PALMERSTON NORTH AIRPORT LIMITED

Statement of Intent

2024 - 2026

Final 25/05/2023

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 21 November 2022.

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 mana whenua 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

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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.

Our purpose of "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. This includes growing long-term shareholder value, and serving our communities whether defined by geographical location, ethnicity or socially, and further enriching our special relationship with mana whenua, Rangitāne and other local iwi.

Our aspirational vision of being "New Zealand's leading regional airport" emphasises our airport's leadership amongst regional peers across many aspects of our airport business. These include asset management, safety and compliance, iwi engagement, environmental sustainability, customer experience, community engagement, freight & logistics, aviation tertiary training, property development and the wellbeing of our team.

Purpose

Launching our communities into a promising future

Vision

New Zealand's leading regional airport

STRATEGIC OBJECTIVES

PNAL's principal objectives are outlined with the Five C's framework of Culture, Customer, Community, Commercial, and Compliance as follows;

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.

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 with the objective of growing long-term shareholder value and providing 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.

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.

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.

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.

EXECUTIVE SUMMARY

With the impacts of Covid-19 on aviation now dissipating Palmerston North Airport is entering an exceptional period, unlike any that has occurred in its 90-year history.

The Terminal Development Plan (TDP), discussed in detail in this document, is an intergenerational investment with long lasting and wide-reaching consequences on PNAL, the Shareholder and the wider community and region.

With an estimated price tag of $40m, the TDP is an unavoidable spend that severely constrains PNAL's ability to deliver against broader Shareholder expectations in the short-medium term, as available debt capacity is absorbed by the TDP and investment in critical airside infrastructure. The TDP overshadows all other aspects of this three-year SOI.

With these constraints, comes restraint, with PNAL unable to invest in the Ruapehu Aeropark (formerly Ruapehu Business Park), further diversify its revenue base, or contribute towards the development of Te Utanganui during the SOI period, without the support of a strategic partner(s). Strategic partners are therefore a key focus for PNAL within this SOI, with external investment required for PNAL to achieve even a moderate level of development within Ruapehu Aeropark.

PNAL is projecting to contribute circa $4 million to the Shareholder over the three-year SOI period in the form of property rates, development contributions, consenting fees and lending facility charges. This is in addition to PNAL continuing to unlock shareholder value in the form of growth in Shareholder equity, and significant broader benefits to the Shareholder, community and region.

The TDP will ensure we can continue to offer our city and region an appropriate and resilient air gateway and continue to sustainably grow air services and to play our role within Te Utanganui. We will manage the ongoing maintenance of Airport Drive, a major arterial route for our city which PNAL maintains at no cost to the Shareholder. More broadly we will continue to support PNCC's vision and Long Term Plan goals through our own initiatives including the continuation of our decarbonisation journey, promotion of the city and region, and enhancing our community engagement and support including our relationships with Rangitāne, and other local community groups.

PNAL recognises the need to return to paying dividends when financial performance metrics improve. To that end, PNAL has revised its dividend policy, outlined in detail in this document. This new policy is aligned with many of PNAL's peer regional airports and provides a robust and objective set of criteria which will be considered by PNAL's Board annually, when assessing whether a dividend will be declared. We seek the Shareholder's support with a move to this new policy. Notwithstanding the policy, PNAL have been instructed by the shareholder to include an expectation that a dividend will be paid in respect of the first year of this SOI (FY24). This has been reflected in this SOI.

Murray Georgel
Chair

David Lanham
Chief Executive

TERMINAL DEVELOPMENT PLAN (TDP)

Investment in critical infrastructure is the primary area of focus for PNAL during the three-year SOI period commencing 1 July 2023. With an estimated cost of $40 million, the TDP is the single largest investment ever undertaken by the airport.

The proposed 5,200 m2 new build facility will ensure operational and seismic resilience , while also future proofing the terminal to accommodate projected growth in passenger volumes and enhance the customer experience. The redevelopment will also cater for the introduction of passenger and hold-bag screening, thereby allowing the reintroduction of jet services and ensuring Palmerston North Airport is ready should mandatory screening be introduced at regional airports.

The existing terminal is not fit for purpose. The current price tag of $40 million is a significant increase on previous cost estimates, which anticipated a refresh. Additional information relating to seismic resilience shows this is no longer an option as it would incur an equivalent cost and take longer to complete with associated detrimental impacts on customer experience.

Asset and revenue protection is a fundamental priority for PNAL to ensure continued commercial viability and success. This is a key driver behind maintaining a safe and well-maintained airside environment. It is also the underlying reason why the TDP is a must have.

Many of the benefits of the TDP are non-financial in nature and benefit stakeholders beyond PNAL. These include the Shareholder, community and all other airport users. These benefits do not drive any direct or short term financial benefit to PNAL, but nevertheless are necessary for the long term success of the airport and for driving regional growth and shareholder value.

The TDP cannot be considered from purely a short term financial perspective. Rather it must be considered with reference to the wider benefits while appreciating the long term pay back period. The extensive capital investment required, additional debt and interest costs and greater depreciation are immediate costs which are shown in this three year SOI period. Conversely the partial recovery of this investment will take PNAL upwards of 15 years.

This has significant, wide ranging and unavoidable repercussions on PNAL's short to medium-term financial performance. These include:

- A record level of debt and interest - $55.1 million of debt during the three-year SOI period.
- Constrained financial metrics – debt covenants are maintained but show tightening during the three year SOI period. Other (long term) financial metrics also drop below target levels, but show an improvement in the third year.
- An inability for PNAL to deliver against other Shareholder objectives regarding income diversification and a greater contribution towards Te Utanganui's growth. PNAL cannot make further investment in freight & logistics warehousing, commercial developments within Wairaka Place, or wider investment in customer experience initiatives, without the support of a third party strategic partner(s).
- A constrained ability for PNAL to deliver dividends to the Shareholder during the SOI period.

The TDP is not a short-term initiative but rather an intergenerational investment for the long term benefit of the Shareholder, City and region. While it cannot be considered only in the context of a three year SOI or only PNAL's balance sheet it does highlight the importance of ongoing Shareholder support.

GUARDIANSHIP / KAITIAKITANGA

OneTeam / Whānau Kotahi

Our highly skilled people are our greatest asset. We will continue to develop our OneTeam / Whānau Kotahi wellness plan to further enhance engagement, our culture and overall staff experience.

OneTeam / Whānau Kotahi improves the ability of PNAL to support team and individual wellbeing and keep this at the forefront of all activities, ultimately increasing personal health levels, teamwork, engagement, and productivity. These benefits contribute to our employee value proposition (EVP) and expect to have a flow-on effect of improved attraction and retention of our people.

The objectives of the wellness programme include;

- Improving team member wellbeing with the associated positive flow-on benefits in physical and mental health, staff engagement, and improved employee retention and productivity.
- Meeting the intent of PNAL's Culture and Health & Safety Policy objectives.
- Fostering inclusivity and providing opportunities to grow and develop through increasing knowledge and learning of wellness.
- Being achievable, sustainable and cost-effective.
- Contributing to PNAL being an employer of choice.
- Encouraging creativity and openness for change and development.

Our Community

We are acutely aware of how dynamic and non-permanent our social license to operate is and how quickly community beliefs and opinions can change as time passes, events occur, and new information is acquired. Investing in and actively engaging in our communities is another way to ensure we continue to meet the expectations placed on us by our community.

In the past two years, our community focus has primarily been in the Manawatū area however, going forward the focus will be placed on re-engaging within the 90-minute drive market with priority given to Whanganui, Rangitikei, the Horowhenua/Kāpiti Coast, Southern Hawkes Bay, Tararua and Wairarapa. By re-engaging with these communities, we will be able to build longstanding and worthy relationships that allow us to increase and grow brand awareness, strengthen our sponsorship partnerships and allow us to better understand how we can improve our customers journey with us.

A key focus remains working with Rangitāne to extend our support for mana whenua. An exciting opportunity to collaborate on aviation career pathways for rangatahi while in its infancy will be developed over the SOI period.

Our Environment

We are committed to doing all we can to minimise our impact on the environment by reducing 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 programme. Our science-based target for scope 1 & 2 emissions will remain a primary focus of in-house initiatives, however we also intend to extend our focus to scope 3 emissions.

The next major steps are based on Airport Council International's (ACI) Airport Carbon Accreditation (ACA) Level 4 requirements and will involve the Airport company embarking on the selection of, and collaboration with, a third-party business operator (e.g., terminal tenant) to reduce their carbon emissions. Such collaboration is a key requirement to achieve Level 4 and demonstrates our leadership of going beyond just our core business in order to reduce overall carbon emissions. Alongside Level 4 initiatives, we will continue to investigate and implement new ways to further reduce waste and potable water consumption.

CUSTOMER EXPERIENCE / MANAAKITANGA

Customer Experience Roadmap

In our desire to deliver on our vision to be New Zealand's leading regional airport, the Tiaki Promise to care for people, place, and culture, and to improve the Manaakitanga / hospitality for all airport customers and visitors, we have progressed with our action plans included in our customer experience roadmap. This includes engaging with customers via 'think tank' focus groups and continuing to innovate ways to receive valuable insights from those using our services and facilities.

Initiatives in planning and to be delivered in this SOI period, include the enhancement of our wayfinding and signage, creation of customer personas and journey maps and the refinement of our brand and engagement. Maintaining our Gold Sustainable Tourism Business Award with Qualmark annually and across this period is on our radar.

Market Development

We recognise the important role we play as the air gateway to eight regions, located within our 90-minute drive market. We don't take this role lightly, we have strong competition and so we must continue to build awareness of our value proposition focused on convenience and ease of use, enhance our customer experience, and further leverage of the Fly Palmy brand to ensure people choose Palmerston North Airport when booking their travels.

INFRASTRUCTURE

Terminal Development (TDP)

The single largest planned investment in the Airport company's history. The proposed $40 million three-year project is a must have, our present facility is not fit for purpose, and it is not economically viable to undertake a refurbishment due to seismic and geotechnical constraints. The replacement facility will future proof our airport as air travel grows beyond the present terminal's capabilities, facilitate passenger and hold bag screening if required due to the re-introduction of jet services, or if mandated by Government, and will provide seismic resilience.

The TDP will ensure the Airport company can deliver an appropriate air gateway for the city and region, facilitate the growth of air services and regional economic activity, reinforce our role as the primary freight & logistics hub for the lower North Island, and as a core transport mode within Te Utanganui / The Central New Zealand Distribution Hub.

From an environmental perspective the new terminal will provide the opportunity to incorporate improved waste recycling and repurposing, water-saving technologies, and new and alternative green power sources.

Airside / Landside Projects

A total of $4.8 million is planned to be spent on the ongoing upgrade of critical airside infrastructure including pavement works, customer experience improvements and roadway upgrades.

COMMERCIAL RESILIENCE

Air Service Development

Passenger volumes are projected to grow to 654,000 by FY26, close to pre-covid levels. This will be achieved with the support of airline partners as we grow financially viable air services.

Work will progress on the A320 pathway project with the objective of seeing the re-introduction of jet services on the Auckland- Palmerston North route from mid 2026.

Income Diversification

The Airport company's commercial property development strategy involves the development of commercial property on airport land to diversify income away from reliance on travelling passengers and the revenue generated from sources connected to their presence at the airport. In more recent times, the impact of Jetstar's arrival and then withdrawal from regional New Zealand ports as well as the Covid-19 pandemic, has highlighted the volatility existing within the aviation industry and the direct impacts this volatility can have on the aeronautical income. Activity is focused within Ruapehu Aeropark (previously known as Ruapehu Business Park), the Airport Company's 30-hectare business park spanning the length of Airport Drive.

Te Utanganui / Strategic Partnerships

Palmerston North Airport's non-curfew operational capability, coupled with our position within Te Utanganui, the integrated multimodal freight transportation system combining road, rail, air and sea, provide significant strategic value and enhance the opportunity to develop Ruapehu Aeropark.

The Shareholder's expectation that we will facilitate the development of Te Utanganui via ongoing investment in freight & infrastructure facilities will be met within the SOI period by the planned investment in 6,000 m2 of prime warehousing south-west of the terminal on Airport Drive. Given funding constraints due to the bow wave of critical infrastructure works being undertaken, the planned $12 million warehouse project will require the Airport company to identify a like-minded investment partner if the investment is to proceed. Similarly all other planned investment within Ruapehu Aeropark is on hold during the SOI period pending the identification of suitable investment partners.

The introduction of an investment partner may result in changes to the way particular developments are reflected within PNAL's accounts. These changes have not been reflected in this SOI, as any changes are yet to be confirmed.

COMPLIANCE

Health & Safety

Underlying all activity is our core focus on keeping all airport users safe. During the SOI period we will continue to foster a strong aerodrome-wide safety culture, and further refine the Airport Company's Safety Management System. The Airport company's five year Part 139 re-certification will occur in FY24, along with the second annual SMS audit and aerodrome-wide engagement survey.

District Plan

With the benefit of curfew free operations and located within just 100 meters of our closest residential neighbours and within 5 kms of the CBD we recognise that importance of ensuring noise emissions from ground operations and aircraft are managed within District Plan limits.

As Ruapehu Aeropark and airside areas are developed we recognise the requirement for additional stormwater management interventions. We will continue to work with PNCC to ensure compliance with stormwater and runoff regulations.

FINANCIAL PERFORMANCE TARGETS

Passenger Movements

The three-year passenger movement projections to FY26 represent a mid-point passenger demand scenario which balances the current recovery in air travel against potential headwinds associated with geo-political and macro-economic conditions including, the global economic slowdown, impacts of inflation, the cost of living, and labour shortages.

Passenger volumes are assumed to continue to recover in FY24 the first year of the three-year SOI period, with 581,000 passenger movements projected, 9% ahead of the latest forecast for FY23. Similar growth is anticipated in FY25 with passenger movements increasing to 637,000, followed by a return to annual increases more in line with long term averages of 3% or 654,000 passengers in FY26. By FY26 passenger movements will be close to pre-Covid levels.

Income

Notwithstanding the income diversification programme outlined earlier the primary driver of revenue forecasts remains passenger movement projections outlined above, with growth in land & building lease income and carpark receipts also contributing. Budgeted revenue for FY24 of $14.1m represents an increase of $1.23m or 9.5% on the FY23 forecast.

Operating Costs

Total costs (excl depreciation and interest) are projected to increase 28% to $8.38 million, $1.85 million above the FY23 forecast. Terminal and airfield related expenditure, after being held artificially low during FY21 and FY22, are projected to continue to increase in line with the growth in passenger volumes before returning to a long-term average based on CPI levels. The single largest contribution to the increased expenditure is $0.74m on a runway rejuvenation project, while other drivers include other proactive airfield maintenance, cleaning and rescue fire related costs.

Insurance and PNCC rates are also anticipated to increase at levels above long-term averages.

Employment costs are projected to increase in line with present wage inflation before settling into a long-term average growth rate.

The increase in marketing spend reflects a desire to re-engage with our customers and communities after activity were suppressed during the FY21 and FY22 periods.

Capex

The FY24-FY26 capital expenditure budget of $55.9 million is dominated by the TDP at an estimated cost of $40 million. This has severely reduced PNAL’s ability to spend on any other projects, beyond critical infrastructure projects estimated at $6.0 million. Commercial development is severely constrained due to funding shortages, we have a contingency of $5.8 million over the three-year period equivalent to 50% of the value of the proposed 6,000m2 warehouses located to the South-West of the terminal on Airport Drive.

PERFORMANCE METRIC TARGETS

For 12 months to 30 June

	2022/23 Forecast	*2023/24 SOI*	*2024/25 SOI*	*2025/26 SOI*
Total Debt	$11.7m	$29.3m	$50.3m	$55.1m
To maintain a tangible net worth (total tangible assets after revaluations less total liabilities) above $80 million	$85.9m	$87.7m	$89m	$91m
Debt to Equity ratio	14%	33%	56%	61%
A ratio of surplus before interest/tax/depreciation/revaluations to total assets	6%	4%	5%	6%
A ratio of net surplus after tax to consolidated shareholder funds inclusive of revaluation reserve	3%	2%	2%	3%
To maintain a ratio of consolidated shareholders funds to total assets of at least 40%	78%	67%	58%	57%
To maintain an interest coverage ratio of EBITDA (excl revaluations) to interest of at least 2.5	11.3	5.3	2.9	3.0
Net Debt* / EBITDA less than 4.5 (long term target)	1.8	5.0	6.7	5.8
Funds from Operations (FFO**) / Net Debt greater than 11% (long term target)	40.4%	13.5%	8.5%	9.7%

*Net Debt equals total borrowings less cash on hand
**FFO equals EBITDA less interest cash

KEY OBJECTIVES

	Strategic Project	*Measure*	*Completion*
Compliance	CAA Part 139 Compliance	• Recertification achieved	FY 2024
	Ongoing SMS Development	• FY22 audit recommendations adopted • FY23 audit	FY 2023*
	Asset Management Plan	• Landside asset register completed • Airside register updated	FY 2023*
	Noise Management (Air and Ground Noise Compliance)	• Air noise management plan reviewed • Ground noise mapping completed	FY 2023* FY 2023*
	PFAS Management	• Global consent approved	FY 2023*
Customer	Terminal Development Plan	• Concept design complete • Detailed design complete • Construction complete	FY 2023* FY 2024 FY 2026
	Customer Loyalty	• Net Promoter Score of at least 45	Ongoing
	Carpark Upgrades - Products & Systems	• Phase 1 - Northern pick up/drop off covers installed • Phase 2 - Infrastructure/ technology updates	FY 2023* FY 2024
Community	Sustainability	• Airport Carbon Accreditation Level 4 achieved • Additional Scope 1 & 2 carbon reduction initiatives implemented • Additional waste & potable water initiatives implemented	FY 2024
	Community Engagement	• Community Engagement Plan implemented	FY 2024

KEY OBJECTIVES

	Strategic Project	*Measure*	*Completion*
Culture	Continual improvement of aerodrome safety culture	• Zero lost time injuries • Improved aerodrome safety culture scores	Ongoing
	OneTeam / Whānau Kotahi Wellness Plan	• Wellness Plan updated annually and implemented • Increased team engagement scores	Ongoing
Commercial	Commercial Partnership Strategy	• Partner secured for Zone D Warehouses	FY 2023*
	Zone D Warehouses	• Construction complete	FY 2024
	Air Service Development	• Introduction of A320 operations from FY2026	FY 2026
	Passenger volumes	• 581,100 • 637,000 • 654,000	FY 2024 FY 2025 FY 2026

* The FY23 Strategic Projects aimed for completion by June 2023 are in progress at the time of writing the SOI and noted as they may provide for continuity in the SOI period.

STATEMENT OF FINANCIAL PERFORMANCE

For 12 months to 30 June

	2022/23 SOI	*2022/23 Forecast*	*2023/24 SOI*	*2024/25 SOI*	*2025/26 SOI*
Income	**9,919,610**	**12,956,061**	**14,188,600**	**16,051,710**	**18,298,887**
Operating Expenditure	3,532,634	2,834,890	4,326,904	4,366,339	4,532,523
Administration Expenditure	2,989,504	3,680,431	4,000,107	4,140,531	4,237,083
Extraordinary Items*	50,000	12,500	50,000	51,750	53,561
Total Operating Expenditure	**6,572,138**	**6,527,821**	**8,377,011**	**8,558,620**	**8,823,167**
Profit from Sale of Assets	-	261,348	-	-	-
EBITDA	**3,347,472**	**6,689,588**	**5,811,589**	**7,493,090**	**9,475,720**
Depreciation & Amortisation	1,624,118	2,049,456	2,021,713	2,572,972	2,921,389
EBIT	**1,723,354**	**4,640,132**	**3,789,876**	**4,920,118**	**6,554,331**
Interest Expense	688,539	570,524	1,104,141	2,586,428	3,175,703
Profit before Income Tax	**1,034,815**	**4,069,608**	**2,685,735**	**2,333,690**	**3,378,628**
Income Tax Expense	289,748	1,139,490	752,006	653,433	946,016
Net Profit after Tax	**745,067**	**2,930,118**	**1,933,729**	**1,680,257**	**2,432,612**

*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 not been included in the Statement of Financial Performance

STATEMENT OF FINANCIAL POSITION

As at 30 June

	2022/23 SOI	2022/23 Forecast	2023/24 SOI	2024/25 SOI	2025/26 SOI
Current Assets					
Bank Accounts	56,254	58,049	52,539	54,092	53,261
Receivables	1,008,143	947,596	1,294,197	1,475,300	1,721,393
Prepayments	297,861	381,226	403,528	426,980	455,831
Other Current Assets	102,043	207,174	207,174	207,174	207,174
Total Current Assets	**1,464,301**	**1,594,045**	**1,957,438**	**2,163,546**	**2,437,658**
Non Current Assets					
Tangible Assets					
Land	29,010,130	32,855,065	32,855,065	32,855,065	32,855,065
Buildings	17,889,103	15,477,046	34,956,542	55,960,818	61,538,978
Infrastructural - Land	17,418,967	11,131,485	12,411,485	13,481,485	13,806,485
Infrastructural - Air	29,089,898	37,735,091	39,235,091	41,140,091	43,701,091
Plant & Equipment	3,700,613	3,030,145	3,230,145	3,900,145	4,070,145
Furniture & Fittings	404,199	359,278	399,278	439,278	479,278
Computers	237,334	222,532	247,532	272,532	297,532
Motor Vehicles	1,325,153	1,462,782	1,462,782	1,462,782	1,462,782
Investment Property	12,752,840	14,900,000	14,900,000	14,900,000	14,900,000
Accumulated Depreciation	(11,627,032)	(8,846,496)	(10,863,329)	(13,431,420)	(16,350,352)
Total Tangible Assets	**100,201,204**	**108,326,928**	**128,834,591**	**150,980,776**	**156,761,004**
Intangible Assets	12,670	12,217	7,336	2,456	-
Total Non Current Assets	**100,213,875**	**108,339,144**	**128,841,927**	**150,983,232**	**156,761,004**
Total Assets	**101,678,175**	**109,933,189**	**130,799,365**	**153,146,778**	**159,198,662**
Current Liabilities					
Payables	1,924,711	1,254,700	2,821,061	2,826,458	1,844,644
GST/VAT	(174,796)	(64,486)	(217,860)	(113,431)	66,184
Income Tax	95,748	381,445	524,728	488,161	574,177
Loans Payable	-	-	-	-	-
Provisions	397,646	600,191	600,191	600,191	600,191
Other Current Liabilities	103,284	172,534	135,034	135,034	135,034
Total Current Liabilities	**2,346,593**	**2,344,384**	**3,863,155**	**3,936,413**	**3,220,231**
Working Capital	(9,274,932)	(750,339)	(1,905,717)	(1,772,867)	(782,572)
Non Current Liabilities					
Loans Payable	23,159,973	11,727,038	29,334,086	50,264,036	55,086,012
Other Non Current Liabilities	6,516,634	9,941,306	9,941,306	9,941,306	9,941,306
Total Non Current Liabilities	**29,676,607**	**21,668,344**	**39,275,392**	**60,205,342**	**65,027,318**
Total Liabilities	**32,023,200**	**24,012,728**	**43,138,548**	**64,141,755**	**68,247,549**
Net Assets	**69,654,975**	**85,920,461**	**87,660,818**	**89,005,023**	**90,951,113**
Capital and Reserves					
Share Capital	9,380,400	9,380,400	9,380,400	9,380,400	9,380,400
Reserves	36,461,598	49,634,711	49,634,711	49,634,711	49,634,711
Retained Earnings	23,812,977	26,905,350	28,645,707	29,989,912	31,936,002
Total Capital and Reserves	**69,654,975**	**85,920,461**	**87,660,818**	**89,005,023**	**90,951,113**
Total Equity	**69,654,975**	**85,920,461**	**87,660,818**	**89,005,023**	**90,951,113**

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 12 months to 30 June

	2022/23 SOI	*2022/23 Forecast*	*2023/24 SOI*	*2024/25 SOI*	*2025/26 SOI*
Equity at the Beginning of the Year	**68,909,908**	**82,990,345**	**85,920,463**	**87,660,819**	**89,005,025**
Asset Revaluation Reserve Movement	-	-	-	-	-
Total Comprehensive Income/Loss	745,067	2,930,118	1,933,729	1,680,257	2,432,612
Dividends Declared*	-	-	(193,373)	(336,051)	(486,522)
Equity at the End of the Year	**69,654,975**	**85,920,463**	**87,660,819**	**89,005,025**	**90,951,115**

*Declared dividends are paid in the following financial year

STATEMENT OF CASHFLOWS

For 12 months to 30 June

	2022/23 SOI	*2022/23 Forecast*	*2023/24 SOI*	*2024/25 SOI*	*2025/26 SOI*
Cash Flows from Operating Activities					
Cash was provided from:					
Receipts from Customers	11,210,561	15,228,005	15,932,788	18,278,363	20,797,627
Interest Received	-	-	-	-	-
Income Tax Refund	-	-	-	-	-
Operating Cash Inflows	**11,210,561**	**15,228,005**	**15,932,788**	**18,278,363**	**20,797,627**
Cash was disbursed to:					
Payment to Suppliers and Employees	6,718,236	9,229,236	7,240,789	6,619,520	10,071,331
Tax Loss Payment to PNCC	-	-	-	-	-
Payment of Income Tax	284,608	692,460	608,723	690,000	860,000
Interest Payments	688,539	570,524	1,104,141	2,586,428	3,175,703
Operating Cash Outflows	**7,691,383**	**10,492,220**	**8,953,653**	**9,895,948**	**14,107,034**
Net Cash Flows from Operating Activities	**3,519,178**	**4,735,785**	**6,979,135**	**8,382,412**	**6,690,593**
Cash Flows from Investing Activities					
Cash was provided from:					
Sale of Property Plant and Equipment	-	486,516	-	-	-
Investing Cash Inflows	**-**	**486,516**	**-**	**-**	**-**
Cash was applied to:					
Acquisitions of Property, Plant & Equipment	12,668,323	2,743,108	24,591,694	29,117,439	11,177,348
Acquisitions of Investment Property	-	-	-	-	-
Investing Cash Outflows	**12,668,323**	**2,743,108**	**24,591,694**	**29,117,439**	**11,173,348**
Net Cash Flows from Investing Activities	**(12,668,323)**	**(2,256,592)**	**(24,591,694)**	**(29,117,439)**	**(11,177,348)**
Cash Flows from Financing Activities					
Cash was provided from:					
Borrowings	9,455,000	1,288,718	18,070,520	21,230,800	5,941,500
Financing Cash Inflows	**9,455,000**	**1,288,718**	**18,070,520**	**21,230,800**	**5,941,500**
Cash was applied to:					
Repayment of Borrowings	303,600	3,820,91	463,471	300,850	1,119,524
Repayment of Dividend	-	-	-	193,373	336,051
Financing Cash Outflows	**303,600**	**3,820,091**	**463,471**	**494,223**	**1,455,575**
Net Cash Flows from Financing Activities	**9,151,400**	**(2,531,373)**	**17,607,049**	**20,736,577**	**4,485,925**
Net Increase/(Decrease) in Cash, Cash Equivalents and Bank Overdrafts	**2,255**	**(52,180)**	**(5,510)**	**1,553**	**(830)**
Cash, Cash Equivalents and Bank Overdrafts at the Beginning of the year	**53,999**	**110,229**	**58,049**	**52,539**	**54,092**
Cash, Cash Equivalents and Bank Overdrafts Year End	**56,254**	**58,049**	**52,539**	**54,092**	**53,262**

CAPITAL EXPENDITURE PROGRAMME

For 12 months to 30 June

	2022/23 SOI	*2022/23 Forecast*	*2023/24 SOI*	*2024/25 SOI*	*2025/26 SOI*
Land	-	-	-	-	-
Buildings	410,000	60,000	500,000	-	-
Terminal Development	2,830,000	526,235	14,250,000	19,550,000	5,578,160
Infrastructure - Landside	905,000	1,184,933	710,000	525,000	275,000
Infrastructure - Airside	1,495,000	341,000	1,500,000	1,905,000	2,561,000
Plant & Equipment	400,000	138,504	180,000	650,000	150,000
Furniture & Fittings	40,000	12,358	40,000	40,000	40,000
Computers	25,000	25,000	25,000	25,000	25,000
Rescue Fire	20,000	140,017	20,000	20,000	20,000
Ruapehu Aeropark & Airport Drive Development	5,822,000	595,159	5,299,496	1,999,276	50,000
Total Capital Expenditure	**11,947,000**	**3,023,205**	**22,524,496**	**24,714,276**	**8,699,160**

GOVERNANCE AND SHAREHOLDER

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 Intent

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 21 November 2022 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 five 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.

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.

PNAL has an Audit & Risk Committee (ARC) 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 ARC 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 also established a Terminal and Property Development Committee (TPDC), comprised of three directors of the PNAL Board, in September 2022 The Committee has a board-approved Terms or Reference, outlining its membership, authority and purpose.

The TPDC meets bi-monthly (or more frequently where required) and is comprised of three directors of the PNAL Board. The TPDC acts as a steering group to PNAL's Board, reviews feasibility studies and business cases, and provides oversight of PNAL's vertical and horizontal property development in Ruapehu Aeropark, as well as the redevelopment of the terminal. This Committee was set up to provide adequate governance over PNAL's increasing capital expenditure and increasing complexity of commercial development and the terminal.

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 and airside infrastructure were last revalued at 30 June 2022. 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 2022 is $82.99 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 currently has two separate debt funders, the Bank of New Zealand (BNZ) and PNCC (indirect LGFA funding).

BNZ facilities total $16.1m while the PNCC funding facility limit is tied to approved SOI debt plus 10%, to a maximum of $50m. The current maximum available debt is therefore $66.1m, above the maximum debt forecast within the SOI period of $55.1m.

The PNCC facility was established in FY22 in order to save PNAL~$6m in financing costs over the next 10 years. In exchange, PNAL pays PNCC a fair market margin (above LGFA interest rates) on this debt.

PNAL's Performance Metric Targets above include three metrics specific to debt funding. These are:

1. PNAL's debt covenant to maintain an interest coverage ratio of EBITDA to interest of not less than 2.5;
2. A long term target to achieve Net Debt / EBITDA of less than 4.5 and;
3. A long term target to achieve FFO / Net Debt greater than 11%.

It is accepted that PNAL may not achieve the two long term targets in any one financial year, dependent upon the capital expenditure requirements at the time.

During the period of the SOI, PNAL is anticipated to comply with the debt covenant throughout the three years, while the long term, aspirational targets are anticipated to fall below target levels for the three years, due to the substantial capital investment required. Notwithstanding this, the third year of the SOI shows a trend towards achieving these targets, which is expected to occur after the SOI period.

Dividend Policy

PNAL is focussed on delivering against strategic objectives as outlined in this Statement of Intent. The achievement of these strategies will ensure PNAL is well placed in the medium to long-term to generate enhanced financial returns and to maximise value to our Shareholder through an appropriate balance between regional social and economic outcomes, re-investment and dividends.

In total $55.9 million of capital expenditure is projected to be undertaken over the three-year SOI period. The level of investment is unprecedented in PNAL's history with the TDP alone anticipated to cost $40 million. The company's financial performance is projected to improve, however with debt at historical highs the gearing risks assumed to achieve strategic objectives is high. Given debt levels and the Shareholder expectations the Airport company must actively seek like-minded investment partners who can support the commercial development priorities outlined within Ruapehu Aeropark and Te Utanganui.

In this context the Airport company's focus on prudent cashflow management remains as critical as it did during the Covid-19 pandemic. Any divided declaration must therefore carefully consider actual and projected performance. In establishing a dividend recommendation, the directors will consider;

1. The scale of the company's capital expenditure plans including shareholder expectations,
2. The company's financial performance including cashflows from operations,
3. The Company's ability to raise debt finance and the terms thereof,
4. Compliance with performance metric targets,
5. The risks associated with airline schedule uncertainty in the short to medium term.

Notwithstanding the above policy, PNAL has been instructed by the shareholder to include an expectation in this SOI that dividends should recommence from FY24. An indicative dividend of 10% of NPAT (excluding fair value gains/losses) has been included for FY24, with an indicative dividend of 20% of NPAT (excluding fair value gains/losses) included for FY25 and FY26.

Payment of any dividend will be subject to meeting the above policy conditions and assessment by the Board of PNAL's liquidity, prior to payment.

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