

FOR THE YEAR ENDING 30 JUNE 2023

26 May 2022



**PALMERSTON NORTH
AIRPORT LIMITED**

STATEMENT OF INTENT

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 (PNCC) 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.

This Statement of Intent has been informed by PNCC's Statement of Expectation dated 6 December 2021.

The Statement of Intent has been prepared under the Public Benefit Entity (PBE) Standards based on International Public Sector Accounting (IPSAS) Standards.

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

CONTACT DETAILS

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

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NATURE AND SCOPE OF ACTIVITIES

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

Palmerston North Airport is an asset of regional and national importance managed by PNAL. The airport services a regional catchment which includes Ruapehu District in the north, Whanganui, Rangitikei, Manawatu, and Horowhenua in the south, and across to Wairarapa, Tararua and Southern Hawkes Bay. A population base of close to one million live within two hours' drive of the airport.

PNAL enters the new financial year like the last with a sense of cautious optimism. A gradual rebound in passenger volumes is anticipated on the basis that the impacts of Covid-19 on travel demand gradually dissipate, with an associated greater continuity in flights to and from all key gateways.

The rebound of circa 149% in passenger movements to 459,000 in FY23 is achieved off a twenty year low in passenger volumes of 309,000 passenger movements forecasted for FY22. A moderate recovery in passenger movement volumes to 634,000 are projected by the third year of the SOI.

The associated improved financial performance in terms of aeronautical income and associated income levels will in turn provide PNAL with the confidence to focus on four key areas of activity:

1. The continued reinvestment in infrastructure, both airside and landside, including the further development of PNAL's Asset Management Plan.
2. Continuous improvement in customer experience with the commencement of the terminal re-development, ongoing carparking improvements, and a continued focus on building a greater understanding of our various customer groups.
3. The ongoing investment in Ruapehu Business Park and promotion of our location within the Central New Zealand distribution hub for core activities including freight & logistics.
4. Further enhancement of our community profile through a greater level of engagement with our communities, and through our demonstrated leadership in sustainability and specifically the achievement of Level 4 of the Airport Council International Airport Carbon

Accreditation program, and other sustainability initiatives.

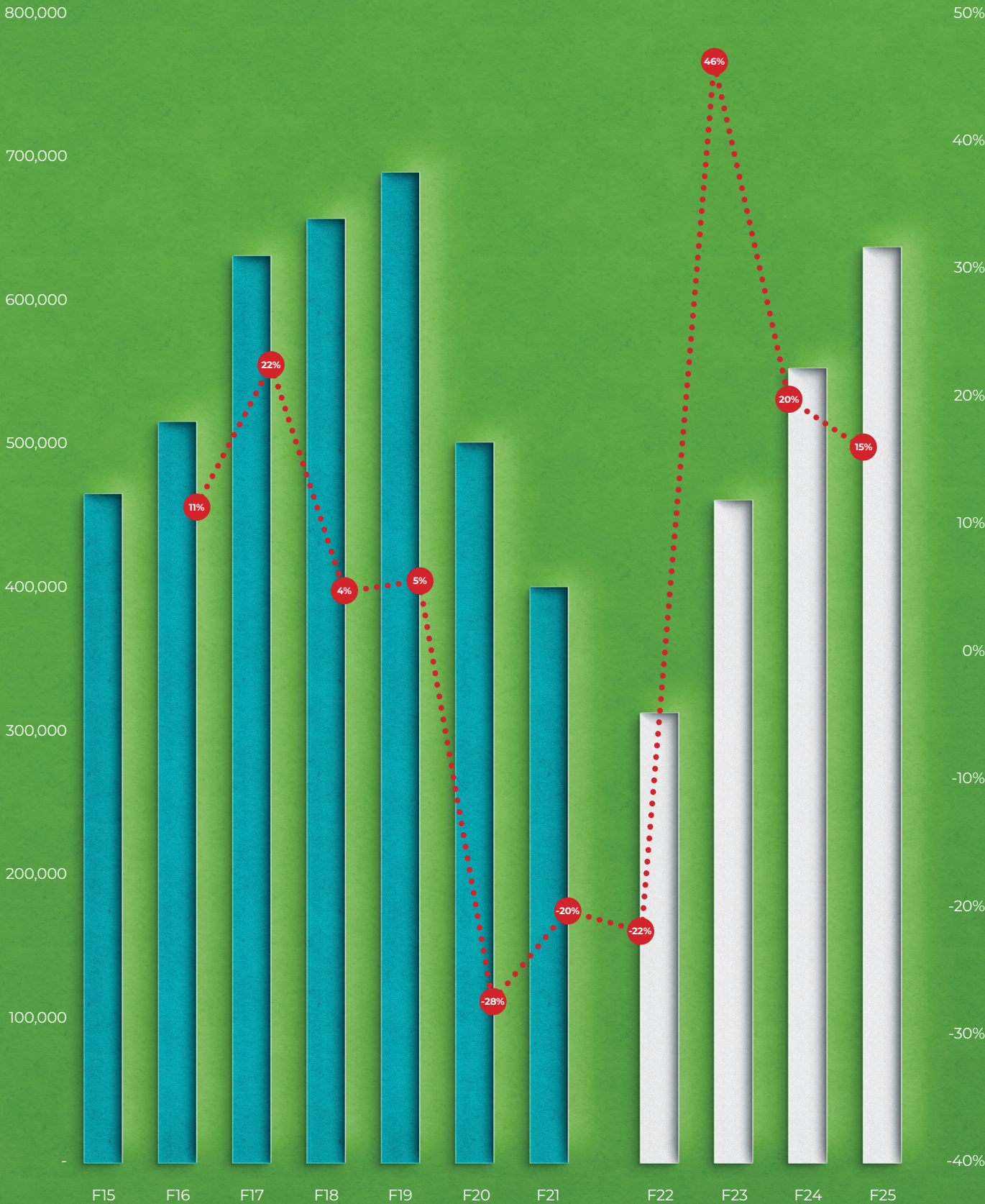
Underpinning all activity is PNAL's continued focus on prudent financial management, health & safety, regulatory compliance and the wellbeing of our small but highly versatile team. With the threat of Covid-19 ever present PNAL will continue to invest in ways to keep our team safe and to ensure business continuity should widespread community transmission occur.

The following graph outlines the volatility in passenger volumes experienced during the past three years and the projected rebound assuming the impacts of Covid-19 on travel demand gradually dissipate. By Year 3 of the SOI passenger volumes are projected to recover to FY17 levels.

HISTORICAL VS FORECAST

PASSENGER MOVEMENTS

Actual Forecast % Change YOY



STRATEGIC FRAMEWORK

The aspirational vision of being “New Zealand’s leading regional airport” emphasises our airport’s leadership amongst regional peers in terms of many aspects of our airport business. These include asset management, our focus on safety, iwi engagement, environmental sustainability, customer experience, community engagement, freight & logistics, aviation tertiary training, property development and the wellbeing of our team.

In addition, our purpose statement “Launching our communities into a promising future” reflects our true reason for being and references our role as facilitating regional growth in social, economic, and environmental terms. It also reflects our service to a number of diverse communities whether defined by geographical location, ethnicity or socially and also includes mana whenua, Rangitāne and other local iwi.

OUR VISION

New Zealand’s leading regional airport.

OUR PURPOSE

Launching our communities into a promising future.

COMMERCIAL

We are a financially sustainable business enabling long-term success.

- We maintain and develop core infrastructure that is business critical.
- We diversify and grow revenue streams through a focus on both aeronautical and non-aeronautical income activities.
- We operate a successful enterprise that enables us to provide a return to our shareholder when we have surplus funds to our on-going investment and operating requirements.
- We facilitate regional economic development by growing passenger and airfreight volumes.

COMMUNITY

We contribute to regional prosperity.

- We are kaitiaki for the environment by operating in a sustainable manner in all of our business activities.
- We recognise our community is multi-cultural and will engage with mana whenua and all ethnic groups.

CUSTOMER

We continue to improve the customer experience for all airport users.

- Our customers include all airport users; contractors, tenants, staff, passengers, meeters and greeters, and other airport visitors.
- We lead the way in terms of delivering a high quality and efficient regional airport experience.
- We promote Palmerston North Airport as the gateway and lower North Island commercial hub to our 90-minute drive market.

COMPLIANCE

We maintain a safe and secure operation.

- 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.

CULTURE

We empower our team members and work as one-team.

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



OUR VISION

New Zealand's leading regional airport

OUR PURPOSE

Launching our communities into a promising future

STRATEGIC OBJECTIVES

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**PALMERSTON NORTH
AIRPORT LIMITED**

TERMINAL DEVELOPMENT PLAN



Early planning for a major redevelopment of the terminal commenced in 2018. The project was suspended during the early stages of the Covid-19 pandemic and throughout 2020. In early 2021, the project recommenced with stakeholder engagement and consultation progressing to ensure the proposed concept plan would meet our customer and stakeholder needs.

PNAL took the opportunity to re-engage and test the market for an experienced and visionary architect who would design the terminal and coordinate all other design services. With several regional airports across Aotearoa, New Zealand developing their airport terminals in the last three years, high-quality and considered responses were received.

Studio Pacific Architecture was appointed in November 2021, ready to commence concept design in April 2022. Studio Pacific Architecture were formed in 1992 and are an award-winning design-led Wellington practice with diverse experience and track record in delivering landmark aviation and commercial buildings. They were the architect for Nelson Airport's low carbon sustainable building, Wellington Airport's iconic 'The Rock' and are currently designing an aircraft hangar in Auckland due to achieve the 6-Star Green Star rating from the New Zealand Green Building Council.

Forecast capital expenditure on the redevelopment is estimated to be \$21m-\$26m over the three year period of the SOI, reflecting an estimated 36month project duration and the current construction and material costs. The project timeline and estimated cost are to be confirmed at the end of concept design phase in June 2022, and further refined during detailed design phase in February 2023.

The terminal redevelopment has several goals, including:

- to streamline and facilitate the movement of customers through the terminal building,
- to enable and support future growth and operating requirements including passenger & hold bag security screening,
- to enhance the sense of place and pride in the airport for tangata whenua and our communities in general,
- to upgrade the seismic capability of the existing terminal; and
- to achieve sustainable design principles through low carbon, low energy, waste minimisation and biodiversity options.

The project includes a refresh of the terminal exterior, an estimated 1,550m² extension to accommodate baggage make-up and security screening, additional office accommodation for airlines and Aviation Security, and a refreshed terminal forecourt.

The project also provides for an enlarged retail area, relocation of the escalator, new and extended passenger departure lounge, and a dedicated cargo acceptance area outside of the passenger terminal.

As the redesign of the terminal develops and considers accessibility and intuitive ease of movement, it may influence other customer facing aspects of the terminal, such as the terminal entry and exit locations, with a flow on impact to planned carpark improvement projects.

The airport maintains a close relationship with local iwi Rangitāne and worked collaboratively in selecting and adopting the Legend of Haunui-a-Nanaia as the means to articulate our airport's sense of place. Collaboration will continue, with Rangitāne invited to partner with the airport company and Studio Pacific in the co-design of the new terminal.



RUAPEHU BUSINESS PARK

INCOME DIVERSIFICATION & PROPERTY STRATEGY



PALMERSTON NORTH AIRPORT
RUAPEHU
BUSINESS PARK

Palmerston North/Manawatu is positioning itself to be the centre of excellence for freight, logistics and goods distribution across the Lower North Island. A nationally focused stakeholder group are developing a comprehensive plan to create a cohesive, resilient, efficient, competitive and multi-modal transport system referred to as the Central New Zealand Distribution hub.

Palmerston North Airport is an active participant and stakeholder within the hub, especially given its significant value of being one of three key nodes on the national air freight network with a 24/7 operation, and with airfreight operations connecting Christchurch, Palmerston North, and Auckland on a nightly basis.

The scheduled overnight freight operation which connects express parcel networks across the country, combined with the significant existing investment in road and rail networks makes Palmerston North the ideal location for businesses seeking to leverage our central location and efficient connectivity to supply chains and end consumers.

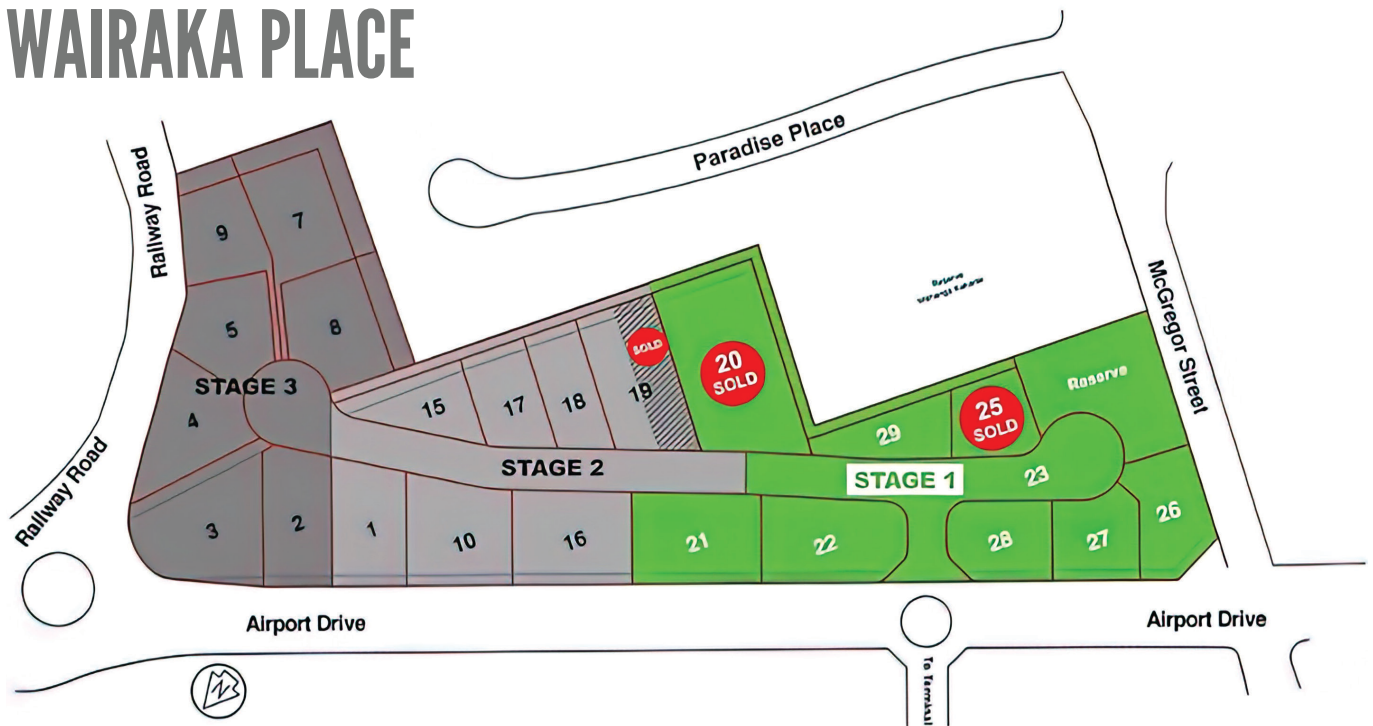
PNAL's planned development of Ruapehu Business Park, enhances and contributes to the activities within the Central New Zealand Distribution hub which is developing into one of the preferred locations for large scale distribution centres within the North Island.

The reality of aviation cycles has seen regional airports in recent times embark on commercial projects to diversify income away from reliance on aeronautical revenue sources such as passenger volumes. PNAL's decision to invest in the \$5.5 million Massey School of Aviation facility in 2017, provided a vital source of continued income during the Covid-19 multiple lockdowns. The growth of airfreight operations has also assisted to provide income diversification.

PNAL has considered strategic partnerships and working with like-minded partners to accelerate the development of Ruapehu Business Park. During December 2021, PNAL entered into general sales agency agreements to enable multiple agents across Palmerston North to promote Stage 1 of Wairaka Place, with the subdivision works almost complete opposite the entrance to the airport.

There are eight Lots available which range from 1,200m² to 4,000m², being sizes that are in increasing demand in Palmerston North City. The high-profile sites are being released to the market under a PNAL funded custom design-build program with facilities then available for lease.

WAIRAKA PLACE



Scheme Plan of Wairaka Place Stages of Development

The three-year SOI provides for capital expenditure of \$2.9m for Stage 2 of the development of Wairaka Place as shown in the above plan. Stage 3 will then follow in a later income year, as demand requires.

With PNAL focused on offering customers design-build and lease back options, PNAL is budgeting to spend an estimated \$14.8m on customised commercial facilities during the three-year SOI period.

OUR SUSTAINABILITY JOURNEY



PNAL is committed to doing all it can to minimise its impact on the environment by reducing its carbon emissions and energy consumption. This can only be achieved through long term planning, with a focus on continual improvement to achieve these aims, and by following a structured program.

In this regard, PNAL embarked on its sustainability journey back in 2017, with the first stage of our core work involving the benchmarking and the establishment of energy, water and waste reduction targets. Our priorities for our sustainability activities are based on the Airport Council International (ACI) Airport Carbon Accreditation (ACA) programme which we joined in 2019.

ACI is the only institutionally endorsed, global carbon management certification programme for airports. It independently assesses and recognises the efforts of airports to manage and reduce their carbon emissions through 6 levels of certification: 'Mapping', 'Reduction', 'Optimisation', 'Neutrality', 'Transformation' and 'Transition'.

In December 2021, PNAL took another major step in its commitment to becoming carbon neutral by achieving Level 2 'Reduction' of the ACI Programme. In order to achieve this, we fulfilled all the requirements of 'Mapping', provided evidence of effective carbon management procedures including target setting, and showed that a reduction in the carbon footprint has occurred by comparing our latest carbon footprint to the emissions of the previous years.

PNAL carbon reduction initiatives include the installation of LED lighting in the terminal and on aircraft apron areas, the ongoing installation of an energy efficient HVAC system, and most recently the commencement of the introduction of hybrid vehicles into the airport's fleet.

The next major steps are based on ACI Level 4 requirements and will involve the completion of the HVAC install resulting in the decommissioning of the terminal's aging and energy intensive natural gas-powered boiler system. PNAL will also embark on the selection of, and collaboration with, a third-party business operator (e.g., terminal tenant) in order to reduce their carbon emissions. Such collaboration is a key requirement for PNAL to achieve ACI Level 4 and demonstrates PNAL's leadership of going beyond just our core business in order to reduce overall carbon emissions.

In addition to carbon reduction this year alone, PNAL diverted 71% of its waste from landfill and the company continues to review opportunities to reduce water consumption.

PNAL has also announced its commitment to achieving net zero emissions by 2035 through the establishment of a science-based emission reduction target.

COMPLIANCE, COMMUNITY AND SAFETY



Historical firefighting and rescue fire training using aqueous film-forming foams resulted in small traces of poly fluorinated alkyl substances (PFAS) being found in isolated areas of the airport land in 2017. PNAL has worked collaboratively with PNCC, Horizons Regional Council, MidCentral Health, Rangitāne and our community in its response to the historical PFAS contamination. The process of monitoring residual contamination continues in conjunction with other stakeholders. With the upcoming terminal redevelopment and the construction including soil disturbance, PNAL is working on a soil contamination site management plan to ensure safety and compliance.

PNALs ability to offer 24/7 access for airfreight services provides our city and region with a comparative advantage in terms of attractiveness to freight & logistics operators PNAL therefore places significant focus on ensuring that existing and projected future air services are protected from the risk of reverse noise sensitivities from our community.

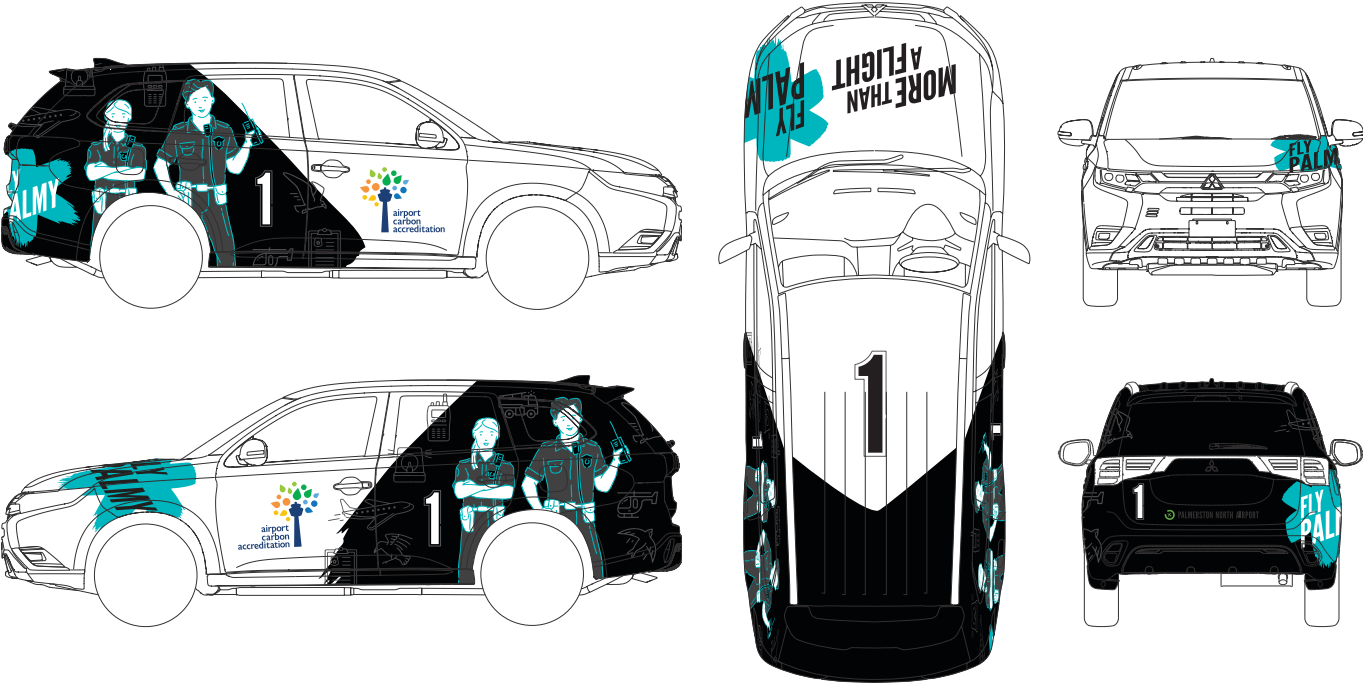
The District Plan provides the necessary safeguards to ensure air services are protected whilst also placing a requirement on PNAL to develop and comply a Noise Management Plan. This plan was developed in conjunction with Palmerston North City Council and Manawatu District Council and was finalised in August 2020. It includes performance standards on air and ground noise emissions, compliance monitoring, reporting, and stakeholder communication.

At present PNAL is in the process of finalising a process for the ongoing reporting and monitoring of air and noise emissions.

In September 2021, the Palmerston North Airport rescue fire service was fully insourced with eight personnel becoming PNAL employees. In addition two refurbished rescue fire appliance vehicles (Panther FL 6x6) were purchased. The Covid-19 lockdowns in Australia and New Zealand has delayed the delivery of the vehicles and their introduction to service.



Supporting the sustainability plan, a plug-in Hybrid Mitsubishi Outlander operational vehicle is leased. This replaced a petrol SUV used by the rescue fire team daily to conduct perimeter patrols, attend to wildlife management requirements and any other operational matters.



PNAL's Safety Management System (SMS) was certified by the CAA in December 2020. In November 2021, an independent SMS auditor undertook an audit to assess the SMS effectiveness and compliance with CAA Rule Part 100 requirements.

The auditor awarded the SMS a rating of operating/effective, an improvement on the original classification of present/suitable. PNAL is aiming to achieve best practice in the next five years, this being the appropriate timeframe for regional airports to achieve maturity of their SMS. The continuous improvement of the SMS is a high priority for PNAL with the next audit scheduled in December 2022.

Concurrent with the SMS audit, an anonymous aerodrome safety culture survey was conducted by the auditor. The average score of 87% was well above the 72% industry benchmark. The comments included in the survey demonstrated that health and safety is an overriding priority and that it is embedded across the airport community.



COVID 19 IMPACT AND RESPONSE



PNAL continues to play a significant role within our regional economy by weathering the storm of further cyclical downturns in the aviation industry as highlighted by the Covid-19 pandemic. Uncertainty associated with Covid-19 has impacted on PNAL's ability to accurately predict and achieve Service Performance targets set within the Statement of Intent, including those relating to financial performance, customer loyalty, and passenger movement related targets.

As has been seen in early calendar 2022 with the rise of Omicron cases in the community, Covid-19 continues to have a significant impact on PNAL. This makes forecasting passenger numbers, and associated revenue, inherently difficult. The FY22 SOI passenger numbers were reported at 480,000. The latest forecast is 309,000 which has been a direct response to Covid-19 regionwide lockdowns and impact of Omicron on travel demand. Over the SOI period, PNAL anticipates a gradual rebound and moderate recovery to pre-Covid-19 levels while continuing to remain cautiously optimistic with the ever-looming threat of Omicron or other variants in the community.

The impacts of Covid-19 lock-downs in 2021 resulted in lost revenue of \$1.1m, which was partially offset by Covid-19 wage subsidy and resurgence support payments. Due to the effects of the August 2021 nationwide lockdown, PNAL undertook a review of its capital and operating expenditure plans for FY22 and, where possible, elected to defer or minimise costs. This assisted to preserve cashflow during a critical and uncertain time.

Underpinning these challenges PNAL remains focussed on the wellbeing and safety of its team and acknowledges each member's ongoing dedication and high level of morale and resilience displayed during a difficult operating period. The team has transitioned well during the threat of ongoing lockdowns to working remotely from home as necessary and continue to boost morale through our Wellness programme and associated initiatives. PNAL's Pandemic Response Plan has since been updated to reflect the ongoing threat of Covid-19 in the community and to the organisation as well as regular Status Updates to keep team members informed and supported.

KEY OBJECTIVES

| | <i>Strategic Project</i> | <i>Measure</i> | <i>Completion</i> |
|-------------------|--|--|-------------------------------|
| COMPLIANCE | Medical Apron Evaluation | <ul style="list-style-type: none"> Evaluation completed Implementation of revised operational procedures | FY 2022* |
| | Ongoing SMS development (audit recommendations adopted) | <ul style="list-style-type: none"> Audit recommendations adopted Continual improvements made on safety culture | FY 2023 |
| | Noise Management (Ground) | <ul style="list-style-type: none"> Noise Management Plan update completed | FY 2023 |
| | PFAS Management (Global consent, community engagement) | <ul style="list-style-type: none"> Global consent approved Community Engagement Plan implemented | FY 2023 |
| | Microsoft 365 transition project | <ul style="list-style-type: none"> Microsoft 365 transition complete Outsourcing | June 2022* |
| | Fibre Relocation | <ul style="list-style-type: none"> Fibre Relocation completed | June 2022* |
| | Cyber security | <ul style="list-style-type: none"> Zero down time due to cyber attacks | Ongoing |
| CUSTOMER | Terminal Development Project (includes seismic) | <ul style="list-style-type: none"> Seismic work complete Terminal Development Project complete | FY 2025 |
| | Carpark Forecourt Cover Upgrade | <ul style="list-style-type: none"> Stage 1 Stage 2 Stage 3 | FY 2023 FY 2024 FY 2025 |
| | Terminal Air Conditioning Upgrade | <ul style="list-style-type: none"> Upgrade complete | June 2022* |
| | IT carparking systems and infrastructure | <ul style="list-style-type: none"> IT systems and infrastructure installed | FY 2023 |
| | Maintain a Net Promoter Score of 30 or above | <ul style="list-style-type: none"> Net Promoter Score of 30 or above achieved monthly | Ongoing |
| | Customer experience review and roadmap | <ul style="list-style-type: none"> Review and roadmap created and complete | June 2022* |
| COMMUNITY | Sustainability - Achievement of Airport Carbon Accreditation (ACA) Level 4 | <ul style="list-style-type: none"> ACA Level 4 achieved Waste & water targets achieved | June 2023 |
| | Implement and refine Community Engagement Plan | <ul style="list-style-type: none"> Annual completion of objectives | June 2022* |
| CULTURE | Continual improvement of safety culture | <ul style="list-style-type: none"> Zero lost time injuries | Ongoing |
| | Wellness Plan rollout | <ul style="list-style-type: none"> Improved team engagement scores | Ongoing |
| | Strategic Plan completed and communicated to team members | <ul style="list-style-type: none"> Completed | June 2022* |

| | | | |
|------------|--|---|----------------------------------|
| COMMERCIAL | Ruapehu Business Park Design - Build projects | • Tenant(s) secured and construction complete | Ongoing |
| | Airport Drive upgrade Massey to McGregor | • Stage 1 • Stage 2 • Stage 3 | March 2022 FY 2023 FY 2024 |
| | IT Finance systems upgrade (Castaway, Xero) | • IT Finance systems upgraded | FY 2023 |
| | Debt strategy and implementation | • Debt strategy finalised | June 2022* |
| | Development of Wairaka Place | • Stage 2 • Stage 3 | FY 2024 FY 2026 |
| | Air Service development strategy | • Air Service development strategy completed | FY 2023 |
| | Asset Management Plan (Building, carpark, Airport Drive infrastructure and maintenance plan) version 1 | • Asset Management Plan version 1 complete | FY 2023 |
| | Freight precinct feasibility | • Freight precinct feasibility complete | FY 2023 |
| | Passenger volumes | • 459,000 • 550,000 • 634,000 | FY 2023 FY 2024 FY 2025 |
| | Increase shareholder value | • \$69.7m • \$70.6m • \$73.1m | FY 2023 FY 2024 FY 2025 |

*The FY 2022 Strategic Projects aimed for completion by June 2022 are in progress at the time of writing the SOI and noted as they may provide for continuity in the SOI period.

PERFORMANCE METRIC TARGETS

For the 12 Months to 30 June

| | Performance Metric | 2021/22 Forecast | 2022/23 SOI | 2023/24 SOI | 2024/25 SOI |
|-----|--|---------------------|----------------|----------------|----------------|
| I | A ratio of surplus before interest/ tax/depreciation/revaluations to total assets | 3% | 3% | 4% | 6% |
| II | A ratio of net surplus after tax to consolidated shareholders' funds inclusive of revaluation reserve | 1% | 1% | 1% | 3% |
| III | To maintain a ratio of consolidated shareholders funds to total assets of at least 40% | 76% | 69% | 54% | 54% |
| IV | To maintain an interest coverage ratio of EBITDA (excl revaluations) to interest of at least 2.5 | 6.1 | 4.9 | 3.1 | 3.5 |
| V | To maintain a tangible net worth (total tangible assets after revaluations less total liabilities) above \$50 million | \$68.9 m | \$69.7 m | \$70.6 m | \$73.1 m |
| VI | Net Debt* / EBITDA less than 4.5 (long term target) | 4.4 | 6.9 | 10.2 | 6.5 |
| VII | Funds From Operations (FFO**) / Net Debt greater than 11% (long term target) | 17% | 10% | 6% | 9% |

*Net Debt equals total borrowings less cash on hand.

** FFO equals EBITDA less interest less tax.

GOVERNANCE

GOVERNANCE OBJECTIVES

The Board's approach to governance of PNAL is to preserve and enhance shareholder value. The Board is committed to ensuring a high level of governance of company processes and policies, including health and safety and encouraging ethical and responsible decision making to ensure Management effectively achieve the Company's goals.

Due to the everchanging commercial environment of the aviation and airport industry, the Board is committed to ensuring regular reviews of all aspects of the business and the implementation of best practice.

REGULATORY FRAMEWORK AND STATEMENT OF EXPECTATIONS

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 (LGA), and the Companies Act 1993.

SHAREHOLDER STATEMENT OF EXPECTATION

The Board is also responsible for ensuring it meets the requirements of the shareholder's Statement of Expectations dated 6 December 2021 for the three-year period of the Statement of Intent, with particular reference to Schedule 8, Part 2 LGA, Section 64B (1) and 64B (2). Importantly the Board will ensure alignment of the Company's objectives with the Shareholder's vision, goals and key strategies and the District Plan.

BOARD COMPOSITION AND FEES

The Board is comprised of up to six Directors appointed by the Shareholder in accordance with PNAL's Constitution. Director appointments are for a period of three years with retiring directors able to be reappointed by the Shareholder.

Appointment of a sixth director was approved by PNCC in December 2021. Subsequently one Board member has retired. The Board has considered the challenges facing the company in the medium term and believe that, collectively, the members possess the skillset to deliver the SOI. Therefore, a sixth director will not be required at the present time.

The Board normally meets eleven times per year with intervening meetings in person or by other means as required. To enhance efficiency, the Board may formally document and delegate some of its powers and authorities to the Chief Executive or other senior executives.

At the request of the Shareholder, a director intern has also been appointed, commencing from January 2022, as part of the Shareholder's Governance Internship Programme.

PNAL has an Audit & Risk Committee comprised of three directors of the PNAL Board. The Committee has a board-approved Charter, outlining its membership, authority, primary and secondary roles and reporting procedures.

The Committee meets three to four times each year and is responsible for overseeing the financial accounting, financial statements and audit activities of PNAL. This includes the adequacy and effectiveness of internal controls, external auditor performance, insurances, risk management and financial and accounting policies.

PNAL is establishing a Property & Development Committee comprised of three directors of the PNAL Board. A board approved Charter is being developed and it is anticipated that this Committee will focus on the Terminal Development Project together with oversight of commercial developments within Ruapehu Business Park.

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

SHAREHOLDERS EQUITY IN PNAL

PNAL's land, building, and airside infrastructure assets are revalued on a three yearly cycle, unless warranted earlier. PNAL's land and buildings were last revalued at 30 June 2019, while airside infrastructure was last revalued at 30 June 2020. Fair value assessments were last conducted on the above asset classes at 30 June 2021, which were not sufficiently material to require revaluations to be recognised. Fair value assessments and/or revaluations will be conducted annually at year-end.

PNAL's investment property is revalued annually, in line with accounting standards.

Shareholder equity as shown in the Statement of Financial Position as at 30 June 2021 is \$68.3 million.

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 three 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 two 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.

PNAL anticipates significant future capital investment within this SOI period and will be required to materially increase its debt levels in order to fund this investment. Refer to the separate debt funding section below for further details.

DEBT FUNDING VIA THE SHAREHOLDER

PNAL and the shareholder have agreed to changing how PNAL raises capital debt funds. Previously, in line with its treasury policy, PNAL was required to obtain capital debt from a registered New Zealand bank (currently BNZ) at their prescribed interest rates.

PNAL and the shareholder have agreed that this will be amended, such that PNAL may obtain capital debt lending from the shareholder at a fair market rate, who in turn will receive lending from the Local Government Funding Agency (LGFA), referred to as 'indirect LGFA funding'.

Indirect LGFA funding is anticipated to save PNAL ~\$6m in financing costs over the next 10 years. PNAL will still require a 'business as usual' funding arrangement with a New Zealand bank.

An indirect LGFA funding arrangement will be in place with the shareholder prior to commencement of the FY23 financial year.

As a result of this agreement, two additional metrics have been added to the SOI. These are Net Debt / EBITDA less than 4.5 and FFO / Net Debt greater than 11%. These are not debt covenants or specific requirements of the PNCC/PNAL loan, but rather are long term, aspirational targets and may not be achieved in any one financial year.

During the period of the SOI, PNAL is not anticipated to achieve these targets, due to the significant capital investment planned. The third year of the SOI shows an improving trend towards achieving these targets, which is expected to occur after the SOI period.

PNAL recognise that the current loan agreement with PNCC allows for a maximum debt facility of \$50m, subject to annual review and that this SOI anticipates debt levels of \$23.1m in FY23, \$52.0m in FY24 and \$54.9m in FY25. The FY24 and FY25 levels are therefore above the current debt facility maximum of \$50m.

PNAL note that FY24 and FY25 capital expenditure is yet to be fully committed, will be subject to business case approval and will form part of the annual review of the loan facility with PNCC, when required. The FY24-FY26 SOI will be prepared (and approved) prior to PNAL reaching the forecast \$50m facility limit.

PNAL also note that the coming years represent 'peak debt', as we embark on the terminal redevelopment and Ruapehu Business Park development. Longer term forecasts anticipate this debt reducing from the FY25 peak.

DIVIDEND POLICY

Investment by PNAL in major capital projects for the long-term benefit of the airport and region is critical over the next three years. This includes airside infrastructure, terminal and car park redevelopment and progression with the development and commercialisation of Ruapehu Business Park.

PNAL's previous long-term focus was to pay 40% of NPAT as a dividend. With the ongoing disruption caused by COVID-19 and the level of upcoming capital expenditure projects, PNAL's current approach is to add value for the shareholder via investment in critical infrastructure and commercial developments.

PNAL will continue to add value to the shareholder and community, through the delivery of a new terminal, more diversified revenue streams and an increase in shareholder wealth (total equity) by \$4.2m over the three-year SOI period (excluding revaluation gains/losses). Further consideration of the reinstatement of dividends will be given consideration at the end of the FY23-FY25 SOI period.

STATEMENT OF FINANCIAL PERFORMANCE

For the 12 Months to 30 June

| | 2021/22 SOI | 2021/22 Forecast | 2022/23 SOI | 2023/24 SOI | 2024/25 SOI |
|-------------------------------------|-------------------|---------------------|------------------|-------------------|-------------------|
| Revenue | 10,035,463 | 7,761,268 | 9,919,610 | 11,842,891 | 15,450,920 |
| Operating Expenditure | 3,386,509 | 2,396,929 | 3,532,634 | 3,652,961 | 3,778,172 |
| Administration and Employment Costs | 2,679,497 | 2,663,764 | 2,989,504 | 3,038,934 | 3,120,292 |
| Extraordinary Items* | 20,000 | 59,460 | 50,000 | 51,250 | 52,531 |
| Total Operating Expenditure | 6,086,006 | 5,120,153 | 6,572,138 | 6,743,145 | 6,950,995 |
| Profit from Sale of Assets | 1,064,435 | 510,019 | - | - | - |
| EBITDA | 5,013,892 | 3,151,135 | 3,347,472 | 5,099,746 | 8,499,925 |
| Depreciation | 1,783,506 | 1,732,313 | 1,619,237 | 2,164,561 | 2,572,776 |
| Amortisation | 6,101 | 6,142 | 4,881 | 4,881 | 4,881 |
| EBIT | 3,224,285 | 1,412,679 | 1,723,354 | 2,930,304 | 5,922,269 |
| Interest Expense | 610,895 | 517,539 | 688,539 | 1,633,068 | 2,433,381 |
| Profit before Income Tax | 2,613,390 | 895,140 | 1,034,816 | 1,297,236 | 3,488,887 |
| Income Tax Expense | 732,029 | 250,642 | 289,748 | 363,226 | 976,889 |
| Net Operating Surplus | 1,881,361 | 644,498 | 745,067 | 934,010 | 2,511,999 |

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

The impact of revaluations or vesting of any assets to PNCC has not been included in the Statement of Financial Performance.

STATEMENT OF FINANCIAL POSITION

For the 12 Months to 30 June

| | 2021/22 SOI | 2021/22 Forecast | 2022/23 SOI | 2023/24 SOI | 2024/25 SOI |
|--------------------------------------|-------------------|---------------------|--------------------|--------------------|--------------------|
| Current Assets | | | | | |
| Bank Accounts | 50,000 | 53,999 | 56,254 | 54,043 | 57,462 |
| Receivables | 875,109 | 811,153 | 1,008,143 | 1,318,611 | 1,586,324 |
| Other Current Assets | (7,378) | 390,904 | 399,904 | 409,132 | 30,904 |
| Total Current Assets | 917,730 | 1,256,055 | 1,464,301 | 1,781,786 | 1,674,689 |
| Non Current Assets | | | | | |
| Tangible Assets* | | | | | |
| Land | 31,470,289 | 29,010,130 | 29,010,130 | 29,010,130 | 29,010,130 |
| Buildings | 17,504,621 | 14,649,103 | 17,889,103 | 36,049,103 | 37,234,103 |
| Infrastructural - Land | 12,421,500 | 10,691,967 | 17,418,967 | 29,087,634 | 32,629,300 |
| Infrastructural - Air | 27,014,073 | 27,594,898 | 29,089,898 | 30,964,898 | 33,084,898 |
| Plant & Equipment | 1,908,056 | 3,280,613 | 3,700,613 | 3,920,613 | 4,040,613 |
| Furniture & Fittings | 122,304 | 364,199 | 404,199 | 424,199 | 444,199 |
| Computers | 56,358 | 212,334 | 237,334 | 262,334 | 287,334 |
| Motor Vehicles | - | 1,325,153 | 1,325,153 | 1,325,153 | 1,325,153 |
| Investment Property | 6,813,357 | 12,752,840 | 12,752,840 | 12,752,840 | 12,752,840 |
| Accumulated Depreciation | - | (10,007,795) | (11,627,032) | (13,791,593) | (16,364,369) |
| Total Tangible Assets | 97,310,556 | 89,873,442 | 100,201,204 | 130,005,310 | 134,444,201 |
| Intangible Assets | 23,843 | 17,551 | 12,670 | 7,790 | 2,909 |
| Total Non Current Assets | 97,334,399 | 89,890,992 | 100,213,875 | 130,013,100 | 134,447,110 |
| Total Assets | 98,252,130 | 91,147,047 | 101,678,175 | 131,794,885 | 136,121,799 |
| Current Liabilities | | | | | |
| Payables | 894,217 | 844,552 | 1,924,711 | 2,255,348 | 634,841 |
| GST/VAT | - | 275,843 | (174,796) | (178,360) | 124,774 |
| Income Tax | 93,879 | 90,608 | 95,748 | 119,974 | 325,863 |
| Loans Payable | - | - | - | - | - |
| Provisions | 325,000 | 397,646 | 397,646 | 397,646 | 397,646 |
| Other Current Liabilities | 252,826 | 103,284 | 103,284 | 103,284 | 103,284 |
| Total Current Liabilities | 1,565,921 | 1,711,933 | 2,346,593 | 2,697,893 | 1,586,408 |
| Non Current Liabilities | | | | | |
| Loans Payable | 19,759,756 | 14,008,573 | 23,159,973 | 51,991,373 | 54,917,773 |
| Deferred Tax | 6,542,668 | 6,516,634 | 6,516,634 | 6,516,634 | 6,516,634 |
| Total Non Current Liabilities | 26,302,424 | 20,525,207 | 29,676,607 | 58,508,007 | 61,434,407 |
| Total Liabilities | 27,868,345 | 22,237,140 | 32,023,200 | 61,205,900 | 63,020,815 |
| Net Assets | 70,383,784 | 68,909,908 | 69,654,975 | 70,588,985 | 73,100,984 |
| Capital and Reserves | 71,341,932 | 68,909,908 | 69,654,975 | 70,588,985 | 73,100,984 |
| Total Equity | 71,341,932 | 68,909,908 | 69,654,975 | 70,588,985 | 73,100,984 |

*Tangible assets in the 2021/22 SOI are shown at net book value. FY22 forecast and FY23 SOI onwards are shown at cost price level (accumulated depreciation shown separately).

The impact of revaluations or vesting of any assets to PNCC has not been included in the Statement of Financial Position.

STATEMENT OF CHANGES IN EQUITY

For the 12 Months to 30 June

| | 2021/22 SOI | 2021/22 Forecast | 2022/23 SOI | 2023/24 SOI | 2024/25 SOI |
|--|-------------------|---------------------|-------------------|-------------------|-------------------|
| Equity at the Beginning of the Year | 69,994,632 | 68,265,410 | 68,909,908 | 69,654,975 | 70,588,985 |
| Asset Revaluation Reserve Movement | - | - | - | - | - |
| Total Comprehensive (Loss) Income | 1,881,361 | 644,498 | 745,067 | 934,010 | 2,511,999 |
| Dividends Paid | - | - | - | - | - |
| Equity at the End of the Year | 71,341,932 | 68,909,908 | 69,654,975 | 70,588,985 | 73,100,984 |

STATEMENT OF CASHFLOWS

For the 12 Months to 30 June

| | 2021/22 SOI | 2021/22 Forecast | 2022/23 SOI | 2023/24 SOI | 2024/25 SOI |
|--|-------------------|---------------------|-------------------|-------------------|-------------------|
| Cash Inflow | | | | | |
| Sales | 9,910,277 | 8,707,039 | 11,210,561 | 13,308,856 | 17,500,845 |
| Income Tax Refunds | - | 1,967 | - | - | - |
| Non-Current Asset Sales | 2,123,834 | 2,029,789 | - | - | - |
| Loans Received | 8,661,796 | 8,160,073 | 9,455,000 | 29,135,000 | 3,770,000 |
| Other Assets/Liabilities | - | 1,087,726 | - | - | - |
| Total Cash Inflows | 20,695,906 | 19,986,594 | 20,665,561 | 42,443,856 | 21,270,845 |
| Cash Outflow | | | | | |
| Costs | 5,379,110 | 4,514,104 | 5,525,847 | 5,643,154 | 5,409,312 |
| Wages | 1,541,487 | 1,503,611 | 1,758,825 | 1,802,795 | 1,847,865 |
| Provisions | - | (121,070) | - | - | - |
| Interest Paid | 610,895 | 429,855 | - | - | - |
| Income Tax Paid | 457,695 | 361,352 | 284,608 | 339,000 | 771,000 |
| GST/VAT Paid | - | (134,013) | (566,436) | (3,745,692) | 267,768 |
| Non-Current Asset Purchases | 10,537,000 | 4,711,729 | 12,668,323 | 36,470,142 | 9,694,500 |
| Loan Repayments Made | 2,168,484 | 6,939,183 | 992,139 | 1,936,668 | 3,276,981 |
| Other Assets/Liabilities | - | 2,090,302 | - | - | - |
| Net Cash Flow From Investing Activities | 20,694,672 | 20,295,053 | 20,663,306 | 42,446,068 | 21,267,427 |
| Net Cash Inflow/(Outflow) | 1,234 | (308,459) | 2,255 | (2,211) | 3,418 |
| Opening Bank | 46,253 | 362,458 | 53,999 | 56,254 | 54,043 |
| Net Cash Movement | 1,234 | (308,459) | 2,255 | (2,211) | 3,418 |
| Closing Cash Balance | 47,487 | 53,999 | 56,254 | 54,043 | 57,462 |

CAPITAL EXPENDITURE PROGRAMME

For the 12 Months to 30 June

| | 2021/22 SOI | 2021/22 Forecast | 2022/23 SOI | 2023/24 SOI | 2024/25 SOI |
|--|-------------------|---------------------|-------------------|-------------------|------------------|
| Capital Expenditure Programme | | | | | |
| Land | - | - | - | - | - |
| Buildings | 395,000 | 162,093 | 410,000 | 650,000 | 45,000 |
| Terminal Development | 680,000 | 365,877 | 2,830,000 | 17,510,000 | 1,140,000 |
| Infrastructure - Landside | 1,315,000 | 126,155 | 905,000 | 975,000 | 1,030,000 |
| Infrastructure - Airside | 2,625,000 | 1,523,126 | 1,495,000 | 1,875,000 | 2,120,000 |
| Plant and Equipment | 545,000 | 437,019 | 400,000 | 200,000 | 100,000 |
| Furniture and Fittings | 20,000 | 20,000 | 40,000 | 20,000 | 20,000 |
| Computers | 25,000 | 25,000 | 25,000 | 25,000 | 25,000 |
| Fire Appliances | 112,000 | 317,290 | 20,000 | 20,000 | 20,000 |
| Ruapehu Business Park And Airport Dr Development | 4,820,000 | 2,024,031 | 5,822,000 | 10,693,667 | 2,511,667 |
| Intangible Assets | - | - | - | - | - |
| | 10,537,000 | 5,000,590 | 11,947,000 | 31,968,667 | 7,011,667 |
| Capital Sales Programme | | | | | |
| Total Sales Proceeds of Zone A, B & C land | 2,154,760 | 2,224,260 | - | - | - |



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