2020

Marlborough Airport Limited

Annual Report

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From the Chair and Chief Executive

Up until March this year passenger numbers and activity at Marlborough Airport was tracking strongly and meeting forecasts. However, the impact of Covid-19 and the introduction of the Alert Level 4 lockdown from 26 March severely curtailed international and domestic air travel. Flights resumed at a reduced level on 14 May when the country moved from Alert Level 3 to 2, and increased again when New Zealand moved to Alert Level 1 on 9 June.

The last quarter of 2020 was difficult, with over 90 per cent less passenger activity than normal during April and May. Activity improved to approximately 65 per cent of pre-Covid-19 levels under Alert Levels 2 and 1.

Through this challenging period we worked closely with our tenants and customers to find ways to work together through the many challenges that Covid-19 and the lockdowns brought upon us all. We also strived to maintain our support for regional tourism in Marlborough once the lockdown eased through our partnership with Destination Marlborough and the 'Make it Marlborough' campaign.

Our balance sheet remains strong with low debt and reasonable cash levels. However our overall result for the year ended 30 June 2020 reflects that tough last quarter.

Our safety record is good and we have been able to continue our long term development work. Design work for the new car parking area is underway and discussions with the New Zealand Defence Force about access to more land for airport-related development are continuing.

Looking ahead, we hope to return to sustainable passenger levels in 2021 based on the positive recovery we experienced this July, which saw us back at 65 per cent of pre-Covid-19 levels, although that recovery is now a little more uncertain due to the recent resurgence and the reintroduction of Alert Level 3 in Auckland. We are forecasting a 30 per cent reduction in passenger numbers for the year ended 30 June 2021 and a recovery back to pre-Covid-19 levels by 30 June 2023, based on various data sources including IATA and travel and tourism bodies.

Thank you to our staff, tenants, passengers and the Marlborough community for your support over the last 12 months – it is appreciated.

R W Olliver - Chairman

D. Heiford

Dean Heiford – Chief Executive

Review of operations

Nature of the Business

Marlborough Airport Limited (MAL) is a Council Controlled Organisation which is responsible for domestic and commercial airfield operations at Woodbourne, west of Blenheim. MAL owns a passenger terminal, aircraft hangar, vehicle grooming facility and car parks. These facilities together with the runways and taxiways are sited on land occupied under a licence from the Crown.

Ownership

MAL's sole shareholder is MDC Holdings Limited, a wholly-owned subsidiary of Marlborough District Council.

Measuring performance

1.1 MAL 2019-20 SOI results

Performance targets and Key performance indicators	2019 - 2020 Targets	2019 - 2020 Results	
Customers			
Encourage new route discussions with airlines and foster growth on existing ones	320,000 passengers	Not achieved -	246,325 (321,935, year to Feb 2020)
Offer new or improved services that maximise customer spend	Achieve commercial Revenue per passenger>$3.50	Not achieved -	$3.02
Analyse customer survey results	Implement improvements customer survey	Achieved -	The items identified in the survey are complete or improvements underway.
Financial			
Cash from operations ($000's)	950	Achieved -	1,191
EBITDAF ($000's)	840	Achieved -	882
Debt reduction ($000's)	>$500	Achieved -	765
Shareholder funds:Total Assets	34.0%	Achieved -	36%
Infrastructure			
Increase car parking capacity	Phase 1 of car park extension completed by 30 September 2019	Not achieved -	Still at the development stage.
Future business & Sustainability			
Maintain CAA part 139 Certification	100% compliant	Achieved -	100% compliant
Succesfully promote waste management minimisation and energy consumption reduction per the Environmental and Waste management plan	Adopt & implement Tourism Industry Association Sustainability Programme	Achieved -	MAL has an environmental policy documented in the SMS and is complied with. Waste mananagement collection has been reduced. The airport is working with AirNZ to intergrate our waste management strategies.
Review the Strategic Plan	Annual assesment of whether airport capabilities and development projects are in harmony with the long-term strategic plan	Achieved -	Land negotiations are well advanced to ensure we can execute the Long term Strategic Development Plan when appropriate.

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Performance targets and Key performance indicators	2019 - 2020 Targets	2019 - 2020 Results	
Risk & Compliance			
Safety management system (SMS)	SMS is present and effective. The airport is adequately staffed and an appropriate SMS software package is installed.	Achieved -	CAA awarded the Part 139 Certification which included SMS certification. The annual safety targets are continuously monitored and were achieved.
Identify and control hazards and risks to aviation and airport related operations	Risks identified and controlled to as low as reasonable practical (ALARP)	Achieved -	A risk register is maintained and controls are working effectively. Critical risks are reviewed annually.
CAA audit	No major findings. Minor findings addressed and effectively managed or resolved.	Achieved -	There were no major findings by the external CAA audit and the Part 139 certificate was awarded. Observations for improvements were implemented.
People			
Continuous improvements in reducing health &safety risk	100 % compliant with Health & Safety at Work Act (2015)	Achieved -	All incidents and accident were recorded and reported.
Continuous improvements in staff engagement, support & well-being	Annual appraisals completed. Staff professional development plans are agreed and implemented	Achieved -	Induction training and staff appraisals were up to date and complete. Ops/Saftey Manager achieved a Diploma in Airport operations.
Training - hiring the right people for the right positions	Staff structure and accountabilities are allocated and documented.	Achieved -	The staff structure was documented and updated as required in the SMS Manual.

1.2 Emergency response and security

Marlborough Airport is designated for Tier 2 security by the Civil Aviation Authority as part of our CAA Part 139 certification. The airport has an active Emergency Response Plan and also continuously monitors airspace incidents, health and safety and security incidents. A number of minor airfield incursions were reported by Air Traffic Control and investigated. There have been no major aviation related Health and Safety or Security incidents. However, the 2020 Covid-19 hazard required significant risk mitigation and has severely impacted airport operations during higher lock-down levels.

1.3 Health and Safety

When the current Health and Safety at Work Act (HSWA) 2015 came into force in April 2016 a system integrating both SMS and HSWA legislative requirements was formed by NZ CAA. MAL was one of the early trial airports for the CAA's requirement for airports to adopt the new Aviation Safety Management System (SMS). The trial identified a number of common areas between the HSWA 2015 and the SMS requirements that gave direction to the further development of the Aviation SMS programme for all airports. The implementation plan for MAL was approved by the CAA in 2018 and has now been completed, audited and certified as at April 2019. MAL records in an incident register all operational and health and safety incidents to achieve compliance with both Acts. Current issues and actions undertaken are presented at the monthly management meeting and recorded. Significant hazards such as Covid-19 and their associated risk controls are reported to the Board by the CE.

1.4 Development

A 10-year maintenance and inspection programme, overseen by BECA engineers, for the preventative maintenance and repair of all aircraft movement areas is in operation at MAL. This ensures a systematic use of financial resource to monitor and maintain the aerodrome aircraft movement surfaces to the standards required by the CAA Rule Part 139.

The new airport carpark has been designed and work is progressing towards completion 2021.

MAL has a continuous improvement culture that reviews every aspect of its operations and over time upgrades and improves facilities and equipment to meet the demand of the travelling public, airlines and the regulator.

1.5 Financial performance

MAL's 2020 operating deficit before tax of $514,000 was higher than budget by $587,000. Both revenue and expenditure were down significantly on budget. The main drivers for these variances are explained below:

	Notes	Year ended 30 June 2020		
		Actual $ '000	Budget $ '000	Variance $ '000
Income				
Aeronautical	(a)	1,943	2,631	*(688)*
Non-aeronautical	(b)	870	1,245	*(375)*
Investment property rental income		44	44	-
Interest	(c)	5	2	*3*
Subvention income		-	-	-
Total income		**2,862**	**3,922**	*(1,060)*
Expenses				
Operations and maintenance				
Aeronautical	(d)	1,172	1,213	*(41)*
Non-aeronautical	(e)	1,006	1,540	*(534)*
Other expenditure				
Depreciation, impairment & amortisation expe	(h)	673	658	*15*
Employment expenses	(g)	320	321	*(1)*
Finance costs	(f)	113	110	*3*
Bank charges		5	7	*(2)*
Subvention expense		112	-	*112*
Loss/(gain) on financial derivatives		(25)	-	*(25)*
Total expenses		**3,376**	**3,849**	*(473)*
Profit/(loss) before income tax expense		**(514)**	**73**	*(587)*
Less tax expense/(benefit)		(246)	98	*(344)*
Net profit/(loss) after taxation		**(268)**	**(25)**	*(243)*

Income

(a) **Aeronautical income** was up marginally on last year but down $688,000 on budget. Passenger numbers were 22% lower due to the impact of the Covid 19 Pandemic. However, the average charge per passenger increased 40% in the period due to expected increases in operating expenses. The charges able to be applied in any given year are calculated under a methodology which is not controlled directly by management.

(b) **Non aeronautical income** was down $75,000 on last year and significantly down on budget due to both the impact of the Covid 19 Pandemic but also the delay in the car park expansion project.

(c) **Interest income** was slightly above budget, due to higher than expected cash reserves during the year.

Expenses

(d) **Aeronautical** operations and maintenance costs were lower than target due mainly to less runway repair works being carried out during the year.

(e) **Non-aeronautical** operations and maintenance costs were significantly lower due to lower facility repair costs, licence fee charges and lease costs than budget.

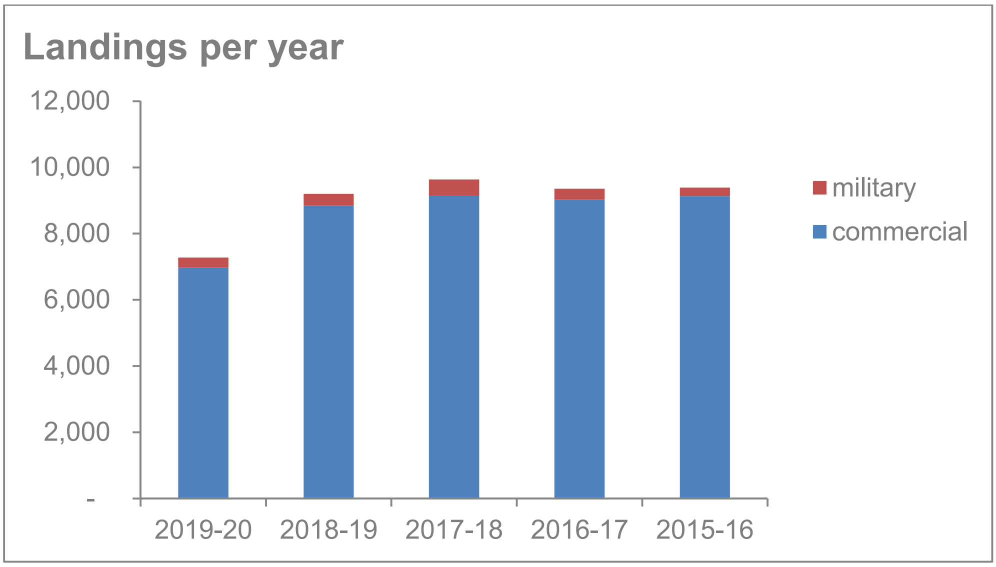
(f) **Finance costs** were marginally higher than anticipated due to the change in accounting treatment for leases under IFRS 16 which resulted in additional interest of $31,805 being accounted for.

(g) **Employment expenses** were on budget for the period.

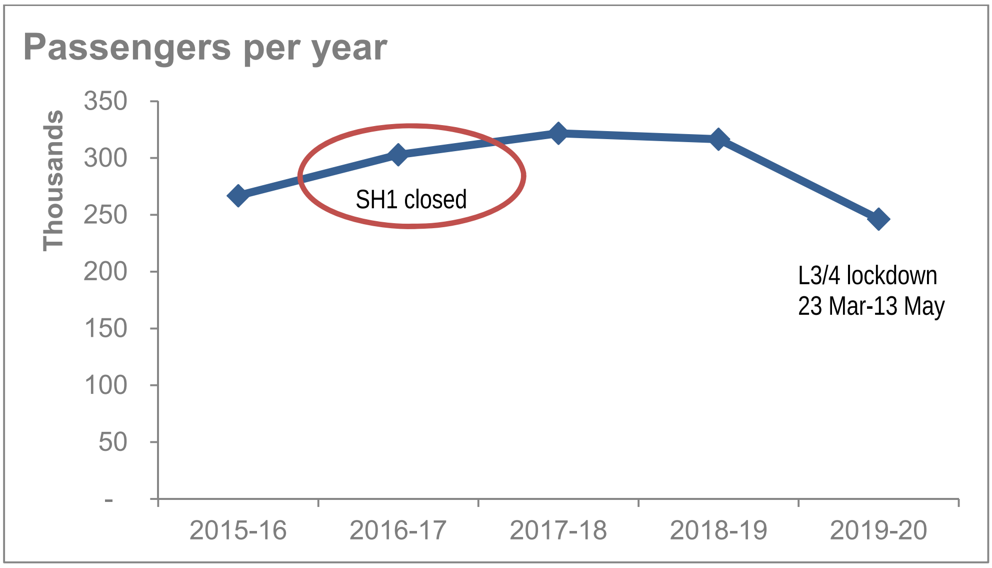
(h) **Depreciation & amortisation expense** were essentially on budget for the period.

1.6 Aircraft and Passenger Activity

Number of Passengers and aircraft Landings in Marlborough



Total landings were down 21% on the previous year from 9,199 in 2019 to 7,276 in 2020. The Covid-19 pandemic significantly reduced flight activity during the last quarter of 2020 due to the nationwide lockdown.



Total passenger movements decreased by 22% from 316,590 in 2019 to 246,341 in 2020. Pre-covid passenger activity for the 12 months to February was up 2.5% on the prior period at 321,935. By July 2020 passenger numbers had returned to 65% of pre-covid levels.

Corporate Governance Statement

Directors' commitment

The Board of Directors (the Board) is responsible for the corporate governance of MAL. Corporate governance encompasses the direction and control of the business by the Directors and the accountability of the Directors to the shareholder, MDC Holdings Limited (MDCH), for MAL's performance and compliance with laws and standards. This summary provides an overview of MAL's main corporate governance policies, practices and processes adopted or followed by the Board.

Role of the Board of Directors

The Board is appointed by the shareholder to supervise the management of MAL. The Board establishes MAL's objectives, strategies for achieving objectives, and the overall policy framework within which MAL's business is conducted and monitors management's performance.

The Board also ensures that appropriate procedures are in place to provide for effective internal control; including an annual review of MAL's operational and Airspace Risk Register.

Board operations and membership

The Board comprises six Directors, including the Chairman. Board members have an appropriate range of proficiencies, experience and skills to ensure that all governance responsibilities are completed to ensure the best possible management of resources. Directors' Interest Register is set out on page 35-36 of this report.

MAL's constitution sets out policies and procedures on the operation of the Board, including the appointment and removal of Directors.

Risk management

The Board has overall responsibility for MAL's internal control systems. The Board has established policies and procedures that are designed to provide effective internal control. Annual budgets and longer-term strategic plans are prepared, and agreed by the Board. Financial Statements and operational reports are prepared on a six monthly basis and reviewed by the Board.

Statement of Intent

In accordance with Schedule 8 of the Local Government Act 2002 the Board submits a draft Statement of Intent (SOI) for the coming financial year. The SOI sets out MAL's overall objectives, intentions, and financial and performance targets. The SOI is approved by the shareholder, MDCH.

For MAL's 2019-20 SOI results see section 1.1 of this report.

Directors Responsibility Statement

MARLBOROUGH airport BLENHEIM

The Directors are responsible for ensuring that the Financial Statements present fairly, in all material respects, the financial position, the financial performance and cash flows for the year ended 30 June 2020.

The Directors consider that the Financial Statements of MAL have been prepared using appropriate accounting policies, consistently applied and supported by reasonable judgments and estimates and that all relevant financial reporting and accounting standards have been followed.

The Directors believe that proper accounting records have been kept which enable, with reasonable accuracy, the determination of the financial position of MAL and facilitate compliance of the statements with the Financial Reporting Act 2013.

The Directors consider that adequate steps have been taken to safeguard the assets of MAL and to prevent and detect fraud and other irregularities.

The Directors have approved and are pleased to present the Financial Statements of Marlborough Airport Limited for the year ended 30 June 2020 on pages 13 to 34.

The Board authorised the issue of these Financial Statements on 10 September 2020.

R W Olliver – Chairman

M S Wheeler – Director

On behalf of the Directors of Marlborough Airport Limited

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Independent Auditor's Report

To the readers of Marlborough Airport Limited's Financial Statements and Performance Information for the year ended 30 June 2020

The Auditor-General is the auditor of Marlborough Airport Limited (the Company). The Auditor-General has appointed me, Nicole Dring, using the staff and resources of Deloitte Limited, to carry out the audit of the financial statements and the performance information of the Company on his behalf.

Opinion

We have audited:

- the financial statements of the Company on pages 13 to 34, that comprise the statement of financial position as at 30 June 2020, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information; and
- the performance information of the Company on pages 2 to 3.

In our opinion:

- the financial statements of the Company on pages 13 to 34:
  - present fairly, in all material respects:
    - its financial position as at 30 June 2020; and
    - its financial performance and cash flows for the year then ended; and
  - comply with generally accepted accounting practice in New Zealand in accordance with New Zealand Equivalents to International Financial Reporting Standards Reduced Disclosure Regime; and
- the performance information of the Company on pages 2 to 3 presents fairly, in all material respects, the Company's actual performance compared against the performance targets and other measures by which performance was judged in relation to the Company's objectives, for the year ended 30 June 2020.

Our audit was completed on 10 September 2020. This is the date at which our opinion is expressed.

The basis for our opinion is explained below. In addition, we outline the responsibilities of the Board of Directors and our responsibilities relating to the financial statements and the performance information, we comment on other information, and we explain our independence.

Impact of Covid-19

Without modifying our opinion, we draw attention to the disclosures about the impact of Covid-19 on the Company as set out in note 3.5 to the financial statements. We draw specific attention to the following matters due to the significant level of uncertainty caused by Covid-19:

- ***Investment property***

Note 9.1 on page 27 describes the 'significant valuation uncertainty' highlighted by the valuer, related to estimating the fair values of the company's Investment property.

Basis for our opinion

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the Professional and Ethical Standards and the International Standards on Auditing (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board. Our responsibilities under those standards are further described in the Responsibilities of the auditor section of our report.

We have fulfilled our responsibilities in accordance with the Auditor-General's Auditing Standards.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of the Board of Directors for the financial statements and the performance information

The Board of Directors is responsible on behalf of the Company for preparing financial statements and performance information that are fairly presented and that 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 it to prepare financial statements and performance information that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements and the performance information, the Board of Directors is responsible on behalf of the Company for assessing the Company's ability to continue as a going concern. The Board of Directors is also responsible for disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless there is an intention to liquidate the Company or to cease operations, or there is no realistic alternative but to do so.

The Board of Directors' responsibilities arise from the Local Government Act 2002.

Responsibilities of the auditor for the audit of the financial statements and the performance information

Our objectives are to obtain reasonable assurance about whether the financial statements and the performance information, as a whole, are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance but is not a guarantee that an audit carried out in accordance with the Auditor-General's Auditing Standards will always detect a material misstatement when it exists. Misstatements are differences or omissions of amounts or disclosures and can arise from fraud or error. Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of readers taken on the basis of these financial statements and the performance information.

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We did not evaluate the security and controls over the electronic publication of the financial statements and the performance information.

As part of an audit in accordance with the Auditor-General's Auditing Standards, we exercise professional judgement and maintain professional skepticism throughout the audit. Also:

- We identify and assess the risks of material misstatement of the financial statements and the performance information, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of the internal control.
- We obtain an understanding of internal control relevant to the audit in order to design audit 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 evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- We evaluate the appropriateness of the reported performance information within the Company's framework for reporting performance.
- We conclude on the appropriateness of the use of the going concern basis of accounting by the Board of Directors and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements and the performance information or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- We evaluate the overall presentation, structure and content of the financial statements and the performance information, including the disclosures, and whether the financial statements and the performance information represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify in our audit.

Our responsibilities arise from the Public Audit Act 2001.

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Other Information

The Board of Directors is responsible for the other information. The other information comprises the information included on page 3 to 6 and 35 to 37, but does not include the financial statements and performance information, and our auditor's report thereon.

Our opinion on the financial statements and the performance information does not cover the other information and we do not express any form of audit opinion or assurance conclusion thereon.

In connection with our audit of the financial statements and the performance information, our responsibility is to read the other information. In doing so, we consider whether the other information is materially inconsistent with the financial statements and the performance information or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on our work, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Independence

We are independent of the Company in accordance with the independence requirements of the Auditor-General's Auditing Standards, which incorporate the independence requirements of Professional and Ethical Standard 1: International Code of Ethics for Assurance Practitioners issued by the New Zealand Auditing and Assurance Standards Board.

Other than the audit, we have no relationship with, or interests in, the Company.

Nicole Dring
for Deloitte Limited
On behalf of the Auditor-General
Christchurch, New Zealand

Financial Statements

Income Statement

For the Financial Year Ended 30 June 2020

	Notes	2020 $ '000	2019 $ '000
Revenue from contracts and operations	4.1	2,856	2,816
Interest revenue	4.1	5	4
Other gains and (losses)		2	20
Operations and maintenance	4.2	(2,499)	(1,861)
Finance costs	4.2	(93)	(116)
Subvention		(112)	-
Depreciation, impairment and amortisation	8,10	(673)	(632)
Profit/(loss) before income tax expense		**(514)**	**231**
Income tax expense/(benefit)	5.1	(246)	86
Total profit/(loss) for the year after tax		**(268)**	**145**

Statement of Comprehensive Income

For the Financial Year Ended 30 June 2020

	Notes	2020 $ '000	2019 $ '000
Total profit/(loss) for the year after tax		**(268)**	**145**
Comprehensive income, net of tax			
Items that will not be classified to profit or loss:			
Gain on revaluation of property, plant and equipment	8	922	-
Income tax relating to revaluation of property, plant and equipment	5.2	(259)	-
Total comprehensive income attributable to equity holders		**395**	**145**

Notes to the Financial Statements are included on pages 17 to 34 and are an integral part of, and should be read in conjunction with, these Financial Statements.

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Statement of Changes in Equity

For the Financial Year Ended 30 June 2020

	2020	2019
	$ '000	$ '000
Balance at beginning of the year	**3,414**	**3,269**
Total comprehensive income for the year, net of tax	395	145
Balance at end of the year	**3,809**	**3,414**

Notes to the Financial Statements are included on pages 17 to 34 and are an integral part of, and should be read in conjunction with, these Financial Statements.

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Statement of Financial Position

As at 30 June 2020

	Notes	2020 $ '000	2019 $ '000
Current assets			
Cash and cash equivalents		558	350
Trade and other receivables	6	134	241
Current tax assets		20	-
Total current assets		**712**	**591**
Non-current assets			
Property, plant and equipment	8	8,628	8,121
Right of use asset	3.6	833	-
Investment property	9	480	480
Deferred tax assets	5.2	259	138
Intangible assets	10	12	33
Total non-current assets		**10,212**	**8,772**
Total assets		**10,924**	**9,363**
Current liabilities			
Trade and other payables	11	393	202
Lease liability	3.6	30	-
Provisions	13.2	550	-
Current tax liability		-	95
Derivative financial instruments	12.2	16	22
Total current liabilities		**989**	**319**
Non-current liabilities			
Derivative financial instruments	12.2	26	45
Provisions	13.1	3,249	2,785
Borrowings	14	2,035	2,800
Lease liability	3.6	816	-
Total non-current liabilities		**6,126**	**5,630**
Total liabilities		**7,115**	**5,949**
Net assets		**3,809**	**3,414**
Equity			
Share capital and other equity instruments	15	1,171	1,171
Asset revaluation reserve		2,118	1,455
Retained earnings	16	520	788
Total equity		**3,809**	**3,414**

R W Olliver – Chairman | M S Wheeler – Director | On behalf of the Directors of Marlborough Airport Limited

Notes to the Financial Statements are included on pages 17 to 34 and are an integral part of, and should be read in conjunction with, these Financial Statements.

Statement of Cash Flows

For the Financial Year Ended 30 June 2020

	2020	2019
	$ '000	$ '000
Cash flow from operating activities		
Receipts from customers	2,966	2,776
Payments to suppliers and employees	(1,408)	(1,602)
Interest and other costs of finance paid	(119)	(128)
Income tax paid (net of refunds)	(248)	(188)
Net cash provided by operating activities	**1,191**	**858**
Cash flow from investing activities		
Payments for property, plant and equipment	(194)	(89)
Payments for intangibles	-	(30)
Interest received	5	4
Net cash used in investing activities	**(189)**	**(115)**
Cash flow from financing activities		
Repayment of lease liability	(29)	-
Repayment of related party borrowings	(765)	(785)
Net cash provided by financing activities	**(794)**	**(785)**
Net increase in cash and cash equivalents	**208**	**(42)**
Cash and cash equivalents at the beginning of the financial year	**350**	**392**
Cash and cash equivalents at the end of the financial year	**558**	**350**

Notes to the Financial Statements are included on pages 17 to 34 and are an integral part of, and should be read in conjunction with, these Financial Statements.

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for
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Notes to the Financial Statements

2. Company information

Marlborough Airport Limited (MAL) is a profit-orientated company incorporated in New Zealand. It operates Marlborough's principal airport at Woodbourne, west of Blenheim. MAL is a reporting entity for the purposes of the Financial Reporting Act 2013 and its Financial Statements comply with that Act, the Companies Act 1993 and the Airport Authorities (Airport Companies Information Disclosure) Regulations 1999.

The parent entity is MDC Holdings Limited (MDCH), which is a 100% owned subsidiary of Marlborough District Council.

3. Significant accounting policies

The following significant accounting policies have been adopted in the preparation and presentation of the Financial Statements for the year ended 30 June 2020, and the comparative information presented in these Financial Statements for the year ended 30 June 2019:

3.1 Statement of compliance

The Financial Statements have been prepared in accordance with Generally Accepted Accounting Practice (NZ GAAP). They comply with the New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) – Tier 2 and other applicable financial reporting standards as appropriate for profit-oriented entities that apply the reduced disclosure regime (RDR). MAL qualifies for NZ IFRS (RDR) as it does not have public accountability and it is not a large for-profit public sector entity. MAL has elected to apply NZ IFRS (RDR) and has applied the disclosure concessions.

3.2 Basis of preparation

The presentation currency is New Zealand Dollars ($), and amounts are rounded to the nearest $000.

These Financial Statements have been prepared exclusive of GST, except receivables and payables, which are GST inclusive. Where GST is not recoverable as an input tax, it is recognised as part of the related asset or expense.

The Financial Statements have been prepared on the basis of historical cost, except for:

- Property, plant and equipment and Investment property which are revalued in accordance with the accounting policies set out in notes 8 and 9.

- Certain non-current assets and derivative instruments (interest rate swaps) that are measured at revalued amounts or fair values at the end of each reporting period as disclosed in the notes to the Financial Statements

- Historical cost is generally based on the fair values of the consideration given in exchange for assets. The categories of financial instruments and corresponding valuation techniques are listed under note 20.

3.3 Statement of cash flows policies

Operating activities include cash received from all income sources of MAL and record the cash payments made for the supply of goods and services.

Investing activities are those activities relating to the acquisition and disposal of non-current assets.

Financing activities comprise of activities that change the equity and debt capital structure of MAL.

Cash and cash equivalents comprise of cash on hand and demand deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. Cash balances not available for use Nil (2019: Nil).

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3.4 Accounting estimates and judgements

The preparation of Financial Statements in conformity with NZ IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses.

The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

Significant judgements, estimates and assumptions made by management in the preparation of these Financial Statements are outlined below:

- Lease liability (note 3.6)
- Asset revaluation (note 8 and note 9)
- Financial instruments (note 12)
- Provision for runway reseal (note 13)

The determination of the timing and cost of re-sealing the runway (note 13) is a key area of judgement/estimate.

3.5 Covid – 19 pandemic

On 11 March 2020, the World Health organisation declared a global pandemic as a result of the outbreak and spread of Covid-19. Following this, the New Zealand Government imposed significant restrictions around travel including quarantining of international travellers arriving into New Zealand. On 25 March 2020, the New Zealand government raised its alert to level 4 (full lockdown of non-essential services) for an initial 4 – week period. Subsequently the alert level was reduced to level 1 on 9 June, easing social distancing and allowing for free travel domestically. However, the international borders remain closed to all but returning New Zealand Citizens and residents, who were still required to quarantine for a minimum of 14 days upon arrival.

As a consequence Covid-19 has had a significant impact on the aviation industry and on MAL's business. The longer-term effects of Covid-19 on MAL's business remains uncertain and the potential impacts of the pandemic continue to evolve rapidly.

With regards to these financial statements, COVID-19 has specifically impacted certain areas of financial reporting and has required MAL to make estimates or judgements. Due to Covid-19, there is uncertainty around forecast domestic and international air travel and consequently on MAL's cash flows. MAL has forecast a 30% reduction in passenger numbers for the year ending 30 June 2021 and a recovery back to pre-Covid-19 levels occurring in the year ending 30 June 2023. These forecasts are based on the information available to MAL at the time of preparing these financial statements and are based on reference to various data sources including, IATA and travel and tourism bodies.

During the year MAL qualified for and received government wage subsidies totalling $22,846. Tenants with tourism dependent businesses such as rental car companies received full rent abatement for the period April through to June. In response to Covid-19 the government also re-introduced tax depreciation on buildings from 30 June 2021. This resulted in a deferred tax Asset of $49,446 being recognised in the current year, please refer to deferred tax balances in note 5.2.

Further disclosures of the material impacts of Covid-19 are included in the relevant notes in these financial statements.

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3.6 New standards adopted

MAL has applied the following standards and amendments for the first time in the current year:

Standards	Periods beginning or after	Effective date
NZ IFRS 16 Leases	1 January 2019	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 (other than short-term or low value leases) and recognises these as a Right-of-use Asset in the Statement of Financial Position.

Lessor accounting remains materially similar to current practice whereby lessors continue to classify leases as finance and operating leases. The impact of the standard has the effect of taking the current leases that MAL is committed to – land leases – and recognising these as lease assets and lease liabilities in the consolidated statement of financial position. As a result, payments for leases previously classified as operating leases have been reclassified from other operating expenses to interest expense and payment of the lease liability. MAL has adopted NZ IFRS 16 using the modified retrospective approach and has not restated comparative amounts for the period prior to first adoption.

The impact of adoption of NZ IFRS on MAL's Statement of Financial Position is summarised in the table below:

	2020 $ '000	2019 $ '000
Right-of-use asset	833	-
Lease liabilities	(846)	-
Change in net assets	**(13)**	-

When compared to the accounting policies applied in the prior comparative period, the adoption of NZ IFRS 16 on the MAL's Statement of Comprehensive Income for the year ended 30 June 2020 is summarised in the table below

	2020 $ '000	2019 $ '000
Operating Expenses	(61)	26
Interest expense - Lease liability	32	-
Depreciation - Right-of-use Asset	42	-
Change in net expense	**13**	26

MAL has utilised the recognition practical expedients specified in NZIFRS16 in respect of short-term and low value leases where appropriate. MAL has also elected to apply the practical expedient which states that an entity is not required to reassess whether a contract is, or contains, a lease at the date of initial application.

The lease liability was measured at the present value of the minimum lease payments, discounted at the incremental borrowing rate applicable to that lease at 1 July 2019. In line with the modified retrospective approach, the associated right-of-use assets were measured at the amount equal to the lease liability relating to 1 July 2019, with no overall change in net assets. The weighted average incremental borrowing cost applied to lease liabilities at 1 July 2019 was 3.69%. The lease term is determined at 20.6 years.

The following table shows the operating lease commitments disclosed applying IAS 17 at 30 June 2019, discounted using the incremental borrowing rate at the date of initial application and the lease liabilities recognised in the statement of financial position at the date of initial application

	2020 $ '000
Operating lease commitments at 30 June 2019	1328
Short-term leases and leases of low- value assets	(78)
Effect of discounting the above amounts	(375)
Lease liabilities recognised at 1 July 2019	**875**

On transition to NZ IFRS 16 at 1 July 2019, MAL recognised a right-of-use asset of $875,153 and a lease liability of $875,153. No adjustment was required to retained earnings. The company chooses to apply NZ IAS 12 requirements to the leasing transaction as a whole to account for deferred tax on operating leases under NZ IFRS 16.

3.7 New standards and interpretations issued but not yet effective

MAL has not applied the following new and revised standards and amendments that have been issued but are not yet effective:

Standards	Periods beginning or after	Effective date
NZ IFRS 17 Insurance contracts	1 January 2021	30 June 2021

3.8 Changes in accounting policies

Except for the new standards adopted (as described above) there have been no changes in accounting policies during the period. All accounting policies have been consistently applied throughout the period covered by these Financial Statements.

3.9 Specific accounting policies

Specific accounting policies are contained within the relevant notes.

4. Profit from operations

4.1 Revenue

Revenue from operations consisted of the following items:

	2020 $ '000	2019 $ '000
Revenue from contracts:		
Landing charges	1,944	1,827
Rental lease and concessions	376	378
Total revenue from contracts	2,320	2,205
Other operating revenue:		
Parking	367	454
Investment property rental income	44	44
Outgoings recovered	102	113
Government grant income	23	-
Total revenue from operations	**2,856**	**2,816**
Interest revenue:		
Bank deposits/IRD use of money	5	4
Total revenue attributable to operations	**2,861**	**2,820**

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Revenue recognition policies

Revenue is recognised as the amount of consideration expected to be received in exchange for transferring the control of promised goods or services to a customer. NZ IFRS 15 does not apply to revenues other than those from contracts with customers. Under NZ IFRS 15 revenue from landing charges is recognised at the point performance obligations are satisfied, and at the transaction price specified in the relevant contract.

Landing charges - Revenue from landing fee charges is MAL's primary source of revenue. The performance obligation is satisfied at either the time an aircraft lands or at the time passengers enter or exit the terminal to board flights. Revenue is measured based on the published transaction prices for the period.

Rental lease and concessions - MAL's policy for recognition of revenue from operating leases is described in note 17.2.

Parking – is charged on an hourly and daily basis and therefore satisfaction of the performance obligation is over time. Revenue is measured based on published transaction prices.

Interest revenue - Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

4.2 Expenses

Profit before income tax has been arrived at after charging the following expenses to operations:

	2020 $ '000	2019 $ '000
Operations and maintenance		
Operating expenses	1,210	1,060
Rescue fire fees	550	-
Loss on disposal of an asset	-	2
Management fees	156	186
Impairments - expected credit loss	2	(18)
Repairs and maintenance	581	630
Total operations and maintenance	**2,499**	**1,860**
Finance costs		
Interest expense - related party loans	81	123
Bank charges	5	6
Loss or (gain) on fair value of interest rate swaps	(25)	(13)
Interest expense - lease liability	32	-
Total finance costs	**93**	**116**

Expense recognition policies

Interest expense - Interest expenses are accrued on a time basis using the effective interest method.

Interest paid is classified as an expense consistently with the Statement of Financial Position classification of the related debt. During the year MAL's Interest rates ranged between 0.48 % and 4.20% (2019: 1.81% and 3.77%).

5. Taxation

Income tax policies

Income tax expense includes components relating to both current tax and deferred tax.

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Current tax is the amount of income tax payable based on the taxable profit for the current year, and any adjustments to income tax payable in respect of prior years. Current tax is calculated using tax rates (and tax laws) that have been enacted or substantively enacted at 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 is measured at tax rates that are expected to apply when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at balance date. The measurement of deferred tax reflects the tax consequences that would follow from the manner in which the entity expects to recover or settle the carrying amount of its assets and liabilities.

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 goodwill or from the initial recognition of an asset or liability in a transaction that affects neither accounting profit nor taxable profit.

Current and deferred tax is recognised against the profit or loss for the period, except to the extent that it relates to items recognised in the Statement of Comprehensive Income or directly in Equity.

5.1 Reconciliation of income tax

The prima facie income tax expense on pre-tax accounting profit/(loss) from operations reconciles to the income tax expense in the Financial Statements as follows:

	2020 $ '000	2019 $ '000
Profit/(loss) before income tax expense	**(514)**	**231**
Tax at current rate 28%	**(144)**	**65**
Plus/(less) tax adjustments:		
Non-deductible items	(102)	21
Income tax expense recognised on the Statement of Comprehensive Income	**(246)**	**86**
Comprising:		
Current tax expense	134	251
Deferred tax credit	(380)	(165)
Total tax expense	**(246)**	**86**

The company's tax liability in relation to 2020 was reduced by tax losses of $400,000 transferred from Marlborough District Council by subvention payment of $112,000 and loss offset of 288,000.

5.2 Deferred tax balances

The deferred tax (asset)/ liability balance reported in the Statement of Financial Position arises from the following temporary differences:

Deferred tax liability/(asset)	**Property, plant and equipment** **$ '000**	**Investment property** **$ '000**	**Provisions** **$ '000**	**Leases** **$ '000**	**Derivative financial instruments** **$ '000**	**Totals** **$ '000**
Balance at 30 June 2018	**704**	**2**	**(657)**	**-**	**(22)**	**27**
Recognised in:						
Profit or loss	(49)	4	(124)	-	4	(165)
Balance at 30 June 2019	**655**	**6**	**(781)**	**-**	**(18)**	**(138)**
Recognised in:						
Other comprehensive income	259	-	-		-	259
Profit or loss	(99)	4	(290)	(2)	7	(380
Balance at 30 June 2020	**815**	**10**	**(1,071)**	**(2)**	**(11)**	**(259**

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6. Trade and other receivables

	2020	2019
	$ '000	$ '000
Trade and other receivables	138	243
Expected Credit Loss	(4)	(2)
Balance at end of the year	**134**	**241**

Trade and other receivables policies

Trade and other receivables, are initially recognised at the transaction price. Balances are written off when the probability of recovery is remote.

MAL makes use of a simplified approach in accounting for trade and other receivables and records the loss allowance as lifetime expected credit losses.

The expected credit losses on trade receivables are estimated using a provision matrix by reference to past default experience of the debtor and are adjusted for factors looking forward that are specific to the debtor and general economic conditions of the industry.

MAL writes off a trade receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or where trade receivables are over two years past due, whichever occurs earlier. None of the trade receivables that have been written off are subject to enforcement activities.

Due to the impacts of Covid-19 on MAL and its customers an assessment was undertaken on trade debtors to assess customers' ability to meet repayments. No additional expected credit losses were identified.

7. Impairment policies

At the end of each reporting period, MAL reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, MAL estimates the recoverable amount of the cash generating unit to which the asset belongs.

Recoverable amount is the greater of market value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount.

For non-revalued assets, impairment losses are recognised as an expense immediately. For revalued assets, other than investment property, the impairment loss is treated as a revaluation decrease to the extent it reverses previous accumulated revaluation increments for that asset.

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, subject to the restriction 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 as income immediately, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase to the extent that any impairment losses on the same asset had been previously charged to equity.

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8. Property, plant and equipment (PPE)

	Cost / Fair value	Accumulated depreciation	Carrying amount	Additions	Disposals	Disposals depreciation adjustment	Depreciation	Asset reclassification	Revaluation cost adjustment	Revaluation depreciation adjustment	Cost / Fair value	Accumulated depreciation	Carrying amount
	$ '000	$ '000	$ '000	$ '000	$ '000	$ '000	$ '000	$ '000	$ '000	$ '000	$ '000	$ '000	$ '000
		1 July 2018										30 June 2019	
Freehold carpark and land improvements FV	2,387	(164)	2,222	35	-	-	(169)	-	-	-	2,422	(333)	2,089
Buildings FV	6,283	(354)	5,929	-	-	-	(354)	-	-	-	6,283	(708)	5,575
Plant and equipment	527	(266)	261	28	(8)	7	(53)	-	-	-	547	(311)	236
Office, furniture and fittings	312	(86)	226	7	-	-	(33)	-	-	-	320	(119)	200
Work in progress	21	-	21	21	-	-	-	(21)	-	-	21	-	21
Total PPE	**9,529**	**(870)**	**8,659**	**92**	**(8)**	**7**	**(609)**	**(21)**	**-**	**-**	**9,592**	**(1,471)**	**8,121**
		1 July 2019										30 June 2020	
Freehold carpark and land improvements FV	2,422	(333)	2,089	-	(1)	1	(169)	-	371	(500)	2,049	0	2,049
Buildings FV	6,283	(708)	5,575	-	-	-	(353)	-	268	(1,061)	6,015	0	6,015
Plant and equipment	547	(311)	236	4	(3)	3	(52)	-	-	-	548	(360)	187
Office, furniture and fittings	320	(119)	200	16	-	-	(35)	-	-	-	334	(154)	181
Work in progress	21	-	21	175	-	-	-	-	-	-	196	-	196
Total PPE	**9,592**	**(1,471)**	**8,121**	**195**	**(5)**	**4**	**(610)**	**-**	**639**	**(1,561)**	**9,142**	**(514)**	**8,628**

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PPE policies

MAL has the following classes of PPE:

- Freehold car park and land improvements
- Buildings
- Plant and equipment
- Office, furniture and fittings
- Work in progress

Freehold car park and land improvements and Buildings MAL applies the fair value method to these assets in accordance with NZ IAS 16 Property, Plant and Equipment. The assets carrying costs are by reference to the assets highest and best use, less any subsequent accumulated depreciation and impairment losses.

Additions between valuations are recorded at cost. Cost represents the fair value of the consideration given to acquire the assets and the value of other directly attributable costs that have been incurred in bringing the assets to the location and condition necessary for their intended service.

All other items of PPE are stated at their cost or deemed cost less any subsequent accumulated depreciation and impairment losses (if any).

Cost includes professional fees and, for qualifying assets, borrowing costs capitalised in accordance with MAL's accounting policy (refer note 14).

Costs incurred in obtaining any resource consents are capitalised as part of the asset to which they relate. If a resource consent application is declined then all capitalised costs are written off.

Revaluation increments are 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 the Income Statement, in which case the increase is credited to the Income Statement to the extent of the decrease previously charged. A decrease in carrying amount arising on the revaluation is charged as an expense in the Income Statement to the extent that it exceeds the balance, if any, held in the asset revaluation reserve relating to a previous revaluation of that asset. On disposal, the attributable revaluation surplus remaining in the revaluation reserve, net of any related deferred taxes, is transferred directly to Retained Earnings. The valuation at 30 June 2020 was the second time MAL performed the revaluation of its Freehold car park and land improvements and Buildings. The previous revaluation was conducted as at 30 June 2017. Future revaluations will be performed with sufficient regularity such that the carrying amount will not differ materially from that which would be determined using fair values at balance date.

Depreciation commences when the asset is ready for use and is charged to Income Statement on all PPE other than work in progress over their estimated useful lives, using the straight-line method (SL). The useful lives and estimated residual values are reviewed at each balance date and amended if necessary. Depreciation on revalued assets is charged to the Income Statement. The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the Income Statement. The depreciation rates of major classes of assets have been estimated as follows:

- Freehold car park and land improvements	3.0 – 33.3% SL
- Buildings	3.0 – 33.3% SL
- Plant and Equipment	3.0 – 67.0% SL
- Office Furniture and Fittings	3.0 – 25.0% SL
- Software (classified as an intangible asset)	40.0% SL

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8.1 Valuation basis

MAL's **Freehold car park and land improvements** and **Buildings** were valued on 30 June 2020 by WSP, independent registered valuers and associates of the NZ Institute of Valuers who have recent experience in the location and category of the items being valued. The fair values of assets represent the estimated price for which an asset could be sold on the date of valuation in an orderly transaction between market participants.

Valuations are updated for subsequent additions at cost, less any subsequent depreciation or impairment losses in the years where the assets are revalued. Any revaluation surplus net of deferred income taxes is credited to the Statement of Comprehensive Income and is shown in Reserves.

Due to the impact of Covid-19 WSP stated in its report that it expected market prices on construction costs and optimisation of assets, as being the two key factors that could possibly impact the value of MAL assets. However, initial forecasts were that construction costs for infrastructure assets would increase by just 2 to 4 percent which would be in the expected range over the next 12 months. In terms of asset optimisation, although a drop off in demand for airport assets was expected in the short-term, that being a domestic airport that this had little impact in the medium to long term. Recent passenger data supports this assessment.

8.2 Fair value model

MAL's **Freehold car park and land improvements** and **Buildings** fall into the specialised asset category. In general terms these assets are:

- Only useful to particular uses or users,
- Rarely, if ever, sold on the open market, except as part of a total business, and
- Generally specialised structures located in particular geographical locations for business reasons.

For these assets fair value has been based on optimised depreciated replacement cost (ODRC) due to the limited market based evidence as the item is rarely sold, except as part of a continuing business.

8.3 Cost model

The carrying amount of MAL's **Freehold car park and land improvements** and **Buildings** had they been recognised under the cost model is as follows:

	2020 $ '000	2019 $ '000
Freehold carpark and land improvements	1,408	1,524
Buildings	4,122	4,393

8.4 Capital expenditure commitments

There are no capital expenditure commitments at balance date. (2019: nil)

9. Investment property

	2020 $ '000	2019 $ '000
Balance at beginning of the year	**480**	**460**
Net gain/(loss) from fair value adjustment	-	20
Balance at end of the year	**480**	**480**

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Investment property policies

Investment property is property held primarily to earn rentals and/or for capital appreciation, and includes MAL's Aircraft hangar. The hangar is located at the airport and leased to a third party. Investment property is stated at its fair value at balance date.

Gains or losses arising from changes in the fair value of investment property are included in the Income Statement for the period in which they arise, except when the investment property is transferred from PPE when the initial recognition of gains or losses arising from the changes in fair value is recognised in Other Comprehensive Income.

9.1 Valuation basis

MAL's investment properties were valued on 30 June 2020 by Alexander Hayward Limited, independent registered valuers and associates of the NZ Institute of Valuers. The valuers have experience in the location and category of the items being valued. The fair values are based on market values, being the estimated price for which an asset could be sold on the date of valuation in an orderly transaction between market participants.

Due to the uncertain impact of Covid 19 on market values, the valuation of investment properties performed by Alexander Heywood has been reported on the basis of having 'significant valuation uncertainty'. Alexander Hayward state as a consequence that a "higher degree" of caution should be attached to the valuation than normally would be the case.

9.2 Fair value model

The valuation was undertaken using an investment approach based on an assessment of market rental potential capitalised at current market investment rates analysed from market transactions. The rental capitalisation rate adopted was 7.5% (2019, 7.5%).

10. Intangible assets

	2020	2019
Software gross carrying amount:	**$ '000**	**$ '000**
Balance at beginning of the year	**114**	**84**
Additions/(Disposals)	(2)	30
Balance at end of the year	**112**	**114**
Software accumulated amortisation and impairment:		
Balance at beginning of the year	**81**	**58**
Amortisation	19	23
Balance at end of the year	**100**	**81**
Software net book value at end of the year	**12**	**33**

Amortisation expense is included in the line item 'depreciation, impairment and amortisation expense' in the Income Statement.

Intangible assets policies

Software is a finite life intangible and is recorded at cost less accumulated amortisation and impairment losses. Amortisation is charged on a straight line basis over their estimated useful lives. The estimated useful life and amortisation method is reviewed at the end of each annual reporting period.

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11. Trade and other payables

	2020 $ '000	2019 $ '000
Trade creditors	91	98
Expenses accrued	132	41
Income in advance	25	15
GST (payable)/receivable	(7)	26
Payroll liabilities	35	10
Related parties - Interest	5	12
Subvention payment	112	-
Balance at end of the year	**393**	**202**

Trade and other payables policies

Trade and other payables principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 30 days. For most suppliers no interest is charged on the trade payables for the first 30 days from the date of invoice.

Thereafter, interest maybe charged on the outstanding balances at various interest rates. The group has financial risk management policies in place to ensure that all payables are paid within the pre-agreed credit terms. The directors consider that the carrying amount of trade payables approximates to their fair value.

12. Derivative financial instruments (interest rate swaps)

Interest rate swap policies

MAL enters into interest rate swaps to manage cash flow interest rate risk. These swaps:

- Are initially recognised at fair value on the date the contract is entered into and are subsequently re-measured to their fair value.
- Do not qualify for hedge accounting.
- Have fair value changes recognised in the Income Statement.
- Are not used for speculative purposes.

12.1 Interest rate swap contracts

Interest rate contracts are entered into by the parent on behalf of MAL. Under the contracts, MAL agrees to exchange the difference between fixed and floating rate interest amounts calculated on agreed notional principal amounts. Such contracts enable MAL to mitigate the risk of changing interest rates on debt held.

The interest rate swaps will either incur an interest expense or interest revenue from the parent, depending on whether the fixed rate is favourable or unfavourable to the variable interest rate at the time. The expense (or revenue) is paid (or received) by MAL directly to (or from) the parent. Similarly the gains or losses on the revaluation of swaps are passed from the parent through to MAL.

During the year the interest rates for MAL's current swaps ranged between 3.77% and 4.20% (2019: 3.61% and 3.77%).

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The parent has entered into the following interest rate contracts on behalf of MAL:

	2020	2019
	$ '000	$ '000
Interest rate swap contracts with ASB bank	**900**	**2,400**
Active swaps	900	2,000
Forward dated swaps	-	400

12.2 Interest rate swap liability at fair value through profit or loss (FVTPL)

	2020	2019
	$ '000	$ '000
Interest rate swap liability at FVTPL	**(42)**	**(67)**
Classified as:		
Current	(16)	(22)
Non-current	(26)	(45)

The fair value of interest rate swaps is supplied by an independent third party and is based on market values of equivalent instruments at the reporting date and is calculated as the present value of the estimated future cash flows based on observable yield curves. The Board considers that the carrying amount of financial assets and financial liabilities recorded in the Financial Statements approximates their fair values.

13. Provisions

Provision policies

Provisions are recognised when MAL has a present obligation as a result of a past event and it is probable that MAL will be required to settle that obligation. Provisions are measured at management's best estimate of the expenditure required to settle the obligation at balance date, and are discounted to present value where the effect is material.

Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate.

13.1 Provision for runway reseal

	2020	2019
	$ '000	$ '000
Balance at beginning of the year	**2,785**	**2,322**
Additions	464	463
Balance at end of year	**3,249**	**2,785**
Classified as:		
Non-current	3,249	2,785

Provision is made to reflect MAL's obligation to maintain the runway under their licence agreement with New Zealand Defence Force.

A review of costs is expected to take place every three years. In March 2020 MAL commissioned Beca Limited to undertake a desktop feasibility assessment and prepare a high level Rough Order Cost (ROC) estimate of the surfacing of the runway.

The ROC of the runway reseal has an estimated present value of $5.1 million. The Business and Economic Research Limited (BERL) price level adjustors plus a 3.5% interest factor to represent the borrowing costs were applied to the ROC to calculate the amount to be provided each year up until 2025, when the runway is expected to be resealed.

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13.2 Provision for Rescue Fire Service

	2020	2019
	$ '000	$ '000
Balance at beginning of the year	**-**	**-**
Additions	550	-
Transfers	-	-
Balance at end of year	**550**	**-**
Classified as:		
Current	550	-

The New Zealand Defence Force provides Rescue Fire Services (RFS) for MAL. MAL is currently negotiating the fee for the 2020 financial year and expects to settle this in the first quarter of 2021. The provision of $550,000 is considered a reliable estimate.

14. Borrowings

	2020	2019
	$ '000	$ '000
Opening unsecured loans from parent at amortised cost	**2,800**	**3,585**
Less repayments	765	785
Unsecured loans from parent at amortised cost	**2,035**	**2,800**
Classified as:		
Non-current	2,035	2,800

Borrowings policies

Borrowings are initially recognised at cost, being the fair value of the consideration received net of issue costs associated with the borrowing, and subsequently measured at amortised cost using the effective interest rate method. Amortised cost is calculated taking into account any issue costs, and any discount or premium on drawdown.

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use/sale, are added to the cost of those assets, until such a time as the assets are substantially ready for their intended use or sale. The capitalised borrowing costs (refer to note 4.2) reflect the hedged interest rate at the time interest is incurred.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in the Income Statement in the period in which they are incurred.

14.1 Loan maturities

Funds have been raised under a loan facility held by the parent entity. The parent entity has signalled through their SOI their intentions to meet MAL's long term funding requirements.

14.2 Security

MAL's related party debt is not secured. Loans from the parent entity are regarded as term and MAL has received confirmation that no portion of it will be called up in the next 15 months.

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15. Share capital and other equity instruments

	2020	2019
	$ '000	$ '000
1,170,726 fully paid ordinary shares (2019: 1,170,726)	**1,171**	**1,171**

Fully paid ordinary shares carry one vote per share and carry the right to dividends.

Equity instruments policies

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by MAL are recorded at the proceeds received, net of direct issue costs. The asset revaluation reserve arises on the revaluation of MAL's Freehold car park and land improvements and Buildings. When such a revalued asset is sold that portion of the asset revaluation reserve which relates to that asset, and is effectively realised, is transferred to retained earnings.

16. Retained earnings

	2020	2019
	$ '000	$ '000
Balance at beginning of the year	**788**	**643**
Net profit/(loss) for the year net of tax	(268)	145
Balance at end of the year	**520**	**788**

17. Operating leases arrangements

17.1 MAL as lessee

Maturity analysis of lease liabilities

	2020	2019
	$ '000	$ '000
Not longer than 1 year	61	139
Longer than 1 year and not longer than 5 years	243	243
Longer than 5 years	885	946

Lessee policies

MAL assess whether a contract is or contains a lease, at inception of the contract. MAL recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. For these leases, MAL recognises the lease payments as an operating expense on a straight – line basis over the term of the lease.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability and by reducing the carrying amount to reflect the lease payments.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day, less any lease incentives received and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Lease arrangements

The operating leases relate to MAL's land. MAL's operating lease contracts contain market review clauses in the event that MAL exercises its option to renew. MAL does not have an option to purchase the leased asset at the expiry of the lease period.

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17.2 MAL as lessor

Maturity analysis of lease payments due

	2020	2019
	$ '000	$ '000
Year 1	329	135
Year 2	272	328
Year 3	271	-
Year 4	132	-
Year 5	132	-
Longer than 5 years	51	-

Lessor policies

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

Lease arrangements

Operating leases relate to tenancies with lease terms of up to 6 years, with provision for renewal. All operating lease contracts contain market review clauses in the event that MAL exercises its option to renew. The lessee does not have an option to purchase the property at the expiry of the lease period. Rentals are received from freight shed, terminal rental, ground rental, aircraft hangar, advertising signs and rental car wash facility.

18. Contingent assets and contingent liabilities

18.1 Contingent assets

MAL had no contingent assets or liabilities as at 30 June 2020 (2019: Nil).

19. Related party transactions

19.1 Parent entities

The parent entity is MDC Holdings Limited (MDCH) which is 100% owned by the ultimate parent entity, Marlborough District Council.

19.2 Entities controlled/significantly influenced by the Crown

MAL enters into a large number of transactions with government departments, Crown entities, state-owned enterprises and other entities controlled or subject to significant influence by the Crown.

These transactions are not separately disclosed where they:

- Are conducted on an arm's length basis;
- Result from the normal dealings of the parties; and
- Meet the definition of related party transactions only because of the relationship between the parties being subject to common control or significant influence by the Crown.

19.3 Transactions with related parties

Port Marlborough New Zealand Limited (PMNZL)

PMNZL is a related party to MAL as it has the same parent. During the year MAL received payments of $1,500 (2019: $1,500) plus GST from PMNZL.

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MDC Holdings Limited (MDCH)

Interest is charged on the outstanding related party loan at commercial interest rates. The parent entered into a swap agreement with ASB for MAL. The terms of the loans and swaps between MAL and the parent match the terms set between the bank and the parent (note 12).

Transactions between MAL and parent are as follows, amounts are exclusive of GST where applicable:

	2020 $	2019 $
Amounts paid to MDCH during the year:		
Interest on loans	81,131	122,841
Swap valuation fees	436	920
Amounts payable to MDCH at balance date:		
Interest on loans	5,406	11,723
Borrowings	2,035,000	2,800,000
Swaps (active) held on behalf by MDC Holdings Ltd	900,000	2,000,000

Marlborough District Council (MDC)

Transactions between MAL and the ultimate parent, MDC, are as follows:

	2020 $	2019 $
Services charged by MDC during the year	201,015	182,665
Subvention payment	112,000	-
Services payable to MDC at balance date	115,826	2,327
Received from MDC during the year	10,000	4,000

20. Categories of financial instruments

Financial assets / (liabilities)		Financial assets at amortised cost $ '000	Financial liabilities at amortised cost $ '000	Designated as FVTPL $ '000	Total $ '000
Cash and cash equivalents		350	-	-	350
Trade and other receivables	6	241	-	-	241
Trade and other payables	11	-	(202)	-	(202)
Interest rate swaps	12.2	-	-	(67)	(67)
Related party loans	14	-	(2,800)	-	(2,800)
Balance at 30 June 2019		**591**	**(3,002)**	**(67)**	**(2,478)**
Cash and cash equivalents		558	-	-	558
Trade and other receivables	6	134	-	-	134
Trade and other payables	11	-	(393)	-	(393)
Lease liability	3.6	-	(846)	-	(846)
Interest rate swaps	12.2	-	-	(42)	(42)
Related party loans	14	-	(2,035)	-	(2,035)
Balance at 30 June 2020		**692**	**(3,274)**	**(42)**	**(2,624)**

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20.1 Fair value measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique.

20.2 Valuation techniques

The fair values and net fair values of financial assets and financial liabilities are determined as follows:

- **Financial assets** and **financial liabilities** with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices; and
- **Other financial assets** and **financial liabilities** are determined in accordance with generally accepted pricing models based on discounted cash flow analysis; and
- **Derivative financial instruments** (interest rate swaps), are calculated using quoted prices. Where such prices are not available, use is made of discounted cash flow analysis using the applicable yield curve for the duration of the instruments.

21. Events after the reporting period

At the time of preparation of these Financial Statements, due to Covid-19 Auckland was at Alert Level 2.5 and the rest of New Zealand at Alert Level 2. The alert levels were due to be reviewed again on 14 September 2020. A third wage subsidy had also been announced for businesses which had experienced a 40% drop in revenue on the previous year for the period 12 August 2020 to 10 September 2020. MAL applied for and received this additional two week wage subsidy.

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Statutory information

Auditors

Nicole Dring of Deloitte Limited, acting on behalf of the Office of the Auditor General is the auditor for MAL for the year ended 30 June 2020.

Dividends

No distribution by way of dividend is recommended.

Employee remuneration

No employees received total remuneration over $100,000 in their capacity as employees of MAL.

Interest register

Directors' remuneration and benefits

No directors' fees have been paid by MAL for the 12 month period.

Directors' loans

There were no loans given by MAL to Directors.

Directors' and officers' liability insurance

MAL has arranged Directors' and Officers' Liability Insurance with Vero Liability Insurance Limited. This policy indemnifies Directors for sums they may become legally obliged to pay arising from a wrongful act allegedly committed in their capacity as a Director. The policy does not cover liabilities arising from insider trading, dishonest acts and/or personal profit or advantage to which the Directors are not legally entitled.

Use of Company information

During the year, the Board did not receive any notices from Directors of MAL requesting the use of company information, received in their capacity as Directors, which would not otherwise have been available to them.

Directors' interest in contracts

The following Directors have declared interests in the identified entities. The declaration serves as a notice that the Director may benefit from any transaction between MAL and the identified entities.

R W Olliver	
Fulton Hogan Limited	Director
Fulton Hogan Land Development Limited	Director
Goldpine Group Limited	Shareholder
Kenepuru Forests Limited	Director
MDC Holdings Limited	Director
Ridgeback Trustees Limited	Director / Shareholder
St Andrews Property Group Limited	Director
Stone Farm Holdings Limited	Shareholder
The Bottling Company Limited	Director
Toi Downs Limited	Director
Lancewood Forest Limited	Director

J C Leggett	
BJM Forests Limited	Director / Shareholder
Bryce Trustee Limited	Director
JAHB Properties Limited	Director / Shareholder
JCL Trust	Trustee
JSJ Trust	Trustee
Marlborough District Council	Mayor
MDC Holdings Limited	Director
Ocean Marine Farm Limited	Shareholder
Pigeon Bay Aquaculture Limited	Shareholder
Res Ipsa Loquitur Limited	Director / Shareholder
Riverlands Viticulture Limited	Director / Shareholder
TWL Trust	Trustee
Walnuts New Zealand Co-operative Limited	Shareholder
Willowgrove Dairies Limited	Shareholder
Wisheart Macnab & Partners Solicitors Nominee Co Ltd	Director / Shareholder
Wisheart Macnab & Partners Trustee Company Limited	Director / Shareholder / Partner

M A Peters	
Acciacare Marlborough limited	Shareholder (As Trustee)
Goodwin Bay Communal Jetty Co. Limited	shareholder
Holtrop Family Trust	Trustee
MA & VF Peters Limited	Director / Shareholder
MA Peters Family Trust	Trustee
Marlborough District Council	Councillor
Marlborough Garlic Limited	Director
M J Simmons Trust	Trustee
Hawkesbury Farm Limited	Director
MDC Holdings Limited	Director
NZ Rugby Foundation Trustee company Limited	Director
Peters Doig Trustee Company Limited	Director
Pure New Zealand Garlic Limited	Director
Seymour Building	Director / Shareholder
Simmons Plumbing Limited	Shareholder (As Trustee)

M S Wheeler	
Marlborough District Council	CEO
MDC Holdings Limited	Director
CAMA Trust	Trustee

A M Barton	
Leslie & O'Donnell Trustees Limited	Director
Leslie & O'Donnell Limited	Director/shareholder
MDC Holdings Limited	Director
Barton Foods Limited	Director/Shareholder
Malbec Trust	Trustee
Marlborough Lines Limited	Director
Seaview Capital Limited	Director
Ngāti Apa ki te Rā Tō Trust Board	Member

D D Oddie	
Boatsmart Limited	Director/Shareholder
David Oddie Investment Trust	Trustee
David Oddie Investment No.2 Trust	Trustee
D & W Oddie Family Trust	Trustee
Marlborough District Council	Councillor
MDC Holdings Limited	Director

Company Directory

Directors

R W Olliver (Chairman)
J C Leggett
M A Peters
M S Wheeler
A M Barton
D D Oddie

Registered Office

Marlborough District Council
15 Seymour Street
Blenheim

Company Number

517274

CEO

Dean Heiford
Marlborough District Council
Telephone (03) 520 7400

Auditor

Nicole Dring of Deloitte Limited on behalf of the Office of the Auditor General

Banker

Bank of New Zealand
Market Street
Blenheim
Telephone (03) 577 2712

Solicitors

Ford Sumner Lawyers
Level 7 Midland Chambers
45 Johnston Street
Wellington
Telephone (04) 9103200

Shareholders

MDC Holdings Limited - 100%
1,170,726 shares