WAIKATO REGIONAL AIRPORT LIMITED

INTERIM REPORT

For the six months ended 31 December 2018

Hamilton Airport

Hamilton Airport

RESULTS AT A GLANCE

Passenger Volume Growth of 13,000 / 7%	191,000
Aircraft Movements Unchanged from prior year	68,000
Operating Revenue Growth of $474,000 / 11%	$4,678,000
EBITDA Growth of $152,000 / 10%	$1,736,000
Net Surplus After Tax Growth of $342,000 /397%	$429,000
Total Shareholder Funds Growth of $3,151,000 / 4%	$85,846,000

* growth is measured compared to the six months ended 31 December 2017

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CHAIR'S REPORT

The Group's Directors and Management are pleased to report continued and significant growth across all areas of the WRAL Group including Hamilton Airport, the Titanium Park property development initiatives and Hamilton & Waikato Tourism as the regional tourism organisation for the Mighty Waikato. This has culminated in a $429,000 after tax profit for the period. While this profit includes the effect of Titanium Park land sales, the underlying earnings of the Group reflected in EBITDA, which exclude land sales, have still grown by 10% on the same time last year.

Year to date

Airport

The Airport has continued to enjoy another period of sustained passenger growth, with airline customers up 7% on the same time last year, this coming on the back of 12% and 8% increases in previous periods. A pleasing aspect of the passenger growth has been the corresponding revenue growth with all major streams experiencing increases in the last six months. Passenger growth is reflected in our financial results by aeronautical charges received from airlines which are levied on a "per passenger basis" and additionally through carparking and concessionary income – a variable component built into many of the lease and rental agreements we have with tenants and service providers in and around the terminal precinct.

The Airport completed a much-needed extension of the terminal carpark and installation of new control equipment shortly before Christmas. Carparking revenue has increased by 14% on the same period last year, at almost twice the rate of passenger movements which are a key driver of carpark utilisation. This is without any change to our pricing structure. Global ride sharing service Uber also joined the list of transport options available to travellers and visitors to Hamilton Airport in the period.

Our capital program has also included an upgrade to the first of our three rescue fire fighting appliances, with the second appliance to commence its upgrade in the latter stages of the financial year. The upgrades ensure the Airport's emergency response services meets and exceeds the requirements for an Airport of our size.

During the reporting period, management have been working on plans to significantly refresh and upgrade the terminal building. To date our architect has provided a re-design of the interior of the terminal with the primary aim of upgrading the look and feel of the terminal to enhance the customer experience. In addition, we are taking the opportunity to review all elements of the terminal. To date we have received a componentry report addressing non-structural elements of the terminal; in summary the report indicates there is only minor work to remediate which will be completed when the terminal is upgraded mid-2019.

We have also had specialist aviation consultants review the terminal from a passenger flow perspective and that report has confirmed we have a well-designed terminal with sufficient latent capacity to handle the passenger forecast volume growth in our 10 year plans.

Finally we have also commissioned a report on the resilience of the terminal structure. The draft structural report is still with our engineers as they are also completing reports on other Airport buildings including the fire station. We expect a substantive update in March which will then inform the level of any required remediation. The company will then be in a position to brief the shareholders at our half year update, proposed to be early April 2019.

Our investment into growing our social media presence has meant we have become much more engaged with travelers and visitors to our airport. Feedback from this process is being incorporated into our plans for the terminal refresh and infrastructure upgrades to ensure our terminal remains responsive to changing customer demands. Social media has also allowed us to break down common misconceptions about flying out of Hamilton

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by informing the local community, around airfare comparability with Auckland airport as well as the price of other relevant charges.

The terminal facilities continue to be well utilised as conferencing facilities. A number of Airport and Titanium Park tenants have taken the opportunity to hire these to give them short term additional space in close proximity to their current operations. In addition to the benefits they offer for visitors flying into the city, the facilities are proving popular with Waikato businesses due to their modern and vibrant feel, their unique location and outlook and the quality of the supporting services available in the terminal.

A major stream of work for the Airport operations team has been the re-certification approval by the Civil Aviation Authority. This is a five yearly process in addition to the routine ongoing audit and surveillance requirements, whereby the Airport must reapply for its Aerodrome Certificate. This certificate is required before the Airport can receive aircraft with more than 30 seats.

Activity around the Airport remained strong through winter with minimal fog disruptions and in August, the Airport received more flights diverted from other Airports due to bad weather than were lost due to local fog. Overall aircraft movements remain unchanged from the same period last year however the traditionally busier months unfold in the second half of the year, as late summer and autumn offer favourable months for flight training activity by the L3 Airline Academy.

The Group remains on track to achieve all operational KPIs set in the statement of intent and it is pleasing to once again report there have been no notifiable Health & Safety incidents involving Group personnel.

Property

We continue to receive very good levels of land sale inquiries. In response to the emerging demand for larger industrial lot sizes, the Southern Precinct has been introduced to the market. This is the first precinct development constructed by the Group itself, with all previous developments commenced under the former joint-venture with specialist property developers McConnell Group.

Of the 10 hectares on Southern precinct, over 4 hectares was under contract at 31 December 2018. Of these 4 hectares, 3 have been sold to a nationwide household brand name in the automotive industry, with the purchaser being unconditional and settlement due upon completion of the subdivision construction which is expected in the second half of the current financial year.

There have been three smaller lots sold on the Titanium Park Central Precinct as well, one having already settled by 31 December 2018. This sale is the only transaction reflected in the accompanying land sales figure in the half year financial statements as the Group recognises land sales as income on settlement, rather than on execution of a contract. The full year (to 30 June 2019) forecast is for 5 hectares of land sales, grossing revenue of $7.1 million and yielding a margin of at least $2.0 million.

Tourism

The first half of the year has seen Hamilton & Waikato Tourism expand its focus from business and events tourism to leisure and visitor tourism. This has culminated in the launch of a regional brand *"The Mighty Waikato: where the magic runs deep"* for use in both domestic and international campaigns.

The established business and major events tourism strategies continue to support the buoyant local market with a 60% increase in the level of inquiry received on the same time last year. The region has maintained its market share as the third largest multi-day business events hub in the country, which is a pleasing outcome as new facilities are emerging around the country providing increased competition. Visitor expenditure in the region is up 8% on the same time last year.

The significance of the growing influence Hamilton & Waikato Tourism is having in the local tourism industry to achieve is best reflected by the level of industry funding secured: at the half year period end, Hamilton & Waikato

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Tourism have already exceeded their annual budget by some 20%. This is just one of several annual targets already achieved in the first six months of the June 2019 financial year.

Outlook for remainder of the year end beyond

The success of all three businesses in our group over the past six months have contributed to the double digit revenue and earnings growth compared to the same time last year. What the results do not however reflect is the significant milestones made in the foundation of several key strategic initiatives that will shape the future of the Group over the course of the next decade and beyond.

Airport

During the past twelve months the Airport has completed a consultation process with its major aviation customer Air New Zealand as part of the regulatory process to set its aeronautical charges for the coming three years through to December 2021. Aeronautical charges, which include landing charges applicable to all aircraft, small and large alike; and a terminal levy applicable for airline passengers were last revised in 2013 following the withdrawal of international air services.

The Group will begin to realise (approximately) an extra $1.5 million per annum in revenue as a result of the revised charges, this being in addition to the organic growth expected from continued increases in passenger numbers passing through the terminal. These charges do not result in any increased operational costs to the Airport however they do obligate the Airport to invest in some specific capital projects which are not a significant departure from the existing 10 year plan. Charges at these levels now mean the Airport is on track to achieving a commercial scale return on its aeronautical assets.

Property

The second half of the June 2019 financial year will see the Group complete the purchase of the Hamilton Airport Hotel and Conference Centre. The buildings were acquired in January 2018 and continue to be leased back to the incumbent operator. At the time of authoring this report, the Group is in the final stages of signing an agreement with a nationally recognised operator to take over the hotel in mid-2019. To secure an operator of this calibre, WRAL has made a commitment to spend approximately $4 million on a comprehensive refurbishment and upgrade, both internally and externally, that will see the Hotel brought up to a Qualmark 4 Star standard in keeping with the operator's brand standards and a level of investment that optimises our return on the property while best meeting the demand in the region for higher quality accommodation.

Titanium Park is reaching a tipping point in its long term strategy. The successes of the industrial park development and land sale model have been covered earlier in this report however the next step for Titanium Park is to move to being a property investor through design/build to lease opportunities. Levels of strong and positive inquiry continue to accelerate, including from some national and global brand names looking to establish themselves in the Waikato or move within the region to a future-proofed and central location.

Tourism

The second half of the year will see the wider scale roll out of the Mighty Waikato regional visitor brand identity. The organisation will continue its work as an advocate for investment in local tourism and as a central organisation in the local industry with advice and support being provided for new accommodation facilities and tourism experiences and operators.

Hamilton & Waikato Tourism are also assisting in supporting Provincial Growth Fund applications for local tourism businesses and expect this activity to increase in the second half of the current financial year.

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Overview

At our last Annual General Meeting we presented our ten year strategic plan to shareholders. We are halfway through the first year of this, and have already met and actually exceeded a number of critical milestones set for the first two years across all aspects of Airport, Property and Tourism. The positive outlook for the remainder of the year and into the coming financial year further indicates that the key initiatives across the group are on track and we expect these will be executed successfully.

John Spencer
Chairman

Hamilton Airport

FINANCIAL STATEMENTS

Consolidated Statement of Comprehensive Revenue & Expense

For the six months ended 31 December 2018

	GROUP $000 2018	2017
REVENUE		
Operating revenue	4,678	4,204
Land Sales	1,121	32
Other gains/(losses)	75	-
Total Revenue	**5,874**	**4,236**
EXPENSES		
Cost of land sales	812	41
Employee benefit expenses	1,191	1,134
Depreciation and amortisation expense	1,234	1,210
Operating expenses	1,633	1,347
Directors' fees	119	130
Finance costs	263	235
Total Expenses	**5,252**	**4,097**
Surplus Before Tax	**622**	**139**
Income tax expense	193	53
Surplus After Tax	**429**	**86**
Other Comprehensive Revenue		
Gain on property revaluation	-	-
Total Other Comprehensive Revenue and Expense	-	-
Total Comprehensive Revenue and Expense	**429**	**86**

The above results have not been audited.

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FINANCIAL STATEMENTS

Consolidated Statement of Financial Position

As at 31 December 2018

	GROUP $000 2018	2017*
ASSETS		
Current Assets		
Cash and cash equivalents	56	77
Receivables	602	449
Inventories	95	95
Prepayments	82	77
Development property	9,220	9,345
Total Current Assets	**10,055**	**10,043**
Non-Current Assets		
Property, plant and equipment	74,477	76,571
Intangible assets	814	979
Investment property	21,503	15,307
Other non-current assets	60	69
Total Non-Current Assets	**96,854**	**92,926**
Total Assets	**106,909**	**102,970**
LIABILITIES		
Current Liabilities		
Payables and accruals	1,262	812
Employee benefit liabilities	230	238
Revenue in advance	137	195
Total Current Liabilities	**1,629**	**1,245**
Non-Current Liabilities		
Term loans	12,680	11,248
Deferred tax liabilities	7,326	7,783
Total Current Liabilities	**20,006**	**19,031**
Total Liabilities	**21,635**	**20,276**
Net Assets	**85,274**	**82,694**
Equity		
Share capital	14,860	14,860
Retained earnings	23,822	21,100
Dividend to shareholders	(250)	(200)
Other reserves	46,842	46,934
Total Equity	**85,274**	**82,694**

The above results have not been audited. The balance sheet as at 31 December 2017 has been restated in line with the adjustment refered to in Note 26 of the 30 June 2018 annual report.

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PERFORMANCE REPORTING

Performance against Statement of Intent

For the six months ended 31 December 2018

MEASURES (all amounts $000)	Actual 31 Dec 2018	Forecast 30 Jun 2019	SOI 30 Jun 2019
Earnings before interest, taxation & depreciation (EBITDA) excluding land sales	1,736	3,845	3,400
Net surplus/(deficit) after tax	429	1,340	127
Net operating cash flow	814	2,374	1,900
Net investing cash flow	(412)	(1,570)	(4,300)
Total debt	12,680	13,290	18,000
Total liabilities/shareholders' funds (debt/equity ratio)	25:75	26:74	35:65
Shareholders' funds to total assets	20:80	21:79	26:74
Percentage of non-landing charges revenue to total revenue	76%	80%	74%
Interest cover	6.60	6.25	4.00

The above results have not been audited.

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CORPORATE DIRECTORY

For the six months ended 31 December 2018

Board of Directors	John Spencer CNZM (Chair) Annabel Cotton Carlos da Silva Margaret Devlin
Chief Executive	Mark Morgan
Chief Executive, Hamilton & Waikato Tourism	Jason Dawson
Group Finance & Corporate Services Manager	Scott Kendall
General Manager Operations	Simon Hollinger
Group Property Manager	Dion Merson
Commercial, Growth & Markeitng Manager	Rebecca Corbett
Registered Office	Hamilton Airport Terminal Building Hamilton Airport Airport Road, R D 2 Hamilton 3282
Telephone	07 848 9027
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Auditors	Audit New Zealand, Tauranga on behalf of the Controller and Auditor-General
Solicitors	Ellice Tanner Hart, Hamilton
Bankers	Bank of New Zealand
Website address	www.hamiltonairport.co.nz