

7 December 2020

Nelson Airport Ltd
Board of Directors
P O Box 1598
Nelson 7040

Attn: Chairperson Paul Steere

Dear Paul

STATEMENT OF EXPECTATIONS

This Statement of Expectations is intended to inform Nelson Airport's Board of the shareholders' high level strategic direction and performance expectations in advance of your preparation of the Statement of Intent (SOI) 2021/22. In clarifying our expectations early, we expect that the passage through to acceptance by both Councils will be more efficient and effective.

Statement of Intent 2021/22

The Tasman District and Nelson City Councils expect that all their Council Controlled Trading Organisations (CCTOs) will treat the SOI as more than a strict compliance document and will aim for best practice. This will entail a SOI covering more than the statutory minimum requirements. To be effective, your SOI should tell the performance story of the company, providing a clear and succinct understanding of the company's purpose, the goods and services it delivers and what success looks like. As shareholders, the councils are particularly interested in profitability, new investments and growth.

The SOI must meet the requirements set out in the Local Government Act 2002. Your staff are likely to now be familiar with the CCO provisions of these Acts. We note they have changed by an amendment to the Act effective from 2019, we have advised the companies of the changes by email.

Both councils wish to support the company in delivering a good SOI. We have assigned a senior manager to each CCTO to assist. In your case the person assigned is Nikki Harrison at Nelson City Council. Nikki is available to your team throughout the process.

The general expectations for all CCOs are as follows:

- 1.1 SOIs/SOCI must include a complete set of summary prospective financial statements for at least three years (preferably five years) i.e. Statement of Comprehensive Income, Statement of Financial Position and cash flow statement.
- 1.2 SOIs/SOCI should disclose measures like Earnings before interest and tax (EBIT) and Earnings before interest, tax, depreciation and amortisation (EBITDA) and balance sheet ratios where applicable i.e. CCTOs.
- 1.3 SOIs must fully comply with Schedule 8 of the Local Government Act. The SOCI must comply with both the related Acts e.g. the Port Companies Act and, though not a legal requirement, desirably Schedule 8 of the Local Government Act. This is to ensure a consistent approach across all CCOs.
- 1.4 In the Public Records Act 2005, a local authority includes a (council-controlled) (council-controlled trading) organisation. As such, the requirements of this Act and its related mandatory Information and Records Management Standard - July 2016 applies for the management, retention, and disposal of records.
- 1.5 Compliance with legislation and reporting on Health and Safety matters must be given due emphasis.
- 1.6 Dividends are to be disclosed along with the dividend pay-out policies, where applicable. Further details are required around the impact from COVID-19 on the dividend stream and when dividends are expected to return to pre-COVID-19 levels.
- 1.7 Capital expenditure and asset management intentions should be included.
- 1.8 CCOs should use the same information for both managing the business and reporting through to the councils/shareholders, i.e. the information used for setting targets and reporting against them for the SOI should overlap and be a subset of the information used for internal reporting.
- 1.9 SOIs and other CCO reports should be in a plain style, concise, relevant, accessible and focused on meeting the needs of the shareholding councils and the public they represent. The use of graphs, tables and charts is expected to convey both financial and non-financial information along with trends (past, current and future numbers).
- 1.10 To be effective the SOI must disclose the performance story for the CCO, providing a clear and succinct understanding of the CCO purpose, the goods and services it delivers and what success looks like. Providing a clear message to the boards on these requirements and other expectations will assist in ongoing improvements in the SOI and reporting.

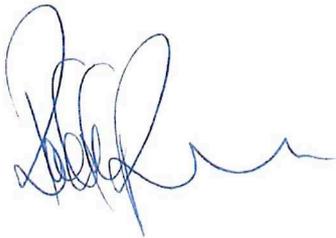
- 1.11 The main aspects of the SOI performance story are:
- Strategic context
 - Specifying and presentation of the outcomes framework
 - Main measures and targets, outcomes and objectives
 - Linking the strategy outputs performance together.
- 1.12 Risk management: shareholders would like to understand better in the SOI how the boards are considering and managing risks, including natural hazards and climate change.
- 1.13 Sustainability – shareholders would like to understand better in the SOI how the boards are addressing sustainability including carbon emissions and waste minimisation.
- 1.14 Health and safety - given the requirements of the Health and Safety at Work Act 2015 (the Act), it is appropriate for the councils to set out their expectations in relation to Health and Safety in the CCOs/CCTOs.
- 1.14.1 Under Section 44 (3) of the Act elected members do not have a duty to exercise due diligence to ensure that any council-controlled organisation complies with its duties or obligations under the Act unless that member is also an officer of that council-controlled organisation.
- 1.14.2 However, as shareholders/a key funder, it is still appropriate to set out expectations of Health and Safety management in CCOs/CCTOs.
- 1.14.3 The councils/shareholders expect the boards of the jointly held CCOs/CCTOs to set appropriate Health and Safety strategy and policy, understand the nature of risks/hazards within the business, monitor performance and activities to ensure risk is being managed and review Health and Safety systems and performance
- 1.15 Governance performance - in order to aid the councils when making decisions on director/trustee remuneration and appointments, the boards should undertake regular evaluation of their own performance.
- 1.15.1 The councils expect these reviews to be carried out at least once every eighteen months.
- 1.15.2 The chairs of the boards should reference this evaluation when making recommendations on the re-appointment or recruitment of board members.
- 1.16 Shareholders/councils require that CCOs/CCTOs, before making a decision that may significantly affect land or a body of water, must take into account the relationship of Māori and their culture and traditions with their ancestral land, water, sites, wāhi tapu, valued flora and fauna, and other taonga. This is a new provision in the LGA.
- 1.17 The shareholders request that all CCO's include in their SOI's how they are intending to respond to the challenges of COVID-19 including the likely economic downturn.

There are no specific expectations in relation to Nelson Airport Limited this year.

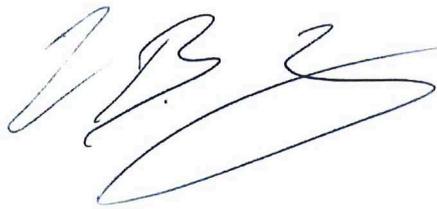
If you have any queries, please contact Nikki Harrison on 03 545 8841 or nikki.harrison@ncc.govt.nz in the first instance.

Please note that we will send the "Important Dates" letter for 2021 by separate letter.

Yours sincerely



Rachel Reese
Mayor of Nelson



Tim King
Mayor of Tasman

cc: CEO Nelson Airport Ltd
CFO Nelson Airport Ltd