

Proposed Queenstown Airport Corporation Dividend Policy

Recommendation

The QAC Board recommend to the shareholders that the QAC Dividend Policy is revised to the following:

“The Directors may declare dividends according to the following policy:

At their discretion, Directors may declare a full year dividend each year in a range of 50% and 100% of normalized Net Profit After Tax (NPAT), after adjusting for unrealised gains and losses arising from revaluation of property or treasury instruments and material extraordinary items.

In determining the full year dividend the Directors will consider:

- *solvency;*
- *banking covenants and company treasury policy;*
- *working capital and capital expenditure requirements; and*
- *the interests of shareholders.*

An interim dividend may be declared and paid by 28 February each year. Any final dividend will be paid by 31 August each year.

Directors will determine the level of imputation credits having regard to the needs of shareholders.

The Directors will consider any request from the Shareholders for additional dividend payments and will apply prudent governance when considering such requests.

The Directors will not issue shares wholly or partly in lieu of the proposed dividend or proposed future dividends, without the written approval of Shareholders.”

The draft Policy has been included in the draft Statement of Intent currently under review by Council.

Context

In 2011 the Directors of QAC and QLDC Council Members agreed a Dividend Policy that has been in place since that time. The Policy strictly defines the dividend payment and has resulted in a payout of approximately 50% to 60% of NPAT each year since 2011.

Current Policy

The current dividend policy is:

“The Board will declare dividends according to the following policy:

- *A base dividend payment from normalised Net Profit After Tax (NPAT) of \$2 million each year 50 percent payable by 31 January. The balance of the base payment will be paid after year end accounts are finalised with an additional 50 percent of normalised NPAT that exceeds \$2 million.*
- *In the event the normalised NPAT is forecasted to be less than \$3 million then the Board will reconsider a dividend payment and will apply prudent governance prior to declaring any dividend.*

The Board will consider any request from the Shareholders for further dividend payments and will apply prudent governance when considering such requests. Prior to declaring a dividend the Board will consult with the Shareholders, and seek advice where necessary, to ensure that the tax consequences for each Shareholder are managed.

The Board will not issue shares wholly or partly in lieu of the proposed dividend or proposed future dividends, without the approval of Shareholders”.

Change In Environment

Since 2011 there have been changes in circumstances which the current policy is not designed to adapt to:

- QAC has experienced strong growth of NPAT resulting in greater funds available for distribution or reinvestment.
- The capital expenditure requirements of the airport have increased and are expected to continue to increase, particularly driven by the Master Plan. These are funded through operating cash flows (after dividends) and bank debt.
- The company has extended its bank facilities up to \$115 million with BNZ and Westpac debt facilities and is in the process of raising further debt facilities. This allows more flexibility on funding capital expenditure and therefore dividends

The Board has considered these changes and, endorsed a change in the dividend policy along the lines recommended above. In reaching this recommendation, the Board considered market best practice.

Market Benchmarking

The dividend policies of several listed NZ companies were reviewed as summarized below. Key insights were:

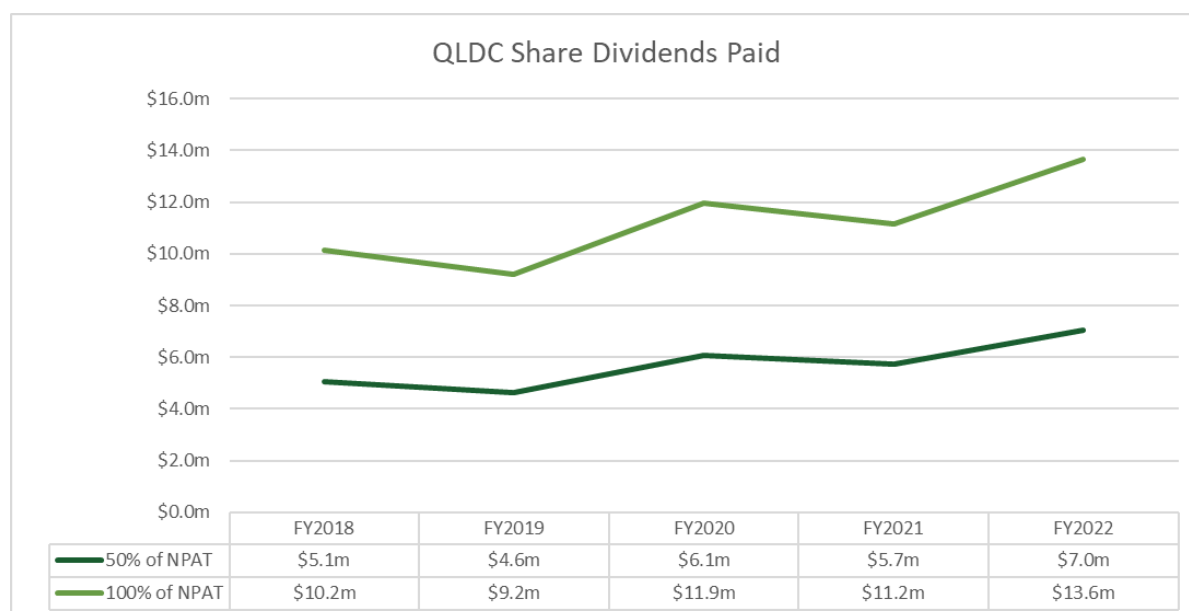
- Dividend distribution policies typically range from 50% to 100% of profit across major listed companies.
- These policies generally allow the Board flexibility to balance:
 - consistent dividend growth despite volatility in earnings
 - funding of lumpy capex
- Generally Boards have discretion to take into account extraordinary/one off items (by “normalizing” profits) and working capital/capital expenditure requirements.

Dividend Forecasts

The proposed policy would allow payouts in the range 50% to 100% of NPAT. The impact of two dividend payout scenarios on QLDC dividends are set out below:

- 50% dividend (current forecast)
- 100% dividend

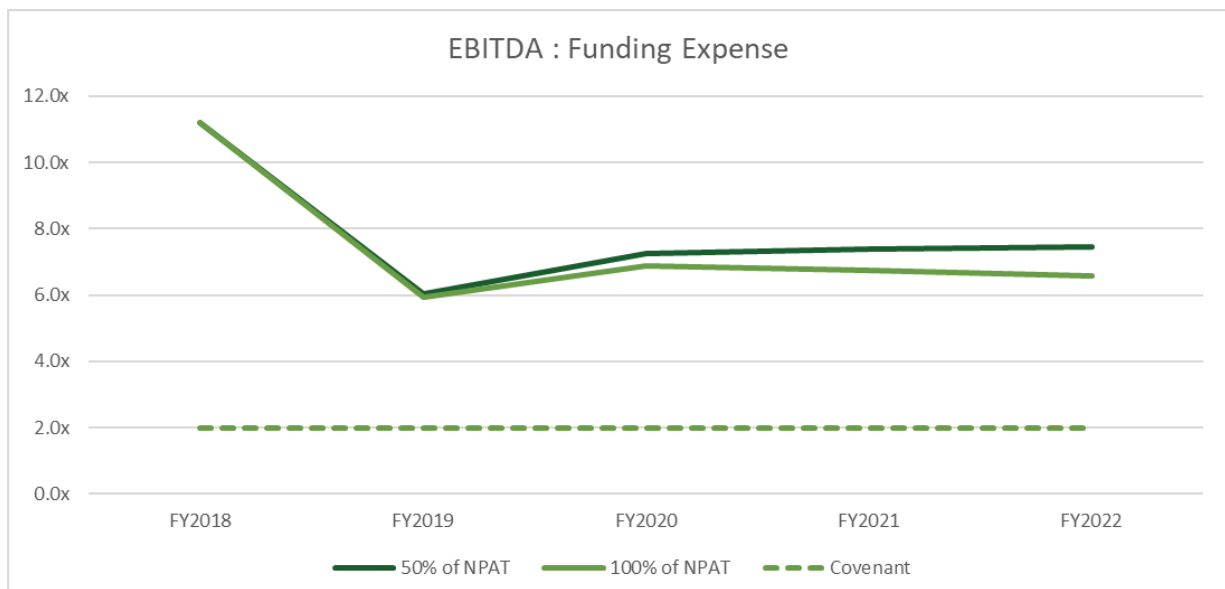
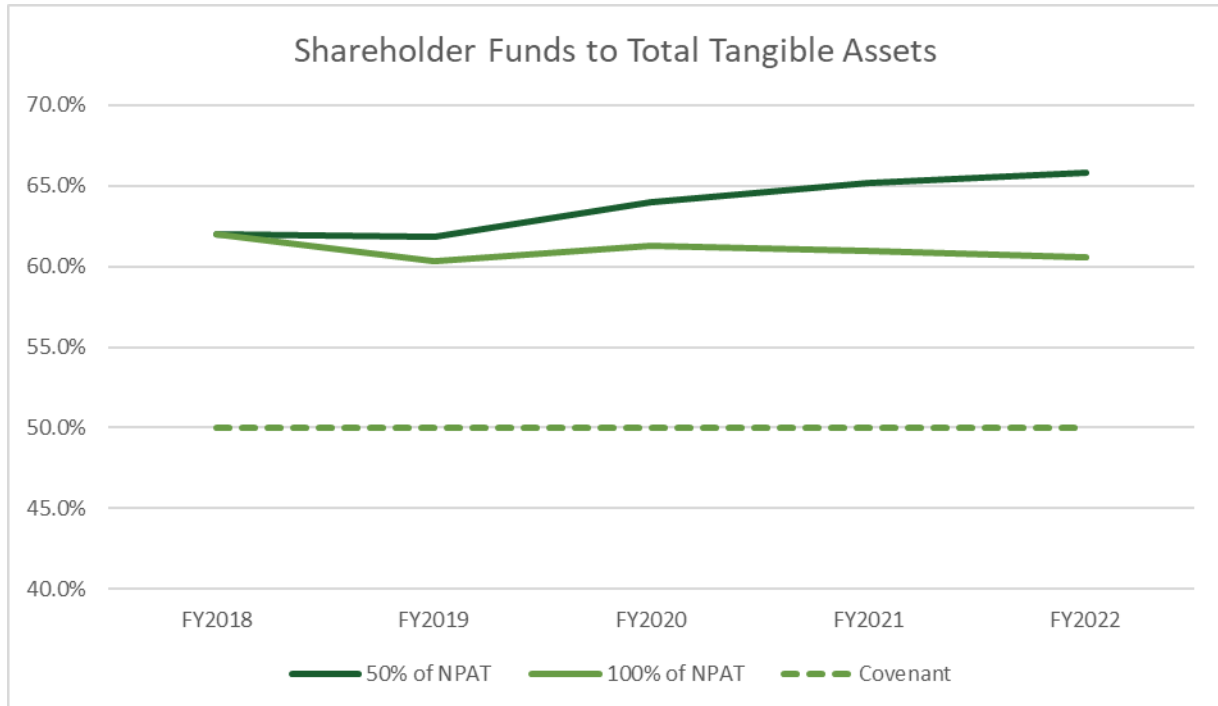
The scenarios all assume passenger numbers are constrained by existing noise boundaries and infrastructure to 2.5 million passengers i.e., no Master Plan options are implemented. The implications of Master Plan funding will be considered by the Board in the next 12 months and QLDC will be consulted as this evolves.



Solvency and Banking Covenants

In considering the level of dividends in a year, the Board will consider solvency, banking covenants and treasury policy. Under the range of scenarios, banking covenants are preserved.

The most sensitive covenant is the Equity ratio banking covenant (Shareholder Funds as a ratio to Tangible Assets must be >50%). This remains above 60% in all scenarios.



Next Steps

In summary, a Dividend Policy allowing payout ratios of between 50% and 100% will allow shareholders to receive a growing dividend stream, maintain covenants and provides flexibility for the company to repond to future needs.

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