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CHAIRMAN & CHIEF EXECUTIVE

It is pleasing to report a successful year in relation to the key performance measures that are incorporated in the company's Statement of Intent with the shareholders. Each of the targets associated with the key performance measures was exceeded, and the final results have exceeded the forecasts indicated in the Interim report to shareholders.

The surplus before depreciation and amortisation, net before interest and tax (EBITDA), of \$2,018,258 restores earnings to the level that existed two years ago. EBITDA increased by 22.5% over last year. The net after tax result of \$693,126 is a record in the company's 13-year history, and was boosted by a one-off deferred tax adjustment of \$144,986.

This net after-tax surplus represents a return of 9.2% on shareholders funds.

Revenue growth has been achieved in all sectors of the company's business, with the greatest growth coming from non-aeronautical revenue.

An independent customer satisfaction survey was carried out during the year by Cinta Research. Satisfaction with Palmerston North International Airport was ranked at either "quite satisfied" or "very satisfied" by 98% of customers and compares with 82% the previous year.

Detailed design work has commenced for upgrading Airport Drive. This entrance way to the city, together with a better standard of direction signage is a priority for improving Palmerston North's role as a gateway for New Zealand Central. The company is appealing to roading authorities to undertake a major upgrade of signage to clearly mark the preferred roading routes to and from the airport from the regions to the north, east, south and west of the city. New directional signage has already been established on the airport.

Aviation Activity

A recovery in domestic passenger movements contributing to a 14.1% growth in total passenger numbers has been a key feature of the year ending 31 March 2003.

The introduction of Air New Zealand's 'Express Class' service on domestic routes from November 2002 has without doubt contributed to the growth in domestic passenger numbers. This simplified offering, coupled with increases in both Air New Zealand and Origin Pacific Airways scheduled capacity, has seen fresh growth in domestic travel.

The withdrawal of Freedom Air from the domestic network has also contributed to regional domestic growth through Palmerston North.

International passenger numbers grew only 0.7% during the year. This relatively slow growth by comparison with recent years is largely attributed to the loss of the direct Gold Coast services in October 2002.



GARRY GOODMAN & DEREK WALKER
Chief Executive Officer Chairman (on right)

Surplus of \$693,126 is record for company

98% satisfied customers

New entrance road a 'priority'

Domestic passenger growth of 18% a 'highlight'

Small international passenger growth

The overall aviation and tourism environment is still subject to a number of challenges. The perceptions of risk from Severe Acute Respiratory Syndrome (SARS) poses one of the greatest immediate challenges to the travel industry. Palmerston North International Airport is committed to active participation in whatever processes are necessary to keep trans-Tasman travel safe and attractive.

The introduction of Freedom Air Services to Wellington and other metropolitan airports during the year has been relatively neutral in its effect on Palmerston North as the otherwise competing Air New Zealand services to Queensland were simultaneously withdrawn.

Palmerston North International Airport demonstrated its value as an 'alternate' airport on several occasions. The airport was used for the first time by an international Boeing 767 aircraft during one such period.

First Boeing 767 lands

Compliance

Palmerston North International Airport has been operated throughout the year in compliance with its Civil Aviation operating certificate. The quality index indicators provided by the Civil Aviation Authority in the course of their independent safety and security audits are at a high level and reflect the safety-conscious environment of the airport.

Audits confirm 'high' safety compliance

Changes in international standards for 'runway end safety areas' are anticipated to be introduced into New Zealand civil aviation rules. The company is planning to implement these standards so far as possible without compromising the existing operational capacity of Palmerston North International Airport.

A contract with Task Protection Services for crash fire/rescue services at the airport has been renewed through to December 2005.

All assets have been maintained to an appropriate standard, including repainting and repairing joints on the exterior of the original terminal building.

Assets maintained

Commercial Environment

The Board strongly holds the view that all border services associated with international flights should be available on a fair and equitable basis in comparison with the metropolitan airports of Auckland, Wellington and Christchurch. To accept less is to accept discrimination against the regional economies of New Zealand.

Consistent with this philosophy, the company has joined with Waikato Regional Airport Ltd and Freedom Air to appeal to the Privy Council against a decision of the Court of Appeal with respect to the recovery of costs for biosecurity costs charged by the Ministry of Agriculture and Forestry (MAF). The case was heard by the Privy Council on 29 and 30 April 2003 and a decision is awaited at this time.

Appeal to Privy Council on MAF border costs heard

During the course of the year agreement was reached with MAF to meet all payments levied pending the hearing by the Privy Council. As a consequence, funds are no longer held in escrow.

The company continues to plan for a major multi-mode transport freight hub based on Palmerston North. The Two major freight handling facilities were completed during the year, including new access roading.

Freight Gate progressing incrementally

A strategic business plan looking forward up to 20 years has been developed during the year in association with Airplan consultants.

Strategic business plan guides future growth

The Statement of Intent for the coming year has been prepared on the basis of the preferred high-level business case for aeronautical development from the strategic business plan. A more detailed case will be presented to shareholders during the year incorporating extension of the main runway to 2,100m and investment in updated facilities.

The company has commenced a review of aeronautical pricing. Following completion of the statutory consultation process, it is intended that revised charges will become operative from 1 July 2003.

Airfield pricing review commenced

The company has established a Customer Service Desk at the terminal building for a full Australian currency exchange service and the sale of international departure receipts.

A simpler system of carparking charges was introduced in September 2002.

Corporate

It is a pleasure to confirm that Rodney Wong has been able to accept reappointment as a director. It is opportune to again thank Mr Wong for his contribution as chairman of the company prior to the annual general meeting in July 2002.

While excellent results have been achieved, the year has still presented challenges. The work of the Board in ensuring that prudent planning is taking place to secure long-term shareholder wealth in the company is acknowledged, and appreciation is extended to the management and staff for their contributions to a successful year.

A dividend of 5.4 cents per dollar of paid-up capital (exclusive of any premium on issue) will be distributed in respect of the 2002/03 financial year.

5.4 cents dividend



DEREK WALKER
Chairman



GARRY GOODMAN
Chief Executive Officer



ANNUAL REPORT For the year ended 31 March 2003

The Directors have pleasure in presenting to shareholders the Annual Report and audited financial statements of Palmerston North Airport Limited for the year ended 31 March 2003.

PRINCIPAL ACTIVITIES

The principal activities of the Company during the year were :

"To provide airport facilities and services to airlines and airport users (both commercial and non-commercial) through the ownership and operation of Palmerston North International Airport."

OWNERSHIP

Palmerston North Airport Limited is a Public Limited Liability Company incorporated and registered under the Companies Act 1993 and is 86.5% owned by the Palmerston North City Council and 13.5% by Central Avion Holdings Limited.

RESULTS FOR THE YEAR ENDING 31 MARCH 2003

The operating surplus (before taxation) was \$822,975 compared to \$481,106 for the year to 31 March 2002. The net operating surplus after taxation was \$693,126 compared to \$315,760 for the year to 31 March 2002.

COMPANY'S AFFAIRS

The Directors regard the state of the Company's affairs to be satisfactory. Details of the year under review are included in the Chairman's and Chief Executive Officer's Reports and the Statutory accounts of the Company published herewith.

DIRECTORS

In accordance with the Constitution, Mr D. Walker and Mr. O. Stock will retire by rotation. Both Mr D. Walker and Mr. O. Stock being eligible, will be available for re-election.

It was reported at 31 March 2002 that Mr R Wong was not available for re-election. At the request of the shareholder and in accordance with the Constitution, Mr R Wong has continued to serve on the Board

Directors remuneration

The amount of \$53,000 was paid, or due and payable, in the financial year to members of the Board as authorised by the shareholders as follows:-

	GROSS AMOUNT 2003
M. C. Cole	\$9,385.00
G. N. Cruden	\$9,385.00
O. B. Stock	\$9,385.00
D. N. Walker	\$13,679.10
R. J. Wong	\$11,165.90
	\$53,000.00

No other remuneration or benefits other than normal reimbursement of expenses has been paid or given to Directors.

Directors Indemnity and Insurance

The Company is responsible for the payment of the directors' indemnity insurance.

ENTRIES IN THE INTERESTS REGISTER

Directors Interests

As at 31 March 2003, the Directors have declared general disclosures of interest in the following entities:

Interest	Nature of Interest	Relationship to Palmerston North Airport Limited
Mr M C Cole		
	Director - <i>Paraparaumu Airport Limited</i>	–
	Director - <i>Kapiti Avion Holdings Limited</i>	–
	Director - <i>Central Avion Holdings Limited</i>	Shareholder
	Director - <i>Aerodrome Management Services Limited</i>	–
	Director - <i>Onboard Kapiti Limited</i>	–
	Director - <i>Rapid Delivery Limited</i>	–
	Director - <i>Lindale International Resorts Limited</i>	–
	Shareholder - <i>TranzRail</i>	–
Dr G N Cruden		
	Councillor - <i>Palmerston North City Council</i>	Shareholder & Supplier
	Director & Shareholder - <i>High View Holdings Limited</i>	–
Mr O B Stock		
	Director & Shareholder - <i>Ormond Stock Associates Limited</i>	Customer
	Director - <i>Whanganui District Health Board</i>	–
	Director & Shareholder - <i>Steel Pencil Limited</i>	–
Mr D N Walker		
	Director & Shareholder - <i>Elmira Consulting Limited</i>	–
	Trustee - <i>Palmerston North Theatre Trust (Centrepont Theatre)</i>	–
	Trustee - <i>Manawatu Life Education Trust</i>	–
	Director - <i>Palmerston North City Council Holdings Limited</i>	–
	Director - <i>Third Bearing Limited</i>	–
	Director - <i>TBL Developments Limited</i>	–
	Director - <i>TBL Investments Limited</i>	–
Mr R J Wong		
	Director & Shareholder - <i>Stargate Investments Limited</i>	–
	Shareholder - <i>Auckland International Airport Limited</i>	–
	Shareholder - <i>Air New Zealand Customer</i>	–
	Shareholder - <i>Ports of Tauranga</i>	–

Details of transactions made during the year are given in note 16 of Notes to the Financial Statements.

Use of company information by directors

There were no notices from Directors of the Company requesting to use company information received in their capacity as Directors which would not otherwise have been available to them.

Shareholding by directors

During the year there were no shareholding transactions involving the directors.

Remuneration of employees

The number of employees, who are not directors, whose total remuneration and benefits exceeded \$100,000 in the financial year were:

\$110,001 - \$120,000

1

AUDITORS

As provided for by Section 70 of the Local Government Act 2002, Audit New Zealand, on behalf of the Auditor General, is hereby re-appointed as Auditor to the Company.

Auditors remuneration of \$11,340 (GST inclusive) has been paid relating to the 2002 annual audit.

Auditors remuneration of \$16,875 (GST inclusive) for the 2003 annual audit is reflected in the financial statements as due and payable.

For and on behalf of the Board of Directors

DEREK N WALKER
Chairman

RODNEY J WONG
Director





REPORT OF THE AUDITOR - GENERAL

TO THE READERS OF THE FINANCIAL STATEMENTS OF PALMERSTON NORTH AIRPORT LIMITED AND GROUP FOR THE YEAR ENDED 31 MARCH 2003

We have audited the financial statements and performance information on pages 10 to 24. The financial statements provide information about the past financial performance of Palmerston North Airport Limited and group and its financial position as at 31 March 2003. The performance information specifies the performance targets and other measures by which the performance of Palmerston North Airport Limited and group can be judged in relation to its objectives. This information is stated in accordance with the accounting policies set out on pages 15 to 18.

Responsibilities of the Board of Directors

The Local Government Act 1974 and the Financial Reporting Act 1993 require the Board of Directors (the Board) to prepare financial statements in accordance with generally accepted accounting practice in New Zealand that give a true and fair view of the financial position of Palmerston North Airport Limited and group as at 31 March 2003 and the results of its operations and cash flows for the year ended on that date. The Local Government Act 1974 also requires the Board to report the performance targets and other measures by which the performance of Palmerston North Airport Limited and group can be judged in relation to its objectives.

Auditor's responsibilities

Section 15 of the Public Audit Act 2001 and Section 594ZC of the Local Government Act 1974 require the Auditor-General to audit the financial statements and the performance information presented by the Board. It is the responsibility of the Auditor-General to express an independent opinion on the financial statements and the performance information and report that opinion to you.

The Auditor-General has appointed L H Desborough, of Audit New Zealand, to undertake the audit.

Basis of opinion

An audit includes examining, on a test basis, evidence relevant to the amounts and disclosures in the financial statements and performance information. It also includes assessing:

- the significant estimates and judgements made by the Board in the preparation of the financial statements and performance information; and
- whether the accounting policies are appropriate to Palmerston North Airport Limited and group's circumstances, consistently applied and adequately disclosed.

We conducted our audit in accordance with the Auditing Standards published by the Auditor - General, which incorporate the Auditing Standards issued by the Institute of Chartered Accountants of New Zealand. We planned and performed

our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatements, whether caused by fraud or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements.

Other than in our capacity as auditor acting on behalf of the Auditor-General, we have no relationship with or interests in Palmerston North Airport Limited or any of its subsidiaries.

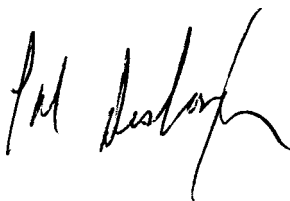
Unqualified opinion

We have obtained all the information and explanations we have required.

In our opinion:

- proper accounting records have been kept by Palmerston North Airport Limited and group as far as appears from our examination of those records;
- the financial statements of Palmerston North Airport Limited and group on pages 11 to 24:
 - comply with generally accepted accounting practice in New Zealand; and
 - give a true and fair view of:
 - Palmerston North Airport Limited and group's financial position as at 31 March 2003; and
 - the results of its operations and cash flows for the year ended on that date; and
- the performance information of Palmerston North Airport Limited and group on page 10 gives a true and fair view of the achievements in relation to the performance targets and other measures adopted for the year ended 31 March 2003.

Our audit was completed on 27 June 2003 and our unqualified opinion is expressed as at that date.



L H Desborough
Audit New Zealand
On behalf of the Auditor-General
Palmerston North, New Zealand

SERVICE PERFORMANCE

- The Company's Statement of Corporate Intent is dated 13 June 2002.
- The Company has an interest in FreightGate Limited, a wholly owned subsidiary company which has been formed and may be used for the management of non-operational property.
- The ratio of consolidated shareholders funds to total assets has been maintained at 40%.
- Palmerston North Airport Limited has been maintained as an international airport certificated pursuant to Civil Aviation Rule Part 139 and has achieved satisfactory audits during the review period.
- All obligations under the Resource Management Act and the District Plans of the Palmerston North City and Manawatu District Councils have been met.

COMPANY OBJECTIVE

“To be a leading New Zealand and International transport hub”

PERFORMANCE MEASURES

	TARGET	ACTUAL
Net Surplus (before interest, tax & revaluations) to Total Assets	8.0%	9.8%
Net Surplus (after interest, tax & revaluations) to Total Assets	2.0%	4.1%
Net Surplus (before interest, tax & revaluations) to Consolidated Shareholders Funds	18.0%	20.4%
Net Surplus (after interest, tax & revaluations) to Consolidated Shareholders Funds	4.0%	9.2%
Interest rate ratio to Net Surplus (before interest, tax and depreciation)	>1.5	2.8
Number of passengers served through the Airport terminal	380,000 <i>per annum</i>	422,494 <i>per annum</i>
Maintain a high level of customer satisfaction	Customer survey completed Overall results: 98% of respondents either quite or very satisfied.	



STATEMENT OF

FINANCIAL PERFORMANCE Parent & Consolidated

For the year ended 31 March 2003

	Note	2003 Actual \$	2002 Actual \$
REVENUE	4	4,317,363	3,882,886
OPERATING EXPENSES			
Operations and Maintenance:			
Border Control and Airfield Services		963,049	949,593
Other Operating Expenses		588,258	500,099
TOTAL OPERATIONS AND MAINTENANCE		1,551,307	1,449,692
ADMINISTRATION			
Audit Fees		15,000	10,000
Loss on Sale of Assets		3,949	69,378
Bad Debts Written Off		810	16,495
Changes in doubtful debt provision		949	-205
Directors' Fees		53,000	53,000
Amortisation of intangible asset		310	181
General Administration		673,780	637,064
TOTAL ADMINISTRATION:		747,798	785,993
TOTAL OPERATING EXPENSES		2,299,105	2,235,685
Operating Surplus before interest, depreciation & taxation		2,018,258	1,647,201
Finance Costs & Depreciation:			
Term Loan Interest		716,714	717,614
Depreciation	8	478,569	448,481
TOTAL FINANCE COSTS & DEPRECIATION		1,195,283	1,166,095
Operating Surplus before taxation		822,975	481,106
Taxation Expense on operating surplus	5	129,849	165,346
NET SURPLUS AFTER TAXATION		693,126	315,760

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

MOVEMENTS IN EQUITY Parent & Consolidated

For the year ended 31 March 2003

	2003 Actual \$	2002 Actual \$
EQUITY AT THE BEGINNING OF THE YEAR	6,967,434	6,854,157
Net surplus for the year	693,126	315,760
Total recognised revenues and expenses for the year	693,126	315,760
Distribution to shareholders during the year	122,334	202,483
Total distributions / contributions for the year	122,334	202,483
EQUITY AT THE END OF THE YEAR	7,538,226	6,967,434

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



STATEMENT OF

FINANCIAL POSITION Parent & Consolidated

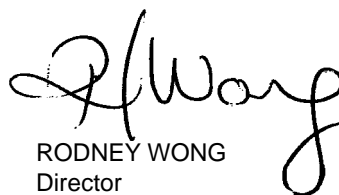
As at 31 March 2003

	Note	2003 Actual \$	2002 Actual \$
CURRENT ASSETS			
Bank balance and deposits	10	818,983	998,346
Trade accounts receivable		344,569	326,383
Inventory	11	2,686	6,435
Sundry receivables and prepayments		21,118	22,402
Provision for taxation		29,398	141,453
TOTAL CURRENT ASSETS		1,216,754	1,495,019
Less: CURRENT LIABILITIES			
Income in advance		36,938	27,907
Trade accounts payable		275,330	54,301
Other creditors		203,758	685,783
Employee entitlements	18	19,083	11,159
Repayment of Term Loan	9	300,000	300,000
TOTAL CURRENT LIABILITIES		835,108	1,079,150
WORKING CAPITAL		381,646	415,869
Add: NON CURRENT ASSETS			
Fixed assets	7	15,798,142	15,584,538
Intangibles	12	1,987	2,297
Future tax benefit		-	-
Long Term Advance		2,100	2,200
TOTAL NON CURRENT ASSETS		15,802,229	15,589,035
Less: NON CURRENT LIABILITIES			
Future tax liability	6	145,649	237,470
Term loans	9	8,500,000	8,800,000
TOTAL NON CURRENT LIABILITIES		8,645,649	9,037,470
NET ASSETS		7,538,226	6,967,434
Represented by:			
SHAREHOLDERS' EQUITY			
Paid in Capital	13 (a)	4,218,400	4,218,400
Retained earnings	13 (b)	3,319,826	2,749,034
TOTAL SHAREHOLDERS' EQUITY		7,538,226	6,967,434

For and on behalf of the Board



DEREK WALKER
Chairman
Date
27/6/03



RODNEY WONG
Director
Date
27/6/03

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

CASH FLOWS Parent & Consolidated

For the year ended 31 March 2003

	Note	2003 Actual \$	2002 Actual \$
CASH FLOWS FROM OPERATING ACTIVITIES			
CASH WAS PROVIDED FROM:			
Receipts from Customers		4,272,996	3,883,092
Interest Received		34,238	10,862
		4,307,234	3,893,954
CASH WAS DISBURSED TO:			
Payment to Suppliers		2,680,272	1,999,864
Payment Of Tax		87,078	95,166
Interest Payments		714,810	723,220
		3,482,160	2,818,250
Net cash flows from operating activities	14	825,074	1,075,704
CASH FLOWS FROM INVESTING ACTIVITIES			
CASH WAS PROVIDED FROM:			
Sale of Fixed Assets			3,242
CASH WAS APPLIED TO:			
Purchase Of Fixed Assets		582,514	378,924
Net cash flow from investing activities		-582,514	-375,682
CASH FLOW FROM FINANCING ACTIVITIES			
CASH WAS PROVIDED FROM:			
Draw down of bank loan			450,000
Proceeds from long term advance		411	800
CASH WAS APPLIED TO:			
Loan Repayment		300,000	300,000
Payment Of Dividends		122,334	202,483
Net cash flow from financing activities		-421,923	-51,683
NET MOVEMENT IN CASH		-179,363	648,339
Add Opening Cash Balance		998,346	350,007
CLOSING CASH BALANCE		818,983	998,346
Made up of: Bank Balance and Deposits		818,983	998,346
CLOSING CASH BALANCE		818,983	998,346

ACCOUNTING POLICIES

For the year ended 31 March 2003

1. REPORTING ENTITY

Palmerston North Airport Limited is a 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 during the period to 31 March 2003.

The financial statements of Palmerston North Airport Limited have been prepared in accordance with the requirements of the Airport Authorities Act 1966, the Local Government Act 2002, the Companies Act 1993, and the Financial Reporting Act 1993.

2. MEASUREMENT BASE

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, with the exception of the cash holdings of foreign exchange which is modified by any movement in exchange rates as at 31 March 2003.

3. SPECIFIC ACCOUNTING POLICIES

The following particular accounting policies which materially affect the measurement of financial results and financial position have been applied.

(a) Basis of consolidation

The consolidated financial statements include the parent company and its Subsidiary accounted for using the purchase method. All significant inter- company transactions are eliminated on consolidation. In the Company's financial statements, investments in subsidiaries are recognised at their cost.

(b) Fixed Assets

Fixed assets consist 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



• **Valuation**

All assets (with the exception of hangars) are recorded at historic cost less accumulated depreciation. Hangars 1 & 2 are valued at fair value (22 December 1998) and by applying historical cost principles to the revalued amount.

Cost includes the purchase price of assets acquired from the Palmerston North Airport Joint Venture and subsequent capital expenditure.

• **Land**

Freehold land is valued at cost.

(c) Depreciation

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

The depreciation charge for all items of property, plant and equipment were assessed on 1 April 2002 to better recognise the remaining economic benefits of each asset. The financial effects of reassessment of useful lives has been a net increase in depreciation charges of approximately \$4,448 per annum

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

Land and Land Improvements	99 years
Roading & Carparks	2 - 99 years
Buildings & Building services	8 - 99 years
Runway, Taxiways, Aprons	2 - 99 years
Plant and Equipment	1 - 50 years
Furniture & Fittings	3 - 99 years
Computer Equipment	4 - 5 years
Motor Vehicles	5 years

Capital work in progress is not depreciated. The total cost of capital work is transferred to the fixed assets system on its completion or available use and then depreciated.

Where an asset is sold or disposed of, the gain or loss recognised in the Statement of Financial Performance is calculated as the difference between the net sale price and the carrying amount of the fixed asset as at the date of transaction.



(d) Intangible assets

Intangible assets are recognised at their cost and amortised to the Statement of Financial Performance on a straight line basis over their estimated useful lives.

The useful lives of intangible assets have been estimated as follows:

Trademarks	8 years
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(e) Accounts Receivable

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

(f) Inventories

Inventories are valued at the lower of cost (determined on a first in, first out basis) or net realisable value. The value of inventories have been stated at cost and includes any costs associated in bringing the inventories to their current location and condition.

(g) Cash holdings of Foreign Currency

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 Statement of Financial Performance.

(h) Taxation

The income tax expense charged against the surplus for the year is the estimated liability in respect of that profit and is calculated after allowance for permanent differences.

The company uses the liability method of accounting for deferred taxation and applies this on a comprehensive basis. Future tax benefits attributable to tax losses or timing differences are only recognised when there is a virtual certainty of realisation.

(i) Goods and Services Tax

All items in the financial statements are stated exclusive 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.



(j) Employee Entitlements

Employee entitlements for salaries and wages payable and annual leave as at 31 March 2003 are accrued and recognised as a liability in the Statement of Financial Position. The liability has been based on actual entitlements calculated at current rates of pay.

(k) Financial Instruments

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 Statement of Financial Position and all revenues and expenses in relation to financial instruments are recognised in the Statement of Financial Performance.

With the exception of loans, which are recorded at cost, and those items covered by a separate accounting policy, all financial instruments are shown at their estimated fair value.

(l) Statement of Cash Flows

Cash 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.

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

(m) Changes in Accounting Policies

There have been no changes in the Company's accounting policies from those adopted in the last audited financial statements. The policies have been applied on a basis consistent with other years.



FINANCIAL STATEMENTS

For the year ended 31 March 2003

4. ANALYSIS OF OPERATING REVENUE

	2003 \$	2002 \$
Landing, departure & facility fees	3,116,360	2,874,743
Lease rentals and advertising	939,354	786,728
Other	227,574	210,278
Interest	34,075	11,137
TOTAL REVENUE	4,317,363	3,882,886

5. TAXATION

	2003 \$	2002 \$
Operating Surplus (Deficit) before taxation	822,975	481,106
Tax thereon at 33%	271,581	158,765
plus (less) tax effect of:		
<i>permanent differences/non deductible expenditure</i>	2,637	4,601
<i>prior year under/(over) provision</i>	617	1,980
<i>Deferred Tax adjustment</i>	(144,986)	-
Tax expense for the year	129,849	165,346
Tax expense for the year comprising:		
Current Tax	221,670	17,004
Deferred Tax	(91,821)	148,342
TOTAL TAXATION	129,849	165,346

6. DEFERRED TAXATION

	2003 \$	2002 \$
Deferred taxation 1 April 2002	(237,470)	(89,128)
Movement to/from Statement of Financial Performance	91,821	(148,342)
DEFERRED TAXATION 31 MARCH 2003	(145,649)	(237,470)

7. FIXED ASSETS

	2003 At Cost \$	2003 Accum. Deprn. \$	2003 Book Value \$
Land & Improvements*	2,879,052	(420)	2,878,632
Buildings	8,125,506	(983,331)	7,142,175
Plant & Equipment	1,063,739	(523,090)	540,649
Furniture & Fittings*	333,185	(116,132)	217,052
Computer Equipment	61,375	(35,702)	25,673
Motor Vehicles	9,778	(2,445)	7,333
Infrastructure Assets:*			
<i>Runways, Taxiways, Aprons, Roading & Carparks</i>	7,469,533	(2,482,906)	4,986,628
TOTAL 31 MARCH 2003	19,942,168	(4,144,026)	15,798,142

* The current year cost of land, infrastructure and furniture & fittings includes \$18,684 of capital work in progress as at 31 March 2003.

Fair Value of Land and Buildings

The land, buildings and runways are valued at cost with a net carrying value of \$15,007,435. As per Government Valuations (September 2000), land, buildings and runways are valued at \$16,373,000.

The Directors consider that the carrying value of land and buildings is indicative of their fair value for the purpose of reporting the affairs of the Company but should not be relied upon for the purpose of trading shares. The commercial value of the shareholders' investment is considered to be in excess of the financial reporting, and will be reassessed when there is either market evidence available or the scope of the business substantially alters.

Fixed asset values as at 31 March 2002 were:

	2002 At Cost \$	2002 Accum. Deprn. \$	2002 Book Value \$
Land & Improvements	2,876,357	(420)	2,875,937
Buildings	7,674,139	(807,970)	6,866,169
Plant & Equipment	1,052,544	(469,815)	582,729
Furniture Fittings	297,592	(98,983)	198,609
Computer Equipment	51,600	(26,974)	24,626
Motor Vehicles	9,778	(489)	9,289
Infrastructure Assets: <i>Runways, Taxiways, Aprons, Roading & Carparks</i>	7,289,078	(2,261,899)	5,027,179
TOTAL 31 MARCH 2003	19,251,088	(3,666,550)	15,584,538

8. DEPRECIATION

Depreciation charges have been applied to the following asset categories during the period.

	2003 \$	2002 \$
Buildings	175,790	170,308
Plant & Equipment	53,277	54,409
Furniture & Fittings	17,149	15,369
Computer Equipment	9,390	4,566
Motor Vehicles	1,956	489
Infrastructure	221,007	203,340
TOTAL DEPRECIATION CHARGES	478,569	448,481

9. TERM LOANS

	2003 \$	2002 \$
Term loan	\$8,500,000	\$8,800,000
Current portion of term loan	\$300,000	\$300,000
TOTAL	\$8,800,000	\$9,100,000

Interest rates on term loans

6.95% - 8.58%

6.20% - 8.58%

The \$8.8 million term loan from Bank of New Zealand is secured by a registered first debenture and mortgage over assets and property of the Company. This term loan facility is approved up to \$8.8 million and is to be reviewed on 30 September 2003.

An amount of \$650,000 of the term loan is due for repayment on 6 June 2003 under a Customised Fixed Rate loan. To manage interest rate risk on term borrowings, the Company has arranged to refinance and carry this amount to future periods at a pre-booked rate as at 5 April 2003. There is a further \$250,000 due for repayment on 11 June 2003 under a committed cash advance arrangement. It is the Company's intention to roll this facility for a further term upon maturity.

10. BANK BALANCE & DEPOSITS

	2003	2002
	\$	\$
BNZ Current Account	135,639	(32,753)
Cash on Hand	1,800	1,800
Foreign currency on hand	7,865	8,833
Short Term Deposits	673,679	500,557
Deposits held in escrow	–	519,909
TOTAL ON HAND	818,983	998,346

The interest rate and currency risks on these balances are detailed in note 20.

Foreign Currency:

Foreign currency on hand relates to \$7,140 Australian Dollars valued at a closing rate of .9078 (there was \$7,200 Australian Dollars valued at a closing rate of 0.8151 as at 31 March 2002).

Net exchange differences of \$48 were recognised during the year ended 31 March 2003 (there were net exchange differences of \$51 during the year 31 March 2002).

11. INVENTORY

	2003	2002
	\$	\$
International and Domestic departure receipts	2,120	6,435
Other	566	–
TOTAL INVENTORY ON HAND	2,686	6,435

12. INTANGIBLES

	2003	2002
	\$	\$
Trademark as at 1 April 2002	2,297	2,477
Less accumulated amortisation	(310)	(180)
TOTAL INTANGIBLES AS AT 31 MARCH 2003	1,987	2,297



13. EQUITY

a) Share Capital	2003	2002
	\$	\$
Balance as at 31 March 2003 (9,195,000 Ordinary Shares)	4,218,400	4,218,400
Represented By:		
3,395,000 Fully Paid up shares	3,395,000	3,395,000
Share Premium on issue	185,400	185,400
5,800,000 Partly Paid shares	638,000	638,000
	4,218,400	4,218,400
UNCALLED SHARE CAPITAL ON 5,800,000 SHARES	5,162,000	5,162,000

All shares carry equal voting rights and the right to any share in surplus on winding up of the company. None of the shares carry fixed dividend rights.

b) Retained Earnings	2003	2002
	\$	\$
Opening Balance	2,749,034	2,303,089
Net Operating Surplus	693,126	315,760
Dividends paid during the year	(122,334)	(202,483)
Movement in asset revaluation reserve	-	332,668
BALANCE AS AT 31 MARCH 2003	3,319,826	2,749,034

c) Proposed Dividends

Subject to the Directors certifying the satisfaction of the solvency test, a dividend of \$217,782 representing 5.4 cents per \$1 paid up share capital (exclusive of any premium on issue) has been declared for the year ending 31 March 2003, (a dividend of \$122,334 was declared as at 31 March 2002).

14. CASH FLOW RECONCILIATION

Reconciliation of surplus after taxation with net cash flows from operating activities.

	2003	2002
	\$	\$
<i>Net Surplus after taxation</i>	693,126	315,760
<i>Add / (Less) Non cash- items</i>		
Depreciation	478,569	448,481
Loss on sale of assets	3,948	69,378
Deferred tax movement	(91,821)	148,342
<i>Net Movements in Working Capital</i>		
(Increase) / Decrease in Accounts Receivable, Accrued Revenue & Prepayments	(16,903)	(38,891)
(Increase) / Decrease in Inventory	3,749	(6,435)
Increase/(Decrease) in Accounts Payable & Accruals	(229,840)	(209,330)
Increase / (Decrease) in Provision for Taxation	112,055	(73,401)
Plus / (Less) Items relating to Investing Activities		
Movement in Capital Creditors	(127,809)	3,140
<i>Net Cash Flow from Operating Activities</i>	825,074	1,075,704

15. IMPUTATION CREDIT ACCOUNT

	2003	2002
	\$	\$
BALANCE 1 APRIL 2002	1,114,882	1,124,208
Plus RWT payments	8,794	2,118
Income Tax payments	144,000	231,000
Income Tax refunds received	(41,061)	(142,713)
Less Imputation credits attached to dividends paid	(60,254)	(99,731)
BALANCE 31 MARCH 2003	1,166,361	1,114,882

16. RELATED PARTY TRANSACTIONS

Palmerston North City Council holds 86.5% and Central Avion Holdings Limited holds 13.5% of the issued shares of the Company.

The Company paid \$277,946 (of which \$18,056 related to capital expenditure) to the Council for services provided during the year (the company paid \$375,814 during the 2002 year).

All transactions have been conducted on normal commercial terms.

The Company owes Palmerston North City Council \$6,070 as at 31 March 2003, (the balance owing as at 31 March 2002 was \$12,824).

Related Party Transactions - Directors' Interests:

Interest	Nature of Interest	Relationship to Palmerston North Airport Limited
Mr. O Stock	Shareholder & Director Ormond Stock and Associates	Customer
Related Party Transaction Details:	2003	2002
	\$	\$
Services provided to Ormond Stock and Associates	768	675

17. COMMITMENTS

Capital Commitments:

The Company has no capital commitments as at 31 March 2003 (there were none as at 31 March 2002).

Operating Commitments:

	2003	2002
	\$	\$
Less than 1 year	393,459	269,616
Between 1 and 2 years	389,162	7,932
Between 2 and 3 years	257,018	3,635
TOTAL OPERATING COMMITMENTS	1,039,639	281,183

18. EMPLOYEE ENTITLEMENTS

	2003	2002
	\$	\$
Accrued pay	7,083	1,878
Annual leave	12,000	9,281
	19,083	11,159

19. CONTINGENCIES

The Company has a contingent liability of up to \$10,000 as at 31 March 2003. This amount relates to an agreement between the Company and Freedom Air to reimburse remaining legal fees should the appeal to the Privy Council relating to MAF charges fail, (there was a potential claim on Palmerston North Airport Limited in respect of the compulsory acquisition of land under the Public Works Act as at 31 March 2002).

20. FINANCIAL INSTRUMENTS

Interest Rate Risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. This could particularly impact on the cost of borrowing or the return on investments.

The Company has \$137,439 on call as at 31 March 2003 (there was \$67,370 on call as at 31 March 2002)

The Company has \$673,679 of short term deposits as at 31 March 2003 (there were short term deposits of \$918,860 as at 31 March 2002).

	2003	2002
On call & Short term deposits	0 - 5.55%	0 - 4.80%

The interest rates on the Company's borrowings are disclosed in note 9.

Currency Risk

Currency risk is the risk of loss to the Company arising from adverse changes in currency exchange rates. The Company's exposure to currency risk is limited to the amounts of Australian currency held for the Company's foreign currency exchange operation.

As at 31 March 2003, 1% of the Company's total holdings and deposits relate to the cash holdings of foreign currency, (2% of the Company's total holdings and deposits related to cash holdings as at 31 March 2002).

Credit Risk

Financial instruments which potentially subject the Company to credit risk principally consist of cash and short term investments and trade accounts receivables.

The Company invests in high credit quality financial instruments and limits the amount of credit exposure to any one financial institution. Accordingly, the Company does not require any collateral.

Maximum exposures to credit risk are the amounts disclosed in the Statement of Financial Position and are net of any recognised provision for losses on these financial instruments.

Concentrations of Credit Risk

There is a limited base of customers for the services provided by the Company.

As at 31 March 2003, 63% of total receivables are from 4 customers. (48% of total receivables were from 4 customers as at 31 March 2002) These amounts are considered to be fully recoverable. The Company is not exposed to any other concentrations of credit risk.

Credit Facilities

The Company has no credit facilities.

Fair Values

The method and assumption used is that the carrying amount in the financial statements reflects the estimated fair value of the financial instruments including receivables, bank and investments, accounts payable and term loans.

FINANCIAL HIGHLIGHTS

STATEMENT OF FINANCIAL PERFORMANCE

	YEAR ENDING (\$ 000's)									
	2003	2002	2001	2000	1999	1998	1997	1996	1995	1994
Total Revenue	4,317	3,883	4,107	3,418	3,027	3,078	3,101	2,072	2,074	2,139
Net Surplus Before Interest, Depr. & Taxation	2,018	1,647	2,036	1,580	1,513	1,185	1,075	891	959	1,050
Net Surplus Before Taxation	823	481	811	644	542	353	244	185	318	486
Net Surplus After Taxation	693	316	510	426	366	259	148	167	211	324
Earnings Per \$ of Paid Up Share Capital (excl. any premium on issue)	17.19c	7.83c	12.64c	10.56c	9.07c	6.42c	3.67c	4.15c	5.24c	8.04c
Dividend Proposed or Paid Per \$ of Paid Up Share Capital (excl. any premium on issue)	5.40c	3.03c	5.02c	3.21c	3.50c	1.80c	2.0c	2.0c	2.4c	3.0c

STATEMENT OF FINANCIAL POSITION

	YEAR ENDING (\$ 000's)									
	2003	2002	2001	2000	1999	1998	1997	1996	1995	1994
Total Assets	17,019	16,564	16,182	16,104	12,532	11,939	10,419	9,630	9,612	9,628
Shareholders Funds	7,538	6,967	6,854	6,474	6,048	5,492	4,604	4,526	4,429	4,302
Share Capital Paid Up	4,218	4,218	4,218	4,218	4,218	4,218	3,518	3,518	3,518	3,518
Net Asset Backing Per Share	\$0.82	\$0.76	\$0.75	\$0.70	\$0.66	\$0.60	\$0.53	\$0.52	\$0.51	\$0.50
Return On Shareholder Funds	9.19%	4.53%	7.44%	6.58%	6.05%	4.72%	3.22%	3.70%	4.77%	7.53%



COMPANY DIRECTORY

DIRECTORS:

Mr D N Walker (*Chairman*)
Mr M C Cole
Dr G N Cruden
Mr O B Stock
Mr R J Wong
Mr P Wylie (*Alternate*)

MANAGEMENT:

Mr G R Goodman
Chief Executive Officer
Mr R A Bodell
Operations Manager
Ms L C Nuku-Wood
Finance Manager & Secretary to the Board

REGISTERED OFFICE:

Palmerston North International Airport
Terminal Building
Airport Drive
PALMERSTON NORTH

Phone: +64 6 351 4415
Fax: +64 6 355 2262
e-mail: help@pnairport.co.nz
<http://www.pnairport.co.nz>

TRADING BANKERS:

Bank of New Zealand

LEGAL ADVISOR:

Mr R K Howie
Cooper Rapley

AUDITORS:

Audit New Zealand (on behalf of the Auditor General)

