



PALMERSTON NORTH AIRPORT LIMITED

INTERIM REPORT

TO 31 DECEMBER 2016

COMPANY DIRECTORY**PALMERSTON NORTH AIRPORT LIMITED****DIRECTORS:**

M A Georgel – Chairman (Appointed to Chair December 2016)

G F Gillespie

J E Nichols

J M K B Adlam

C G Cardwell (Appointed December 2016)

D N Walker (Retired December 2016)

MANAGEMENT:

D J Lanham

Chief Executive

G W Pleasants

Manager Aeronautical & Infrastructure

G E Clark

Commercial Manager

S J Wood

Financial Accountant

A C Scott

Visitor Development Manager

REGISTERED OFFICE:

Palmerston North Airport

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TRADING BANKERS:

Bank of New Zealand

LEGAL ADVISORS:

Cooper Rapley Lawyers

AUDITORS:

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

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JOINT REPORT OF CHAIRMAN and CHIEF EXECUTIVE OFFICER FOR THE SIX MONTHS ENDING 31 DECEMBER 2016

The first six months of the 2016/17 financial year has been dominated by ongoing infrastructure project planning and construction.

The Board and Management of Palmerston North Airport Limited (PNAL) continue to implement the Company's strategy. We continue to strive to be the leading regional airport in New Zealand. The vision reflects the importance that Palmerston North Airport places on the airport facilities and service levels provided at our gateway airport to our regional residents and visitors alike.

Our vision also reflects the need to work closely with a wide range of stakeholders both from a business and visitor perspective in identifying growth opportunities across the inbound, outbound and business sectors.

In the twelve months to December 2016, Palmerston North Airport accommodated 591,459 travellers, an increase of 25.2% on the prior twelve month calendar year. Consequently management's focus has been on infrastructure development and airport facility enhancement.

Achievements within the six month period include the opening of the expanded arrivals hall. The additional 650m² of area includes an additional bag carousel, toilets, rental car kiosks, the new Airport Help kiosk, an additional entry door from the car park, and cashless pay station. Planning continues at a fast pace for the airport's new long-term car park and for the revamp of the existing General car park. A new website, and a refreshed Airport Help customer service role were also launched during the period.

From an aeronautical perspective, the six month period included the introduction of an upgraded freighter service by Freightways and partner New Zealand Post. As the major freight and logistics centre for the lower North Island, the ten-weekly overnight Boeing 737-400 freighter service links Palmerston North airport with both Christchurch and Auckland.

PNAL continues to forge closer working relationships with industry stakeholders including airlines and Regional Tourism Organisations to raise the profile of Palmerston North Airport as the gateway from and to the wider region. PNAL's "Fly Palmy" consumer brand continues to be developed and leveraged in consolidating the Airport's position within the minds of travelers.

Planning and development within Ruapehu Business Park, positioned on the dual carriageway Airport Drive, continues to gather pace. With the recent finalisation of the Airport Zone provisions within the District Plan, clarity now exists in terms of permitted land use, activities and landscaping.

The announcement during the period of Palmerston North Airport's strategic partnership with Massey School of Aviation marks another significant milestone. A \$5 million training facility is now being planned for the school which could ultimately see the entire school relocated to an airport location.

Operationally we have continued capital upgrades. Apron edge refurbishment occurred during the period, while the new rescue fire facility is now programmed for commencement during the second half of the financial year.

Revenue of \$3.687 million was 6% ahead of budget and 43% ahead of last year, primarily driven by an increase in aeronautical revenue and growth in car park revenue. Total operating costs of \$1.863 million were 1% above budget, and 23% above last year. Cost increases were driven primarily by costs associated with Plan Change 15 – Airport Zone, and also planned rescue fire contract enhancements and employment costs.

EBITDA of \$1.825 million was 11% ahead of budget, and 72% ahead of last year. Net surplus after tax of \$0.725 million was 28% above budget, and 186% above last year.

All statutory requirements relating to the airport have been met, including successful completion of independent audits by the Civil Aviation Authority, during the first six months of the year. These were also supported by continuing monthly internal audits and quality control checks undertaken by an independent body.

A handwritten signature in black ink, appearing to read 'M Georcel', with a large, stylized initial 'M'.

Murray Georcel
Chairman

A handwritten signature in blue ink, appearing to read 'David Lanham', with a long, sweeping horizontal stroke at the end.

David Lanham
Chief Executive

STATEMENT OF SERVICE PERFORMANCE

The Company's current Statement of Intent is dated June 2016.

The Company is trading as Palmerston North Airport.

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.

<p>Objective :</p>

- | |
|---|
| <p>* <i>To grow the shareholder's and regional economic value by operating a safe, efficient, attractive and profitable airport that serves the Central Region.</i></p> |
|---|

Performance Measures:

	Dec 2016 6 Months	Dec 2015 6 Months	SOI Target 6 Months
1. Ratio of Net Surplus before interest and tax to Total Assets:	1.8%	0.8%	1.5%
2. Ratio of Net Surplus after interest and tax to consolidated Shareholders funds:	1.4%	0.5%	1.1%
3. Interest cover ratio of Net Surplus before interest tax and depreciation to interest, at or above 2.5 times:	12.9	6.8	10.4
4. Maintain a tangible net worth (of or above) \$35m	50.2	49.3	50.7
5. Total Passenger Throughput	319,700	241,000	315,000
6. Maintain a high level of customer satisfaction	Achieved	Achieved	Achieve
7. CAA Part 139 Certification	Achieved	Achieved	Achieve

STATEMENT OF FINANCIAL PERFORMANCE
For the Six Months Ended 31 December 2016

	Note	31-Dec-16 6 Months Unaudited	31-Dec-15 6 Months Unaudited	30-Jun-17 12 Months SOI	30-Jun-16 12 Months Audited
REVENUE	4	3,687,557	2,573,431	7,075,074	5,522,881
OPERATING EXPENSES					
Airfield Services		263,374	212,752	594,996	425,962
Other Operating Expenses	5	625,431	575,021	1,278,820	1,181,692
TOTAL OPERATIONS AND MAINTENANCE		888,805	787,773	1,873,816	1,607,654
Administration:					
Audit Fees		13,300	14,290	28,879	27,500
Bad Debts Written Off			14,017	5,254	3,223
Changes in doubtful debt provision			(18,030)	21,004	3,910
Directors' Fees		45,000	38,250	90,000	82,134
Employee Expenses	6	378,775	320,533	757,487	711,425
General Administration	7	442,671	293,441	681,914	566,241
Market Development		94,184	61,883	175,000	130,281
TOTAL ADMINISTRATION:		973,930	724,384	1,759,538	1,524,714
TOTAL OPERATING EXPENSES		1,862,735	1,512,157	3,633,354	3,132,368
Operating Surplus before interest, depreciation & taxation		1,824,822	1,061,274	3,441,720	2,390,513
Finance Costs & Depreciation:					
Finance costs	8	141,956	155,466	326,860	303,689
Depreciation	15	608,348	553,983	1,336,920	1,129,848
Loss on Sale of Assets		67,402		50,000	115,911
TOTAL FINANCE COSTS & DEPRECIATION:		817,706	709,449	1,713,780	1,549,448
Operating Surplus before taxation		1,007,116	351,825	1,727,940	841,065
Taxation Expense on operating surplus	9	281,993	98,510	483,823	35,632
NET SURPLUS AFTER TAXATION		725,123	253,315	1,244,116	805,433

For and on behalf of the Board



Murray Georgel - Chairman
Date :



Jon Nicholls - Director
Date :

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

STATEMENT OF COMPREHENSIVE INCOME
For the Six Months Ended 31 December 2016

<i>Note</i>	31-Dec-16 6 Months Unaudited	31-Dec-15 6 Months Unaudited	30-Jun-17 12 Months SOI	30-Jun-16 12 Months Audited
NET SURPLUS AFTER TAXATION	725,123	253,315	1,244,116	805,433
Gains on revaluation of land and buildings	-	-	-	(35,561)
Movement in deferred tax	-	-	-	
Reversal of valuation surplus on disposal				
Comprehensive income attributed to the shareholder	725,123	253,315	1,244,116	769,872

STATEMENT OF CHANGES IN EQUITY
For the Six Months Ended 31 December 2016

<i>Note</i>	31-Dec-16 6 Months Unaudited	31-Dec-15 6 Months Unaudited	30-Jun-17 12 Months SOI	30-Jun-16 12 Months Audited
EQUITY AT THE BEGINNING OF THE YEAR	49,809,520	49,304,587	49,749,948	49,304,587
Total Comprehensive (loss) income	725,123	253,313	1,244,116	769,872
Movement in Asset Revaluation Reserve	(4,000)			
Distribution to shareholders during the year	(322,173)	(264,941)	(282,999)	(264,939)
EQUITY AT THE END OF THE YEAR	50,208,470	49,292,959	50,711,065	49,809,520

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

STATEMENT OF FINANCIAL POSITION
As at 31 December 2016

	Note	31-Dec-16 Unaudited	31-Dec-15 Unaudited	30-Jun-17 SOI	30-Jun-16 Audited
CURRENT ASSETS					
Cash and Cash Equivalents	10	226,836	146,925	159,865	288,431
Trade accounts receivable	11	720,604	481,879	517,392	506,438
Inventory			36		
Assets intended for sale			427,500		580,773
Sundry receivables and prepayments		71,912	80,362	(5,831)	38,266
Tax receivable					
TOTAL CURRENT ASSETS		1,019,352	1,136,702	671,426	1,413,908
Less: CURRENT LIABILITIES					
Income in advance		107,121	92,921	120,000	43,927
Trade accounts payable	12	146,825	110,741	90,000	339,392
Other creditors		446,883	113,733	90,000	390,762
Employee benefit liabilities	13	83,364	21,441	79,398	84,281
Tax payable		65,865	125,453	120,000	
Current portion of borrowings	14				
TOTAL CURRENT LIABILITIES		850,058	464,289	499,398	858,362
WORKING CAPITAL		169,294	672,413	172,028	555,546
Add: NON CURRENT ASSETS					
Property, Plant & Equipment	15	61,667,761	60,622,064	62,679,298	61,532,558
TOTAL NON CURRENT ASSETS		61,667,761	60,622,064	62,679,298	61,532,558
Less: NON CURRENT LIABILITIES					
Deferred tax liability	16	6,128,585	6,501,518	6,395,261	6,128,585
Borrowings	14	5,500,000	5,500,000	5,745,000	6,150,000
TOTAL NON CURRENT LIABILITIES		11,628,585	12,001,518	12,140,261	12,278,585
NET ASSETS		50,208,470	49,292,959	50,711,065	49,809,520
Represented by:					
SHAREHOLDERS' EQUITY					
Paid in Capital		9,380,400	9,380,400	9,380,400	9,380,400
Retained earnings		17,725,192	16,742,584	18,160,690	17,314,706
Asset revaluation reserve		23,102,878	23,169,975	23,169,975	23,114,414
TOTAL SHAREHOLDERS' EQUITY		50,208,470	49,292,959	50,711,065	49,809,520

For and on behalf of the Board



Murray Georgel - Chairman

Date :



Jon Nicholls - Director

Date :

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

CASH FLOW STATEMENT
For the Six months Ended 31 December 2016

	Note	31-Dec-16 6 Months Unaudited	31-Dec-15 6 Months Unaudited	30-Jun-17 12 Months SOI	30-Jun-16 12 Months Audited
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash was provided from:					
Receipts from Customers		3,544,393	2,470,020	6,922,682	5,335,904
Interest Received		1,549	1,059	2,909	1,887
		<u>3,545,942</u>	<u>2,471,079</u>	<u>6,925,591</u>	<u>5,337,791</u>
Cash was disbursed to:					
Payment to Suppliers and employees		2,097,423	1,781,171	3,681,872	3,157,161
Payment of Income Tax		296,367	156,209	480,210	386,594
Interest Payments		141,955	155,466	326,860	308,707
		<u>2,535,745</u>	<u>2,092,846</u>	<u>4,488,942</u>	<u>3,852,462</u>
Net cash flows from operating activities	17	<u>1,010,197</u>	<u>378,233</u>	<u>2,436,649</u>	<u>1,485,329</u>
CASH FLOWS FROM INVESTING ACTIVITIES					
Cash was provided from:					
Sale of Fixed Assets		635,000		2,250,000	380,000
		<u>635,000</u>		<u>2,250,000</u>	<u>380,000</u>
Cash was applied to:					
Purchase of Fixed Assets		734,595	579,494	4,202,925	2,575,072
		<u>734,595</u>	<u>579,494</u>	<u>4,202,925</u>	<u>2,575,072</u>
Net cash flow from investing activities		<u>(99,595)</u>	<u>(579,494)</u>	<u>(1,952,925)</u>	<u>(2,195,072)</u>
CASH FLOW FROM FINANCING ACTIVITIES					
Cash was provided from:					
Borrowing		400,000	450,000	1,785,000	1,850,000
		<u>400,000</u>	<u>450,000</u>	<u>1,785,000</u>	<u>1,850,000</u>
Cash was applied to:					
Repayment of borrowings		1,050,000		1,870,000	750,000
Payment of Dividends		322,173	264,939	282,992	264,939
		<u>1,372,173</u>	<u>264,939</u>	<u>2,152,992</u>	<u>1,014,939</u>
Net cash from financing activities		<u>(972,173)</u>	<u>185,061</u>	<u>(367,992)</u>	<u>835,061</u>
Net increase/(decrease) in cash, cash equivalents and bank overdrafts		(61,571)	(16,200)	115,732	125,318
Cash, cash equivalents and bank overdrafts at the beginning of the year		288,407	163,113	44,133	163,113
Cash, cash equivalents and bank overdrafts at the end of the year	10	<u>226,836</u>	<u>146,925</u>	<u>159,865</u>	<u>288,431</u>
Made up of:					
Cash and Bank Balance		226,836	146,925	159,865	288,431
Deposits					
CLOSING CASH BALANCE		<u>226,836</u>	<u>146,925</u>	<u>159,865</u>	<u>288,431</u>

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

Consolidated Statement of Commitments
For the Six Months Ended 31 December 2016

Non-cancellable Commitments - Operating Lessee

Not more than one year	53,944
One to two years	49,064
Two to five years	65,134
Over five years	0
Total	\$ 168,142

Non-cancellable Commitments - Operating Lessor

Not more than one year	835,547
One to two years	716,157
Two to five years	1,120,326
Over five years	491,234
Total	\$ 3,163,264

NOTES TO THE FINANCIAL STATEMENTS
For the six months ended 31 December 2016
1. REPORTING ENTITY

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

2. BASIS OF PREPARATION
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. The financial statements have been prepared in accordance with NZ GAAP. They have been prepared in accordance with Tier 2 PBE reporting standards.

The entity is eligible and has elected to report with Tier 2 PBE accounting standards RDR on the basis that the entity has no public accountability and has expenses >\$2m and ≤ \$30m.

Measurement base

The financial statements have been prepared on a historical cost basis except where modified by the revaluation of land and buildings and infrastructure assets.

Functional and presentation currency

The financial statements are presented in New Zealand dollars and all values are rounded to the nearest dollar. The functional currency of the company is New Zealand Dollars.

3. ACCOUNTING POLICIES
Changes in accounting policies

There were no changes to accounting policies during the period being reported.

Specific accounting policies

The accounting policies as published in the Annual Report to 30 June 2016 have been applied constantly to all periods presented in these financial statements.

	<u>31-Dec-16</u> <u>6 Months</u> <u>Unaudited</u>	<u>31-Dec-15</u> <u>6 Months</u> <u>Unaudited</u>	<u>30-Jun-17</u> <u>12 Months</u> <u>SOI</u>	<u>30-Jun-16</u> <u>12 Months</u> <u>Audited</u>
4. ANALYSIS OF OPERATING REVENUE:				
Landing, departure & facility fees	2,192,837	1,388,085	4,347,609	3,039,052
Car park, rent and advertising	1,331,639	1,093,706	2,459,633	2,039,622
Other	162,908	90,583	264,922	442,530
Interest	173	1,057	2,910	1,677
	3,687,557	2,573,431	7,075,074	5,522,881

5. OTHER OPERATING EXPENSES

Rates	169,736	185,094	379,992	370,076
Power and Insurance	149,149	142,384	292,694	294,305
Repairs and maintenance	306,546	247,543	606,134	517,311
	625,431	575,021	1,278,820	1,181,692

	<u>31-Dec-16</u> <u>6 Months</u> <u>Unaudited</u>	<u>31-Dec-15</u> <u>6 Months</u> <u>Unaudited</u>	<u>30-Jun-17</u> <u>12 Months</u> <u>SOI</u>	<u>30-Jun-16</u> <u>12 Months</u> <u>Audited</u>
6. EMPLOYEE EXPENSES				
Salaries and wages	360,877	302,256	736,607	674,884
Employer Contribution to Kiwi Saver	8,966	12,559	20,880	21,354
Movement in employee entitlements	8,932	5,718		15,187
	<u>378,775</u>	<u>320,533</u>	<u>757,487</u>	<u>711,425</u>
7. GENERAL ADMINISTRATION				
Legal	143,646	18,845	60,000	24,879
Consultancy	52,307	90,667	77,000	150,641
Contactors	100,449	68,109	208,932	161,985
General Administration	146,269	115,820	335,982	228,736
	<u>442,671</u>	<u>293,441</u>	<u>681,914</u>	<u>566,241</u>
To ensure consistency between yearly comparisons, the classifications within 'Employee Expenses' and 'General Administration' for 31 December 2015 have been updated.				
8. FINANCE COST				
Interest on term loans	141,956	155,466	326,860	303,689
Interest on overdraft				
	<u>141,956</u>	<u>155,466</u>	<u>326,860</u>	<u>303,689</u>
9. TAXATION:				
Current year tax payable	281,993	98,510	483,823	397,896
Prior year adjustments				10,669
Movement in deferred tax				(372,934)
Total	<u>281,993</u>	<u>98,510</u>	<u>483,823</u>	<u>35,631</u>
10. CASH & CASH EQUIVALENTS				
BNZ Current account	46,556	2,077	10,000	280,009
Cash on hand	3,596	3,229	3,000	3,358
Short term deposits	176,684	141,619	146,865	5,064
Total	<u>226,836</u>	<u>146,925</u>	<u>159,865</u>	<u>288,431</u>
11. TRADE ACCOUNTS AND OTHER RECEIVABLES				
Debtors and other receivables	719,808	491,200	524,275	508,460
Receivables from related party	796	2,966		1,378
Provision for impairment	0	(12,287)	(6,883)	(3,400)
Total	<u>720,604</u>	<u>481,879</u>	<u>517,392</u>	<u>506,438</u>

Debtors and other receivables are non-interest bearing and receipt is normally on 30-day terms. Therefore, the carrying value of debtors and other receivables approximates their fair value after making provisions for impairment on specific overdue accounts.

	<u>31-Dec-16</u> <u>6 Months</u> <u>Unaudited</u>	<u>31-Dec-15</u> <u>6 Months</u> <u>Unaudited</u>	<u>30-Jun-17</u> <u>12 Months</u> <u>SOI</u>	<u>30-Jun-16</u> <u>12 Months</u> <u>Audited</u>
12. TRADE ACCOUNTS PAYABLE				
Trade accounts payable	142,969	107,904	90,000	336,364
Payables to related party	3,316	2,837	0	3,028
Total	<u>146,285</u>	<u>110,741</u>	<u>90,000</u>	<u>339,392</u>
13. EMPLOYEE BENEFIT LIABILITIES				
Accrued Pay	23,330	(20,194)	43,398	33,178
Annual leave	58,625	40,176	32,400	49,474
Sick leave	1,409	1,460	3,600	1,629
Total	<u>83,364</u>	<u>21,441</u>	<u>79,398</u>	<u>84,281</u>
14. BORROWINGS				
Borrowings	5,500,000	5,500,000	5,745,000	6,150,000
Current portion of borrowings				
Total	<u>5,500,000</u>	<u>5,500,000</u>	<u>5,745,000</u>	<u>6,150,000</u>

The Company has a bank facility of \$8.2 million which is secured by a registered first debenture and mortgage from the Bank of New Zealand over assets and property of the Company.

The carrying value of borrowings is materially consistent with their fair value.

15. PROPERTY, PLANT AND EQUIPMENT

	30-Jun-16							31-Dec-16
	Carrying Amount	Additions	Intended for Sale	Disposals	Disposals	Accum Dpn	Depreciation	Carrying Amount
Land	24,659,555	25,002						24,684,557
Buildings	11,475,715	628,019		11,991		(13,283)	129,867	11,975,159
Airside Infrastructure	23,809,404	504,470					397,207	23,916,667
Plant & Equipment	859,446	26,468					48,775	837,139
Furniture & Fittings	171,446	8,984					17,098	163,332
Computer Equipment	27,615	52,161					11,518	68,258
Motor Vehicles	1,397						219	1,178
Intangibles	5,051	21,928		26,419		(24,671)	3,760	21,471
	<u>61,009,629</u>	<u>1,267,032</u>		<u>38,410</u>			<u>608,348</u>	<u>61,667,761</u>

It is Management's opinion that there is no reason that the value of any of the assets of the Company should be impaired as at 31 December 2016.

16. DEFERRED TAX ASSETS/(LIABILITIES)

	Property, plant and equipment	Employee entitlements	Other provisions	Total
Balance at 30 June 2016	6,150,946	(20,645)	(1,717)	6,128,585
Change to profit and loss				
Balance at 31 December 2016	<u>6,150,946</u>	<u>(20,645)</u>	<u>(1,717)</u>	<u>6,128,585</u>

17. CASH FLOW RECONCILIATION

Reconciliation of surplus after taxation with net cash flows from operating activities

	31-Dec-16	31-Dec-15	30-Jun-17	30-Jun-16
	6 Months	6 Months	12 Months	12 Months
	Unaudited	Unaudited	SOI	Audited
Net surplus after tax	725,124	253,314	1,244,116	805,433
Add Depreciation	608,347	553,983	1,336,920	1,129,848
Add loss of sale of assets				
Net movement in deferred tax				
Net movement in working capital	<u>(323,274)</u>	<u>(429,064)</u>	<u>(144,387)</u>	<u>449,952</u>
Net cash from operating activity	<u>1,010,197</u>	<u>378,233</u>	<u>2,436,649</u>	<u>1,485,329</u>