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29<sup>th</sup> February 2024

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 2025-2027**

Please find enclosed Palmerston North Airport Limited's (PNAL) Draft Statement of Intent (SOI) for FY25 through to FY27.

Palmerston North City Council (PNCC) expectations as outlined in the Statement of Expectations for FY25-FY27 dated 7 December 2023, 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 24<sup>th</sup> April 2024.

What follows are key highlights of the SOI.

- This SOI reinforces many of the same themes raised for the FY24-FY26 SOI, namely the construction of the new terminal building, progress on key developments within Ruapehu Aeropark, and the constrained financial position of PNAL. Notwithstanding this, the SOI demonstrates the amount of planned activity and growth that is expected to occur during this SOI period.
- The terminal development is currently in its final design stages, with LT McGuinness engaged on an early contractor involvement basis during the design phase, with the intention they will progress as main contractor, subject to how the relationship progresses. The project budget remains at \$40m, with LT McGuinness supporting our efforts to remain within this budget.
- As requested, a PNCC representative (Chris Dyhrberg) has also joined the PNAL Terminal & Property Development Committee as an observer in respect of the terminal development.
- Demolition of the Western end of the existing terminal is due to commence in Q2 of FY25 with the build anticipated to take 24 months. While the new Western wing is constructed, we anticipate significant disruption to passengers, with operations condensed to a floor area approximately one third of the current terminal size for an estimated 12 months. After temporary operations are relocated to the newly constructed Western wing the demolition and rebuild of the Eastern wing will then occur, a further 12-month process. Managing the disruption and customer communications are key priorities for the PNAL team.
- Ruapehu Aeropark will see at least one new design/build development during the three-year SOI period the completion of a 6,000m<sup>2</sup> of freight & logistics warehousing facility on the Northern side of Airport Drive.
- Work will also progress on the refurbishment of a recently acquired hangar, which may ultimately become the location for a valuable community organisation. Discussions with prospective tenants will also continue relating to attracting high quality aeronautical organisations to the airport precinct.

- Several other projects within Ruapehu Aeropark have been identified for development, but these have been excluded from the SOI due to funding constraints. Should funding constraints be resolved, these projects will be reprioritised.
- In terms of funding constraints, this SOI contains capital expenditure of \$65.9m, which brings PNAL's total forecast debt to \$64.4m by the end of the SOI period. The Debt/Equity ratio reaches 73.8%. While this debt level is within PNAL's existing facilities and bank covenant, key financial metrics are extended to their upper limits. These metrics improve beyond the SOI period.
- Whilst the above developments are manageable, PNAL is considering options to accelerate its investment in Ruapehu Aeropark in order to achieve its revenue diversification objectives, whilst also maintaining a prudent balance sheet and compliance with key financial metrics. Several options are currently being explored which include differing methods by which investment partners could participate in the development opportunities. Other options being considered involve a PNAL-centric approach to development, which includes the establishment of a 100% owned subsidiary entity dedicated to property development and/or targeted land divestments within the wider Airport landholding. These options are expected to be resolved within the first year of the SOI. Under PNAL's constitution, and depending on options selection, approval from the shareholder may be required prior to a preferred approach being adopted.
- The FY25-FY27 SOI has been prepared on the basis that the remaining PNAL-owned sections of Airport Drive are vested to PNCC prior to the SOI's commencement (i.e. is vested in FY24), adding an expense into PNAL's current year forecast of ~\$2.1m (the current book value of the road to PNAL). PNAL is working with PNCC officers to achieve the vesting outcome this financial year.
- PNAL remains committed to a continued reinvestment in upgrading critical airside infrastructure and landside customer experience initiatives. In total \$6.3 million of airside improvements are anticipated over the three-year period, with a further \$4.9 million allocated to landside projects, including the construction of additional covered walkway areas within the carpark and Stage 2 of the Pick-up/Drop-off shelters. 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. PNAL was formally awarded Airport Carbon Accreditation Level 4 (Transformation) in December 2023, making us one of only 23 airports globally to reach this level. While we are very proud of this achievement, we continue to invest in further sustainability initiatives. This includes ongoing partnering with our airport community to drive reductions in Scope 3 (third party) emissions. We are also actively pursuing opportunities to develop solar power infrastructure on the airport campus, with the ability to power the new terminal and Ruapehu Aeropark. We are also welcoming the addition of Hiringa's hydrogen refueling station on airport land, due to open in early 2024.
- 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.
- Passenger volume growth is expected to be modest during the SOI period. Our primary customer, Air New Zealand, has highlighted the likely suppression of demand across regional routes and this has been factored into the short-term growth projections. This SOI anticipates an ~3% growth in volumes per year, to 562,300 passengers in FY25, 581,500 in FY26 and 598,700 in FY27.
- In terms of financial performance, one-off and non-cash expenses during FY25 are anticipated to result in a net loss after tax for the year of \$1.78m. Financial performance is then anticipated to improve in FY26 and FY27 with net profit after tax (NPAT) forecasts of \$2.17m and \$3.06m respectively. The loss in FY25 is primarily driven by 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. Administration costs are elevated during FY24 (current year) and FY25, due to the ongoing project to accelerate Ruapehu Aeropark development (outlined earlier).
- Shareholder-related financial performance metrics have been included on page 16 of the SOI, while non-financial metrics have been outlined from page 20.

- PNAL recognises the shareholders' expectation regarding dividend payments. This SOI has been prepared in accordance with that expectation with dividends forecast based on the requested percentages of NPAT (excluding fair value and one-off capital gains). As illustrated in this SOI, PNAL's free cashflow (cash available for distribution via dividends or interest, after deduction of capital expenditure) is highly negative in FY25 and FY26, before improving from FY27 onwards. As such, any dividend payment in these years will be funded from additional debt.

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 24<sup>th</sup> April.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'David Lanham', with a long horizontal flourish extending to the right.

David Lanham

Chief Executive Officer