PALMERSTON NORTH AIRPORT LIMITED

PALMERSTON NORTH AIRPORT LIMITED

STATEMENT OF INTENT

FOR THE YEAR ENDING 30 JUNE 2020

FINAL
06 June 2019

STATEMENT OF INTENT

2019-20

PALMERSTON NORTH AIRPORT LIMITED

1 INTRODUCTION

1.1 This Statement of Intent (SOI) is prepared by the Board of Directors of Palmerston North Airport Limited in accordance with s64 of the Local Government Act 2002. The SOI has been prepared under the new Public Benefit Entity (PBE) Standards based on International Public Sector Accounting (IPSAS) Standards.

1.2 Palmerston North Airport Limited ('The Company') falls within the definitions of both a Council-Controlled Organisation and a Council-Controlled Trading Organisation pursuant to s6 of the Local Government Act 2002 as a consequence of the Palmerston North City Council's shareholding.

1.3 This Statement declares publicly the activities and intentions of the Company, and provides an opportunity for shareholders to influence the direction of the Company. It also provides a basis for accountability of directors to Shareholders for the Company's performance. It is intended to comply with Schedule 8 of that Act, and be consistent with the Company's Constitution.

1.4 The SOI is reviewed annually. This SOI is in respect to the 2019/20 financial year ending 30 June 2020, and the following two financial years ending 30 June 2021 and 30 June 2022.

1.5 The Company owns and operates Palmerston North Airport, having purchased the airport business on 30 January 1990. The Company is trading as Palmerston North Airport Limited.

1.6 Contact details for both the Chairman and the Chief Executive are:

Address: First Floor, Terminal Building
Palmerston North Airport
Airport Drive
P O Box 4384
Palmerston North 4442

Phone: +64 6 351 4415
Email: info@pnairport.co.nz
Web: www.pnairport.co.nz

2 GOVERNANCE

2.1 The Board's approach to governance of the Company is to preserve and enhance Shareholder value.

2.2 The Board is responsible for the proper direction and control of the Company's activities and is accountable to the shareholder within the framework of the vision, mission and objectives set out in this Statement of Intent, the Constitution, and the provisions of The Companies Act 1993.

2.3 The Board comprises five Directors appointed by the Shareholder in accordance with the Constitution.

2.4 Fees for the Board are reviewed annually. The Board recommends fee levels to the Shareholder based on commercial or near-commercial rates.

3 SHAREHOLDERS EQUITY

3.1 The Company's land, building, and infrastructure assets were revalued as at 30 June 2017, in line with the Company's three-yearly asset revaluation policy. Shareholder equity as shown in the Statement of Financial Position as at 30 June 2018 is $60.7 million. The Directors consider that this represents a reasonable estimate of the commercial value of the Company.

3.2 The ratio of consolidated shareholder's equity to total assets will be maintained at no less than 40%. For the purposes of this ratio 'consolidated shareholder's equity' is total shareholder funds inclusive of retained earnings and revaluation surplus, and 'total assets' are current assets plus net book value of fixed assets plus future tax benefit (if any).

4 OUR VISION – WHAT WE ASPIRE TO BE

New Zealand's leading regional airport.

5 OUR MISSION – OUR AIMS AND VALUES

5.1 Commercial
We will operate a sustainable business to ensure long-term success.

5.2 Compliance
We will maintain a safe and secure operation and ensure ongoing compliance with all standards and regulations.

5.3 Customer
We will treat all Airport users as our customers.

5.4 Community
We will be a leader for regional environmental guardianship and engagement with iwi and communities.

6 OUR STRATEGIC OBJECTIVES – WHAT WE WANT TO ACHIEVE

6.1 Commercial

6.1.1 Our People are the key to our success. We will develop skills, commitment and resourcefulness across our team recognising achievement.

6.1.2 We will maintain and develop core infrastructure that is business critical.

6.1.3 We will diversify and grow revenue streams through a focus on both aeronautical and non-aeronautical revenue sources.

6.1.4 We will operate a successful enterprise that enables us to distribute shareholder funds surplus to our on-going investment and operating requirements.

6.2 Compliance

6.2.1 The safety and security of all airport users is our critical concern. We have a Zero Harm approach to those who visit and work within our airport community.

6.2.2 We will continue to meet our regulatory and statutory obligations including Civil Aviation Rule Part 139, Resource Management Act, Palmerston North and Manawatu District Plans.

6.3 Customer

6.3.1 We will deliver a high quality and efficient regional airport experience.

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

6.3.3 We will facilitate regional economic development by growing passenger and airfreight volumes.

6.4 Community

6.4.1 We will be a guardian for the environment by operating in a sustainable manner in all of our business activities.

6.4.2 We will be actively engaged with and supportive of the region's communities and iwi.

7 COMPLIANCE

Nature and scope of activities:

7.1 The Company's core business is to operate an airport located in Palmerston North for commercial aviation users providing both scheduled and chartered passenger services and airfreight services.

7.2 The Company will maintain certification pursuant to Civil Aviation Rule Part 139.

7.3 The Company will ensure that all operational and commercial aspects of Palmerston North Airport are undertaken safely in accordance with all statutory requirements and generally accepted best practice.

7.4 The Company maintains a detailed 'Exposition' setting out its responsibilities for the 'airside' of the airport operation and how they will be achieved.

7.5 The Company is committed to an environmentally responsible attitude to the operation of the business, including sustainable management of natural and physical resources, energy efficiency, managed storm water runoff, noise management, and border biosecurity.

7.6 The Company is committed to prudent cost management ensuring our operating budget meets the needs of the business to support development opportunities.

7.7 The Company will continue to meet its obligations under the Resource Management Act and the Palmerston North City and Manawatu District Plans.

7.8 The Company may undertake such activities as are necessary to protect the long-term interests of the airport business. In particular, the Company will pursue planning requirements that protect airport business activities from the reverse sensitivity effects of neighbouring development, and to enable expansion of the airport business opportunities.

8 COMMERCIAL

Nature and scope of activities:

8.1 The Company will seek to grow the scale and scope of the business consistent with the Company Objectives, including the following activities:

a) Pursuing increased utilisation of airside and non-airside land by encouraging commercial development including aviation maintenance and training, commercial, logistics, retail, accommodation or light industrial development;

b) Having an appropriate number of concessions within the terminal to meet traveller and visitor demand and to maximise financial return;

c) Promoting Palmerston North Airport as the gateway and central distribution commercial hub for our region which extends from Ruapehu in the North, through Whanganui and Rangitikei, Manawatu, south to Horowhenua and across the ranges to Tararua and the Wairarapa;

d) Working collaboratively with organisations whose strategic objectives support regional economic development;

e) Seek viable opportunities to integrate air transport with other transport modes in support of the regional economy;

f) Work collaboratively with airline operators to consider additional routes and increased frequency of air services while providing enhanced levels of services.

8.2 Infrastructure Development

This Statement of Intent assumes that the Airport will operate as a Tier 2 domestic regional airport in the three years to 30 June 2022. The planned three-year capital expenditure on both airside and landside infrastructure assets including pavement, Airport Drive, terminal and carpark upgrades is $4.940 million, $7.945 million, and $2.970 million respectively. (Total $15.855m).

A proposed terminal re-development, increasing the terminal's capacity to accommodate growing passenger volumes, is the major contributor to the three-year capital expenditure program.

8.3 Commercial Development

The SOI reflects the continued commercialisation of Ruapehu Business Park in line with PNAL's Property Masterplan. Stage 2 of the Massey University School of Aviation building is due for completion by 30th of June 2019. The focus shifts in the 2019/20 year to the construction of rental car facilities and working with other interested parties for developments in the Business Park, including a number of light industrial businesses, freight & logistics and an accommodation facility.

The planned three-year capital expenditure on commercial developments is $6.705 million, $3.965 million, and $0.950 million, respectively. (Total $11.620m).

Revenue from commercial projects with a high degree of certainty of proceeding have been incorporated into the financials.

Land within the core airport precinct (airside areas) will not be sold, however may be developed on a leasehold basis.

Land within the airport environs precinct (landside areas) may be developed on a leasehold basis or considered for sale as part of a bona-fide building development that complies with District Plan provisions for the "Airport Zone". While this land is considered strategic, it does not impact on airside operational performance and activities.

Any proceeds from such land sales will be used to reduce debt and/or fund other infrastructure or commercial development projects.

For the three years to 2021//2022, land and property sales of $4.3 million have been assumed.

8.4 Funding

To fund commercial development opportunities and infrastructure development, the SOI also reflects the Company's requirement to increase funding requirements from $11.8 million to a projected $25.8 million during 2020/21. The Company is investigating alternative sources of capital to fund the proposed terminal development, including the Provincial Growth Fund.

8.5 Asset revaluation

The Company's policy is to undertake a valuation of land, building and infrastructure assets every three years with any changes in value recorded in the financial statements. An annual test is undertaken to establish whether there has been a material movement in asset values, if so, an asset revaluation is triggered. The last valuation was undertaken at 30 June 2017 with the next valuation due June 2020.

The company has determined that a valuation of some asset classes may be required at year-end due to material changes in market values. No allowance has been made in the forecast financial statements for any change in asset values that may result from a revaluation.

9 CUSTOMER

9.1 Market Development

The Company intends continuing to invest in market development over the next three years with the objective of ultimately assisting airlines to sustainably grow the number of travellers using Palmerston North Airport. Key activities to be undertaken include the ongoing collaboration with regional economic development agencies, Regional Tourism Organisations, and other stakeholders, and leveraging of our "Fly Palmy" consumer brand to stimulate both inbound and outbound air travel.

Passenger numbers are projected to decline in 2019/20 to 680,000 (695,000 2018/19 forecast) based on the recently announced capacity reductions by Air New Zealand. However, a further surge in passenger demand at Palmerston North Airport is expected over the next 2-5 years as major regional development projects commence including the Gorge replacement project, the regional freight ring road, and the recently announced regional rail freight hub. Growth initiatives within the wider region will add further passenger demand. Passenger volumes are anticipated to reach 762,000 by 2021/22.

We will work with regional economic development agencies and other stakeholders to expand viable freight and logistics activities undertaken at the airport.

10 COMMUNITY

Nature and scope of activities:

A refreshed strategic focus which captures the Company's environmental and community aspirations.

10.1 Community

The Company will support regional communities by identifying opportunities to engage with local groups and Iwi. This will include the Company continuing to showcase our sense of place and cultural linkages to our wider region.

10.2 Environment

During the financial year 2019/20 the Company will implement the pathway developed during 2018/19 to achieve the long-term vision of carbon neutrality. From the second half of financial year 2018/19, PNAL in conjunction with major airport tenants, has commenced benchmarking existing consumption levels, the development of energy, water consumption and waste to landfill reduction targets, and in some cases already commenced programmes of work.

11 PERFORMANCE MEASURES

The Company has a variety of performance measures including financial, compliance, customer appreciation and compliance. Full details are included on Page 14.

12 COMPENSATION SOUGHT FROM THE SHAREHOLDER

12.1 The Company acknowledges that the Palmerston North City Council holds shares in the Company for strategic reasons and that the Company needs to lead in the development and promotion of both aeronautical and non-aeronautical business activities. As well as direct benefit to the Company this impacts through to the economic development of the city and region.

12.2 At the request of the shareholder, the Company may undertake activities that are not consistent with normal commercial objectives subject to the Shareholder providing a specific subsidy to meet the full commercial cost for providing such activities.

13 INFORMATION TO BE PROVIDED TO THE SHAREHOLDER

The Company will deliver to the shareholder:

13.1 Within two months of the end of the first half of the financial year the following unaudited statements:

(a) A Statement of financial performance
(b) A Statement of movements in equity

(c) A Statement of financial position
(d) A Statement of cash flows
(e) A Statement of service performance.

13.2 Within three months of the end of the financial year:

(a) The following audited statements:

(i) A Statement of financial performance
(ii) A Statement of movements in equity
(iii) A Statement of financial position
(iv) A Statement of cash flows
(v) A Statement of service performance.

(b) A summary of how the Company has gone about achieving the strategic objectives set out in Section 6 of this Statement and specifically, how well it has performed against the performance targets set out on page 14 of this Statement.

(c) A report on the Company's medium to long term plans.

(d) It is recognised that the timeframes mentioned in 13.1 and 13.2 are legislative maxima and as the Company is a subsidiary of Palmerston North City Council, both the Company and Palmerston North City Council will need to work proactively together to meet the reporting and governance requirements of both parties.

PALMERSTON NORTH AIRPORT LIMITED
STATEMENT OF FINANCIAL PERFORMANCE
For the 12 Months to 30 June

	2017/18	2018/19		2019/20	2020/21	2021/22
	Actual	Budget	Forecast	Budget	Budget	Budget
REVENUE	**8,482,757**	**9,952,224**	**10,307,197**	**11,221,428**	**12,774,956**	**14,313,549**
Less						
OPERATING EXPENDITURE	2,232,774	2,254,577	2,271,839	2,538,315	2,614,437	2,705,220
ADMINISTRATION & EMPLOYMENT COSTS	2,176,087	2,528,693	2,646,018	3,033,177	3,066,773	3,196,590
TOTAL OPERATING EXPENDITURE:	**4,408,861**	**4,783,270**	**4,917,858**	**5,571,492**	**5,681,210**	**5,901,811**
EXTRAORDINARY ITEMS (PFAS related)*	-	-	284,010	100,000	50,000	25,000
SURPLUS BEFORE INT, DEPN, & TAX	**4,073,896**	**5,168,954**	**5,105,330**	**5,549,935**	**7,043,745**	**8,386,738**
Less						
DEPRECIATION	1,582,752	1,832,625	1,919,620	2,141,657	2,461,879	2,710,466
FINANCE COSTS	279,238	682,794	537,176	669,130	1,033,688	1,188,834
LOSS ON SALE OF ASSET	922	-	-	-	-	-
	1,862,912	2,515,419	2,456,796	2,810,787	3,495,567	3,899,300
SURPLUS BEFORE TAXATION	**2,210,984**	**2,653,535**	**2,648,534**	**2,739,148**	**3,548,178**	**4,487,438**
INCOME TAX	601,965	742,990	741,324	766,962	993,490	1,256,483
NET OPERATING SURPLUS	**1,609,019**	**1,910,545**	**1,907,210**	**1,972,187**	**2,554,688**	**3,230,956**

* The Extraordinary Items are soil, sediment, surface and ground water sampling for PFAS at Palmerston North Airport and adjacent sites including the Mangaone Stream resulted in estimated costs of $0.284 million being incurred during the 2018/19 year

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

PALMERSTON NORTH AIRPORT LIMITED
STATEMENT OF FINANCIAL POSITION
For the 12 months to 30 June

	2017/18 Actual	2018/19 Budget	2018/19 Forecast	2019/20 Budget	2020/21 Budget	2021/22 Budget
CURRENT ASSETS						
BANK & SHORT TERM DEPOSITS	196,233	109,973	62,030	38,406	40,726	93,098
TRADE DEBTORS	630,627	697,677	699,457	764,325	888,948	1,007,724
DOUBTFUL DEBT PROVISION	(14,816)	-	(14,827)	(14,827)	(14,827)	(14,827)
ACCRUED INCOME	(5,000)	-	-	-	-	-
PREPAID EXPENDITURE	171,949	1,858	7,364	3,082	1,290	540
ASSETS HELD FOR SALE	288,151	-	0	-	-	-
TOTAL CURRENT ASSETS	**1,267,144**	**809,508**	**754,023**	**790,986**	**916,137**	**1,086,535**
Less						
CURRENT LIABILITIES						
TRADE CREDITORS	1,009,224	500,000	850,000	850,000	850,000	850,000
INCOME RECEIVED IN ADVANCE	122,884	90,000	100,000	100,000	100,000	100,000
ACCRUED EXPENDITURE	435,835	250,000	400,000	400,000	400,000	400,000
TAXATION	335,564	22,501	134,755	131,717	265,207	341,689
OTHER PROVISIONS	183,338	135,000	135,000	135,000	135,000	135,000
SHORT TERM PORTION OF LOAN	1,158,876	-	-	-	-	-
TOTAL CURRENT LIABILITIES	**3,245,721**	**997,501**	**1,619,755**	**1,616,717**	**1,750,207**	**1,826,689**
WORKING CAPITAL	**(1,978,577)**	**(187,993)**	**(865,732)**	**(825,731)**	**(834,069)**	**(740,154)**
NON CURRENT ASSETS						
NET FIXED ASSETS						
LAND	27,731,545	25,317,626	28,019,696	26,460,024	25,080,424	23,730,424
BUILDINGS	14,700,557	21,440,720	18,274,667	21,679,378	29,833,487	31,887,373
INFRASTRUCTURAL - LAND	32,354,869	36,020,496	8,279,272	7,862,606	7,366,439	6,825,699
INFRASTRUCTURAL - AIR	-	-	27,021,990	32,055,426	33,903,853	34,157,085
PLANT & EQUIPMENT	1,031,566	1,365,263	969,022	2,502,383	2,498,521	1,985,905
FURNITURE & FITTINGS	156,827	215,187	145,118	128,266	90,154	52,042
COMPUTERS	58,820	52,826	29,444	6,248	1,425	1,425
MOTOR VEHICLES	516	587	149	149	149	149
INVESTMENT PROPERTY	575,000	575,000	575,000	575,000	575,000	575,000
INTANGIBLE ASSETS	17,304	11,363	12,645	6,825	1,005	520
TOTAL FIXED ASSETS	76,627,004	84,999,068	83,327,003	91,276,305	99,350,457	99,215,622
TOTAL NON CURRENT ASSETS	**76,627,004**	**84,999,068**	**83,327,003**	**91,276,305**	**99,350,457**	**99,215,622**
NON CURRENT LIABILITIES						
TERM LOAN	6,100,000	14,842,108	12,686,063	19,466,063	25,766,063	23,516,063
DEFERRED TAX	7,844,320	8,075,726	7,807,541	7,844,320	7,844,320	7,844,320
TOTAL NON CURRENT LIABILITIES	**13,944,320**	**22,917,834**	**20,493,604**	**27,310,383**	**33,610,383**	**31,360,383**
NET ASSETS	**60,704,107**	**61,893,239**	**61,967,667**	**63,140,191**	**64,906,005**	**67,115,085**
Represented by:						
SHAREHOLDERS' FUNDS						
PAID UP SHARE CAPITAL	9,380,400	9,380,400	9,380,400	9,380,400	9,380,400	9,380,400
ASSET REVALUATION RESERVE	31,935,156	31,935,156	31,935,156	31,935,156	31,935,156	31,935,156
RETAINED EARNINGS	17,779,532	19,258,654	19,388,551	20,615,332	21,824,635	23,590,449
SHAREHOLDERS DIVIDEND	-	(591,515)	(643,650)	(762,884)	(788,875)	(1,021,875)
CURRENT YEAR SURPLUS	1,609,019	1,910,545	1,907,210	1,972,187	2,554,688	3,230,956
	60,704,107	**61,893,239**	**61,967,667**	**63,140,191**	**64,906,005**	**67,115,085**

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

PALMERSTON NORTH AIRPORT LIMITED
STATEMENT OF CHANGES IN EQUITY
For the 12 months to 30 June

	2017/18	2018/19		2019/20	2020/21	2021/22
	Actual	Budget	Forecast	Budget	Budget	Budget
EQUITY AT THE BEGINNING OF THE YEAR	**59,614,737**	**60,574,209**	**60,704,107**	**61,967,667**	**63,176,970**	**64,942,783**
ASSET REVALUATION RESERVE MOVEMENT	-	-	-	-	-	-
TOTAL COMPREHENSIVE (LOSS) INCOME	1,609,019	1,910,545	1,907,210	1,972,187	2,554,688	3,230,956
DIVIDENDS PAID	(519,649)	(591,515)	(643,650)	(762,884)	(788,875)	(1,021,875)
EQUITY AT THE END OF THE YEAR	**60,704,107**	**61,893,239**	**61,967,667**	**63,176,970**	**64,942,783**	**67,151,863**

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

PALMERSTON NORTH AIRPORT LIMITED
STATEMENT OF CASHFLOWS
For the 12 Months to 30 June

	2018/19 Budget	2018/19 Forecast	2019/20 Budget	2020/21 Budget	2021/22 Budget
CASH FLOW FROM OPERATING ACTIVITIES					
CASH WAS PROVIDED FROM					
RECEIPTS FROM CUSTOMERS	9,946,422	10,179,016	11,146,560	12,640,333	14,184,773
Tax Refund					
INTEREST RECEIVED	1,447	1,340	26	98	112
	9,947,869	10,180,356	11,146,586	12,640,431	14,184,885
CASH WAS DISBURSED TO					
PAYMENT TO SUPPLIERS	5,554,908	5,495,736	5,662,868	5,725,148	5,921,804
PAYMENT OF TAX	843,782	843,782	770,000	860,000	1,180,000
INTEREST PAYMENTS	554,947	566,547	669,130	1,033,688	1,188,834
	6,953,637	6,906,065	7,101,998	7,618,836	8,290,638
NET CASHFLOW FROM OPERATING ACTIVITIES	**2,994,232**	**3,274,292**	**4,044,588**	**5,021,595**	**5,894,248**
CASH FLOW FROM INVESTING ACTIVITIES					
CASH WAS PROVIDED FROM					
	1,262,100	0	1,559,672	1,379,600	1,350,000
PROPERTY, PLANT & EQUIPMENT SALES	1,262,100	0	1,559,672	1,379,600	1,350,000
CASH WAS APPLIED TO					
Land and Developments	0	0	0	0	0
Buildings	5,288,585	3,670,309	3,775,000	8,620,000	2,645,000
Infrastructure - AIR	1,705,918	1,307,220	5,950,000	2,790,000	1,275,000
Infrastructure - LAND	3,999,055	2,723,885	0	0	0
Plant and Equipment	421,270	438,996	1,870,000	500,000	0
Furniture and Fittings	17,496	17,496	20,000	0	0
Computers	30,000	34,075	30,000	0	0
	11,462,324	8,191,981	11,645,000	11,910,000	3,920,000
PROPERTY, PLANT & EQUIPMENT PURCHASES	11,462,324	8,191,981	11,645,000	11,910,000	3,920,000
NET CASHFLOW FROM INVESTING ACTIVITIES	**(10,200,224)**	**(8,191,981)**	**(10,085,328)**	**(10,530,400)**	**(2,570,000)**
CASH FLOW FROM FINANCING ACTIVITIES					
CASH WAS PROVIDED FROM					
LOAN DRAWDOWNS	10,576,455	8,237,960	7,200,000	6,500,000	1,550,000
CASH WAS APPLIED TO					
LOAN REPAYMENTS	2,658,488	2,810,824	420,000	200,000	3,800,000
Additional Loan Repayments					
PAYMENT OF DIVIDENDS	643,650	643,650	762,884	788,875	1,021,875
	3,302,138	3,454,474	1,182,884	988,875	4,821,875
NET CASHFLOW FROM FINANCING ACTIVITIES	**7,274,317**	**4,783,486**	**6,017,116**	**5,511,125**	**(3,271,875)**
NET INCREASE/(DECREASE) IN CASH HELD	68,325	(134,203)	(23,624)	2,320	52,372
ADD OPENING CASH BALANCE	191,360	196,257	62,030	38,403	40,725
CLOSING OPERATING CASH BALANCE	**259,685**	**62,030**	**38,404**	**40,726**	**93,100**

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

PALMERSTON NORTH AIRPORT LIMITED
CAPITAL EXPENDITURE PROGRAMME
For the 12 months to 30 June

CAPITAL EXPENDITURE PROGRAMME

	2017/18	2018/19	2019/20	2020/21	2021/22
	Actual	Forecast	Budget	Budget	Budget
Land and Developments	6,467	-	-	-	-
Buildings	3,343,014	3,670,309	3,775,000	8,620,000	2,645,000
Airside Infrastructure	1,563,079	1,307,220	750,000	965,000	250,000
Landside Infrastructure	437,950	2,723,885	5,200,000	1,825,000	1,025,000
Plant and Equipment	414,902	438,996	1,870,000	500,000	-
Furniture and Fittings	15,445	17,496	20,000	-	-
Computers	25,195	34,075	30,000	-	-
Total Fixed Asset Purchases :	**5,806,052**	**8,191,981**	**11,645,000**	**11,910,000**	**3,920,000**
CAPITAL SALES PROGRAMME					
Total Sales of Zone A, B & C land	**-**	**-**	**1,559,672**	**1,379,600**	**1,350,000**

PALMERSTON NORTH AIRPORT LIMITED
PERFORMANCE METRICS TARGETS
For the 12 months to 30 June

PERFORMANCE METRICS

		2018/19 Forecast	2019/20 Forecast	2020/21 Forecast	2021/22 Forecast
10.1	A ratio of surplus before interest/tax/depreciation to total assets.	6.0%	6.0%	7.0%	8.4%
10.2	A ratio of net surplus after tax to consolidated shareholders' funds inclusive of revaluation reserve.	3.0%	3.1%	3.9%	4.8%
10.3	To maintain a ratio of consolidated shareholders funds to total assets of at least 40%	74%	69%	65%	67%
10.4	To maintain an interest coverage ratio of surplus before interest to interest, of at least 2.25 as per BNZ Loan Covenants	5.6	5.1	4.4	4.8
10.5	To maintain a tangible net worth (total tangible assets after revaluations less total liabilities) above $50 million dollars.	$61.9m	$63.1m	$64.9m	$67.1m
10.6	To maintain a Net Promoter Score* of 50 or above. Measured on an annual basis.	45	50	55	60
10.7	Total passenger movements	692,000	680,000	702,000	762,000
10.8	CAA Part 139 certification	Achieve	Achieve	Achieve	Achieve
10.9	To achieve zero lost time injuries to those who work within our airport community	Zero	Zero	Zero	Zero
10.10	Complete roadmap to carbon neutrality	Complete	Implement	Implement	Implement
10.11	Achievement of emission reduction targets				
	Energy Consumption (KwH/Passengers)	5%	5%	5%	5%
	Waste to Landfill (Kg/1000 Passengers)	15%	10%	5%	5%
	Water Consumption (Litres/Passenger)	10%	10%	5%	5%

** The Net Promoter Score (NPS) is an indicator of a Company's health and customer loyalty as it focuses on how existing customers feel about your services. PNAL is intending to measure NPS on a monthly basis. An annual average NPS will be measured against the proposed NPS targets included within this SOI. An NPS may range from -100 to + 100. A score within the 0 to 50 range is considered good, 50 to 70 excellent, and above 70 world class.*

13 ACCOUNTING POLICY STATEMENTS

13.1 REPORTING ENTITY

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

The Company has designated itself and the group as a Public Benefit Entities (PBE) for financial reporting purposes.

13.1.1 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).

The entity is eligible and has elected to report in accordance with Tier 2 Public Benefit Entity (PBE) Standards Reduced Disclosure Regime (RDR) on the basis that the entity has no public accountability and has Expenses >$2m and ≤ $30m.

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

13.1.2 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.

(a) Revenue Measurement and Recognition
Revenue is measured at the fair value of consideration received or receivable.

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

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

(b) 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
These assets are composed of Airside Infrastructure (runways, aprons, taxiways, and underground reticulated systems) and Landside infrastructure. (pavements, car parking and roading outside the secure areas of the airport).

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

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

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

Infrastructure assets
Infrastructure assets have been valued at fair value determined on a depreciated replacement cost basis by an independent registered valuer and will be carried out on a three-yearly cycle.

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.

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

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.

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.

Investment Property
Investment property is measured initially at its cost, including transaction costs. After initial recognition, all investment property is measured at fair value at 30 June.

Gains or losses arising from a change in the fair value of investment property are recognised in the surplus or deficit.

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 & Carparks (Landside Infrastructure)	2 - 99 years
Buildings & Building services	8 - 99 years
Runway, Taxiways, Aprons (Airside Infrastructure)	2 - 99 years
Plant and Equipment	2 - 50 years
Furniture & 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.

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

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

Website Development	4 years 25%

(d) Trade and Other Receivables

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

(e) 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.

(f) 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 a bank overdraft.

Bank overdrafts are shown within borrowings in current liabilities in the statement of financial position.

(g) Income Tax

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

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

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

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

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

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

(h) 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.

(i) 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 is 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.

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.

Superannuation schemes

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

(j) 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. Lease incentives received are recognised in the surplus or deficit as a reduction of rental expense over the lease term.

(k) 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 derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the company and group has transferred substantially all the risks and rewards of ownership.

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

- fair value through surplus or deficit;
- loans and receivables;
- held-to-maturity investments; and
- fair value through other comprehensive revenue and expense.

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

The company has the following relevant category:

Loans and receivable
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.

(l) 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.

(m) Statement of Cash Flows

Cash and Cash Equivalents means cash balances on hand, held in bank accounts and demand deposits / investments in which the company invests as part of its day-to-day cash management, with a maturity of less than three months.

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

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

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

(n) 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/Council 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.

(o) 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.

(p) Provisions

Provisions for future expenditure, as a result of past event, and of uncertain amount or timing are only recognised when it is probable that the obligation will materialise and the extent of the obligation can be reliably estimated. Provisions are not recognised for future operating losses.

Provisions are measured at the present value of the expenditure to be required to settle the obligation using a pre-tax discount that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in provision due to passage of time is recognised as a finance cost.

Short-term creditors and other payables are recorded at their face value.

(q) 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 reserve

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

13.2 In accordance with the Public Audit Act 2001 and the Local Government Act 2002, the Office of the Auditor General shall be responsible for the audit of the financial statements of the Company.

13.3 The level of dividend will be reviewed at the end of each financial year in consultation with the Shareholder. Any dividend will be subject to the Board being satisfied that the solvency requirements of the Companies Act 1993 will be met, and will take into account the Company's prevailing financial circumstances, and any covenants contracted to the Company's bankers as a condition of borrowing.

13.4 A budget summary report is included with this Statement of Intent. The annual budget is prepared on the accrual basis, that is, all planned costs and income are presented in a single statement to determine the needs of the Company.

The budget is a financial plan of the Company's intentions based on factors known at the date of preparation. While it will form the basis of the Statement of Intent, circumstances and the Company's responses will change during the year. All capital expenditure will be subject to consideration of impact on the Company's performance targets. Capital expenditure, other than for conservation of capacity or compliance, will generally be approved where the anticipated return meets or exceeds the Company's cost of capital, or a strategic investment is being made in the best long-term interests of both the Company and Shareholders.