Palmerston North Airport Ltd

AMENDED
STATEMENT OF INTENT

For the year ending 30 June 2014

December 2013
STATEMENT OF INTENT

2013/14

PALMERSTON NORTH AIRPORT LIMITED

AMENDED DECEMBER 2013

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.

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 2013/2014 financial year ending 30 June 2014, and the following two financial years ending 30 June 2015 and 30 June 2016.

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 and as FreightGate.

1.6 The Company has an interest in FreightGate Ltd, a company that has been formed and may be used for the management of non-operational property. The Palmerston North City Council has exempted FreightGate Ltd from the requirements of a Council Controlled Organisation while it is not trading. The Company may enter into arrangements for the management of non-operational property, which include a shareholding by others in the subsidiary company. The Company will not form any other subsidiary company nor purchase shares in any company without prior consultation with shareholders.

1.7 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
Fax: +64 6 355 2262
Web: www.pnairport.co.nz
2 GOVERNANCE

2.1 The Board’s approach to governance of the group is to preserve and enhance shareholder value in the long term.

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 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 FUNDS

3.1 The Shareholder’s investment in the Company is $35.1m inclusive of an Asset Revaluation Reserve as detailed in the Interim Report to 31 December 2012.

3.2 The Board estimates the commercial value of the shareholders’ investment in the group as being in the range $14.9 million to $18.6 million.

3.3 Shareholder investment is the value of the airport operations business plus current cash, less term debt of $5.7m, plus the market value of undeveloped non-operational land. The value of the airport operations business has been estimated by using a multiple of EBITDA (earnings before interest, tax, depreciation and amortization). EBITDA is the forecast position at 30 June 2013 on the assumption of business continuing at present levels into the foreseeable future and an EBITDA multiple range of 6.5 to 8.5.

This estimate will be reviewed annually.

3.4 The ratio of consolidated shareholder’s investment to total assets will be maintained at no less than 40%. For the purposes of this ratio ‘consolidated shareholder’s investment’ are 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 WANT TO BE

The Company’s Vision is to grow the shareholder and regional economic value by operating a safe, efficient, attractive and profitable airport that serves the Central Region.

4.1 All persons visiting or using the airport are our customers.
We will provide quality services that are welcoming, and that enhance the convenience and enjoyment of travelers and those greeting them or bidding them farewell.

4.2 Businesses serving the airport are our customers.
We will provide an efficient, commercial environment and work in close cooperation with our partners and stakeholders to ensure our mutual success.
4.3 The safety and security of our people, customers and partners is our critical concern. We will meet and exceed all standards and regulations relating to airport operations.

4.4 Our people are the key to our success. We will meet our goals through the skill, commitment, resourcefulness and hard work of everyone at PMR. We will facilitate their development and recognize their achievement.

4.5 Shareholder value is our key business objective. We will operate a successful enterprise that allows us to invest in the future. This benefits all our stakeholders: customers, partners, owners and staff.

5 NATURE AND SCOPE OF ACTIVITIES

5.1 The Company's core business is to operate an airport in Palmerston North for both commercial and non-commercial aviation users.

5.2 The Company intends to maintain certification pursuant to Civil Aviation Rule Part 139.

5.3 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.

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

5.5 On the 'landside' area of the airport operation the Company will provide a high level of service to users on a commercial basis, including efficient utilisation of all assets owned by the Company.

5.6 The Company provides international and domestic terminal facilities.

5.7 The Company will pursue opportunities to increase the value of commercial and non-aeronautical business streams at the airport without prejudicing future aviation functions.

5.8 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.

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

5.10 The Company will seek to grow the scale and scope of the business consistent with the Company Objectives. This may include activities such as:

a) Pursuing increased utilization of airport industrial land by encouraging the development of aviation-related facilities (such as freight handling, distribution, aviation engineering support, flight training, and visitor industry activities) together with development of other compatible non-aviation activities;
b) Having an appropriate number of concessions within the terminal to maximise financial return;

c) Promoting the lower North Island as a destination with Palmerston North as the central gateway and as the central distribution commercial hub;

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

e) Seeking opportunities for air transport to be integrated with other transport modes to generate transport efficiencies in support of the regional economy;

f) Encouraging airlines to provide enhanced levels of service and growth in sectors available;

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

5.12 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 the core airport business from the reverse sensitivity effects of neighbouring development, and enable expansion of the airport business.

6 FUTURE DEVELOPMENT

This Statement of Intent assumes that the Airport will operate as a domestic regional airport in the three years to 30 June 2016. The planned capital expenditure on infrastructure assets is intended for infrastructural replacement to maintain the infrastructure at acceptable service level.

The high level of infrastructure expenditure forecast for 2013/14 relates to completing the first phase of a staged runway overlay. 30% of the five year project will be completed in 2013/14.

The company will continue to pursue commercial development opportunities on its land holdings. Individual decisions will be made on a case by case basis on how to structure finance for those commercial developments and each opportunity will be assessed on its ability to generate a return on capital invested.

Each opportunity will be supported by a business case for approval by the Board. Approval to proceed will only be given if the business case shows that an appropriate commercial risk-adjusted rate of return on investment can be achieved and that identified risks can be appropriately mitigated or managed.

The financial forecasts include provision for a potentially significant major on airport property development to be completed by June 2015. This development is still subject to confidential commercial negotiations and there is presently no certainty that it will proceed. If the development proceeds, it will be funded primarily by the Company taking on additional debt. The debt requirement allowed for in the forecast may be reduced by the sale of non-strategic land held by the Company, although no allowance has been made for this in the forecasts.
7 PERFORMANCE TARGETS

The Company has the following performance targets:

7.1 a ratio of net surplus before interest/tax/revaluations to total assets inclusive of revaluations of 2.8% per annum.

7.2 a ratio of net surplus after interest/tax to consolidated shareholders’ funds inclusive of revaluation reserve of 1.7%.

7.3 to maintain an interest coverage ratio of net surplus before interest, tax and depreciation to interest at or above 2.5 for the year ended 30 June 2014.

7.4 to maintain a tangible net worth (total tangible assets after revaluations less total liabilities) above $35 million dollars.

7.5 to maintain a level of customer satisfaction of 90% and will bi-annually measure this by customer survey.

7.6 To achieve a passenger throughput of 475,000 for the year ending 30 June 2014.

8 COMPENSATION SOUGHT FROM SHAREHOLDERS

8.1 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 ancillary services and industry based on the aviation activity. As well as direct benefit to the Company this impacts through to the economic development of the city.

8.2 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.

9 INFORMATION TO BE PROVIDED TO SHAREHOLDERS

The Company will deliver to the shareholder:

9.1 Within two months of the end of the first half of the financial year the following unaudited 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.

9.2 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 objectives set out in Section 4 of this Statement and specifically, how well it has performed against the performance targets set out in Section 7 of this Statement.

(c) A report on the Company’s medium to long term plans.
### Palmerston North Airport Limited

**Profit and Loss Account - Parent & Consolidated**

For the 12 Months to 30 June

<table>
<thead>
<tr>
<th>30-Jun-13</th>
<th>2011/12 Budget</th>
<th>2013/14 Actual</th>
<th>SOI</th>
<th>2014/15 Indicative</th>
<th>2015/16 Indicative</th>
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</thead>
<tbody>
<tr>
<td><strong>Revenue</strong></td>
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<td>$4,706,000</td>
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<td><strong>Total Finance &amp; Depreciation</strong></td>
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<tr>
<td>Operating Surplus before Taxation</td>
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PALMERSTON NORTH AIRPORT LIMITED
BALANCE SHEET
As at 30 June

<table>
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<tr>
<th>30-Jun-13</th>
<th>2011/12</th>
<th>2013/14</th>
<th>2014/15</th>
<th>2015/16</th>
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<td>SOI</td>
<td>Forecast</td>
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<td>SOI</td>
<td>Indicative</td>
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<tr>
<td>$</td>
<td>$</td>
<td>$</td>
<td>$</td>
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<td><strong>CURRENT ASSETS</strong></td>
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<td>(100,357)</td>
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<td><strong>Add: NON CURRENT ASSETS</strong></td>
<td>46,435,782</td>
<td>43,610,149</td>
<td>43,038,825</td>
<td>44,565,633</td>
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<tr>
<td>Property, Plant &amp; Equipment</td>
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<td>43,038,825</td>
<td>44,565,633</td>
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<td>Investment Property</td>
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<td>Intangibles</td>
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<tr>
<td>Long Term Advance</td>
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<td><strong>TOTAL NON CURRENT ASSETS</strong></td>
<td>46,435,782</td>
<td>43,610,149</td>
<td>43,038,825</td>
<td>44,565,633</td>
</tr>
<tr>
<td><strong>Less: NON CURRENT LIABILITIES</strong></td>
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<td>3,010,088</td>
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<td>8,710,088</td>
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<td>8,551,744</td>
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<tr>
<td><strong>SHAREHOLDERS’ EQUITY</strong></td>
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<tr>
<td>9,380,400</td>
<td>9,380,400</td>
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<td><strong>TOTAL SHAREHOLDERS’ EQUITY</strong></td>
<td>36,259,151</td>
<td>35,519,169</td>
<td>35,176,500</td>
<td>35,913,533</td>
</tr>
</tbody>
</table>

The accompanying accounting policies and notes form part of and are to be read in conjunction with these financial statements.
### CASH FLOW STATEMENT - Parent & Consolidated
For the 12 Months to 30 June

#### 30-Jun-13

<table>
<thead>
<tr>
<th>SOI</th>
<th>Forecast</th>
<th>2011/12</th>
<th>2013/14</th>
<th>2014/15</th>
<th>2015/16</th>
</tr>
</thead>
<tbody>
<tr>
<td>$</td>
<td>$</td>
<td>Actual</td>
<td>SOI</td>
<td>Indicative</td>
<td>Indicative</td>
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<tr>
<td>4,612,685</td>
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<tr>
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<td>9,000</td>
</tr>
<tr>
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<td>4,721,226</td>
<td>4,699,518</td>
<td>4,930,361</td>
<td>6,035,811</td>
</tr>
</tbody>
</table>

#### CASH FLOWS FROM OPERATING ACTIVITIES

Cash was provided from:
- Receipts from Customers: $4,526,455, $4,690,518, $4,921,361, $6,026,811
- Interest Received: $7,842, $9,000, $9,000, $9,000
- Tax refund (net of payments to PNCC): $186,929, $4,721,226, $4,699,518, $4,930,361, $6,035,811

Cash was disbursed to:
- Payment to Suppliers: $2,867,763, $2,646,109, $2,779,522, $2,846,122
- Payment Of Tax: $200,000, $218,000, $261,000, $255,000
- Interest Payments: $441,727, $411,585, $583,687, $1,301,824

#### Net cash flows from operating activities

$1,211,736, $1,423,824, $1,306,152, $1,632,865

#### CASH FLOWS FROM INVESTING ACTIVITIES

Cash was provided from:
- Sale of Property, Plant & Equipment: $3,009,925, $1,213,158

Cash was applied to:
- Purchase Of Property, Plant & Equipment: $979,918, $1,667,290, $14,170,100, $1,471,500

#### Net cash flow from investing activities

($979,918), ($1,667,290), ($14,170,100), ($1,471,500)

#### CASH FLOW FROM FINANCING ACTIVITIES

Cash was provided from:
- Share Issue: $2,700,000, $5,700,000
- Borrowing: $1,100,000, $500,000, $13,409,000, $352,000

Cash was applied to:
- Loan Repayment: $1,300,000, $200,000, $500,000, $200,000
- Payment Of Dividends: $211,485, $213,820, $583,687, $1,301,824

#### Net cash flow from financing activities

$11,198, $66,882, $112,644

#### NET MOVEMENT IN CASH

Add Opening Cash Balance: $85,992, $446,527, $289,259, $114,136

Closing Cash Balance: $506,325, $289,259, $114,136, $162,857

Made up of:
- Bank Balance and Deposits: $506,896, $289,259, $114,136, $162,857

Closing Cash Balance: $506,896, $289,259, $114,136, $162,857

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 - Parent & Consolidated
For the 12 Months to 30 June

### 30-Jun-12 Budget vs Forecast

<table>
<thead>
<tr>
<th>Item</th>
<th>Budget</th>
<th>Forecast</th>
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<tbody>
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<td>Land and Developments</td>
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<td>Infrastructure</td>
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<td>Furniture and Fittings</td>
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<td>30,000</td>
</tr>
<tr>
<td>Total Capital Expenditure</td>
<td>3,009,925</td>
<td>1,213,158</td>
</tr>
</tbody>
</table>

### 2013/14 SOI Indicative vs 2014/15 Indicative vs 2015/16 Indicative

<table>
<thead>
<tr>
<th>Year</th>
<th>Land and Developments</th>
<th>Buildings</th>
<th>Infrastructure</th>
<th>Plant and Equipment</th>
<th>Furniture and Fittings</th>
<th>Computers</th>
<th>Motor Vehicles</th>
<th>Total Capital Expenditure</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013/14</td>
<td>345,000</td>
<td>13,534,000</td>
<td>1,292,290</td>
<td>10,000</td>
<td>10,000</td>
<td>10,000</td>
<td></td>
<td>1,667,290</td>
</tr>
<tr>
<td>2014/15</td>
<td>477,000</td>
<td>935,000</td>
<td>557,000</td>
<td>25,000</td>
<td>10,000</td>
<td>24,500</td>
<td></td>
<td>14,170,100</td>
</tr>
<tr>
<td>2015/16</td>
<td>54,100</td>
<td>10,000</td>
<td>10,000</td>
<td>10,000</td>
<td>10,000</td>
<td>24,500</td>
<td></td>
<td>1,471,500</td>
</tr>
</tbody>
</table>
10 ACCOUNTING POLICY STATEMENTS

10.1 Statement of Accounting Policies

10.1.1 Reporting Entity

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

The Company, and its wholly owned subsidiary (FreightGate Limited) comprise the Palmerston North Airport Limited reporting entity.

The financial statements of Palmerston North Airport Limited are reported as parent and consolidated due to FreightGate Limited being a non-trading company.


The financial statements have been prepared in compliance with NZ GAAP and NZ equivalents to International Financial Reporting Standards (NZ IFRS) as applicable to Public Benefit Entities.

10.1.2 Measurement Base

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

The Company follows the general accounting principles recognised as appropriate for the measurement and reporting of earnings and financial position on an historical cost basis modified by the revaluation of land and buildings to fair value.

10.1.3 Specific Accounting Policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

(a) Basis of consolidation

The consolidated financial statements include the parent company and its subsidiary accounted for using uniform accounting policies prepared as of the same date. All inter-company transactions are eliminated in full on consolidation. In the Company’s financial statements, investments in subsidiaries are recognised at cost.

Subsidiaries

The Company consolidates in the group financial statements all entities where the Company has the capacity to control their financing and operating policies so as to obtain benefits from the activities of the subsidiary. This power exists where the Company controls the majority voting power on the governing body or where such policies have been irreversibly predetermined by the Company or where the determination of such policies is unable to materially affect the level of potential ownership benefits that arise from the activities of the subsidiary.
The cost of a business combination is measured as the aggregate of:

- The consideration transferred, which is generally measured at acquisition date fair value;
- The amount of any non-controlling interest measured at either fair value or the non-controlling interest in the fair value of the net identifiable assets of the acquiree; and
- The acquisition date fair value of the previously held equity interest in the acquiree, if any.

Any excess of the cost of the business combination over the Company’s interest in the net fair value of the identifiable assets, liabilities, and contingent liabilities is recognised as goodwill. If the Company’s interest in the net fair value of the identifiable assets, liabilities, and contingent liabilities recognised exceeds the cost of the business combination, the difference will be recognised immediately in the surplus or deficit.

Investments in subsidiaries are carried at cost in the Company’s parent entity financial statements.

(b) **Revenue measurement and recognition**
Revenue is measured at fair value of goods and services rendered and recognised at the time when the goods and services are rendered.

Interest received is recognised using the effective interest rate method.

(c) **Property Plant and Equipment**
Property Plant and Equipment consists of:

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

*Infrastructure Assets*
Infrastructure assets are the fixed utility systems owned by the Company.

**Measurement**
All items of property, plant and equipment that qualify for recognition as an asset shall be measured at cost less accumulated depreciation and impairment loses with the following exceptions:

*Land*
Land is valued at fair value, being the amount for which the land could be exchanged between knowledgeable, willing parties in an arm’s length transaction.

*Buildings*
Buildings are valued at the lower of their fair value or entity specific value. Fair value is the amount that an asset could be exchanged between knowledgeable and willing parties in an arm’s length transaction. Entity specific value is the present value of cash flows from the continued use and disposal of the asset.

**Revaluations**
An independent registered valuer conducts the valuations on a systematic basis with sufficient regularity to ensure that the carrying value does not differ materially from fair values and at least once every three years. All revalued assets are assessed annually to ensure that they do not differ materially from their fair values. If there is a material difference, then the off-cycle asset classes are revalued.
Accounting for Revaluations
PNAL accounts for revaluations of property, plant and equipment on a class of assets basis.

The results of revaluing are credited or debited to an asset revaluation reserve for that class of asset. Where this results in a debit balance in the asset revaluation reserve, this balance is expensed in the profit and loss account. Any subsequent increase on revaluation that offset a previous decrease in value recognised in the profit and loss account will be recognised first in the profit and loss account up to the amount previously expensed, then credited to the revaluation reserve for that class of asset.

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.

Where an asset is acquired at no cost, or for a nominal cost, it is recognised at fair value when control over the asset is obtained.

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 profit and loss 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 profit and loss account as they are incurred.

Depreciation
Depreciation is provided on a straight-line basis on all items of property, plant & equipment other than land at rates calculated to allocate the cost of the assets over their estimated useful lives.

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

<table>
<thead>
<tr>
<th>Category</th>
<th>Useful Life</th>
</tr>
</thead>
<tbody>
<tr>
<td>Land Improvements</td>
<td>99 years</td>
</tr>
<tr>
<td>Roading &amp; Carparks</td>
<td>2 - 99 years</td>
</tr>
<tr>
<td>Buildings &amp; Building services</td>
<td>8 - 99 years</td>
</tr>
<tr>
<td>Runway, Taxiways, Aprons</td>
<td>2 - 99 years</td>
</tr>
<tr>
<td>Plant and Equipment</td>
<td>2 - 50 years</td>
</tr>
<tr>
<td>Furniture &amp; Fittings</td>
<td>3 - 99 years</td>
</tr>
<tr>
<td>Computer Equipment</td>
<td>3 - 6 years</td>
</tr>
<tr>
<td>Motor Vehicles</td>
<td>5 years</td>
</tr>
</tbody>
</table>

Land and capital work in progress are not depreciated. The total cost of capital work in progress is transferred to the fixed assets system upon its completion or availability for use, and then depreciated.
(d) **Intangible assets**

*Internally generated intangible assets*

Internally generated intangible assets are written off in the Profit and Loss Account in the year they arise. Goodwill on business combination is subjected to an impairment test annually with the impairment written off in the Profit and Loss Account.

*Software acquisition*

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring the specific software to use. Costs associated with maintaining computer software are recognised as and when incurred. **Cost associated with the development and maintenance of the company’s web-site are recognised as an expense when incurred.**

Staff training costs are recognised as an expense when incurred.

*Software amortisation*

Computer software licenses cost are amortised on a straight line over their useful life. Amortisation begins when the asset is available for use and ceases when the asset is disposed of. The amortisation charge is recognised in the profit and loss account.

(e) **Trade and other Receivables**

Accounts receivable are stated at their expected realisable value after writing off any known bad debts and providing for any doubtful debts.

Trade receivables are due for settlement no more than 60 days from the date of recognition.

Impairment of trade receivables is reviewed on an ongoing basis. Debts, which are known to be uncollectible, are written off. A provision for doubtful receivables is established when there is objective evidence that the company will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset’s carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement.

(f) **Impairment of Non-financial Assets**

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation or depreciation are reviewed for impairment annually.

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. Where the future economic benefits of an asset are not primarily dependent on the asset’s ability to generate net cash inflows, and where the Company would, if deprived of the asset, replace its remaining future economic benefits, value in use is determined as the depreciated replacement cost of the asset. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units).

For assets not carried at revalued amount the total impairment loss is recognised in the profit and loss account.
The reversal of an impairment loss on revalued asset is credited to the revaluation reserve. However, to the extent that impairment loss for that class of asset was previously recognised in the profit and loss account, a reversal of the impairment loss is also recognised in the profit and loss account.

(g) **Inventories**
Inventories are stated at the lower of net realisable value or cost, and includes any costs associated with bringing the inventories to their current location and condition. The cost of the inventory is determined using the first in first out method. Where inventories are acquired at no cost or at nominal value the cost will be deemed to be the current replacement cost at the date of acquisition.

The amount of any write-down for the loss of service potential or cost to net realisable value is recognised in the statement of financial performance in the period of the write-down.

(h) **Cash and Cash Equivalents**
Cash and Cash Equivalents includes cash on hand, deposits held at call with banks, other short term highly liquid investments with original maturities of three months or less.

Transactions in foreign currencies are converted at the New Zealand rate of exchange applicable at the date of transaction.

At balance date, foreign monetary assets and liabilities are translated at the closing rate based on the Bank of New Zealand's reported closing rate. Any net exchange differences of foreign currency are recognised in the Profit and Loss account.

Bank overdrafts are shown within borrowings in current liabilities in the balance sheet.

(i) **Income Tax**
Income tax expense in relation to the surplus or deficit for the period comprises 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 rates 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 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.

Deferred tax is recognised on taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the
company can control the reversal of the temporary difference and it is probable that
the temporary difference will not reverse in the foreseeable future.

Deferred tax is calculated at the tax rates that are expected to apply in the period
when the liability is settled or the asset is realised, using tax rates that have been
enacted or substantively enacted by balance date.

Current tax and deferred tax is charged or credited to the statement of financial
performance, except when it relates to items charged or credited directly to equity,
in which case the tax is dealt with in equity.

(j) 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 balance
sheet.

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 Flow.

Commitments and contingencies are stated exclusive of GST.

(k) Employee Entitlements
Employee entitlements for salaries and wages payable and annual leave as at
balance sheet date are accrued and recognised as a liability in the Balance Sheet.
The liability is based on actual entitlements calculated at current rates of pay.

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.

The Company will have no long service or retirement leave obligations as at 30
June 2012.

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

(l) 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 in the periods in which they are incurred.

(m) Financial Instruments
All financial instruments are initially recognised in Balance sheet at fair value.
The Company is party to financial instruments as part of its normal operation. These instruments include bank accounts, short term deposits, debtors, creditors and loans.

All financial instruments are recognised in the Balance Sheet and all revenues and expenses in relation to financial instruments are recognised in the Profit and Loss Account.

Interest bearing loans are initially recorded at fair value and subsequently measured at amortised cost.

**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. The company's loans and receivables comprise cash and cash equivalents, debtors and other receivables, term deposits and related party loans.

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 profit and loss account.

(n) **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 income 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.

(o) **Borrowings**

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the income statement over the period of the borrowings using the effective interest method. Borrowings are classified as current liabilities unless the company has an unconditional right to defer settlement of liability for at least 12 months after balance sheet date.

(p) **Capital Contributions**

Government grants related to the purchase of assets have been recognised as revenue and the carrying amount of the associated assets are recognised at full cost.

(q) **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 financial performance, 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.

(r) 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 rate. The increase in provision due to passage of time is recognised as a finance cost.

(s) Equity
Equity is measured through the following components:

- Retained Earnings;
- Paid in Capital reserves;
- Asset revaluation reserve;

**Asset revaluation reserves**
This reserve relates to the revaluation of land and buildings to fair value.

10.2 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.

10.3 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.

10.4 A budget summary report is attached to this Statement. 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.