NELSON AIRPORT

Good things start here.

Disclosure Financial Statements for Financial Year Ended 30 June 2019

Contents

DIRECTORS' REPORT

The Directors have pleasure in presenting the Disclosure Financial Statements of Nelson Airport Limited (the Company) for the year ended 30 June 2019. These statements present the results of the Identified Airport Activities of the Company and additional information and have been prepared for the purposes of, and in accordance with, the Airport Authorities (Airport Companies Information Disclosure) Regulations 1999, as amended in 2014.

1. Board of Directors

The Directors of the Company during the year under review were:

Paul Steere (Chair)

Catherine Taylor

Matthew Clarke

Matthew McDonald

Mark Greening

2. Principal Activities of the Company

The principal activity of the Company during the year was airport operator.

NAL was incorporated in 1996 and purchased the assets and undertakings of the Nelson Regional Airport Authority in March 1999.

NAL is a key strategic asset and contributor to the development and growth of the Nelson Tasman economy. Our operations and services deliver significant benefits to the Nelson Tasman region. Its key service is moving people into and out of the region. The number of passengers through the airport is increasing, matching the growth in the region's population and visitor expenditure.

For and on behalf of the Board

Paul Steere (Chair)

Catherine Taylor (Deputy Chair)

STATEMENT OF COMPREHENSIVE INCOME

For the financial year ended 30 June 2019

	Note	2019 $000s	2018 $000s
Revenue	3	7,743	6,511
Operating costs	4	2,735	2,188
Administration expenses	4	1,226	913
Depreciation and amortisation	4	1,830	1,204
		5,791	4,305
Operating Profit		**1,952**	**2,206**
Interest Revenue		11	15
Finance Costs	4	(588)	(236)
Net Financing Income		**(577)**	**(221)**
Profit before Tax		**1,374**	**1,985**
Income tax expense	5	442	508
Profit after Tax		**932**	**1,477**
Other Comprehensive Income			
Gain on asset revaluation		-	9,809
Tax on asset revaluation		-	(1,200)
Total Comprehensive Income		**932**	**10,086**

The Statement of Accounting Policies and Notes form an integral part of and should be read in conjunction with these financial statements

STATEMENT OF FINANCIAL POSITION

As at 30 June 2019

	Note	2019 $000s	2018 $000s
Assets			
Current Assets			
Trade and Other Receivables	8	1,029	1,117
Cash and Cash Equivalents	9	(1,500)	369
Total Current Assets		**(471)**	**1,487**
Non Current Assets			
Property, Plant and Equipment	6	83,749	70,780
Intangible Assets	7	42	31
Total Non Current Assets		**83,791**	**70,811**
Total Assets		**83,320**	**72,298**
Liabilities			
Current Liabilities			
Trade and Other Payables	13	2,120	3,209
Derivative Financial Liabilities	14	210	114
Current Income Tax Liability		51	246
Employee Entitlements		156	133
Total Current Liabilities		**2,537**	**3,701**
Non Current Liabilities			
Deferred Tax	5	5,221	5,333
Derivative Financial Liabilities	14	613	118
Interest Bearing Loans	15	20,166	8,714
Total Non Current Liabilities		**26,000**	**14,165**
Total Liabilities		**28,537**	**17,866**
Net Assets		**54,784**	**54,431**
Equity			
Issued Share Capital	11	1,920	1,920
Retained Earnings		11,710	11,357
Asset Revaluation Reserve		41,154	41,154
Total Equity		**54,784**	**54,431**

Paul Steere
Chair
24 June 2020

Catherine Taylor
Deputy Chair
24 June 2020

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STATEMENT OF CHANGES IN EQUITY

For the financial year ended 30 June 2019

	Note	2019 $000s	2018 $000s
Opening Retained Earnings		**11,357**	**9,880**
Total Profit for the Year		932	1,477
Distributions to Equity Holders		(580)	-
Retained Earnings as at Year End		**11,710**	**11,357**
Opening Asset Revaluation Reserve		41,154	32,545
Gain on Asset Revaluation		-	8,609
Asset Revaluation as at Year End		**41,154**	**41,154**
Share Capital	11	1,920	1,920
Closing Equity as at Year End		**54,784**	**54,431**

The Statement of Accounting Policies and Notes form an integral part of and should be read in conjunction with these financial statements

CASH FLOW STATEMENT

For the financial year ended 30 June 2019

	Note	2019 $000s
Cash Flows from Operating Activities		
Cash was provided from:		
Receipts from airport users		7,583
Interest received		11
		7,594
Cash was disbursed to:		
Payments to suppliers and employees		(4,348)
Interest paid		2
Income tax paid		(749)
Net GST Movement		215
		(4,880)
Net Cash Flows from Operating Activities	16	**2,714**
Cash Flows from Investing Activities		
Cash was provided from:		
Sale of property, plant & equipment		0
		0
Cash was disbursed to:		
Purchase of property, plant & equipment		(15,714)
Purchase of Intangible Assets		(21)
		(15,735)
Net Cash Flow from Investing Activities		**(15,735)**
Cash Flows from Financing Activities		
Cash was provided from:		
Increase in term loans		11,452
		11,452
Cash was disbursed to:		
Dividends paid		(300)
		(300)
Net Cash Flow from Financing Activities		**11,152**
Net increase/(decrease) in cash and cash equivalents		(1,869)
Opening cash and cash equivalents		369
Closing cash and cash equivalents		**(1,500)**

The Statement of Accounting Policies and Notes form an integral part of and should be read in conjunction with these financial statements

NOTES TO THE DISCLOSURE FINANCIAL STATEMENTS

For the financial year ended 30 June 2019

1. General Information

Nelson Airport Limited (the Company) owns and operates Nelson Airport. The Company is owned 50% by Nelson City Council and 50% by Tasman District Council.

The Company is a limited liability company incorporated and domiciled in New Zealand. The address of its registered office is Nelson Airport Management Offices, Trent Drive, Nelson, 7011.

These financial statements have been approved for issue by the Board of Directors on 24 June 2020. The Company's owners do not have the power to amend these financial statements once issued.

The disclosure financial statements are presented in accordance with the Airport Authorities Act 1966 as amended by the Airport Authorities Amendment Act 1997 and the Airport Authorities (Airport Companies Information Disclosure) Regulations 1999 ("The Regulations"), as amended in 2014.

The disclosure financial statements are for the reporting entity's Identified Airport Activities. Identified Airport Activities are defined as:

Airfield activities means the activities undertaken (including the facilities and services provided) to enable the landing and take-off of aircraft and includes:

a) The provision of any one or more of the following:

- (i) airfields, runways, taxiways, and parking aprons for aircraft
- (ii) facilities and services for air traffic and parking apron control
- (iii) airfield and associated lighting
- (iv) services to maintain and repair airfields, runways, taxiways and parking aprons for aircraft
- (v) rescue, fire, safety and environmental hazard control services
- (vi) airfield supervisory and security services

b) The holding of any facilities and assets (including land) acquired or held to provide airfield activities in the future (whether or not used for any other purpose in the meantime).

Aircraft and freight activities means the activities undertaken (including the facilities and services provided) to enable, within a security area or areas of the relevant airport, the servicing and maintenance of aircraft and the handling of freight transported, or to be transported, by aircraft and includes:

a) Provision within a security area or areas of the relevant airport, of any one or more of the following:

- (i) hangars
- (ii) facilities and services for the refuelling of aircraft, flight catering and waste disposal
- (iii) facilities and services for the storing of freight
- (iv) security, customs and quarantine services for freight

b) Holding of any facilities and assets (including land) acquired or held to provide aircraft and freight activities in the future (whether or not used for any other purpose in the meantime).

Specified passenger terminal activities (specified terminal) means the activities undertaken (including the facilities and services provided) in relation to aircraft passengers while those passengers are in a security area or areas of the relevant airport; and includes:

a) The provision, within a security area or security areas of the relevant airport of any one or more of the following:

- (i) passenger seating areas, thoroughfares and air bridges
- (ii) flight information and public address systems
- (iii) facilities and services for the operation of customs, Immigration and quarantine checks and control
- (iv) facilities for the collection of duty-free items
- (v) facilities and services for the operation of security and police services

b) Any activities undertaken (including the facilities and services provided) in a passenger terminal to enable the check-in of aircraft passengers, including services for baggage handling:

c) The holding of any facilities and assets (including land) acquired or held to provide specified passenger terminal activities in the future (whether or not used for any other purpose in the meantime).

The numbers presented in these financial statements are for the Identified Airport Activities unless it is stated "for Whole Company".

2. Summary of Accounting Policies

a) Basis of preparation

Statement of Compliance

The financial statements have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand as required by the Companies Act 1993. Nelson Airport Limited complies with Parts 3 and 4 of the Airport Authorities (Airport Companies Information Disclosure) Regulations 1999.

Nelson Airport Limited is a reporting entity preparing general purpose financial statements. It has elected to adopt the New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) – Reduced Disclosure Regime (RDR), which allows this entity to adopt the reduced disclosure requirements of the For-Profit Accounting Standards. (i.e. Nelson Airport Limited is a Tier 2 entity as issued by New Zealand External Reporting Board (XRB)) on the basis it is a non-large, for-profit, public sector entity.

Measurement Base

The financial statements are prepared on the basis of historical cost, except that property, plant and equipment are revalued in accordance with accounting policy 1 c.

Functional and Presentation Currency

The financial statements are presented in New Zealand dollars and all values are rounded to the nearest thousand dollars. This may result in some rounding calculation differences in financial statements and notes. The functional currency of Nelson Airport Limited is New Zealand dollars (NZ$).

Application of new and revised International Financial Reporting Standards (IFRSs)

Nelson Airport Limited has applied the following standards and amendments for the first time in its annual reporting period ending 30 June 2019.

NZ IFRS 9 *Financial Instruments*
NZ IFRS 15 *Revenue from Contracts with Customers*

NZ IFRS 9 *Financial Instruments* addresses the accounting treatment for recognising financial assets, and financial liabilities. All existing interest rate swap arrangements at 30 June 2018 were accounted for as a non-hedge accounted interest rate derivative, and under NZ IFRS 9 these arrangements have been treated in the same manner. Cash and cash and equivalents, and Trade and other receivables were previously designated as Loans and receivables in the 30 June 2018 year – these financial assets are now recognised at amortised cost under NZ IFRS 9. The adoption of this accounting standard has had no material impact on the financial statements, and comparative figures have not been restated.

NZ IFRS 15 *Revenue from Contracts with Customers* provides guidance on how and when revenue will be recognised. Nelson Airport Limited has adopted NZ IFRS 15 using the cumulative method (without applying practical expedients) with the effect of applying this standard recognised at the date of application. For revenue streams to which NZ IFRS 15 applies, revenue recognition has been assessed to be in line with the satisfaction of performance obligations. There has been no material impact on the financial statements from the adoption of this accounting standard.

Changes in Accounting Policies

The accounting policies adopted are consistent with those of the previous financial year.

Significant Accounting Estimates and Judgements

The preparation of these financial statements requires Nelson Airport Limited to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Future outcomes could differ from those estimates. The principal areas of judgement in preparing these financial statements are set out below:

Valuation of property, plant and equipment

The basis of valuation for Nelson Airport Limited's property, plant and equipment is fair value by independent valuers where the company does not have the internal expertise. The basis of the valuations include assessment of optimised depreciated replacement cost and other market based information in accordance with asset valuation standards. The major inputs and assumptions that are used in the valuations that require judgement include capital replacement values and life assumptions for each asset, and the application of discount rates.

Judgements must be made about whether costs incurred relate to bringing an asset to its working condition for its intended use, and therefore are appropriate for capitalisation as part of the cost of the asset. The determination of the appropriate life for a particular asset requires management to make judgements about, among other factors, the expected future economic benefits of the asset and the likelihood of obsolescence. Revaluations are carried out by independent valuers with sufficient regularity, at least once every five years, to ensure that the carrying value does not materially differ from the fair value at balance date. The carrying value of property, plant and equipment and the valuation methodologies used in the latest revaluation undertaken and the key assumptions and inputs are disclosed in Note 5.

b) Property, plant and equipment

Property, plant and equipment are recorded at cost less accumulated depreciation and impairment losses, or at fair value with valuations undertaken on a systematic basis with no individual asset included at a valuation undertaken more than five years previously. Valuations will be undertaken within a five year period where Nelson Airport Limited considers the carrying value may differ materially from the fair value at balance date. Impairment losses are charged to profit or loss, except for properties previously revalued with the revaluation taken to other comprehensive income. For such properties, the impairment is recognised in other comprehensive income up to the amount of any revaluation.

Property, plant and equipment that are revalued, are revalued to their fair value determined by an independent valuation or by management using recognised valuation techniques. Where the assets are of a specialised nature and do not have observable market values in their existing use, optimised depreciated replacement cost is used as the basis of the valuation. This measures net current value as the most efficient, lowest cost which would replace existing assets and offer the same amount of utility in their present use. Where there is an observable market, an income based approach is used.

Land & improvements (including leasehold aerodrome land), buildings, airfield infrastructure, and landside infrastructure assets are measured at fair value. An independent valuer is engaged to provide a valuation if management does not have sufficient expertise to perform the valuation. The fair values are recognised in the consolidated financial statements, and are reviewed at the end of each reporting period to ensure that the carrying values are not materially different from their fair values.

Any revaluation increase arising on the revaluation of land, buildings and infrastructure assets is credited to the asset revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognised as an expense in profit or loss, in which case the increase is credited to profit or loss to the extent of the decrease previously charged. A decrease in carrying amount arising from the revaluation of land, buildings, leasehold improvements and infrastructure assets is charged as an expense in profit or loss to the extent that it exceeds the balance, if any, held in the asset revaluation reserve relating to a previous revaluation of that asset.

Depreciation on revalued buildings and infrastructure assets is charged to profit or loss.

On subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the asset revaluation reserve, net of any related deferred taxes is transferred directly to retained earnings. Plant and equipment is stated at cost less accumulated depreciation and impairment. Cost includes expenditure that is directly attributable to the acquisition of the item. Additions not yet subject to independent valuation, including capital work in progress, are recorded at cost.

The depreciable amount of an asset is determined based on its useful life. Management estimates the following rates and methods of depreciation to reflect the pattern in which the assets' future economic benefits are expected to be consumed by Nelson Airport Limited.

The following rates reflect the range applied to various assets within their categorisations:

Buildings	Terminal	2% - 17.5% Straight Line
Buildings	Hangars and other buildings	1.6% - 33.3% Straight line 8.0% - 33.3% Diminishing value
Airfield Infrastructure	Runways, taxiways and aprons	2.5% - 50.0% Straight line 4.0% - 30.0% Diminishing value
Landside Infrastructure	Pavements, utilities and other infrastructure	0.0% - 40.0% Straight line 0.0% - 30.0% Diminishing value

Equipment	Parking meters, security and vehicles	6.7% - 21.0% Straight line 8.0% - 67.0% Diminishing value
Fixtures and fittings	Furniture, computers, and fittings	5.0% - 5.0% Straight line 10.0% - 80.4% Diminishing value

The residual value, useful lives and depreciation rates of assets are reassessed annually. The above rates have been adjusted to reflect amounts used in the fixed asset register.

Capital work in progress is not depreciated. The total cost is transferred to the relevant asset category on the completion of the project and subsequently depreciated.

c) Intangible Assets

Software acquisition and development
Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software.

Costs associated with maintaining computer software are recognised as an expense when incurred.

Branding
New branding costs are capitalised on the basis of the costs incurred.

The carrying amount of an intangible asset with a finite life is amortised over its useful life. Amortisation begins when the asset is available for use and ceases at the date the asset is derecognised. The amortisation charge for each period is recognised in the profit or loss.

The useful lives and associated amortisation rates of major classes of intangible assets have been estimated as follows:

Computer Software	48.0% - 50.0% Diminishing value
Branding	10.0% - 12.50% Straight line

d) Impairment of non-current assets

The carrying amounts of Nelson Airport Limited's assets are reviewed at each balance date to determine whether there is any indication of impairment. If any such impairment exists, the asset's recoverable amount is estimated.

If the estimated recoverable value amount of an asset is less than its carrying amount, the asset is written down to its estimated recoverable amount, and an impairment loss is recognised in the profit or loss.

The recoverable amount of an asset is the higher of the fair value less costs to sell and value in use. Value in use is determined by estimating future cash flows from the use and discounting these to their present value using a pre-tax discount rate that reflects the current market rates and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash generating unit to which the asset belongs.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised to the extent that an impairment loss for that asset was previously recognised in the profit or loss immediately.

e) Trade and other receivables

Trade and other receivables are initially stated at fair value and subsequently stated at their amortised cost using the effective interest method less impairment losses. A provision for impairment of receivables is established when there is objective evidence that Nelson Airport Limited will not be able to collect all the amounts due according to the original terms of the receivables. The amount of the provision is the difference between the asset's carrying value and the present value of the expected future cash flows discounted using the effective interest method.

Nelson Airport Limited's general terms of trade are that invoices are to be paid the 20th of the month following invoice. These terms apply to aeronautical charges and are set out in the Aeronautical Conditions of Use which is available via the company's website. The major exceptions to this general rule are;

1. Lease payments for commercial properties which are paid in accordance with the agreed contracted lease terms - normally either monthly, quarterly or six-monthly in advance
2. Revenue from the use of the public carpark areas which is paid on exiting the carpark.

f) Other financial assets

Term investments over 90 days are classified as "other financial assets". They are initially measured at fair value, net of transaction costs. After initial recognition, financial assets in this category are measured at amortised cost using the effective investment method, less impairment. Gains and losses when the asset is impaired are recognised in the profit or loss.

g) Share capital

Ordinary shares
Ordinary shares are classified as equity.

h) Interest bearing borrowings

Interest bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest bearing borrowings are stated at amortised cost using the effective interest method. Borrowing costs directly attributable to the acquisition or construction of a qualifying asset which is determined to be an asset that takes a period of greater than one year to get ready for its intended use are capitalised as part of the cost of the asset.

i) Derivative Financial Instruments and hedging activities

Nelson Airport Limited uses derivative instruments to hedge exposure to interest rate risks arising from financing activities. The portion of the fair value of a non-hedge accounted interest rate derivative that is expected to be realised within 12 months of balance date is classified as current, with the remaining portion of the derivative classified as non-current.

Derivative financial instruments are initially recognised at cost. Subsequent to initial recognition, derivative financial instruments are stated at fair value. Nelson Airport Limited has chosen to treat all interest rate derivatives as unhedged. For those instruments which do not qualify for hedge accounting, the gain or loss on re-measurement to fair value is recognised immediately in the Statement of Comprehensive Income. The fair value of an interest rate swap is the estimated amount that Nelson Airport Limited would receive or pay to terminate the swap at balance date, based on current interest rate forecasts.

j) Employee entitlements

A liability for annual leave is accrued and recognised in the Statement of Financial Position. The liability is calculated on an actual entitlements basis at current rates of pay. These include salaries and wages accrued up to balance date, alternate days earned but not yet taken, and annual leave earned but not yet taken up to balance date.

k) Trade and other payables

Trade and other payables are initially measured at fair value and subsequently measured at amortised cost using the effective interest method.

l) Revenue

Revenue is recognised as the amount of consideration expected to be received in exchange for providing services, or transferring promised goods to a customer. There is no change to the timing of revenue recognition arising from the adoption of NZ IFRS 15. NZ IFRS 15 does not apply to revenues other than those from contracts with customers.

Aeronautical charges
Aeronautical charges are recognised as revenue in the period in which the airport facilities are used.

Property revenues
Nelson Airport Limited leases certain buildings and properties. As Nelson Airport Limited retains substantially all the risks and benefits of ownership these are treated as operating leases. Lease income is recognised in the profit or loss on a straight line basis over the term of the lease. Any payments received for periods after balance date are accrued as lease income in advance.

Interest Revenue
Interest income is recognised using the effective interest method.

m) Expenses

Net financing costs
Net financing costs comprise interest payable on borrowings calculated using the effective interest rate method and interest receivable on funds invested as it accrues.

Dividends
Dividends are recognised when the shareholder's right to receive payment is established.

Income Tax
Income tax expense in relation to the profit or loss for the period comprises current tax and deferred tax.

Current tax is the amount of income tax payable based on the taxable profit for the current year, plus any adjustments to the income tax payable in respect to prior years. Current tax is calculated using rates that have been enacted or substantively enacted by balance date.

Deferred tax is the amount of income tax payable or recoverable in future periods in respect of temporary differences and unused tax losses. Temporary differences are differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit.

Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which the deductible temporary differences or tax losses can be utilised.
Deferred tax is not recognised if the temporary difference arises from the initial recognition of an asset and liability in a transaction that is not a business combination, and at the time of the transaction, affects neither accounting profit nor taxable profit.

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

Current tax and deferred tax is charged or credited to the profit or loss, except when it relates to items charged or credited directly to equity, in which case the tax is dealt with in equity and other comprehensive income.

n) Goods and services tax (GST)

All items in the financial statements are stated exclusive of GST, except for receivables and payables, which are stated on a GST inclusive basis. Where GST is not recoverable as input tax then it is recognised as part of the related asset or expense.

The net amount of GST recoverable from, or payable to, Inland Revenue is included as part of receivables or payables in the balance sheet.

The net GST paid to, or received from Inland Revenue, including the GST relating to investing and financing activities, is classified within operating cash flow in the Statement of Cash Flows.

o) Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the Statement of Financial Position.

p) Segment Reporting

For the purposes of reporting in accordance with section 8(3) of the Airport Companies Information Disclosure Regulations 1999, as amended in 2014, Nelson Airport Limited reports on the industry segments as airfield activities, aircraft and freight activities, and specified terminal passenger activities. These have been treated as operating segments to meet the requirements of the Airport Companies Information Disclosures Regulations 1999, as amended in 2014, and the Airport Authorities Act 1966.

q) Allocation Methodologies

The disclosure financial statements are prepared in accordance with the Airport Authorities Act 1966 and present only the Identified Airport Activities for Nelson Airport Limited. In order to report the financial results of the Identified Airport Activities, the company performs allocations on shared expenditure, expenses, assets, debt and equity balances. The allocation rules used require the use of judgement and assumptions to determine the values recorded in the disclosure financial statements and are consistent with the methodology used to determine the price charged for Airfield and Aero-terminal activities. Changes to assumptions will result in changes to the disclosure financial statements.

The allocation methodologies used in the disclosure financial statements are summarised in note 23 of the additional information required by the disclosure regulations set out in the Act.

3. Operating Revenue

	2019 $000s	2018 $000s
Contract Revenue		
Aeronautical Charges	6,496	5,430
Sundry Income	1	0
Total Contract Revenue	6,496	5,430
Other Revenue		
Aeronautical Charges	105	61
Property Revenues	1,142	1,020
Total Other Revenue	1,247	1,081
Total Revenue	7,743	6,511

4. Expenses

a) Operating Costs

	2019 $000s	2018 $000s
Loss on Impairment	-	8
Employee Entitlements	1,212	964
Other Operating Expenses	1,419	1,210
Loss on Disposal of Assets	104	5
	2,735	2,188

b) Administration Costs

	2019 $000s	2018 $000s
Auditors Remuneration	26	27
Auditors Remuneration - Disclosure Accounts	15	-
Directors' Fees	109	100
Insurance & Rates	566	474
Other Administration Expenses	510	312
	1,226	913

c) Depreciation and amortisation

	2019 $000s	2018 $000s
Depreciation	1,820	1,198
Amortisation of Intangible Assets	10	6
	1,830	1,204

d) Finance Costs

	2019 $000s	2018 $000s
Interest Expense	-	4
Movement in Unhedged Derivative Financial Liability	588	232
	588	236

5. Income Tax

Components of Income Tax Expense

	2019 $000s	2018 $000s
Current Tax Expense	554	786
Deferred Tax Expense	(112)	(278)
	442	508

Relationship between Tax Expense and Accounting Profit

	2019 $000s	2018 $000s
Operating Profit Before Taxation	1,374	1,985
Prima Facie Tax @ 28%	385	556
Adjustment for Timing & Taxation Differences	168	228
Adjustment for Permanent Differences	2	2
Prior Years Tax Under Provided	-	-
Adjustments for Deferred Tax	(162)	(109)
Adjustments for Deferred Tax - Property, Plant & Equipment	50	(169)
Income Tax Expense	442	508

Deferred Tax

	2019 $000s	2018 $000s
Property, Plant and Equipment		
Opening Balance	(5,423)	(4,392)
Charged to Profit & Loss	(50)	169
Charged to Other Comprehensive Income	-	(1,200)
Closing Balance	(5,473)	(5,423)
Employee Entitlements		
Opening Balance	20	(6)
Charged to Profit & Loss	0	27
Closing Balance	21	20
Other Provisions		
Opening Balance	70	(13)
Charged to Profit & Loss	162	83
Closing Balance	232	70
Total	(5,221)	(5,333)

6. Property, Plant and Equipment

2019	Land & Improvements $000s	Buildings $000s	Airfield Infrastructure $000s	Landside Infrastructure $000s	Equipment $000s	Fixtures & Fittings $000s	Capital Work In Progress $000s	Total $000s
Cost or Valuation								
Balance as at 1 July 2018	27,373	7,504	16,190	4,139	388	202	15,930	71,726
Reclassification	-	19,348	3,380	(207)	-	132	(22,654)	0
Additions	-	-	1	4	36	1	14,849	14,892
Disposals	-	(35)	-	(27)	(119)	(125)		(305)
Balance at 30 June 2019	27,373	26,817	19,571	3,910	305	211	8,126	86,313
Accumulated Depreciation and Impairment Losses								
Balance as at 1 July 2018	-	18	-	529	250	148	-	946
Depreciation	-	800	865	109	27	20		1,820
Disposals	-	-	-	(20)	(76)	(105)		(201)
Balance at 30 June 2019	-	818	865	617	201	63	-	2,564
Net Book Value at 30 June 2019	27,373	25,999	18,706	3,292	104	148	8,126	83,749

2018	Land & Improvements $000s	Buildings $000s	Airfield Infrastructure $000s	Landside Infrastructure $000s	Equipment $000s	Fixtures & Fittings $000s	Capital Work In Progress $000s	Total $000s
Cost or Valuation								
Balance as at 1 July 2017	21,851	10,006	16,830	2,468	416	236	3,998	55,805
Reclassification	-	-	-	1,655	-	-	(1,655)	-
Additions	-	1,337	67	16	21	10	13,587	15,039
Movement in Asset Revaluation	5,523	(3,840)	(707)	-	-	-	-	976
Disposals	-	-	-	-	(49)	(45)	-	(94)
Balance at 30 June 2018	27,373	7,504	16,190	4,139	388	202	15,930	71,726
Accumulated Depreciation and Impairment Losses								
Balance as at 1 July 2017	-	4,450	3,315	453	261	178	-	8,657
Depreciation	-	358	719	77	34	10	-	1,198
Impairment	-	8	-	-	-	-	-	8
Disposals	-	-	-	-	(45)	(39)	-	(84)
Movement in Asset Revaluation	-	(4,799)	(4,034)	-	-	-	-	(8,833)
Balance at 30 June 2018	-	18	-	529	250	148	-	946
Net Book Value at 30 June 2018	27,373	7,486	16,190	3,610	137	53	15,930	70,780

Valuation (Whole Company)

Residential land was last valued as at 30 June 2018 by Duke & Cooke in accordance with the 2009 Australia and New Zealand Valuation Property Standards; the 2017 International Valuation Standards (fair value $1,432,000).

Leasehold aerodrome land, upon which the airport is situated, was vested by the Crown to be held in trust by Nelson City Council. Nelson Airport Limited has a renewable 60 year lease over this land at a peppercorn rental.

The leasehold interest in airport land was last valued as at 30 June 2018 by Seagar & Partners (Auckland) Limited in accordance with 2017 International Valuation Standards (fair value $31,220,000).
All buildings (with the exception of Airport House, which was purchased during the June 2018 year) were last valued as at 30 June 2018 by Duke & Cooke Limited in accordance with the 2009 Australia and New Zealand Valuation Property Standards; the 2017 International Valuation Standards (fair value $6,430,000).

Airfield infrastructure was last valued as at 30 June 2018 by Opus International Consultants Limited in accordance with International Valuation Standards (fair value $16,190,000).

Landside infrastructure was last valued as at 30 June 2015 by Opus International Consultants Limited in accordance with International Valuation Standards (fair value $4,228,000). Due to the development projects in progress at balance date, the Board have been unable to obtain a reliable fair value estimate of the landside infrastructure at 30 June 2019. An updated valuation will be obtained once the development has been completed.

The following table summarises the valuation approaches used by the respective valuers:

Asset classification and description	Valuation approach
Land Commercial and Residential Land	Commercial and Residential land is valued on a market sales comparison basis.
Leasehold Land Lessee's leasehold interest in airport land vested in the Nelson City Council and under peppercorn rental.	Market value existing use approach, using a present value calculation of the benefit of the ground lease over its duration using a discount rate indicated by market activity. This is cross checked with any comparable market sales of leasehold interests.
Buildings Specialised buildings used for identified airport activities including terminal	Optimised depreciated replacement cost (ODRC) - the cost of constructing a modern equivalent asset at current market based input cost rates, adjusted for the remaining useful life of the assets (depreciation).
Non-specialised buildings including hangars, offices, garages and storage units	Income Capitalisation Approach - Establish a market rental after considering both existing leasing arrangements and evidence of local industrial market rentals and adjusting for location and building quality.
Residential buildings and buildings other than for identified airport activities	Residential buildings are valued on a market sales comparison basis.
Airfield Infrastructure Airside pavements including main runway, taxiways, and aprons	Optimised depreciated replacement cost (ODRC) - the cost of constructing a modern equivalent asset [as described for Specialised Buildings above].
Landside Infrastructure Landside pavements including roads and carparks, Utilities including stormwater, wastewater, and supply, Other infrastructure (fencing, lighting).	Optimised depreciated replacement cost (ODRC) - the cost of constructing a modern equivalent asset [as described for Specialised Buildings above].
Equipment Terminal equipment, security equipment, and vehicles.	Cost less depreciation – no valuation obtained.
Fixtures and fittings Furniture, office equipment, computers, and fixtures.	Cost less depreciation – no valuation obtained.

7. Intangible Assets

2019	Original Cost $000s	Accum Amortisation $000s	Opening WDV $000s	Additions $000s	Reclassifi-cations $000s	Disposals $000s	Amortisation $000s	Closing WDV $000s
Software	27	19	8	21	-	0	7	22
Other Intangibles	27	5	23	-	-	-	3	20
Total	54	23	31	21	-	0	10	42

2018	Original Cost $000s	Accum Amortisation $000s	Opening WDV $000s	Additions $000s	Reclassifi-cations $000s	Disposals $000s	Amortisation $000s	Closing WDV $000s
Software	23	15	8	4	-	-	3	8
Other Intangibles	27	2	25	-	-	-	3	23
Total	50	17	33	4	-	-	6	31

8. Trade and Other Receivables

	2019 $000s	2018 $000s
Trade Receivables - Contract Revenue	539	536
Trade Receivables - Other Revenue	136	-
Less: Provision for Impairment	-	(18)
Accrued Debtors	-	18
Prepayments	16	28
GST	338	553
	1,029	1,117

9. Cash and Cash Equivalents

	2019 $000s	2018 $000s
Bank Balance	(1,500)	369
	(1,500)	369

10. Financial Instruments

Financial Assets

	Amortised cost (Loans and receivables 2018) 2019 $000s	2018 $000s
Cash and Cash Equivalents	(1,500)	369
Trade and Other Receivables	675	536
	(825)	905

Financial Liabilities

	Fair value through profit or loss 2019 $000s	2018 $000s	Amortised cost 2019 $000s	2018 $000s
Trade and other Payables	-	-	1,692	3,085
Derivatives	823	232	-	-
Loans and Borrowings	-	-	20,166	8,714
	823	232	21,858	11,799

11. Share Capital

Ordinary Shares
All authorised shares for the Whole Company (2,400,000) have been issued, are fully paid up and have no par value. All ordinary shares have equal voting rights and share equally in dividends and surplus on winding up.

Kiwi Share
The Minister for the Crown holds a Kiwi share on behalf of the Crown. A Kiwi Share is one fully paid special rights redeemable preference share having the rights and limitations specified in Clause 3 of the First Schedule of Nelson Airport Limited's constitution.

Distributions to shareholders
Nelson Airport Limited will use its best endeavours to pay an annual ordinary cash dividend to shareholders that is both higher than that declared in the previous financial year and is at a level that delivers an annual growth rate of higher than the Consumer Price Index for the last published annual period.

On 26 June 2019 a dividend for the Whole Company of $780,000 was declared and accrued at year end, with payment made following balance date on 22 July 2019.

12. Contingent Liabilities

There are no material contingent liabilities to record as at the date of this Annual Report.

13. Trade and Other Payables

	2019 $000s	2018 $000s
Trade Payables	1,669	3,059
Trade Payables (Related Parties)	23	25
Dividends Payable	280	-
Accruals	122	100
Lease Income in Advance	26	24
	2,120	3,209

14. Derivative Financial Instruments

	2019 $000s	2018 $000s
Derivative Financial Liabilities		
Interest Rate Swaps		
Current Portion	210	114
Non-Current Portion	613	118
	823	232

Nelson Airport Limited manages its cash-flow interest rate risk by using floating-to-fixed interest rate swaps. The notional principal amounts of outstanding floating to fixed interest rate swap contracts for the Whole Company at 30 June 2019 (including swaps in place for future borrowings on a floating interest rate) totalled $19,000,000 (2018: $19,000,000). Their fair value was a liability of $1,136,542 (2018: 321,694).

Nelson Airport Limited has chosen not to determine whether the interest rate swaps in place are an effective hedge in mitigating cash flow risk from changes in interest rates. The movement in the interest rate swaps have been recognised as a movement in profit or loss within finance costs.

15. Interest Bearing Loans

	2019 $000s	2018 $000s
Repayable as follows:		
Less Than 1 Year	-	-
Between 1 and 5 Years	20,166	8,714
	20,166	8,714

Nelson Airport Limited has arranged for a line of credit with Westpac to finance the business during, and post, the construction of the new terminal. This loan is secured by a general security agreement over assets and undertakings of Nelson Airport Limited. The total line of credit for the Whole Company with Westpac is $40 million, to be made available and drawn down when required over the period of construction of the new terminal and landside infrastructure.

The total interest capitalised as part of the cost of property, plant and equipment was $618,934 (June 2018: $82,274).

The interest rates applying at balance date were 3.02% - 3.20% (June 2018: 3.35% - 3.46%).

16. Reconciliation of Reported Profit After Tax with Cash Flows from Operating Activities

	2019 $000s
Net Profit for the Year	932
Add/(less) non cash and non operating items:	
(Gain)/Loss on Disposal of assets	104
Depreciation and Amortisation	1,830
Donated Assets Disposed of at Estimated Market Value	-
Impairment of fixed assets	-
Movement in deferred taxation	(112)
Prior period adjustment	-
Movement in derivative financial instrument	591
Tax on asset revaluation	-
Movement in working capital:	
(Increase)/Decrease in receivables	110
Increase/(Decrease) in current tax payable	(195)
Increase/(Decrease) in payables	(545)
Net cash flows from operating activities	2,714

17. Transactions with Related Parties

Transactions with Shareholders
Nelson Airport Limited is jointly owned by Nelson City Council (50%) and Tasman District Council (50%).

Nelson Airport Limited paid rates, maintenance, consents and fees to Nelson City Council amounting to $391,119 (2018: $383,471), while receiving income of $403 (2018: $1,121). The balance included as owing in trade payables as at 30 June 2019 was $10,507 (2018: $6,190).

A peppercorn rent in respect of airport land is chargeable to Nelson Airport Limited by Nelson City Council (Refer Note 5).

Transactions with entities owned by Shareholders
Nelmac Limited is a 100% subsidiary of Nelson City Council. Nelson Airport Limited paid grounds maintenance and other fees to Nelmac Limited amounting to $70,012 (2018: $70,152). The balance included as owing in trade payables as at 30 June 2019 was $4,756 (2018: $4,969).

Nelson Regional Development Agency Limited is wholly owned by Nelson City Council. Nelson Airport Limited paid costs of $28,709 to the Agency (2018: $66,654), and received income from the Agency of Nil (2018: $2,157). The balance included as owing in trade payables as at 30 June 2019 was $7,142 (2018: $14,283).

Transactions with entities related to key management personnel
Nelson Airport Limited paid Nil (2018: $1,985) for services to Wellington International Airport Limited, of which Matt Clarke (Director of Nelson Airport Limited) is Chief Commercial Officer.

The Wellington Regional Economic Development Agency, of which Matt Clarke was a Director was invoiced Nil (2018: $1,380) by Nelson Airport Limited for services during the year.

Nelson Airport Limited received income of $460 (2018: $115) from the Life Flight Trust, of which Catherine Taylor was a Trustee during the year.

Nelson Airport Limited paid $514 (2018: Nil) to Allan Scott Wines & Estates Ltd, of which Paul Steere was Chairman during the year.

Nelson Airport Limited paid the following compensation to key management personnel (Directors and the Chief Executive, Robert Evans) for services rendered:

	2019	2018
Key management personnel compensation	$334,004	$320,397

With the exception of the peppercorn rent charged by Nelson City Council to Nelson Airport Limited, all related party transactions were charged on normal terms and conditions and outstanding accounts are payable on normal trading terms. No related debts have been written off or provided for as doubtful. All related party balances are unsecured.

18. Capital Commitments

Nelson Airport Limited has the following contractual capital commitments for property, plant and equipment as at 30 June 2019 for the Whole Company (2018: $21,851,000);

Terminal Development	$7,131,978

Capital commitments represent capital expenditure contracted for at balance date but not yet incurred.

19. Operating Leases

Nelson Airport Limited has non-cancellable operating lease arrangements with lessees of the terminal and other land and buildings of the airport. Due to the variable nature of these agreements the future value of these operating lease payments cannot be reliably estimated.

The lease arrangements are renewed on a periodic basis as disclosed in the lessors' individual contracts and many are subject to regular rent reviews.

In 2019 lease revenue received in association with the non–cancellable operating lease arrangements amounted to $665,737 (2018: $959,504).

Future non-cancellable lease revenue from existing leases:

	2019	2018
Leases revenue within 12 months	$829,362	$508,063
Leases revenue between 1-5 years	$2,018,556	$598,569
Leases revenue thereafter	$1,897,430	$392,011
Total	**$4,745,348**	**$1,498,643**

20. Events After Balance Date

On March 11, 2020 the World Health Organisation declared the outbreak of a coronavirus (C-19) a pandemic and two weeks later the New Zealand Government declared a State of National Emergency. From this the country went into lockdown at Alert level-4 and subsequently to Alert Level-3. Resulting economic uncertainties are negatively affecting the operations and services of Nelson Airport Ltd (NAL) and its financial performance. The effects of the C-19 crisis are anticipated to impact the business for some time.

Having experienced passenger throughput of one million passengers in a twelve month period NAL is now forecasting passengers in the range of 400k – 500k for the 2020/21 year, with steady growth during that period as a forecast slow but steady recovery occurs.

The well diversified revenue mix for NAL means that not all income streams are equally affected by the C-19 situation. Aeronautical charges are largely proportional to total passenger throughput numbers and consequently have been severely hit by the lockdown and are forecast to recover no faster than travel demand. NAL is due to reset aeronautical charges for a five-year period through a consultative process at the conclusion of 2021/22. Limited exposure to the international traveller market will mean that NAL's recovery will be closely tied to recovery of the domestic market rather than the international market.

The commercial revenue streams of ground transport, retail and advertising are also closely associated to passenger numbers and, accordingly, show significant reductions with forecast recovery tied to travel demand recovery.

Property revenues consist of both commercial (non-aeronautical) and aeronautical related income streams with some areas appearing unaffected and some leases impacted, to varying degrees, by low passenger throughput and/or lessees' ability to pay. NAL is working closely with lessee partners to ensure an optimal outcome across NAL's property portfolio.

A good understanding of NAL's cost base has supported a number of initiatives and actions to immediately manage operational and capital expenditure levels. Some significant cost items such as Rescue Fire Service costs are difficult to scale down with activity as a safety imperative requires that sufficient resources are maintained to provide effective cover for an operating airport and capacity must be maintained in order to support recovery once it does come. NAL staff have voluntarily reduced their work hours for the remainder of the current year in order to deliver immediate savings and various options for the organisation are being considered to be ready to respond appropriately to the shape of the recovery once it unfolds. Likewise, Directors have voluntarily reduced their Directors fees for the current year as part of the immediate response. As a working airport the high value airfield infrastructure including runways, taxiways and aprons and aircraft gates require regular maintenance to ensure their useful lives and safe serviceability are protected. Insurance costs are also difficult to scale with activity levels although some savings are being secured to provide some additional mitigation.

The recently completed new terminal complex and landside infrastructure is now fully commissioned, if not fully utilised, and accordingly contributes significantly to NAL's depreciation charges. The business assets will be subject to an impairment test as at 30 June 2020.
NAL continues to utilise the Multi-Option Credit Line provided by Westpac and enjoys some $8m headroom in the facility in mid-June 2020. Westpac has agreed to waive the single covenant of leverage ratio until post C-19 effects recovery and NAL forecasts that facility as being adequate to provide NAL's working capital needs through the C-19 crisis.

In response to the immediate drop in demand and revenues NAL took a number of actions to ensure its continuation as a going concern. Some of these actions included:

- Working closely with all stakeholders to ensure a collaborative approach to support positive business outcomes despite the uncertainties and effects of C-19.
- Taking advantage of the Government assistance package where possible.
- Curtailing expenditure on capital projects underway and forecast, pending re-prioritisation.
- Significantly reducing ongoing operational expenditure.
- Building financial models to bracket the range of likely scenarios as New Zealand moves through the C-19 recovery phase. Ensuring that NAL has alternative strategy options so it remains a viable entity for all scenarios.
- Sharing this work with the bank and confirming its continued support for NAL.
- Weekly Board updates to ensure prudent governance over the rapidly changing business landscape.

21. Shareholders' Statement of Intent

Nelson Airport Limited was required to deliver a completed Statement of Intent to its shareholders by 30 June 2019 under Part 3(b) of Schedule 8 of the Local Government Act 2002. The 2019/20 Statement of Intent was completed and forwarded to Nelson Airport Limited's shareholders on 1 July 2019.

IDENTIFIED AIRPORT ACTIVITIES REPORTING

22. Segment Information

The preparation of the disclosure financial statements requires the identification and presentation of aeronautical activities, as presented above. In addition to this the Company is required to present segmented information for Identified Airport Activities. These activities are defined in the Airport Authorities Act 1966 (and subsequent amendments). The Identified Airport Activities are as follows:

(i) Airfield activities:

(ii) Aircraft and freight activities:

(iii) Specified passenger and terminal activities

Management have assessed the aeronautical activities of the Company against these definitions and allocated them as appropriate.

The Company is located in one geographic segment in Nelson, New Zealand, and operates in the airport industry. The Company earns revenue from aeronautical activities and other charges and rents associated with operating an airport.

For the Year Ended 30 June 2019

	Airfield $000s	Aircraft and Freight $000s	Specified Terminal $000s	Total $000s
External Revenue				
Airport Charges	3,958	105	2,538	6,600
Property Revenues	108	912	122	1,142
Interest Revenue	0	0	11	11
Sundry Income	-	-	1	1
Total Revenue	**4,066**	**1,017**	**2,670**	**7,754**
Expenses				
Loss on Impairment	-	-	-	-
Employee Entitlements	526	208	478	1,212
Other Operating Expenses	861	139	419	1,419
Loss on Disposal of Assets	8	4	91	104
Administrative Expenses	646	303	277	1,226
Depreciation	952	220	648	1,820
Amortisation of Intangible Assets	7	1	1	10
Finance Costs	26	1	561	588
Total Expenses	**3,026**	**877**	**2,476**	**6,380**
Segment Profit Before Tax	**1,040**	**140**	**194**	**1,374**
Income Tax Expense				442
Profit after Tax				**932**
Additions of Property, plant & equipment included in Segment Assets (000s)	3,356	68	19,274	22,697
Average number of full-time staff equivalents	4.9	2.0	6.6	13.5

Comparison to Amounts Disclosed in Audited Annual Report

	Disclosure Accounts $000s	Annual Report $000s
Statement of Comprehensive Income		
Total Revenue	7,754	11,844
Profit After Tax	932	2,768
Total Comprehensive Income	932	2,768
Statement of Financial Position		
Total Assets	83,320	104,699
Total Liabilities	28,537	38,174

Segment Information (Continued)

For the Year Ended 30 June 2018

	Airfield $000s	Aircraft and Freight $000s	Specified Terminal $000s	Total $000s
External Revenue				
Airport Charges	4,119	61	1,311	5,491
Property Revenues	99	795	126	1,020
Interest Revenue	1	0	14	15
Sundry Income	-	-	0	0
Total Revenue	**4,218**	**856**	**1,451**	**6,526**
Expenses				
Loss on Impairment	(15)	32	(8)	8
Employee Entitlements	425	153	386	964
Other Operating Expenses	848	130	232	1,210
Loss on Disposal of Assets	4	0	1	5
Administrative Expenses	490	248	175	913
Depreciation	778	207	212	1,198
Amortisation of Intangible Assets	5	1	1	6
Finance Costs	10	0	225	236
Total Expenses	**2,546**	**771**	**1,224**	**4,541**
Segment Profit Before Tax	**1,672**	**86**	**227**	**1,985**
Income Tax Expense				508
Profit after Tax				**1,477**
Additions of Property, plant & equipment included in Segment Assets	1,108	571	1,428	3,106
Average number of full-time staff equivalents	3.7	1.6	5.1	10.4

Comparison to Amounts Disclosed in Audited Annual Report

	Disclosure Accounts $000s	Annual Report $000s
Statement of Comprehensive Income		
Total Revenue	6,526	10,131
Profit After Tax	1,477	3,446
Total Comprehensive Income	10,086	13,095
Statement of Financial Position		
Total Assets	72,298	87,784
Total Liabilities	17,866	22,497

23. Allocation Methodology used in the preparation of these statements

a) Revenue Categories

Revenue falls into one of the following categories:

i. **Aeronautical Charges.**
Aeronautical revenues consist of charges for the movement of aircraft and passengers, aircraft parking and longer-term aircraft storage charges. The long-term aircraft storage charges are classified as *Aircraft and freight activities* whilst the balance of the aeronautical revenue are allocated between *Airfield activities* and *Specified Terminal* in accordance with the Aeronautical pricing model as outlined in the Consultation Pricing Decision document of 30 June 2016.

ii. **Property Revenues.**
Includes a mix of ground leases and building leases with locations from airside to well clear of the airside boundary on landside. This revenue category contributes to all categories within the *Identified Airport Activities* requiring every lease to be individually assessed and allocated based on location and use. Revenues and costs that are not directly dedicated to single leases are allocated to individual leases by first allocating to a property or building then further allocated within the property/building according to the correct classification of the individual leases/licences.

iii. **Sundry Income.**
A minor category including less than $1,000 of aeronautical related income.

b) Expenditure Categories and Allocation

i. **Operating Expenditure**
Direct operating costs, that have been incurred solely for Identified Airport Activities (IAA) are allocated within the sub-categories accordingly. Expenditure that relates to both IAA and non-IAA activities, or over different activities within the IAA categories, are analysed on a case by case basis and allocated accordingly. Operating expenditure relating directly to an asset, including a property or building, is allocated as per the underlying asset. Costs of a Corporate nature, such as generation of the Annual Report, are appropriately allocated over *all* assets, including those not related to *Identified Airport Activities.* Staff costs are individually allocated over their respective areas of responsibility according to individual analysis of each position.

ii. **Non-Operating Income and Expenditure**
Depreciation, amortisation and losses on disposal are allocated as per the underlying asset to which they relate. Small value debt write-offs are individually analysed to ascertain their correct respective allocations. Income Tax has been recalculated on the profit from IAA activities, allowing for differences in treatment of transactions between accounting and tax profit. Interest received, interest paid and the movement in the valuation of the interest swaps secured to hedge the new terminal finance facility has been apportioned between IIA and –non-IIA activities using the ratio of IAA to non-IAA costs in the development of the new airport terminal and associated spending (including the construction of the carpark).

c) Allocation of Assets

Cash and cash equivalents has been used as the balancing account after accounting for the net cash movement from all other transactions in the financial year. It is intended that after the completion of the current terminal development, additional loan drawdowns will be assumed to bring cash and cash equivalents back into a positive balance in line with the expected level of working capital required to operate the IAA activities. Receivables and other current assets, other than cash, are individually analysed, to transaction line level, to ascertain the correct allocation. Individual fixed assets, as opposed to asset classes, are individually analysed to ascertain correct allocation. As well as being allocated between the *Identified Airport Activities* sub-categories some assets also have an appropriate portion excluded being allocated to non-*Identified Airport Activities.* As stated above depreciation, amortisation and any losses on disposal or other write-downs are allocated as per the allocation of the underlying asset. Regarding land the airport has been divided into sectors based on use/purpose and appropriate allocation methodologies devised for the individual sectors. The sectors utilised for the aerodrome reserve land are consistent with those established for valuation purposes by registered valuers Seager & Co.

d) Allocation of Debt

As with the current assets, current liabilities are individually analysed, to transaction line level, to ascertain the correct allocation. Liabilities related to individual staff are allocated as per the allocation of the respective staff members in the Income Statement. Dividends payable in the Whole Company have been apportioned on an approximate ratio between IAA and non-IAA profit. Income Tax Paid has also been apportioned on the same approximate ratio, with the difference between the calculated Income Tax Payable and the tax paid showing as Income Tax Payable on the Statement of Financial position. An assessment is done on GST balances to allocate the tax payable or receivable on the same basis as the underlying transactions to which they relate. Deferred Taxation has been recalculated on the various transactions (accruals, fixed assets) designated to be Identified Airport Activities. Multi-Option Credit Line (MOCL) and the Interest Rate Swap Derivative Financial Liability have been apportioned using the ratio of IAA to non-IAA costs in the development of the new airport terminal.

e) Allocation of Equity

The equity position of the Identified Airport Activities is allocated with reference to the following for those activities:

i. The opening level of equity.

ii. Adjustments for movements due to net profit less dividends.

iii. Adjustments for any movements in reserves due to the revaluation of assets.

iv. Adjustments for any capital issued or repaid.

24. Weighted Average Cost of Capital

a) WACC Estimation

NAL does not require a specific cost of capital (WACC) to be established for the normal financial management of its business as it has relatively few discretionary investment and financing decisions to consider. A WACC is established when required for pricing consultations with airlines. Estimating WACC requires considerable judgment. WACCs are not constant but change continuously to reflect external factors such as the level of interest rates and company specific factors, which include the nature of the services the company offers its customers, its contracts with suppliers and customers and its policies for changing prices,
NAL applied a post-tax WACC model consistent with the Commerce Commission's approach for the information disclosure regime applicable to the large airports, adjusted as appropriate for NAL's business characteristics. The Commerce Commission applied the Brennan-Lally version of the Capital Asset Pricing Model to determine its WACC estimates for the airports regulated under the Commerce Act. This methodology provides for WACC to be calculated as follows:

WACC = rd * (1 – Tc) * d + re * e
<u>And</u>
rd = rfr + debt premium
re = rfr * (1-Tc) + MRP * equity beta [with equity beta = asset beta * (1+d/e)]
<u>Where</u>
rfr = risk free rate
dp = the Company's pre-tax cost of debt.
Tc = the corporate tax rate
d = the company's debt as a proportion of total assets
re = the Company's post -tax cost of equity.
e = the company's equity as a proportion of total assets

NAL estimated its weighted average cost of capital (WACC) for identified airport activities as at 1July 2016, being the commencement of the current pricing period, which ends on 30 June 2021. The following table summarises the key parameters applied by NAL to estimate its post-tax WACC at 1 July 2016.

		2016 Parameter
Risk free rate — 5 year Government Stock	rfr	2.12%
Market risk premium	MRP	7.00%
Company tax rate	Tc	28.0%
Debt / (Debt + Equity)	d	40.0%
Debt premium and Debt Issue Costs	dp	1.90%
Business risk factor (asset beta)	a	0.65
Cost of Debt	rd	4.02%
Post Tax Cost of Equity	re	9.40%
Calculated WACC – mid point		**6.62%**
Calculated WACC – 75th percentile		**7.63%**

Changes to the Commerce Commission's input variables for the large airports to recognise the differences for NAL were:

- Asset beta – this was increased from 0.6 to 0.65 for NAL due to the greater risk exposure borne by NAL from a market that does not have the same extent of diversification as the large airports.
- Cost of debt – an increased allowance was recognised because NAL cannot source external funds at the same costs as the large airports.
- Debt ratio – this was set at 40% which reflects the approximate actual ratio that will result when NAL sources external funding for the TDP construction.

The company revises its WACC periodically to coincide with its aeronautical pricing consultation processes.

b) NAL's WACC Decision

NAL continually seeks to actively, and appropriately, manage the risks of its business to achieve long term outcomes for airport users and its shareholders. NAL's view is that its approach to WACC must strike the right balance for NAL and its airline partners, and incentivise the best long term outcomes for all parties.

NAL initially proposed that its WACC would be set at the 75th percentile of the WACC range shown above. While NAL considers that the methodology, and NAL's initial proposal, reflects the appropriate approach for NAL, NAL also sought to achieve a consulted outcome that is acceptable to both NAL and the airlines. NAL therefore adopted, a compromise WACC for the pricing period of 7.0% for application in the building block model.

25. Methodology Used to Determine Airport Charges

The Airport Authorities Act 1966 requires airport companies to consult with airlines prior to setting charges payable by the airlines for identified airport activities. NAL undertook consultations with the substantial customer airlines operating at Nelson Airport to set charges for the period from 1 July 2016 to 30 June 2021.

a) Overview

NAL believes that, in general, aeronautical charges and how they are levied should follow a number of broad principles, namely:

- Airport and airline customers should be provided with a safe and efficient operating environment.
- Charges should, ideally, closely mimic the behaviour of prices observed in competitive markets.
- Airports should be provided with incentives to achieve efficiency gains.
- Both the airport and its customers should share in achieved efficiency gains.
- The airport should be provided with incentives to invest capital prudently and efficiently.
- The airport earns an appropriate return for its shareholders on assets utilised to provide aeronautical services.

These principles largely reflect those established for the larger airports under the Commerce Act 1986. While NAL is not subject to the information disclosure regime in the Commerce Act it had regard to the Commerce Commission's Determinations for the regulated airports. In particular, NAL endeavoured to be consistent with the Commerce Commission's Input Methodologies (IM) for the larger airports where these were appropriate for NAL.

b) Calculation of Required revenue

NAL utilised the building block model (BBK) to determine the appropriate level of required revenue for the pricing period, and therefore to enable new pricing to be determined. The BBK is a well understood conventional model and is used by the Commerce Commission in the information disclosure regime.

The BBK provides that:

$$\textit{Required Revenue} = \textit{Return on Capital} + \textit{Operating Costs} + \textit{Depreciation} + \textit{Tax} + \textit{or} - \textit{Asset revaluations}$$

Where

$$\textit{Return on Capital} = \textit{Pricing Asset Base} * \textit{Weighted Average Cost of Capital}$$

c) Pricing approach and charging structure

c.1. Airfield charges

Historically airfield costs were recovered by way of a charge per tonne of maximum certified take-off weight (MCTOW). Weight charges were usually progressive with heavier aircraft paying heavier per tonne charges. The rationale for this approach was that heavier aircraft, with heavier wheel weights, were assumed to cause greater pavement damage than lighter aircraft.

In more recent years charging on a per passenger basis for airfield activities has become more common at other airports. Given the relatively homogeneous, mix of predominantly turboprop traffic at NSN, NAL believed that a charge determined by aircraft weight has become outdated for RPT airlines.

NAL concluded that adopting a passenger-based charge for airfield services was more appropriate for the new pricing period because:

- It is consistent with the manner in which passenger airlines achieve their revenue;
- It would therefore ensure that NAL received its charges when the airlines are paid by passengers,
- It would result in NAL and airlines bearing the same risk of market disruptions; and
- It could incentivise airlines to add new services because airlines will pay lower total charges for these services until they become established.

c.2. Terminal pricing (for relevant areas of the terminal)

Terminal charges previously comprised a charge levied per departing passenger aircraft seat. NAL separately identified the assets and operating costs associated with the existing terminal and introduced a separate per passenger movement charge for the terminal commencing from 1 July 2016. This was appropriate for the same reasons that passenger-based charging was appropriate for airfield services.

c.3. Terminal pricing following commissioning of new terminal

Charges for the new terminal to be completed during the pricing period will also be applied on a per passenger basis. The BBK model applied by NAL sought to recover charges for the new terminal as it became operational with the proposed prices reflecting forecast:

- Commissioning dates for two distinct stages of the new terminal;
- Terminal design requirements agreed with airlines, and other parties, at the time of consultation; and
- The expected construction costs.

During consultation it was agreed that the proposed pricing, at the conclusion of the consultation, would be adjusted during the pricing period to incorporate the final project area and cost numbers and by:

- applying the final version of the pricing model that arose from the consultation (ie the calculation process would not need to be reconsidered); and
- determining the actual pricing to be applied by substituting the actual capex for the forecast capex included in the model.

That is, further consultation would not be necessary on these calculations for the duration of the pricing period.

26. Schedule of Airport Charges

a) Regular Air Transport Operations

A flight forming part of a series of flights performed by aircraft for the transport of passengers, cargo or mail between the Airport and one or more points in New Zealand, where the flights are so regular and frequent as to constitute a systematic service, whether or not in accordance with a published timetable, and which are operated in such a manner that each flight is open to use by members of the public.

b) Maximum Certified Take-off Weight (MCTOW)

For an aircraft the lower of its maximum certified take-off weight as specified by the manufacturer (or as approved by the Civil Aviation Authority) and the maximum authorised operating weight as specified by the company.

c) Landing Charge – Fixed Wing Regular Passenger Transport Services

A charge of $7.45 (excl GST) per embarking and disembarking Passenger (excluding infants and positioning crew) on fixed wing aircraft operating a domestic service. (2018: $5.35)

d) Landing Charge – Other Fixed Wing Movements

A landing charge of $16.13 (excl GST) per landed tonne (based on MCTOW for aircraft type) is payable in respect of each arriving fixed wing aircraft that is not on a Fixed Wing Regular Passenger Transport Service.

e) **Landing Charge – Helicopters/Rotary Wing Movements**

For each rotary wing aircraft arriving on any part (excluding the runway and /or taxiways) of Nelson Airport a charge of $25.00 (excl GST) per landing is payable

or

For rotary wing aircraft utilising the runway and/or taxiways the higher of $16.13 (excl GST) per landed tonne (based on MCTOW for aircraft type) or $25.00 (excl GST).

f) **Aircraft Parking Charges**

For each general aviation aircraft parked in a designated aircraft parking area for a period in excess of 24 hours, an aircraft parking charge based on the aircraft MCTOW is payable per calendar day or part thereof as set out in the table below.

Aircraft MCTOW (kg)	Charge (excl GST)
0 – 9,999	$15.00
10,000 – 19,999	$25.00
20,000 – 39,999	$35.00
40,000 – 54,999	$45.00
55,000 and greater	$55.00

For the purpose of aircraft parking charges, "designated aircraft parking area" means an aircraft parking area owned or leased by the Company other than an aircraft parking area which is subject to a lease or license granted by the Company.

27. Landing Statistics

As the Company's charges are determined on an aircraft arrival basis, the aircraft movements as required by the Airport Authorities Amendment Act 1997 are based on aircraft arrivals.

a) **Scheduled Domestic Services**

Aircraft MCTOW (kg)	Aircraft Type	Year to 30 June 2019	Year to 30 June 2018
0 to 20,000	C208	1036	1265
	DH8C	7906	7583
	JS32	82	408
	Other	128	59
20,000 – 26,000	ATR72	3443	3623

b) **Other Landings**

Aircraft MCTOW (kg)	Year to 30 June 2019	Year to 30 June 2018
All weights	7247	6506

c) **Passengers**

Class of Passenger	Year to 30 June 2019	Year to 30 June 2018
Passengers arriving and departing	1,073,809	1,058,624

28. Interruptions to Services

Interruption to services as required by the Airport Authorities (Airport Companies Information Disclosure) regulations 1999 is set out below.

a) Planned Disruptions

	Number of Events		Total Duration (to nearest 15 minutes)	
	Yr to 30 June 2019	Yr to 30 June 2018	Yr to 30 June 2019	Yr to 30 June 2018
Service	-	-	-	-
Runway Services	-	-	-	-
Stand Position Services	-	-	-	-

b) Un-planned Disruptions

	Number of Events		Total Duration (to nearest 15 minutes)	
	Yr to 30 June 2019	Yr to 30 June 2018	Yr to 30 June 2019	Yr to 30 June 2018
Service	-	-	-	-
Runway Services	-	1	-	30 minutes
Stand Position Services	-	-	-	-

Explanation
Runway closed for approximately 30 minutes due to Cyclone Fehi in February 2018.

29. Statutory Deadline Compliance for Completion and Auditing of Disclosure Financial Statements

The statutory deadline for completion and auditing of the Disclosure Financial Statements is advised in the Airport Authorities (Airport Companies Information Disclosure) Regulations 1999. The regulations state that the statements must be completed and audited within five months of the Company's balance date, in the case of Nelson Airport Limited this is by 30 November each year. The inaugural Disclosure Financial Statements for Nelson Airport Limited are for the year to 30th June 2019. Completion of the statements and auditing of the same were not completed by the statutory deadline due to resource limitations. Final completion and auditing was subject to the respective resources and schedules of both Nelson Airport Limited and Audit New Zealand. The statements to 30 June 2019 were approved by both parties on 24th June 2020.