



PALMERSTON NORTH AIRPORT LIMITED

STATEMENT OF INTENT

FOR THE YEAR ENDING 30 JUNE 2021

FINAL

17 June 2020

INTRODUCTION

This Statement of Intent is presented by the Directors of Palmerston North Airport Limited (“PNAL”) in accordance with section 64 of the Local Government Act 2002.

PNAL falls within the definitions of both a Council-Controlled Organisation and a Council-Controlled Trading Organisation pursuant to section 6 of the Local Government Act 2002 as a consequence of the Palmerston North City Council's shareholding.

The purpose of the Statement of Intent is to publicly declare the activities and intentions of PNAL, and provide an opportunity for shareholders to influence its direction.

It also provides a basis for accountability of Directors of PNAL to the Shareholder for performance. It is intended to comply with Schedule 8 of the Local Government Act, and be consistent with PNAL's Constitution.

The COVID-19 impact on PNAL's major scheduled passenger service customer Air New Zealand is wide-reaching across most areas of PNAL's activities, and a recovery profile is inherently difficult to forecast. Consequently, this revised Statement of Intent relates only to the F2020/21 financial year ending 30 June 2021. It is PNAL's intention to provide the Shareholder with a further update in Q2 of F20/21 which may include forecasts for the F21/22 and F22/23 years.

It has been prepared under the Public Benefit Entity (PBE) Standards based on International Public Sector Accounting (IPSAS) Standards.

Directors and team members of PNAL respectfully acknowledge local iwi Rangitāne and their customary relationship to this area. PNAL appreciates their manaakitanga shown towards the airport and all airport users. PNAL looks forward to further enriching its partnership with Rangitāne over the coming years.

CONTACT DETAILS

Contact details for both the Chair and the Chief Executive are:

Palmerston North Airport Limited
First Floor, Terminal Building
Palmerston North Airport
Airport Drive
P O Box 4384
Palmerston North 4442

Phone: +64 6 351 4415
Email: info@pnairport.co.nz
Web: www.pnairport.co.nz

NATURE AND SCOPE OF ACTIVITIES

PNAL owns and operates Palmerston North Airport, having purchased the airport business on 30 January 1990.

Palmerston North Airport is a major regional airport and a key asset of both regional and national importance. It provides terminal and associated services for the air transport of passengers and freight from a catchment that encompasses the Ruapehu, Whanganui, Rangitikei, Manawatū, Horowhenua, Wairarapa, Tararua and Southern Hawkes Bay districts. These regions make up a population base of almost 1 million people that live within 2 hours drive of Palmerston North Airport.

In addition to its aeronautical activities PNAL's medium-term objectives include the recommencement of investment in Ruapehu Business Park, currently on hold due to the impact of COVID-19 on PNAL's financial position and access to capital. Given Palmerston North's position as a major regional logistics and distribution hub, Ruapehu Business Park provides small to medium sized operators direct access to the airport, North Eastern Industrial Zone, and major arterial routes.

STRATEGIC FRAMEWORK

The vision of being New Zealand's leading regional airport, while aspirational, continues to remain relevant.

In addition, a purpose statement has been developed "*Launching our communities into a promising future*". The statement reflects our true reason for being, that is to play our role in facilitating regional growth in social, economic and environmental terms. It also reflects the fact that we serve multiple communities whether they be defined in terms of geographical location, ethnicity, or socially, and include mana whenua, Rangitāne and other local iwi.

The Mission and Strategic Objectives have been combined and refreshed. The Four Cs – Compliance, Community, Customer and Commercial were updated and extended to include Culture. The Fifth C reflects PNAL's focus on our organisational culture, well-being and team work.

Our Vision

New Zealand's leading regional airport.

Our Purpose

Launching our communities into a promising future.

STRATEGIC OBJECTIVES – THE FIVE Cs

Customer

We will treat all Airport users as our customers.

- ➔ Our Airport customers are all Airport users; contractors, tenants, staff, passengers, meet and greeters.
- ➔ We will deliver a high quality and efficient regional airport experience.
- ➔ We will promote Palmerston North Airport as the gateway and lower North Island commercial hub to our 90-minute drive market.

Community

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

- ➔ We will be a guardian for the environment by operating in a sustainable manner in all of our business activities.
- ➔ We will be actively engaged with and supportive of the region's communities and iwi.
- ➔ We recognise our community is multi-cultural and will engage with all ethnic groups.
- ➔ We will facilitate regional economic development by growing passenger and airfreight volumes.

Culture

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

- Our People are the key to our success. We will 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 & Respect, Communication, Empowerment and Celebrating Success.

Compliance

We will maintain a safe and secure operation through a culture of ongoing compliance with all standards and regulations.

- The safety and security of all Airport users is our critical concern. We have a Zero Harm approach to those who visit and work within our airport community.
- We will continue to meet our regulatory and statutory obligations including Civil Aviation Rule Part 139, Resource Management Act, Palmerston North and Manawatu District Plans.

Commercial

We will operate a sustainable business to enable long-term success.

- We will maintain and develop core infrastructure that is business critical.
- We will diversify and grow revenue streams through a focus on both aeronautical and non-aeronautical revenue sources.
- We will operate a successful enterprise that enables us to distribute shareholder funds surplus to our on-going investment and operating requirements.

KEY OBJECTIVES – SUMMARY

COVID-19 Impacts / Provincial Growth Funding and Shovel Ready Applications

At the time of finalising this SOI update PNAL faces significant uncertainty in relation to future aeronautical and non-aeronautical revenue streams in the budget year F20/21 and onwards. The impact of COVID-19 on PNAL's major customer Air New Zealand is wide-reaching across most areas of PNAL's activities, and a recovery profile is inherently difficult to forecast.

Notwithstanding PNAL's medium term outlook which remains positive in view of the region's economic diversity and major planned infrastructure projects including the KiwiRail freight hub, and NZTA's Te Ahu a Turanga: the Manawatū-Hawke's Bay highway and regional freight ring road, in the short-term PNAL's commercial decisions must be guided by the current economic environment, Air New Zealand's likely position, and PNAL's financial strength.

This revised view on F20/21 reflects an overarching goal of preserving capital, a prudent approach to lending, and related ratios, means PNAL will be postponing or cancelling previously planned capital activities. It also reflects a conservative view on Air New Zealand's recovery profile, potential ongoing weakness in domestic travel, weakened retail, rental car and café business activity, and suppressed demand for property within Ruapehu Business Park.

Funding applications remain live for both the Terminal Development Plan (Provincial Growth Fund 2019, Shovel ready April 2020), and a suite of airside and landside pavement upgrades. Should funding be received on a grant basis for the entire value of these projects then PNAL would be in a position to re-consider the inclusion of these projects in the F20/21 year.

Compliance

Ongoing compliance with CAA Part 139 and Zero harm objectives are our highest priorities.

The achievement of Safety Management System (SMS) certification in early 2020/21, and continued compliance with PNAL's SMS is the primary objective for the financial year.

The development of PNAL's second generation Asset Management Plan (AMP) will progress. The AMP will continue to assist PNAL to improve its management of critical assets located both airside and landside and to prioritise maintenance and capital investments.

A modest range of essential capital expenditure programmes are now planned for 2020/21 to ensure airside and landside infrastructure remains compliant with Part139 requirements, and also ensures PNAL's facilities meet our customers expectations. Capex plans include ongoing airside pavement rejuvenation programmes, and the acquisition of two Rescue Fire vehicles.

Planned capex on essential infrastructure is \$4.7 million in F20/21.

Terminal Development Plan / Customer

Sustainable air service development remains a key priority for PNAL, with the global impact of the COVID-19 pandemic highlighting the vulnerability of air services and the need to ensure routes are sustainable in the medium to long-term. PNAL will work collaboratively with airline partners to sustainably recover both frequency and capacity on strategic routes.

The airport has experienced high passenger growth in the past five years, and while a downturn has been experienced due to COVID-19, a further surge from a lower base is anticipated as major regional infrastructure projects create additional passenger demand.

A revised passenger forecast of 265,000 passenger movements in F20/21 is 60% or 400,000 passenger movements below the previous SOI forecast of 665,000, and assumes Air New Zealand recovers to 50% of the prior year's capacity and passenger volumes by Calendar Year 2021.

While the significantly lower passenger forecasts reduce the pressure on PNAL's terminal (a major driver of terminal expansion plans), the likelihood of passenger and hold bag screening being mandated remains a very real likelihood in the medium term. Furthermore, a Jet strategy for Palmerston North – Auckland route may also remain a viable medium-term opportunity for Air New Zealand.

For these reasons the \$15 million Terminal Development Plan (TDP), while on hold, remains in PNAL's medium-term planning subject to appropriate funding being available.

Plans for the terminal – car park interface will continue to be progressed, albeit at a slower pace. The plan includes an enhanced experience for passengers picking up and dropping off within the General Car Park, and improved pedestrian safety.

Community

PNAL will continue modest support for communities by identifying opportunities to engage with local groups and Iwi. Community engagement plans focussed on our geographical, ethnic and social communities will be refreshed. Engagement opportunities include a focus on our Iwi, regional schools and the promotion of healthy lifestyles and environmental sustainability.

PNAL will continue to strive towards achieving carbon neutrality. Having received ACA Level 1 accreditation in 2019, PNAL is now focussed on achieving Level 2 certification. Energy, water consumption and waste to landfill reduction programmes have been established.

Culture

At the forefront of our organisational culture objective is a desire to further improve staff engagement levels.

Initiatives planned include the ongoing development of programmes associated with PNAL's One-team ethos as we continue to build team work and communications within our rapidly expanding team.

A well-being programme, that supports the health and well-being of PNAL team members will have been introduced by the commencement of the financial year.

Commercial

Commercialisation of Ruapehu Business Park in line with PNAL's Property Masterplan has been deferred beyond F20/21 on the basis of its capital-intensive nature and likely suppressed demand for sites within the park.

Ruapehu Business Park while on hold, remains in PNAL's medium-term planning subject to appropriate funding being available.

Performance Metric targets 12 Months to 30 June

PERFORMANCE METRIC	2019/20 Forecast	2020/21 Forecast
I. A ratio of surplus before interest/tax/depreciation to total assets.	4%	2%
II. A ratio of net surplus after tax to consolidated shareholders' funds inclusive of revaluation reserve.	1%	-1%
III. To maintain a ratio of consolidated shareholders funds to total assets of at least 40%	78%	74%
IV. To maintain an interest coverage ratio of surplus before interest to interest, of at least 2.25 as per BNZ Loan Covenants.*	3.5	-1.6
V. To maintain a tangible net worth (total tangible assets after revaluations less total liabilities) above \$50 million dollars.	\$68.4m	\$67.6m
VI. Maintain a Net Promoter score of 55 or above	45	50
VII. Total passenger movements	473,500	265,500
VIII. Maintain CAA Part 139 certification	Maintain	Maintain
IX. Zero lost time injuries.	Zero	Zero
X. Roadmap to carbon neutrality	Complete	Implement
XI. Safety Management System audited and certified^	Develop	Certify

* Discussions ongoing with BNZ.

^ Certification deferred to September 2020.

GOVERNANCE

The Board's approach to governance of PNAL is to preserve and enhance Shareholder value.

The Board is responsible for the proper direction and control of PNAL's activities and is accountable to the shareholder within the strategic framework set out in this Statement of Intent, PNAL's Constitution, and the provisions of the Local Government Act 2002, and the Companies Act 1993.

The Board comprises five Directors appointed by the Shareholder in accordance with PNAL's Constitution.

Fees for the Board are reviewed annually. The Board recommends fee levels to the Shareholder based on commercial or near-commercial rates.

PNAL has an Audit & Risk Committee comprised of three directors of the PNAL Board. The Committee is responsible for overseeing the financial accounting, financial statement and audit activities of PNAL including the adequacy and effectiveness of internal controls, external auditor performance, and financial and accounting policies.

SHAREHOLDERS EQUITY IN PNAL

PNAL's land, building, and infrastructure assets were revalued as at 30 June 2019, in line with PNAL's three-yearly asset revaluation policy. Shareholder equity as shown in the Statement of Financial Position as at 30 June 2019 is \$67.5 million. The Directors have requested that revaluations be undertaken at 30 June 2020 given current economic conditions and potential material impacts on valuations.

The ratio of consolidated shareholder's equity to total assets will be maintained at no less than 40%. For the purposes of this ratio, 'consolidated shareholder's equity' is total shareholder funds inclusive of retained earnings and revaluation surplus, and 'total assets' are current assets plus net book value of fixed assets plus future tax benefit (if any).

INFORMATION TO BE PROVIDED TO THE SHAREHOLDER

The Shareholder will receive:

- ➔ An Annual Report including audited financial statements within 3 months of balance date.
- ➔ A summary of PNAL's achievements of the Key Objectives and its performance against the metric targets as outlined in this SOI.
- ➔ An Interim Report including non-audited financial statements within 2 months of the end of the first half of the financial year.
- ➔ A Statement of Intent submitted for shareholder consideration in accordance with the Local Government Act 2002.
- ➔ Other interim reports as agreed with the Shareholder.

Timeframes for the Interim and Annual Reports are legislative maxima. However, PNAL will meet the reporting and governance requirements of the Shareholder.

ACCOUNTING POLICIES

The accounting policies adopted by PNAL are consistent with New Zealand's Financial Reporting Standards, with PNAL designated as a Public Benefit Entity (PBE) for financial reporting purposes.

The policies are included in PNAL's Annual Report which is available on PNAL's website: www.pnairport.co.nz/corporate/corporate-profile.

FORECAST FINANCIAL STATEMENTS

The financial information contained in the SOI is a forecast for the purposes of the PBE financial reporting standard (FRS) 42. This information may not be appropriate for purposes other than those described. It has been prepared on the basis of assumptions as to future events that PNAL reasonably expects to occur, associated with the actions it reasonably expects to take, as at the date the forecast was prepared. The actual results are likely to vary from the information presented and may vary materially depending on the circumstances that arise during the period

COMPENSATION SOUGHT FROM THE SHAREHOLDER

PNAL acknowledges that the Palmerston North City Council holds shares in PNAL for strategic reasons and that PNAL needs to facilitate the development and promotion of both aeronautical and complimentary non-aeronautical business activities. As well as direct benefit to PNAL this impacts through to the economic development of the city and the wider region.

At the request of the shareholder, PNAL may undertake activities that are not consistent with normal commercial objectives subject to the Shareholder providing a specific subsidy to meet the full commercial cost for providing such activities.

DIVIDEND POLICY

PNAL faces significant uncertainty in relation to future aeronautical and non-aeronautical revenue streams in the budget year F20/21 and onwards. In order to preserve capital PNAL advises that the dividend policy is suspended and that no dividend payment is planned in the 2020/21 financial year.

PALMERSTON NORTH AIRPORT LIMITED
STATEMENT OF FINANCIAL PERFORMANCE
For the 12 Months to 30 June

	<u>2019/20</u> <u>Forecast</u>	<u>2020/21</u> <u>Budget</u>
<u>PROFIT & LOSS ACCOUNT</u>		
REVENUE	8,929,382	6,253,088
TOTAL OPERATING EXPENDITURE	2,339,754	2,480,544
TOTAL ADMINISTRATIVE EXPENDITURE	2,683,023	2,142,250
TOTAL EXPENDITURE	5,022,778	4,622,794
EBITDAE	3,906,604	1,630,295
EXTRAORDINARY ITEMS *	36,013	50,000
EBITDA	3,870,592	1,580,295
DEPRECIATION	1,961,772	2,075,421
FINANCE COSTS	531,307	309,235
(PROFIT)/LOSS ON SALE OF ASSETS	(993)	0
SURPLUS BEFORE TAXATION	1,378,506	(804,361)
INCOME TAX	387,754	0
NET OPERATING SURPLUS	990,752	(804,361)

* The Extraordinary Items are soil, sediment, surface and ground water sampling for PFAS at Palmerston North Airport and adjacent sites including the Mangaone Stream.

PALMERSTON NORTH AIRPORT LIMITED
STATEMENT OF FINANCIAL POSITION
For the 12 months to 30 June

BALANCE SHEET	<u>2019/20</u>	<u>2020/21</u>
	<u>Forecast</u>	<u>Budget</u>
<u>CURRENT ASSETS</u>		
BANK & SHORT TERM DEPOSITS	50,000	50,000
TRADE DEBTORS	436,155	512,487
DOUBTFUL DEBT PROVISION	(4,362)	(5,125)
ACCRUED INCOME	962	1,173
PREPAID EXPENDITURE	(0)	0
ASSETS HELD FOR SALE	0	0
TOTAL CURRENT ASSETS	482,755	558,536
<u>CURRENT LIABILITIES</u>		
TRADE CREDITORS	374,113	418,335
INCOME RECEIVED IN ADVANCE	49,268	85,414
ACCRUED EXPENDITURE	82,560	89,980
TAXATION	(138,703)	(541,654)
OTHER PROVISIONS	325,000	325,000
SHORT TERM LOAN	0	0
TOTAL CURRENT LIABILITIES	692,239	377,076
WORKING CAPITAL	(209,484)	181,460
<u>NON CURRENT ASSETS</u>		
LAND	32,004,350	32,004,350
BUILDINGS	13,504,382	13,589,760
INFRASTRUCTURAL - LAND	7,527,558	7,728,290
INFRASTRUCTURAL - AIR	26,181,961	27,774,541
PLANT & EQUIPMENT	1,433,594	1,590,105
FURNITURE & FITTINGS	105,253	102,845
COMPUTERS	75,803	59,237
FIRE APPLIANCES	3,907	725,805
INVESTMENT PROPERTY	6,813,354	6,813,354
INTANGIBLE ASSETS	7,788	4,673
TOTAL NON CURRENT ASSETS	87,657,949	90,392,962
<u>NON CURRENT LIABILITIES</u>		
TERM LOAN	10,921,013	14,851,329
DEFERRED TAX	8,056,032	8,056,032
TOTAL NON CURRENT LIABILITIES	18,977,045	22,907,361
NET ASSETS	68,471,421	67,667,060
<u>SHAREHOLDERS' FUNDS</u>		
PAID UP SHARE CAPITAL	9,380,400	9,380,400
ASSET REVALUATION RESERVE	36,590,833	36,590,833
RETAINED EARNINGS	21,509,436	22,500,188
SHAREHOLDERS DIVIDEND	0	0
CURRENT YEAR SURPLUS	990,752	(804,361)
TOTAL SHAREHOLDERS' FUNDS	68,471,421	67,667,060

PALMERSTON NORTH AIRPORT LIMITED
STATEMENT OF CHANGES IN EQUITY
For the 12 months to 30 June

	<u>2019/20</u>	<u>2020/21</u>
	<u>Forecast</u>	<u>Budget</u>
Equity at the beginning of the year	67,480,669	68,471,421
Asset Revaluation Reserve Movement	0	0
Total Comprehensive (Loss)/Income	990,752	(804,361)
Dividends Paid	0	0
Equity at the end of the year	68,471,421	67,667,060

PALMERSTON NORTH AIRPORT LIMITED
STATEMENT OF CASHFLOWS
For the 12 Months to 30 June

CASH FLOW STATEMENT	<u>2019/20</u>	<u>2020/21</u>
	<u>Forecast</u>	<u>Budget</u>
<u>CASH FLOW FROM OPERATING ACTIVITIES</u>		
<i>Cash Was Provided From</i>		
Receipts from Customers	9,533,934	6,182,794
Tax Refund	0	0
Interest Received	1,472	0
<i>Cash Was Disbursed To</i>		
Payment to Suppliers	5,938,382	4,461,420
Payment of Tax	881,812	346,424
Interest Payments	531,307	309,235
<i>Net Cash Flow From Operating Activities</i>	<u>2,183,905</u>	<u>1,065,716</u>
<u>CASH FLOW FROM INVESTING ACTIVITIES</u>		
<i>Cash Was Provided From</i>		
Sale of Fixed Assets	993	0
<i>Cash Was Applied To</i>		
Land and Developments	0	0
Buildings	4,069,552	545,000
Infrastructure - Land	359,816	620,000
Infrastructure - Air	20,631	2,285,000
Plant and Equipment	153,130	455,000
Investment Property	(3,467,420)	0
Furniture and Fittings	57,378	20,000
Computers	(1,003)	15,000
Fire Appliances	3,973	775,000
Intangible Assets	1	(0)
PNCC Contribution	0	0
<i>Net Cash Flow From Investing Activities</i>	<u>(1,174,469)</u>	<u>(4,715,000)</u>
<u>CASH FLOW FROM FINANCING ACTIVITIES</u>		
<i>Cash Was Provided From</i>		
Term Loan Draw Downs	959,670	3,659,584
<i>Cash Was Applied To</i>		
Term Loan Repayments and Dividend Payment	2,046,031	10,299
<i>Net Cash Flow From Financing Activities</i>	<u>(1,086,361)</u>	<u>3,649,285</u>
NET INCREASE/(DECREASE) IN CASH HELD	(76,925)	1
Opening Cash Balance	126,924	49,999
Closing Cash Balance	<u>49,999</u>	<u>50,000</u>

PALMERSTON NORTH AIRPORT LIMITED
CAPITAL EXPENDITURE PROGRAMME
For the 12 months to 30 June

	<u>2019/20</u>	<u>2020/21</u>
	<u>Forecast</u>	<u>Budget</u>
CAPITAL EXPENDITURE PROGRAMME		
LAND	0	0
BUILDINGS	417,609	545,000
INFRASTRUCTURAL - LAND	363,843	620,000
INFRASTRUCTURAL - AIR	17,270	2,285,000
PLANT & EQUIPMENT	329,507	455,000
FURNITURE & FITTINGS	22,617	20,000
COMPUTERS	38,293	15,000
FIRE APPLIANCES	3,973	775,000
INVESTMENT PROPERTY	0	0
INTANGIBLE ASSETS	0	0
	<hr/> 1,193,111	<hr/> 4,715,000 <hr/>
CAPITAL SALES PROGRAMME		
Total Sales - RBP	<hr/> 0	<hr/> 0 <hr/>