



**NELSON AIRPORT**

*Good things start here.*

**Disclosure Financial Statements for  
Financial Year Ended 30 June 2020**

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## DIRECTORS' REPORT

The Directors have pleasure in presenting the Disclosure Financial Statements of Nelson Airport Limited (the Company) for the year ended 30 June 2020. 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 (Deputy Chair)

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. Prior to COVID-19, the number of passengers through the airport was progressively increasing, matching the growth in the region's population and visitor expenditure. NAL has shown resilience through the COVID-19 pandemic and it is anticipated that ongoing improvements in the handling of virus cases and development of viable vaccine solutions will result in a return to previously predicted levels of activity within a four to five year timeframe.

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 2020

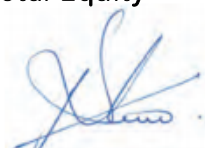
	Note	2020 \$000s	2019 \$000s
Revenue	3	7,782	7,743
Operating costs	4	2,679	2,735
Administration expenses	4	1,242	1,226
Depreciation and amortisation	4	2,625	1,830
		<u>6,545</u>	<u>5,791</u>
<b>Operating Profit</b>		<b><u>1,236</u></b>	<b><u>1,952</u></b>
Interest Revenue		5	11
Finance Costs	4	(980)	(588)
<b>Net Financing Income</b>		<b><u>(975)</u></b>	<b><u>(577)</u></b>
		<u>261</u>	<u>1,374</u>
<b>Profit before Tax</b>		<b><u>261</u></b>	<b><u>1,374</u></b>
Income tax expense	5	(35)	442
<b>Profit after Tax</b>		<b><u>295</u></b>	<b><u>932</u></b>
Other Comprehensive Income		-	-
<b>Total Comprehensive Income</b>		<b><u>295</u></b>	<b><u>932</u></b>

*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 2020

	Note	2020 \$000s	2019 \$000s
<b>Assets</b>			
<b>Current Assets</b>			
Trade and Other Receivables	8	336	1,029
Cash and Cash Equivalents	9	252	(1,500)
<b>Total Current Assets</b>		<b>588</b>	<b>(471)</b>
<b>Non Current Assets</b>			
Property, Plant and Equipment	6	89,116	83,749
Intangible Assets	7	103	42
<b>Total Non Current Assets</b>		<b>89,218</b>	<b>83,791</b>
<b>Total Assets</b>		<b>89,806</b>	<b>83,320</b>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Trade and Other Payables	13	675	2,120
Derivative Financial Liabilities	14	271	210
Current Income Tax Liability		39	51
Employee Entitlements		142	156
Interest Bearing Loans	15	14	-
<b>Total Current Liabilities</b>		<b>1,142</b>	<b>2,537</b>
<b>Non Current Liabilities</b>			
Deferred Tax	5	5,100	5,221
Derivative Financial Liabilities	14	900	613
Interest Bearing Loans	15	27,630	20,166
<b>Total Non Current Liabilities</b>		<b>33,631</b>	<b>26,000</b>
<b>Total Liabilities</b>		<b>34,773</b>	<b>28,537</b>
<b>Net Assets</b>		<b>55,034</b>	<b>54,784</b>
<b>Equity</b>			
Issued Share Capital	11	1,920	1,920
Retained Earnings		11,960	11,710
Asset Revaluation Reserve		41,154	41,154
<b>Total Equity</b>		<b>55,034</b>	<b>54,784</b>



Paul Steere  
Chair  
26 May 2021



Catherine Taylor  
Deputy Chair  
26 May 2021

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

## STATEMENT OF CHANGES IN EQUITY

For the financial year ended 30 June 2020

	Note	2020 \$000s	2019 \$000s
<b>Opening Retained Earnings</b>		<b>11,710</b>	<b>11,357</b>
Total Profit for the Year		295	932
Impact of change in Accounting Policy	2 a)	(2)	-
Distributions to Equity Holders		(43)	(580)
<b>Retained Earnings as at Year End</b>		<b>11,960</b>	<b>11,710</b>
<b>Opening Asset Revaluation Reserve</b>		<b>41,154</b>	<b>41,154</b>
Gain on Asset Revaluation		-	-
<b>Asset Revaluation as at Year End</b>		<b>41,154</b>	<b>41,154</b>
Share Capital	11	1,920	1,920
<b>Closing Equity as at Year End</b>		<b>55,034</b>	<b>54,784</b>

*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 2020

	Note	2020 \$000s	2019 \$000s
<b>Cash Flows from Operating Activities</b>			
<i>Cash was provided from:</i>			
Receipts from airport users		7,849	7,583
Interest received		5	11
		7,854	7,594
<i>Cash was disbursed to:</i>			
Payments to suppliers and employees		(4,060)	(4,348)
Interest paid		(632)	2
Income tax paid		(98)	(749)
Net GST Movement		260	215
		(4,530)	(4,880)
<b>Net Cash Flows from Operating Activities</b>	16	<b>3,324</b>	<b>2,714</b>
<b>Cash Flows from Investing Activities</b>			
<i>Cash was provided from:</i>			
Sale of property, plant & equipment		0	0
		0	0
<i>Cash was disbursed to:</i>			
Purchase of property, plant & equipment		(8,647)	(15,714)
Purchase of Intangible Assets		(79)	(21)
		(8,727)	(15,735)
<b>Net Cash Flow from Investing Activities</b>		<b>(8,727)</b>	<b>(15,735)</b>
<b>Cash Flows from Financing Activities</b>			
<i>Cash was provided from:</i>			
Increase in term loans		9,720	11,452
		9,720	11,452
<i>Cash was disbursed to:</i>			
Dividends paid		(280)	(300)
Decrease in term loans		(2,286)	-
		(2,566)	(300)
<b>Net Cash Flow from Financing Activities</b>		<b>7,155</b>	<b>11,152</b>
Net increase/(decrease) in cash and cash equivalents		1,752	(1,869)
Opening cash and cash equivalents		(1,500)	369
Closing cash and cash equivalents		<b>252</b>	<b>(1,500)</b>

*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 2020

## 1. General Information

Nelson Airport Limited (the Company) operates and manages Nelson Airport. The shares in Nelson Airport Limited are held by Tasman District Council (50%) and Nelson City Council (50%). Neither of these council entities has control over Nelson Airport Limited.

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 26 May 2021. 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) The 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) The 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 airbridges
  - (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. Statement 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 2(b).

#### **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 2020.

### NZ IFRS 16: Leases

NZ IFRS 16: Leases, removes the classification of leases as either operating leases or finance leases for the lessee (the entity leasing assets from the lessor). Under this standard, all leases for the lessee (excluding short term leases or leases for low value assets) are recognised in the Statement of Financial Position. Lessor accounting remains materially similar to current practise – lessors continue to classify assets as either finance leases or operating leases.

The impact of this standard has the effect of taking the current leases Nelson Airport Limited is committed to and recognising these as leased assets and liabilities at their estimated values at year end. The assets identified were vehicles and equipment which were previously recognised as an operating lease. Depreciation is recognised on the reduction in value of the leased asset over the lifetime of the lease, and payments previously recognised as a rental expense are now apportioned between an interest expense and principal payments on the lease liability.

Nelson Airport Limited has adopted NZ IFRS 16 using the modified retrospective approach – the comparatives for the year ending 30 June 2019 have not been restated, with the difference as at 1 July 2019 between the lease assets and liabilities recognised directly in retained earnings. Nelson Airport Limited has chosen to apply the practical expedients allowed under this reporting standard for the first year of adoption. The impact of adoption is as follows:

	30 June 2020 \$000s	1 July 2019 \$000s
Right-of-use asset (Equipment)	28	42
Lease Liabilities	(31)	(43)
Change in Net Assets	<u>(3)</u>	<u>(2)</u>

When compared to the accounting policies adopted in the prior comparative period, the adoption of NZ IFRS 16 on Nelson Airport Limited's Statement of Comprehensive Income for the year ended 30 June 2020 is as follows:

	30 June 2020 \$000s	1 July 2019 \$000s
Operating Expenses	(19)	-
Depreciation and Amortisation	14	-
Interest Expense	6	-

The lease liability was measured at the present value of the minimum lease payments, discounted at the interest rate implied in the lease payments after considering the estimated purchase price and residual value of the underlying asset. The interest rates vary from 10% - 19.97%.

### Changes in accounting policies

Apart from changes due from the adoption of NZ IFRS 16: Leases, 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 includes 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. The Company's policy dictates that 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. Circumstances around the Covid-19 pandemic led to this policy being breached for a minor portion of property plant and equipment. Please see subsequent note and Note 6 for details. 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 6.

### **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. There is \$3.1m included in the landside infrastructure assets carrying value that was due for revaluation at 30 June 2020, being five years since its last revaluation. The planned revaluation did not take place at 2020-year end due to COVID-19 impact on the revaluation environment. Please see note 6 for details. 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 are 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:

			Straight line	Diminishing value
<b>Buildings</b>		Terminal	<b>0.0% - 17.5%</b>	
<b>Buildings</b>		Hangars and other buildings	<b>1.6% - 33.3%</b>	<b>8.0% - 33.3%</b>
<b>Airfield Infrastructure</b>		Runways, taxiways and aprons	<b>0.0% - 50.0%</b>	<b>3.0% - 30.0%</b>
<b>Landside Infrastructure</b>		Pavements, utilities and other infrastructure	<b>0.0% - 40.0%</b>	<b>0.0% - 30.0%</b>
<b>Equipment</b>		Parking meters, security and vehicles	<b>6.7% - 21.0%</b>	<b>8.0% - 67.0%</b>
<b>Fixtures and fittings</b>		Furniture, computers, and fittings	<b>5.0% - 5.0%</b>	<b>10.0% - 80.4%</b>

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 that benefit multiple reporting periods 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
	10.0% - 12.50%	Straight line

Branding	50.0% - 50.0%	Diminishing value
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#### **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.

## **Ground transport revenues**

Ground transport revenues includes:

- Car parking fees which are principally recognised as revenue on a cash received basis. The exception to this is fixed parking lease/licence payments, with income for periods after balance date accrued as lease income in advance.
- Revenue from partner rental car companies which is recognised as revenue on an accrual basis in accordance with agreements and NZ IFRS 15.

## **Advertising revenue**

Advertising revenue is recognised on a straight-line basis over the term of the lease where the airport is the lessor.

## **Interest revenue**

Interest income is recognised using the effective interest method.

## **Government grants**

Government grant revenue is recognised within the Statement of Financial Performance as income, within Other Revenue. The revenue is recognised when all conditions attached with the grant have been fulfilled.

## **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.

### **Short term leases and lease of low value assets**

The lease of any short-term leases, or assets of a low value are recognised as an expense on a straight-line basis over the term of the lease.

### **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 include 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 Authorities (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 Authorities (Airport Companies Information Disclosure) 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

	2020 \$000s	2019 \$000s
<b>Contract Revenue</b>		
Aeronautical Charges	5,899	6,496
Sundry Income	1	1
Total Contract Revenue	<u>5,900</u>	<u>6,496</u>
<b>Other Revenue</b>		
Aeronautical Charges	83	105
Value of Donated Assets Received	316	-
Wage Subsidy	100	-
Property Revenues	1,382	1,142
Total Other Revenue	<u>1,881</u>	<u>1,247</u>
<b>Total Revenue</b>	<u><u>7,782</u></u>	<u><u>7,743</u></u>

### 4. Expenses

#### a) Operating Costs

	2020 \$000s	2019 \$000s
Employee Entitlements	1,261	1,212
Other Operating Expenses	1,403	1,419
Loss on Disposal of Assets	15	104
	<u>2,679</u>	<u>2,735</u>

#### b) Administration Costs

	2020 \$000s	2019 \$000s
Auditors Remuneration	33	26
Auditors Remuneration - Disclosure Accounts	16	15
Directors' Fees	116	109
Insurance & Rates	685	566
Other Administration Expenses	393	510
	<u>1,242</u>	<u>1,226</u>

#### c) Depreciation and amortisation

	2020 \$000s	2019 \$000s
Depreciation	2,593	1,820
Depreciation - Right of Use Assets	14	-
Amortisation of Intangible Assets	19	10
	<u>2,625</u>	<u>1,830</u>

#### d) Finance Costs

	2020 \$000s	2019 \$000s
Interest Expense	626	-
Interest Expense - Lease Liabilities	6	-
Movement in Unhedged Derivative Financial Liability	349	588
	<u>980</u>	<u>588</u>

## 5. Income Tax

### Components of Income Tax Expense

	2020 \$000s	2019 \$000s
Current Tax Expense	169	554
Prior Years Tax Under Provided	(83)	-
Deferred Tax Expense	(121)	(112)
	<u>(35)</u>	<u>442</u>

### Relationship between Tax Expense and Accounting Profit

	2020 \$000s	2019 \$000s
Operating Profit Before Taxation	261	1,374
Prima Facie Tax @ 28%	73	385
Adjustment for Timing & Taxation Differences	92	168
Adjustment for Permanent Differences	4	2
Prior Years Tax Over Provided	(83)	-
Adjustments for Deferred Tax	(104)	(162)
Adjustments for Deferred Tax - Property, Plant & Equipment	(17)	50
Income Tax Expense	<u>(35)</u>	<u>442</u>

### Deferred Tax

	2020 \$000s	2019 \$000s
<b>Property, Plant and Equipment</b>		
Opening Balance	(5,473)	(5,423)
Charged to Profit & Loss	(379)	(50)
Impact from Reinstatement of Depreciation on Buildings (charged to Profit & Loss)	396	-
Closing Balance	<u>(5,457)</u>	<u>(5,473)</u>
<b>Employee Entitlements</b>		
Opening Balance	21	20
Charged to Profit & Loss	4	0
Closing Balance	<u>25</u>	<u>21</u>
<b>Derivative Financial Liability</b>		
Opening Balance	230	65
Charged to Profit & Loss	98	165
Closing Balance	<u>328</u>	<u>230</u>
<b>Other Provisions</b>		
Opening Balance	1	5
Charged to Profit & Loss	2	(3)
Closing Balance	<u>3</u>	<u>1</u>
<b>Total</b>	<u>(5,100)</u>	<u>(5,221)</u>

## 6. Property, Plant and Equipment

2020	Land & Improvements \$000s	Buildings \$000s	Airfield Infrastructure \$000s	Landside Infrastructure \$000s	Equipment \$000s	Fixtures & Fittings \$000s	Capital Work In Progress \$000s	Total \$000s
<b>Cost or Valuation</b>								
Balance as at 1 July 2019	27,373	26,817	19,571	3,910	305	211	8,126	86,313
Recognition of Finance Leases - Modified Retrospective Approach	-	-	-	-	55	-	-	55
Reclassification	-	13,950	9	486	38	28	(14,587)	(76)
Additions	-	737	12	4	37	20	7,212	8,023
Disposals	-	(9)	(0)	(40)	(7)	(18)	-	(74)
<b>Balance at 30 June 2020</b>	<b>27,373</b>	<b>41,495</b>	<b>19,592</b>	<b>4,360</b>	<b>428</b>	<b>240</b>	<b>751</b>	<b>94,240</b>
<b>Accumulated Depreciation and Impairment Losses</b>								
Balance as at 1 July 2019	-	818	865	617	201	63	-	2,564
Recognition of Finance Leases - Modified Retrospective Approach	-	-	-	-	13	-	-	13
Depreciation	-	1,438	958	138	50	24	-	2,606
Disposals	-	(2)	(0)	(38)	(5)	(14)	-	(59)
<b>Balance at 30 June 2020</b>	<b>-</b>	<b>2,254</b>	<b>1,823</b>	<b>716</b>	<b>259</b>	<b>72</b>	<b>-</b>	<b>5,125</b>
<b>Net Book Value at 30 June 2020</b>	<b>27,373</b>	<b>39,241</b>	<b>17,770</b>	<b>3,644</b>	<b>169</b>	<b>168</b>	<b>751</b>	<b>89,116</b>

2019	Land & Improvements \$000s	Buildings \$000s	Airfield Infrastructure \$000s	Landside Infrastructure \$000s	Equipment \$000s	Fixtures & Fittings \$000s	Capital Work In Progress \$000s	Total \$000s
<b>Cost or Valuation</b>								
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)
<b>Balance at 30 June 2019</b>	<b>27,373</b>	<b>26,817</b>	<b>19,571</b>	<b>3,910</b>	<b>305</b>	<b>211</b>	<b>8,126</b>	<b>86,313</b>
<b>Accumulated Depreciation and Impairment Losses</b>								
Balance as at 1 July 2018	-	18	-	529	250	148	-	946
Depreciation	-	800	865	109	27	20	-	1,820
Disposals	-	-	-	(20)	(76)	(105)	-	(201)
<b>Balance at 30 June 2019</b>	<b>-</b>	<b>818</b>	<b>865</b>	<b>617</b>	<b>201</b>	<b>63</b>	<b>-</b>	<b>2,564</b>
<b>Net Book Value at 30 June 2019</b>	<b>27,373</b>	<b>25,999</b>	<b>18,706</b>	<b>3,292</b>	<b>104</b>	<b>148</b>	<b>8,126</b>	<b>83,749</b>

### **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).

A fair value assessment as at 30 June 2020 has not been completed for the land and improvements asset class. Nelson Airport Limited consulted with professional advisors, who recommended the company roll over its asset values for another year at current book values and to undertake a revaluation in 2021. This is because the COVID-19 pandemic had created a high degree of uncertainty in the property market, in terms of building costs, rentals, property yields and general market conditions.

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). Additions to landside infrastructure since 2015, including the relevant components of the terminal redevelopment, have been included at cost.

An updated independent valuation was scheduled for year-end 2020. Once the COVID-19 lockdown occurred in the final quarter of 2019/20 the Board considered that Nelson Airport Limited was unable to obtain a reliable valuation as at 30 June 2020. The Board's decision not to obtain a revaluation for landside infrastructure at 30 June 2020 was supported by management and left a \$3.1m portion of the carrying value of landside infrastructure outside of the five-year revaluation cycle and therefore outside Nelson Airport Limited's policy on revaluations. After consultation with professional advisors, Nelson Airport Limited was able to conclude that the fair value of landside infrastructure was not materially different from its carrying value.

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

Asset classification and description	Valuation approach
<p><b>Land</b> Commercial and Residential Land</p>	<p>Commercial and Residential land is valued on a market sales comparison basis.</p>
<p><b>Leasehold Land</b> Lessee's leasehold interest in airport land vested in the Nelson City Council and under peppercorn rental.</p>	<p>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.</p>
<p><b>Buildings</b> Specialised buildings used for identified airport activities including terminal</p> <p>Non-specialised buildings including hangars, offices, garages and storage units</p> <p>Residential buildings and buildings other than for identified airport activities</p>	<p>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).</p> <p>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.</p> <p>Residential buildings are valued on a market sales comparison basis.</p>
<p><b>Airfield Infrastructure</b> Airside pavements including main runway, taxiways, and aprons</p>	<p>Optimised depreciated replacement cost (ODRC) - the cost of constructing a modern equivalent asset [as described for Specialised Buildings above].</p>
<p><b>Landside Infrastructure</b> Landside pavements including roads and carparks, Utilities including stormwater, wastewater, and supply, Other infrastructure (fencing, lighting).</p>	<p>Optimised depreciated replacement cost (ODRC) - the cost of constructing a modern equivalent asset [as described for Specialised Buildings above].</p>
<p><b>Equipment</b> Terminal equipment, security equipment, and vehicles.</p>	<p>Cost less depreciation – no valuation obtained.</p>
<p><b>Fixtures and fittings</b> Furniture, office equipment, computers, and fixtures.</p>	<p>Cost less depreciation – no valuation obtained.</p>

## 7. Intangible Assets

2020	Original	Accum	Opening	Additions	Reclassifi- cations	Disposals	Amortisation	Closing
	Cost	Amortisation	WDV					WDV
	\$000s	\$000s	\$000s					\$000s
Software	47	25	22	3	-	(0)	9	16
Other Intangibles	27	7	20	-	76	-	10	86
<b>Total</b>	<b>75</b>	<b>33</b>	<b>42</b>	<b>3</b>	<b>76</b>	<b>(0)</b>	<b>19</b>	<b>103</b>

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

## 8. Trade and Other Receivables

	2020	2019
	\$000s	\$000s
Trade Receivables - Contract Revenue	283	539
Trade Receivables - Other Revenue	37	136
Prepayments	16	16
GST	-	338
Other Receivables	0	-
	<u>336</u>	<u>1,029</u>

## 9. Cash and Cash Equivalents

	2020	2019
	\$000s	\$000s
Bank Balance	252	(1,500)
	<u>252</u>	<u>(1,500)</u>

## 10. Financial Instruments

### Financial Assets

	Amortised cost	
	2020	2019
	\$000s	\$000s
Cash and Cash Equivalents	252	(1,500)
Trade and Other Receivables	320	675
	<u>572</u>	<u>(825)</u>

### Financial Liabilities

	Fair value through profit or loss		Amortised cost	
	2020	2019	2020	2019
	\$000s	\$000s	\$000s	\$000s
Trade and other Payables	-	-	479	1,692
Derivatives	1,172	823	-	-
Finance Lease Liability	31	-	-	-
Loans and Borrowings	-	-	27,613	20,166
	<u>1,203</u>	<u>823</u>	<u>28,092</u>	<u>21,858</u>

## 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 24 June 2020 a dividend for the Whole Company of \$850,000 was declared and accrued at year end, with payment made following balance date on 10 July 2020. The Disclosure Financial Statements recognise a portion of this dividend, based on the Net Profit after Tax recognised in these statements as a percentage of the Net Profit after Tax for the Whole Company.

## 12. Contingent Liabilities

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

## 13. Trade and Other Payables

	2020 \$000s	2019 \$000s
Trade Payables	452	1,669
Trade Payables (Related Parties)	27	23
Dividends Payable	43	280
Accruals	105	122
GST Liability	22	-
Lease Income in Advance	26	26
	<u>675</u>	<u>2,120</u>

## 14. Derivative Financial Instruments

	2020 \$000s	2019 \$000s
<b>Derivative Financial Liabilities</b>		
Interest Rate Swaps		
Current Portion	271	210
Non-Current Portion	900	613
	<u>1,172</u>	<u>823</u>

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 2020 (including swaps in place for future borrowings on a floating interest rate) totalled \$19,000,000 (2019: \$19,000,000). Their fair value was a liability of \$1,618,042 (2019: \$1,136,542).

Nelson Airport Limited has elected to recognise any movement in the interest rate swaps as a movement in profit or loss within finance costs.

## 15. Interest Bearing Loans

	2020 \$000s	2019 \$000s
<b>Repayable as follows:</b>		
Less Than 1 Year	-	-
Between 1 and 5 Years	27,613	20,166
	<u>27,613</u>	<u>20,166</u>
<b>Finance Lease Liabilities</b>		
Less Than 1 Year	14	-
Between 1 and 5 Years	17	-
	<u>31</u>	<u>-</u>



Nelson Airport Limited has an arrangement 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 \$348,206 (June 2019: \$618,934).

The total cash outflow paid towards finance leases during the year was \$17,872.

The interest rates applying at balance date were 1.75- 1.95% (June 2019: 3.02% - 3.20%).

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

	2020 \$000s	2019 \$000s
Net Profit for the Year	295	932
<i>Add/(less) non cash and non operating items:</i>		
(Gain)/Loss on Disposal of assets	15	104
Depreciation and Amortisation	2,625	1,830
Value of Donated Assets Received	(316)	-
Movement in deferred taxation	(121)	(112)
Movement in derivative financial instrument	349	591
<i>Movement in working capital:</i>		
(Increase)/Decrease in receivables	333	110
Increase/(Decrease) in current tax payable	(12)	(195)
Increase/(Decrease) in payables	156	(545)
<b>Net cash flows from operating activities</b>	<b><u>3,324</u></b>	<b><u>2,714</u></b>

## 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 \$500,559 (2019: \$391,119), while receiving income of \$nil (2019: \$403). The balance included as owing in trade payables as at 30 June 2020 was \$14,629 (2019: \$10,507).

A peppercorn rent in respect of airport land is chargeable to Nelson Airport Limited by Nelson City Council (Refer Note 6).

### 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 \$49,422 (2019: \$70,012). The balance included as owing in trade payables as at 30 June 2020 was \$5,176 (2019: \$4,756).

Nelson Regional Development Agency Limited is wholly owned by Nelson City Council. Nelson Airport Limited paid costs of \$16,362 to the Agency (2019: \$28,709). The balance included as owing in trade payables as at 30 June 2020 was \$7,098 (2019: \$7,142).

### Transactions with entities related to key management personnel

Nelson Airport Limited received income of \$173 (2019: \$460) from the Life Flight Trust, of which Catherine Taylor was a Trustee during the year.

Nelson Airport Limited paid \$621 (2019: \$514) 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:

	<b>2020</b>	<b>2019</b>
Key management personnel compensation	\$341,588	\$334,004

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 (Whole Company)

Nelson Airport Limited has no contractual capital commitments for property, plant and equipment as at 30 June 2020 for the Whole Company (2019: \$7,131,978):

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

## 19. Operating Leases

Nelson Airport Limited owns and leases out a number of commercial properties on land around the airport precinct. This includes ground leases for buildings owned by tenants, buildings and terminal space in buildings it owns, and some minor agreements for small spaces such as carparks.

In order to manage the risk to the underlying assets used by these tenants, Nelson Airport Limited employs a dedicated commercial manager to monitor its assets, perform inspections of leased properties, and where appropriate includes in lease agreements return to original state clauses.

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 2020 lease revenue received in association with the non-cancellable operating lease arrangements for the Whole Company amounted to \$2,436,939 (2019: \$1,992,593).

Future non-cancellable lease revenue from existing leases for the Whole Company:

	<b>2020</b>	<b>2019</b>
Leases revenue within 12 months	\$1,730,920	\$2,361,943
Leases revenue between 1-5 years	\$5,696,503	\$5,127,291
Leases revenue thereafter	\$1,958,788	\$3,331,315
<b>Total</b>	<b>\$9,386,211</b>	<b>\$10,820,549</b>

## 20. Events After Balance Date

There have been no significant events after balance date that materially impact Nelson Airport Limited's financial position or viability as a going concern.

## 21. Shareholders' Statement of Intent

Nelson Airport Limited was required to deliver a completed Statement of Intent to its shareholders by 30 June 2020 under Part 3(b) of Schedule 8 of the Local Government Act 2002. The 2020/21 Statement of Intent was completed and forwarded to Nelson Airport Limited's shareholders on 1 July 2020.

## 22. COVID-19 Disclosure

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

Having previously experienced passenger throughput of one million passengers in a twelve-month period NAL is now forecasting passengers in the range of 550k – 600k for the 2020/21 year, with the period showing slow but steady recovery.

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 2020/21. 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.

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 manage NAL's operational and capital expenditure levels in immediate response to the crisis. Some significant cost items such as Rescue Fire Service costs are difficult to scale down with activity as a safety imperative requiring 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 voluntarily reduced their work hours for the remainder of the 2019/20 year post-crisis in order to deliver immediate savings and various options for the organisation are being considered to continue to respond appropriately to the recovery as it develops. Likewise, Directors voluntarily reduced their Directors fees for the same period 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.

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 total assets for the Whole Company were subjected to an impairment test as at year-end. The impairment assessment concluded that no impairment write down is required.

NAL continues to utilise the Multi-Option Credit Line facility provided by Westpac. Westpac has agreed to waive the single covenant of leverage ratio until a post COVID-19 environment, enabling recovery. NAL forecasts the existing facility as being adequate to provide NAL's working capital needs through the COVID-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 COVID-19.
- Taking advantage of the Government assistance package where possible. This included applying for the COVID-19 wage subsidy, as the revenue earned by Nelson Airport Limited was sufficiently impacted to be entitled to claim this subsidy. On a Whole Company basis, \$130,733 was received in the first subsidy round which began in March 2020. An additional \$74,982 was received in the Wage Subsidy Extension in June 2020. Of these amounts, \$127,653 has been recognised as revenue in the 30 June 2020 period, with the balance of \$78,062 recognised as accrued revenue, which will be recognised as revenue in the 30 June 2021 year (as this portion of the Wage Subsidies covered a pay period subsequent to balance date). No repayments of these payments to the Ministry of Social Development are expected to be required.
- 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 COVID-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.

## IDENTIFIED AIRPORT ACTIVITIES REPORTING

### 23. 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.

## Segment Information (Continued)

For the Year Ended 30 June 2020

	Airfield \$000s	Aircraft and Freight \$000s	Specified Terminal \$000s	Total \$000s
<b>External Revenue</b>				
Airport Charges	3,111	83	2,788	5,982
Property Revenues	92	1,036	254	1,382
Interest Revenue	2	1	2	5
Value of Donated Assets Received	12	6	298	316
Wage Subsidy	32	10	58	100
Sundry Income	0	1	0	1
<b>Total Revenue</b>	<b>3,249</b>	<b>1,138</b>	<b>3,399</b>	<b>7,786</b>
<b>Expenses</b>				
Employee Entitlements	479	159	624	1,261
Other Operating Expenses	715	126	562	1,403
Loss on Disposal of Assets	3	1	11	15
Administrative Expenses	555	283	403	1,242
Depreciation	1,061	203	1,329	2,593
Depreciation - Right of Use Assets	8	2	4	14
Amortisation of Intangible Assets	12	3	4	19
Finance Costs	46	2	933	980
<b>Total Expenses</b>	<b>2,878</b>	<b>778</b>	<b>3,869</b>	<b>7,526</b>
<b>Segment Profit Before Tax</b>	<b>371</b>	<b>360</b>	<b>(471)</b>	<b>261</b>
Income Tax Expense				(35)
<b>Profit after Tax</b>				<b>295</b>
Additions of Property, plant & equipment included in Segment Assets (000s)	241	29	15,052	15,321
Average number of full-time staff equivalents	4.4	1.5	8.1	14.0

## Comparison to Amounts Disclosed in Audited Annual Report

	Disclosure Accounts \$000s	Annual Report \$000s
<b>Statement of Comprehensive Income</b>		
Total Revenue	7,786	11,884
Profit After Tax	295	1,767
Total Comprehensive Income	295	1,767
<b>Statement of Financial Position</b>		
Total Assets	89,806	108,918
Total Liabilities	34,773	41,459

## Segment Information (Continued)

For the Year Ended 30 June 2019

	Airfield \$000s	Aircraft and Freight \$000s	Specified Terminal \$000s	Total \$000s
<b>External Revenue</b>				
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
<b>Total Revenue</b>	<b>4,066</b>	<b>1,017</b>	<b>2,670</b>	<b>7,754</b>
<b>Expenses</b>				
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
Depreciation - Right of Use Assets	-	-	-	-
Amortisation of Intangible Assets	7	1	1	10
Finance Costs	26	1	561	588
<b>Total Expenses</b>	<b>3,026</b>	<b>877</b>	<b>2,476</b>	<b>6,380</b>
<b>Segment Profit Before Tax</b>	<b>1,040</b>	<b>140</b>	<b>194</b>	<b>1,374</b>
Income Tax Expense				442
<b>Profit after Tax</b>				<b>932</b>
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
<b>Statement of Comprehensive Income</b>		
Total Revenue	7,754	11,844
Profit After Tax	932	2,768
Total Comprehensive Income	932	2,768
<b>Statement of Financial Position</b>		
Total Assets	83,320	104,699
Total Liabilities	28,537	38,174

## 24. 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 is 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

For the year ending 30 June 2019, Cash and cash equivalents were used as the balancing account after accounting for the net cash movement from all other transactions in the financial year. As the construction of the new terminal was completed during the 30 June 2020 year, the cash balance has now been set at the estimated level required to carry out IAA activities. The balancing account for the 30 June 2020 year has now become the interest bearing loans, on the basis that funds would be borrowed from funding providers to finance asset programs not covered by operating surpluses. 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. In addition to the amount of the MOCL balance apportioned to IAA, the balancing amount for the Statement of Financial Position (after all balances have been determined) has been classified as an additional non-current Interest Bearing Loan balance.

**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.

## 25. 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:

$$\text{WACC} = r_d * (1 - T_c) * d + r_e * e$$

And

$r_d = r_{fr} + \text{debt premium}$

$r_e = r_{fr} * (1 - T_c) + \text{MRP} * \text{equity beta}$  [with equity beta = asset beta \* (1+d/e)]

Where

$r_{fr}$  = risk free rate

$d_p$  = the Company's pre-tax cost of debt.

$T_c$  = the corporate tax rate

$d$  = the company's debt as a proportion of total assets

$r_e$  = 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 1 July 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.

		<b>2016</b>
		<b>Parameter</b>
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%
<b>Calculated WACC – mid point</b>		<b>6.62%</b>
<b>Calculated WACC – 75<sup>th</sup> percentile</b>		<b>7.63%</b>

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 75<sup>th</sup> 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.

## **26. 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:

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

Where

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

## c) Pricing approach and charging structure

### i) 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 Nelson Airport, 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.

### ii) 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 previous 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.

### iii) Terminal pricing following commissioning of new terminal

Charges for the new terminal are also 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).

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

## 27. 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. (2019: \$7.45)

### 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. (2019: \$16.13)

### 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. (2019: \$25.00)

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.

## 28. Landing Statistics

As the Company's aircraft landing and parking 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 2020	Year to 30 June 2019
0 to 20,000	C208	828	1036
	DH8C	5458	7906
	JS3A	153	82
	PC12	145	59
	Other	12	69
20,000 – 26,000	ATR72	2691	3443

### b) Other landings

Aircraft MCTOW (kg)	Year to 30 June 2020	Year to 30 June 2019
All weights	6045	7247

### c) Passengers

Class of Passenger	Year to 30 June 2020	Year to 30 June 2019
Passengers arriving and departing on scheduled domestic flights	779,743	1,073,809

## 29. 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)	
	Year to 30 June 2020	Year to 30 June 2019	Year to 30 June 2020	Year to 30 June 2019
Runway Services	-	-	-	-
Stand Position Services	-	-	-	-
Baggage Handling Services	-	-	-	-

### b) Un-planned disruptions

	Number of Events		Total Duration (to nearest 15 minutes)	
	Year to 30 June 2020	Year to 30 June 2019	Year to 30 June 2020	Year to 30 June 2019
Stand Position Services	-	-	-	-
Runway Services	-	-	-	-
Baggage Handling Services	-	-	-	-

### **30. Statutory Deadline Compliance for Completion and Auditing of Disclosure**

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 above Disclosure Financial Statements for Nelson Airport Limited are for the year to 30th June 2020. Completion of the statements and auditing of the same were not completed by the statutory deadline due to resource limitations. Final completion and auditing were subject to the respective resources and schedules of both Nelson Airport Limited and Audit New Zealand.

## Independent Assurance Report

### To the Directors of Nelson Airport Limited

#### Report on Nelson Airport Limited's disclosure financial statements for the year ended 30 June 2020

The Auditor-General is the auditor of Nelson Airport Limited (the company). The company is required by the Airport Authorities (Airport Companies Information Disclosure) Regulations 1999 (the Regulations) to prepare disclosure financial statements for the company's identified airport activities.

The Auditor-General has appointed me, Chris Genet, using the staff and resources of Audit New Zealand, to provide a conclusion, in accordance with the Regulations, on the company's disclosure financial statements. The disclosure financial statements comprise:

- financial statements only for the identified airport activities, and not for the other activities of the company, to be prepared in accordance with generally accepted accounting practice; and
- additional information as specified in section 9 and Schedule 2 of the Regulations.

#### Qualified Conclusion

It is our conclusion that except for the effect of the matter described in the *Basis for our qualified opinion section* of our report, the disclosure financial statements on pages 2 to 37 are fairly reflected, in all material respects with the Regulations, and comply, in all material respects, with generally accepted accounting practice in New Zealand.

Our work was completed on 26 May 2021. This is the date at which our conclusion is expressed.

The limitations and use of this report is explained below, and we draw your attention to the impact of Covid-19 on the company. In addition, we explain the responsibilities of the Board of Directors and our responsibilities and explain our independence.

#### Basis for our qualified conclusion

As stated in the accounting policies in note 2 (b), the company measures land and improvements at fair value. The last revaluation to fair value was performed as at 30 June 2018. The New Zealand Equivalent to International Accounting Standard No. 16, *Property, Plant and Equipment* (NZ IAS 16), requires entities that measure asset classes at fair value to carry out revaluations with sufficient regularity to ensure that the revalued asset classes are not included at a carrying amount that is materiality different to fair value.

As disclosed in note 6 on page 18, the company has not completed a fair value assessment for land and improvements as at 30 June 2020. Therefore, the company has not provided us with sufficient appropriate evidence to support that the carrying amount of the land and improvements asset class



of \$27.4 million (included within property, plant, and equipment) does not differ materially from its fair value. As the company has not completed a fair value assessment or valuation of these assets, it is impracticable for us to determine whether any adjustment to the carrying value is necessary.

### **Emphasis of matter – Covid-19**

Without modifying our conclusion, we draw attention to note 22 to the disclosure financial statements, which outline the possible effects of the Covid-19 pandemic on the company.

### **Limitations and use of this report**

This independent assurance report has been prepared solely for the Directors of the company in accordance with our responsibilities under the Regulations. We disclaim any assumption of responsibility for any reliance on this report to any persons or users other than the Directors of the company, or for any purpose other than that for which it was prepared.

The Regulations require the disclosure financial statements to include financial statements only for the company's identified airport activities, which are part of the annual financial statements that we have previously audited. Other than as expressly stated below, we have not carried out any additional procedures on the financial statements for the company's identified airport activities since signing our audit report on the company's annual financial statements on 30 October 2020 which contained a qualified opinion for the same matter included in our qualified conclusion above. Explanation of the scope of our audit engagement on the company's annual financial statements and performance information is contained in that audit report.

Because of the inherent limitations in evidence gathering procedures, it is possible that fraud, error or non-compliance might occur and not be detected.

### **Responsibilities of the Board of Directors**

The Board of Directors is responsible for preparing disclosure financial statements that comply with the guidelines issued under the Regulations, and subject to the Regulations, comply with generally accepted accounting practice in New Zealand.

The Board of Directors is responsible for such internal control as it determines is necessary to enable the preparation of disclosure financial statements that are free from material misstatement, whether due to fraud or error.

The Board of Directors is also responsible for the publication of the disclosure financial statements, whether in printed or electronic form.

### **Our responsibilities**

We are responsible for expressing an independent conclusion on the disclosure financial statements and reporting that conclusion to you based on our work. Our responsibility arises from the Regulations and from the Public Audit Act 2001.

We have carried out our engagement in accordance with the International Standard on Assurance Engagements (New Zealand) 3000 (Revised): Assurance Engagements Other Than Audits or Reviews of Historical Financial Information which has been issued by the External Reporting Board. A copy of this standard is available on the External Reporting Board's website.

Our work has been carried out to obtain reasonable assurance about whether the disclosure financial statements are free from material misstatement, and have been prepared in accordance with the Regulations, in all material respects. Material non-compliance with the Regulations relates to differences or omissions of amounts and disclosures that would affect an overall understanding of the disclosure financial statements. Except for the matter described above regarding the reasons for issuing a non-standard audit conclusion, if we had found any other material non-compliance that was not corrected, we would have referred to the non-compliance in our conclusion.

The Regulations require the disclosure financial statements to include financial statements for the company's identified airport activities, which are only part of the annual financial statements that we have previously audited.

The financial statements for the company's identified airport activities included in the disclosure financial statements have been extracted from the underlying accounting records of the company, and our work on them was limited to:

- Obtaining an understanding of how the company has met the requirements of the Regulations to determine its identified airport activities.
- Obtaining an understanding of how the company has determined its allocation methodology which has been used to allocate shared expenditure, assets, debt and equity balances.
- Evaluating how the allocation methodology has been applied by testing the allocation of shared expenditure, assets, debt and equity balances.
- Agreeing the amounts and disclosures in the disclosure financial statements to the company's underlying records, and to the company's audited annual financial statements, where appropriate.

We also performed procedures to obtain evidence about the amounts and disclosures in the additional information included in the disclosure financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the additional information, whether due to fraud or error or non-compliance with the Regulations. In making those risk assessments, we considered internal control relevant to the company's preparation of the additional information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.

We did not examine every transaction, nor do we guarantee complete accuracy of the disclosure financial statements. Also we did not evaluate the security and controls over the electronic publication of the disclosure financial statements.

## Independence and quality control

When carrying out this engagement, we complied with the Auditor-General's:

- independence and other ethical requirements, which incorporate the independence and ethical requirements of Professional and Ethical Standard 1 (Revised) issued by the New Zealand Auditing and Assurance Standards Board; and
- quality control requirements, which incorporate the quality control requirements of Professional and Ethical Standard 3 (Amended) issued by the New Zealand Auditing and Assurance Standards Board.

Other than this engagement carried out under the Regulations, and our audit of the company's annual financial statements and performance information, we have no relationship with or interests in the company.



Chris Genet  
Audit New Zealand  
On behalf of the Auditor-General  
Christchurch, New Zealand