

28th February 2025

The Shareholder,
Palmerston North Airport Limited
C/- Mr Waid Crockett
Chief Executive Officer
Palmerston North City Council
Private Bag 11034
PALMERSTON NORTH

Dear Waid

DRAFT STATEMENT OF INTENT 2026-2028

Please find enclosed Palmerston North Airport Limited's (PNAL) Draft Statement of Intent (SOI) for FY26 through to FY28.

Palmerston North City Council (PNCC) expectations as outlined in the Statement of Expectations for FY26-FY28 dated 21 November 2024, and Shareholder strategic goals are reflected in this SOI.

The SOI has been reviewed and approved by the PNAL Board of Directors.

A presentation will be made to the Economic Growth Committee on Wednesday 9th April 2025.

What follows are key highlights of the SOI.

- This SOI includes a new section compared to prior years, called a 'Summary of Statement of Expectations' (pages 6-9). PNAL have used this section to summarise the ways in which PNAL intends to meet each of the criteria outlined in the Statement of Expectations, received from the Shareholder.
- Similar to the above, another new section has been added called 'Alignment with PNCC Vision and Goals' (page 36-37). This summarises how PNAL intends to support PNCC's vision of Small City Benefits, Big City Ambition and its four related goals.
- The terminal redevelopment design is anticipated to be complete, costings finalised and construction underway by mid calendar year 2025. Stage 1 of the Western end reconstruction should be complete by mid calendar year 2026 and the Eastern end by mid calendar year 2027. Disruption during construction is inevitable, however the PNAL team is focussed on ensuring this is minimised as much as possible. With the new temporary terminal nearing completion, ready to be opened when demolition commences. Health & Safety is of paramount importance, with construction happening around a live terminal and airside environment.
- The SOI outlines the anticipation that the final budget for the terminal redevelopment will exceed the \$40m estimate prepared at concept design stage, due to carefully considered decisions which have been made during later design stages. Examples of this are included on page 11 of the SOI. Prior to construction commencing a construction value will be settled, and evaluated by the Board, to validate it provides value for money, achieves the required objectives and is affordable.
- It is worth noting the terminal development requires significant estimates and assumptions to be made regarding appropriate accounting treatments. These are summarised on page 32 of the SOI. Actual results may vary from these estimates and assumptions and will be subject to annual audit.
- A PNCC representative (Chris Dyhrberg) remains as an observer in respect of the terminal redevelopment on the PNAL Terminal & Property Development Committee.
- Ruapehu Aeropark, income diversification and playing our role within Te Utanganui remain key priorities for PNAL. Commercial opportunities being pursued during this SOI period include a freight and logistics

warehousing facility, premises for aeromedical operators, rental car grooming and parking facilities and supporting facilities for Massey School of Aviation. Various other feasibility, preparatory and consenting works for developments in Ruapehu Aeropark will also continue during the SOI period.

- Commercial development is demand/tenant led. Given the level of capital required, commercial developments will only progress on the basis that each opportunity meets business case hurdles and receives endorsement from the PNAL Board. As readers will appreciate, New Zealand is currently at a low point in the economic cycle, with high development costs, low growth and low demand for commercial property. Notwithstanding this, PNAL plans to invest ~\$26.9m in Ruapehu Aeropark over the SOI period.
- PNAL remains committed to a continued reinvestment in upgrading critical airside infrastructure and landside customer experience initiatives. In total \$4.5m of airside improvements are anticipated over the three-year period, with a further \$6.8m allocated to landside projects, including the construction of additional covered walkway areas within the carpark, water main upgrades and an upgrade of the terminal loop road. Beyond the SOI period, a mill and reseal of the main runway, with an estimated cost of \$15m (over three years) is also being planned.
- Sustainability, including emissions reductions, will continue to play an important role at PNAL, with our goal to reach net zero emissions by 2035. PNAL has exceeded PNCC's goal of a 44% reduction in greenhouse gas emissions per capita in Palmerston North (from the 2016/17 baseline) by 2034, with PNAL having so far achieved an 80% reduction in Scope 1 and 2 emissions below the 2022 baseline. Scope 3 emissions remain PNAL's ongoing focus, including remaining at least at Level 4 ("Transformation") of the Airport Carbon Accreditation programme.
- Passenger volume growth is expected to be subdued during the SOI period. This reflects the various headwinds affecting air travel, including an economic recession, high costs of living, and aviation specific challenges which are affecting airfares. These challenges have been well signalled by Air New Zealand and regional carriers and include ongoing challenges within the aircraft parts supply chain, labour shortages and restricted access to capital. This SOI anticipates a ~2% growth in volumes per year, to 543,400 passengers in FY26, 555,700 in FY27 and 564,800 in FY28.
- Underpinning everything mentioned above is PNAL's commitment to safety. We have a Zero Harm approach to those who visit and work within our airport community. We will also continue to meet our regulatory and statutory obligations including Civil Aviation Rule Part 139, Resource Management Act, Palmerston North and Manawatu District Plans.
- This SOI outlines how PNAL intends to resolve the funding constraints highlighted previously. PNAL has evaluated various funding options and determined, with the support from an external specialist consultant, that a third party debt raise of approximately ~\$40m is the best approach for the short-medium term. This will bring total debt facilities to ~\$90m, including the PNCC facility. Significant consideration has been given to ensuring PNAL's debt remains at a level which ensures PNAL's credit rating would be considered investment grade (minimum of BBB-) over the medium term, including factoring in downside scenarios to revenue and capital spend. This has ensured that PNAL debt level balances opportunity with an appropriate level of risk.
- The debt raise is expected to be completed prior to the start of the SOI period. Refer to page 19 of the SOI for details on this evaluation and explanation as to why this is the preferred option at this stage.
- Reflecting this higher debt capacity, this SOI outlines a maximum debt level of \$73.6m by FY28 (\$40.8m in FY26), well within the maximum planned facility limit of ~\$90m. The SOI illustrates that at these debt levels, key financial metrics are maintained at prudent levels.
- Debt/Debt+Equity reaches 46% by FY28 (34% in FY26). PNAL's current bank covenant (interest cover to EBITDA of at least 2.5) remains well above this level at 3.0 by FY28 (5.5 in FY26). Long term metrics, which may fluctuate outside target ranges for short periods, both show trends towards the target range by FY28, with the completion of the terminal development and other high capex projects.
- Shareholder-related financial performance metrics have been included on page 20 of the SOI, while non-financial metrics have been outlined from page 22.
- In terms of financial performance, one-off and non-cash expenses during FY26 are anticipated to result in a suppressed net profit position of \$0.8m. Financial performance is then anticipated to improve in FY27 and

FY28 with net profit after tax (NPAT) forecasts of \$2.8m and \$3.6m respectively. The one-off and non-cash expenses in FY26 primarily relate to the terminal redevelopment and include the write-off of the existing terminal upon demolition (via accelerated depreciation) and associated demolition costs (via Extraordinary Items), which are unrelated to core activities.

- This SOI has been prepared in accordance with the shareholders expectation in respect of dividends with a minimum dividend of \$400,000 budgeted in FY26, equivalent to 49% of budgeted NPAT.
- PNAL's free cashflow (cash available for distribution via dividends or interest, after deduction of capital expenditure) is projected to remain negative until FY28. As such, any dividend payment in these years will be funded from additional debt. The quantum of a dividend in any given year beyond FY26 will be based on a percentage of NPAT excluding fair value gains/losses and one-off capital gains (e.g. land sales).

We trust the above provides a useful overview of this SOI. We encourage you to read our SOI in detail for further explanations and look forward to the opportunity to discuss the SOI further with you on 9th April.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'David Lanham', enclosed within a blue oval shape.

David Lanham
Chief Executive Officer