggesting that the speed of the recovery will continue and that the return to around 70% of pre COVID-19 capacity, originally forecast during the early part of FY2022, could well be achieved before the end of the 2020 calendar year.

b) 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 has been developed and Phase 1 of this strategy is currently underway to improve the internal roading layout and construct a new car park on the site of the old terminal commenced during the period.

The new design will see Katatore 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.

The construction works were put on hold during the Alert Level 4 lockdown but have now resumed.

As advised, and in line with the original business case for the terminal redevelopment, a further review of car parking charges is currently being carried out and a report will be submitted to the PRIP Board for approval and implementation from January 2021.

c) Route development

With the current COVID-19 situation, route development will now be focussed on the recovery of domestic air travel. PRIP, Venture Taranaki and the Chamber of Commerce will be working with Air New Zealand over the coming months to re-establish air links with the main centres of Auckland, Wellington and Christchurch. This is envisaged to be a long process with the recovery possibly taking upwards of three years.

d) Security

As part of a Civil Aviation requirement, the fencing to the operational area for 300m either side of the terminal was replaced in 2016/17 with 2.44m high fencing and, from a strategic and security point of view, PRIP has now established a rolling programme of works to upgrade all of the Airport perimeter fencing to the same standard, approximately seven kilometres in total.

Work was suspended for two months during the Alert Level lockdown but resumed in June.

e) Sustainability and environmental management

In the 2nd quarter report, PRIP advised that the Zero Carbon Bill was 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. This Bill will include PRIP as the Airport company meets the criteria through being a Council Controlled Trading Organisation (CCTO) and a lifeline utility.

New Plymouth Airport has joined New Zealand Airports sustainability committee and currently has a committee member on the group along with four other airports, being Auckland, Wellington, Christchurch and Dunedin. The committee is currently looking at strategies and what role New Zealand Airports could play in developing and facilitating a nationwide sustainability programme for airports.

Management are ensuring measures are in place within the new terminal to accurately capture baseline data to begin measuring the current position. The Airport and Air New Zealand have both adopted a Green Lease agreement as part of the airline's new lease arrangements at New Plymouth Airport.

Further management are developing an Environmental Policy to provide a framework for environmental management in the future and have recently engaged a sustainability consultant to aid in the creation of a carbon audit template for the capture and measuring of baseline data. This measuring, monitoring and targeted reduction philosophy is being rolled out to other Airport tenants within the new terminal as a result of the Green Lease appendix within their individual leases.