

2018

ANNUAL REPORT



PALMERSTON NORTH
AIRPORT LIMITED



ANNUAL REPORT 2018

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PASSENGER
VOLUMES REACHED
AN ALL-TIME
RECORD OF 657,515
FOR THE TWELVE
MONTH PERIOD
TO JUNE 2018, 4%
AHEAD OF THE
PRIOR YEAR AND
EXCEEDED THE
STATEMENT OF
INTENT TARGET
BY 3%.

JOINT REPORT

THE CHAIRMAN AND CHIEF EXECUTIVE'S
JOINT REPORT FOR THE YEAR ENDED 30 JUNE 2018

OVERVIEW

The Directors and Management team are pleased to present the 2017/18 Annual Report which outlines the Company's achievements over the last year in meeting regulatory and health & safety requirements, strategic and business objectives.

2017/18 has been a very successful year for the Company and the Chairman and Chief Executive Officer acknowledge the Board and team for their dedication and commitment.

During the year the Company undertook a refresh of the corporate strategy. While continuing to focus on being New Zealand's leading regional airport, the Company's strategic objectives were reclassified to provide a simpler and clearer framework. Strategic objectives are now stated under the "Four C's" being Commercial, Compliance, Customer and Community.

A surplus after tax of \$1.61 million was achieved during the financial year ended 30 June 2018, being 24% ahead of the prior financial year, and 21% ahead of PNAL's Statement of Intent target.

The commencement of construction of the \$5 million Massey University School of Aviation training facility, opening of the 100-car capacity Long Stay Car Park, launch of Valet Parking, and completion of the Legend of Haunui-inspired terminal theming, were major highlights of the year.

Passenger volumes reached an all-time record of 657,515 for the twelve month period to 30 June 2018, 4% ahead of the prior year and exceeded the Statement of Intent target by 3%.

Passenger growth was primarily driven by increasing demand on the Palmerston North - Auckland route, with modest increases also recorded across most other routes.

Continuous improvement in the airport experience for travellers and other airport users was again a key driver of infrastructure development and airport operations.

Major capital investments undertaken during the year included Stage 1 of the Massey University School of Aviation building, rescue fire station rebuild, completion of the Long Stay Car Park and Valet facilities, and the

reconstruction of taxiway and airfreight apron areas.

Master planning for the 20-hectare Ruapehu Business Park was completed during the year, with commercialisation plans now in action.

FINANCIAL

Revenue of \$8.48 million increased 16% over the previous financial year, although revenue fell short of the Statement of Intent target by 2%.

Aeronautical revenue performance was again strong. At \$5.02 million, aeronautical revenue was 17% higher than the previous financial year.

Non-aeronautical revenue of \$3.46 million, consisting of concessionaire's payments, property and land rental, advertising and car parking, increased 15% compared to the previous financial year. However, weakness in car park revenue meant non-aeronautical revenue fell short of the Statement of Intent target by 5%. Non-aeronautical revenue represented 41% of total revenue.

Total operating expenses of \$4.41 million were 4% below the Statement of Intent, and 17% above the previous financial year. Operating and administration expenditure increases were driven by additional resourcing requirements and an ongoing focus on commercial opportunities.

Earnings before interest, tax, depreciation and amortisation (EBITDA) were \$4.07 million, 15% above the previous financial year and within 1% of the Statement of Intent target.

Surplus after tax of \$1.61 million was 24% ahead of the previous financial year, and 21% ahead of the Statement of Intent target.

Depreciation charges at \$1.58 million were 30% above the previous financial year and 6% below the Statement of Intent. The lower than predicted depreciation charges were the consequence of the deferral of a number of capital projects to the 2018/19 financial year.

Finance charges of \$0.28 million were 4% below the previous financial year and 43% below the Statement of Intent. These savings were achieved through lower than expected borrowings

David Lanham
Chief Executive

Murray Georgel
Chairman



associated with the deferred capital expenditure programme.

A valuation appraisal of land, building and airside infrastructure at June 2018 indicated that there had not been a material increase in values since the June 2017 revaluation.

PNAL's balance sheet remains strong with shareholder's equity of \$60.7 million and debt of \$7.26 million (current and non-current borrowings).

All banking covenants have been met during the financial year.

Net cash flow from operating activities was \$3.31 million.

Capital expenditure of \$5.89 million was incurred during the financial year and related to the partial construction of Stage 1 of the Massey University School of Aviation building, commencement of the rescue fire station rebuild, completion of the Long Stay Car Park and Valet facilities, and the reconstruction of taxiway and airfreight apron areas.

The Company has entered a phase of more intensive property development with associated increases in capital expenditure. The negative working capital balance at 30 June 2018 of \$1.98 million relates primarily to accounts payable associated with those projects for which approved term funding is in place with the Bank of New Zealand. A portion of this funding has been treated in the interim as a current liability.

Capital expenditure was 17% below the Statement of Intent target, primarily due to the delayed commencement of Stage 1 of the Massey School of Aviation building.

A dividend of \$0.64 million will be made for the financial year ended 30 June 2018.

COMMERCIAL

Total passenger volumes reached a record 657,515 for the twelve months to June 2018; an all-time record, 4% ahead of last year, and 3% ahead of the Statement of Intent target.

Passenger growth on scheduled services was primarily driven by higher loadings achieved on Palmerston North – Auckland route by both Air New Zealand and Jetstar. Modest increases in passenger volumes were also achieved on Christchurch – Palmerston North, Nelson – Palmerston North and Hamilton – Palmerston North routes.

Boeing 737-400 freighter services operated by Freightways in conjunction with New Zealand Post continued. Palmerston North Airport is one of three major logistics hubs for the two courier operators who share capacity on the twice-daily services on the Auckland – Palmerston North – Christchurch route.

The company continues to follow a policy of revenue diversification as a means of de-risking the business model. In addition to aeronautical revenue sources, non-aeronautical business activities also continue to be expanded as a means of safeguarding revenue streams.

During the year the Ruapehu Business Park Masterplan was completed. The Masterplan provides a 20-year vision for the Business Park and will provide the company with a development plan which will ensure appropriate and complementary business activities are attracted to the Business Park.

Stage 1 of the Business Park's commercialisation commenced in 2018 with over 6 hectares of land now being actively promoted for development.

The construction of the \$5 million Massey University School of Aviation training facility commenced during the year and is the largest commercial development project embarked on to date by Palmerston North Airport Limited. Once completed the entire School of Aviation faculty and all student learning will be located at the Business Park.

The development of tertiary aviation training activity within the Business Park is a core strategic objective of the airport company.

COMPLIANCE

All Part 139 and other statutory requirements relating to the airport and its operations were met during the financial year. These were supported by continuing monthly internal audits and quality control checks undertaken by an independent body.

During the year the Company commenced the implementation of a safety management system, designed to meet Civil Aviation Rule Part 100 requirements. The risk-based approach to safety is a response to the growth in complexity of aviation operations, increasing stakeholder expectations, and regulatory requirements including the Health and Safety at Work Act.

Construction of a replacement rescue fire building commenced during the year. The new facility will accommodate the Rescue Fire team's three appliances and SUV, and will include an emergency response centre, training rooms, offices, and team areas over the floors.

CUSTOMER

The Company's focus on improving the airport experience for travellers, meeters and greeters, tenants and other airport users continued.

To accommodate growing demand from regional travellers an additional 140 car park spaces were added during the year. The 100-car capacity Long Stay Car Park has proved extremely popular with price-conscious and leisure travellers with pricing from \$5.50 per day the lowest on offer at any airport in the lower North Island.

Valet Parking is proving popular with travellers seeking the convenience of under cover pick up and drop off, and the personalised service on offer.

Interactive touch screen kiosks have been installed in the terminal and provide airport users with the ability to complete a short customer satisfaction survey. Survey results including a net promoter score are reported on monthly and assist management to further engage with airport users while refining the airport offer.

PNAL's visitor development activities continued to focus on growing the airport's share of regional travellers. The airport's catchment extends from Ruapehu District in the north, through Whanganui, Rangitikei and Manawatu, south to Horowhenua and across to Taranaki and the Wairarapa.

The Company's "Fly Palmy" consumer brand continues to represent convenience, connectivity, regional loyalty and personality. The brand's objectives include creating awareness amongst regional, inbound and outbound travellers alike on the convenience of using Palmerston North Airport as the gateway to and from the central region. It has been pleasing to note the growth in regional travellers electing to use Palmerston North Airport as their preferred airport, with travellers from Whanganui, Wairarapa and the Horowhenua especially noticeable.

Stakeholder engagement and collaboration was again strong, with promotional activity undertaken in

conjunction with airline operators, Regional Tourism Organisations and the wider tourism industry. During the year the Company partnered with House of Travel in the "Aussie's Pretty Easy" campaign, designed to promote the ease and convenience of travelling from Palmerston North via Auckland to Australia.

The Company also continues to support Wildbase with a sponsored Toyota Hilux. The vehicle is used for transferring special animal patients between Wildbase hospital facilities and the airport. The Company also partnered with the Central Pulse netball team, after a hugely successful campaign in the prior year. A short promotional video featuring Pulse players and Fly Palmy team members has proven popular on social media.

The Company's sponsorship of Fly Palmy Arena (formerly Arena 2) provides an opportunity to further develop ties to sport, and especially national secondary school events.

COMMUNITY

Community engagement and environmental guardianship were adopted as two strategic objectives from 2018 onwards.

The Company has commenced the development of a community engagement programme to identify opportunities to engage with local communities and Iwi.

During the year the Company continued to support the local Filipino community, through sponsorship and participation at cultural and seasonal events.

The Company's relationship with local iwi Rangitāne is very special. The collaboration shown in bringing the terminal to life through the Legend of Hau display is an example of the special relationship which exists.

During the year the company launched a range of emission reduction initiatives, with savings being achieved in energy consumption and waste to landfill associated with terminal operations.

OUR PEOPLE

David Yorke joined the management team during the financial year. A qualified civil engineer, David has assumed the responsibility for infrastructure management at Palmerston North Airport.

The position of Safety and Security Manager was also created during the year in response to the increasing demands of safety management in both airside and landside areas. Terry Cooney, was appointed to the role in October 2017 and brings to the team extensive experience and knowledge in emergency management planning, and safety management systems.

With the launch of Valet Parking in September, we welcomed a team of Valet concierge personnel who have become the face of Valet Parking for our customers.

Financial Accountant Sonya Wood resigned in June, and a replacement will be joining the Palmerston North Airport management team in August 2018

THE FUTURE OUTLOOK

Palmerston North Airport will continue to aspire to be New Zealand's leading regional airport.

The staged development of Ruapehu Business Park will be a primary management focus in the next few years, with the objective of facilitating growth in aviation training, and freight and logistics activities based at Palmerston North Airport.

Community engagement and environmental guardianship related activities will be further extended during the next financial year.

The Company's community engagement plan will be finalised while existing community relationships will be further strengthened.

The Company will develop a pathway to achieve our long-term vision of carbon neutrality. This will involve the selection of an appropriate accreditation programme (or programmes) to align activities with, establishment of timelines, confirmation on appropriate areas of focus and how we will engage with our airport partners including airlines, and other airport tenants.

An initial investigation at Palmerston North Airport has confirmed that PFOS containing firefighting foam may have been used historically at the airport. As at balance date, the extent and the full cost of ongoing testing and any required remediation remains unknown.

The Company's visitor development priorities will continue to focus on the development of relationships

with tourism and business partners, including airlines and Regional Tourism Organisations.

Air service development priorities will remain focused on the further sustainable expansion of domestic air services, and connectivity to international services via New Zealand's primary international major gateway airport, Auckland.

The re-design of the terminal – car park interface and refurbishment of the exterior of the terminal building exterior will further enhance the Airport's attractiveness and convenience for regional travellers and visitors alike.



Murray Georgel
Chairman



David Lanham
Chief Executive

CORPORATE REPORT

FOR THE YEAR ENDED 30 JUNE 2018

Palmerston North Airport Limited (PNAL) is a ‘Council-Controlled Trading Organisation’ pursuant to the Local Government Act 2002.

PRINCIPAL ACTIVITIES

The principal activities of the Company during the year were:

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

OWNERSHIP

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

FINANCIAL REPORT

Here are the financial results for the year under review. Details of these financial results are shown on pages 32 to 52.

	2018 Actual	2018 SOI	2017 Actual
Performance			
Revenue	8,482,757	8,688,164	7,313,379
EBITDA	4,073,896	4,097,620	3,534,503
Net Profit After Tax	1,609,019	1,330,988	1,299,122
Passengers	657,515	639,000	629,411
Financial Position			
Cash & Cash Equivalents	196,233	181,167	288,028
Current Assets	1,267,144	780,463	979,562
Property, Plant & Equipment	76,034,700	79,399,831	72,011,918
Shareholder Funds	60,704,107	63,362,027	59,614,743

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 Chairman’s and Chief Executive’s Report and the statutory accounts of the Company published herewith.

KEY NUMBERS

657,515

Passengers in 2018

\$8,482,757

Revenue

\$1,609,019

Net Profit After Tax

\$60,704,107

Shareholder Equity

\$76,034,700

Property, Plant & Equipment



DIRECTORS

Retirements

During the 2017/18 financial year, Jon Nichols and Gerard Gillespie retired by rotation and were reappointed to the Board by the Shareholder.

Appointments

There were no new appointments to the Board during the 2017/18 financial year.

DIRECTORS’ REMUNERATION

For the year ended June 2018, the amount of \$90,000 (2017: \$90,625) for Director Remuneration was paid, or due and payable, to members of the Board as authorised by the shareholder as follows:

	2018	2017
Georgel M	28,000	22,583
Nichols J	17,000	17,000
Gillespie G F	15,000	15,000
Adlam J	15,000	15,000
Cardwell C	15,000	8,750
Walker D N		12,292
	90,000	90,625

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.

USE OF COMPANY INFORMATION BY DIRECTORS

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

SHAREHOLDING BY DIRECTORS

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

DIRECTORS’ INTERESTS

During the course of the financial year to 30 June 2018, Directors declared interest in the following entities:

<i>Interest</i>	<i>Nature of Interest</i>	<i>Relationship to PNAL</i>
Mr M Georgel		
Director & Shareholder	NV Enterprises Ltd	None
Director & Shareholder	Xenos Ltd	None
Director	BCC Ltd	None
Director	Manawatu Investment Group Ltd	None
Director	MIG Nominee No.1 Ltd	None
Trustee	Sir Patrick Higgins Charitable Trust	None
Director	Calf Smart Ltd	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 (\$10,000 commencing 1 July 2018)
Mr J Nichols		
Director	Port of Napier (resigned Nov 2017)	None
Chair	Centralines Ltd	None
Director	Nichols Consulting Ltd	None
Chair	Hastings District Council Audit Subcommittee	None
Chair	Audit and Risk Committee of Maungahahuru Tangitu Trust	None
Mr G F Gillespie		
Director	Tui Products	None
Director & Shareholder	Max Fashions	None
Ms J Adlam		
Co Chair	The Sustainability Trust	None
Chair	Tautoko Services	None
Coach	The Ice House	None
Coach	Business Changing (resigned Oct 2017)	None
Chair	Brava Limited (resigned Oct 2017)	None
Director	Fresh Focus Ltd	None
Director	Lifeland Developments Ltd	None
Member	Lottery Wellington/Wairarapa Community Committee	None
Director	Haunt Digital	None
Mr C Cardwell		
Director	Waikato District Health Board	None
Director	Wairaka Land Company Ltd (resigned April 2018)	None
Director & Shareholder	Australis Property Ltd	None
Director & Shareholder	Laurent Investments Ltd	None
Director	Kaipara Whenua Hoko Holdings Ltd	None
Director	Te Uru Ltd	None

All Directors are indemnified under the Directors and Officers Liability Insurance Policy.

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

<i>Director</i>	<i>Number of meetings held</i>	<i>Number of meetings attended</i>
Mr M Georgel	11	11
Mr J Nichols	11	11
Mr G F Gillespie	11	10
Ms J Adlam	11	10
Mr C Cardwell	11	9

REMUNERATION OF EMPLOYEES

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

	<i>2018</i>	<i>2017</i>
\$100,000 - \$120,000	0	1
\$250,000 - \$260,000	0	1
\$260,000 - \$270,000	1	0

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 \$29,488 (GST exclusive) for the 2018 annual audit is reflected in the financial statements as due and payable.

DONATIONS

The Company made donations of \$1,000 this year (2017: \$700).

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 consolidated financial statements and making recommendations on financial and accounting policies.



SERVICE PERFORMANCE

FOR THE YEAR ENDED 30 JUNE 2018

STATEMENT OF SERVICE PERFORMANCE

- The Company's Statement of Intent, against which performance is judged, is dated June 2017.
- The Company is trading as Palmerston North Airport Limited.
- The ratio of consolidated shareholder funds to total assets has been maintained above 70%, 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

TO BE NEW ZEALAND'S LEADING REGIONAL AIRPORT.

OUR MISSION - OUR AIMS AND VALUES

COMMUNITY

WE WILL BE A LEADER FOR REGIONAL ENVIRONMENTAL GUARDIANSHIP AND ENGAGEMENT WITH IWI AND COMMUNITIES.

A new strategic focus which captures PNAL's newly developed environmental and community objectives.

We will support our regional communities by identifying opportunities to engage with local groups and Iwi. We will continue to showcase our sense of place and cultural linkages to our region. We will develop a pathway to achieve our long-term vision of carbon neutrality while immediately activating emission reducing programmes across our business activities.

CUSTOMER

WE WILL TREAT ALL AIRPORT USERS AS OUR CUSTOMERS.

Our customers not only include travellers and meeters and greeters but also all other airport users including our tenants, suppliers and transport operators.

COMMERCIAL

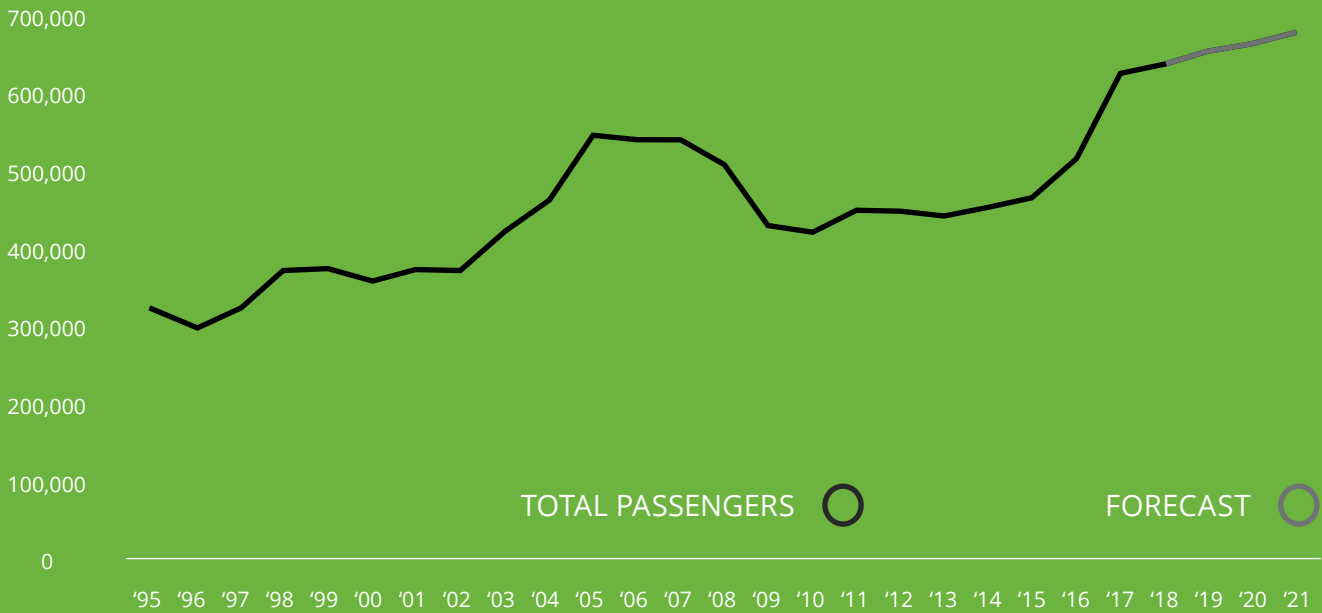
WE WILL OPERATE A SUSTAINABLE BUSINESS TO ENSURE LONG TERM SUCCESS.

Infrastructure and our people objectives are included within the commercial objectives, as both are enablers of a sustainable business platform from which commercial activities can be executed. Revenue growth and revenue diversification, together with prudent cost management are our focus to ensure financial stability and to enable a fair distribution to our Shareholder.

COMPLIANCE

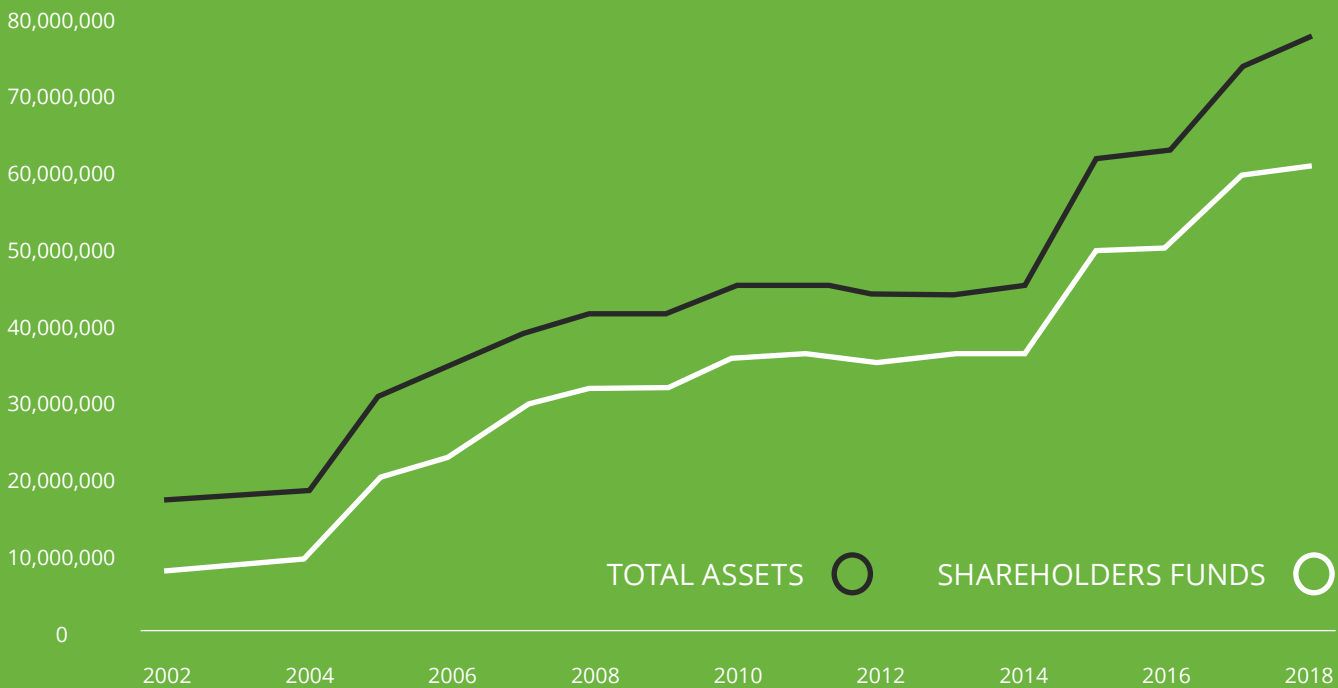
WE WILL MAINTAIN A SAFE AND SECURE OPERATION AND ENSURE ONGOING COMPLIANCE WITH ALL STANDARDS AND REGULATIONS.

Regulatory compliance and a renewed focus on safety and security will provide the necessary environment in which other strategic objectives can be achieved.



ANNUAL PASSENGER VOLUMES

SINCE 1995



TOTAL ASSETS AND SHAREHOLDER FUNDS GROWTH

SINCE 2002

PERFORMANCE MEASURES

FOR THE YEAR ENDED 30 JUNE 2018

		2018 Actual	2018 SOI	2017 Actual
1	Ratio of net surplus before interest/tax/valuations to Total Assets	3.2%	3.0%	3.1%
2	Ratio of net surplus after tax to consolidated shareholders funds inclusive of revaluation reserve	2.7%	2.1%	2.2%
3	Maintain a ratio of consolidated shareholders funds to Total Assets	78%	79%	81%
4	Interest cover ratio of net surplus before Interest tax and depreciation to Interest, at or above	14.6	8.4	13.1
5	Maintain a tangible net worth (total tangible assets after revaluations less total liabilities) above \$35m	\$60.7m	\$63.4m	\$59.6m
6	Maintain Civil Aviation Rule Part 139 certification (1)	Maintained Part 139 compliance.		
7	Maintain a level of customer satisfaction of 90% and biennially measure this by customer survey (2)	90%	90%	n/a
8	Total passenger throughput	657,515	639,000	629,411

(1)

The 5 yearly CAA Audit was conducted in 2014, and the next audit will be completed in September 2019.

(2)

The Customer Satisfaction survey findings are based on a survey of 3,618 customers over the period July 2017 to January 2018.

CASE STUDIES

OUR CULTURE,
OUR SENSE
OF PLACE



TE RANGIMARIE MARAE

PALMERSTON NORTH AIRPORT LIMITED HAS FORGED A VERY SPECIAL BOND WITH RANGITĀNE AND TE RANGIMARIE MARAE. THE MARAE, LOCATED ON THE BANKS OF THE OROUA RIVER, IS THE OLDEST MARAE IN THE LOWER NORTH ISLAND AND SURVIVED DEVASTATING FLOODS IN 2004 AND 2015. RANGITĀNE HAVE REBUILT THE FACILITIES WITH THE OBJECTIVE OF ENGAGING WITH REGIONAL COMMUNITIES.

Palmerston North Airport Limited in conjunction with Higgins and other partners are assisting Rangitāne with the construction of an undercover barbeque area. It is envisaged that up to 2,000 school students will visit the marae annually, participating in both cultural and environmental activities while being hosted in the barbeque area.

The facility will also increase the marae's ability to host other iwi and family in a more informal setting than is presently available.

Pictured: David Lanham, Trieste Te Awe Awe and Wiremu Te Awe Awe, Kaumātua, Rangitāne.



PALMERSTON NORTH AIRPORT LIMITED IN CONJUNCTION WITH HIGGINS AND OTHER PARTNERS ARE ASSISTING RANGITĀNE WITH THE CONSTRUCTION OF AN UNDERCOVER BARBEQUE AREA.



OUR SENSE OF PLACE

THE LEGEND OF HAUNUI-A-NANAIA

AFTER CONSULTATION WITH RANGITĀNE KAUMATUA THE LEGEND OF HAUNUI-A-NANAIA WAS ADOPTED BY PALMERSTON NORTH AIRPORT LIMITED AS A MEANS OF DEFINING OUR SENSE OF PLACE, AN AIRPORT AT THE CROSS ROADS OF AN EXPANSIVE REGION. THE ADOPTION OF THE LEGEND IS ALSO THE AIRPORT'S WAY OF

RECOGNISING TANGATA WHENUA FROM THE WIDE REGION WE PROUDLY SERVE.

Artwork depicting the Legend of Haunui-a-Nanaia, was installed in the arrivals / departure lobby and terminal. Four separate works were commissioned and completed by Rangitāne artists. A dawn blessing ceremony was held in December by Rangitāne Kaumatua.

Pictured from left: Ngatai Taepa, Warren Warbrick, David Lanham, Craig Kawana and Reweti Arapere





PHILIPPINE CENTRAL ASSOCIATION

PALMERSTON NORTH AIRPORT LIMITED HAS A LONGSTANDING RELATIONSHIP WITH THE PHILIPPINE CENTRAL ASSOCIATION, SUPPORTING SEASONAL EVENTS INCLUDING INDEPENDENCE DAY CELEBRATIONS AND CHRISTMAS.

This year's Independence Day celebration included the successful Little Miss Palmy beauty pageant, attended by community members from as far away as the Hawkes Bay and Wellington. Palmerston North Airport Limited is working with the Philippine Central Association to host the 2019 Labour Weekend Fiestang Pinoy in Palmerston North. The annual event will attract Filipino community members from across the country for two days of sporting and cultural activities.

Pictured above: Angel Carambas - PCA President, David Lanham and Grashella Garrovillo - Prize winner.

WILDBASE RECOVERY

PALMERSTON NORTH AIRPORT LIMITED CONTINUES TO SUPPORT WILDBASE WITH THE SPONSORED TOYOTA HILUX. THE VEHICLE IS USED FOR TRANSFERRING SPECIAL ANIMAL PATIENTS BETWEEN WILDBASE HOSPITAL FACILITIES AND THE AIRPORT.

Pictured below: James Adamson - Manawatu District Council Parks Officer, Tom Ashton - Originair Captain, and Gary Jeffcott - Originair Charter and Group Bookings Manager.





FLY PALMY ARENA

PALMERSTON NORTH AIRPORT LIMITED'S RELATIONSHIP WITH CENTRAL ENERGY TRUST ARENA AND SPONSORSHIP OF FLY PALMY ARENA PROVIDES THE AIRPORT COMPANY WITH A PRACTICAL WAY TO SUPPORT INBOUND TOURISM TO OUR REGION. WITH RETRACTABLE SEATING INSTALLED IN JUNE, FLY PALMY ARENA NOW HAS A SEATING CAPACITY OF OVER 3,100.

Events held in the world class Fly Palmy Arena include the 2018 National Secondary Schools Kapa Haka Competition, Badminton New Zealand junior team championships, Le Cirque Volé, and the 2018 ANZ Premiership Grand Final.

Pictured left: Aoreta Mohi - Rangitāne and Hiria Mohi - Rangitāne

EVENTS HELD IN THE WORLD CLASS FLY PALMY ARENA INCLUDE THE 2018 NATIONAL SECONDARY SCHOOLS KAPA HAKA COMPETITION.



FLYPALMY.CO.NZ



CENTRAL PULSE

PALMERSTON NORTH AIRPORT LIMITED'S SPONSORSHIP OF THE CENTRAL PULSE HAS BEEN ONE OF THE MOST SUCCESSFUL SPONSORSHIPS UNDERTAKEN BY THE AIRPORT COMPANY. THE PULSE HAVE HAD A SUCCESSFUL YEAR AND THEIR POPULARITY WITHIN THE AIRPORT'S CATCHMENT IS AT AN ALL-TIME HIGH.

The We Fly Palmy Netball Competition proved hugely popular with schools across our catchment area. The competition required schools to replicate one of the Central Pulse's coaching tips videos or create their own Fly Palmy banners. Winning schools were from as far away as Martinborough and the Horowhenua.



A PROMOTIONAL VIDEO FOR THE FLY PALMY BRAND WAS SHOT IN CONJUNCTION WITH THE CENTRAL PULSE DURING MAY, AND PROVED TO BE A LOT OF FUN FOR ALL INVOLVED.

AIRPORT FACILITIES & INFRASTRUCTURE

MAJOR CAPITAL INVESTMENTS UNDERTAKEN DURING THE YEAR INCLUDED STAGE 1 OF THE MASSEY UNIVERSITY SCHOOL OF AVIATION BUILDING, RESCUE FIRE STATION REBUILD, THE RECONSTRUCTION OF TAXIWAY AND AIRFREIGHT APRON AREAS, AND COMPLETION OF THE LONG STAY CAR PARK.

The upgrade of terminal facilities continued with the addition of Valet Parking to the airport's car parking offer, and an additional premium meeting room – the Union Airways Room.

Pictured from left: Tom Kiddle - Beca, David Yorke - Palmerston North Airport Limited and Bruce Walker - Higgins

RECONSTRUCTION WORKS COMMENCED IN FEBRUARY 2018 ON THE AIRPORT'S TWO TAXIWAYS AND AIRFREIGHT APRON. WITH COMPLETION DUE IN LATE 2018 THE \$2.7 MILLION PROJECT IS BEING UNDERTAKEN BY HIGGINS WITH PROJECT OVERSIGHT PROVIDED BY BECA.



Photo credit: Jillian Sinclair



THE UNION AIRWAYS ROOM

The former Air New Zealand regional lounge was converted into a premium business meeting room with a striking Union Airways theme. The meeting room recognises the importance of Union Airways to the history of commercial air services in New Zealand, and the fact that Milson Aerodrome (Palmerston North Airport) was a major hub for the airline. Family members of one of the first Union Airways pilots officially opened the room on July 30, 2018.

Pictured right - Helen Walker and Malcom MacLeod, children of one of the founding Union Airways pilots, Murdo MacLeod, at the opening of the Union Airways room.





RESCUE FIRE FACILITY

Construction of a replacement rescue fire facility commenced during 2018. The 510m² facility will accommodate the Rescue Fire team's three appliances and SUV. It will also include an emergency response centre, training rooms, offices and team areas over two floors.

Pictured above: Greg Eades and David La Roche - Task Protection Services Limited



PALMERSTON NORTH AIRPORT LIMITED SAFETY AND SECURITY MANAGER TERRY COONEY PICTURED AFTER COMPLETING THE 2018 FIREFIGHTER SKY TOWER STAIR CHALLENGE.

VALET PARKING



VALET PARKING

OPENED IN SEPTEMBER 2017 VALET PARKING IS PROVING VERY POPULAR WITH CUSTOMERS SEEKING THE CONVENIENCE OF THE UNDERCOVER PICK UP AND DROP OFF AREA, AND DIRECT UNDERCOVER ACCESS TO THE TERMINAL.





RUAPEHU BUSINESS PARK

DURING THE YEAR THE RUAPEHU BUSINESS PARK MASTERPLAN WAS COMPLETED. THE MASTERPLAN PROVIDES A 20-YEAR VISION FOR THE BUSINESS PARK AND WILL PROVIDE THE COMPANY WITH A DEVELOPMENT PLAN WHICH WILL ENSURE APPROPRIATE AND COMPLEMENTARY BUSINESS ACTIVITIES ARE ATTRACTED TO THE BUSINESS PARK.

Stage 1 of the Business Park's commercialisation commenced in 2018 with over 6 hectares of land now being actively promoted for development.

The construction of the \$5 million Massey University School of Aviation training facility commenced during the year and is the largest commercial development project embarked on to date by Palmerston North Airport Limited. Once completed the entire School of Aviation faculty and all student learning will be located at the Business Park.

The staged development of Ruapehu Business Park will be a primary management focus in the next few years, with the objective of facilitating growth in aviation training, and freight and logistics activities based at Palmerston North Airport. Complementary activities including accommodation, retail, and light industrial are also being attracted to Ruapehu Business Park.



MASSEY UNIVERSITY SCHOOL OF AVIATION

THE CONSTRUCTION OF THE \$5 MILLION MASSEY UNIVERSITY SCHOOL OF AVIATION TRAINING FACILITY COMMENCED DURING THE YEAR AND IS THE LARGEST COMMERCIAL DEVELOPMENT PROJECT EMBARKED ON TO DATE BY PALMERSTON NORTH AIRPORT LIMITED. ONCE COMPLETED THE ENTIRE SCHOOL OF AVIATION FACULTY AND ALL STUDENT LEARNING WILL BE LOCATED AT THE BUSINESS PARK.

STAGE 1

of the aviation facility is due for completion in late August 2018. The state of the art facility includes 2200m² of floor space for lecture rooms, flight simulators, offices and flight operations.

STAGE 2

due for completion in June 2019 will enable teaching and administrative staff to relocate to the airport campus from their present location at Massey's main city campus.

Massey University School of Aviation is one of the few tertiary education institutions globally that provides professional training for pilots, blended seamlessly with university accredited academic qualifications.

The School also offers academic programmes in aviation management, doctoral level studies and professional short courses in aviation - including

training for Remotely Piloted Aircraft Systems (RPAS). It has ISO 9001-2015 accreditation and enjoys the unique distinction of holding an Equivalence Approval from the New Zealand Civil Aviation Authority.

The future outlook for the School is bright. In addition to being an Air New Zealand Preferred Flight Training Organisation, Massey University is also the first tertiary institution outside of Australia to join the Qantas Group Future Pilot Program, whereby selected Massey graduates are employed by Jetstar New Zealand directly upon graduation.

The program is open to graduates from the School's Bachelor of Aviation – Air Transport Pilot qualification.

Pictured above: Paul Kearney, Chief of Standards, and students Matthew Bradbury and Samuel Hopgood, Massey University School of Aviation.

PALMERSTON NORTH AIRPORT LIMITED

FINANCIAL STATEMENTS

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STATEMENT OF COMPREHENSIVE REVENUE AND EXPENSE

FOR THE YEAR ENDED 30 JUNE 2018

	<i>Note</i>	<i>30-Jun-18 Actual \$</i>	<i>30-Jun-18 SOI \$</i>	<i>30-Jun-17 Actual \$</i>
Revenue	1	8,482,757	8,688,163	7,313,379
Operating Expenses				
<i>Operations and Maintenance</i>				
Airfield Services		719,620	708,432	623,360
Other Operating Expenses	11	1,513,154	1,684,957	1,267,719
Total Operations and Maintenance		2,232,774	2,393,389	1,891,079
<i>Administration</i>				
Audit Fees	12	29,488	26,500	29,115
Bad Debts Written Off			5,000	
Changes in Doubtful Debt Provision		18,816	10,000	
Directors' Fees		90,000	94,500	90,625
Employee Expenses	7	979,802	951,740	755,120
General Administration		1,057,981	1,109,415	1,012,937
Total Administration		2,176,087	2,197,155	1,887,797
Total Operating Expenses		4,408,861	4,590,544	3,778,876
<i>Earnings Before Interest, Taxation, Depreciation and Amortisation</i>		4,073,896	4,097,619	3,534,503
Finance Costs, Depreciation, Amortisation and Loss on Sale				
Finance Costs	9	279,238	486,475	269,622
Depreciation and Amortisation	2	1,582,752	1,685,551	1,217,466
Impairment and Loss on Sale of Assets	2	922	77,000	198,454
Total Finance Costs, Depreciation		1,862,912	2,249,026	1,685,542
Operating Surplus Before Taxation		2,210,984	1,848,593	1,848,961
Taxation Expense on Operating Surplus	6a	601,965	517,606	549,839
Net Surplus After Taxation Attributable to PNCC		1,609,019	1,330,987	1,299,122

Murray Georgel
Chairman



Jon Nichols
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 2018

	<i>Note</i>	<i>30-Jun-18 Actual \$</i>	<i>30-Jun-18 SOI \$</i>	<i>30-Jun-17 Actual \$</i>
Net Surplus After Taxation Attributable To PNCC		1,609,019	1,330,987	1,299,122
<i>Other Comprehensive Revenue and Expense</i>				
Gains (Losses) on Property, Plant and Equipment Revaluations	13(d)			10,974,180
Movement in Deferred Tax at Revaluation	13(d)			(2,145,902)
Total Comprehensive Revenue and Expense Attributable to PNCC		1,609,019	1,330,987	10,127,400

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2018

	<i>Note</i>	<i>30-Jun-18 Actual \$</i>	<i>30-Jun-18 SOI \$</i>	<i>30-Jun-17 Actual \$</i>
Equity at the Beginning of the Year		59,614,744	62,608,320	49,809,520
Total Comprehensive Revenue and Expense for the Year		1,609,019	1,330,987	10,127,397
Distribution to Shareholder During the Year		(519,656)	(577,281)	(322,173)
Equity at the End of the Year Attributable to PNCC		60,704,107	63,362,026	59,614,744

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 30 JUNE 2018

	<i>Note</i>	<i>30-Jun-18 Actual \$</i>	<i>30-Jun-18 SOI \$</i>	<i>30-Jun-17 Actual \$</i>
Current Assets				
Cash and Cash Equivalents	5	196,233	181,167	288,028
Trade Accounts Receivable	4	615,811	593,702	548,511
Sundry Receivables and Prepayments		166,949	5,595	143,023
Assets Held for Sale		288,151		
Total Current Assets		1,267,144	780,464	979,562
Less: Current Liabilities				
Revenue in Advance	14	122,884	90,000	44,356
Trade Accounts Payable	14	1,344,788	184,686	638,814
Other Creditors	14	504,431	95,258	277,130
Employee Benefit Liabilities	7	114,742	114,741	87,638
Borrowings	10	1,158,876		
Total Current Liabilities		3,245,721	484,685	1,047,938
Working Capital		(1,978,577)	295,779	(68,376)
Add: Non Current Assets				
Property, Plant and Equipment	2	76,034,700	79,380,188	72,011,918
Investment Property	2a	575,000		575,000
Intangible Assets	3	17,304	19,644	21,927
Total Non Current Assets		76,627,004	79,399,832	72,608,845
Less: Non Current Liabilities				
Deferred Tax Liability	6b	7,844,320	6,128,585	8,075,726
Borrowings	10	6,100,000	10,205,000	4,850,000
Total Non Current Liabilities		13,944,320	16,333,585	12,925,726
Net Assets		60,704,107	63,362,026	59,614,743
Represented by:				
Shareholders Equity				
Paid in Capital	13(a)	9,380,400	9,380,400	9,380,400
Retained Earnings	13(b)	19,388,551	19,196,990	18,299,187
Asset Revaluation Reserve	13(d)	31,935,156	34,784,636	31,935,156
Total Shareholders Equity		60,704,107	63,362,026	59,614,743

For and on behalf of the Board

Murray Georgel
Chairman

Jon Nichols
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 2018

	<i>Note</i>	<i>30-Jun-18 Actual \$</i>	<i>30-Jun-18 SOI \$</i>	<i>30-Jun-17 Actual \$</i>
Cash Flows From Operating Activities				
Cash was provided from:				
Receipts from Customers		8,466,891	8,567,980	7,282,794
Interest Received		2,183	3,213	5,926
Tax Refund				104,417
		8,469,074	8,571,193	7,393,137
Cash was disbursed to:				
Payment to Suppliers and Employees		4,100,486	4,659,773	3,974,986
Tax Loss Payment to PNCC		91,676		104,417
Payment of Income Tax		690,702	550,000	570,223
Interest Payments		279,238	486,475	269,622
		5,162,102	5,696,248	4,919,248
Net Cash Flows from Operating Activities		3,306,972	2,874,945	2,473,889
Cash Flows From Investing Activities				
Cash was provided from:				
Sale of Property Plant and Equipment		49,971	3,130,000	652,391
Cash was applied to:				
Purchase of Property, Plant and Equipment		5,337,965	10,125,915	1,504,510
Net Cash Flow from Investing Activities		(5,287,994)	(6,995,915)	(852,119)
Cash Flow From Financing Activities				
Cash was provided from:				
Borrowing		11,850,000	5,835,000	1,000,000
Cash was applied to:				
Repayment of Borrowings		10,600,000	1,100,000	2,300,000
Payment of Dividends	13(c)	519,649	577,281	322,173
Net Cash from Financing Activities		730,351	4,157,719	(1,622,173)
Net Increase/(Decrease) in Cash, Cash Equivalents and Bank Overdraft		(1,250,671)	36,749	(403)
Cash, Cash Equivalents and Bank Overdraft at the Beginning of the Year		288,028	138,974	288,431
Cash, Cash Equivalents and Bank Overdraft Year End	5,10	(962,643)	175,723	288,028

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

NOTES TO THE FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS

STATEMENT OF ACCOUNTING POLICIES FOR THE YEAR ENDED 30 JUNE 2018

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 2018. The financial statements were authorised for issue on 22nd August 2018.

BASIS OF PREPARATION

The financial statements have been prepared on the going concern basis, and the 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.

SIGNIFICANT ACCOUNTING POLICIES

Measurement Basis

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

1. ANALYSIS OF OPERATING REVENUE

	2018 Actual	2017 Actual	Revenue Measurement and Recognition
Aeronautical Charges	5,021,996	4,291,429	Revenue is measured at the fair value of consideration received or receivable.
Car Park, Rent and Advertising	3,276,917	2,811,843	Landing, departure, facility fees and car park revenue are recognised when the facilities are used.
Other	183,818	207,256	
Interest	26	2,851	Interest received is recognised as it accrues using the effective interest rate method.
	8,482,757	7,313,379	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

	<i>Land</i>	<i>Buildings</i>	<i>Airside Infrastructure</i>	<i>Landside Infrastructure</i>	<i>Total Infrastructure</i>	<i>Plant and Equipment</i>	<i>Furniture and Fittings</i>	<i>Computer Equipment</i>	<i>Motor Vehicles</i>	<i>Total</i>	<div>Critical Judgments in Applying Accounting Policies</div> <div><i>Classification of property</i> 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.</div>
Balances 1 July 2017											
Cost / Valuation	28,013,432	11,649,958	25,836,507	7,745,275	33,581,783	2,225,981	500,513	222,832	11,676	76,206,176	
Accumulated Depreciation				(2,267,784)	(2,267,784)	(1,401,839)	(357,562)	(156,973)	(10,721)	(4,194,878)	
Carrying Amount	28,013,432	11,649,958	25,836,507	5,477,491	31,313,998	824,142	142,952	65,859	956	72,011,298	
Movements for the Year											
Additions & Work in Progress	6,264	3,355,854	1,602,051	508,853	2,110,904	339,552	42,263	33,906		5,888,743	
Disposals		(1,690)				(113,684)				(115,374)	
Abandoned Projects											
Revaluation Surplus											
Reclassification	(288,151)									(288,151)	
Disposals - Accumulated Dep.						116,368				116,368	
Depreciation for the Year		(303,565)	(851,878)	(218,152)	(1,070,030)	(134,812)	(28,391)	(40,945)	(441)	(1,578,184)	
Dep. Reversal on Revaluation											
Closing Balances 30 June 2018											
Cost / Revaluation	27,731,545	15,004,122	27,438,558	8,254,128	35,692,687	2,451,849	542,776	256,738	11,676	81,691,394	
Accumulated Dep.		(303,565)	(851,878)	(2,485,936)	(3,337,814)	(1,420,283)	(385,953)	(197,918)	(11,162)	(5,656,694)	
Carrying Amount	27,731,545	14,700,557	26,586,680	5,768,192	32,354,872	1,031,566	156,824	58,820	515	76,034,700	

Capital Work in Progress Included at Cost										
30-Jun-18	19,696	3,070,970	484,337	157,390				10,000		3,742,393

	<i>Land</i>	<i>Buildings</i>	<i>Airside Infrastructure</i>	<i>Landside Infrastructure</i>	<i>Total Infrastructure</i>	<i>Plant and Equipment</i>	<i>Furniture and Fittings</i>	<i>Computer Equipment</i>	<i>Motor Vehicles</i>	<i>Total</i>	<div>*</div> <div>The reversal of accumulated depreciation for buildings resulting from the revaluation was higher than the revaluation increase. This has resulted in a net reduction in the Revaluation Surplus component of the Carrying Amount for buildings as at 30 June 2017.</div>
Balances 1 July 2016											
Cost / Valuation	24,668,372	12,125,772	19,352,248	7,243,203	26,595,452	2,166,790	548,781	167,896	11,676	66,284,740	
Accumulated Depreciation		(237,994)	(585,886)	(2,110,398)	(2,696,284)	(1,307,344)	(377,336)	(127,996)	(10,280)	(4,757,233)	
Carrying Amount	24,668,372	11,887,779	18,766,362	5,132,805	23,899,167	859,446	171,446	39,900	1,397	61,527,507	
Movements for the Year											
Additions & Work in Progress	4,412	554,331	288,937	512,406	801,343	73,431	12,540	54,936		1,500,993	
Disposals		(208,772)		(10,334)	(10,334)	(14,240)	(60,808)			(294,154)	
Abandoned Projects											
Revaluation Surplus	3,340,648	(246,373)*	6,195,322		6,195,322					9,289,597	
Reclassification		(575,000)								(575,000)	
Disposals - Accumulated Dep.		16,770		7,569	7,569	7,539	52,960			84,838	
Depreciation for the Year		(249,770)	(633,898)	(164,955)	(798,853)	(102,034)	(33,186)	(28,977)	(441)	(1,213,261)	
Dep. Reversal on Revaluation		470,994	1,219,784		1,219,784					1,690,778	
Closing Balances 30 June 2017											
Cost / Revaluation	28,013,432	11,649,958	25,836,507	7,745,275	33,581,783	2,225,981	500,513	222,832	11,676	76,206,176	
Accumulated Dep.				(2,267,784)	(2,267,784)	(1,401,839)	(357,562)	(156,973)	(10,721)	(4,194,878)	
Carrying Amount	28,013,432	11,649,958	25,836,507	5,477,491	31,313,998	824,142	142,952	65,859	956	72,011,298	
Capital Work in Progress Included at Cost											
30-Jun-17	13,229	395,261		534,571				10,000		953,061	

LAND, BUILDINGS AND AIRSIDE INFRASTRUCTURE FAIR VALUE

Land

Land is valued at fair value.

The most recent valuation was performed by independent registered valuers, Morgans Property Advisors. The valuation is effective as at 30 June 2017 and requires no changes.

As per Commerce Commission guidelines, fair value has been determined using the Market Value in Alternative Use Highest and Best Use (MVAU) methodology.

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.

Buildings

The most recent valuation was performed by independent registered valuers Morgans Property Advisors. The valuation is effective as at 30 June 2017 and requires no changes.

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.

Airside Infrastructure

The most recent valuation was performed by independent consultant engineers and valuers AECOM New Zealand Limited. The valuation is effective as at 30 June 2017 and requires no changes.

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

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.

Landside Infrastructure

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

Impairment

Impairment for Property, Plant and Equipment for 2017/18 was Nil (2017: \$76,800).

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 on 296 and 320 Milson Line, and RD 10 Railway Road.

ASSETS HELD FOR SALE

As at 30 June 2018, the Company was advertising two land lots for sale being a total area of 5,620m². The unimproved carrying value of this land is \$288,151. (2017: Nil). Plans for the development of the subdivision that includes these two lots are at a very early stage. Accordingly the cost of sale for the land cannot be ascertained as at balance date.

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 and Landside infrastructure assets include pavements, car parking and roading outside the secure areas of the airport.

MEASUREMENT OF PROPERTY, PLANT, EQUIPMENT AND INTANGIBLE ASSETS

Property plant and equipment are measured at cost less accumulated depreciation and impairment losses with the following 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 and equipment other than land at rates that will write off the cost (or valuation) of the assets to their estimated residual values over their useful lives.

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

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

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

IMPAIRMENT OF PROPERTY, PLANT, EQUIPMENT AND INTANGIBLE ASSETS

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

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

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

Value in Use for Non-Cash-Generating Assets

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

replacement cost approach, restoration cost approach, or a service units approach. The most appropriate approach used to measure value in use depends on the nature of the impairment and availability of information.

Value in Use for Cash-Generating Assets

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

NON-CURRENT ASSETS HELD FOR SALE

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

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

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

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

CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

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

Property, Plant and Equipment Useful Lives and Residual Values

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

An incorrect estimate of the useful life or residual value will impact on the depreciable amount of an asset, therefore impacting on the depreciation expense recognised in the statement of comprehensive revenue and expense, and carrying amount of the asset in the statement of financial position. The company minimises the risk of this estimation uncertainty by:

- Physical inspection of assets;
- Asset replacement programs;
- 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

	2018	2017 Actual
Balance as at 1 July 2017	575,000	
Additions and Acquisitions		
Disposals		
Depreciation		
Reclassification from PPE		575,000
Fair Value Gains/(Losses) on Valuation		
	575,000	575,000

3. INTANGIBLE ASSETS

Balances 1 July 2017	Website Development	Total
Cost / Valuation	21,928	21,928
Accumulated Depreciation		
Carrying Amount	0	0

Movements for the Year

Additions
Disposals
Revaluation Writedown
Re-classification of Renovations
Disposals - Accumulated Dep.
Amortisation for the Year
Dep. Reversal on Revaluation

Closing Balances 30 June 2018

Cost / Revaluation	21,928	21,928
Accumulated Dep.	4,624	4,624
Carrying Amount	17,304	17,304
Capital Work in Progress Included at Cost	0	0

Balances 1 July 2016	Website Development	Total
Cost / Valuation	26,419	26,419
Accumulated Depreciation	(21,368)	(21,368)
Carrying Amount	5,051	5,051

Movements for the Year

Additions
Disposals
Revaluation Writedown
Re-classification of Renovations
Disposals - Accumulated Dep.
Amortisation for the Year
Dep. Reversal on Revaluation

Closing Balances 30 June 2017

Cost / Revaluation		
Accumulated Dep.		
Carrying Amount	0	0
Capital Work in Progress Included at Cost	21,928	21,928

Investment Properties

Investment properties are valued annually at 30 June at fair value. The valuation was performed by independent valuers Morgans Property Advisors as at 30 June 2018.

Rental income from investment properties for the year was \$57.4k (2017: \$52.0k). There were no expenses from investment property generating income. No contractual obligations for capital expenditure and no contractual obligations for operating expenditure.

Intangible Assets

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

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

Website Development	4 years 25%
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4. TRADE ACCOUNTS AND OTHER RECEIVABLES

	2018 Actual	2017 Actual
Debtors and Other Receivables	628,196	547,167
Receivables from Related Party	2,431	1,344
Provision for Impairment	(14,816)	
Total	615,811	548,511

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

	2018 Actual	2017 Actual
Balance at 1st of June		(3,400)
Additional Provisions	(14,816)	
Provisions Reversed		
Receivables Written Off		3,400
Total	(14,816)	0

5. CASH AND CASH EQUIVALENTS

	2018 Actual	2017 Actual
Current Account	167,432	133,191
Cash on Hand	17,957	4,011
Short Term Investment Account	10,844	150,826
Total	196,233	288,028

Trade and Other Receivables

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

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

	2018 Actual	2017 Actual
Operating Surplus (Deficit) Before Taxation	2,210,984	1,848,961
Tax there on	619,075	517,709
<i>plus (less) tax effect of:</i>		
- Permanent differences / non-deductible expenditure	23,010	108,280
- Prior year under / (over) provision		
- Deferred tax adjustment for the year	(40,120)	(76,150)
Tax Charge for the Year	601,965	549,839
<i>Tax expense for the year comprising:</i>		
Current Tax	833,371	748,600
Prior Year Adjustments		
Deferred Tax from Current Year Activity	(231,406)	(198,761)
	601,965	549,839

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 realized 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.

6B. DEFERRED TAX (ASSETS) / LIABILITIES

	Property, Plant and Equipment	Employee Entitlements	Other Provisions	Total
Balance at 1 July 2017	8,097,349	(20,859)	(765)	8,075,725
Charged to Surplus and Deficit - Current Year	(222,615)	(5,120)	(3,670)	(231,406)
Charged to Other Comprehensive Income				
Balance at 30 June 2018	7,874,733	(25,979)	(4,435)	7,844,320
Balance at 1 July 2016	6,150,946	(20,645)	(1,717)	6,128,584
Charged to Surplus and Deficit - Current Year	(199,499)	(214)	952	(198,761)
Charged to Other Comprehensive Income	2,145,902			2,145,902
Balance at 30 June 2017	8,097,349	(20,859)	(765)	8,075,725

Income Tax continued

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.

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

	2018 Actual	2017 Actual
Accrued Pay	51,959	38,142
Annual Leave	61,176	46,805
Sick Leave	1,607	2,691
Total	114,742	87,638

7A. EMPLOYEE EXPENSES

	2018 Actual	2017 Actual
Salaries and Wages	942,454	737,520
Employer Contribution to Kiwi Saver	31,419	19,207
Movement in Employee Entitlements	5,929	(1,607)
Total	979,802	755,120

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, annual leave earned to, but not yet taken at balance date, and sick leave.

The company recognises a liability for sick leave to the extent that compensated absences in the coming year are expected to be greater than the sick leave entitlements earned in the coming year. The amount is calculated based on the unused sick leave entitlement that can be carried forward at balance date, to the extent the company anticipates it will be used by staff to cover those future absences.

8. COMMITMENTS

	2018	2017
Operating Commitments as Lessee		
Less than 1 Year	56,659	71,722
Between 1 and 5 Years	59,163	110,516
Over 5 Years		
Total	115,822	182,238
Operating Commitments as Lessor		
Less than 1 Year	1,008,320	1,116,806
Between 1 and 5 Years	1,811,142	2,279,634
Over 5 Years	513,611	573,838
Total	3,333,073	3,970,278
On-Going Month to Month Leases	118,742	57,242

These commitments are GST exclusive.

Employee Entitlements continued

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
Sick leave and annual leave are 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.

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 a motor vehicle. The unexpired terms of leases as at 30th June 2018 range from 3 to 37 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 follows:

2018 & 2017 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 \$118,742 per annum that are on a month to month basis (2017: \$57,242). There are no contingent rents recognized as revenue in the period.

Capital Commitments

PNAL had capital commitments of \$4.64m as at 30 June 2018. \$2.95m relates to the construction of the Massey Aviation Facility and \$1.19m relates to reconstruction of the aircraft taxiways and freight apron. Commitments at 30 June 2017 were \$215k.

9. FINANCE COSTS

	2018 Actual	2017 Actual
Interest on Secured Long Term Loans	279,238	269,622
	279,238	269,622

10. BORROWINGS

	2018 Actual	2017 Actual
Current Borrowings/Overdraft	1,158,876	
Non-Current Borrowings	6,100,000	4,850,000
Total	7,258,876	4,850,000

11. OTHER OPERATING EXPENSES

	2018 Actual	2017 Actual
Rates	357,380	350,460
Power and Insurance	310,943	303,890
Repairs and Maintenance	844,831	613,369
Total	1,513,154	1,267,719

12. AUDIT FEES

	2018 Actual	2017 Actual
Fees are for Audit of Financial Statements Palmerston North Airport Limited	28,988	29,115
Disbursements	500	500
Total	29,488	29,615

13. EQUITY

(a) Share Capital

	2018 Actual	2017 Actual
9,195,000 Ordinary Share Capital at 30 June	9,380,400	9,380,400
Closing Balance	9,380,400	9,380,400

b) Retained Earnings

	2018 Actual	2017 Actual
Opening Balance	18,299,188	17,314,703
Net Operating Surplus	1,609,019	1,299,122
Dividends Paid During Year	(519,656)	(322,173)
Transfer from Asset Revaluation Reserve for Sale of Asset		7,536
Closing Balance	19,388,551	18,299,188

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 unless the Company or group has an unconditional right to defer settlement of the liability for at least 12 months after balance date.

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 \$7.26m (2017: \$4.85m) borrowings from Bank of New Zealand. This includes existing perfected security interest in all present and after acquired property of Palmerston North Airport Limited. Refer to Note 2 for the carrying value of the secured assets at balance date.

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

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

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

(c) Proposed Dividends:

Once the solvency test has been satisfied, the Directors will declare a fully imputed dividend of 7.0 cents per \$1 paid up share capital (exclusive of any premium on issue) as at 30 June 2018 representing \$643,650 for the 12 months ending 30 June 2018. (A dividend of 5.65 cents per \$1 paid up share capital representing \$519,649 was declared for the 12 months ending 30 June 2017 and paid on 29 September 2017).

(d) Asset Revaluation Reserve

	2018 Actual	2017 Actual
Opening Balance	31,935,156	23,114,414
Revaluation Movement		
- Land		3,340,648
- Buildings		218,426
- Airside Infrastructure		7,415,106
Less Deferred Taxation		
Movement - Buildings		(69,672)
Movement - Airside Infrastructure		(2,076,230)
Transfer to Retained Earnings for Sale of Asset		(7,536)
Closing Balance	31,935,156	31,935,156

Asset Revaluation Reserve Consists of		
- Land	16,211,046	16,211,046
- Buildings	1,590,424	1,590,424
- Airside Infrastructure	14,133,686	14,133,686
	31,935,156	31,935,156

14. TRADE ACCOUNTS PAYABLE

	2018 Actual	2017 Actual
Revenue in Advance from Exchange Transactions	122,884	44,356
	122,884	44,356
Revenue in Advance from Non-Exchange Transactions		
Total	122,884	44,356

Trade Accounts Payable from Exchange Transactions		
Capital Trade Accounts Payable	618,165	230,741
Operating Trade Accounts Payable	385,862	114,390
Payables to Related Party	5,197	9,265

Trade Accounts Payable from Non-Exchange Transactions		
Tax Payable	335,564	284,571
Total	1,344,788	638,967

Other Creditors from Exchange Transactions		
Other Creditors	632,223	269,482

Other Creditors from Non-Exchange Transactions		
GST Payable	(127,792)	3,443
Total	504,431	272,925

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.

15. RELATED PARTY TRANSACTIONS

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

PNAL received services from PNCC during the 12 months ended 30 June 2018 for \$495,708 exclusive of GST (2017: \$359,672 exclusive of GST). In addition a tax loss offset of \$327,414 resulted in a tax refund of \$91,676 for the 2016/17 tax year. (2017: The tax loss offset for 2015/16 was \$372,917 and resulted in a \$104,417 tax refund). The tax refunds were paid to PNCC.

PNAL pays a dividend to PNCC each year equating to 40% of after tax surplus. Once the solvency test has been satisfied, the Directors will declare a fully imputed dividend of 7.0 cents per \$1 paid up share capital (exclusive of any premium on issue) as at 30 June 2018 representing \$643,650 for the 12 months ending 30 June 2018, (a dividend of 5.65 cents per \$1 paid up share capital representing \$519,649 was declared and paid to PNCC for the 12 months ending 30 June 2017).

PNAL provided services to PNCC during the 12 months ended 30 June 2018 for \$18,534 exclusive of GST. (2017: \$13,247).

Other than the tax loss, all transactions were conducted on normal commercial terms.

PNAL owed Palmerston North City Council \$5,197 inclusive of GST as at 30 June 2018, (the balance owing, as at 30 June 2017 was \$9,265).

Palmerston North City Council owed the PNAL \$2,451 inclusive of GST as at 30 June 2018, (the balance owing as at 30 June 2017 was \$888).

Key Personnel Remuneration

	2018 Actual	2017 Actual
Directors		
Remuneration	90,000	90,625
Full Time Equivalents	5	5
Senior Management Team Including the Chief Executive		
Remuneration	624,163	529,167
Full Time Equivalents	6	5

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 and group 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 and group have 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 and group 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
Includes 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/SOI	Variance	Notes
Revenue	8,482,757	8,688,163	(205,406)	Higher than budgeted land and building revenue was offset by an unfavourable revenue result for car parking.
Operations and Maintenance Expenses	2,232,774	2,393,389	160,615	Savings against budget achieved on Maintenance, Valet Car Park and Energy costs.
Finance Costs	279,238	486,475	207,237	Borrowings were less than budgeted due to the timing of capital project payments and at rates lower than budgeted.
Depreciation	1,582,752	1,685,551	102,799	Depreciation costs were less than budgeted due to the timings of capital projects.
Dividends Paid	519,649	577,281	57,632	Lower payment due to 2016/17 Net Profit after Tax being lower than SOI.
Deferred Tax Liability	7,844,320	6,128,585	(1,715,735)	The impact of the asset revaluation in June 2017 was unknown at the time of setting the 2017 Budget/SOI.
Current Assets	1,267,144	780,464	486,680	2018 actual figures include the prepayment of insurance premiums for the 2018/19 year (not budgeted) and the reclassification of Assets held for Resale of \$288,151.
Current Liabilities (excluding bank overdraft)	2,086,845	484,685	(1,602,160)	Higher than budgeted trade creditors and prepayments relating to major payments due on capital projects.
Property, Plant, Equipment and Intangible Assets	76,627,004	79,399,832	2,772,828	Capital expenditure on buildings lower than budgeted.
Total Borrowings	7,258,876	10,205,000	2,946,124	Relates to deferral of budgeted capital projects.

17. FINANCIAL INSTRUMENTS

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

<i>Financial Assets</i>	<i>Rating*</i>	<i>2018</i>	<i>2017</i>
Cash and Cash Equivalents	AA-	196,233	288,028
Trade Receivables		615,811	548,051
Total Financial Assets		812,044	836,079

Standard & Poor's Rating for BNZ

<i>Financial Liabilities</i>	<i>2018</i>	<i>2017</i>
Trade Accounts and Other Payable	1,849,219	911,892
Bank Overdraft	1,158,876	
Borrowings - Secured Loans	6,100,000	4,850,000
Total Financial Liabilities	9,108,095	5,761,892

18. EVENTS AFTER BALANCE DATE

Since Balance Date, Palmerston North Airport Limited has signed a conditional Agreement For Sale and Purchase of Real Estate for 1,700m² for land situated within Ruapehu Business Park on Airport Drive, Palmerston North. There have been no other significant events occurring after Balance Date.

19. CONTINGENCIES

The New Zealand Environmental Protection Agency recently commenced a review into the use of foam containing PFOS in firefighting applications, including at airports. An initial investigation at Palmerston North Airport has confirmed that this foam may have been used for firefighting training exercises at the airport up until the late 1980s.

In the last 20 years its use has been limited to monthly testing of equipment by PNAL’s rescue fire contractor, Task Protection Services Limited. An estimated 250 litres have been discharged over this period. A small stock of this foam remains at Palmerston North Airport, with the Environmental Protection Agency authorising its use only in emergency situations. A compliant replacement foam (Solberg) has now been selected by Task for use at Palmerston North Airport.

PNAL has engaged an accredited consultancy firm to commence preliminary investigations (including soil and water testing) to determine the level and extent of any possible residual contamination that may be present on site. As at balance date, the extent of any costs from the investigations remain unknown until the preliminary tests are completed.

FINANCIAL HIGHLIGHTS

Year Ending	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
<i>Statement of Financial Performance:</i>	(000)	(000)	(000)	(000)	(000)	(000)	(000)	(000)	(000)	(000)	(000)
Total Revenue	8,483	7,313	5,523	4,943	4,818	4,590	4,480	4,225	3,981	4,090	5,181
Net Surplus Before Interest, Depn, Taxation	4,074	3,534	2,391	2,064	1,847	1,765	1,739	1,821	1,674	1,888	2,864
Net Surplus Before Taxation & Misc Items	2,211	1,849	841	911	756	709	684	748	501	658	1,611
Net Surplus After Taxation Excluding Deferred Tax Adjustments	1,609	1,299	805	662	544	492	496	535	327	423	1,090
Earnings Per \$ of Paid Up Share Capital (excl. any Premium on Issue and Deferred Tax Adjustments)	17.50c	14.13c	8.75c	7.20c	5.92c	5.35c	5.39c	5.82c	3.56c	4.61c	11.86c
Dividend Proposed or Paid Per \$ of Paid Up Share Capital (excl. of any Premium on Issue)	7.00c	5.65c	3.50c	2.88c	2.37c	2.14c	2.10c	2.30c	1.56c	1.80c	4.30c
<i>Statement of Financial Position</i>	(000)	(000)	(000)	(000)	(000)	(000)	(000)	(000)	(000)	(000)	(000)
Total Assets	77,894	73,588	62,946	61,543	44,904	43,727	43,878	44,645	44,664	40,828	41,057
Shareholders Funds	60,704	59,615	49,810	49,305	35,823	35,475	35,177	35,516	35,124	31,526	31,498
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	\$6.60	\$6.48	\$5.42	\$5.36	\$3.90	\$3.86	\$3.83	\$3.86	\$3.82	\$3.43	\$3.43
Return On Shareholder Funds (excluding Deferred Tax Adjustments)	2.65%	2.18%	1.62%	1.34%	1.52%	1.39%	1.41%	1.51%	0.93%	1.34%	3.46%

INDEPENDENT AUDITOR'S REPORT

TO THE READERS OF THE PALMERSTON NORTH AIRPORT
LIMITED'S FINANCIAL STATEMENTS AND PERFORMANCE
INFORMATION FOR THE YEAR ENDED 30 JUNE 2018

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

OPINION

We have audited:

- the financial statements of The Company on pages 32 to 52, that comprise the statement of financial position as at 30 June 2018, the statement of comprehensive revenue and expense, statement of changes in equity and statement of cash flows for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information; and
- the performance information of The Company on page 14.

In our opinion:

- the financial statements of The Company pages 32 to 52:
 - present fairly, in all material respects:
 - its financial position as at 30 June 2018; 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 the Public Benefit Entity Standards Reduced Disclosure Regime; and
- the performance information of The Company page 14 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 2018.

Our audit was completed on 22 August 2018. 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 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 also responsible for preparing the performance information for The Company.

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 there is an intention to liquidate The Company or to cease operations, or there is 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 the 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 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 in our audit.

Our responsibilities arise from the Public Audit Act 2001.

OTHER INFORMATION

The Board of Directors is responsible for the other information. The other information comprises the information included on pages 3 to 13, 15 to 31, 53 and 56 but does not include the financial statements and 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 (Revised): 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.



Andrew Clark

Audit New Zealand
On behalf of the Auditor-General
Wellington, New Zealand

COMPANY DIRECTORY

PALMERSTON NORTH AIRPORT LIMITED

DIRECTORS

As at June 2018

Murray Georgel	Chairman
Jon Nichols	Chairman of Audit & Risk Committee
Gerard Gillespie	
Josie Adlam	
Christopher Cardwell	

MANAGEMENT

As at June 2018

David Lanham	Chief Executive
George Clark	Commercial Manager
David Yorke	Infrastructure Manager
Angela Scott	Visitor Development Manager
Terry Cooney	Safety and Security Manager
Brent Lawry	Terminal Manager
Darren Humphreys	Manager Valet and Agency Services

REGISTERED OFFICE

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e-mail: help@pnairport.co.nz

Web: www.pnairport.co.nz

TRADING BANKERS

Bank of New Zealand

LEGAL ADVISORS

Cooper Rapley Lawyers

AUDITOR

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



TOHUNGA
WHAKAIRO
WARREN WARBRICK



PALMERSTON NORTH
AIRPORT LIMITED

