Architect impression of planned Palmerston North Airport Terminal

2025-2027 STATEMENT OF INTENT

PALMERSTON NORTH AIRPORT LIMITED

STATEMENT OF INTENT
FOR THE YEAR ENDING 30 JUNE 2025

29 February 2024

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INTRODUCTION

This Statement of Intent is presented by the Directors of Palmerston North Airport Limited ("PNAL") in accordance with section 64 of the Local Government Act 2002.

PNAL falls within the definitions of both a Council-Controlled Organisation and a Council-Controlled Trading Organisation pursuant to section 6 of the Local Government Act 2002 as a consequence of the Palmerston North City Council's (PNCC) shareholding.

The purpose of the Statement of Intent is to publicly declare the activities and intentions of PNAL and provide an opportunity for shareholders to influence its direction.

It also provides a basis for accountability of Directors of PNAL to the Shareholder for performance. It is intended to comply with Schedule 8 of the Local Government Act and be consistent with PNAL's Constitution.

This Statement of Intent has been informed by PNCC's Statement of Expectation dated 7 December 2023.

The Statement of Intent has been prepared under the Public Benefit Entity (PBE) Standards based on International Public Sector Accounting (IPSAS) Standards.

Directors and team members of PNAL continue to acknowledge mana whenua Rangitāne and their customary relationship to this region. PNAL appreciates their manaakitanga shown towards the airport and all airport users. PNAL looks forward to further enriching its partnership with Rangitāne, mana whenua and other local iwi over the coming years.

CONTACT DETAILS

CONTACT DETAILS FOR BOTH THE CHAIR AND THE CHIEF EXECUTIVE ARE:

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NATURE AND SCOPE OF ACTIVITIES

Palmerston North Airport Limited (PNAL) owns and operates Palmerston North Airport, having purchased the airport business on 30 January 1990.

Palmerston North Airport is an asset of regional and national importance managed by PNAL. The airport services a regional catchment which includes Ruapehu District in the north, Whanganui, Rangitikei, Manawatu, and Horowhenua in the south, and across to Wairarapa, Tararua and Southern Hawkes Bay. A population base of close to one million live within two hours' drive of the airport.

Our purpose of "Launching our communities into a promising future" reflects our true reason for being and references our role as facilitating regional growth in social, economic, and environmental terms. This includes growing long-term shareholder value, and serving our communities whether defined by geographical location, ethnicity or socially, and our further enriching our special relationship with mana whenua, Rangitāne and other local iwi.

Our aspirational vision of being "New Zealand's leading regional airport" emphasises our airport's leadership amongst regional peers across many aspects of our airport business. These include asset management, safety and compliance, iwi engagement, environmental sustainability, customer experience, community engagement, freight & logistics, aviation tertiary training, property development and the wellbeing of our team.

STRATEGIC OBJECTIVES

PNAL's strategic objectives are categorised within a Five Strategic Pillar framework also referred to as "the Five C's" . They include Culture, Customer, Community, Commercial, and Compliance as follows:

Compliance

We maintain a safe and secure operation.

- 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.
- 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.

Culture

We empower our team members and work as one-team.

- Our people are the key to our success. We will care for each other's well-being, and develop skills, commitment, engagement and resourcefulness across our team recognising achievement.
- Our one-team ethos is supported by the five pillars of Leadership, Trust & Respect, Communication, Empowerment and Celebrating Success.

Customer

We continue to improve the customer experience for all airport users.

- Our customers include all airport users; contractors, tenants, staff, passengers, meeters and greeters, and other airport visitors.
- We lead the way in terms of delivering a high quality and efficient regional airport experience.
- We promote Palmerston North Airport as the gateway and lower North Island commercial hub to our 90-minute drive market.

Community

We contribute to regional prosperity.

- We are kaitiaki for the environment by operating in a sustainable manner in all of our business activities.
- We recognise our community is multi-cultural and will engage with mana whenua and all ethnic groups.

Commercial

We are a financially sustainable business enabling long term success.

- We maintain and develop core infrastructure that is business critical.
- We diversify and grow revenue streams through a focus on both aeronautical and non-aeronautical income activities.
- We operate a successful enterprise with the objective of growing long-term shareholder value and providing a return to our shareholder when we have surplus funds to our on-going investment and operating requirements.
- We facilitate regional economic development by growing passenger and airfreight volumes.

OUR VISION - WHAT WE ASPIRE TO BE

New Zealand's leading regional airport.

OUR PURPOSE

Launching our communities into a promising future.

EXECUTIVE SUMMARY

The FY25 – FY27 SOI period represents a period of significant change and growth for PNAL.

In total $65.9m of capital expenditure is projected to be undertaken over the three-year SOI period. Within this period, the Terminal Development Plan (TDP) will be completed, design/build projects within Ruapehu Aeropark will also be completed, and PNAL will begin the reintroduction of dividend distributions to the shareholder. These initiatives are all discussed in greater detail within this SOI.

Capital projects planned for the SOI period result in Company debt reaching $64.4m by FY27 and the Debt to Equity ratio reaching 73.8%. While the debt is within currently available lending facilities, key financial metrics are extended to their upper limits within the period. Longer term projections see these metrics improve. Whilst manageable in the shorter term, PNAL is presently considering alternative options which will address the projected elevated debt levels. These range from developing funding relationships and/or structures with like-minded third parties through to the establishment of a 100% owned subsidiary entity(s) and also the identification of non-strategic landholdings which could be sold.

The preferred approach(es) are yet to be confirmed but are anticipated to be identified within the first year of the SOI period. Shareholder approval may be required to support the preferred approach(es).

As signalled previously, the $40m TDP project will commence from FY25 with the demolition of the Western end of the existing terminal. 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. Altogether, disruption is anticipated to last for two years.

PNAL is focussed on minimising disruption during this time, with planning already underway. However we recognise that during the construction the customer experience may not be at the same level our valued customers have come to expect.

Upon completion the gateway experience will be one that our communities can be proud of, one which meets our Shareholders expectations and provides our region and city with a resilient & future proofed facility. Mana whenua Rangitāne, already close partners, have been involved in the co-design process for the new terminal, to ensure it reflects both mana whenua, regional iwi and narrative. We encourage our communities to visit the Company website to view updates on the TDP.

Ruapehu Aeropark will also witness tangible growth during the SOI period, including the completion of 6,000m2 of warehousing on the Northern side of Airport Drive. The warehouses will facilitate the growth of airfreight and logistics activity at Palmerston North Airport. Work will also progress on the refurbishment of a recently acquired on-airport facility which may ultimately become the location for a valuable community organisation.

In addition PNAL has identified several other projects within Ruapehu Aeropark ready for development in the short term. These projects have not been included in this SOI due to the funding constraints outlined, however these projects may proceed within the SOI period should the funding constraints be resolved.

PNAL anticipates the vesting of the remaining sections of Airport Drive controlled by the Company to Palmerston North City Council within the current financial year (FY24).

PNAL recognises the support of the Shareholder in accepting the suspension of dividend distributions in recent years as the Company managed through a volatile trading period whilst readying itself for major capital spend on critical infrastructure.

The Shareholder has sought the phased re-introduction of dividends from the FY24 year, based on a percentage of NPAT, and PNAL intends to meet this requirement.

Architect impression of planned Palmerston North Airport Terminal

TERMINAL DEVELOPMENT PLAN

The Shareholder via the Statement of Expectation requires the Company to ensure the City and region has an appropriate air gateway, and recognises the important role of the airport in contributing to the promotion of the city and wider region. It is a primary gateway and for many visitors provides their first and/ or last impression of our city and region.

While the thirty-year-old terminal has held us in good stead through major periods of growth, including with refits extending its useful life, it is no longer fit for purpose. The 5,000 m2 new build modular terminal facility will ensure the Company is able to meet Shareholder expectations by future proofing the facility and addressing operational, growth and seismic resilience deficiencies associated with the present terminal. This includes enabling the introduction of passenger and hold-bag screening should screening become mandatory at regional airports.

The Terminal rebuild is programmed to occur within this three year SOI period, with the proposed $40 million terminal the single largest investment undertaken by the airport in its history. The two-year construction period is programmed to be completed by Q4 of 2026.

As outlined earlier the Company is focussed on ensuring that customer experience levels are maintained as high as possible during the two years of disruption as we partially demolish and then construct the new terminal while continuing to manage day to day operations.

At the time of preparing this SOI the Company had just appointed LT McGuinness as the contractor to work alongside the Company and its design team. This will assist to ensure a construction program can be tailored to enable a high level of focus on health & safety, minimise customer disruption, meet budget expectations, and to explore opportunities to achieve energy and sustainability objectives.

KAITIAKITANGA / GUARDIANSHIP

WHĀNAU KOTAHI / ONE TEAM

Our highly skilled team are our greatest asset. We will continue to develop our Whānau Kotahi wellness program to further enhance team culture and engagement and the overall employee experience.

Whānau Kotahi improves the ability of PNAL to support both team and individual wellbeing and keep this at the forefront of all activities, ultimately increasing personal health levels, teamwork, engagement, and productivity. These benefits contribute to our employee value proposition (EVP) and expect to have a flow-on effect of improved attraction and retention of our people.

The objectives of the wellness program include;

- Improving team member wellbeing with the associated positive flow-on benefits in physical and mental health, employee engagement, and improved employee retention and productivity.
- Meeting the intent of PNAL's Culture and Health & Safety Policy objectives.
- Fostering diversity and inclusivity, and providing opportunities to grow and develop through increasing knowledge and learning of wellness..
- Being achievable, sustainable and cost-effective.
- Contributing to PNAL being an employer of choice.
- Encouraging creativity, vision, and openness for change and development.

OUR COMMUNITY

The Company remains acutely aware of how dynamic and non-permanent our social license to operate is and how quickly community beliefs and opinions can change as time passes, events occur, and new information is acquired. Investing in and actively engaging in our communities is essential to ensure we continue to meet the expectations placed on us by our community and society in general as a participant within the aviation industry.

In the past two years, our community focus has primarily been in the Manawatu area however, going forward the focus will be placed on re-engaging within the 90-minute drive market with priority given to Whanganui, Rangitikei, the Horowhenua, Kapiti Coast, Southern Hawkes Bay, Tararua and Wairarapa. By re-engaging with these communities, we will be able to build longstanding and worthy relationships that allow us to increase and grow brand awareness, strengthen our sponsorship partnerships and allow us to better understand how we can improve our customers journey with us.

A key focus remains working with Rangitāne to extend our support for mana whenua. An exciting opportunity to collaborate on aviation career pathways for rangatahi while in its infancy will be developed over the SOI period.

OUR ENVIRONMENT

With sustainability at the core of our operations, we are committed to fostering sustainability, supporting the community, and contributing to a more environmentally responsible future for aviation. Following the major achievement of receiving (ACI) Airport Carbon Accreditation (ACA) Level 4 in FY24, we will not rest on our laurels as we focus on how to further drive meaningful change at our airport and amongst aviation industry participants. The key focus will become energy and sustainability gains that can be achieved within the Terminal development project.

In addition to the ongoing pursuit of sustainability gains through continuous improvement in our airport operations and collaboration with third-party businesses, other priority areas include further exploration of renewable energy generation opportunities, including the potential of solar to power our terminal, Ruapehu Aeropark and potentially provide an energy source for next generation aircraft. More generally the Company will also continue to keep abreast of infrastructure requirements necessary to ultimately facilitate decarbonised aviation technology.

MANAAKITANGA / CUSTOMER EXPERIENCE

CUSTOMER EXPERIENCE MAINTENANCE

In our desire to deliver on our vision to be New Zealand's leading regional airport, the Tiaki Promise to care for people, place, and culture, and to improve the Manaakitanga / customer experience for all airport customers and visitors, we have progressed with our action plans included in our customer experience roadmap. This included engaging with customers via 'think tank' focus groups and continuing to explore innovate ways to engage with and receive valuable insights from those using our services and facilities.

Initiatives in planning and to be delivered during this SOI period, include the enhancement of our terminal and carpark wayfinding and signage, creation of customer journey maps and the refinement of our brand and customer engagement strategy. We will also focus on maintaining our Gold Sustainable Tourism Business Award with Qualmark annually across the SOI period.

As discussed earlier the Company anticipates our high levels of customer experience are likely to be compromised during the terminal demolition and rebuild. A range of initiatives are already underway to minimise disruption and to make the journey through our airport as seamless as possible during this time.

MARKET DEVELOPMENT

The Company recognises the important role we play as the primary air gateway to the eight regions we serve within our 90-minute drive market. We don't take regional support for our airport for granted, we have strong competition and so we must continue to build awareness of our value proposition focused on convenience and ease of use, enhance our customer experience, and further leverage of the Fly Palmy brand to ensure people select Palmerston North Airport as their airport of choice.

INFRASTRUCTURE

AIRSIDE/LANDSIDE PROJECTS

A total of $6.3m is planned to be spent over the SOI on the ongoing upgrade of critical airside infrastructure, primarily pavement upgrades. In addition, a further $4.9m is anticipated to be spent over the three-year SOI on landside infrastructure and property, plant & equipment. These primarily focus on customer enhancements in the carpark. Customer enhancements planned include the construction of covered walkway areas and Stage 2 of the project to provide Pick-up/Drop-off shelters.

Beyond the SOI period, a mill and reseal of the runway surface has been identified. This is planned to occur over three financial years at an estimated total cost of $15m. The timing of the reseal is subject to ongoing runway condition assessments.

Airport Drive

PNAL anticipates the vesting of the remaining sections of Airport Drive controlled by the Company to Palmerston North City Council within the current financial year (FY24). This will require the existing road asset to be written-off by PNAL for their net book value of ~$2.1m.

COMMERCIAL

AIR SERVICE DEVELOPMENT

Passenger movements are projected to grow modestly during the SOI period to 580,000 by FY26. 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.

We do however continue to view air service development with a strategic mindset and look beyond what may be a short-term impact. Work will progress on the A320 pathway project with the objective of ultimately achieving the re-introduction of jet services / or larger gauge aircraft on the Auckland - Palmerston North route.

Work will also progress on understanding how Palmerston North Airport can leverage the opportunity ahead in terms of low emission/ next generation aircraft and the likely disruption they cause to the status quo in terms of the New Zealand domestic network system. This will include exploration of renewable energy generation opportunities previously outlined.

RUAPEHU AEROPARK / INCOME DIVERSIFICATION

Recent history has highlighted the volatility of the aviation industry and risk associated with an over-reliance on income primarily sourced from aeronautical activity. The Company is the custodian of a vital component of the economic infrastructure of the City with an associated longterm capital-intensive development and investment program outlined earlier. Income diversification is therefore a strategy that the Company will continue to deploy as a means of mitigating against future downturns in aviation and associated impact aeronautical income levels and consequently our ability to continue to fund operations and re-invest in critical infrastructure.

The Shareholder also requires the Company to play its role in the development of Te Utanganui - The Central New Zealand Distribution Hub through the ongoing development of airfreight & associated logistics activities at Palmerston North Airport.

Commercial development within Ruapehu Aeropark is therefore a critical component of the Company's investment plans, enabling the achievement of income diversification and airfreight & logistics related activity including the development of Te Utanganui.

During the SOI period the Company will progress the following developments:

- The development of 6,000 m2 of prime warehousing south-west of the terminal on Airport Drive. This development, which has airside access, is currently in the final phases of design and subject to securing a tenant will progress to construction in late FY24. Construction is anticipated to be completed by late FY25/early FY26.
- Refurbishment and seismic strengthening of the H1 hangar, acquired by PNAL in early FY24, to enable the leasing to a valued community organisation. This project also remains subject to business case validation and testing with the market.

Altogether, the above represents ~$15.8m of investment by PNAL in Ruapehu Aeropark over the SOI period. In addition to the above, PNAL have identified a further ~$12m of design/build projects. However, due to the Company's increased debt (to fund prioritised assets), these projects will not commence within the SOI period unless additional funds are realised via third party investment or sales of non-strategic assets.

COMPLIANCE

HEALTH & SAFETY

Underlying all activity is the Company's core focus on keeping all airport users safe. During the SOI period we will continue to foster a strong aerodrome-wide safety culture, and further refine the Airport Company's Safety Management System. The Airport company's five-year NZCAA Part 139 re-certification will occur in FY24, along with the second external SMS audit. As referenced earlier the Company will also be working very closely with the Terminal design team and main contractor to ensure our high levels of health and safety are maintained during the terminal demolition and rebuild period.

DISTRICT PLAN

With the benefit of curfew-free operations, and because of the prime location of the airport and the proximity to both the residential area and to the CBD, the Company recognises the importance of ensuring noise emissions from aircraft and ground operations are managed within District Plan limits. Work will therefore continue on noise management in accordance with the Company's Noise Management Plan.

FINANCIAL PERFORMANCE TARGETS

PASSENGER MOVEMENTS

The three-year passenger movement projections to FY27 represents a muted passenger demand scenario which balances the current recovery in air travel against potential headwinds associated with geo-political and macro-economic conditions including an economic slowdown, ongoing impacts of elevated inflation and restrictive monetary policy, the high cost of living, and labour shortages.

The muted passenger growth scenario reflects anticipated leisure demand suppression due to ongoing higher fares, reductions in Air New Zealand capacity relating to the Pratt & Whitney engine issues affecting the A320/A321 NEO fleet (with flow on consequences to regional routes) and a conservative approach to disruption caused by the terminal redevelopment.

During the SOI period passenger volumes are assumed to grow at approximately 3% per annum, in line with long-term average passenger movement growth rates, reaching 599,000 passengers by FY27.

INCOME

Notwithstanding the income diversification program outlined in this SOI, the primary contributor to income projections remains aeronautical and carparking revenue. Land and building lease income grows towards the latter years of this SOI, as the next phase of Ruapehu Aeropark developments is completed.

Budgeted income for FY25 of $17.03m represents an increase of $1.52m or 10% on the FY24 forecast, driven by growth in aeronautical and carparking revenue.

OPERATING COSTS

Total costs (excl depreciation, interest and gain/loss on sale) are projected to increase 23% to $10.05m, $1.89m above the FY24 forecast.

Fixed costs are anticipated to increase at levels above long-term averages, including rates, energy costs and insurance. Legal and consultant fees are also anticipated to be elevated above historical levels, as PNAL continues to explore alternative options and strategic partnerships.

Repairs & proactive maintenance remains a high priority to ensure PNAL delivers a high-quality and compliant airside and landside environment and positive customer experience.

Extraordinary items are projected to increase by $1m in FY25, and remain high in FY26 (by ~$0.8m), and relate to the expensing of terminal demolition costs in two stages.

CAPEX

The FY25-FY27 capital expenditure budget of $65.9m is focused the completion of the TDP ($38m across the SOI period) and the delivery of two developments in Ruapehu Aeropark ($15.8m across the SOI period).

PNAL also has an ongoing focus on ensuring an appropriate investment in airside infrastructure renewals ($6.3m across the SOI period) as well as various customer experience enhancements, including the next phase of Pick-up/Drop-off shelters and covered walkways through the carpark.

PERFORMANCE METRIC TARGETS

	Jul 23 - Jun 24 Forecast	Jul 24 - Jun 25 SOI	Jul 25 - Jun 26 SOI	Jul 26 - Jun 27 SOI
Total Debt	$14.1m	$44.9m	$62.7m	$64.4m
To maintain a tangible net worth (total tangible assets after revaluations less total liabilities) above $80 million	$85.8m	$84.1m	$85.4m	$87.3m
Debt to Equity ratio	16.5%	53.4%	73.4%	73.8%
A ratio of surplus before interest/tax/ depreciation/revaluations to total assets	4%	5%	6%	7%
A ratio of net surplus after tax to consolidated shareholders' funds inclusive of revaluation reserve	2%	(2%)	3%	4%
To maintain a ratio of consolidated shareholders funds to total assets of at least 40%	77%	59%	53%	54%
To maintain an interest coverage ratio of EBITDA (excl revaluations) to interest of at least 2.5	13.1	4.4	3.0	2.9
Net Debt* / EBITDA less than 4.5 (long term target)	1.9	6.4	6.1	5.4
Funds From Operations (FFO**) / Net Debt greater than 11% (long term target)	43.6%	13.5%	9.5%	10.4%

* *Net Debt equals total borrowings less cash on hand*

** *FFO equals EBITDA less interest less tax*

DEBT FUNDING AND RELATED PERFORMANCE METRICS

PNAL currently has two separate debt funders, the Bank of New Zealand (BNZ) and PNCC (indirect LGFA funding).

The PNCC facility was established in FY22 given the lower cost of debt compared with that available commercially. In exchange, PNAL pays PNCC a fair market margin (above LGFA interest rates) on this debt.

PNAL's Performance Metric Targets outlined above include four metrics specific to debt funding. These are:

1. A prudent debt to equity ratio
2. PNAL's debt covenant to maintain an interest coverage ratio of EBITDA to interest of not less than 2.5;
3. A long term target to achieve Net Debt / EBITDA of less than 4.5 and;
4. A long term target to achieve FFO / Net Debt greater than 11%.

This SOI contains a significant level of capital spend, most notably in respect of the terminal redevelopment and Ruapehu Aeropark design/builds. As a result, the Company's debt reaches $64.4m by FY27 and the Debt to Equity ratio reaches 73.8%. While the debt is within currently available lending facilities (see below), key financial metrics are extended to their upper limits within the period. Longer term projections see these metrics improve.

Maximum debt specified in this SOI of $64.4m in FY27 is below currently available debt facilities. BNZ facilities (as at 30 June 2024) total $15.36m while the PNCC funding facility limit is tied to approved SOI debt plus 10%, to a maximum of $50m. The current maximum available debt is therefore $65.36m.

It is anticipated that investment by like-minded partners to support commercial development and/or sales of non-strategic land will enable projected debt levels to be reduced. Alternatively, access to additional debt funding facilities could ensure a prudent level of headroom can be maintained. These approaches will also improve the key financial metrics specified above.

In addition to the capital spend specified in this SOI, PNAL has identified further design/build projects within Ruapehu Aeropark which are ready for development. Due to the increased debt (to fund prioritised assets) these projects will not commence within the SOI period unless additional funds are realised via third party investment or sales of non-strategic assets.

PNAL STRUCTURE AND/OR INVESTMENT PARTNERSHIPS

PNAL continues to explore 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 like-minded third parties may invest in the development of the Airport company and/or Ruapehu Aeropark. 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 sales within the wider Airport landholding.

The preferred approach(es) are yet to be confirmed but are anticipated to be identified within the first year of the SOI period. Under PNAL's constitution, approval from the shareholder may be required prior to a preferred approach being adopted. Regardless of the approach(es) adopted, this will represent a complete step change for PNAL and is anticipated to result in changes to PNAL's staff resourcing, accounting setup, treasury/banking arrangements, debt covenants and financial metrics.

This SOI has been prepared on a 'status quo' basis, until the preferred approach(es) are confirmed, meaning there has been no assumption made of additional equity, no changes to covenants/financial metrics, no changes to resourcing and no changes to structures.

Actual financial results may vary from this SOI, should these changes occur.

KEY OBJECTIVES

	Strategic project	Measure	Completion
COMPLIANCE	CAA Part 139 Compliance	Recertification achieved	FY 2024*
	IT infrastructure resilience	Upgrade / installation of key IT infrastructure	FY 2025
	Ongoing SMS development	• SMS Audit	FY 2024*
		• Audit recommendations adopted	FY 2025
	Airside pavement upgrades	Key airside pavement upgrades complete	Ongoing
	Compliance software management	• OneReg implementation	FY 2024*
		• OneReg enhancements	FY 2025
	Obstacle Limitation Surface Management	• Completion of Obstacle Limitation Survey (OLS)	FY 2024*
		• Stakeholder engagement and compliance with OLS	FY 2025
	Noise Management	• Complete ground noise review	FY 2024*
		• Refresh Noise Management Plan	FY 2024*
	PFAS Management	• Global consent obtained	FY 2025
		• Ongoing management and compliance with global consent	Ongoing
CUSTOMER	Terminal Development Plan	• Detailed design complete	FY2024*
		• Stage 1 (Western end) construction complete	FY 2025
		• Stage 2 (Eastern end) construction complete	FY 2026
	Customer Loyalty	• TDP communication strategy complete	FY2024*
		• TDP customer service operations plan implemented	FY2024*
		• Net Promotor Score as close as reasonably practical to tourism industry benchmark of 45	FY 2025
		• Branding refresh	FY 2025
	Carpark upgrades products and systems	• Licence Plate Recognition implemented in all carparks	FY 2024*
		• Covered walkway – Longstay to General carpark	FY 2025
		• Covered walkway – Oversize carpark	FY 2026
		• Pickup/Dropoff shelters – Stage 2 Southern zone	FY 2027

	Strategic project	Measure	Completion
COMMUNITY	Sustainability	· Airport Carbon Accreditation Level 4 maintained	FY 2025
		· Additional Scope 1 & 2 carbon reduction initiatives implemented	FY 2025
		· Tenant stakeholder engagement plan established (Scope 3 emissions focus)	FY 2025
	Community Engagement	Community Engagement Plan implemented	FY 2024*
	Sponsorship Strategy	· Strategy refreshed	FY 2024*
		· Strategy implemented	FY 2025
CULTURE	Continual improvement of aerodrome safety culture	· Zero lost time injuries	Ongoing
		· Improved aerodrome safety culture scores	Ongoing
		· SMS Maturity level assessed as "Effective" (currently "Operating")	FY 2026
	Whanau Kotahi / One Team Wellness Plan	· Wellness Plan updated annually and implemented	Ongoing
		· Team engagement scores in line with or exceeding external benchmarks	Ongoing
	Payroll/ HRIS system	· Implementation of a new HRIS / payroll system	FY 2025
COMMERCIAL	Airport Drive	Vest to PNCC	FY 2024*
	Ruapehu Aeropark – strategic partnership(s)	Strategic partner(s) identified and commercial terms agreed	FY 2025
	Ruapehu Aeropark - property development strategy	Completion of property development strategy, including Ruapehu Aeropark Extension	FY 2024*
	Ruapehu Aeropark – commercial developments	· Zone D warehouses – 50% preleased	FY 2024*
		· Zone D warehouses construction complete	FY 2025
		· H1 hangar upgrade	FY 2025
	Passenger movements	· 562,300	FY 2025
		· 581,500	FY 2026
		· 598,700	FY 2027

** The FY24 Strategic Projects aimed for completion by June 2024 are in progress at the time of writing the SOI and noted as they may provide for continuity in the SOI period.*

PALMERSTON NORTH AIRPORT LIMITED

SOI FINANCIAL STATEMENTS

STATEMENT OF FINANCIAL PERFORMANCE

For the 12 Months to 30 June

	Jul 23 - Jun 24 SOI	Jul 23 - Jun 24 Forecast	Jul 24 - Jun 25 SOI	Jul 25 - Jun 26 SOI	Jul 26 - Jun 27 SOI
Income	**14,188,600**	**15,508,923**	**17,029,390**	**20,090,083**	**21,392,842**
Operating Expenditure	4,326,904	3,881,626	4,152,032	4,292,220	4,510,214
Administration Expenditure	4,000,107	4,210,479	4,832,601	4,697,449	4,888,211
Extraordinary Items*	50,000	62,942	1,063,580	848,380	54,080
Total Operating Expenditure	**8,377,011**	**8,155,047**	**10,048,213**	**9,838,049**	**9,452,505**
EBITDA	**5,811,589**	**7,353,876**	**6,981,177**	**10,252,034**	**11,940,337**
(Gain)/Loss on Sale	-	2,442,825	-	-	-
Depreciation & Amortisation	2,021,713	2,081,338	7,727,731	3,795,158	3,630,915
EBIT	**3,789,876**	**2,829,713**	**(746,554)**	**6,456,876**	**8,309,422**
Interest Expense	1,104,141	560,225	1,582,583	3,439,275	4,054,851
Profit before Income Tax	**2,685,735**	**2,269,488**	**(2,329,137)**	**3,017,601**	**4,254,571**
Income Tax Expense	752,006	635,456	(652,158)	844,928	1,191,280
Net Profit after Tax	**1,933,729**	**1,634,032**	**(1,676,979)**	**2,172,673**	**3,063,291**

** The Extraordinary Items relate to PFAS contamination management and/or demolition costs associated with the existing terminal.*

The impact of revaluations has not been included in the Statement of Financial Performance

STATEMENT OF CHANGES IN EQUITY

For the 12 months to 30 June

	Jul 23 - Jun 24 SOI	Jul 23 - Jun 24 Forecast	Jul 24 - Jun 25 SOI	Jul 25 - Jun 26 SOI	Jul 26 - Jun 27 SOI
Equity at the beginning of the year	**85,920,463**	**84,338,404**	**85,809,033**	**84,132,055**	**85,435,658**
Asset revaluation reserve movement					
Total Comprehensive Income / Loss	1,933,729	1,634,031	(1,676,979)	2,172,672	3,063,292
Dividends declared*	(193,373)	(163,403)	-	(869,069)	(1,225,316)
Equity at the end of the year	**87,660,818**	**85,809,033**	**84,132,055**	**85,435,658**	**87,273,633**

**Declared dividends are paid in the following financial year*

STATEMENT OF FINANCIAL POSITION

As At 30 June

	Jul 23 - Jun 24 SOI	Jul 23 - Jun 24 Forecast	Jul 24 - Jun 25 SOI	Jul 25 - Jun 26 SOI	Jul 26 - Jun 27 SOI
Current Assets					
Bank Accounts	52,539	53,889	46,735	51,447	53,610
Receivables	1,294,197	1,605,490	1,715,905	2,036,724	2,189,115
Prepayments	403,528	549,217	606,004	668,398	702,746
Other Current Assets	207,174	245,828	245,828	245,828	245,828
Total Current Assets	**1,957,438**	**2,454,424**	**2,614,471**	**3,002,396**	**3,191,299**
Non Current Assets					
Tangible Assets					
Land	32,855,065	32,855,065	32,855,065	32,855,065	32,855,065
Buildings	34,956,542	15,629,387	46,893,758	60,666,781	61,053,060
Infrastructural - Land	12,411,485	10,483,328	11,708,328	13,533,324	15,098,322
Infrastructural - Air	39,235,091	39,124,062	39,666,861	41,544,537	45,402,213
Plant & Equipment	3,230,145	3,658,920	4,203,920	4,823,920	4,943,920
Furniture & Fittings	399,278	392,664	432,664	472,660	512,656
Computers	247,532	320,869	410,869	435,865	460,861
Motor Vehicles	1,462,782	1,560,876	1,560,876	1,560,876	1,560,876
Investment Property	14,900,000	15,400,000	15,400,000	15,400,000	15,400,000
Accumulated Depreciation	(10,863,329)	(10,953,165)	(13,913,858)	(14,427,656)	(18,058,571)
Total Tangible Assets	**128,834,591**	**108,472,006**	**139,218,483**	**156,865,372**	**159,228,402**
Intangible Assets	7,336	6,965	2,085	-	-
Total Non Current Assets	**128,841,927**	**108,478,971**	**139,220,568**	**156,865,372**	**159,228,402**
TOTAL ASSETS	**130,799,365**	**110,933,395**	**141,835,039**	**159,867,769**	**162,419,701**
Current Liabilities					
Payables	2,821,061	779,064	4,693,652	3,651,654	2,506,365
GST/VAT	(217,860)	42,297	(395,526)	(104,038)	111,482
Income Tax	524,728	(12,059)	(1,684,217)	(2,039,289)	(2,038,009)
Loans Payable - Current	-	-	-	-	-
Provisions	600,191	660,574	660,574	660,574	660,574
Other Current Liabilities	135,034	223,668	223,668	223,668	223,668
Total Current Liabilities	**3,863,155**	**1,693,544**	**3,498,150**	**2,392,569**	**1,464,079**
Non Current Liabilities					
Loans Payable - Non Current	29,334,086	14,180,212	44,954,227	62,788,935	64,431,382
Other Non Current Liabilities	9,941,306	9,250,607	9,250,607	9,250,607	9,250,607
Total Non Current Liabilities	**39,275,392**	**23,430,819**	**54,204,834**	**72,039,542**	**73,681,989**
TOTAL LIABILITIES	**43,138,548**	**25,124,363**	**57,702,984**	**74,432,110**	**75,146,068**
NET ASSETS	**87,660,818**	**85,809,033**	**84,132,055**	**85,435,658**	**87,273,633**
Capital and Reserves					
Share Capital	9,380,400	9,380,400	9,380,400	9,380,400	9,380,400
Reserves	49,634,711	47,913,623	47,913,623	47,913,623	47,913,623
Retained Earnings	28,645,707	28,515,010	26,838,032	28,141,635	29,979,610
Total Capital and Reserves	**87,660,818**	**85,809,033**	**84,132,055**	**85,435,658**	**87,273,633**
TOTAL EQUITY	**87,660,818**	**85,809,033**	**84,132,055**	**85,435,658**	**87,273,633**

The impact of revaluations has not been included in the Statement of Financial Position

STATEMENT OF CASH FLOWS

For the 12 Months to 30 June

	Jul 23 - Jun 24 SOI	Jul 23 - Jun 24 Forecast	Jul 24 - Jun 25 SOI	Jul 25 - Jun 26 SOI	Jul 26 - Jun 27 SOI
Cash Flows From Operating Activities					
Cash was provided from:					
Receipts from Customers	15,932,788	17,516,232	19,473,384	22,782,776	24,449,377
Interest Received	-	-	-	-	-
Income Tax Refund	-	-	-	-	-
Operating Cash Inflows	**15,932,788**	**17,516,232**	**19,473,384**	**22,782,776**	**24,449,377**
Cash was disbursed to:					
Payment to Suppliers and Employees	7,240,789	11,281,707	6,566,705	9,373,625	11,526,844
Tax Loss Payment to PNCC	-	-	-	-	-
Payment of Income Tax	608,723	1,019,021	1,020,000	1,200,000	1,190,000
Interest Payments	1,104,141	560,225	1,582,583	3,439,275	4,054,851
Operating Cash Outflows	**8,953,653**	**12,860,953**	**9,169,288**	**14,012,900**	**16,771,695**
Net Cash Flows from Operating Activities	**6,979,135**	**4,655,279**	**10,304,096**	**8,769,876**	**7,677,682**
Cash Flows From Investing Activities					
Cash was provided from:					
Sale of Property, Plant and Equipment	-	-	-	-	-
Investing Cash Inflows	**-**	**-**	**-**	**-**	**-**
Cash was applied to:					
Acquisitions of Property, Plant and Equipment	24,591,694	8,255,657	40,921,862	26,599,872	8,448,897
Acquisitions of Investment Property	-	-	-	-	-
Investing Cash Outflows	**24,591,694**	**8,255,657**	**40,921,862**	**26,599,872**	**8,448,897**
Net Cash Flow from Investing Activities	**(24,591,694)**	**(8,255,657)**	**(40,921,862)**	**(26,599,872)**	**(8,448,897)**
Cash Flow From Financing Activities					
Cash was provided from:					
Borrowings	18,070,520	11,195,216	31,267,103	18,367,318	5,045,234
Financing Cash Inflows	**18,070,520**	**11,195,216**	**31,267,103**	**18,367,318**	**5,045,234**
Cash was applied to:					
Repayment of Borrowings	463,471	7,604,328	493,088	532,610	3,402,787
Payment of Dividends	-	-	163,403	-	869,069
Financing Cash Outflows	**463,471**	**7,604,328**	**656,491**	**532,610**	**4,271,856**
Net Cash from Financing Activities	**17,607,049**	**3,590,888**	**30,610,612**	**17,834,708**	**773,378**
Net Increase/ (Decrease) in Cash, Cash Equivalents and Bank Overdrafts	**(5,510)**	**(9,490)**	**(7,154)**	**4,712**	**2,163**
Cash, Cash Equivalents and Bank Overdrafts at the Beginning of the Year	**58,049**	**63,379**	**53,889**	**46,735**	**51,447**
Cash, Cash Equivalents and Bank Overdrafts Year End	**52,539**	**53,889**	**46,735**	**51,447**	**53,610**

CAPITAL EXPENDITURE PROGRAMME

For the 12 months to 30 June

	Jul 23 - Jun 24 SOI	*Jul 23 - Jun 24 Forecast*	*Jul 24 - Jun 25 SOI*	*Jul 25 - Jun 26 SOI*	*Jul 26 - Jun 27 SOI*
Capital Expenditure Programme					
Land	-	-	-	-	-
Buildings	500,000	905,000	15,000	-	-
Terminal Development	14,250,000	2,479,745	20,610,527	17,052,297	386,279
Infrastructure - Landside	1,280,000	1,127,770	905,000	1,775,000	975,000
Infrastructure - Airside	1,500,000	1,385,000	542,800	1,877,680	3,857,680
Plant & Equipment	180,000	200,000	525,000	600,000	100,000
Furniture and Fittings	40,000	40,000	40,000	40,000	40,000
Computers	25,000	52,803	90,000	25,000	25,000
Fire Appliances	20,000	23,197	20,000	20,000	20,000
Ruapehu Aero Park and Airport Dr development	4,729,496	986,491	15,721,000	50,000	590,000
Intangibles	-	-	-	-	-
Total Capital Expenditure	**22,524,496**	**7,200,005**	**38,469,327**	**21,439,977**	**5,993,959**

DIVIDEND POLICY

The achievement of the strategic objectives outlined in this Statement of Intent will ensure PNAL is well placed in the medium to long-term to generate enhanced financial returns and to maximise value to our Shareholder through a balance between regional economic and social outcomes, reinvestment and dividend distributions.

In total $65.9m of capital expenditure is projected to be undertaken over the three-year SOI period. The level of investment is unprecedented in PNAL's history with the TDP alone anticipated to cost $40m and together with Ruapehu Aeropark developments, is set to ensure a sustainable and well diversified business into the future. Debt will peak at $64.4 million by FY27.

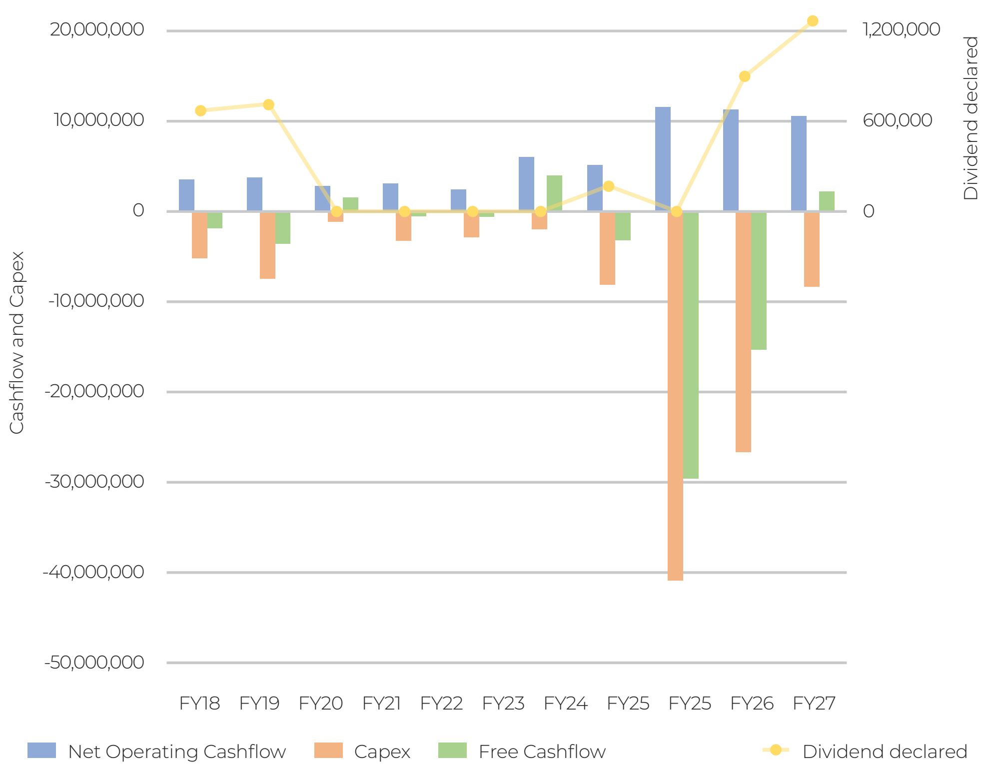
As outlined elsewhere in this SOI, PNAL is actively seeking to share the cost of the investment in Ruapehu Aeropark with like-minded partners, however given the debt level being managed a prudent focus on cashflow management remains as critical as it did during the Covid-19 pandemic and rebound period.

Notwithstanding the Company's dividend policy, which was refreshed in 2023 (discussed further below), and the financial outlook described in this SOI, PNAL will return to paying dividends in accordance with the Shareholder's expectations as follows: 20% of NPAT for FY25 (payable in FY26); 40% of NPAT for FY26 and FY27, and 10% of NPAT for FY24 (current year).

It is important to note that any dividend payable based on NPAT will be calculated on NPAT excluding fair value gains and one-off capital gains (e.g. land sales).

As illustrated below, 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 required to be funded from additional debt.

Operating Cashflow vs Free Cashflow



**Excludes tax adjusted interest*

For completeness of this explanation PNAL's refreshed dividend policy provided Directors with the opportunity to assess a range of criteria before arriving at an appropriate dividend, including actual and projected performance. In establishing a dividend recommendation, the Directors will consider the following:

1. The scale of the company's capital expenditure plans including shareholder expectations,
2. The company's financial performance including cashflows from operations,
3. The Company's ability to raise debt finance and the terms thereof,
4. Compliance with performance metric targets,
5. The risks associated with airline schedule uncertainty in the short to medium term.

GOVERNANCE

Governance Objectives

The Board's approach to governance of PNAL is to preserve and enhance shareholder value. The Board is committed to ensuring a high level of governance of company processes and policies, including health and safety and encouraging ethical and responsible decision making to ensure Management effectively achieve the Company's goals.

Due to the everchanging commercial environment of the aviation and airport industry, the Board is committed to ensuring regular reviews of all aspects of the business and the implementation of best practice.

Regulatory Framework and Statement of Intent

The Board is responsible for the proper direction and control of PNAL's activities and is accountable to the shareholder within the strategic framework set out in this Statement of Intent, PNAL's Constitution, and the provisions of the Local Government Act 2002 (LGA), and the Companies Act 1993.

Shareholder Statement of Expectation

The Board is also responsible for ensuring it meets the requirements of the shareholder's Statement of Expectations dated 7 December 2023 for the three-year period of the Statement of Intent, with particular reference to Schedule 8, Part 2 LGA, Section 64B (1) and 64B (2). Importantly the Board will ensure alignment of the Company's objectives with the Shareholder's vision, goals and key strategies and the District Plan.

Board Composition and Fees

The Board is comprised of five Directors appointed by the Shareholder in accordance with PNAL's Constitution. Director appointments are for a period of three years with retiring directors able to be reappointed by the Shareholder.

The Board normally meets eleven times per year with intervening meetings in person or by other means as required. To enhance efficiency, the Board may formally document and delegate some of its powers and authorities to the Chief Executive or other senior executives.

PNAL has an Audit & Risk Committee (ARC) comprised of three directors of the PNAL Board. The Committee has a board-approved Charter, outlining its membership, authority, primary and secondary roles and reporting procedures.

The ARC meets three to four times each year and is responsible for overseeing the financial accounting, financial statements and audit activities of PNAL. This includes the adequacy and effectiveness of internal controls, external auditor performance, insurances, risk management and financial and accounting policies.

PNAL also established a Terminal and Property Development Committee (TPDC), comprised of three directors of the PNAL Board, in September 2022. The Committee has a board-approved Terms of Reference, outlining its membership, authority and purpose.

The TPDC meets bi-monthly (or more frequently where required) and acts as a steering group to PNAL's Board, reviews feasibility studies and business cases, and provides oversight of PNAL's vertical and horizontal property development in Ruapehu Aeropark, as well as the redevelopment of the terminal. This Committee was set up to provide adequate governance over PNAL's increasing capital expenditure and increasing complexity of commercial development and the terminal.

As requested by the shareholder, a PNCC Officer has been appointed as an independent observer on the TPDC, who attends discussions relating to terminal redevelopment project.

The total remuneration for the Directors is set annually by a resolution of shareholders in accordance with the Company's constitution. The Council's policy is that the total remuneration will be increased annually by the movement in the CPI for the year to 30 June and that there will be a market test of the sum at least once every three years.

SHAREHOLDERS EQUITY IN PNAL

PNAL's land, building, and airside infrastructure assets are revalued on a three yearly cycle, unless warranted earlier. PNAL's land and airside infrastructure were last revalued at 30 June 2022. PNAL's buildings were last revalued at 30 June 2023. Fair value assessments and/or revaluations will be conducted annually at year-end.

PNAL's investment property is revalued annually, in line with accounting standards.

Shareholder equity as shown in the Statement of Financial Position as at 30 June 2023 is $83.34m. The Directors consider that this represents a reasonable estimate of the commercial value of PNAL.

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).

Any declared dividend will be considered in respect of PNAL's dividend policy (included in this SOI) and will be calculated exclusive of fair value gains and one-off capital gains (e.g. land sales).

INFORMATION TO BE PROVIDED TO THE SHAREHOLDER

The Shareholder will receive:

- An Annual Report including audited financial statements within three months of balance date.
- A summary of PNAL's achievements of the Key Objectives and its performance against the metric targets as outlined in this SOI.
- An Interim Report including non-audited financial statements within two months of the end of the first half of the financial year.
- A Statement of Intent submitted for shareholder consideration in accordance with the Local Government Act 2002.
- Other interim reports as agreed with the Shareholder.

Timeframes for the Interim and Annual Reports are legislative maxima. However, PNAL will meet the reporting and governance requirements of the Shareholder.

ACCOUNTING POLICIES

The accounting policies adopted by PNAL are consistent with New Zealand's Financial Reporting Standards, with PNAL designated as a Public Benefit Entity (PBE) for financial reporting purposes. The policies are included in PNAL's Annual Report which is available on PNAL's website: www.pnairport.co.nz/corporate/corporate-profile.

FORECAST FINANCIAL STATEMENTS

The financial information contained in the SOI is a forecast for the purposes of the PBE financial reporting standard (FRS) 42. This information may not be appropriate for purposes other than those described. It has been prepared on the basis of assumptions as to future events that PNAL reasonably expects to occur, associated with the actions it reasonably expects to take, as at the date the forecast was prepared. The actual results are likely to vary from the information presented and may vary materially depending on the circumstances that arise during the period.

COMPENSATION SOUGHT FROM THE SHAREHOLDER

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

At the request of the shareholder, PNAL 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.

PNAL anticipates significant future capital investment within this SOI period and will be required to materially increase its debt levels in order to fund this investment. Refer to the separate debt funding section within this SOI for further details.

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TRANSFORMATION

FLY PALMY

MORE THAN A FLIGHT