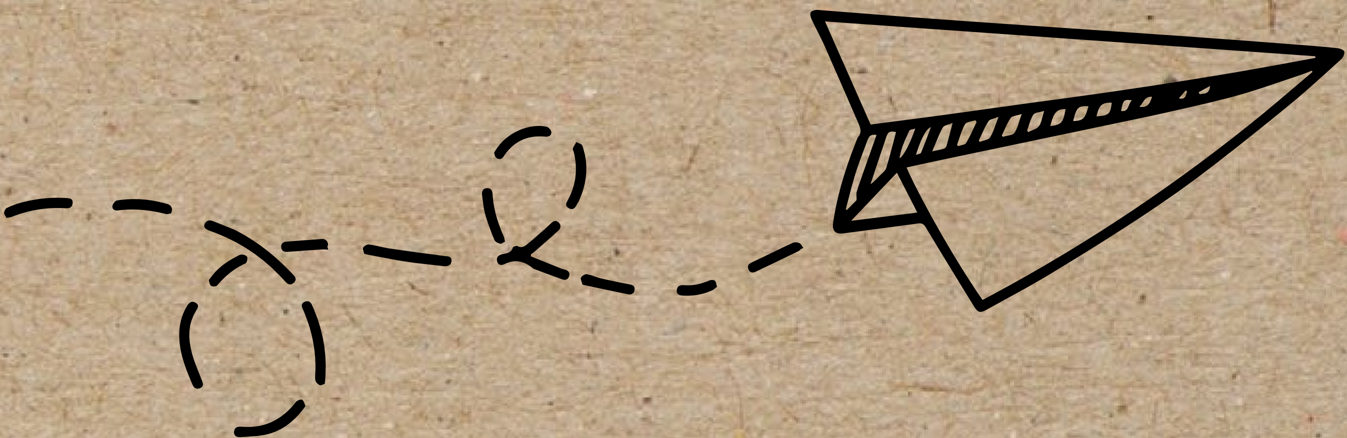
2020 ANNUAL REPORT



PALMERSTON NORTH AIRPORT LIMITED

NOT PRINTED WITH THE ENVIRONMENT IN MIND

airport carbon accredited MAPPING

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JOINT REPORT

The Chairman and Chief Executive's Joint Report

For The Year Ended 30 June 2020

Overview

The Directors and Management Team are pleased to present the 2019/20 Annual Report.

The safety and wellbeing of our people, customers and tenants remains a key focus of the Company with the achievement of zero lost time injury hours this year being a testament to our safety programmes and the support from the airport community. The Company's Safety Management System implementation plan (SMS) as approved by the Civil Aviation Authority (CAA) has been in operation during the year and will be certified by CAA in September 2020.

After nine months of the financial year, and prior to the impact of COVID-19, the Company was 14% ahead of its budgeted Profit After Taxation, despite the loss of aeronautical and other revenue related to the withdrawal of services by Jetstar from 1 December 2019.

The nationwide lockdown that commenced on 25th March, followed by a period of social distancing on aircraft in May, resulted in revenue in the final quarter being $1.9 million less than budget. The Company completed a full review of its cost base and capital expenditure programme, resulting in a structure that best fits the new environment of lower aeronautical revenue for the foreseeable future. Pleasingly, the uptake in demand for domestic air travel since the return to Level 1 in New Zealand has already exceeded the Company's expectations and its forecast for the 2020/21 year. However, we must remain cautious in our approach to capital investment and expenditure given the possibility of further economic impacts associated with COVID-19.

A surplus after tax of $1.63 million was achieved during the financial year ended 30 June 2020, being 59% of the prior financial year, and 82% of the Statement of Intent target. The 2019 result was positively impacted by a $1.0 million revaluation of investment property through the Statement of Comprehensive Revenue and Expense. Due to COVID-19, valuations of all assets were undertaken at 30 June 2020, resulting in a reduction in the value of investment property of $0.4 million. Excluding the revaluation impacts on both years, the Operating Surplus before Tax of $1.69 million was 35% below the prior financial year and 38% below the Statement of Intent target. Taxation expense for year ending 30 June 2020 has been significantly impacted by the deferred tax effect on building tax depreciation.

Passenger volumes were impacted by Jetstar's withdrawal in December and the impact of COVID-19 in April. Total passenger movements were 498,000 for 2019/20, with 24,000 passengers in the final three months compared to 171,000 for the same period last year. The result was 27% below the SOI target of 680,000 passengers.

Capital expenditure during the year was $1.2 million, with particular emphasis on the planning and design of Ruapehu Business Park and terminal development project, including a further stage of the terminal air conditioning system upgrade. Expenditure that was due to be committed in the final quarter of the year including subdivision activity in Ruapehu Business Park was deferred as a consequence of the national lockdown.

Financial

Revenue of $9.1 million fell short of the previous financial year by $1.1 million and $2.1 million against the Statement of Intent target.

Aeronautical revenue of $5.2 million was 16% lower than the previous financial year, and 24% behind the Statement of Intent target.

Non-aeronautical revenue of $4.0 million, including concessionaire's payments, property and land rental, advertising and car parking, was in line with last year.

Total operating expenditure of $5.1 million was 11% below the Statement of Intent target, and 2.3% below the previous financial year. The Company ceased expenditure on all non-essential items during the final quarter.

Earnings before interest, tax, depreciation, amortisation and the revaluation of investment property was $4.1 million, 19% below the previous financial year and 26% below the Statement of Intent target.

The deferred tax benefit of the reinstatement of tax depreciation on buildings, totalling $0.7m, contributed to a Net Surplus After Taxation of $1.626m, being 18% behind the Statement of Intent target and 41% behind the previous year.

A valuation appraisal of land, building and airside infrastructure was conducted at June 2020. With work on the Company's Asset Management Plan (AMP) during the year focused on all airside pavements and associated infrastructure, for the first time the AMP formed the basis of the valuation of these assets, which have a fair value of $24.2 million. As a result of the June appraisal, a reduction in value of $1.8 million has been recorded in the Statement of Comprehensive Revenue and Expense. The valuation of the Company's land and buildings has resulted in a $0.4 million reduction in the value of Investment Property. This reduction in value has been separately reflected in the Statement of Comprehensive Revenue and Expense.

Despite the impact of COVID-19 on the financial performance for 2019/20, the Company's balance sheet remains satisfactory with shareholder's equity of $67.1 million and debt of $11.7 million ($12.0 last year), while banking covenants continue to be met.

Net cash flow from operating activities was $2.3 million compared to $3.3 million last year.

No dividend is proposed for the financial year ended 30 June 2020.

Commercial

Passenger movements of 498,000 were 182,000 or 27% below the Statement of Intent target. The decision by Jetstar to withdraw services from regional airports from 1 December 2019 accounts for approximately 54,000 of this shortfall with the impact of COVID-19 accounting for the remainder.

The first nine months of the year saw passenger volumes on Air New Zealand's routes to Auckland, Christchurch, Hamilton and Wellington all in line or slightly above those recorded in the previous year. Originair resumed flights on the Nelson route in December 2019. Since the country returned to Level 1, Air New Zealand has discontinued flights to and from Hamilton and Wellington.

Airfreight operations continued to operate throughout the first quarter of the financial year and provided a modest buffer in aeronautical revenue. The strategy of ongoing diversification of revenue streams has also assisted to reduce PNAL's exposure to the COVID-19 impacts on revenue.

Compliance

All Civil Aviation Act (CAA) Rule Part 139 requirements relating to the airport and its operations were met during the financial year. These were supported by continuing monthly internal audits and quality control checks undertaken by an independent body.

The Company continued the development of the Asset Management Plan during the year. The plan is now informing decisions around infrastructure service standards, maintenance, asset replacement and capital and operational budgeting.

The implementation of the airport company's safety management system, designed to meet CAA Rule Part 100 requirements continued during the year. As a result of restrictions imposed by COVID-19, the CAA audit has been deferred to September 2020.

Customer

The Company continued to identify and implement programmes that provide a pleasant and enjoyable experience for travellers, tenants and other airport users.

Understanding the level of satisfaction that airport users have with terminal facilities is critical to the Company. The information assessed from customer satisfaction surveys completed by users on the interactive touch screen kiosks in the terminal, allows us to identify any issues and improve service levels to all users. Wi-Fi access issues were identified as a major detractor in terms of Net Promoter Score. These are being addressed.

Demand for airport car parking continued to grow during the year. The planned relocation of the entrance to the Long Stay Car Park to Airport Drive was deferred to August 2020 due to COVID-19.

The Company's "Fly Palmy" consumer brand continues to connect with our target markets, through local and regional campaigns, as well as sponsorship and community engagement initiatives.

Community

Community engagement and environmental guardianship took centre stage with a number of new initiatives introduced to support these two strategic objectives.

Under the Fly Palmy banner and hashtag #supportingourcommunities, the Company has successfully engaged with the local and regional community through various sponsorship and community events. Our company mascot, Bernie the Saint Bernard, continues to be a key figure making regular appearances at various community events and has a growing online presence. The Company remains committed to increased engagement with local communities where possible. During the year, Fly Palmy has sponsored the following organisations and events; Festival of Cultures, Woodville Motocross, Wildbase Hospital, Centrepoint Theatre, Red Cross, Just Zilch and Manawatu Fiji Football Club.

Continued engagement with local iwi Rangitāne remains important to the airport company. The Airport Company in conjunction with partners has completed the construction of an outdoor BBQ area and contributed outdoor seating to facilitate the Te Rangimarie Marae's desire to increase engagement with regional schools.

The airport company completed Stage 1 of the Airports Council International Airport Carbon Accreditation programme and commenced Stage 2 of the four stage programme as we strive for carbon neutrality. In the meantime, a range of initiatives are in place focusing on energy consumption, water and waste reduction.

Culture

We would like to take this opportunity to express thanks to the members of the Board for their valued expertise and guidance during the year and for the loyalty and commitment of the management team and staff during an exceptionally challenging period.

In September 2019, Josie Adlam retired as a director after eight years' service to the Board, while Sarah Vining was appointed to the Board as Josie's replacement.

Danielle Balmer was appointed as the Marketing and Communications Manager in December 2019. We thank Angela Scott who for the past eight years and until June 2020, has provided consultancy services as our Visitor Development Manager, managing the Company's marketing programmes including the development of the Company's Fly Palmy branding. We wish Angela all the best with her consultancy business.

In January 2020, Ben Parkinson was appointed as the Operations Manager.

The Board and Chief Executive would also like to acknowledge the fortitude of the PNAL team displayed during the Alert Level 3 and Level 4 mandatory lockdown from March – May 2020. With the exception of skeleton staff required in the terminal, all team members were required to work remotely from their homes during this period.

The PNAL team performed admirably during the COVID-19 lockdown, notwithstanding an organisational restructure process being undertaken at the same time and the obvious pressures associated with operating at Alert Level 3 and 4. Morale remained high with regular updates provided to the team on the airport's status, daily interaction amongst team members ensuring the team remained connected.

The Future Outlook

We approach 2020/21 with a degree of cautious optimism. The $3 billion plus spend on regional infrastructure projects over the medium term will provide a stimulus to passenger demand. Airlines have responded by signaling a gradual increase in capacity which gives us a degree of confidence to continue cautiously with a modest capex programme. We also continue to stress our ability to progress property development plans on a small scale. The terminal development plan has been placed on hold and other non-essential capex projects have been deferred.

The airport company will continue to invest modestly in community engagement initiatives and will complete the roadmap to carbon neutrality and Stage 2 accreditation.

Murray Georgel
Chairman

David Lanham
Chief Executive

CORPORATE REPORT

For the year ended 30 June 2020

Palmerston North Airport Limited is a 'Council-Controlled Organisation' pursuant to the Local Government Act 2002.

Principal Activities

The principal activities of the Company during the year were:

- To provide airport facilities and services to airlines and airport users (both commercial and non-commercial) through the ownership and operation of Palmerston North Airport.
- The development of non-aeronautical revenue streams including Ruapehu Business Park and other commercial property.

Ownership

Palmerston North Airport Limited (PNAL) is a Limited Liability Company incorporated and registered under the Companies Act 1993 and is 100% owned by the Palmerston North City Council (PNCC).

Financial Report

Here are the financial results for the year under review Details of these financial results are shown on pages 14 to 17.

	2020 Actual	***2020 SOI***	***2019 Actual***
Performance			
Revenue	9,137,276	11,221,428	10,202,063
EBITDA	4,079,287	5,549,935	5,025,429
Net Profit After Tax	1,626,608	1,972,187	2,764,531
Passengers	498,442	680,000	687,142
Financial Position			
Cash & Cash Equivalents	273,080	38,406	126,924
Current Assets	1,070,274	790,986	1,165,703
Property, Plant & Equipment	78,862,898	91,276,305	81,624,924
Shareholder Funds	67,119,563	63,140,191	67,480,663

Company's Affairs

The Directors regard the state of the Company's affairs to be satisfactory. Details of the year under review are included in the joint Chairman's and Chief Executive's Report and the statutory accounts of the Company published herewith.

Directors

Reappointments
During the 2019/20 financial year, Chris Cardwell retired by rotation and was reappointed to the Board by the Shareholder in August 2019.

Appointments
During the 2019/20 financial year, Sarah Vining was appointed to the Board by the Shareholder in September 2019.

Retirements
During the 2019/20 financial year, Josie Adlam retired from the Board in September 2019.

Directors' Remuneration

For the year ended June 2020, the amount of $99,145 ($108,000: 2019) for Director Remuneration was paid, or due and payable, to members of the Board as authorised by the shareholder as follows:

	2020	***2019***
Georgel M	31,920	33,600
Gillespie G F	13,500	18,000
Nichols J	19,278	20,400
Adlam J	4,500	18,000
Cardwell C	17,100	18,000
Vining S	12,847	-
	99,145	**108,000**

During the 2019/20 financial year there was an additional $1,892 credit relating to a Prior Period. During the final quarter of the year and due to the impact of COVID-19, directors agreed to a 20% reduction in their fees. G. Gillespie waived the whole fee in the final quarter.

No other remuneration or benefits other than reimbursement of expenses have been paid or given to Directors.

Directors' Indemnity and Insurance

The Company is responsible for the payment of the Directors' indemnity insurance premiums.

Use of Company Information Directors

There were no notices from Directors of the Company requesting to use company information received in their capacity as Directors that would not otherwise have been available to them.

Shareholding by Directors

During the year there were no shareholding transactions involving the Directors.

Directors' Interests

During the course of the financial year to 30 June 2020, Directors declared interest in the following entities:

Interest	*Nature of Interest*	*Relationship to PNAL*
Mr J Nichols		
Chair	Centralines Ltd	None
Director	Nichols Consulting Ltd	None
Director	Eastland Group Ltd	None
Director	Eastland Network Ltd	None
Director	Eastland Port Ltd	None
Director	Gisborne Airport Ltd	None
Chair	Hastings District Council Audit Subcommittee	None
Chair	Audit and Risk Committee of Maungahahuru Tangitu Trust	None
Mr M Georgel		
Director & Shareholder	NV Enterprises Ltd	None
Director & Shareholder	Xenos Ltd	None
Director	The Factory NZ Ltd (previously BCC Ltd)	None
Director	Manawatu Investment Group Ltd	None
Director	MIG Nominee No.1 Ltd	None
Trustee	Sir Patrick Higgins Charitable Trust	None
Director	Zeddy Ltd (previously Calf Smart Ltd)	None
Director	Aorangi Hospital Ltd	None
Trustee	Arohanui Hospice Service Trust	None
Trustee	Arohanui Hospice Foundation Trust	None
Director	Levno Ltd	None
Director	Crest Hospital Ltd	None
Director & Shareholder	CH Management Ltd	None
Trustee	Central Energy Trust	None
Trustee	PN Theatre Trust (Centre Point Theatre)	Sponsor ($8,625 commenced 1 July 2018)
Mr C Cardwell		
Director	Waikato District Health Board (ceased April 2020)	None
Director & Shareholder	Australis Property Ltd	None
Director & Shareholder	Laurent Investments Ltd	None
Director	Kaipara Whenua Hoko Holdings Ltd	None
Director	Te Uru Ltd	None
Director	Pitoitoi Ltd	None
Director of Facilities Services	Waitemata District Health Board	None
Mr G Gillespie		
No Interests		
Ms S Vining (appointed 26 Sept 2019)		
Director	Manawatu Rugby Union	None
Senior Executive	Plumbing World	None
Ms J Adlam (ceased 25 Sept 2019)		
Co-Chair	The Sustainability Trust	None
Chair	Tautoko Services	None
Coach	The Ice House	None
Director	Lifeland Developments Ltd	None
Member	Lottery Wellington/Wairarapa Community Committee	None
Director	Magnetism Solutions Ltd	None

All Directors are indemnified under the Directors and Officers Liability Insurance Policy.

Details of the related party transactions made during the year are shown in Note 15 of the Notes to the Financial Statements.

Schedule of Board Meeting Attendances

Director	***Number of meetings held***	***Number of meetings attended***
Mr M Georgel	11	11
Mr G F Gillespie	11	9
Mr J Nichols	11	11
Mr C Cardwell	11	8
Ms J Adlam	3	3
Ms S Vining	8	7

Remuneration of Employees

The number of employees, who are not Directors, whose total remuneration and benefits exceeded $100,000 in the financial year were:

	2020	***2019***
$110,000 - $120,000	1	-
$130,000 - $140,000	1	1
$180,000 - $190,000	1	-
$270,000 - $280,000	-	1
$280,000 - $290,000	1	-

Auditors

As provided for by Section 70 of the Local Government Act 2002, Audit New Zealand, on behalf of the Auditor-General, is hereby re-appointed as Auditor to the Company.

Auditor's remuneration of $44,166 (GST exclusive) for the 2020 annual audit is reflected in the financial statements as due and payable.

Donations

The Company made donations of $965 this year (2019: $500).

Audit and Risk Committee

The Company has an Audit and Risk Committee comprised of three directors of the PNAL Board. The committee is responsible for overseeing the financial accounting and audit activities of the Company, including reviewing the adequacy and effectiveness of internal controls, meeting with and reviewing the performance of the external auditors, reviewing the financial statements and making recommendations on financial and accounting policies.

SERVICE PERFORMANCE

For the Year Ended 30 June 2020

STATEMENT OF SERVICE PERFORMANCE

The Company's Statement of Intent, against which performance is judged, is dated June 2019.

The Company is trading as Palmerston North Airport Limited.

The ratio of consolidated shareholder funds to total assets has been maintained above 70%, inclusive of revaluations of land and buildings.

Palmerston North Airport has been maintained as an airport certificated pursuant to Civil Aviation Rule Part 139 and has achieved satisfactory audits during the period.

All obligations under the Resource Management Act and the District Plans of the Palmerston North City Council and Manawatu District Council have been met.

OUR VISION - WHAT WE ASPIRE TO BE

To be New Zealand's leading regional airport.

OUR PURPOSE

Launching our region into a promising future.

STRATEGIC OBJECTIVES

Commercial

We will operate a sustainable business to ensure long term success.

Infrastructure and our people objectives are included within the commercial objectives, as both are enablers of a sustainable business platform from which commercial activities can be executed. Revenue growth and revenue diversification, together with prudent cost management are our focus to ensure financial stability and to enable a fair distribution to shareholders.

Compliance

We will maintain a safe and secure operation and ensure ongoing compliance with all standards and regulations.

Regulatory compliance and a renewed focus on safety and security will provide the necessary environment in which other strategic objectives can be achieved

Customer

We will treat all Airport users as our customers.

Our customers not only include travellers and meeters and greeters but also all other airport users including our tenants, suppliers and transport operators.

Community

We will be a leader for regional environmental guardianship and engagement with iwi and communities.

A strategic focus which captures PNAL's newly developed environmental and community objectives. We will support our regional communities by identifying opportunities to engage with local groups and iwi. We will continue to showcase our sense of place and cultural linkages to our region. We will develop a pathway to achieve our long-term vision of carbon neutrality while immediately activating emission reducing programmes across our business activities.

Culture

We are one team working together to achieve a common goal.

Our people are the key to our success story. We care for each other's well-being, and develop skills, commitment and resourcefulness across our team recognising achievement. Our one-team ethos is supported by five pillars of Leadership, Trust and Respect, Communication, Empowerment, and Celebrating Success.

Impacts of COVID-19 on Service Performance Reporting

COVID-19 has impacted on PNAL's ability to achieve Service Performance targets including those relating to financial performance, and passenger movement related targets.

Financial performance was impacted by the loss of aeronautical revenue and ancillary revenue from carparking and expenditure at the airport's concessions (Café / Relay Bookstore). The loss of revenue was not able to be fully offset through cost rationalisation programmes, consequently Net Surplus results were impacted adversely, with a flow on impact on three Service Performance metrics.

PNAL retained an operational presence at Palmerston North Aerodrome during Alert Level 2, 3 and 4 and maintained compliance with CAA Part 139 and health & safety related targets.

Total passenger volumes of 498,422 for the full year to 30 June were 186,578 passenger movements below the Statement of Intent target upon which a number of Service Performance Metrics were based. In addition to the impact of Jetstar's withdrawal from Palmerston North effective 1 December 2019, which accounted for approximately 54,000 passenger movements, the impact of COVID-19 (late March to 30 June 2020) has been estimated at over 132,000 passenger movements.

Non-financial Service Performance metrics impacted include the Net Promoter Score (fewer surveys completed), emission reduction targets (fewer passenger volumes impacting on per passenger targets), and data collation work associated with waste to landfill targets. Due to financial and operational priorities some work on the carbon management plan was also delayed during the final quarter of 2019/20.

To ensure Service Performance targets including the Net Promoter Score and emission targets remain useful. Actual results are based on data collected for the period 1 July 2019 to 29 February only.

PERFORMANCE MEASURES

For the Year Ended 30 June 2020

			2020 Actual	2020 SOI	2019 Actual
1.	Ratio of net surplus before interest/ tax depreciation/revaluations to Total Assets	*(1)*	2.6%	6.0%	3.6%
2.	Ratio of net surplus after tax to consolidated shareholders funds inclusive of revaluation reserve	*(1)*	2.4%	3.1%	4.1%
3.	Maintain a ratio of consolidated shareholders funds to Total Assets of at least 40%		78%	69%	75%
4.	Interest cover ratio of net surplus before Interest	*(1)*	3.4	5.1	6.0
5.	Maintain a tangible net worth (total tangible assets after revaluations less total liabilities) above $50m		$67.1m	$63.1m	$67.5m
6.	Maintain Civil Aviation Rule part 139 certification	*(2)*	Achieved	Achieve	Achieved
7.	Maintain a Net Promoter Score of 50 or above Measured on an annual basis	*(3)*	30%	50%	40%
8.	Total Passenger Throughput		498,422	680,000	687,142
9.	To achieve zero lost time injuries to those who work within our airport community		Zero	Zero	12.5 Hrs
10.	Complete roadmap to carbon neutrality		Implemented	Implement	Completed
11.	Achievement of emission reduction targets		Achieved	Achieve	Achieved
	Energy consumption (KwH/Passengers)	*(4)*	0%	5%	5%
	Waste to landfill (Kg/1,000 Passengers)	*(5)*	n/a	10%	n/a
	Water consumption (Litres/Passenger)	*(6)*	6%	10%	n/a

(1)

Lost aeronautical and ancillary revenue associated with reduced passenger volumes March – June due to COVID-19 has impacted on Net Surplus performance.

(2)

The Five yearly CAA audit of PNAL's compliance with Part139 was completed in July 2019.

(3)

Net Promoter Score results were impacted primarily by dissatisfaction with in-terminal WIFI connectivity. A hardware upgrade has subsequently taken place. Net Promoter Score is based on survey responses received July 2019 to February 2020.

(4)

Total energy consumption for the full year declined 13% on the prior year, however on a per passenger basis for the period (July 2019 to Feb 2020) energy consumption remained flat. The overall reduction was offset by a corresponding decline in passenger numbers including the loss of Jetstar from December 2019.

(5)

PNAL is still in the process of gathering and recording F19/20 data to be used in establishing a baseline.

(6)

Water consumption based on July 2019 to February 2020 data.

PALMERSTON NORTH AIRPORT LIMITED

FINANCIAL STATEMENTS

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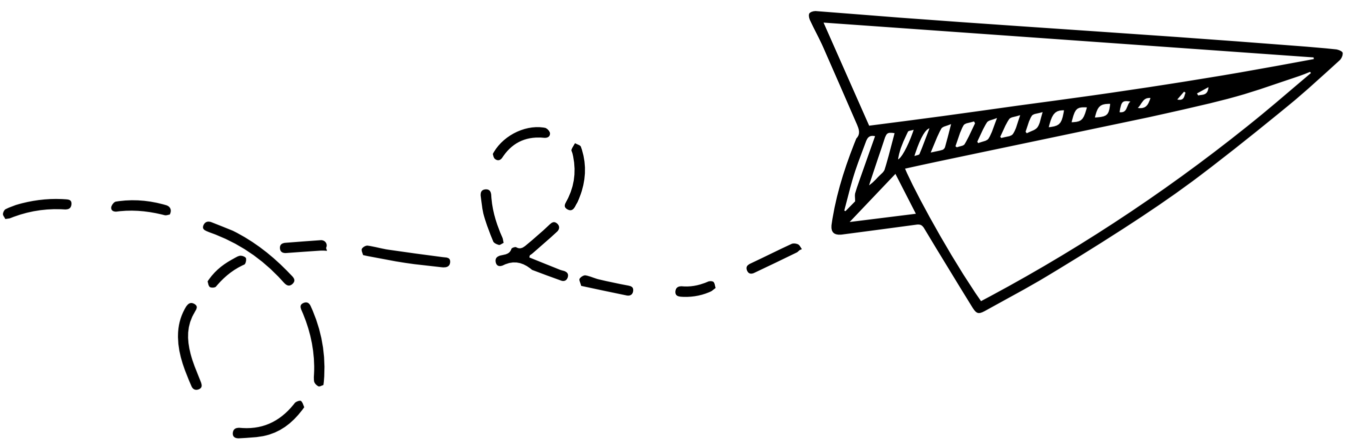


STATEMENT OF COMPREHENSIVE REVENUE AND EXPENSE

For the Year Ended 30 June 2020

	Note	30-Jun-20 Actual $	30-Jun-20 SOI $	30-Jun-19 Actual $
Revenue	1	**9,137,276**	**11,221,428**	**10,202,063**
Operating Expenses				
Operations and Maintenance				
Airfield Services		734,097	390,507	708,910
Other Operating Expenses	11	1,596,200	2,147,808	1,571,135
Total Operations and Maintenance		**2,330,297**	**2,538,315**	**2,280,045**
Administration				
Audit Fees	12	44,166	31,703	31,452
Bad Debts Written Off		12,844	3,498	143
Changes in Doubtful Debt Provision		-	7,005	2,174
Directors' Fees		97,253	123,996	104,350
Employee Expenses	7	1,617,093	1,599,504	1,264,902
General Administration		956,336	1,367,473	1,493,568
Total Administration		**2,727,692**	**3,133,177**	**2,896,589**
Total Operating Expenses		**5,057,989**	**5,671,492**	**5,176,634**
Earnings Before Interest, Taxation, Depreciation, Amortisation & Valuation of Investment Properties:		**4,079,287**	**5,549,935**	**5,025,429**
Finance Costs, Depreciation, Amortisation and Loss on Sale				
Finance Costs	9	531,078	669,130	522,347
Depreciation and Amortisation	2 & 3	1,854,304	2,141,657	1,821,379
Impairment and Loss on Sale of Assets		(993)	-	88,776
Total Finance Costs, Depreciation		**2,384,388**	**2,810,787**	**2,432,502**
Revaluation (Loss)/Gain - Investment Properties		(397,523)	-	1,051,349
Operating Surplus Before Taxation		**1,297,376**	**2,739,148**	**3,644,276**
Taxation Expense on Operating Surplus	6a	(329,232)	766,962	879,745
Net Surplus After Taxation Attributable to PNCC		**1,626,608**	**1,972,187**	**2,764,531**

Murray Georgel
Chairman

Jon Nichols
Director

The accompanying accounting policies and notes form part of and are to be read in conjunction with these financial statements

STATEMENT OF COMPREHENSIVE REVENUE AND EXPENSE

For the Year Ended 30 June 2020

	Note	30-Jun-20 Actual $	30-Jun-20 SOI $	30-Jun-19 Actual $
Net Surplus After Taxation Attributable To PNCC		1,626,608	1,972,187	2,764,531
Other Comprehensive Revenue and Expense				
Gains (Losses) on Property, Plant and Equipment Revaluations	*13d*	(1,808,995)	-	4,910,660
Movement in Deferred Tax at Revaluation	*13d*	506,518	-	(254,985)
Total Comprehensive Revenue and Expense Attributable to PNCC		**324,131**	**1,972,187**	**7,420,206**

STATEMENT OF CHANGES IN EQUITY

For the Year Ended 30 June 2020

	Note	30-Jun-20 Actual $	30-Jun-20 SOI $	30-Jun-19 Actual $
Equity at the Beginning of the Year		**67,480,663**	**61,930,888**	**60,704,107**
Total Comprehensive Revenue and Expense for the Year		324,131	1,972,187	7,420,206
Prior Year Adjustment		-	-	-
Distribution to Shareholder During the Year		(685,231)	(762,884)	(643,650)
Equity at the End of the Year Attributable to PNCC		**67,119,563**	**63,140,191**	**67,480,663**

The accompanying accounting policies and notes form part of and are to be read in conjunction with these financial statements

STATEMENT OF FINANCIAL POSITION

For the Year Ended 30 June 2020

	Note	30-Jun-20 Actual $	30-Jun-20 SOI $	30-Jun-19 Actual $
Current Assets				
Cash and Cash Equivalents	5	273,080	38,406	126,924
Trade Accounts Receivable	4	507,961	749,498	825,070
Sundry Receivables and Prepayments		113,370	3,082	213,709
Assets Held for Sale		175,863	-	-
Total Current Assets		**1,070,274**	**790,986**	**1,165,703**
Less: Current Liabilities				
Revenue in Advance	14	162,440	100,000	149,316
Trade Accounts Payable	14	683,364	850,000	1,246,301
Other Creditors	14	76,203	531,717	534,898
Employee Benefit Liabilities	7	183,667	135,000	135,377
Borrowings	10	3,700,000	-	3,964,374
Total Current Liabilities		**4,805,674**	**1,616,717**	**6,030,266**
Working Capital		**(3,735,400)**	**(825,731)**	**(4,864,563)**
Add: Non Current Assets				
Property, Plant and Equipment	2	78,862,898	90,694,480	81,624,924
Investment Property	2a	6,525,000	575,000	6,813,357
Intangible Assets	3	9,733	6,825	12,978
Total Non Current Assets		**85,397,631**	**91,276,305**	**88,451,259**
Less: Non Current Liabilities				
Deferred Tax Liability	6b	6,542,668	7,844,320	8,056,033
Borrowings	10	8,000,000	19,466,063	8,050,000
Total Non Current Liabilities		**14,542,668**	**27,310,383**	**16,106,033**
Net Assets		**67,119,563**	**63,140,191**	**67,480,663**
Represented by:				
Shareholders Equity				
Paid in Capital	13a	9,380,400	9,380,400	9,380,400
Retained Earnings	13b	22,450,806	21,824,635	21,509,429
Asset Revaluation Reserve	13d	35,288,357	31,935,156	36,590,834
Total Shareholder's Equity		**67,119,563**	**63,140,191**	**67,480,663**

For and on behalf of the Board

Murray Georgel
Chairman

Jon Nichols
Director

The accompanying accounting policies and notes form part of and are to be read in conjunction with these financial statements

STATEMENT OF CASH FLOWS

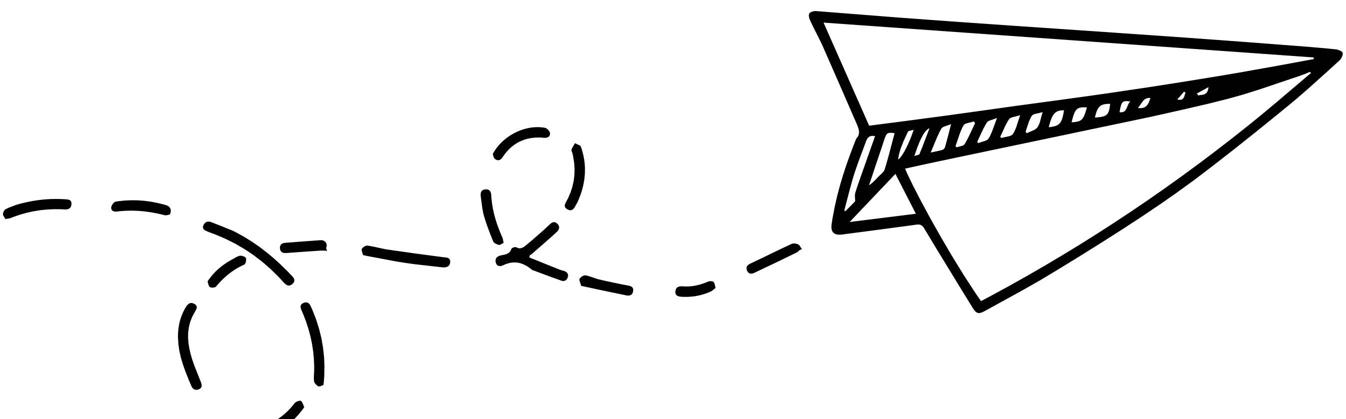
For the Year Ended 30 June 2020

	Note	30-Jun-20 Actual $	30-Jun-20 SOI $	30-Jun-19 Actual $
Cash Flows From Operating Activities				
Cash was provided from:				
Receipts from Customers		9,529,173	11,146,560	9,932,679
Interest Received		-	26	13,365
Tax Refund		-	-	-
		9,529,173	**11,146,586**	**9,946,044**
Cash was disbursed to:				
Payment to Suppliers and Employees		5,698,517	5,662,868	5,267,415
Tax Loss Payment to PNCC		-	-	-
Payment of Income Tax		970,755	770,000	853,192
Interest Payments		531,078	669,130	522,347
		7,200,349	**7,101,998**	**6,642,953**
Net Cash Flows from Operating Activities		**2,328,824**	**4,044,588**	**3,303,091**
Cash Flows From Investing Activities				
Cash was provided from:				
Sale of Property Plant and Equipment		-	1,559,672	-
Cash was applied to:				
Purchase of Property, Plant and Equipment		1,183,057	11,645,000	7,484,247
Net Cash Flow from Investing Activities		**(1,183,057)**	**(10,085,328)**	**(7,484,247)**
Cash Flow From Financing Activities				
Cash was provided from:				
Borrowing		5,000,000	7,200,000	21,517,443
Cash was applied to:				
Repayment of Borrowings		1,350,000	420,000	19,567,442
Payment of Dividends	13c	685,238	762,884	643,650
Net Cash from Financing Activities		**2,964,763**	**6,017,116**	**1,306,350**
Net Increase/(Decrease) in Cash, Cash Equivalents and Bank Overdrafts		**4,110,530**	**(23,624)**	**(2,874,807)**
Cash, Cash Equivalents and Bank Overdrafts at the Beginning of the Year		(3,837,450)	62,030	(962,643)
Cash, Cash Equivalents and Bank Overdrafts Year End	5	**273,080**	**38,404**	**(3,837,450)**

The accompanying accounting policies and notes form part of and are to be read in conjunction with these financial statements

NOTES TO THE

FINANCIAL STATEMENTS



NOTES TO THE FINANCIAL STATEMENTS

Statement of Accounting Policies for the Year ended 30 June 2020

Reporting Entity

Palmerston North Airport Limited (PNAL) is a New Zealand company registered under the Companies Act 1993.

The Company has designated itself as a public benefit entity (PBE) for financial reporting purposes.

The financial statements of the Company are for the year ended 30 June 2020. The financial statements were authorised for issue on 24th September 2020 by the Board.

Basis of Preparation

The financial statements have been prepared on the going concern basis, and the accounting policies have been applied consistently throughout the period.

Statement of Compliance
The financial statements of Palmerston North Airport Limited have been prepared in accordance with the requirements of the Airport Authorities Act 1966, Airport Authorities Amendment Act 2000, the Local Government Act 2002, Airport Authorities (Airport Companies Information Disclosure) Regulations 1999 the Companies Act 1993, and the Financial Reporting Act 2013. This includes the requirement to comply with generally accepted accounting practice in New Zealand (NZ GAAP).

These financial statements have been prepared in accordance with Tier 2 PBE accounting standards.

The entity is eligible and has elected to report in accordance with Tier 2 PBE Standards RDR on the basis that the entity has no public accountability and has Expenses >$2m and ≤ $30m.

These financial statements comply with PBE standards.

Presentation Currency and Rounding
The financial statements are presented in New Zealand dollars and all values are rounded to the nearest dollar. The functional currency of Palmerston North Airport Limited is New Zealand dollars.

Significant Accounting Policies

Measurement Basis
The financial statements have been prepared on a historical cost basis, modified by the revaluation of land and buildings, and infrastructure assets.

1. Analysis Of Operating Revenue

	2020 Actual	*2019 Actual*
Exchange Revenue		
Aeronautical Charges	5,174,663	6,193,333
Car Park, Rent and Advertising	3,621,321	3,795,528
Government Wage Subsidy*	148,992	-
Other	192,297	199,837
Interest	3	13,365
	9,137,276	**10,202,063**

Revenue Measurement and Recognition

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

Landing, departure, facility fees and car park revenue are recognised when the facilities are used.

Interest received is recognised as it accrues using the effective interest rate method.

Lease revenue from operating leases is recognised as revenue on a straight-line basis over the lease term, unless another systematic basis is more representative of the time pattern in which benefits derived from the leased asset is diminished.

* Government wages subsidies have been recognised at time of receipt of funds.

2. Property, Plant And Equipment

	Land	*Buildings*	*Airside Infrastructure*	*Landside Infrastructure*	*Total Infrastructure*	*Plant and Equipment*	*Furniture and Fittings*	*Computer Equipment*	*Motor Vehicles*	*Total*
Balances 1 July 2019										
Cost / Valuation	32,004,350	13,540,950	28,732,416	10,002,080	38,734,491	2,521,717	308,590	168,260	-	87,278,359
Accumulated Depreciation	-	-	(1,769,767)	(2,423,058)	(4,192,826)	(1,161,201)	(171,551)	(127,858)	-	(5,653,435)
Carrying Amount	**32,004,350**	**13,540,951**	**26,962,649**	**7,579,021**	**34,541,665**	**1,360,517**	**137,039**	**(40,402)**	**-**	**81,624,924**
Movements for the Year										
Reverse Prior Year Work in Progress	(4,350)	(216,333)	(51,302)	(2,013,055)	(2,064,357)	-	-	-	-	(2,285,040)
Additions & Current Year Work in Progress	4,350	711,659	59,431	2,359,203	2,418,634	153,872	20,900	38,405	13,884	3,361,704
Disposals	-	-	-	-	-	1,573	-	699	-	(2,272)
Abandoned Projects	-	-	-	-	-	-	-	-	-	-
Revaluation Surplus	-	-	(2,669,808)	-	(2,669,808)	-	-	-	-	(2,669,808)
Reclassification	(175,863)	-	-	(3,650)	(3,650)	3,650	-	-	-	(175,863)
Disposals - Accumulated Dep.	-	-	-	-	-	-	-	-	-	-
Depreciation for the Year	-	(346,368)	(956,534)	(251,205)	(1,207,738)	(242,632)	(25,303)	(29,524)	-	(1,851,566)
Dep. Reversal on Revaluation	-	-	860,814	-	860,814	-	-	-	-	860,814
Closing Balances 30 June 2020										
Cost / Revaluation	31,828,487	14,036,276	26,070,737	10,344,578	36,415,315	2,677,666	329,490	205,966	13,884	85,507,085
Accumulated Dep.	-	(346,368)	(1,865,487)	(2,674,263)	(4,539,750)	(1,403,833)	(196,854)	(157,382)	-	(6,644,187)
Carrying Amount	**31,828,487**	**13,689,908**	**24,205,251**	**7,670,315**	**31,875,566**	**1,273,833**	**132,636**	**48,584**	**13,884**	**78,862,898**
Capital Work in Progress Included at Cost										
30-Jun-20	4,350	700,683	-	1,650,135	-	-	-	-	13,884	2,369,052

	Land	*Buildings*	*Airside Infrastructure*	*Landside Infrastructure*	*Total Infrastructure*	*Plant and Equipment*	*Furniture and Fittings*	*Computer Equipment*	*Motor Vehicles*	*Total*
Balances 1 July 2018										
Cost / Valuation	27,731,545	15,004,122	27,438,558	8,254,128	35,692,687	2,451,849	542,776	256,738	11,676	81,691,394
Accumulated Depreciation	-	(303,565)	(851,878)	(2,485,936)	(3,337,814)	(1,420,283)	(385,953)	(197,918)	(11,162)	(5,656,694)
Carrying Amount	**27,731,545**	**14,700,557**	**26,586,680**	**5,768,192**	**32,354,872**	**1,031,566**	**156,824**	**58,820**	**515**	**76,034,700**
Movements for the Year										
Reverse Prior Year Work in Progress	(19,696)	(3,070,970)*	(484,337)	(157,390)	(641,727)	-	-	(10,000)	-	(3,742,393)
Additions & Current Year Work in Progress	4,350	1,355,528	1,805,201	2,237,978	4,043,179	586,023	15,442	35,114	-	6,039,637
Disposals	-	-	27,006	332,636	(359,643)	(516,155)	(249,628)	(113,592)	(11,676)	(1,250,694)
Abandoned Projects	-	-	-	-	-	-	-	-	-	-
Revaluation Surplus	4,000,000	252,270	-	-	-	-	-	-	-	4,252,270
Reclassification	288,151	-	-	-	-	-	-	-	-	288,151
Disposals - Accumulated Dep.	-	-	3,268	300,354	303,622	482,870	242,322	113,592	11,542	1,153,948
Depreciation for the Year	-	(362,797)	(921,157)	(237,476)	(1,158,633)	(223,788)	(27,921)	(43,532)	(380)	(1,817,051)
Dep. Reversal on Revaluation	-	666,362**	-	-	-	-	-	-	-	666,362
Closing Balances 30 June 2019										
Cost / Revaluation	32,004,350	13,540,950	28,732,416	10,002,080	38,734,491	2,521,717	308,590	168,260	-	87,278,359
Accumulated Dep.	-	-	(1,769,767)	(2,423,058)	(4,192,826)	(1,161,201)	(171,551)	(127,858)	-	(5,653,435)
Carrying Amount	**32,004,350**	**13,540,951**	**26,962,649**	**7,579,021**	**34,541,665**	**1,360,517**	**137,039**	**40,402**	**-**	**81,624,924**
Capital Work in Progress Included at Cost										
30-Jun-19	4,350	216,333	51,302	2,013,055	-	-	-	-	-	2,285,040

*
Includes $2.3m of 2017/18 WIP capitalised and reclassified as Investment Property during 2018/19

**
The reversal of accumulated depreciation for buildings resulting from the revaluation was higher than the revaluation increase. This has resulted in a net reduction in the Revaluation Surplus component of the Carrying Amount for buildings as at 30 June 2019.

Land, Buildings and Airside Infrastructure Fair Value

Land
Land is valued at fair value.

The most recent fair value assessment was performed by independent registered valuers, Morgans Property Advisors. The valuation is effective as at 30 June 2020 and resulted in a suggested decrease in value of $0.450m (2%).

As per Commerce Commission guidelines, fair value has been determined using the Market Value Alternative Use Highest and Best Use (MVAU) methodology. A discounted cashflow has been used to determine the Market Value Alternative Use. The impact of COVID-19 has impacted certain assumptions made on determining values. Land inflation rates for the following ten years have been marginally reduced to reflect the effect on land values within the city. The landscape and market conditions are changing. As at the date of the fair value assessment the valuer considered that there is a significant market uncertainty. The valuation is current at the date of the of the fair value assessment only (30 June 2020). The value assessed may change significantly and unexpectedly over a relatively short period of time (including as a result of factors that the valuer could not reasonably have been aware of as at the date of the fair value assessment).

In order to determine MVAU, the airport land has been split into five hypothetical areas based on location. These include Rural, Lifestyle, Residential, Commercial and Industrial to which MVAU valuations have then been applied.

The Company's zones (Airside, Commercial and Rural) have then been overlaid. Valuation of the Company's activity zones are therefore based on the MVAU values applied to the respective underlying hypothetical areas falling within each PNAL zone.

Key Assumptions
The independent valuation advice is based on the following key assumptions:

- The hypothetical areas determined
- Land sales and cost have been spread over a ten-year period
- Annual land inflation has been set at between 0% and 2.5% over the next ten years
- Basic development costs, i.e. servicing, earthworks etc. are estimated to be 20% of the sale price
- Discount rate of 20%

Sensitivity Analysis
Sensitivity analysis has been completed where key changes in key inputs to assumptions would significantly change the fair value. The change to the valuation from changing these inputs has been estimated as follows:

- Decreasing the discount rate to 17.5% would result in an increase of land value of $2.225 million.
- An increase to the discount rate to 22.5% would result in a reduction of the land value of $2.256 million.
- If the land inflation rate was increased to 5% this would result in an increase of land value of $3.000 million.
- No land inflation rate over the 10 years would result in a reduction to land value of $1.150 million.
- An increase of basis development costs by 10% would result in a reduction of $1.500 million. (This assumes a change in the Basic Development Costs from 20% to 22%).
- An increase of basis development costs by 10% would result in a reduction of $6.500 million. (This assumes a change in the Basic Development Costs from 20% to 30%).

Based on the valuation of land by Morgan Property Advisors, the Company has considered their report dated 30 June 2020 and considered that the movement of 2% is not sufficiently material to warrant any revaluation.

Buildings
The most recent fair value assessment was performed by independent registered valuers Morgans Property Advisors. The valuation is effective as at 30 June 2020 and resulted in a suggested decrease of $0.752m (5%).

Buildings are valued at fair value using depreciated replacement cost. Where appropriate, the value of the improvements have then been reconciled against the investment method which capitalises the actual or potential market rental income having regard for yields as derived from sales of comparable property from which deduct the underlying value.

The impact of COVID-19 on building and associated lease income has been considered in determining values at 30 June 2020. Interest rates on outlays has been reduced from 7.5% to 4.5% to reflect reductions in lending rates over the past twelve months together with lower interest rates forecast by financial institutions including the Reserve Bank. Capitalisation rates have also been amended together with a separate COVID-19 factor being applied.

Based on the valuation by Morgan Property Advisors dated 30 June 2020, the Company has considered their report and considered that the movement of 5% is not sufficiently material to warrant any revaluation.

Airside Infrastructure
The most recent valuation performed by independent consultant engineers and valuers AECOM New Zealand Limited is effective as at 30 June 2020. The previous valuation was completed at 30 June 2017. This year's valuation has resulted in a decrease in the value of Airside Infrastructure of $1.809million (7%) including assets to be written off.

Revaluations will continue to be undertaken at least three yearly in line with the current revaluation cycle of the Company.

The methodology of the 2020 valuation being the Depreciated Replacement Cost is based on PBE IPSAS 17.

Fair value has been determined calculating the replacement cost of the asset based on current construction costs to recreate the asset with current legislative requirements. Assets have then been adjusted for Physical Obsolescence using a straight-line depreciation approach. From there an estimated percentage of remaining life of the asset is applied based on the condition of the asset to calculate the current replacement cost.

There is uncertainty around the impact of COVID-19 although it is not anticipated that there will be any adjustments to current construction rates prior to 30 June 2020. Some material movement is predicted in the 12-month period post 30 June 2020 as the current Covid impact filters through the industry but the extent is uncertain due to the rapidly changing economic situation both locally and globally, potentially offset to some degree by stimulus packages. In New Zealand, labour is anticipated to remain fairly constant, however materials, transport and equipment may be more heavily impacted.

During the 2019/20 year, the Company has developed a comprehensive Asset Management Plan (AMP) for airside infrastructure. This has been used by AECOM to complete the valuation.

Based on the valuation of Airside Infrastructure by AECOM dated 30 June 2020, the Company has considered their report and considered that the movement of $1.809million is material. A revaluation of these assets has been provided for in the Statement of Comprehensive Revenue and Expense.

Landside Infrastructure
Landside Infrastructure has been valued at fair value based on cost less depreciation.

Impairment
Impairment for Property, Plant and Equipment for 2019/20 was $1,808,994 (2019: Nil).

Property, Plant and Equipment Pledged as Security on Borrowings

There is a general Debenture held by the BNZ of the Company assets and undertaking of the airport. Additionally, the BNZ also hold first mortgages over land at 296 and 320 Milson Line, and Railway Road, RD10, Roslyn, Palmerston North.

Assets Held for Sale

As at 30 June 2020 the Company had entered agreements or was in negotiation for the sale of two land lots being a total area of 3,016m². The unimproved carrying value of this land was $175,863. (2019: Nil)

Property Plant and Equipment

Property Plant and Equipment consists of:

Operational Assets
These include land, buildings, furniture and fittings, computer equipment, motor vehicles and various plant and equipment.

Infrastructure Assets
Infrastructure Assets consist of Airside and Landside Infrastructure. Airside Infrastructure assets include runways, aprons, taxiways, and underground reticulated systems and Landside infrastructure assets including pavements, car parking and roading outside the secure areas of the airport.

Measurement of Property, Plant, Equipment and Intangible Assets

Property plant and equipment are measured at cost less accumulated depreciation and impairment losses with the following exception:

- Land is measured at fair value
- Buildings and airside infrastructure are measured at fair value less accumulated depreciation.

Revaluations
Land, buildings and airside infrastructure are revalued with sufficient regularity to ensure that their carrying amount does not differ materially from fair value and are revalued at least every three years. The carrying values of revalued items are reviewed at each balance date to ensure that those values are not materially different to fair value. If there is a material difference, then the off-cycle asset classes are revalued.

Accounting for Revaluations
Palmerston North Airport Limited accounts for revaluations on a class of assets basis.

The net revaluation results are credited or debited to 'Other Comprehensive Revenue and Expense' 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. Revenue and Expense 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 Revenue and Expense.

Additions
The cost of an item of property, plant and equipment is recognised as an asset only when it is probable that future economic benefit or service potential associated with the item will flow to the Company and the cost 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 initially recognised at its cost. Where an asset is acquired through a non-exchange transaction, it is recognised at its fair value as at the date of acquisition.

Disposals
Gains and losses on disposal are determined by comparing the proceeds with the carrying amount of the asset. Gains and losses on disposal are included in the surplus and deficit account.

When revalued assets are sold, the amount included in revaluation reserve in respect of those assets is transferred to retained earnings.

Subsequent cost
Costs incurred subsequent to initial acquisition are capitalised only when it is probable that future economic benefits or service potential associated with the item will flow to the Company and the cost of the item can be measured reliably.

The costs of day to day servicing of property, plant and equipment are recognised in the surplus and deficit account as they are incurred.

Depreciation

Depreciation is provided on a straight-line basis on all items of property, plant & 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 the major categories have been estimated as follows:

Land Improvements	99 years
Roading and Carparks (Landside Infrastructure)	2 - 99 years
Buildings and Building Services	8 - 99 years
Runway, Taxiways, Aprons (Airside Infrastructure)	2 - 80 years
Plant and Equipment	2 - 50 years
Furniture and Fittings	3 - 99 years
Computer Equipment	3 - 6 years
Motor Vehicles	5 years

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

Impairment of Property, Plant, Equipment and Intangible Assets

Property, plant, and equipment and intangible assets subsequently measured at cost that have a finite useful life are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

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.

The total impairment loss is recognised in the surplus and deficit account.

Value in use for non-cash-generating assets
Non-cash-generating assets are those assets that are not held with the primary objective of generating a commercial return. For non-cash generating assets, value in use is determined using an approach based on either a depreciated replacement cost approach, restoration cost approach, or a service units approach. The most appropriate approach used to measure value in use depends on the nature of the impairment and availability of information.

Value in use for cash-generating assets
Cash-generating assets are those assets that are held with the primary objective of generating a commercial return. The value in use for cash-generating assets and cash-generating units is the present value of expected future cash flows.

Non-current Assets Held for Sale

Non-current assets held for sale are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. Non-current assets held for sale are measured at the lower of their carrying amount and fair value less costs to sell.

Any impairment losses for write-downs of non-current assets held for sale are recognised in the surplus or deficit.

Any increases in fair value (less costs to sell) are recognised up to the level of any impairment losses that have been previously recognised.

Non-current assets (including those that are part of a disposal group) are not depreciated or amortised while they are held for sale.

Critical Accounting Estimates and Assumptions

In preparing these financial statements the Company has made estimates and assumptions concerning the future. These estimates and assumptions may differ from 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 material adjustments 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 the Company 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 Company to consider a number of factors such as the physical condition of the asset, expected period of use of the asset by the Company, and expected disposal proceeds from the future 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 Revenue and Expense, and carrying amount of the asset in the statement of financial position. The Company minimises the risk of this estimation uncertainty by:

- Physical inspection of assets;
- Asset replacement programmes;
- Review of second hand market prices for similar assets; and
- Analysis of prior asset sales.

The Company has not made significant changes to past assumptions concerning useful lives and residual values.

2a. Investment Property

	2020 Actual	***2019 Actual***
Balance as at 1 July	6,813,357	575,000
Massey WIP 1 July	-	2,332,661
Additions and Acquisitions	109,166	2,854,347
Depreciation	-	-
Reclassification from PPE	-	-
Fair Value Gains/(Losses) on Valuation	(397,523)	1,051,349
	6,525,000	**6,813,357**

3. Intangible Assets

	Website Development	***Total***
Balances as at 1 July 2019	21,928	21,928
Accumulated Depreciation	(8,950)	(8,950)
Carrying Amount	**12,978**	**12,978**
Movement for the Year		
Additions	-	-
Disposals	-	-
Re-classification of Renovations	-	-
Disposal - Accumulated Dep.	-	-
Amortisation for the Year	(3,245)	(3,245)
Dep. Reversal on Revaluation	-	-
Closing Balances 30 June 2020	-	-
Cost / Revaluation	21,928	21,928
Accumulated Dep.	(12,195)	(12,195)
Carrying Amount	**9,733**	**9,733**
Capital Work in Progress Included at Cost		

	Website Development	***Total***
Balances as at 1 July 2018	21,928	21,928
Accumulated Depreciation	(4,624)	(4,624)
Carrying Amount	**17,304**	**17,304**
Movements for the Year		
Additions	-	-
Disposals	-	-
Re-classification of Renovations	-	-
Disposal - Accumulated Dep.	-	-
Amortisation for the Year	(4,326)	(4,326)
Dep. Reversal on Revaluation	-	-
Closing Balance 30 June 2019	-	-
Cost / Revaluation	21,928	21,928
Accumulated Dep.	(8,950)	(8,950)
Carrying Amount	**12,978**	**12,978**
Capital Work in Progress Included at Cost		

Investment Properties

Investment Property is valued annually at 30 June at fair value. The valuation was performed by independent valuers Morgans Property Advisors as at 30 June 2020. The valuer holds the recognised and relevant qualifications of MPINZ NZIV BBS (VMP) and has significant valuation experience in the local region and for the category of investment property.

Investment Property consists of one property at 100 Airport Drive, occupied by two tenants, and the recently completed Massey University School of Aviation Facility.

The impact of COVID-19 on building and associated lease income has been considered in determining fair values at 30 June 2020. Capitalisation rates have been amended together with a separate COVID-19 factor being applied.

The Valuer has reported that the real estate market that the investment properties are transacted in is being impacted by the uncertainty that the COVID-19 outbreak has caused. The landscape and market conditions are changing daily at present. As at the date of valuation the Valuer considered that there is a significant market uncertainty. The discount rates applied to the properties valued, based on an income capitalisation approach, have been increased to factor the impact of COVID-19. The valuations are current at the date of valuation only. The value assessed may change significantly and unexpectedly over a relatively short period of time (including as a result of factors that the Valuer could not reasonably have been aware of as at the date of the valuation).

The valuation resulted in a decrease in value of $0.400m (5.7%).

Rental income for the year was $0.488m (2019: $0.339m). There were no expenses from investment property generating income. No contractual obligations for capital expenditure and no contractual obligations for operating expenditure.

Intangible Assets

Internally Generated Intangible Assets
Costs associated with the development of the Company's web-site are recognised as an intangible asset and are capitalised on the basis of the cost incurred to bring to use the intangible asset. 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 surplus or deficit.

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

Website Development	4 years: 25%

4. Trade Accounts and Other Receivables

	2020 Actual	2019 Actual
Exchange Receivables		
Debtors and Other Receivables	506,257	832,534
Receivables from Related Party	1,704	9,526
Provision for Impairment	-	(16,990)
Total	**507,961**	**825,070**

Movements in the provision for impairment of Receivables are as follows:

	2020 Actual	2019 Actual
Balance at 1st of June	(16,990)	(14,816)
Additional Provisions	16,990	(2,174)
Provisions Reversed	-	-
Receivables Written Off	-	-
Total	**-**	**(16,990)**

Trade and Other Receivables

Accounts receivable are stated at face value less any provision for impairment.

5. Cash and Cash Equivalents

	2020 Actual	2019 Actual
Current Account	231,273	88,689
Cash on Hand	41,807	32,384
Short Term Investment Account	-	5,851
Total	**273,080**	**126,924**

Cash, Cash Equivalents and Bank Overdrafts

Cash, Cash Equivalents and Bank Overdrafts 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.

6a. Taxation

	2020 Actual	2019 Actual
Operating Surplus (Deficit) Before Taxation	1,297,376	3,644,276
Tax there on	363,265	1,020,396
plus (less) tax effect of:		
- Permanent differences / non-deductible expenditure	8,524	(299,576)
- Prior year under / (over) provision	-	(411)
- Deferred tax adjustment for the year & deferred tax movement at revaluation	-	159,336
- Deferred tax on buildings, tax depreciation reinstatement	(701,021)	-
Tax Charge for the Year	**(329,232)**	**879,745**
Tax expense for the year comprising:		
Current Tax	684,601	923,429
Prior Year Adjustments	-	(411)
Deferred Tax from Current Year Activity	(1,013,832)	(43,273)
	(329,232)	**879,745**

6b. Deferred Tax (Assets) / Liabilities

	Property, Plant and Equipment	Employee Entitlements	Other Provisions	Total
Balance at 1 July 2019	**8,098,953**	**(37,905)**	**(5,015)**	**8,056,033**
Charged to Surplus and Deficit - Current Year	(1,007,703)	(3,642)	4,500	(1,006,846)
Charged to Other Comprehensive Income	(506,518)	-	-	(506,518)
Balance at 30 June 2020	**6,584,730**	**(41,547)**	**(515)**	**6,542,668**
Balance at 1 July 2018	**7,874,733**	**(25,979)**	**(4,435)**	**7,844,320**
Charged to Surplus and Deficit - Current Year	(30,766)	(11,926)	(580)	(43,272)
Charged to Other Comprehensive Income	254,985	-	-	254,985
Balance at 30 June 2019	**8,098,953**	**(37,905)**	**(5,015)**	**8,056,033**

Income Tax

Income tax expense includes components relating to both current tax and deferred tax.

Current tax is the amount of income tax payable based on the taxable profit 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 by 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 profit.

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 the tax consequences that would follow from the manner in which the entity 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 profits 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 accounting profit nor taxable profit.

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 revenue and expense or directly in equity.

Goods and Services Tax

All items in the financial statements are stated exclusive of Goods and Services Tax (GST) with the exception of receivables and payables, which are stated, with GST included. Where GST is irrecoverable as an 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 stated exclusive of GST.

7. Employee Benefit Liabilities

	2020 Actual	***2019 Actual***
Accrued Pay	76,951	48,159
Annual Leave	103,287	84,428
Sick Leave	3,429	2,789
Total	**183,667**	**135,377**

7a. Employee Expenses

	2020 Actual	***2019 Actual***
Salaries and Wages	1,524,817	1,208,593
Employer Contribution to Kiwi Saver	43,986	35,674
Movement in Employee Entitlements	48,290	20,635
Total	**1,617,093**	**1,264,902**

8. Commitments

	2020	***2019***
Operating Commitments as Lessee		
Less than 1 Year	92,847	72,020
Between 1 and 5 Years	140,997	87,707
Over 5 Years	-	-
Total	**233,844**	**159,727**
Operating Commitments as Lessor		
Less than 1 Year	1,402,195	1,456,295
Between 1 and 5 Years	3,670,391	4,026,423
Over 5 Years	5,791,264	6,477,730
Total	**10,863,850**	**11,960,448**
On-Going Month to Month Leases	**15,.117**	**90,296**

These commitments are GST exclusive.

Employee Entitlements

Employee benefits that the Company 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, and sick leave.

The Company recognises a liability for sick leave to the extent that compensated 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 the Company anticipates it will be used by staff to cover those future absences.

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

The Company does not provide for long service or retirement leave entitlements.

Presentation of employee entitlements
Sick leave and annual leave are classified as a current liability.

Superannuation schemes
Obligations for contributions to Kiwi Saver are accounted for as defined contributions superannuation schemes and are recognised as an expense in the surplus and deficit account when incurred.

Leases

Operating Leases
Leases where the lessor effectively retains substantially all the risks and benefits of ownership of the leased items are classified as operating leases. Payments under these leases are charged as expenses on a straight-line basis over the lease term. Lease incentives received are recognised in the surplus or deficit as a reduction of rental expense over the lease term.

Operating Commitments as Lessee

PNAL leases computer and electronic equipment, lift infrastructure, billing software, advertising and two motor vehicles. The unexpired terms of leases as at 30th June 2020 range from 3 to 53 months.

Operating Commitments as Lessor

PNAL leases land, buildings and advertising space in the normal course of its business. The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

2020 & 2019 commitments have been calculated until the end of the current right of renewal, or end of the contract, whichever comes first. These commitments relate to property leases, advertising, and rental agency contracts and are GST exclusive.

There are other ongoing leases amounting to $6970 per annum that are on a month to month basis (2019: $90,296). There are no contingent rents recognised as revenue in the period.

Rent relief provided to airport tenants as a result of COVID-19 totalled $23,510 plus GST to 30 June 2020.

9. Finance Costs

	2020 Actual	2019 Actual
Interest on Secured Long Term Loans	531,078	522,347
	531,078	**522,347**

Capital Commitments

PNAL had capital commitments of $16,556 as at 30 June 2020 relating to agreements for consultancy services yet to be performed. Commitments at 30 June 2019 were $340,000.

10. Borrowings

	2020 Actual	2019 Actual
Current Borrowings / Overdraft	3,700,000	3,964,374
Non-Current Borrowings	8,000,000	8,050,000
Total Borrowings	**11,700,000**	**12,014,374**

Borrowings and Borrowing Costs

Borrowings are initially recognised at their fair value plus transaction costs. After initial recognition, all borrowings are measured at amortised cost using the effective interest method. Borrowings are classified as current liabilities unless the Company or group has an unconditional right to defer settlement of the liability for at least 12 months after balance date.

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

Registered mortgage over property owned by the Company secure the $11.7m borrowings (2019: $12.01m) from Bank of New Zealand. This includes existing perfected security interest in all present and after acquired property of Palmerston North Airport Limited. Refer to Note 2 for the carrying value of the secured assets at balance date.

The Company has an approved overdraft facility of $100,000.

The Company raises long term borrowings predominantly at fixed rates under a Customised Average Rate Loan (CARL) facility. The Company's portfolio of debt is structured with a view to minimising interest rate risk and maximising certainty of the Company's debt servicing costs in the current financial year.

11. Other Operating Expenses

	2020 Actual	2019 Actual
Rates	391,851	373,963
Power and Insurance	375,855	346,787
Repairs and Maintenance	828,494	850,385
Total	**1,596,200**	**1,571,135**

12. Audit Fees

	2020 Actual	2019 Actual
Fees are for Audit of Financial Statements Palmerston North Airport Limited	44,166	29,965
Disbursements	-	630
Audit Fees from Other Providers	-	857
Total	**44,166**	**31,452**

13. Equity

(a) Share Capital

	2020 Actual	2019 Actual
9,195,000 Ordinary Fully Paid Share Capital at 30 June	9,380,400	9,380,400
Closing Balance	**9,380,400**	**9,380,400**

All shares carry equal voting rights and the right to any share in surplus on winding up of the Company. None of the shares carry fixed dividend rights.

(b) Retained Earnings

	2020 Actual	2019 Actual
Opening Balance	**21,509,432**	**19,388,551**
Net Operating Surplus	1,626.608	2,764,531
Dividends Paid During Year	(685,234)	(643,650)
Transfer from Asset Revaluation Reserve for Sale of Asset		
Closing Balance	**22,450,806**	**21,509,432**

Equity

Equity is measured as the difference between total assets and total liabilities. Equity is disaggregated and classified into the following components.

- Retained Earnings;
- Paid in Capital;
- Asset revaluation reserve.

Asset Revaluation Reserves
This reserve relates to the revaluation of land, buildings and Airside Infrastructure to fair value.

(c) Dividends:

No dividend will be declared for the 12 months ending 30 June 2020.

A fully imputed dividend of 7.452 cents per $1 paid up share capital (exclusive of any premium on issue) representing $685,234 was declared for the 12 months ending 30 June 2019 and paid on 30 September 2019).

(d) Asset Revaluation Reserve

	2020 Actual	***2019 Actual***
Opening Balance	**36,590,833**	**31,935,156**
Revaluation Movement		
- Land	-	4,000,000
- Buildings	-	663,646
- Airside Infrastructure	(1,808,994)	(7,969)
Less Deferred Taxation		
Movement - Buildings	506,518	-
Closing Balance	**35,288,357**	**36,590,833**
Asset Revaluation Reserve Consists of		
- Land	20,211,046	20,211,046
- Buildings	2,760,588	2,254,070
- Airside Infrastructure	12,316,723	14,125,717
	35,288,357	**36,590,833**

Critical Judgments in Applying Accounting Policies

Classification of Property
The Company owns a number of properties as a land bank to cover possible future expansion of the runway and safety areas. The receipt of market-based rental from these properties is incidental to this purpose. The properties are held for service delivery objectives as part of the Airport's overall operating strategy. The properties are therefore accounted for as property, plant, and equipment rather than investment property.

14. Trade Accounts Payable

	2020 Actual	***2019 Actual***
Revenue in Advance from Exchange Transactions	162,440	149,316
Revenue in Advance from Non-Exchange Transactions	-	-
Total	**162,440**	**149,316**
Trade Accounts Payable from Exchange Transactions		
Trade Accounts Payable	565,868	839,101
Payables to Related Party	9,481	6,046
Trade Accounts Payable from Non-Exchange Transactions		
Tax Payable	108,015	401,154
Total	**683,364**	**1,246,301**
Other Creditors from Exchange Transactions		
Other Creditors	93,140	584,389
Other Creditors from Non-Exchange Transactions		
GST (refundable) / payable	(16,937)	(49,491)
Total	**76,203**	**534,898**

15. Related Party Transactions

Palmerston North City Council (PNCC) holds 100% of the issued shares of the Palmerston North Airport Limited (PNAL).

PNAL received services from PNCC during the 12 months ended 30 June 2020 for $432,176 exclusive of GST (2019: $439,036 exclusive of GST). In addition, a tax loss offset of $196,299 resulted in a tax refund of $54,964 for the 2018/19 tax year. (2019: The tax loss offset for 2017/18 was $141,629 and resulted in a $39,656 tax refund). The tax refunds were paid to PNCC.

PNAL pays a dividend to PNCC each year equating to 40% of after-tax surplus. For the year ended 30 June 2020, no dividend is being declared. (A dividend of 7.452 cents per $1 paid up share capital representing $685,234 was declared and paid to PNCC for the 12 months ending 30 June 2019).

PNAL provided services to PNCC during the 12 months ended 30 June 2020 for $46,136 exclusive of GST. (2019: $78,238).

Other than the tax loss, all transactions were conducted on normal commercial terms.

PNAL owed PNCC $9,481 inclusive of GST as at 30 June 2020. (The balance owing as at 30 June 2019 was $6,046.)

PNCC owed PNAL $1,704 inclusive of GST as at 30 June 2020, (the balance owing as at 30 June 2019 was $9,526).

Key Personnel Remuneration

	2020 Actual	***2019 Actual***
Directors Remuneration	99,145	108,000
Full Time Equivalents	5	5
Senior Management Team Including the Chief Executive's Remuneration	888,426	723,458
Full Time Equivalents	6	5

Executive remuneration in 2020 includes one full time senior manager previously engaged as a contractor.

Other Significant Policies

Other Financial Assets

Financial assets are initially recognised at fair value plus transaction costs unless they are carried at fair value through surplus or deficit in which case the transaction costs are recognised in the surplus or deficit.

Purchases and sales of financial assets are recognised on trade-date, the date on which the Company and group commits to purchase or sell the asset. Financial assets are de-recognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Company and group have transferred substantially all the risks and rewards of ownership.

Financial assets are classified into the following categories for the purpose of measurement:

- fair value through surplus or deficit;
- loans and receivables;
- held-to-maturity investments; and
- fair value through other comprehensive revenue and expense.

The classification of a financial asset depends on the purpose for which the instrument was acquired.

The Company has the following relevant category:

Loans and Receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance date, which are included in non-current assets.

After initial recognition they are measured at amortised cost using the effective interest method less impairment. Gains and losses when the asset is impaired or derecognised are recognised in the surplus and deficit account.

Impairment of Financial Assets

Financial assets are assessed for evidence of impairment at each balance date. Impairment losses are recognised in the surplus or deficit.

Loans and Receivables
Impairment is established when there is evidence that the Company and group will not be able to collect amounts due according to the original terms of the receivable.

Significant financial difficulties of the debtor, probability that the debtor will enter into bankruptcy, receivership, or liquidation and default in payments are indicators that the asset is impaired. The amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted using the original effective interest rate. For debtors and other receivables, the carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the surplus or deficit. When the receivable is uncollectible, it is written-off against the allowance account. Overdue receivables that have been renegotiated are reclassified as current (that is, not past due). Impairment in term deposits are recognised directly against the instrument's carrying amount.

Statement of Cash Flows

Operating activities include cash received from all revenue sources of the Company and records the cash payments made for the supply of goods and services.

Investing activities are those activities relating to the acquisition and disposal of non-current assets.

Financing activities comprise the change in equity and debt capital structure of the Company.

16. Major Variances Explained

Account	***Actual***	***Budget/SOI***	***Variance***	**Notes**
Operating Revenue	9,137,276	11,221,428	(2,084,151)	Impact of COVID-19 and loss of flights and associated aeronautical revenue during April to June 2020, coupled with the withdrawal of services by Jetstar from 1 December 2019.
Operations Expenditure	2,330,297	2,538,315	(208,018)	Careful management of maintenance costs during final quarter of year.
Finance Costs	531,078	669,130	(138,052)	Borrowings were less than budgeted due to the deferment of capital expenditure projects.
Depreciation & Amortisation	1,854,304	2,141,657	(287,353)	Lower than budgeted depreciation expense reflecting deferment of planned capital projects into future years.
Dividends Paid	685,234	762,884	(77,650)	Lower payment than budgeted as a result of the 2018/19 Net Profit after Tax being lower than the SOI, due to abnormal expenditure relating to the PFAS investigations and testing.
Deferred Tax Liability	6,542,668	7,844,320	(1,301,652)	Variance resulted from deferred tax effect of the airside asset revaluation and the change in building depreciation allowances, not projected in the SOI.
Current Assets	1,070,274	790,896	279,378	2020 actual figures include "Assets held for Resale" of $175,863.
Current Liabilities (excluding bank overdraft and current borrowings)	1,105,674	1,616,717	(511,043)	Trade and other creditors below SOI forecast due to low level of activity in final three months of year i ncluding COVID-19 lockdown period.
Property, Plant, Equipment & Intangible Assets & Investment Property	85,397,631	91,276,305	5,878,674	Below SOI reflecting revaluations and deferral of budgeted capital projects due to COVID-19.
Total Borrowings	11,700,000	19,466,063	(7,766,063)	Relates to deferral of budgeted capital projects, particularly Ruapehu Business Park developments.

17. Financial Instruments

The accounting policies for financial instruments have been applied to the line items below.

Financial Assets	***Rating****	***2020***	***2019***
Cash and Cash Equivalents	AA-	273,080	126,924
Trade Receivables		507,961	825,070
Total Financial Assets		**781,041**	**951,994**

*
Standard & Poor's Rating for BNZ

Financial Liabilities	***2020***	***2019***
Trade Accounts and Other Payable	759,567	1,781,199
Bank Overdraft	-	3,964,374
Borrowings - Secured Loans	11,700,000	8,050,000
Total Financial Liabilities	**12,459,567**	**13,795,573**

18. Events After Balance Date

There have been no other significant events occurring after Balance Date.

19. Contingencies

The New Zealand Environmental Protection Agency commenced a review during 2018 into the use of PFOS foam in firefighting applications, including at airports. Investigations at Palmerston North Airport have since confirmed that this foam was used for firefighting training exercises at the airport up until the late 1980s. All PFOS foam was successfully removed from the fire appliances and storage containers onsite during the 2018/19 financial year. Further testing has been completed during the 2019/20 year at a cost of $31,031.

HIGHLIGHTS

FINANCIAL HIGHLIGHTS

Year Ending	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Statement of Financial Performance:	**(000)**	**(000)**	**(000)**	**(000)**	**(000)**	**(000)**	**(000)**	**(000)**	**(000)**	**(000)**	**(000)**
Total Revenue	9,137	10,202	8,483	7,313	5,523	4,943	4,818	4,590	4,480	4,225	3,981
Net Surplus Before Interest, Depn, Taxation	4,079	5,025	4,074	3,534	2,391	2,064	1,847	1,765	1,739	1,821	1,674
Net Surplus Before Taxation & Misc Items (*)	1,695	2,593	2,211	1,849	841	911	756	709	684	748	501
Net Surplus After Taxation Excluding Deferred Tax Adjustments (*)	2,024	1,713	1,609	1,299	805	662	544	492	496	535	327
Earnings Per $ of Paid Up Share Capital (excl. any Premium on Issue and Deferred Tax Adjustments) (*)	21.58c	18.26c	17.50c	14.13c	8.75c	7.20c	5.92c	5.35c	5.39c	5.82c	3.56c
Dividend Proposed or Paid Per $ of Paid Up Share Capital (excl. of any Premium on Issue)	0.00c	7.31c	7.00c	5.65c	3.50c	2.88c	2.37c	2.14c	2.10c	2.30c	1.56c
Statement of Financial Position	**(000)**	**(000)**	**(000)**	**(000)**	**(000)**	**(000)**	**(000)**	**(000)**	**(000)**	**(000)**	**(000)**
Total Assets	86,468	89,617	77,894	73,588	62,946	61,543	44,904	43,727	43,878	44,645	44,664
Shareholders Funds	67,120	67,481	60,704	59,615	49,810	49,305	35,823	35,475	35,177	35,516	35,124
Share Capital Paid Up (excluding of any Premium on Issue)	9,195	9,195	9,195	9,195	9,195	9,195	9,195	9,195	9,195	9,195	9,195
Net Asset Backing Per Share	$7.30	$7.34	$6.60	$6.48	$5.42	$5.36	$3.90	$3.86	$3.83	$3.86	$3.82
Return On Shareholder Funds (excluding Deferred Tax Adjustments)*	3.02%	4.10%	2.65%	2.18%	1.62%	1.34%	1.52%	1.39%	1.41%	1.51%	0.93%

** Revaluation Gain on Investment Properties have been removed for comparabililty purposes.*

ANNUAL PASSENGER NUMBERS

Year Ending	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Total Passengers	498,442	687,142	657,515	629,400	515,727	466,557	455,166	445,147	449,318	449,090	422,434

INDEPENDENT AUDITOR'S REPORT

To the readers of Palmerston North Airport Limited's and Group' financial statements and performance information

For the year ended 30 June 2020

The Auditor-General is the auditor of Palmerston North Airport Limited (the Company). The Auditor-General has appointed me, Chris Webby, using the staff and resources of Audit New Zealand, to carry out the audit of the financial statements and the performance information of the Company on his behalf.

Opinion

We have audited:

- the financial statements of the Company on pages 14 to 32, that comprise the Statement of Financial Position as at 30 June 2020, the Statement of Comprehensive Revenue and Expense, Statement of Changes in Equity and Statement of Cash Flows for the year ended on that date and the Notes to the Financial Statements that include accounting policies and other explanatory information; and
- the Statement of Service Performance of the Company on pages 10 to 11.

In our opinion:

- the financial statements of the Company on pages 14 to 32:
    - present fairly, in all material respects:
        - its financial position as at 30 June 2020; and
        - its financial performance and cash flows for the year then ended; and
    - comply with generally accepted accounting practice in New Zealand in accordance with Public Benefit Entity Standards with reduced disclosure requirements; and
- the performance information of the Company on pages 10 to 12 presents fairly, in all material respects, the Company's actual performance compared against the performance targets and other measures by which performance was judged in relation to the Company's objectives, for the year ended 30 June 2020.

Our audit was completed on 24 September 2020. This is the date at which our opinion is expressed.

The basis for our opinion is explained below, and we draw attention to the impact of Covid-19 on the Company. In addition, we outline the responsibilities of the Board of Directors and our responsibilities relating to the financial statements and the performance information, we comment on other information, and we explain our independence.

Emphasis of matter – Impact of Covid-19

Without modifying our opinion, we draw attention to the disclosures about the impact of Covid-19 on the Company as set out in notes 2 and 2a to the financial statements and page 14 of the statement of service performance. We draw specific attention to the following matters due to the significant level of uncertainty caused by Covid-19:

- **Land, buildings and airside infrastructure Fair Value**

  Note 2 on page 23 and 24 describes the significant uncertainties communicated by the valuer, related to estimating the fair values of the Company's land, buildings and airside infrastructure.

- **Investment Property**

  Note 2a on page 28 describes the significant uncertainties communicated by the valuer, related to estimating the fair values of the Company's investment property.

Basis for our opinion

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the Professional and Ethical Standards and the International Standards on Auditing (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board. Our responsibilities under those standards are further described in the Responsibilities of the auditor section of our report.

We have fulfilled our responsibilities in accordance with the Auditor-General's Auditing Standards.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of the Board of Directors for the financial statements and the performance information

The Board of Directors is responsible on behalf of the Company for preparing financial statements and performance information that are fairly presented and that comply with generally accepted accounting practice in New Zealand.

The Board of Directors is responsible for such internal control as it determines is necessary to enable it to prepare financial statements and performance information that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements and the performance information, the Board of Directors is responsible on behalf of the Company for assessing the Company's ability to continue as a going concern. The Board of Directors is also responsible for disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless there is an intention to liquidate the Company or to cease operations, or there is no realistic alternative but to do so.

The Board of Directors' responsibilities arise from the Local Government Act 2002.

Responsibilities of the auditor for the audit of the financial statements and the performance information

Our objectives are to obtain reasonable assurance about whether the financial statements and the performance information, as a whole, are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit carried out in accordance with the Auditor-General's Auditing Standards will always detect a material misstatement when it exists. Misstatements are differences or omissions of amounts or disclosures, and can arise from fraud or error. Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of readers taken on the basis of these financial statements and the performance information.

For the budget information reported in the financial statements and the performance information, our procedures were limited to checking that the information agreed to the Company's statement of intent.

We did not evaluate the security and controls over the electronic publication of the financial statements and the performance information.

As part of an audit in accordance with the Auditor-General's Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. Also:

- We identify and assess the risks of material misstatement of the financial statements and the performance information, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of the internal control.
- We obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- We evaluate the appropriateness of the reported performance information within the Company's framework for reporting performance.
- We conclude on the appropriateness of the use of the going concern basis of accounting by the Board of Directors and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements and the performance information or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- We evaluate the overall presentation, structure and content of the financial statements and the performance information, including the disclosures, and whether the financial statements and the performance information represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify in our audit.

Our responsibilities arise from the Public Audit Act 2001.

Other Information

The Board of Directors is responsible for the other information. The other information comprises the information included on pages 3 to 9 and 33 to 34, but does not include the financial statements and performance information, and our auditor's report thereon.

Our opinion on the financial statements and the performance information does not cover the other information and we do not express any form of audit opinion or assurance conclusion thereon.

In connection with our audit of the financial statements and the performance information, our responsibility is to read the other information. In doing so, we consider whether the other information is materially inconsistent with the financial statements and the performance information or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on our work, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Independence

We are independent of the Company in accordance with the independence requirements of the Auditor-General's Auditing Standards, which incorporate the independence requirements of Professional and Ethical Standard 1: International Code of Ethics for Assurance Practitioners issued by the New Zealand Auditing and Assurance Standards Board.

Other than the audit, we have no relationship with, or interests in, the Company.

Chris Webby
Audit New Zealand

On behalf of the Auditor-General
Palmerston North, New Zealand

COMPANY DIRECTORY

Palmerston North Airport Limited

Directors

As at June 2020

Murray Georgel	Chairman
Jon Nichols	Chairman of Audit & Risk Committee
Sarah Vining	
Gerard Gillespie	
Christopher Cardwell	

Management

As at June 2020

David Lanham	Chief Executive
George Clark	Commercial Manager
David Yorke	Infrastructure Manager
Vernon van Gysen	Finance Manager
Brent Lawry	Terminal Manager
Terry Cooney	Safety and Security Manager

Registered Office

Palmerston North Airport Limited
Terminal Building
Airport Drive
PALMERSTON NORTH

Phone: +64 6 351 4415
Fax: +64 6 355 2262
e-mail: info@pnairport.co.nz
Web: www.pnairport.co.nz

TRADING BANKERS

Bank of New Zealand

LEGAL ADVISORS

Cooper Rapley Lawyers

AUDITOR

Audit New Zealand (on behalf of the Auditor-General)

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