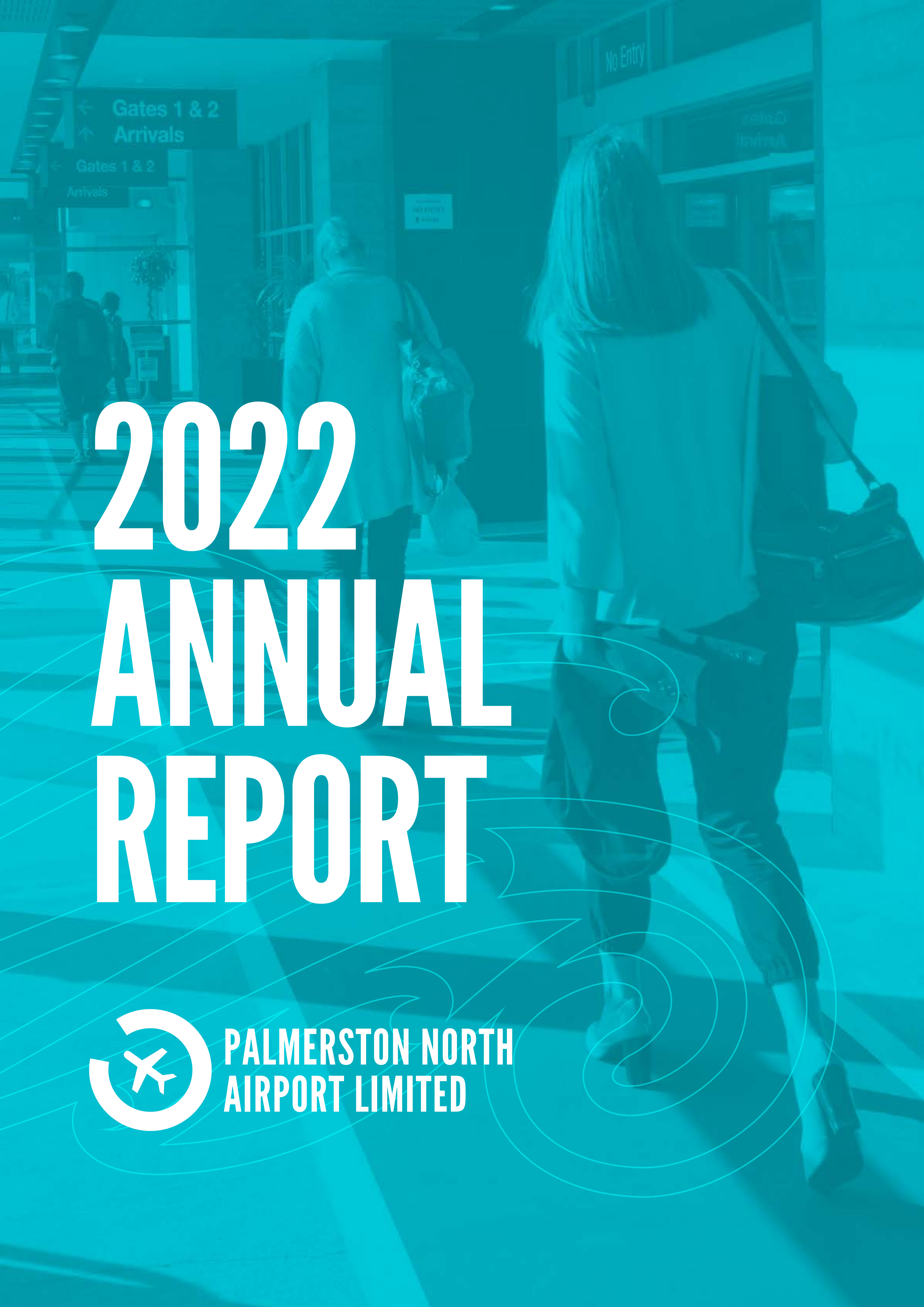

2022 ANNUAL REPORT

PALMERSTON NORTH AIRPORT LIMITED

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2022 ANNUAL REPORT

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JOINT REPORT

The Chair and Chief Executive's Joint Report
For the year ended 30 June 2022

Overview

The Directors and Management team are pleased to present the 2022 Annual Report.

The year ended 30th June 2022 was again challenging for Palmerston North Airport Limited (PNAL) with ongoing disruption to air travel associated with the Covid-19 pandemic. Passenger movements were again impacted which translated into an income result (excluding inventory sales and revaluations) which was 19% behind the Statement of Intent target.

Despite the uncertainty PNAL maintained its focus on health & safety and the maintenance of priority infrastructure. Investment in Ruapehu Business Park continued with the completion of Stage 1 of the Wairaka Place development, while the terminal redevelopment project also gathered pace with the appointment of Studio Pacific as lead architects in a co-design relationship with mana whenua Rangitāne.

Management of cashflow was again paramount with the ongoing scrutiny of operational and capital expenditure priorities and a focus on critical infrastructure, and deferral where possible of non-essential maintenance.

Total operating expenditure (excluding inventory sales) was limited to $5.2 million, a positive 15% variance to the Statement of Intent.

The EBITDA result of $3.1 million was 23% behind the Statement of Intent and 15% behind the prior year, with the loss of aeronautical revenue the primary contributor to the shortfall notwithstanding the costs savings.

Importantly, Shareholder equity increased by $14.7 million. This was driven by the net profit after tax of $1.4 million and net revaluation gain on property, plant and equipment of $13.3 million.

The growth in shareholder value remains a key focus for PNAL. As reflected in the Statement of Expectations outlined by the shareholder, this value is delivered in a number of ways. Financially, these include the growth in shareholder equity ($14.7 million in FY22), but also in the Company's steps towards Greenhouse Gas Emission reductions (the Airport Carbon Accreditation programme), our enhancements in providing a suitable gateway to the region (terminal redevelopment) and our key role in the development of Te Utanganui and freight/logistics industries. Further details on these, and other, enhancements to shareholder value is outlined below.

Shareholder equity increased by $14.7 million. This was driven by the net profit after tax of $1.4 million and net revaluation gain on property, plant and equipment of $13.3 million.

Financial

Income (excluding inventory sales) of $8.2 million fell short of the previous financial year by $0.2 million, and $1.9 million behind the Statement of Intent.

Aeronautical revenue of $4.6 million for the full year was 26% behind the Statement of Intent target and 7% behind the prior year, driven off the significantly lower passenger volumes.

Commercial income of $1.9 million was 13% behind the Statement of Intent, although inline with the prior year.

Income from all other sources of $3.0 million was 77% above the Statement of Intent. This is largely due to the recognition of land sales within Zone B as inventory proceeds, partly offset by car park income being impacted adversely by the disrupted passenger volumes.

Total operating expenditure (excluding inventory sales) of $5.2 million, represented a positive 15% variance to the Statement of Intent. The deferral of non-essential maintenance projects was the primary contributor to the savings, although a reduction in tactical marketing spend was also achieved.

The revaluation of investment property resulted in an overall fair value gain of $0.5 million while the revaluation of property, plant and equipment resulted in a further fair value gain of $13.3 million.

Net Profit After Taxation of $1.4 million, was 27% below the Statement of Intent although an improvement on the prior year loss of $0.03 million.

PNAL's balance sheet remains strong with shareholder's equity of $82.9 million, an increase of $14.7 million on the prior year, and debt of $14.7 million ($12.7 million last year).

PNAL's balance sheet remains strong with shareholder's equity of $82.9 million, an increase of $14.7 million on the prior year, and debt of $14.7 million ($12.7 million last year).

Net cash flow from operating activities was $1.9 million compared to $2.5 million last year.

As illustrated above, and as previously communicated to the Shareholder, PNAL reconfirms its intention to add value to the shareholder and community through the delivery of customer facing improvements including the Terminal Development Plan, more diversified revenue streams via investment in Ruapehu Business Park and an increase in shareholder wealth (total equity).

Compliance

PNAL again recorded Zero lost time injuries and continued to maintain all Civil Aviation Act (CAA) Rule Part 139 requirements during the financial year. The first independent audit of PNAL's one-year old Safety Management System was conducted in November. The audit highlighted the strong safety culture that PNAL has developed across the aerodrome campus.

The first independent audit of PNAL's one-year old Safety Management System was conducted in November. The audit highlighted the strong safety culture that PNAL has developed across the aerodrome campus.

PNAL continues to develop and execute against its Asset Management Plan. The reconstruction of the runway ends, deferred from the prior year, were completed during FY22, while the re-coating of the runway surface was deferred until FY23. A runway lighting upgrade was also undertaken by Airways.

The insourcing of Rescue Fire services successfully took place on 30 September 2021, with the majority of rescue firefighters and security personnel joining PNAL from the former third-party service provider.

The consolidation of airfield operations and safety management under a combined management structure in Q4 will ensure improved coordination between operational teams, and consistency in service delivery.

PNAL's two refurbished Rosenbauer rescue fire vehicles arrived from Brisbane during Q2. Entry into service was delayed due to part shortages, significant delays in shipping timelines and a lack of qualified Rosenbauer technicians in New Zealand due to Covid-19 border restrictions. Notwithstanding this, PNAL managed to maintain continuous 24/7 rescue fire operations throughout FY22.

Culture

The Board and Chief Executive acknowledge the team for their ongoing dedication and high level of morale and resilience displayed during a disruptive operating period.

Notwithstanding a long period of remote working, the second annual PNAL team engagement survey conducted in Q2 highlighted very strong engagement, a pleasing result which benefited from the ongoing investment in the OneTeam wellness program. This included the installation of a gymnasium in the Rescue Fire station which is proving popular with both the RFS and corporate team members.

During the year the Company welcomed Muhammad Dahlan to the position of Capital Projects and Assets Manager and Michelle Thompson to the Human Resources Advisor position. Sarah Laurence and Shelly Mitchell-Jenkins were appointed as Board directors and Kerri Sterling as Board intern.

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Corporate team departures included Ben Parkinson Airfield Operations Manager, Paula Bracefield Human Resources Advisor, and Danielle Wyness Marketing & Communications Manager.

The company also farewelled long-serving Board director Jon Nichols and director Sarah Vining.

Customer

Net Promoter Score continues to be used as the primary measure of customer loyalty. A full-year Net Promoter Score of 30 met the Statement of Intent target.

Two additional survey platforms via in-terminal free wifi and the Company website have been introduced during the year to increase survey response volumes. A total of 437 survey responses were received during the year an increase on the 357 received in the prior year.

The Company remains focussed on further enhancements to customer experience. Outputs from customer experience surveys completed earlier in the calendar year have been useful in informing management.

A key pillar of PNAL's focus on improving customer experience involves the ongoing terminal redevelopment over the medium term. The project's primary objectives are to ensure regional passenger and hold bag screening can be accommodated if mandatory, accommodate the anticipated rebound in passenger volumes, and the potential re-introduction of scheduled jet services from late 2025. Concept design for the terminal re-development commenced during FY22, with the appointment of multi-award winning Studio Pacific as lead architects, with co-design partners mana whenua Rangitāne.

Concept design for the terminal re-development commenced during FY22, with the appointment of multi-award winning Studio Pacific as lead architects, with co-design partners mana whenua Rangitāne.

Community

Sustainability initiatives remain a key focus for the Company. The Company achieved Level 2 reduction accreditation in the Airports Council International Airport Carbon Accreditation (ACA) 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, with completion due to occur in Q1 of FY23 after Covid related delays impacted on the project.

The Company is now progressing towards Level 4 accreditation of the ACA program with a focus on the further development of PNAL's carbon management plan, and pathway to the achievement of PNALs longterm absolute carbon emissions reduction target, and support for on-airport stakeholders and their own emission reduction initiatives.

Due to the Company's focus on cash preservation, community engagement activities continued albeit on a modest scale with the Company supporting Wildbase, Just Zilch, Centrepoint and Fly Palmy Arena.

One of the largest projects was the ongoing transition of the terminal heating & cooling system from natural gas to electricity, with completion due to occur in Q1 of FY23.

Commercial

Passenger movements of 323,615 were the lowest recorded in twenty years, and were 77,000 or 19% below the previous financial year, and 33% behind the Statement of Intent target of 480,000. The period July to December 2021 was adversely impacted by Auckland lockdowns and the associated loss of Auckland – Palmerston North services. Total passenger movements of 141,400 during H1 was 39% behind the Statement of Intent (SOI). The second half of the financial year was an improvement with 182,000 passenger movements, of which 110,000 were carried in the final quarter with a notable rebound in passenger demand from mid-April as the country moved to the Orange traffic light setting.

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

PNAL continued the development of Ruapehu Business Park, with the completion of Stage1 of Wairaka Place being achieved during the year. By year end, three developments had commenced, one within Wairaka Place and two on airport land North East of the terminal precinct. The sale of two lots of land (treated as inventory in the financial statements) within Stage 1 were also completed prior to year end.

Significant interest is also being shown in warehousing developments to be located South West of the terminal precinct.

The second half of the financial year was an improvement with 182,000 passenger movements, of which 110,000 were carried in the final quarter with a notable rebound in passenger demand.

The planned Te Utanganui / Central New Zealand Distribution hub will ultimately become an integrated and resilient multimodal freight transportation system combining road, rail, air and sea connections.

The Future Outlook

PNAL again approaches the new financial year with a degree of cautious optimism with a keen focus on continuing to enhance shareholder value, both financially and non-financially.

The anticipated rebound in FY23 of circa 149% in passenger movements to 459,000 is predicted to be driven by the region's relatively resilient economy, unprecedented investment in construction and infrastructure across the public and private sector, and a stabilisation of Covid-19 impacts on air travel.

The planned Te Utanganui / Central New Zealand Distribution hub will ultimately become an integrated and resilient multimodal freight transportation system combining road, rail, air and sea connections. PNAL recognises the significance of Te Utanganui to our city and region's future success and will play a major role in Te Utanganui's development via the facilitation of air transportation linkages for passengers and airfreight alike.

Over the coming three years, PNAL will be embarking on a period of substantial capital investment. This includes the ongoing investment in operational critical infrastructure, both airside and landside. The terminal re-development will ensure the airport can enable passenger and hold-bag screening should that become mandatory, as well as ensure the facility can accommodate future passenger volumes and potentially the return of jet services. Ongoing commercialisation through a focus on customised design build and leaseback solutions for freight & logistics clients and others seeking an airport location is also a key priority and will assist the Company to achieve revenue diversification objectives.

Underpinning all activity the Company will maintain its focus on the wellbeing of our highly valued airport team, regulatory compliance and keeping all airport users safe.

David Lanham
Chief Executive

Murray Georgel
Chair

CORPORATE REPORT

For the year ended 30 June 2022

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, air freight operators 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 21 to 25.

	2022 Actual	***2022 SOI***	***2021 Actual***
Performance			
Revenue	9,485,265	10,035,463	8,345,705
EBITDA & Valuation of IP	3,057,567	3,949,457	3,598,416
Net Profit After Tax	1,379,502	1,881,361	(27,403)
Passengers	323,615	480,000	400,467
Financial Position			
Cash & Cash Equivalents	110,229	47,487	362,458
Current Assets	1,495,191	917,730	1,071,358
Property, Plant & Equipment	92,713,643	91,455,347	74,529,581
Shareholder Funds	82,990,345	71,341,932	68,265,401

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
Murray Georgel retired by rotation and was reappointed to the Board by the Shareholder in September 2021.

Appointments
Sarah Laurence was appointed to the Board by the Shareholder in September 2021.

Shelly Mitchell-Jenkins was appointed to the Board by the Shareholder in May 2022.

Kerri Sterling was appointed by the Shareholder as a director intern (non-voting) for a 12 month period, commencing January 2022.

Retirements
Jon Nichols retired from the Board, effective October 2021.

Sarah Vining retired from the Board, effective May 2022.

Directors' Remuneration

For the year ended 30 June 2022, the amount of $112,088 ($108,000: 2021) for Director Remuneration was paid, or due and payable, to members of the Board as authorised by the shareholder as follows:

	2022 Actual	***2021 Actual***
Georgel M	35,420	33,600
Mitchell-Jenkins S	3,630	-
Cardwell C	18,310	18,000
Gillespie G	18,310	18,000
Laurence S	15,310	-
Nichols J	5,100	20,400
Vining S	16,008	18,000
	112,088	**108,000**

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

As at 30th June 2022, Directors declared interests in the following entities:

Interest	*Nature of Interest*	*Relationship to PNAL*
Mr M Georgel		
Director	The Factory New Zealand 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	PN Theatre Trust (Centre Point Theatre)	Sponsor ($10k FY22)
Trustee	Central Energy Trust	None
Mr C Cardwell		
Director of Facilities	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 Laurence		
Deputy Chair	Swimming Manawatu	None
General Manager	DCPower Ltd	Supplier
Minority Shareholder	Air New Zealand	Customer
Ms S Mitchell-Jenkins		
Director	Electra Ltd	None
Director	Electra Services Ltd	None
Director	Four non-trading subs of Electra	None
Director	Web Genius Central NZ Ltd	None
Director	The Web Genius Limited (non-trading)	None
Director & Shareholder	Colbert Cooper Ltd	None
Director & Shareholder	Cobert Cooper Trustees Ltd	None
Director & Shareholder	Colbert Cooper Trustees (2015) Ltd	None
Ms K Sterling (Director Intern)		
Husband	Employee at WSP	Supplier
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	11	11
Mitchell-Jenkins S	2	2
Cardwell C	11	11
Gillespie G	11	10
Laurence S	9	8
Nichols J	3	2
Vining S	9	7

Remuneration of Employees

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

	2022 Actual	***2021 Actual***
$120,000 - $130,000	0	1
$140,000 - $150,000	2	0
$170,000 - $180,000	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 $52,159 (GST exclusive) for the 2022 annual audit is reflected in the financial statements as due and payable.

Donations

The Company made no donations this year (2021: $0).

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.

The **Kowhaiwhai** within the wind lobby is a visual representation of the rivers as named by **Haunui-a-Nanaia** within a **Waiata Oriori** of **Rangitāne**. Water ways are an important ecosystem in the area that grants safe passage for travellers, like those travelling through the Palmerston North Airport. Water makes its journey from the clouds, to the ranges and out to sea providing sustenance to everything living within the space between. Like birds, water acts as a mediate between two spaces – connecting the sky and the land.

Artist: **Kereama Taepa**

Te Arawa
Te Atiawa

MMVA, Toioho ki Apiti,
Massey University

323,615

PASSENGERS IN 2022

21%

$9,485,265

REVENUE

12%

$3,057,567

EBITDA

16%

$14,724,944

TOTAL COMPREHENSIVE REVENUE

1185%

$82,990,345

SHAREHOLDER FUNDS

19%

SERVICE PERFORMANCE

For the year ended 30 June 2022

STATEMENT OF SERVICE PERFORMANCE

The Company's Statement of Intent, against which FY22 performance is judged, is dated May 2021.

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 communities 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.
- We promote Palmerston North Airport as the gateway and Lower North Island commercial hub to our 90 minute drive market.

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 2022 financial year was established with the knowledge of Covid-19, performance forecasting has proven inherently difficult given the uncertainty of the pandemics impact on air services and other airport activities. For example, the Delta and Omicron variants of Covid-19 were not circulating in the New Zealand population at the time of setting the FY22 Statement of Intent.

This has had an impact on the financial and other performance metrics for the 2022 financial year. For instance, total passenger volumes of 323,615 for the full year to 30 June 2022 was 33% behind the Statement of Intent target of 480,000 established in May 2021.

Other non-financial Service Performance metrics impacted include the Net Promoter Score with fewer surveys completed than in the period prior to Covid-19. Furthermore, with cash preservation paramount, the conservative investment in terminal facilities, community engagement and sponsorship is also likely to have impacted on the Net Promoter Score.

Some Financial Performance Ratios have been below Statement of Intent targets, the result of a combination of the lower than forecasted passenger numbers and the associated negative impact on aeronautical and carpark income levels. While PNAL has sought to reduce and control costs wherever possible, this has not entirely offset the reduction in revenue due to the Delta and Omicron strains of Covid-19 on business activities.

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

> PNAL again approaches the new financial year with a degree of cautious optimism with a keen focus on continuing to enhance shareholder value, both financially and non-financially.
>
> The anticipated rebound in FY23 of circa 149% in passenger movements to 459,000 is predicted to be driven by the region's relatively resilient economy, unprecedented investment in construction and infrastructure across the public and private sector, and a stabilisation of Covid-19 impacts on air travel.
>
> David Lanham
> Chief Executive

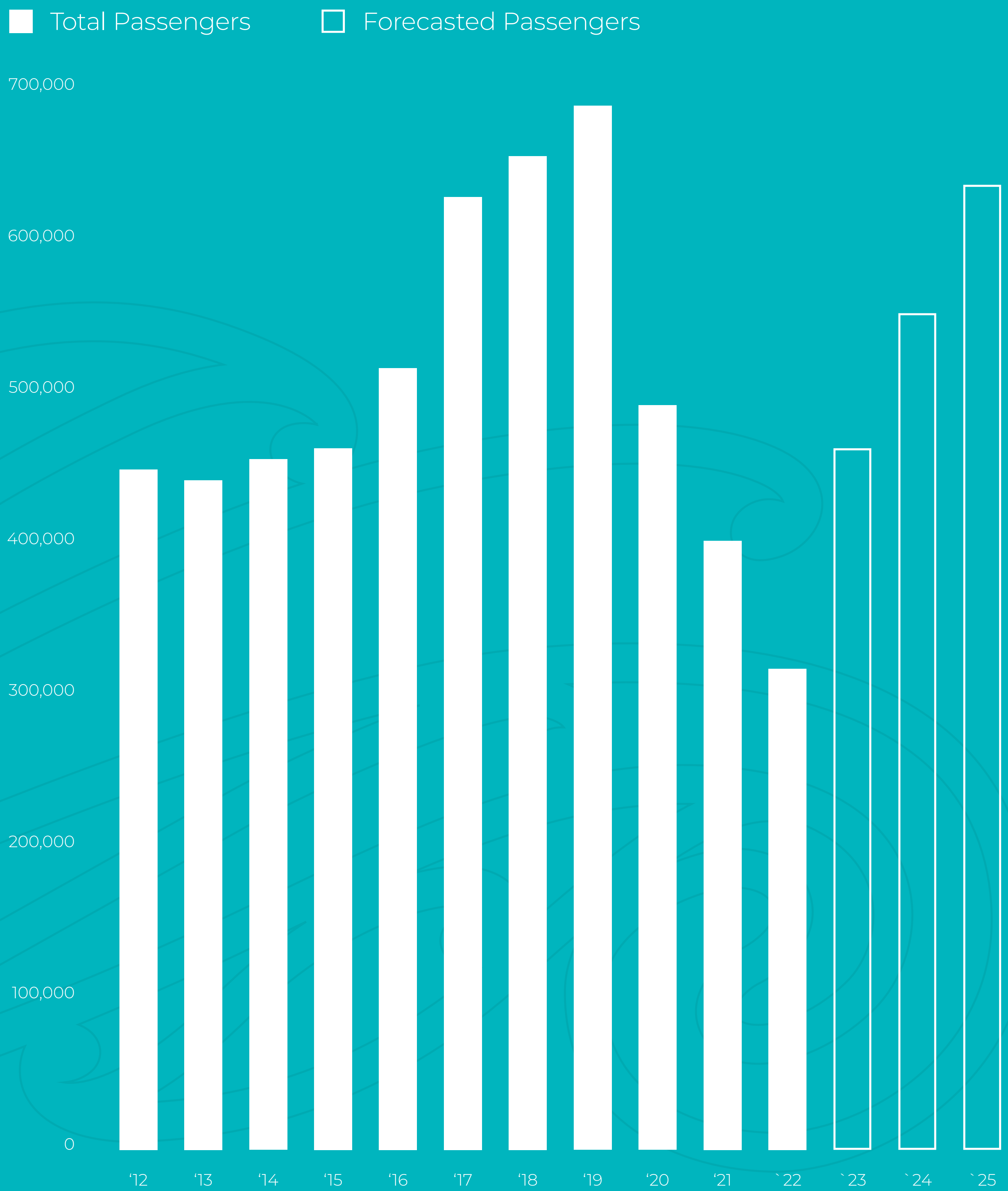
	Activity	Measure	Result	Achieved	Comments
COMPLIANCE	CAA Part 139 Compliance	Maintained	Maintained	🟢	The five yearly CAA audit of PNAL's compliance with Part 139 was last completed in July 2019. Monthly audits are undertaken by an independent third party to gauge PNAL's ongoing compliance with Part 139 requirements and PNAL's adherence to its exposition and Safety Management System.
	Capital Expenditure Airside Infrastructure	1. Complete 25 and 07 end overlay 2. Complete runway rejuvenation 3. Complete taxiway upgrades	1. Runway 25 and 07 overlays completed 2. Deferred to later year 3. Deferred to later year	🟢 🔴 🔴	The Runway 25 and 07 overlays were completed during the year, but due to Covid-19, non-essential capital spend was deferred. As such, the runway rejuvenation has been postponed to the summer of 2022/23 with taxiway upgrades deferred to a later year.
	RFS Insourcing	1. Fire appliances onsite and commissioned 2. RFS team commence employment with PNAL	1. Appliances onsite 2. Employment commenced	🟡 🟢	The RFS team were successfully insourced in October 2021 and have become an integral part of the PNAL team. Both fire appliances have been imported, with one appliance operational at 30 June 2022. The second appliance is due to become operational in early FY23.
	Ongoing SMS development	Operating & effective status achieved	Operating & effective	🟢	The first annual audit of PNAL's SMS was undertaken during the current financial year by an external party. PNAL's SMS was awarded an 'Operating and Effective' classification. A survey of third party aerodrome users relating to the safety culture, resulted in PNAL achieving a score of 87%, above the industry benchmark of 72%.
	Asset Management Plan	Landside infrastructure completed	Underway	🔴	Due to vacancies during FY22, completion of the landside asset management plan was not finished. This is currently underway in FY23, with external consultants engaged to assist.
	Statutory and Regulatory compliance	Maintained	Maintained	🟢	PNAL actively works to ensure consistent compliance with all statutory and regulatory obligations.
	Noise Management (Air and Ground) compliance	Maintained	Maintained	🟢	Five noise related complaints were received during the year which have been were recorded, investigated and resolved in accordance with the noise complaints procedure included in PNAL's Noise Management Plan. During the year PNAL also reviewed its air noise boundary to support ongoing compliance.
	IT systems upgrade	IT system upgrades identified and implemented	Completed	🟢	IT systems upgraded included a new financial ERP system, financial forecasting system, Microsoft 365 roll out, terminal internet redundancy, migration of servers offsite and various other IT security enhancements.
	Aerodrome Master Plan	Completed	Underway	🟡	The Aerodrome Master Plan updated was completed in July 2022.
CUSTOMER	Carpark upgrade product and systems	1. Airport pick up and drop off forecourt completed 2. Covered walkways completed	Conversion to parallel pickup/drop off completed. Other projects deferred	🟡	The impact of Delta and Omicron waves of Covid-19 resulted in PNAL deferring non-essential capital spend, which included some carpark improvements. Subsequently, changes to the carpark have now been included as part of the terminal redevelopment, to ensure the changes fit with the size, location and look of the new terminal. Notwithstanding this, the development of a dedicated parallel pickup/drop-off was completed in FY22.
	Terminal air conditioning upgrade	Completed	Underway	🟡	Covid-19 delays meant it was not possible to complete the installation during FY22, although significant progress had been made by this date. The upgrade was subsequently completed in early FY23 and the gas boiler decommissioned.
	Customer loyalty	Achieve a Net Promoter Score of 30 or above	30	🟢	The Net Promoter Score of 30 is based off 437 responses, a 22% increase in the number of responses compared to prior year. The target of 30 is based on average NPS scores for the aviation and tourism industries.
COMMUNITY	Historical PFAS contamination management	Monitoring regime implemented	Monitoring regime in place	🟢	Monitoring regime established. Ongoing monitoring options to be discussed with Horizon's Regional Council during FY23.
	Achievement of Airport Carbon Accreditation Level 2 and other sustainability initiatives	1. ACA Level 2 achieved 2. Waste and water targets achieved	1. ACA Level 2 achieved 2. 69% of waste diverted from landfill and water monitoring continuing	🟢 🟢	PNAL achieved Level 2 of the Airport Council International Airport Carbon Accreditation (ACA) program in December 2021. Level 2, also known as 'Reduction', required PNAL to setup a carbon management process to demonstrate a reduction in its carbon emissions compared to previous years, and show future targets. For Level 2, PNAL achieved a reduction of 7.8% in emissions compared to the prior three year rolling average. PNAL is also continuing with its water usage monitoring and has successfully diverted 69% of waste from landfill in FY22 through our recycling, reusing and composting initiatives.

CULTURE	Wellness plan rollout	1. Completed and rolled out 2. Initial engagement survey completed and team feedback received 3. Improved team engagement scores	Ongoing	●	Investment in PNAL's OneTeam programme has continued at pace with a second team engagement survey undertaken. The survey resulted in an engagement score of 84, above the April 21 score of 59.
	Continual improvement of safety culture	Zero lost time injuries	Zero lost time injuries	●	There were no lost time injuries during FY22 with a score of 87% being achieved for PNAL's first safety culture survey undertaken by aerodrome users.
COMMERCIAL	Ratio of net surplus before interest/tax/depreciation/revaluations to Total Assets	4%	2.8%	●	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' (i.e. excludes revaluations). 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.
	Ratio of net surplus after tax to consolidated shareholders funds inclusive of revaluation reserve.	3%	1.7%	●	Increase to the revaluation reserve was higher than budgeted, resulting in higher increase to equity than budgeted. This resulted in net surplus after tax as a proportion of consolidated shareholder funds being lower than budgeted and consolidated shareholder funds as a proportion of total assets being higher than budgeted.
	Maintain a ratio of consolidated shareholders funds to Total Assets of at least 40%	72%	76%	●	Same comment as above.
	Interest coverage ratio of EBITDA to interest of at least 2.5 as per BNZ loan covenants	6.5	5.7	●	This measure is slightly different to the prior year, in order to reflect the updated BNZ covenant (now based on EBITDA) rather than EBIT. Actual is below SOI due to the negative impact of Covid-19 on revenue and EBITDA but is significantly higher than the covenant level of 2.5.
	Maintain a tangible net worth (total tangible assets after revaluations less total liabilities) above $50m	$71.3m	$83.0m	●	Increase to the revaluation reserve was higher than budgeted, resulting in higher increase to equity than budgeted. This resulted in net surplus after tax as a proportion of consolidated shareholder funds being lower than budgeted and consolidated shareholder funds as a proportion of total assets being higher than budgeted.
	Commercial partnership strategies	Opportunities identified and implementation	Underway	●	PNAL have identified potential commercial partners and are actively discussing opportunities regarding how both parties can work together.
	Total Passenger Throughput	480,000	323,615	●	The Delta and Omicron waves of Covid-19 significantly reduced the FY22 passenger numbers.
	Construction of Wairaka Place	Stage 1 completed Stage 2 completed	Completed Deferred to later year	● ●	Stage 1 was completed and is now available for lease. Due to the impact of Covid-19, non-essential capital spend was deferred. As a result, completion of Stage 2 has been deferred to a subsequent year.

Key

● Meets or exceeds target ● Within 10% of target ● 10% or more below target

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 2022

	Note	30-Jun-22 Actual $	30-Jun-22 SOI $	30-Jun-21 Actual $
Revenue	1	**9,485,265**	**10,035,463**	**8,345,705**
Operating Expenses				
Operations and Maintenance				
Airfield Services		578,808	627,641	728,961
Other Operating Expenses	11	1,813,308	2,758,868	1,603,660
Total Operations and Maintenance		**2,392,116**	**3,386,509**	**2,332,622**
Administration				
Audit Fees	12	52,159	52,659	48,143
Bad Debts Written Off		15	2,506	-
Changes in Doubtful Debt Provision	4	-	5,000	7,635
Directors' Fees	15	112,087	108,000	108,000
Employee Expenses	7a	1,499,390	1,541,487	1,373,297
General Administration		1,118,747	989,845	877,593
Cost of Goods Sold	1	1,253,184	-	-
Total Administration		**4,035,582**	**2,699,497**	**2,414,668**
Total Operating Expenses		**6,427,698**	**6,086,006**	**4,747,290**
Earnings Before Interest, Taxation, Depreciation, Amortisation & Valuation of Investment Properties:		**3,057,567**	**3,949,457**	**3,598,416**
Finance Costs, Depreciation, Amortisation and Loss on Sale				
Finance Costs	9	533,993	610,895	477,679
Depreciation and Amortisation	2 & 3	1,804,457	1,789,607	1,862,757
Impairment and Loss on Sale of Assets		4,545	(1,064,435)	1,393
Total Finance Costs, Depreciation		**2,342,995**	**1,336,067**	**2,341,829**
Revaluation (Loss)/Gain - Investment Properties	2a	545,772	-	(846,114)
Operating Surplus Before Taxation		**1,260,344**	**2,613,390**	**410,472**
Taxation Expense on Operating Surplus	6a	(119,158)	732,029	437,875
Net Surplus After Taxation Attributable to PNCC		**1,379,502**	**1,881,361**	**(27,403)**

Murray Georgel
Chair

Shelly Mitchell-Jenkins
Director

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

STATEMENT OF COMPREHENSIVE REVENUE AND EXPENSE

For the Year Ended 30 June 2022

	Note	30-Jun-22 Actual $	30-Jun-22 SOI $	30-Jun-21 Actual $
Net Surplus After Taxation Attributable To PNCC		**1,379,502**	**1,881,361**	**(27,403)**
Other Comprehensive Revenue and Expense				
Gains (Losses) on Property, Plant and Equipment Revaluations	13d	16,983,720	-	1,173,241
Movement in Deferred Tax at Revaluation	13d	(3,638,278)	-	-
Total Comprehensive Revenue and Expense Attributable to PNCC		**14,724,944**	**1,881,361**	**1,145,838**

STATEMENT OF CHANGES IN EQUITY

For the Year Ended 30 June 2022

	Note	30-Jun-22 Actual $	30-Jun-22 SOI $	30-Jun-21 Actual $
Equity at the Beginning of the Year		**68,265,401**	**69,460,571**	**67,119,563**
Total Comprehensive Revenue and Expense for the Year		14,724,944	1,881,361	1,145,838
Prior Year Adjustment		-	-	-
Transfer out of Asset Revaluation Reserves for Sale of Assets	13d	(172,329)	-	-
Transfer into Retained Earnings for Sale of Assets	13d	172,329	-	-
Distribution to Shareholder During the Year		-	-	-
Equity at the End of the Year Attributable to PNCC		**82,990,345**	**71,341,932**	**68,265,401**

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 2022

	Note	30-Jun-22 Actual $	30-Jun-22 SOI $	30-Jun-21 Actual $
Current Assets				
Cash and Cash Equivalents	5	110,229	47,487	362,458
Trade Accounts Receivable	4	839,163	866,357	585,098
Sundry Receivables and Prepayments		545,799	3,886	123,802
Assets Held for Sale		-	-	-
Total Current Assets		**1,495,191**	**917,730**	**1,071,358**
Current Liabilities				
Revenue in Advance	14	107,426	145,851	45,494
Trade Accounts Payable	14	667,649	988,095	566,315
Other Creditors	14	431,413	256,975	1,138,490
Employee Benefit Liabilities	7	280,252	175,000	183,360
Borrowings	10	11,007,968	-	4,999,999
Total Current Liabilities		**12,494,708**	**1,565,921**	**6,933,658**
Working Capital		**(10,999,517)**	**(648,191)**	**(5,862,299)**
Non Current Assets				
Property, Plant and Equipment	2	92,713,643	91,455,347	74,529,581
Investment Property	2a	14,900,000	6,813,357	13,786,000
Intangible Assets	3	17,525	23,843	28,752
Total Non Current Assets		**107,631,168**	**98,292,547**	**88,344,334**
Less: Non Current Liabilities				
Deferred Tax Liability	6b	9,941,306	6,542,668	6,516,634
Borrowings	10	3,700,000	19,759,756	7,700,000
Total Non Current Liabilities		**13,641,306**	**26,302,424**	**14,216,634**
Net Assets		**82,990,345**	**71,341,932**	**68,265,401**
Represented by:				
Shareholders Equity				
Paid in Capital	13a	9,380,400	9,380,400	9,380,400
Retained Earnings	13b	23,975,234	25,904,760	22,423,403
Asset Revaluation Reserve	13d	49,634,711	36,056,772	36,461,598
Total Shareholder's Equity		**82,990,345**	**71,341,932**	**68,265,401**

For and on behalf of the Board

Murray Georgel
Chair

Shelly Mitchell-Jenkins
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 2022

	Note	30-Jun-22 Actual $	30-Jun-22 SOI $	30-Jun-21 Actual $
Cash Flows From Operating Activities				
Cash was provided from:				
Receipts from Customers		8,941,260	9,910,277	8,134,400
Interest Received		-	-	-
Income Tax Refund		18,056	-	16,819
		8,959,316	**9,910,277**	**8,151,219**
Cash was disbursed to:				
Payment to Suppliers and Employees		6,172,450	6,920,598	4,771,871
Tax Loss Payment to PNCC	*15*	18,266	-	41,396
Payment of Income Tax		341,118	457,695	331,177
Interest Payments		533,993	610,895	477,679
		7,065,827	**7,989,188**	**5,622,124**
Net Cash Flows from Operating Activities		**1,893,489**	**1,921,089**	**2,529,095**
Cash Flows From Investing Activities				
Cash was provided from:				
Sale of Property, Plant and Equipment		-	2,123,834	-
Cash was applied to:				
Acquisitions of Property, Plant and Equipment		2,892,453	10,537,000	840,677
Acquisitions of Investment Property		1,261,234	-	2,599,038
Net Cash Flow from Investing Activities		**(4,153,687)**	**(8,413,166)**	**(3,439,716)**
Cash Flow From Financing Activities				
Cash was provided from:				
Borrowings		3,500,000	8,661,796	2,700,000
Cash was applied to:				
Repayment of Borrowings		1,492,031	2,168,484	1,700,001
Payment of Dividends	*13c*	-	-	-
Net Cash from Financing Activities		**2,007,969**	**6,493,311**	**999,999**
Net Increase/(Decrease) in Cash, Cash Equivalents and Bank Overdrafts		**(252,229)**	**1,234**	**89,378**
Cash, Cash Equivalents and Bank Overdrafts at the Beginning of the Year		362,458	46,253	273,080
Cash, Cash Equivalents and Bank Overdrafts Year End	*5*	**110,229**	**47,487**	**362,458**

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

Statement of Accounting Policies for the Year ended 30 June 2022

NOTES TO THE FINANCIAL STATEMENTS

Statement of Accounting Policies for the Year ended 30 June 2022

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 2022. The financial statements were authorised for issue on 29th September 2022 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 FY23-FY25 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, buildings and airside infrastructure assets.

1. Analysis Of Operating Revenue

	2022 Actual	***2021 Actual***
Aeronautical Charges	4,575,560	4,940,938
Car Park, Rent and Advertising	3,088,493	3,218,567
Wage Subsidies & Resurgence Support Payments*	247,582	51,550
Sale of Inventory**	1,306,605	-
Other	267,025	134,650
Interest	-	-
	9,485,265	**8,345,705**

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

**During the 2022 financial year two lots of land in Zone B Stage 1 were transferred from Investment Property to Inventory. These lots were then sold during the year. Cost of Goods Sold ($1,253,184) relating to this inventory is shown separately on the Statement of Comprehensive Revenue and Expense.

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.

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 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 Depreciation	-	(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**	**110,749**	**27,326**	**1,068,039**	**74,529,582**
Movements for the Year										
Reverse Prior Year Work in Progress	-	(694,376)	(1,035)	(303,237)	(304,272)	(34,222)	-	-	(1,068,039)	(2,100,909)
Additions & Current Year Work in Progress	-	1,219,487	1,499,784	719,415	2,219,199	302,587	13,521	16,242	1,327,995	5,099,029
Disposals - Cost / Valuation	-	-	(22,001)	-	(22,001)	-	-	-	-	(22,001)
Revaluation Surplus	3,989,870	33,455	9,845,571	-	9,845,571	-	-	-	-	13,868,896
Reclassification - Cost / Valuation	-	-	-	-	-	-	-	-	-	-
Reclassification - Accumulated Dep.	-	-	-	-	-	-	-	-	-	-
Disposals - Accumulated Dep.	-	-	22,001	-	22,001	-	-	-	-	22,001
Depreciation for the Year	-	(363,504)	(900,850)	(265,178)	(1,166,028)	(201,947)	(26,279)	(21,916)	(18,105)	(1,797,779)
Dep. Reversal on Revaluation	-	265,437	2,849,386	-	2,849,386	-	-	-	-	3,114,824
Closing Balances 30 June 2022										
Cost / Valuation	33,000,000	14,618,162	37,394,091	9,678,671	47,072,762	3,083,722	346,919	164,432	1,327,995	99,613,993
Accumulated Dep.	-	(802,584)	(811,404)	(3,039,940)	(3,851,344)	(1,836,607)	(248,929)	(142,781)	(18,105)	(6,900,350)
Carrying Amount	**33,000,000**	**13,815,578**	**36,582,687**	**6,638,730**	**43,221,418**	**1,247,115**	**97,991**	**21,652**	**1,309,889**	**92,713,643**
Capital Work in Progress Included at Cost										
30-Jun-22	-	1,012,581	-	482,304	482,304	161,743	-	-	620,118	2,276,746

	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 and Airside Infrastructure Fair Value

Land
Land is valued at fair value.

The most recent valuation was performed by independent registered valuers, Morgan's Property Advisors. The valuation is effective as at 30 June 2022 and resulted in an increase in value of $4.0m. This has been recognised in the 2022 annual accounts.

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 MVAU.

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 1.5% and 3.0% 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%

The ongoing Covid-19 pandemic, current high inflationary environment and Government and Trading Bank Lending Restrictions continue to provide potential market uncertainty. The valuation is current at 30 June 2022 but the value may change significantly and unexpectedly over a relatively short period of time due to the current environment.

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 $2.4m.
- An increase to the discount rate to 22.5% would result in a reduction of the land value of $2.3m.
- If the land inflation rate was increased to 5% this would result in an increase of land value of $2.25m.
- No land inflation rate over the 10 years would result in a reduction to land value of $1.6m.
- An increase of Basic Development Costs by 10% would result in a reduction of $4.7m. 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 $6.6m. This assumes a change in the Basic Development Costs from 20% to 30%.

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 most recent valuation was performed by independent registered valuers Morgan's Property Advisors. The valuation is effective as at 30 June 2022 and resulted in an increase of $0.3m. This has been recognised in the 2022 annual accounts.

Airside Infrastructure
Airside Infrastructure is valued at fair value based on Depreciated Replacement cost in accordance with 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.

New Zealand continues to recover from the effect of Covid-19 on the construction industry. There have been substantial price increases on materials (particularly steel, concrete, asphalt, etc) above the construction indexation for this financial year, which in itself is significantly higher than 20-year average construction indexation.

Price increases are due to shortages of supply, logistical issues, increased fuel costs, etc. These material increases coupled with labour shortages, delayed lead times, programme extensions of time, etc across the construction industry have all contributed to the significant increases this year.

The construction trades considered within these valuation estimates are heavily weighted to the larger material cost increases and add further to the overall increase when compared to the average construction escalation. This escalation should start to flatten to the 3 - 5% pa range in the next two years provided no further disruptions / conflicts / Covid-19 impacts are experienced.

The most recent valuation was performed by independent consultant engineers and valuers AECOM New Zealand Limited. The valuation is effective as at 30 June 2022 and resulted in an increase of $12.7m. This has been recognised in the 2022 annual accounts.

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

Impairment
Impairment for Property, Plant and Equipment for 2022 was nil (2021: nil).

Property, Plant and Equipment Pledged as Security on Borrowings

There is a general Debenture held by the BNZ of the Company assets and undertaking of the airport. Additionally, the BNZ also hold first mortgages over land at 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.

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 and landside infrastructure are measured at cost less accumulated depreciation and impairment losses with the following exceptions:

- 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 (including Fire Appliances)	5 - 15 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, 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

	2022 Actual	2021 Actual
Opening Balance	13,786,000	6,525,000
Additions and Acquisitions	1,261,234	2,857,049
Depreciation	-	-
Reclassification from PPE	-	5,074,202
Reclassification from Assets Held for Sale	-	175,863
Reclassification to Inventory	(693,006)	-
Fair Value Gains/(Losses) on Valuation	545,772	(846,114)
Closing Balance	**14,900,000**	**13,786,000**

Investment Property consists of the following:

- Land and improvements associated with one property at 100 Airport Drive, occupied by two tenants;
- Land and improvements associated with the Massey University School of Aviation Facility;
- Land and improvements associated with the Zone B Stage 1 subdivision which are available for lease (design/build); and
- Land and improvements associated with three lots on Zone H.

Additions to investment property relate to development expenditure associated with the subdivision of Zone B Stage 1 and development works in Zone H.

Land associated with two lots in Zone B Stage 1 (5,304 m2) were transferred to Inventory during the year. These lots were subsequently sold during the year.

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 2022. 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.

The valuation resulted in an increase in value of $0.7m.

Rental income for the year was $0.6m (2021: $0.6m). There were no expenses from Investment Property generating income. There are no outstanding contractual obligations relating to Investment Property.

Valuation methodology and significant assumptions

One of the lots within the Zone B Stage 1 was subject to sale and purchase agreements as at 30 June 2022. The Company has determined that there was significant uncertainty as at 30 June 2021 as to whether this lot would ultimately be sold. As such, this lot has been classified as Investment Property (instead of Inventory).

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	· Block Value Method · Hypothetical Subdivision Method · DCF Method	· Lot sizes as specified in the Zone B Stage 1 subdivision plan · 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%

The ongoing Covid-19 pandemic, current high inflationary environment and Government and Trading Bank Lending Restrictions continue to provide potential market uncertainty. The valuation is current at 30 June 2022 but the value may change significantly and unexpectedly over a relatively short period of time due to the current environment.

3. Intangible Assets

	Website	*Software*	*Total*
Balance as at 1 July 2021	43,428	37,952	81,380
Accumulated Depreciation	(15,733)	(36,895)	(52,627)
Carrying Amount	**27,695**	**1,057**	**28,752**
Movement for the Year			
Reverse Prior Year Work in Progress	(21,500)	-	(21,500)
Additions and Current Year Work in Progress	21,500	-	21,500
Reclassification - Cost	-	-	-
Reclassification - Accumulated Depreciation	-	-	-
Disposals	(21,928)	(1,353)	(23,281)
Disposal - Accumulated Dep.	17,925	806	18,732
Amortisation for the Year	(6,225)	(453)	(6,678)
Closing Balance 30 June 2022			
Cost / Revaluation	21,500	36,599	58,099
Accumulated Depreciation	(4,032)	(36,541)	(40,574)
Carrying Amount	**17,468**	**57**	**17,525**
Capital Work in Progress Included at Cost	-	-	-

	Website	*Software*	*Total*
Balance as at 1 July 2020	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 Balance 30 June 2021			
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 website are recognised as an intangible asset and are capitalised on the basis of the cost incurred to bring to use the intangible asset. The carrying value of an intangible asset with a finite life is amortised on a straight-line basis over its useful life. Amortisation begins when the asset is available for use and ceases at the date that the asset is derecognised. The amortisation charge for each period is recognised in the surplus or deficit.

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

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

4. Trade Accounts and Other Receivables

	2022 Actual	2021 Actual
Debtors and Other Receivables	846,598	592,653
Receivables from Related Party	200	80
Provision for Impairment	(7,635)	(7,635)
Total	**839,163**	**585,098**

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

	2022 Actual	2021 Actual
Opening Balance	(7,635)	-
Additional Provisions	-	(7,635)
Closing Balance	**(7,635)**	**(7,635)**

Trade and Other Receivables

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

5. Cash and Cash Equivalents

	2022 Actual	2021 Actual
Current Account	106,039	357,655
Cash on Hand	4,190	4,803
Total	**110,229**	**362,458**

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

	2022 Actual	2021 Actual
Operating Surplus (Deficit) Before Taxation	1,260,344	410,472
Tax at 28%	352,896	114,932
Plus (Less) Tax Effect of:		
- Permanent Differences / Non-deductible Expenditure	(255,348)	332,163
- Prior Year Under / (Over) Provision	102	(14,757)
- Loss on Sale of Land	(216,808)	5,537
- Deferred Tax on Revaluation & Deferred Tax Movement for Year	-	-
Tax Charge for the Year	**(119,158)**	**437,875**
Tax expense for the year comprising:		
Current Tax Expense	94,346	479,596
Prior Year Adjustments	102	(14,757)
Deferred Tax Expense	(213,606)	(26,964)
	(119,158)	**437,875**

6b. Deferred Tax (Assets) / Liabilities

	Investment Property	*Property, Plant and Equipment*	*Employee Entitlements*	*Other Provisions*	*Total*
Balance at 1 July 2021	**-**	**6,560,010**	**(40,167)**	**(3,209)**	**6,516,634**
Transfer PPE to IP	193,544	(193,544)	-	-	-
Charged to Surplus and Deficit - Current Year	(37,084)	(157,814)	(19,400)	693	(213,605)
Charged to Other Comprehensive Income	-	3,638,278	-	-	3,638,278
Balance at 30 June 2022	**156,460**	**9,846,929**	**(59,567)**	**(2,516)**	**9,941,306**
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**

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

	2022 Actual	*2021 Actual*
Accrued Pay (inc bonus accrual)	119,012	88,099
Annual Leave	161,240	95,261
Total	**280,252**	**183,360**

7a. Employee Expenses

	2022 Actual	*2021 Actual*
Salaries and Wages	1,351,938	1,334,025
Employer Contribution to Kiwi Saver	50,560	39,579
Movement in Employee Entitlements	96,892	(307)
Total	**1,499,390**	**1,373,297**

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.

8. Commitments

	2022 Actual	*2021 Actual*
Operating Commitments as Lessee		
Less than 1 Year	66,905	86,411
Between 1 and 5 Years	46,606	72,976
Over 5 Years	-	-
Total	**113,511**	**159,387**
Operating Commitments as Lessor		
Less than 1 Year	1,769,714	1,700,714
Between 1 and 5 Years	5,082,794	3,729,382
Over 5 Years	5,003,112	5,313,758
Total	**11,855,620**	**10,743,854**
On-going leases per month	**166,401**	**154,101**

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 30 June 2022 range from 1 to 36 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.

2022 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 $2,718 per annum that are on a month to month basis (2021: $14,404). There are no contingent rents recognised as revenue in the period.

Capital Commitments

PNAL had capital commitments of $0.87m as at 30 June 2022 largely relating to a Surface Enrichment Spray Treatment for the runway, consultants in respect of the terminal redevelopment and ongoing subdivision works (2021: $1.9m).

9. Finance Costs

	2022 Actual	*2021 Actual*
Interest on Secured Long Term Loans	533,993	477,679
	533,993	**477,679**

10. Borrowings

	2022 Actual	*2021 Actual*
Current Borrowings	11,007,968	4,999,999
Non-Current Borrowings	3,700,000	7,700,000
Total Borrowings	**14,707,968**	**12,699,999**

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 with Bank of New Zealand (BNZ) has a current maturity date of December 2025 which covers both the current and non-current debt specified above.

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 $14.7m borrowings (2021: $12.7m) from BNZ. 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 had borrowing facilities available from BNZ but not yet drawn down of $1.9m at 30 June 2022.

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

The Company raises long term borrowings from BNZ 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.

During the 2022 financial year, PNAL entered into an unsecured, subordinated loan agreement with the Shareholder. The balance of this loan at 30 June 2022 is nil (drawdowns are yet to commence). The facility limit is subject to annual review and is set at the lesser of $50m or PNAL's approved annual SOI debt plus 10%. PNAL is charged an arms length fair market rate margin on any borrowings from PNCC.

11. Other Operating Expenses

	2022 Actual	*2021 Actual*
Rates	430,056	409,614
Power and Insurance	449,737	356,456
Repairs and Maintenance	933,515	837,590
Total	**1,813,308**	**1,603,660**

12. Audit Fees

	2022 Actual	*2021 Actual*
Fees for Audit of Financial Statements	52,159	48,143
Disbursements	-	-
Audit Fees from Other Providers	-	-
Total	**52,159**	**48,143**

13. Equity

(a) Share Capital

	2022 Actual	2021 Actual
9,195,000 Ordinary Share Capital	9,380,400	9,380,400
Closing Balance	**9,380,400**	**9,380,400**

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

(b) Retained Earnings

	2022 Actual	2021 Actual
Opening Balance	**22,423,403**	**22,450,806**
Net Operating Surplus	1,379,502	(27,403)
Dividends Paid During Year	-	-
Transfer from Asset Revaluation Reserve for Sale of Assets	172,329	-
Closing Balance	**23,975,234**	**22,423,403**

(c) Dividends:

No dividend has been declared for the 12 months ending 30 June 2022 (2021: Nil).

(d) Asset Revaluation Reserve

	2022 Actual	2021 Actual
Opening Balance	**36,461,598**	**35,288,357**
Revaluation Movement		
- Land	3,989,870	1,173,241
- Buildings	298,892	-
- Airside Infrastructure	12,694,958	-
Less Deferred Taxation		
- Movement - Buildings	(83,690)	(506,518)
- Movement - Airside Infrastructure	(3,554,588)	506,518
- Transfer to Retained Earnings for Sale of Assets	(172,329)	-
Closing Balance	**49,634,711**	**36,461,598**
Asset Revaluation Reserve Consists of		
- Land	25,201,828	21,384,287
- Buildings	2,469,273	2,254,070
- Airside Infrastructure	21,963,610	12,823,241
	49,634,711	**36,461,598**

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.

The sale of two lots in Zone B Stage 1 has resulted in historic fair value gains associated with these lots being derecognised from the Land Revaluation Reserve during the year ended 30 June 2022, totalling $172k. This has been recognised in Retained Earnings.

Additional 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 $1.5m at 30 June 2022 (2021: $1.7m).

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 for two lots in Zone B Stage 1 from Investment Property to Inventory during the year ended 30 June 2022, reflecting the date the significant uncertainty surrounding the sale of this land was resolved. Based on commentary provided by Morgan's valuers, the fair value on date of transfer has been judged to be the same as the fair value at 30 June 2021 (i.e. no additional fair value gain/loss on transfer has been recognised during the year ended 30 June 2022).

14. Trade Accounts Payable

	2022 Actual	***2021 Actual***
Revenue in Advance from Exchange Transactions	107,426	45,494
Revenue in Advance from Non-Exchange Transactions	-	-
Total	**107,426**	**45,494**
Trade Accounts Payable from Exchange Transactions		
Trade Accounts Payable	731,233	359,133
Payables to Related Party	2,001	7,831
Trade Accounts Payable from Non-Exchange Transactions		
Tax Payable	(65,585)	199,351
Total	**667,649**	**566,315**
Other Creditors from Exchange Transactions		
Other Creditors	580,367	1,167,719
Other Creditors from Non-Exchange Transactions		
GST (Refundable) / Payable	(148,954)	(29,230)
Total	**431,413**	**1,138,490**

15. Related Party Transactions

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

PNAL received services from PNCC during the 12 months ended 30 June 2022 for $458,490 (2021: $461,844). In addition, during the 2022 income year, PNAL utilised accumulated tax losses from PNCC totalling $65,237, resulting in a tax payment to PNCC of $18,266 for the 2021 tax year (2021: The tax losses utilised totalled $147,844 via a tax payment to PNCC of $41,396 for the 2020 tax year).

PNAL historically paid 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 2022 or 2021.

PNAL provided services to PNCC during the 12 months ended 30 June 2022 for $30,037 (2021: $6,547). Other than the tax loss, all transactions were conducted on normal commercial terms.

PNAL owed PNCC $2,001 inclusive of GST as at 30 June 2022 (2021: $7,831).

PNCC owed PNAL $200 inclusive of GST as at 30 June 2022 (2021: $80).

Key Personnel Remuneration

	2022 Actual	***2021 Actual***
Directors Remuneration	112,087	108,000
Number of Directors	5	5
Senior Management Team including the Chief Executive Remuneration	841,603	1,043,558
Full Time Equivalents	6	7

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	9,485,265	10,035,463	(550,198)	Delta and Omicron waves of Covid-19 caused passenger volumes to be 156,385 below budget. This negatively impacted revenue.
Operations Expenditure	2,392,116	3,386,509	(994,393)	Careful management of expenditure through FY22, including the deferral of a Surface Enrichment Spray Treatment on the runways until FY23.
Cost of Goods Sold	1,253,184	-	1,253,184	Relates to sale of land. Budget did not treat these sales as 'inventory' but rather is budgeted against gain/loss on sale of assets.
Finance Costs	533,993	610,895	(76,902)	Total debt lower than budgeted resulted in lower finance costs.
Impairment and Loss on Sale of Assets	4,545	(1,064,435)	1,068,980	Budget assumed three land sales to be recognised against this line. Actuals include two sales and are split between revenue and cost of goods sold. Refer to Note 1 for further details.
Revaluation (Loss) / Gain - Investment Properties	545,772	-	545,772	Revaluation movements are not budgeted.
Deferred Tax Liability	9,941,306	6,542,668	3,398,638	Largely relates to deferred tax implications arising on revaluation of land, buildings and airside infrastructure
Current Assets	1,495,191	917,730	577,461	FY23 insurance prepayment included in FY22 Current Assets balance
Current Liabilities (excluding bank overdraft and current borrowings)	1,486,740	1,565,921	(79,181)	Accruals related to subdivision construction exceeded budget as at 30th June.
Property, Plant, Equipment, Intangible Assets & Investment Property	107,631,168	98,292,547	9,338,621	Revaluations gains not budgeted, partly offset by reduced capital spend due to Covid-19 and delayed start of the Terminal Redevelopment.
Total Borrowings	14,707,968	19,759,756	(5,051,788)	Capital spend below budget resulted in reduced debt requirements.

17. Financial Instruments

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

Financial Assets	***Rating****	***2022 Actual***	***2021 Actual***
Cash and Cash Equivalents	AA-	110,229	362,458
Trade Receivables		839,163	585,098
Total Financial Assets		**949,392**	**947,556**

*Standard & Poor's Rating for BNZ

Financial Liabilities	***2022 Actual***	***2021 Actual***
Trade Accounts and Other Payable	1,099,062	1,704,805
Bank Overdraft	-	-
Borrowings - Secured Loans	14,707,968	12,699,999
Total Financial Liabilities	**15,807,030**	**14,404,804**

18. Events After Balance Date

There have been no significant events occurring after Balance Date.

19. Contingencies

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

All PFOS foam was successfully removed from the fire appliances and storage containers onsite during the 2019 financial year.

Further testing and investigation has been completed during the 2022 financial year at a cost of $56,127 (2021: $6,313).

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 2022.

HIGHLIGHTS

FINANCIAL HIGHLIGHTS

Year Ending	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012
Statement of Financial Performance:	**(000)**	**(000)**	**(000)**	**(000)**	**(000)**	**(000)**	**(000)**	**(000)**	**(000)**	**(000)**	**(000)**
Total Revenue	9,485	8,346	9,137	10,202	8,483	7,313	5,523	4,943	4,818	4,590	4,480
Net Surplus Before Interest, Depn, Taxation & Reval of Investment Property	3,058	3,598	4,079	5,025	4,074	3,534	2,391	2,064	1,847	1,765	1,739
Net Surplus Before Taxation & Misc Items (*)	715	1,257	1,695	2,593	2,211	1,849	841	911	756	709	684
Net Surplus After Taxation Excluding Deferred Tax Adjustments (*)	834	819	2,024	1,713	1,609	1,299	805	662	544	492	496
Earnings Per $ of Paid Up Share Capital (excl. any Premium on Issue and Deferred Tax Adjustments) (*)	8.89c	8.73c	21.58c	18.26c	17.50c	14.13c	8.75c	7.20c	5.92c	5.35c	5.39c
Dividend Proposed or Paid Per $ of Paid Up Share Capital (excl. of any Premium on Issue)	0.00c	0.00c	0.00c	7.31c	7.00c	5.65c	3.50c	2.88c	2.37c	2.14c	2.10c
Statement of Financial Position	**(000)**	**(000)**	**(000)**	**(000)**	**(000)**	**(000)**	**(000)**	**(000)**	**(000)**	**(000)**	**(000)**
Total Assets	109,126	89,416	86,468	89,617	77,894	73,588	62,946	61,543	44,904	43,727	43,878
Shareholders Funds	82,990	68,265	67,120	67,481	60,704	59,615	49,810	49,305	35,823	35,475	35,177
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	$9.03	$7.42	$7.30	$7.34	$6.60	$6.48	$5.42	$5.36	$3.90	$3.86	$3.83
Return On Shareholder Funds (excluding Deferred Tax Adjustments)*	1.00%	1.20%	3.02%	4.10%	2.65%	2.18%	1.62%	1.34%	1.52%	1.39%	1.41%

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

ANNUAL PASSENGER NUMBERS

Year Ending	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012
Total Passengers	323,615	400,467	498,442	687,142	657,515	629,400	515,727	466,557	455,166	445,147	449,318

INDEPENDENT AUDITOR'S REPORT

To the readers of Palmerston North Airport Limited's financial statements and performance information
For the year ended 30 June 2022

The Auditor-General is the auditor of Palmerston North Airport Limited (the company). The Auditor-General has appointed me, Debbie Perera, 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 21 to 41, that comprise the statement of financial position as at 30 June 2022, 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 measures of the company on pages 13 to 19.

In our opinion:

- the financial statements of the company on pages 21 to 41::
  - present fairly, in all material respects:
    - its financial position as at 30 June 2022; 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 13 to 19 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 2022.

Our audit was completed on 29 September 2022. 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.

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 1 to 12, 20 and 42 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.

Debbie Perera
Audit New Zealand

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

COMPANY DIRECTORY

Palmerston North Airport Limited

DIRECTORS

As at June 2022

Murray Georgel	Chair
Shelly Mitchell Jenkins	Chair of Audit & Risk Committee
Christopher Cardwell	
Gerard Gillespie	
Sarah Laurence	

MANAGEMENT

David Lanham	Chief Executive
Jonathon Baker	Finance Manager
Olivia Pierre	Commercial & Customer Experience Manager
Brent Lawry	Terminal & Facilities Manager
Muhammad Dahlan	Capital Projects & Asset Manager
Terry Cooney	Airfield Operations Manager

REGISTERED OFFICE

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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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