PALMERSTON NORTH AIRPORT LIMITED

2021 ANNUAL REPORT

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JOINT REPORT

The Chair and Chief Executive's Joint Report

For the year ended 30 June 2021

Overview

The Directors and Management Team are pleased to present the 2021 Annual Report.

The year ended 30th June 2021 can best be described as a year of two contrasting halves. A significant reset of the business and priorities took place during the first half of the financial year (H1), with survival a key driver of decision making given the ongoing uncertainty around the extent of further Covid-19 impacts on the aviation industry. Given this context the H1 result was pleasing. A 49.5% decline in passenger volumes versus the same six-month period in 2019 resulted in an aeronautical revenue decline of 38% or $2.15 million, however this was still 45% ahead of the Statement of Intent target. A total of 177,000 passengers were carried in H1.

A cost review and capex deferral programme assisted the Company to preserve vital cash reserves during H1. With major projects on hold the Company focussed on building business resilience, compliance with CAA Rule Part 139, CAA certification of the Company's Safety Management System (SMS), Rescue Fire insourcing, and further development of the Company's OneTeam wellness programme.

With a relatively positive end to H1 the decision was made in the second half of the financial year (H2) to revisit previously suspended capex programs. This included the recommencement of the Wairaka Place subdivision project within Ruapehu Business Park, and pavement upgrade programmes.

H2 witnessed modest growth in passenger volumes with a total of 224,000 carried, 22% above the same period in the prior year which included the Covid-19 lockdown period (March to June 2020). H2 aeronautical revenue recovery followed with an increase of 29% or $0.63 million over H1, 177% ahead of the Statement of Intent target.

Full year passenger volumes of 401,000 were 19.5% below the previous financial year but 51.6% ahead of the Statement of Intent target of 265,500 passengers. The period was affected by 12 months of Covid-19, compared with the prior year wherein the March-June period was impacted.

Total annual income of $8.34 million was 9% below the previous financial year, however 33% ahead of the Statement of Intent target. The strong recovery was driven by aeronautical income levels rebounding with passenger volumes in H2.

The EBITDAE result of $3.60 million was 12% below last year and 128% ahead of the Statement of Intent illustrating a strong recovery from the initial outbreak of Covid-19.

Total Comprehensive Income of $1.15 million was 254% ahead of last year and total shareholder equity increased by $1.2 million to $68.27 million, reflecting the additional wealth created by the Company during the year, for the benefit of the Palmerston North community.

Financial

Income of $8.35 million fell short of the previous financial year by $0.79 million, although it exceeded the Statement of Intent by $2.09 million.

Aeronautical revenue was the primary driver of the positive income variance to the Statement of Intent target, with revenue forecasts set during the Covid-19 lockdown exceeded by $1.7 million or 54%. Carpark revenue was the other contributor, exceeding the Statement of Intent target by $0.46 million or 56%. Both variances benefited from the stronger than predicted bounce back in air capacity and passenger volumes.

Income from commercial leases of $1.83 million was within 2% of the Statement of Intent target and within 3% of the previous financial year.

Total expenditure of $4.74 million was within 2% of the Statement of Intent target, and 6% below the previous financial year. A prudent approach to costs and a focus on cashflow management proved successful. Consultancy and contracting expenses were the largest negative variances, and related to expenditure on team resourcing after losing key personnel, rescue fire insourcing, and accounting/tax advice associated with the Ruapehu Business Park.

The revaluation of investment property resulted in an overall fair value loss of $0.84 million. This was a result of the subdivision of Stage 1 of Zone B which was in progress at 30 June 2021. This subdivision required substantial and upfront capital investment by the Company, including the upgrade of Airport Drive. While this has driven an accounting revaluation loss in the 2021 income year, this one-off investment will subsequently benefit remaining stages of this project, when these are developed in subsequent income years.

Net Loss After Taxation of $0.03 million, was 97% above the Statement of Intent target and 102% behind the previous year. This was negatively impacted by the accounting revaluation of investment property, outlined above.

Excluding the revaluation impacts on both years, the Operating Surplus before Tax of $1.26 million was 26% below the prior financial year and 256% above the Statement of Intent target. Total comprehensive income was $1.15 million, 254% ahead of last year.

Taxation expense for the year ending 30 June 2021 is $0.44 million.

The Company's balance sheet remains strong with shareholder's equity growing to $68.27 million and debt of $12.70 million ($11.70 million last year).

Net cash flow from operating activities was $3.40 million compared to $2.33 million last year.

As previously communicated to the Shareholder no dividend is proposed for the financial year ended 30 June 2021 as the Company continues to focus on the recovery and ongoing uncertainty associated with Covid 19. Furthermore the Company continues to reinvest in projects benefitting the shareholder and our community (e.g. Terminal Development Plan and Ruapehu Business Park).

Compliance

The Company recorded Zero lost time injuries and continued to maintain all Civil Aviation Act (CAA) Rule Part 139 requirements during the financial year.

The Company continued the development of the second-generation Asset Management Plan during the year. The plan provided the basis for the development of a 20-year capital works programme which was finalised in June of the financial year.

The Company's Safety Management System, designed to meet CAA Rule Part 100 requirements, received CAA certification in December. Further enhancements to the SMS are now being introduced.

During the year planning continued for the insourcing of Rescue Fire services. This included the acquisition from Singapore, and refurbishment in Brisbane, of two Rosenbauer 6x6 rescue fire vehicles, the employment of nine specialist rescue fire and airfield operations team members, and the development of operational procedures and training. While delayed from the planned April 2021 insourcing date due to vehicle refurbishment delays, insourcing is now expected to occur at the end of Q1 of the 2022 financial year.

Culture

The Board and Chief Executive acknowledge the team for their ongoing dedication and high level of morale and resilience displayed during a difficult operating period. This included a number of changes to the team and roles, the result of an organisational restructure which came into effect on 1 July 2020.

The delivery of the Company's wellness programme OneTeam during the financial year was a significant milestone. The rollout of the programme has accelerated with the placement of Paula Bracefield into the role of Human Resources Advisor in February 2021 and supported by Wellness Champion and programme pioneer Lisa McKenzie.

The Company also welcomed Jonathon Baker to the position of Finance Manager, and Olivia Pierre to the role of Commercial and Customer Experience Manager.

Departures included the retirement of long-serving Commercial Manager George Clark, and Infrastructure Manager David Yorke.

Customer

Net Promoter Score continues to be used as the primary measure of customer loyalty. A full-year Net Promoter Score of 32 points was marginally up on the prior financial year (30), although significantly below the target of 50. The result reflects a year where customer experience suffered from reduced investment.

The level of survey responses being received is declining, reflecting lower passenger volumes than prior years. With customer feedback vital to enhancing the customer experience, by year end the Company had advanced work on introducing two additional survey platforms, these include via the free wifi available in-terminal and also the Company website.

Notwithstanding the impact capex deferrals had on customer related projects including the Terminal Development Plan, the construction of covered canopies in pick-up & drop-off and the replacement of the escalator, the Company remains focussed on further enhancements to the customer experience at our airport.

Carpark enhancements gathered pace in the second half of the financial year with the completion of the dedicated pick-up & drop-off area at the front of the General carpark. With capacity for 35 plus vehicles, including mobility impaired, the area is now well patronised. Architectural designs are now being finalised for the covered canopies which will ultimately extend into covered pedestrian areas within the General carpark.

Planning for the Terminal Development re-commenced in H2 with the finalisation of a procurement strategy progressing at year end. The three-year project has an estimated price tag of $18 million, however is subject to design acceptance.

The recruitment of Olivia Pierre to the newly created position of Commercial & Customer Experience Manager in February, has provided PNAL with additional resource to further enhance our customer focus and to support our Marketing & Communications Manager Danielle Balmer.

At year end work was well-progressed on improving our understanding of our many different customer groups. This work includes the establishment of customer focus groups. This information will further enhance our ability to tailor products and services to our customers unique needs.

Community

The Company continued its sustainability journey during the financial year. Work progressed on achieving level 2 accreditation with the Airports Council International Airport Carbon Accreditation Program. Meantime, a range of initiatives have continued which are designed to reduce the Company's greenhouse gas emissions, waste to landfill and water consumption. One of the largest projects was the ongoing transition of the terminal heating & cooling system from natural gas to electricity. This project is anticipated to provide significant reductions in greenhouse gas emissions once completed in H2 of calendar year 2021.

While many of the Company's traditional community-based support programmes were curtailed in H1 of the financial year given the severe cash constraints, the Company was able to recommence re-engagement in the second half of the year. These include support for Fly Palmy Arena, Just Zilch, Centrepoint and Wildbase.

Commercial

Passenger movements of 401,000 were 97,000 or 19.5% below the previous financial year, but 50.8% ahead of the Statement of Intent target of 265,000 passengers. The previous financial year benefited from nine months of pre-Covid operations, including the four final months of Jetstar regional flying. Notwithstanding Air New Zealand's decision to cease operations on Hamilton – Palmerston North and Palmerston North – Wellington routes, passenger volumes improved steadily across the year, with significant improvement from March as Air New Zealand added additional Auckland – Palmerston North and Christchurch – Palmerston North capacity. There were 177,000 passengers carried in the first six months of the 2021 financial year and 224,000 in the second half.

Overnight dedicated airfreight operations by Freightways Group and New Zealand Post continue to benefit from the ongoing growth in demand for online sales.

The Future Outlook

The Company approaches the 2022 financial year with a degree of cautious optimism that passenger demand will continue to consolidate. This is based on a resilient and diversified regional economy combined with unprecedented levels of construction and infrastructure spend across the public and private sector.

The Company recognises the role it plays within the regional economy and has recommenced major projects with clear economic benefits to our communities and shareholder. The Terminal Development Plan with an estimated price tag of $18 million will ensure the Company is ready should hold bag, passenger and carry-on bag screening become mandated for regional airports of our size. Without this investment the airport could lose air services with a corresponding impact on our regional economy.

The Company's planned investment of over $10 million during the next three years in the Wairaka Place development within Ruapehu Business Park will have significant income diversification and balance sheet benefits in the medium to long term, ultimately benefitting our Shareholder.

In addition, the Company plans to continue to re-invest in strategic infrastructure including runway and apron areas.

The capital investment by the Company is significant given its timing and the Covid-19 threat, which remains present. The Company will therefore continue to adopt a cautious approach to expenditure and also continue to seek Shareholder support via the ongoing suspension of dividend payments.

Murray Georgel
Chair

David Lanham
Chief Executive

CORPORATE REPORT

For the year ended 30 June 2021

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

Principal Activities

The principal activities of the Company during the year were:

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

Ownership

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

Financial Report

Here are the financial results for the year under review. Details of these financial results are shown on pages 16 to 19.

	2021 Actual	*2021 SOI*	*2020 Actual*
Performance			
Revenue	8,345,705	6,253,088	9,137,276
EBITDA & Valuation of IP	3,598,416	1,580,295	4,079,287
Net Profit After Tax	(27,403)	(804,361)	1,626,608
Passengers	400,467	265,500	498,422
Financial Position			
Cash & Cash Equivalents	362,458	50,000	273,080
Current Assets	1,071,358	558,536	1,070,274
Property, Plant & Equipment	74,529,581	83,574,934	78,862,898
Shareholder Funds	68,265,401	67,667,060	67,119,563

Company's Affairs

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

Directors

Reappointments
During the 2021 financial year, Gerard Gillespie and Jon Nichols retired by rotation and were reappointed to the Board by the Shareholder in July 2020.

Appointments
There were no new Directors appointed to the Board during the 2021 financial year.

Retirements
There were no retirements of Directors during the 2021 financial year. Subsequent to balance date, Jon Nichols retired from the Board, effective 1 October 2021.

Directors' Remuneration

For the year ended June 2021, the amount of $108,000 ($99,145: 2020) for Director Remuneration was paid, or due and payable, to members of the Board as authorised by the shareholder as follows:

	2021 Actual	*2020 Actual*
Georgel M	33,600	31,920
Gillespie G	18,000	13,500
Nichols J	20,400	19,278
Cardwell C	18,000	17,100
Vining S	18,000	12,847
Adlam J	-	4,500
	108,000	**99,145**

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

Directors' Indemnity and Insurance

The Company is responsible for the payment of the Directors' indemnity insurance premiums. All Directors are indemnified under the Directors and Officers Liability Insurance Policy.

Use of Company Information by Directors

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

Shareholding by Directors

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

Directors' Interests

During the course of the financial year to 30 June 2021, Directors declared interests in the following entities:

Interest	***Nature of Interest***	***Relationship to PNAL***
Mr J Nichols		
Director	Nichols Consulting Ltd	None
Director	Eastland Group Ltd	None
Director	Eastland Network Ltd	None
Director	Eastland Port Ltd	None
Director	Gisborne Airport Ltd	None
Chair	Hastings District Council Risk and Audit Subcommittee	None
Chair	Audit and Risk Committee of Maungahahuru Tangitu Trust	None
Director	Hawke's Bay Airport Ltd	None
Director	Hawke's Bay Airport Construction Ltd	None
Director	Electra Ltd and Subsidiaries	None
Mr M Georgel		
Director & Shareholder	Xenos Ltd	None
Director	The Factory Ltd	None
Director	Manawatu Investment Group Ltd	None
Director	MIG Nominee No.1 Ltd	None
Director	MIG GP Ltd	None
Trustee	Sir Patrick Higgins Charitable Trust	None
Director	Aorangi Hospital Ltd	None
Trustee	Arohanui Hospice Service Trust	None
Trustee	Arohanui Hospice Foundation	None
Director	Levno Ltd	None
Director	Crest Hospital Ltd	None
Director & Shareholder	CH Management Ltd	None
Trustee	Central Energy Trust	None
Trustee	PN Theatre Trust (Centre Point Theatre)	Sponsor ($4,167 FY20/21)
Mr C Cardwell		
Director of Facilities Services	Waitemata District Health Board	None
Director & Shareholder	Australis Property Ltd	None
Director & Shareholder	Laurent Investments Ltd	None
Director	Nga Maunga Whakahii O Kaipara Whenua Hoko Holdings Ltd	None
Director	Te Uru Ltd	None
Director	Nga Maunga Whakahii O Kaipara Commercial Development Ltd	None
Director	Pitoitoi Ltd	None
Director	Nga Maunga Whakahii O Kaipara Ngahere Ltd	None
Wife	Lawyer in Procurement team - BNZ	Bank
Mr G Gillespie		
No Interests		
Ms S Vining		
Board Member	Manawatu Rugby Union	None
Senior Executive	Plumbing World	None

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

Schedule of Board Meeting Attendances

Director	*Number of meetings held*	*Number of meetings attended*
Georgel M	12	12
Gillespie G	12	8*
Nichols J	12	12
Cardwell C	12	10
Vining S	12	12

**Attendance impacted due to illness*

Remuneration of Employees

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

	2021 Actual	*2020 Actual*
$110,000 - $120,000	0	1
$120,000 - $130,000	1	0
$130,000 - $140,000	0	1
$170,000 - $180,000	1	0
$180,000 - $190,000	0	1
$280,000 - $290,000	1	1

Variances in the table above largely arise from the timing of employee resignations and appointments.

Auditors

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

Auditor's remuneration of $48,143 (GST exclusive) for the 2021 annual audit is reflected in the financial statements as due and payable.

Donations

The Company made no donations this year (2020: $965).

Airport Authorities (Airport Companies Information Disclosure) Regulations 1999

These financial statements are being used as the disclosure financial statements and have been prepared for the purposes of, and in accordance with, the above Regulations.

Audit and Risk Committee

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

400,467
PASSENGERS IN 2021

$8,345,705
REVENUE

$3,598,416
EBITDA

$1,145,838
TOTAL COMPREHENSIVE REVENUE

$68,265,401
SHAREHOLDER FUNDS

SERVICE PERFORMANCE

For the Year Ended 30 June 2021

STATEMENT OF SERVICE PERFORMANCE

The Company's Statement of Intent, against which performance is judged, is dated June 2020.

The Company is trading as Palmerston North Airport Limited.

The ratio of consolidated shareholder funds to total assets has been maintained above 40%, inclusive of revaluations of land and buildings.

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

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

OUR VISION - WHAT WE ASPIRE TO BE

New Zealand's leading regional airport.

OUR PURPOSE

Launching our region into a promising future.

STRATEGIC OBJECTIVES

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.

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.

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.

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 to our on-going investment and operating requirements.
- We facilitate regional economic development by growing passenger and airfreight volumes.

Impacts of COVID-19 on Service Performance Reporting

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.

Notwithstanding that the Statement of Intent for the 2021 financial year was established with the knowledge of Covid-19, performance forecasting has proven inherently difficult given the uncertainty of the pandemic's impact on air services and other airport activities.

For example, total passenger volumes of 401,000 for the full year to 30 June 2021 was 51% ahead of the Statement of Intent target established in June 2020, and highlights the level of uncertainty in projecting how the business would perform during the Covid-19 era.

Other non-financial Service Performance metrics impacted include the Net Promoter Score with significantly fewer surveys completed. Furthermore, with cash preservation paramount, a significant reduction in investment in terminal facilities, community engagement and sponsorship is also likely to have impacted on the Net Promoter Score.

Financial Performance ratios all exceeded Statement of Intent targets, the result of a combination of the higher than forecasted passenger numbers and the associated positive impact on aeronautical and carpark income levels, and cost control measures.

Compliance & health & safety related performance targets were not impacted, with all targets achieved, the result of the Company's focus placed on compliance and team wellbeing during the financial year.

PERFORMANCE MEASURES

For the Year Ended 30 June 2021

			30-Jun-21 Actual	30-Jun-21 SOI	30-Jun-20 Actual
1.	Ratio of net surplus before interest/tax/depreciation/revaluations to Total Assets	(1)	4.0%	2%	4.7%
2.	Ratio of net surplus after tax to consolidated shareholders funds inclusive of revaluation reserve.	(2)	0.0%	-1%	2.4%
3.	Maintain a ratio of consolidated shareholders funds to Total Assets of at least 40%	(2)	76%	74%	78%
4.	Interest coverage ratio of surplus before interest and tax to interest of at least 2.25	(3)	1.9	(1.6)	3.4
5.	Maintain a tangible net worth (total tangible assets after revaluations less total liabilities) above $50m	(2)	$68.3m	$67.6m	$67.1m
6.	Maintain a Net Promoter Score of 55 or above. Measured on an annual basis	(4)	32	50	30
7.	Total Passenger Throughput	(2)	400,467	265,500	498,422
8.	To achieve zero lost time injuries to those who work within our airport community		Zero	Zero	Zero
9.	Maintain Civil Aviation Rule part 139 certification	(5)	Maintain	Maintain	Achieved
10.	Complete roadmap to carbon neutrality	(6)	Implemented	Implemented	Implemented
11.	Safety Management System audited and certified	(7)	Certified	Certify	N/A

(1)

Ratio of net surplus before interest/tax/depreciation/revaluations to Total Assets' is different to the measure outlined in our SOI, which states 'Ratio of net surplus before interest/tax/depreciation to Total Assets'. The SOI does not budget for revaluation movements, so this has no impact on the SOI target disclosed. The measure reported in the annual report is considered a more meaningful measure of performance, as it is not impacted by revaluation movements which vary year on year.

(2)

Improvements to SOI reflect ongoing recovery from Covid-19 exceeding expectations.

(3)

BNZ covenant amended from FY21 onwards to maintain an interest coverage ratio of EBITDA to interest of at least 2.5. FY22-FY24 SOI performance measures reflect the revised measure. FY21 result negatively impacted by revaluation (non-cash) loss on investment properties. Excluding revaluation, this ratio increases to 3.63.

(4)

An audit of Net Promoter Score data undertaken in FY21 highlighted a material level of invalid survey submissions e.g. children repeatedly entering submissions. A subsequent program of cleansing data prior to reporting has been developed. In addition, lower passenger volumes have impacted on the number of monthly submissions, with increased variability in scores now occurring. A more accurate benchmark of 30, based on the aviation and tourism industries, has been set for the FY22-FY24 SOI.

(5)

The five yearly CAA audit of PNAL's compliance with Part 139 was last completed in July 2019.Monthly audits are undertaken by an independent third party to gauge PNAL's ongoing compliance with Part 139 requirements and PNAL's adherence to its exposition and Safety Management System.

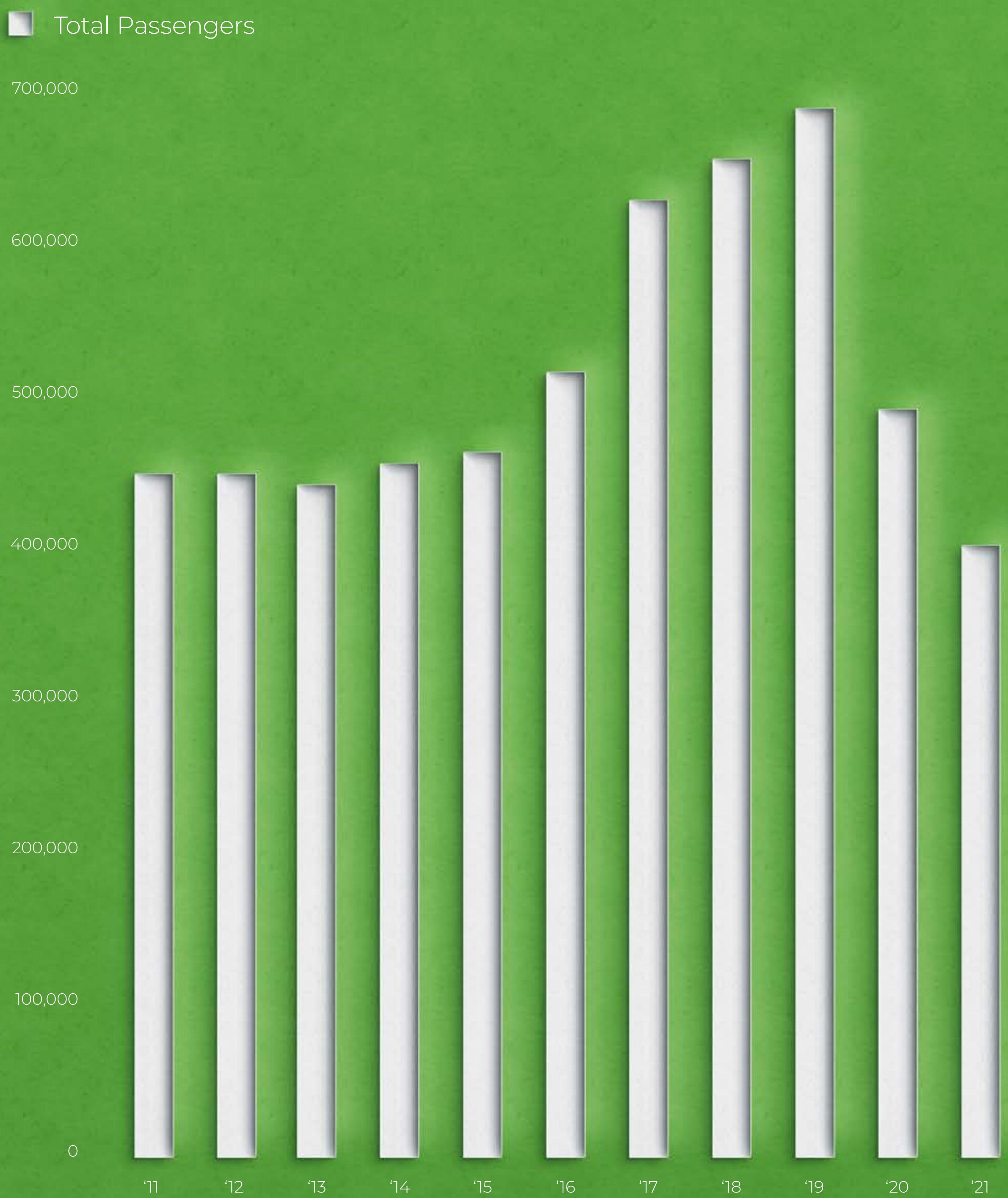
(6)

With regards to greenhouse gas emission reductions, PNAL is a member of the Airport Council International Airport Carbon Accreditation (ACA) program, and as at 30 June PNAL was working towards achievement of Level 2 of the ACA program.
PNAL's roadmap to carbon neutrality has been re-named 'Sustainability Plan' and reflects an extension of activities beyond the reduction of greenhouse gas emissions, to include activities undertaken to reduce waste to landfill and water consumption.

(7)

'Operating and effective' status of SMS achieved in December 2020.

ANNUAL PASSENGER NUMBERS



PALMERSTON NORTH AIRPORT LIMITED

FINANCIAL STATEMENTS

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STATEMENT OF COMPREHENSIVE REVENUE AND EXPENSE

For the Year Ended 30 June 2021

	Note	30-Jun-21 Actual $	30-Jun-21 SOI $	30-Jun-20 Actual $
Revenue	1	**8,345,705**	**6,253,088**	**9,137,276**
Operating Expenses				
Operations and Maintenance				
Airfield Services		728,961	835,693	734,097
Other Operating Expenses	11	1,603,660	1,644,851	1,596,200
Total Operations and Maintenance		**2,332,622**	**2,480,544**	**2,330,297**
Administration				
Audit Fees	12	48,143	39,600	44,166
Bad Debts Written Off		-	2,411	12,844
Changes in Doubtful Debt Provision	4	7,635	4,827	-
Directors' Fees	15	108,000	123,498	97,253
Employee Expenses	7a	1,373,297	1,453,000	1,617,093
General Administration		877,593	568,913	956,336
Total Administration		**2,414,668**	**2,192,250**	**2,727,692**
Total Operating Expenses		**4,747,290**	**4,672,794**	**5,057,989**
Earnings Before Interest, Taxation, Depreciation, Amortisation & Valuation of Investment Properties:		**3,598,416**	**1,580,295**	**4,079,287**
Finance Costs, Depreciation, Amortisation and Loss on Sale				
Finance Costs	9	477,679	309,235	531,078
Depreciation and Amortisation	2 & 3	1,862,757	2,075,421	1,854,304
Impairment and Loss on Sale of Assets		1,393	-	(993)
Total Finance Costs, Depreciation		**2,341,829**	**2,384,656**	**2,384,388**
Revaluation (Loss)/Gain - Investment Properties	2a	(846,114)	-	(397,523)
Operating Surplus Before Taxation		**410,472**	**(804,361)**	**1,297,376**
Taxation Expense on Operating Surplus	6a	437,875	-	(329,232)
Net Surplus After Taxation Attributable to PNCC		**(27,403)**	**(804,361)**	**1,626,608**

MGeorgel.

Murray Georgel
Chair

Sarah Vining
Director

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

STATEMENT OF COMPREHENSIVE REVENUE AND EXPENSE

For the Year Ended 30 June 2021

	Note	30-Jun-21 Actual $	30-Jun-21 SOI $	30-Jun-20 Actual $
Net Surplus After Taxation Attributable To PNCC		**(27,403)**	**(804,361)**	**1,626,608**
Other Comprehensive Revenue and Expense				
Gains (Losses) on Property, Plant and Equipment Revaluations	*13d*	1,173,241	-	(1,808,995)
Movement in Deferred Tax at Revaluation	*13d*	-	-	506,518
Total Comprehensive Revenue and Expense Attributable to PNCC		**1,145,838**	**(804,361)**	**324,131**

STATEMENT OF CHANGES IN EQUITY

For the Year Ended 30 June 2021

	Note	30-Jun-21 Actual $	30-Jun-21 SOI $	30-Jun-20 Actual $
Equity at the Beginning of the Year		**67,119,563**	**68,471,421**	**67,480,663**
Total Comprehensive Revenue and Expense for the Year		1,145,838	(804,361)	324,131
Distribution to Shareholder During the Year		-	-	(685,231)
Equity at the End of the Year Attributable to PNCC		**68,265,401**	**67,667,060**	**67,119,563**

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

STATEMENT OF FINANCIAL POSITION

For the Year Ended 30 June 2021

	Note	30-Jun-21 Actual $	30-Jun-21 SOI $	30-Jun-20 Actual $
Current Assets				
Cash and Cash Equivalents	5	362,458	50,000	273,080
Trade Accounts Receivable	4	585,098	507,362	507,961
Sundry Receivables and Prepayments		123,802	1,173	113,370
Assets Held for Sale		-	-	175,863
Total Current Assets		**1,071,358**	**558,536**	**1,070,274**
Less: Current Liabilities				
Revenue in Advance	14	45,494	85,414	162,440
Trade Accounts Payable	14	566,315	(123,319)	683,364
Other Creditors	14	1,138,490	239,980	76,203
Employee Benefit Liabilities	7	183,360	175,000	183,667
Borrowings	10	4,999,999	-	3,700,000
Total Current Liabilities		**6,933,658**	**377,076**	**4,805,674**
Working Capital		**(5,862,299)**	**181,460**	**(3,735,400)**
Add: Non Current Assets				
Property, Plant and Equipment	2	74,529,581	83,574,934	78,862,898
Investment Property	2a	13,786,000	6,813,354	6,525,000
Intangible Assets	3	28,752	4,673	9,733
Total Non Current Assets		**88,344,334**	**90,392,962**	**85,397,631**
Less: Non Current Liabilities				
Deferred Tax Liability	6b	6,516,634	8,056,032	6,542,668
Borrowings	10	7,700,000	14,851,329	8,000,000
Total Non Current Liabilities		**14,216,634**	**22,907,361**	**14,542,668**
Net Assets		**68,265,401**	**67,667,060**	**67,119,563**
Represented by:				
Shareholders Equity				
Paid in Capital	13a	9,380,400	9,380,400	9,380,400
Retained Earnings	13b	22,423,403	21,695,827	22,450,806
Asset Revaluation Reserve	13d	36,461,598	36,590,833	35,288,357
Total Shareholder's Equity		**68,265,401**	**67,667,060**	**67,119,563**

For and on behalf of the Board

Murray Georgel
Chair

Sarah Vining
Director

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

STATEMENT OF CASH FLOWS

For the Year Ended 30 June 2021

	Note	30-Jun-21 Actual $	30-Jun-21 SOI $	30-Jun-20 Actual $
Cash Flows From Operating Activities				
Cash was provided from:				
Receipts from Customers		8,134,400	6,182,794	9,529,173
Interest Received		-	-	-
Income Tax Refund		16,819	-	-
		8,151,219	**6,182,794**	**9,529,173**
Cash was disbursed to:				
Payment to Suppliers and Employees		4,771,871	4,461,420	5,698,517
Tax Loss Payment to PNCC		41,396	-	-
Payment of Income Tax		331,177	346,424	970,755
Interest Payments		477,679	309,235	531,078
		5,622,124	**5,117,078**	**7,200,349**
Net Cash Flows from Operating Activities		**2,529,095**	**1,065,716**	**2,328,824**
Cash Flows From Investing Activities				
Cash was provided from:				
Sale of Property Plant and Equipment		-	-	-
Cash was applied to:				
Acquisitions of Property, Plant and Equipment		840,677	4,715,000	1,183,057
Acquisitions of Investment Property		2,599,038	-	-
Net Cash Flow from Investing Activities		**(3,439,716)**	**(4,715,000)**	**(1,183,057)**
Cash Flow From Financing Activities				
Cash was provided from:				
Borrowing		2,700,000	3,659,584	5,000,000
Cash was applied to:				
Repayment of Borrowings		1,700,001	10,299	1,350,000
Payment of Dividends	13c	-	-	685,238
Net Cash from Financing Activities		**999,999**	**3,649,285**	**2,964,763**
Net Increase/(Decrease) in Cash, Cash Equivalents and Bank Overdrafts		**89,378**	**1**	**4,110,530**
Cash, Cash Equivalents and Bank Overdrafts at the Beginning of the Year		273,080	49,999	(3,837,450)
Cash, Cash Equivalents and Bank Overdrafts Year End	5	**362,458**	**50,000**	**273,080**

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

NOTES TO THE

FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS

Statement of Accounting Policies for the Year ended 30 June 2021

Reporting Entity

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

The Company has designated itself as a Public Benefit Entity (PBE) for financial reporting purposes.

The financial statements of the Company are for the year ended 30 June 2021. The financial statements were authorised for issue on 25 November 2021 by the Board.

Basis of Preparation

The financial statements have been prepared on the going concern basis. The Company has prepared a going concern assessment, including an assessment of the ongoing impact of Covid-19, and is satisfied the conditions for a going concern are met. The Company has prepared a three-year Statement of Intent for the FY22-FY24 income years, which is available on the Company's website. This illustrates the anticipated financial position and performance, and for the next three years the Company will be able to meet its financial obligations as they fall due. Assumptions underlying the going concern basis are documented throughout these financial statements.

Accounting policies have been applied consistently throughout the period.

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

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

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

These financial statements comply with PBE standards.

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

Significant Accounting Policies

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

1. Analysis Of Operating Revenue

	2021 Actual	***2020 Actual***
Aeronautical Charges	4,940,938	5,174,663
Car Park, Rent and Advertising	3,218,567	3,621,321
Government Wage Subsidy*	51,550	148,992
Other	134,650	192,297
Interest	-	3
	8,345,705	**9,137,276**

Revenue Measurement and Recognition

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

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

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

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

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

2. Property, Plant And Equipment

	Land	*Buildings*	*Airside Infrastructure*	*Landside Infrastructure*	*Total Infrastructure*	*Plant and Equipment*	*Furniture and Fittings*	*Computer Equipment*	*Motor Vehicles*	*Total*
Balances 1 July 2020										
Cost / Valuation	31,828,487	14,036,276	26,070,737	10,344,578	36,415,315	2,677,666	329,490	205,966	13,884	85,507,085
Accumulated Depreciation	-	(346,368)	(1,865,487)	(2,674,263)	(4,539,750)	(1,403,833)	(196,854)	(157,382)	-	(6,644,187)
Carrying Amount	**31,828,487**	**13,689,908**	**24,205,251**	**7,670,315**	**31,875,566**	**1,273,833**	**132,636**	**48,584**	**13,884**	**78,862,898**
Movements for the Year										
Reverse Prior Year Work in Progress	(4,350)	(700,683)	-	(1,650,135)	(1,650,135)	-	-	-	(13,884)	(2,369,052)
Additions & Current Year Work in Progress	11,890	724,002	1,035	1,694,421	1,695,456	142,460	3,909	4,966	1,068,039	3,650,722
Disposals - Cost / Valuation	-	-	-	(13,169)	(13,169)	(1,119)	-	(21,081)	-	(35,368)
Revaluation Surplus	1,173,241	-	-	-	-	-	-	-	-	1,173,241
Reclassification - Cost / Valuation	(3,999,137)	-	-	(1,113,202)	(1,113,202)	(3,650)	-	(41,661)	-	(5,157,650)
Reclassification - Accumulated Dep.	-	-	-	186,861	186,861	3,650	-	36,692	-	227,202
Disposals - Accumulated Dep.	-	-	-	9,357	9,357	1,119	-	21,081	-	31,556
Depreciation for the Year	-	(358,149)	(916,455)	(296,717)	(1,213,172)	(235,596)	(25,796)	(21,255)	-	(1,853,968)
Dep. Reversal on Revaluation	-	-	-	-	-	-	-	-	-	-
Closing Balances 30 June 2021										
Cost / Valuation	29,010,130	14,059,596	26,071,772	9,262,493	35,334,265	2,815,357	333,398	148,191	1,068,040	82,768,977
Accumulated Dep.	-	(704,517)	(2,781,942)	(2,774,762)	(5,556,704)	(1,634,660)	(222,650)	(120,865)	-	(8,239,396)
Carrying Amount	**29,010,130**	**13,355,079**	**23,289,831**	**6,487,730**	**29,777,561**	**1,180,697**	**110,748**	**27,326**	**1,068,039**	**74,529,581**
Capital Work in Progress Included at Cost										
30-Jun-21	-	694,376	1,035	303,237	304,272	34,222	-	-	1,068,039	2,100,909

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

Land, Buildings and Airside Infrastructure Fair Value

Land
Land is valued at fair value.

As per Commerce Commission guidelines, fair value has been determined using the Market Value Alternative Use Highest and Best Use (MVAU) methodology. A discounted cashflow has been used to determine the Market Value Alternative Use.

Covid-19 has impacted certain assumptions made on determining values. Land inflation rates for the following ten years have been marginally increased to reflect the way the economy is "recovering" from the effects of Covid-19 on land values within the City. Capitalisation rates have also been amended to include a separate Covid-19 factor, reflecting the uncertainties still relating to Covid-19.

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

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

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

- The hypothetical areas determined
- Land sales and cost have been spread over a ten-year period
- Annual land inflation has been set at between 1% and 2.5% over the next ten years
- Basic development costs, i.e. servicing, earthworks etc. are estimated to be 20% of the sale price
- Discount rate of 20%

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

- Decreasing the discount rate to 17.5% would result in an increase of land value of $1.955 million.
- An increase to the discount rate to 22.5% would result in a reduction of the land value of $2.507 million.
- If the land inflation rate was increased to 5% this would result in an increase of land value of $2.440 million.
- No land inflation rate over the 10 years would result in a reduction to land value of $1.700 million.
- An increase of Basic Development Costs by 10% would result in a reduction of $1.800 million. This assumes a change in the Basic Development Costs from 20% to 22%.
- An increase of Basic Development Costs by 50% would result in a reduction of $6.900 million. This assumes a change in the Basic Development Costs from 20% to 30%.

Land associated with the Massey University School of Aviation Facility (8,433m2) and 100 Airport Drive (1,290m2) have been reclassified from Property, Plant and Equipment to Investment Property during the year ended 30 June 2021 (net book value as at 30 June 2020: $0.57m).

Land associated with the subdivision of Zone B Stage 1, including land which will be vested to PNCC upon completion of the subdivision (34,400m2), has been reclassified from Property, Plant and Equipment to Investment Property during the year ended 30 June 2021 (net book value as at 30 June 2020: $1.83m).

Land associated with three lots in Zone H (7,355m2) has been reclassified from Property, Plant and Equipment to Investment Property during the year ended 30 June 2021 (net book value as at 30 June 2020: $0.43m).

The Company last recognised a revaluation of land at 30 June 2019.

The most recent fair value assessment was performed by independent registered valuers, Morgan's Property Advisors. The latest Morgan's assessment is effective as at 30 June 2021 and resulted in a suggested increase in value of $1.3m (4.3%), on a like for like basis, since the assessment dated 30 June 2020.

Compared to the last revaluation booked by the Company (30 June 2019), the 30 June 2021 fair value assessment resulted in a suggested increase of $0.84m (2.7%), on a like for like basis.

Based on the assessment of land by Morgan Property Advisors, the Company has considered their report effective 30 June 2021 and considered that the movement of 2.7% (on a like for like basis) is not sufficiently material to warrant recognition of any fair value assessment.

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

The impact of Covid-19 on building and associated lease income has been considered in determining values at 30 June 2021. Interest rates on outlays have been held at 4.5% and capitalisation rates have also been amended together with a separate Covid-19 factor being applied.

The Company last recognised a revaluation of buildings at 30 June 2019.

The most recent fair value assessment was performed by independent registered valuers Morgan's Property Advisors. The latest Morgan's assessment is effective as at 30 June 2021 and resulted in a suggested increase in value of $0.5m (4.3%) since the assessment dated 30 June 2020.

Compared to the last revaluation booked by the Company (30 June 2019), the 30 June 2021 fair value assessment resulted in a suggested decrease of $0.12m (0.9%).

Based on the assessment by Morgan Property Advisors effective 30 June 2021, the Company has considered their report and considered that the movement of 0.9% is not sufficiently material to warrant the recognition of any fair value assessment.

Airside Infrastructure
The most recent valuation performed by independent consultant engineers and valuers AECOM New Zealand Limited was recognised as at 30 June 2020. The previous valuation was completed at 30 June 2017. A fair value assessment has also been completed by AECOM New Zealand Limited for the year ended 30 June 2021, which resulted in a suggested increase of $485k (2%).

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

The methodology of the 2020 valuation and 2021 fair value assessment being the Depreciated Replacement Cost is based on PBE IPSAS 17.

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

Construction prices have begun to increase due to contractors beginning to price the risks and work safe plans on site relative to Covid-19. The majority of this increase has been negated by the relatively long lead times and logistical issues associated with having less staff on site to comply with COVID safe plans. This has led to some minor material price movement since 30 June 2020. This is further due in part to an increase in concrete prices along with the government announcing funding for $12b of infrastructure works to continue to stimulate the economy across a number of years. Some further moderate material movement is predicted in the 12 months post 30 June 2021 as economies fully recover and restrictions are likely relaxed as well as infrastructure funding continuing.

Based on the fair value assessment of Airside Infrastructure by AECOM for the year ended 30 June 2021, the Company has considered their report and considered that the movement of 2% is not sufficiently material to warrant the recognition of any fair value assessment.

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

Landside Infrastructure associated with the subdivision of Zone B Stage 1 has been reclassified from Property, Plant and Equipment to Investment Property during the year ended 30 June 2021 (net book value at the date of transfer: $0.93m).

Landside Infrastructure Capital Work in Progress associated with the subdivision of Zone B Stage 1 has been reclassified from Property, Plant and Equipment to Investment Property during the year ended 30 June 2021 (net book value as at 30 June 2020: $142,736).

Impairment
Impairment for Property, Plant and Equipment for 2021 was nil (2020 revaluation loss: $1,808,994).

Property, Plant and Equipment Pledged as Security on Borrowings

There is a general Debenture held by the BNZ of the Company assets and undertaking of the airport. Additionally, the BNZ also hold first mortgages over land at 230, 289 and 296 Milson Line (CT WN48A/146, CT WN55B/574 and CT 242875), 320 Milson Line (CT 716768), and Railway Road (CT 480423 and CT 503654), RD10, Roslyn, Palmerston North.

Assets Held for Sale

As at 30 June 2021 the Company had entered agreements or was in negotiation for the sale of five land lots being a total area of 10,331m^2. These lots are not available for immediate sale in their present condition, due to the requirement to complete earthworks and obtain legal title. As such, these lots are not considered Assets Held for Sale at 30 June 2021. The two lots classified as Assets Held for Sale at 30 June 2020 ($175,863) have been reclassified as Investment Property for the year ended 30 June 2021.

Property Plant and Equipment

Property Plant and Equipment consists of:

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

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

Measurement of Property, Plant, Equipment and Intangible Assets

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

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

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

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

The net revaluation results are credited or debited to 'Other Comprehensive Revenue and Expense' and are accumulated to an asset revaluation reserve in equity for that class-of-asset. Where this would result in a debit balance in the asset revaluation reserve, this balance is not recognised in Other Comprehensive Revenue and Expense but is recognised in the Surplus or Deficit. Any subsequent increase on revaluation that reverses a previous decrease in value recognised in the Surplus or Deficit will be recognised first in the Surplus or Deficit up to the amount previously expensed, and then recognised in Other Comprehensive Revenue and Expense.

Additions
The cost of an item of property, plant and equipment is recognised as an asset only when it is probable that future economic benefit or service potential associated with the item will flow to the Company and the cost can be measured reliably.

Work in progress is recognised at cost less impairment and is not depreciated.

In most instances, an item of property, plant, and equipment is initially recognised at its cost. Where an asset is acquired through a non-exchange transaction, it is recognised at its fair value as at the date of acquisition.

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

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

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

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

Depreciation

Depreciation is provided on a straight-line basis on all items of property, plant & equipment (other than land) at rates that will write off the cost (or valuation) of the assets to their estimated residual values over their useful lives.

The useful lives and associated depreciation rates of the major categories have been estimated as follows:

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

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

Impairment of Property, Plant, Equipment and Intangible Assets

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

If an asset's carrying amount exceeds its recoverable amount the asset is impaired and the carrying amount is written down to the recoverable amount.

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

Value in use for non-cash-generating assets
Non-cash-generating assets are those assets that are not held with the primary objective of generating a commercial return. For non-cash generating assets, value in use is determined using an approach based on either a depreciated replacement cost approach, restoration cost approach, or a service units approach.

The most appropriate approach used to measure value in use depends on the nature of the impairment and availability of information.

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

Non-current Assets Held for Sale

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

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

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

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

Critical Accounting Estimates and Assumptions

In preparing these financial statements the Company has made estimates and assumptions concerning the future. These estimates and assumptions may differ from subsequent actual results. Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations or future events that are believed to be reasonable under the circumstances. The estimates and assumptions that have a significant risk of causing material adjustments to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Property, plant and equipment useful lives and residual values
At each balance date the Company reviews the useful lives and residual values of its property, plant and equipment. Assessing the appropriateness of useful life and residual value estimates of property, plant and equipment requires the Company to consider a number of factors such as the physical condition of the asset, expected period of use of the asset by the Company, and expected disposal proceeds from the future sale of the asset.

An incorrect estimate of the useful life or residual value will impact on the depreciable amount of an asset, therefore impacting on the depreciation expense recognised in the Statement of Comprehensive Revenue and Expense, and carrying amount of the asset in the Statement of Financial Position. The Company minimises the risk of this estimation uncertainty by:

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

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

2a. Investment Property

	2021 Actual	***2020 Actual***
Opening Balance	6,525,000	6,813,357
Additions and Acquisitions	2,857,049	109,166
Depreciation	-	-
Reclassification from PPE	5,074,202	-
Reclassification from Assets Held for Sale	175,863	-
Fair Value Gains/(Losses) on Valuation	(846,114)	(397,523)
Closing Balance	**13,786,000**	**6,525,000**

Investment Property is valued annually at 30 June at fair value. The valuation was performed by independent valuers Morgan's Property Advisors as at 30 June 2021. The valuer holds the recognised and relevant qualifications of MPINZ NZIV BBS (VMP) and has significant valuation experience in the local region and for the category of investment property.

Investment Property consists of the following:

- Land and improvements associated with one property at 100 Airport Drive, occupied by two tenants (2020: improvements only);
- Land and improvements associated with the Massey University School of Aviation Facility (2020: improvements only);
- Land and improvements associated with the Zone B Stage 1 subdivision, including associated assets which will vest to PNCC upon completion of the subdivision (2020: nil); and
- Land and improvements associated with three lots on Zone H (2020: nil).

The land associated with the Massey University School of Aviation Facility (8,433m2) and 100 Airport Drive (1,290m2) was reclassified from Property, Plant and Equipment to Investment Property during the year ended 30 June 2021 at its fair value (net book value as at 30 June 2020: $0.57m). The improvements were classified as Investment Property at 30 June 2020 and 30 June 2021.

Land associated with the two lots held for sale at 30 June 2020 ($0.18m) have been reclassified as Investment Property for the year ended 30 June 2021.

At 30 June 2021, the Company had partially completed the subdivision of Zone B Stage 1, which will provide eight lots for sale or lease. This subdivision also required the upgrade of a component of Airport Drive between McGregor Street and the Terminal Roundabout.

Land associated with the subdivision of Zone B Stage 1, including land which will be vested to PNCC upon completion of the subdivision (34,400m2), has been reclassified from Property, Plant and Equipment to Investment Property during the year ended 30 June 2021 at its fair value (net book value as at 30 June 2020: $1.83m).

Development expenditure associated with the subdivision of Zone B Stage 1 has been classified as Investment Property at 30 June 2021. This includes:

- Prior years Landside Infrastructure Capital Work in Progress associated with the subdivision of Zone B Stage 1 has been reclassified from Property, Plant and Equipment (WIP) to Investment Property during the year ended 30 June 2021 (net book value as at 30 June 2020: $0.14m).
- Prior years Landside Infrastructure improvements associated with the subdivision of Zone B Stage 1 (including vesting assets) have been reclassified from Property, Plant and Equipment to Investment Property during the year ended 30 June 2021 (net book value as at 30 June 2020: $0.93m).
- Current year Capital Work in Progress associated with the subdivision of Zone B Stage 1 has been classified as Investment Property for the year ended 30 June 2021 totalling $2.85m..

The Zone B Stage 1 subdivision is due for completion in November 2021.

At 30 June 2021, the Company has leased, or was negotiating leases on three lots in Zone H, with a further lot subject to a conditional sale. Transfers to Investment Property for the year ended 30 June 2021 associated with Zone H include:

- Land associated with three lots in Zone H (7,355m2) has been reclassified from Property, Plant and Equipment to Investment Property during the year ended 30 June 2021 at its fair value (net book value as at 30 June 2020: $0.43m).
- Prior years and current year Landside Infrastructure Capital Work in Progress associated with three lots in Zone H totalling $0.01m have been reclassified from Property, Plant and Equipment to Investment Property during the year ended 30 June 2021 (net book value as at 30 June 2020: $0.006m).

The impact of Covid-19 on building and associated lease income has been considered in determining fair values at 30 June 2021. Capitalisation rates have been amended together with a separate Covid-19 factor being applied.

The valuation resulted in a decrease in value of $0.85m (12.97%).

Rental income for the year was $0.626m (2020: $0.488m). There were no expenses from Investment Property generating income. Contractual obligations for ongoing capital expenditure on Investment Property exist at 30 June 2021 relating to the completion of the Zone B Stage 1 subdivision ($1.24m) (2020: Nil). There are no contractual obligations for operating expenditure relating to Investment Property.

Valuation methodology and significant assumptions
Four of the lots within the Zone B subdivision outlined above were subject to sale and purchase agreements as at 30 June 2021. The Company has determined that there was significant uncertainty as at 30 June 2021 as to whether these lots would ultimately be sold. As such, these lots have been classified as Investment Property (instead of Inventory).

The impact of Covid-19 on building and associated lease income has been considered in determining fair values at 30 June 2021. Capitalisation rates have been amended together with a separate Covid-19 factor being applied.

In determining the fair value, the valuer has relied on the following methodologies and significant assumptions:

Investment Property	*Valuation Methodologies*	*Significant Assumptions*
Massey School of Aviation	· Cost Approach via a Replacement Cost Method (RCM) · Income Approach via a Discounted Cash Flow (DCF) · Market Approach via looking at comparable sales	· Depreciation and saleability condition of the assets · Costs to subdivide the land · Capitalisation rates ranging from 5.60%-7.50% · Year of disposal, including a net realisation capitalisation rate of 8.25%
100 Airport Drive	· Cost Approach via an RCM · Income Approach via a Capitalisation Rate Method · Market Approach via looking at comparable sales	· Depreciation and saleability condition of the assets · Costs to subdivide the land · Capitalisation rates ranging from 5.00%-5.85% · Market rentals for similar types of improvements (workshop, offices, carparks)
Zone B Stage 1 and associated vesting assets	· Block Value Method · Hypothetical Subdivision Method · DCF Method	· Lot sizes as specified in the Zone B Stage 1 subdivision plan · Development costs to complete the subdivision as well as other associated costs (e.g. legal fees, agency fees, holding fees etc) Year of sale being 2021 or 2022 (calendar year). · Discount rates of 15.00%-17.00%
Three lots on Zone H	· One or more methods including: · Income Approach via a DCF · Market Approach via looking at comparable sales	· Costs to subdivide the land · Capitalisation rates ranging from 4.05%-5.00% · Discount rates ranging from 4.55%-5.05%

3. Intangible Assets

	Website	***Software***	***Total***
Balances as at 1 July 2021	21,928	-	21,928
Accumulated Depreciation	(12,195)	-	(12,195)
Carrying Amount	**9,733**	**-**	**9,733**
Movement for the Year			
Reverse Prior Year Work in Progress	-	-	-
Additions and Current Year Work in Progress	21,500	-	21,500
Reclassification - Cost	-	41,661	41,661
Reclassification - Accumulated Depreciation	-	(36,693)	(36,693)
Disposals	-	(3,709)	(3,709)
Disposal - Accumulated Dep.	-	3,709	3,709
Amortisation for the Year	(3,538)	(3,911)	(7,449)
Closing Balances 30 June 2020			
Cost / Revaluation	43,428	37,952	81,380
Accumulated Depreciation	(15,733)	(36,895)	(52,627)
Carrying Amount	**27,695**	**1,057**	**28,752**
Capital Work in Progress Included at Cost	21,500	-	21,500

Intangible Assets

Internally Generated Intangible Assets
Costs associated with the development of the Company's web-site are recognised as an intangible asset and are capitalised on the basis of the cost incurred to bring to use the intangible asset. The carrying value of an intangible asset with a finite life is amortised on a straight-line basis over its useful life. Amortisation begins when the asset is available for use and ceases at the date that the asset is derecognised. The amortisation charge for each period is recognised in the surplus or deficit.

Computer software with a net book value of $4,968 was transferred from property, plant and equipment to intangible assets during the 2021 financial year.

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

Website Development	4 years: 25%
Software	2.5 years: 40%

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

4. Trade Accounts and Other Receivables

	2021 Actual	2020 Actual
Debtors and Other Receivables	592,653	506,257
Receivables from Related Party	80	1,704
Provision for Impairment	(7,635)	-
Total	**585,098**	**507,961**

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

	2021 Actual	2020 Actual
Opening Balance	-	(16,990)
Additional Provisions	(7,635)	16,990
Closing Balance	**(7,635)**	**-**

Trade and Other Receivables

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

5. Cash and Cash Equivalents

	2021 Actual	2020 Actual
Current Account	357,655	231,273
Cash on Hand	4,803	41,807
Total	**362,458**	**273,080**

Cash, Cash Equivalents and Bank Overdrafts

Cash, Cash Equivalents and Bank Overdrafts includes cash on hand; deposits held at call with banks, other short term highly liquid investments with original maturities of three months or less and bank overdrafts.

Bank overdrafts are shown within borrowings in current liabilities in the Statement of Financial Position.

6a. Taxation

	2021 Actual	2020 Actual
Operating Surplus (Deficit) Before Taxation	410,472	1,297,376
Tax at 28%	114,932	363,265
plus (less) tax effect of:		
- Permanent differences / non-deductible expenditure	332,163	8,524
- Prior year under / (over) provision	(14,757)	-
- Deferred tax on fixed asset reclassifications	5,537	-
- Deferred tax on revaluation & deferred tax movement for year	-	-
- Deferred tax on buildings tax depreciation reinstatement	-	(701,021)
Tax Charge for the Year	**437,875**	**(329,232)**
Tax expense for the year comprising:		
Current Tax Expense	479,596	684,601
Prior Year Adjustments	(14,757)	-
Deferred Tax Expense	(26,964)	(1,013,832)
	437,875	**(329,232)**

6b. Deferred Tax (Assets) / Liabilities

	Property, Plant and Equipment	Employee Entitlements	Other Provisions	Total
Balance at 1 July 2020	**6,584,730**	**(41,547)**	**(515)**	**6,542,668**
Charged to Surplus and Deficit - Current Year	(24,721)	1,380	(2,694)	(26,034)
Charged to Other Comprehensive Income	-	-	-	-
Balance at 30 June 2021	**6,560,010**	**(40,167)**	**(3,209)**	**6,516,634**
Balance at 1 July 2019	**8,098,952**	**(37,905)**	**(5,015)**	**8,056,032**
Charged to Surplus and Deficit - Current Year	(1,007,703)	(3,642)	4,500	(1,006,846)
Charged to Other Comprehensive Income	(506,518)	-	-	(506,518)
Balance at 30 June 2020	**6,584,730**	**(41,547)**	**(515)**	**6,542,668**

Income Tax

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

Current tax is the amount of income tax payable based on the taxable profit for the current year, plus any adjustments to income tax payable in respect of prior years. Current tax is calculated using tax rates (and tax laws) that have been enacted or substantively enacted by balance date.

Deferred tax is the amount of income tax payable or recoverable in future periods in respect of temporary differences and unused tax losses. Temporary differences are differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit.

Deferred tax is measured at the tax rates that are expected to apply when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at balance date. The measurement of deferred tax reflects the tax consequences that would follow from the manner in which the entity expects to recover or settle the carrying amount of its assets and liabilities.

Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which the deductible temporary differences or tax losses can be utilised.

Deferred tax is not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition of an asset and liability in a transaction that is not a business combination, and at the time of the transaction, affects neither accounting profit nor taxable profit.

For deferred tax purposes, PNAL has not rebutted the recovery through sale presumption in respect of buildings held as investment property.

Current and deferred tax is recognised against the surplus or deficit for the period, except to the extent that it relates to a business combination, or to transactions recognised in other comprehensive revenue and expense or directly in equity.

Goods and Services Tax

All items in the financial statements are stated exclusive of Goods and Services Tax (GST) with the exception of receivables and payables, which are stated, with GST included. Where GST is irrecoverable as an input tax then it is recognised as part of the related asset or expense.

The net amount of GST recoverable from, or payable to the Inland Revenue Department (IRD) is included as part of receivables or payables in the Statement of Financial Position.

The net GST paid to, or received from the IRD, including the GST relating to investing and financing activities, is classified as an operating cash flow in the Statement of Cash Flows.

Commitments and contingencies are stated exclusive of GST.

7. Employee Benefit Liabilities

	2021 Actual	***2020 Actual***
Accrued Pay (inc bonus accrual)	88,099	76,951
Annual Leave	95,261	103,287
Sick Leave	-	3,429
Total	**183,360**	**183,667**

Employee Entitlements

Employee benefits that the Company expects to be settled within 12 months of balance date are measured at nominal values based on accrued entitlements at current rates of pay. These include salaries and wages accrued up to balance date and annual leave earned but not yet taken at balance date.

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

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

Presentation of employee entitlements
Annual leave is classified as a current liability.

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

7a. Employee Expenses

	2021 Actual	***2020 Actual***
Salaries and Wages	1,334,025	1,524,817
Employer Contribution to Kiwi Saver	39,579	43,986
Movement in Employee Entitlements	(307)	48,290
Total	**1,373,297**	**1,617,093**

8. Commitments

	2021 Actual	***2020 Actual***
Operating Commitments as Lessee		
Less than 1 Year	86,411	92,847
Between 1 and 5 Years	72,976	140,997
Over 5 Years	-	-
Total	**159,387**	**233,844**
Operating Commitments as Lessor		
Less than 1 Year	1,700,714	1,402,195
Between 1 and 5 Years	3,729,382	3,670,391
Over 5 Years	5,313,758	5,791,264
Total	**10,743,854**	**10,863,850**
On-Going Month to Month Leases	**154,101**	**157,117**

PNAL also has three outstanding forward exchange contracts in place totalling AUD512,000, relating to the purchase of two refurbished Rosenbauer 6x6 rescue fire vehicles.

Leases

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

Operating Commitments as Lessee

PNAL leases computer and electronic equipment, lift infrastructure, billing software, advertising and two motor vehicles. The unexpired terms of leases as at 30th June 2021 range from 3 to 42 months.

Operating Commitments as Lessor

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

2021 & 2020 commitments have been calculated until the end of the current right of renewal, or end of the contract, whichever comes first. These commitments relate to property leases, advertising, and rental agency contracts and are GST exclusive.

There are other ongoing leases amounting to $14,404 per annum that are on a month to month basis (2020: $6,970). There are no contingent rents recognised as revenue in the period.

9. Finance Costs

	2021 Actual	2020 Actual
Interest on Secured Long Term Loans	477,679	531,078
	477,679	**531,078**

10. Borrowings

	2021 Actual	2020 Actual
Current Borrowings	4,999,999	3,700,000
Non-Current Borrowings	7,700,000	8,000,000
Total Borrowings	**12,699,999**	**11,700,000**

11. Other Operating Expenses

	2021 Actual	2020 Actual
Rates	409,614	391,851
Power and Insurance	356,456	375,855
Repairs and Maintenance	837,590	828,494
Total	**1,603,660**	**1,596,200**

12. Audit Fees

	2021 Actual	2020 Actual
Fees for Audit of Financial Statements	48,143	44,166
Disbursements	-	-
Audit Fees from Other Providers	-	-
Total	**48,143**	**44,166**

13. Equity

(a) Share Capital

	2021 Actual	2020 Actual
9,195,000 Ordinary Fully Paid Share Capital	9,380,400	9,380,400
Closing Balance	**9,380,400**	**9,380,400**

(b) Retained Earnings

	2021 Actual	2020 Actual
Opening Balance	**22,450,806**	**21,509,432**
Net Operating Surplus	(27,403)	1,626,608
Dividends Paid During Year	-	(685,234)
Closing Balance	**22,423,403**	**22,450,806**

Capital Commitments

PNAL had capital commitments of $1.9m as at 30 June 2021 relating to a new Otis escalator, additional fire appliance import costs, agreements for consultancy services and subdivision development services yet to be performed, which includes those disclosed under Investment Property (Note 2a) above (2020: $16,556).

Borrowings and Borrowing Costs

Borrowings are initially recognised at their fair value plus transaction costs. After initial recognition, all borrowings are measured at amortised cost using the effective interest method.

Borrowings are classified as current liabilities where the debt tranche is floating or fixed for less than 12 months after balance date. Otherwise borrowings are classified as non-current. PNAL's debt facility has a current maturity date of December 2025.

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

Registered mortgage over property owned by the Company secure the $12.7m borrowings (2020: $11.7m) from Bank of New Zealand. This includes existing perfected security interest in all present and after acquired property of Palmerston North Airport Limited. Refer to Note 2 for the carrying value of the secured assets at balance date.

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

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

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

Equity

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

- Retained Earnings
- Paid in Capital
- Asset revaluation reserve

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

(c) Dividends:

No dividend has been declared for the 12 months ending 30 June 2021 (2020: Nil).

(d) Asset Revaluation Reserve

	2021 Actual	***2020 Actual***
Opening Balance	**35,288,357**	**36,590,833**
Revaluation Movement		
- Land	1,173,241	-
- Buildings	-	-
- Airside Infrastructure	-	(1,808,994)
Less Deferred Taxation		
- Movement - Buildings	(506,518)	506,518
- Movement - Airside Infrastructure	506,518	
Closing Balance	**36,461,598**	**35,288,357**
Asset Revaluation Reserve Consists of		
- Land	21,384,287	20,211,046
- Buildings	2,254,070	2,760,588
- Airside Infrastructure	12,823,241	12,316,723
	36,461,598	**35,288,357**

14. Trade Accounts Payable

	2021 Actual	***2020 Actual***
Revenue in advance from exchange transactions	45,494	162,440
Revenue in Advance from Non-Exchange Transactions	-	-
Total	**45,494**	**162,440**
Trade Accounts Payable from Exchange Transactions		
Trade Accounts Payable	359,133	565,868
Payables to Related Party	7,831	9,481
Trade Accounts Payable from Non-Exchange Transactions		
Tax Payable	199,351	108,015
Total	**566,315**	**683,364**
Other Creditors from Exchange Transactions		
Other Creditors	1,167,719	93,140
Other Creditors from Non-Exchange Transactions		
GST (refundable) / payable	(29,230)	(16,937)
Total	**1,138,490**	**76,203**

The transfer of various land assets from Property, Plant and Equipment to Investment Property during the year ended 30 June 2021 have resulted in an increase the land revaluation reserve of $1,173,241. This land was revalued on the date of transfer from Property, Plant and Equipment to Investment Property by Morgan's based on the valuation methodology specified above.

Historic revaluation gains relating to land transferred to Investment Property from Property, Plant and Equipment during the year ended 30 June 2021 remain in the reserve until the land is disposed. Total revaluation gains reflected in reserves relating to Investment Property total $1,681,732.02 at 30 June 2021 (2020: Nil).

Critical Judgments in Applying Accounting Policies

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

Judgements have also been made by the Company as to the date of transfer from Property, Plant and Equipment to Investment Property during the year ended 30 June 2021, reflecting the date of change in use. Fair value gains/losses up to the change in use have been reflected in Other Comprehensive Income as part of the asset revaluation reserve (unless this would result in a debit to the reserve). Fair value gains/losses following the change in use have been reflected in the Surplus or Deficit.

15. Related Party Transactions

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

PNAL received services from PNCC during the 12 months ended 30 June 2021 for $461,844 (2020: $432,176). In addition, during the 2021 income year, PNAL utilised accumulated tax losses from PNCC totalling $147,844, resulting in a tax payment to PNCC of $41,396 for the 2020 tax year (2020: The tax losses utilised totalled $196,299 via a tax payment to PNCC of $54,964 for the 2019 tax year).

PNAL normally pays a dividend to PNCC each year equating to 40% of after-tax surplus (excluding Fair Value Gains/Losses on Investment Property). However, due to Covid-19, no dividends were declared for the year ended 30 June 2021 or 2020.

PNAL provided services to PNCC during the 12 months ended 30 June 2021 for $6,547.(2020: $46,136). Other than the tax loss, all transactions were conducted on normal commercial terms.

PNAL owed PNCC $7,831 inclusive of GST as at 30 June 2021 (2020: $9,481).

PNCC owed PNAL $80 inclusive of GST as at 30 June 2021 (2020: $1,704).

Key Personnel Remuneration

	2021 Actual	***2020 Actual***
Directors Remuneration	108,000	99,145
Full Time Equivalents	5	5
Senior Management Team Including the Chief Executive's Remuneration	1,043,558	888,426
Full Time Equivalents	7	6

Other Significant Policies

Other Financial Assets

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

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

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

- fair value through surplus or deficit;
- loans and receivables;
- held-to-maturity investments; and
- fair value through Other Comprehensive Revenue and Expense.

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

The Company has the following relevant category:

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

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

Impairment of Financial Assets

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

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

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

Statement of Cash Flows

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

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

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

16. Major Variances Explained

Account	*Actual*	*Budget*	*Variance*	Notes
Operating Revenue	8,345,705	6,253,088	2,092,617	Recovery from Covid-19 has exceeded expectations. Actual passenger volumes were 136k higher than SOI anticipated.
Operations Expenditure	2,332,622	2,480,544	(147,922)	Careful management of expenditure through FY21.
Finance Costs	477,679	309,235	168,444	Budgeted Provincial Growth Funding did not eventuate resulting in higher financing costs.
Depreciation & Amortisation	1,862,757	2,075,421	(212,664)	Lower than budgeted depreciation expense reflecting deferment of planned capital projects into future years.
Revaluation (Loss) / Gain - Investment Properties	(846,114)	-	(846,114)	Revaluation movements are not budgeted. Loss is a result of Zone B Stage 1 subdivision requiring substantial upfront investment which will benefit remaining subdivision stages, to be completed in subsequent income years.
Dividend Paid	-	-	-	There have been no dividends paid or declared in the 2021 financial year.
Deferred Tax Liability	6,516,634	8,056,032	(1,539,398)	FY20 deferred tax on airside revaluations & change in building depreciation allowance was not projected in the FY21 SOI. Deferred tax movement in FY21 is only $26k.
Current Assets	1,071,358	558,536	512,823	Post Covid-19 recovery resulted in additional debtors and accrued income than budgeted. Higher cash balance than budgeted.
Current Liabilities (excluding bank overdraft and current borrowings)	1,933,659	377,076	1,556,583	Additional creditors, income received in advance and accruals reflect increasing activity as part of Covid-19 recovery.
Property, Plant, Equipment & Intangible Assets & Investment Property	88,344,334	90,392,962	(2,048,628)	Below SOI reflecting deferral of budgeted capital projects.
Total Borrowings	12,699,999	14,851,329	(2,151,330)	Relates to deferral of budgeted capital projects noted above.

17. Financial Instruments

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

Financial Assets	*Rating**	*2021 Actual*	*2020 Actual*
Cash and Cash Equivalents	AA-	362,458	273,080
Trade Receivables		585,098	507,961
Total Financial Assets		**947,556**	**781,041**

* Standard & Poor's Rating for BNZ

Financial Liabilities	*2021 Actual*	*2020 Actual*
Trade Accounts and Other Payable	1,704,805	759,567
Bank Overdraft	-	-
Borrowings - Secured Loans	12,699,999	11,700,000
Total Financial Liabilities	**14,404,804**	**12,459,567**

18. Events After Balance Date

Subsequent to 30 June 2021, Jon Nichols resigned from the Board, effective 1 October 2021. He has been replaced by a new Director, Sarah Laurence.

In addition, in August 2021 there was a resurgence of Covid-19 in the community, resulting in a nationwide lockdown, followed by an extended lockdown in Auckland. This resurgence has negatively impacted on PNAL's forecast passenger volumes for FY22.

PNAL remains a going concern and are cautiously optimistic regarding the ongoing recovery from Covid-19 into the second half of FY22 and subsequent income years.

19. Contingencies

The New Zealand Environmental Protection Agency commenced a review during 2018 into the use of PFOS foam in firefighting applications, including at airports. Investigations at Palmerston North Airport have since confirmed that this foam was used for firefighting training exercises at the airport up until the late 1980s.

All PFOS foam was successfully removed from the fire appliances and storage containers onsite during the 2019 financial year. Further testing and investigation has been completed during the 2021 financial year at a cost of $6,313 (2020: $31,031).

Future outflows associated with monitoring and treating PFOS are expected to be incurred in future accounting periods. However, the timing and value of outflows are not able to be reliably estimated at 30 June 2021.

HIGHLIGHTS

FINANCIAL HIGHLIGHTS

Year Ending	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Statement of Financial Performance:	**(000)**	**(000)**	**(000)**	**(000)**	**(000)**	**(000)**	**(000)**	**(000)**	**(000)**	**(000)**	**(000)**
Total Revenue	8,346	9,137	10,202	8,483	7,313	5,523	4,943	4,818	4,590	4,480	4,225
Net Surplus Before Interest, Depn, Taxation & Reval of Investment Property	3,598	4,079	5,025	4,074	3,534	2,391	2,064	1,847	1,765	1,739	1,821
Net Surplus Before Taxation & Misc Items (*)	1,257	1,695	2,593	2,211	1,849	841	911	756	709	684	748
Net Surplus After Taxation Excluding Deferred Tax Adjustments (*)	819	2,024	1,713	1,609	1,299	805	662	544	492	496	535
Earnings Per $ of Paid Up Share Capital (excl. any Premium on Issue and Deferred Tax Adjustments) (*)	8.73c	21.58c	18.26c	17.50c	14.13c	8.75c	7.20c	5.92c	5.35c	5.39c	5.82c
Dividend Proposed or Paid Per $ of Paid Up Share Capital (excl. of any Premium on Issue)	0.00c	0.00c	7.31c	7.00c	5.65c	3.50c	2.88c	2.37c	2.14c	2.10c	2.30c
Statement of Financial Position	**(000)**	**(000)**	**(000)**	**(000)**	**(000)**	**(000)**	**(000)**	**(000)**	**(000)**	**(000)**	**(000)**
Total Assets	89,416	86,468	89,617	77,894	73,588	62,946	61,543	44,904	43,727	43,878	44,645
Shareholders Funds	68,265	67,120	67,481	60,704	59,615	49,810	49,305	35,823	35,475	35,177	35,516
Share Capital Paid Up (excluding of any Premium on Issue)	9,195	9,195	9,195	9,195	9,195	9,195	9,195	9,195	9,195	9,195	9,195
Net Asset Backing Per Share	$7.42	$7.30	$7.34	$6.60	$6.48	$5.42	$5.36	$3.90	$3.86	$3.83	$3.86
Return On Shareholder Funds (excluding Deferred Tax Adjustments)*	1.20%	3.02%	4.10%	2.65%	2.18%	1.62%	1.34%	1.52%	1.39%	1.41%	1.51%

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

ANNUAL PASSENGER NUMBERS

Year Ending	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Total Passengers	400,467	498,442	687,142	657,515	629,400	515,727	466,557	455,166	445,147	449,318	449,090

INDEPENDENT AUDITOR'S REPORT

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

For the year ended 30 June 2021

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

Opinion

We have audited:

- the financial statements of the company on pages 16 to 35, that comprise the statement of financial position as at 30 June 2021, the statement of comprehensive revenue and expense, statement of changes in equity and statement of cash flows for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information; and
- the performance information of the company on pages 11 to 13.

In our opinion:

- the financial statements of the company on pages 16 to 35:
  - present fairly, in all material respects:
    - its financial position as at 30 June 2021; and
    - its financial performance and cash flows for the year then ended; and
  - comply with generally accepted accounting practice in New Zealand in accordance with Public Benefit Entity Standards Reduced Disclosure Regime; and
- the performance information of the company on pages 11 to 13 presents fairly, in all material respects, the company's actual performance compared against the performance targets and other measures by which performance was judged in relation to the company's objectives for the year ended 30 June 2021.

Our audit was completed on 25 November 2021. This is the date at which our opinion is expressed.

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

Basis for our opinion

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

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

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

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

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

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

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

The Board of Directors' responsibilities arise from the Local Government Act 2002 and Airport Authorities (Airport Companies Information Disclosure) Regulations 1999.

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

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

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

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

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

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

- We identify and assess the risks of material misstatement of the financial statements and the performance information, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- We obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.

- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.

- We evaluate the appropriateness of the reported performance information within the company's framework for reporting its performance.

- We conclude on the appropriateness of the use of the going concern basis of accounting by the Board of Directors and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists we are required to draw attention in our auditor's report to the related disclosures in the financial statements and the performance information or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company to cease to continue as a going concern.

- We evaluate the overall presentation, structure and content of the financial statements and the performance information, including the disclosures, and whether the financial statements and the performance information represent the underlying transactions and events in a manner that achieves fair presentation.

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

Our responsibilities arise from the Public Audit Act 2001.

Other Information

The Board of Directors is responsible for the other information. The other information comprises the information included on pages 3 to 10, page 14 and page 36, but does not include the financial statements and the performance information, and our auditor's report thereon.

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

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

Independence

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

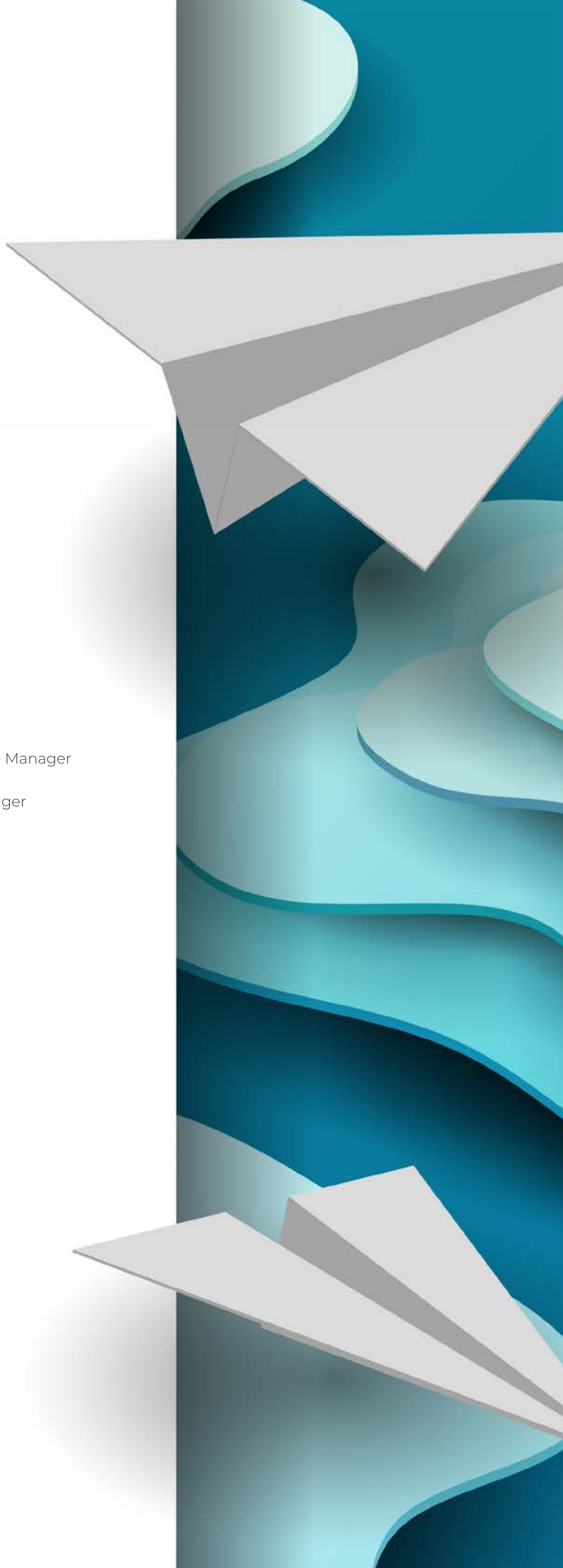
Other than the audit, we have no relationship with, or interests in, the company.

Chris Webby
Audit New Zealand

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

COMPANY DIRECTORY

Palmerston North Airport Limited



Directors

As at June 2021

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

Management

David Lanham	Chief Executive
Jonathon Baker	Finance Manager
Olivia Pierre	Commercial & Customer Experience Manager
Ben Parkinson	Airfield Operations Manager
Danielle Balmer	Marketing & Communications Manager
Brent Lawry	Terminal & Facilities Manager
Terry Cooney	Safety & Security Manager
Vacant	Capital Projects & Asset Manager

Registered Office

Palmerston North Airport Limited
Terminal Building
Airport Drive
PALMERSTON NORTH

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

Trading Bankers

Bank of New Zealand

Legal Advisors

Cooper Rapley Lawyers

Auditor

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

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