NAPIER CITY COUNCIL
Te Kaunihera o Ahuriri

Napier Civic Building
231 Hastings Street
t +64 6 835 7579
e info@napier.govt.nz
www.napier.govt.nz

ORDINARY MEETING OF COUNCIL

Open Attachments Under Separate Cover

Meeting Date:	Thursday 11 March 2021
Time:	10.00am
Venue:	Council Chambers Hawke's Bay Regional Council 159 Dalton Street Napier

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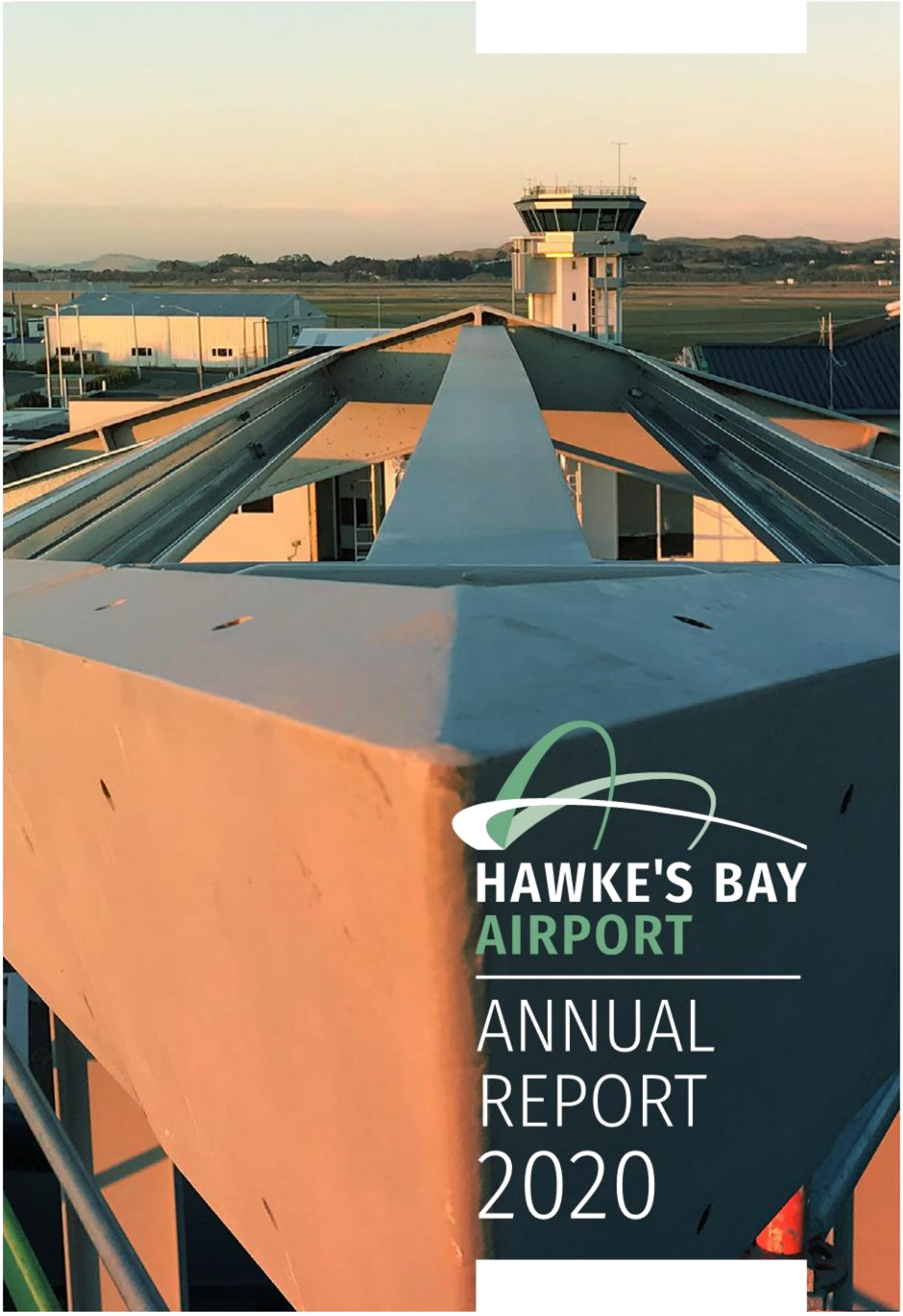
HAWKE'S BAY
AIRPORT
ANNUAL
REPORT
2020

Cover image taken by construction site manager, Callum Sutherland.

KIA ORA, WELCOME

As a people, New Zealanders are constantly learning what it is that brings us together, and as a country, how we contribute to the world. We take great pride in our unique position here in the deep blue Pacific, our special heritage, unrivalled landscapes, and our values.

Hawke's Bay Airport is more than simply an assortment of buildings and tarmac. It is a collection of people who collaborate widely, solve problems rapidly, and strive for excellence. We are also resilient, and it is this characteristic that in many ways sums up the theme of this year's Annual Report.

Here at the Airport, our Strategic Plan identifies five strategic pillars under which we deliver our key services: Property, People, Commercial, Operations and Partners.

This document includes commentary against each of these pillars.

HAWKE'S BAY AIRPORT LIMITED

REGISTERED OFFICE

Terminal Building
111 Main North Road
Napier 4140
Hawke's Bay
New Zealand

POSTAL ADDRESS

PO Box 721
Napier 4140
Hawke's Bay
New Zealand

admin@hawkesbay-airport.co.nz
www.hawkesbay-airport.co.nz

BANKERS

ANZ Bank New Zealand Ltd

SOLICITORS

Dentons

AUDITORS

Baker Tilly Staples Rodway
Audit Limited on behalf
of the Auditor General

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ABOUT US

Hawke's Bay Airport was officially opened on 15 February 1964. The first commercial flight was a national airways corporation DC-3 from Wellington.

Today Hawke's Bay Airport is the third busiest airport in the North Island and plays an essential role in connecting the region's people and produce with the wider national and international economy.

The Hawke's Bay Region stretches from Wairoa in the north to Waipukurau in the south and at the 2018 New Zealand census had a population of 166,368.

Hawke's Bay has a long and proud history. Māori first settled here around 1250–1300 AD and today represent over 26% of the region's population. The region's largest iwi (tribe) is Ngāti Kahungunu.

OWNERSHIP AND GOVERNANCE

Governance sits with the Board of Directors of Hawke's Bay Airport Limited (HBAL), which is responsible for the strategic and overall direction of the organisation. Directors are appointed by the company's shareholders: Napier City Council (26%), Hastings District Council (24%) and the Crown (50%).

The Board has four Directors: two appointed by the Council shareholders and two appointed by the Crown.

The Board meets regularly with management to review the company's performance, and provides quarterly, half-yearly and annual business performance reports to shareholders.

CHAIR'S REPORT

As part of the region's key infrastructure, Hawke's Bay Airport is a proud gateway asset that has served the Hawke's Bay Community since 1935. Along with our community the organisation has weathered both natural and economic disasters – no more so than in 2020 as we have responded to the challenges of COVID-19.

It would be an understatement to say Hawke's Bay Airport has been "confronted" by a number of testing events over the past 12 months – with the need to reset the terminal reconstruction project following the voluntary administration of Arrow Limited in 2019, the unexpected departure of Jetstar from regional services in November, pandemic and lockdown impacts since March 2020, and the recent announcement by Airways NZ of their intention to withdraw staff from the airport control tower.

In every instance the HBAL has risen to these challenges with an eye on recovery and the preservation of shareholder value. I am enormously proud of the work and dedication of every single staff member in the Hawke's Bay team, including our 31 volunteer ambassadors. The year-end result was impacted by a significant asset write off which resulted in a deficit; however, I am mindful of the fact that no matter what the challenge, our airport has continued to operate safely without degradation of service to airport passengers, tenants, community stakeholders and visitors.

Our focus is now on the future and diversification of revenue streams. The terminal rebuild is due to be completed in March 2021, presenting a number of opportunities for new offerings that reflect the unique character of Hawke's Bay.

We are proud to have signed a joint venture agreement with Waipukurau-based lines company Centralines, with the bold aim of becoming New Zealand's first carbon neutral airport through the development of a large scale solar farm.

Our commercial development activities are focused on plans to develop a property precinct, and we are working hard to progress a high quality sustainable transport and logistics hub to support the region. There is much to look forward to.

In closing I'd like to thank our Chief Executive, Stuart Ainslie and fellow Directors for their support and leadership during 2019/2020. I'd also like to specifically acknowledge the significant contribution of retiring Chair Tony Porter, and outgoing board member Taine Randell for the sharp minds, commercial acumen and innovation they brought to the boardroom. We also warmly welcome Sarah Reo and Jon Nichols to the HBAL Board.

We have a strong team in place for 2020/2021 with diversity of thought and experience, which will hold us in good stead for the months ahead. We look forward to working with our communities, partners and stakeholders to provide a safe, sustainable and best-in-class gateway for our region.

WENDIE HARVEY
Chair

CHIEF EXECUTIVE OFFICER'S REPORT

COVID-19 has reinforced the need for HBAL to diversify our revenue to minimise risk and create resilience with a significant focus on property development and renewable energy.

As we ventured into July 2019 the airport business had come off the back of unprecedented growth reaching record passenger numbers. Little did we know how significant the impacts of the COVID-19 pandemic would be on the aviation industry globally. This event has had a significant material effect on this year's financial performance.

In fact, during April 2020 there were just 149 passenger movements for Hawke's Bay Airport. The numbers climbed slowly by year end to approximately 50% of pre-COVID schedules, with annualised passenger numbers of 541,000 putting our base growth back to 2015 levels.

As a result, this year will be the first year that Hawke's Bay Airport has reported a net loss after tax, with a final result of $1.013m noting that this includes a write down for the old terminal of $1.371m.

Despite the significant impact on revenue I am pleased to report strong progress against our strategic plan with a continued focus on building resilience and revenue diversification to provide added value to our shareholders and the Hawke's Bay community.

Progressing the terminal expansion under our subsidiary Hawke's Bay Airport Construction we are delighted to have opened Stage 2 on schedule, and are also well on our way to finalising the terminal in early 2021 despite a few weeks of COVID-related setbacks. This stage of the project is one we feel will be warmly welcomed by the region especially as the project was first conceptualised approximately five years ago.

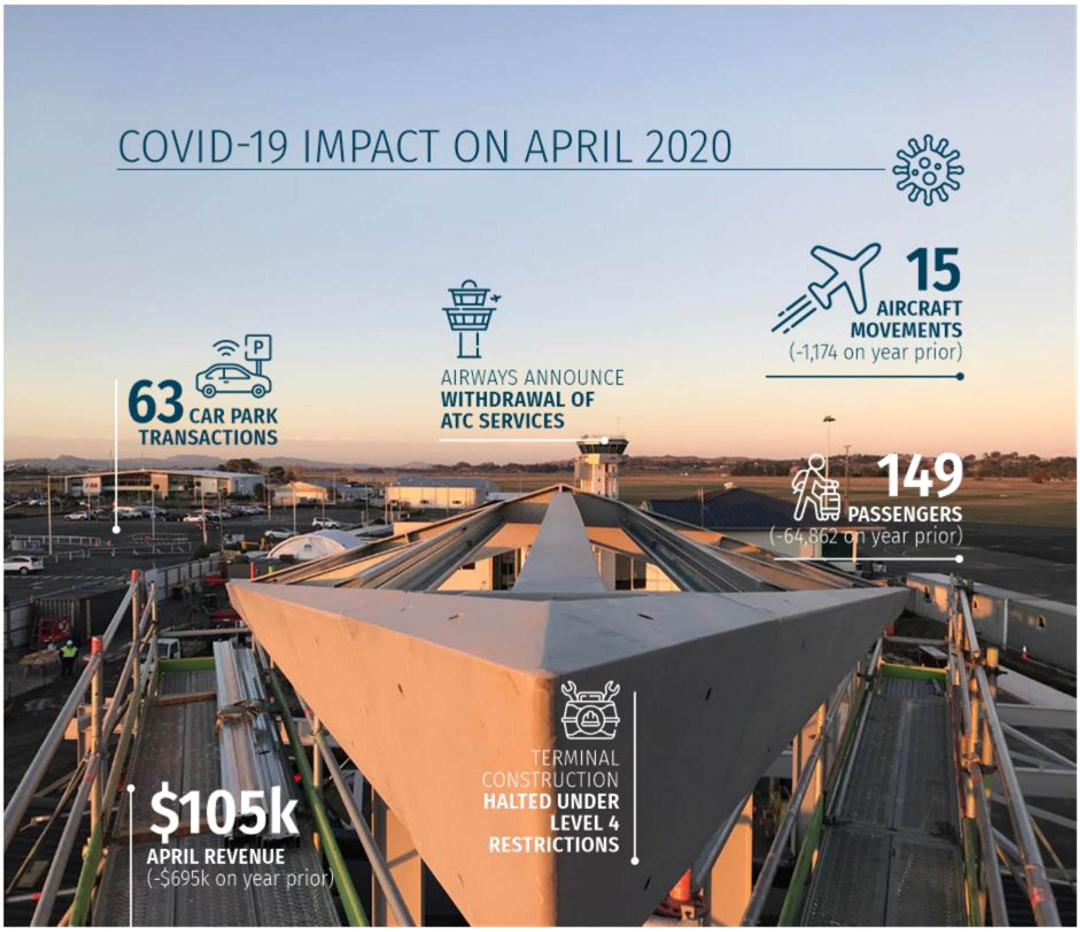
During the reporting period we completed our first biannual Airport Service Quality Surveys which are administered by our amazing team of airport ambassadors. Along with a significant number of positives, two areas we strive to improve are our car park-to-gate and airport shopping experiences. We are confident that both areas will be addressed in the coming year on the completion of our new terminal, forecourt and retail offerings.

Our people are central to the delivery of our mission to deliver a safe, sustainable and customer-centric airport experience, and we are glad to welcome onboard our new Fire Team to HBAL after successfully completing the insource of these previously outsourced critical roles.

I'd like to thank Task Protection Services for their service and commitment to ensure the continued safety of our airport for the past 25 years.

In April 2020 HBAL received notice from NZ Airways Corporation of their intention to withdraw air traffic control services from seven regional airports including Hawke's Bay. HBAL has identified an opportunity in this to shape future air services through the use of technology and revised commercial models. This has seen us lead the formation of a strategic collaboration with Airways, New Plymouth Airport and Gisborne Airport.

The impact of COVID-19 has emphasised the need for revenue resilience and the strong foundation created through our strategy of revenue diversification. Over this reporting period the foundational work has been completed on our master plan with detailed property development plans in hand.



The new Watchman Road entry is a collaboration project that we are extremely proud of. The project's national significance was further acknowledged during the year when it scooped the Infrastructure Project of the Year category at the NZ Airports Association's annual awards. The new airport entry is a key element in positioning the next phase of our commercial development along with our sustainability aspirations.

Great progress has been made against our sustainability framework with the advancement of our solar farm project joint venture, electricity and water minimisation focus, and progress towards attaining accredited carbon neutrality.

We believe that our partnership with our regional councils, local businesses, community and tangata whenua is critical to our success, and we are proud of the work we have undertaken during the reporting period to reinforce this through joint ventures, partnerships and sponsorships.

I am pleased to be presenting this 2020 Annual Report and look forward to working in collaboration with our shareholders and key business partners on the delivery of our 2020/2021 SOI.

Ngā mihi maioha,

STUART AINSLIE
Chief Executive Officer

WHERE WE ARE HEADING

Hawke's Bay Airport's vision is to be New Zealand's most vibrant and successful regional airport welcoming 1 million passengers by 2030.

We will achieve this by delivering against our mission of enabling safe, customer-focused and sustainable air transport services in and out of Hawke's Bay. We will also build the resilience of future revenues by unlocking the potential of our land.

Our success in working towards this vision will be measured by performance across the five strategic pillars of our business.


SAFETY FIRST
Safety will always be our top priority
ENVIRONMENTALLY RESPONSIBLE
We are committed stewards of our environment and the community in which we operate
WE LOOK TO THE HORIZON
We will plan diligently for the future through collaboration with the Hawke's Bay community, shareholders and business partners
New Zealand's most vibrant and successful regional airport – welcoming 1 million passengers by 2030
VISION
VALUES
MISSION
To enable safe, customer-focused and sustainable air transport services in and out of Hawke's Bay
STRIVING FOR CONTINUED COMMERCIAL SUCCESS
We will seek new and innovative ways to derive revenue from our asset base and services while growing value to our customers and shareholders
CUSTOMER FOCUSED
We will focus on what is important to our customers to ensure our continued success and significance in the marketplace
CARE AND RESPECT FOR OUR PEOPLE
We care about our people – they are our most important resource and we appreciate their values, respect their rights and recognise their commitment
STRATEGIC PILLARS
PROPERTY
PEOPLE
COMMERCIAL
OPERATIONS
PARTNERS
SUSTAINABILITY FRAMEWORK
SOCIAL OPPORTUNITY
FINANCIAL RETURN
ENVIRONMENTAL EXCELLENCE
OPERATIONAL EFFICIENCY
HAWKE'S BAY AIRPORT LTD – ANNUAL REPORT 2020 – 11

SUSTAINABILITY FRAMEWORK

Our commitment to sustainability will be unwavering. It is a guiding principle that will shape our decision making to ensure a holistic approach that considers all four pillars of our sustainability framework. We will grow our business in a way that delivers financial returns, and is environmentally excellent, socially responsible and operationally efficient.

SUSTAINABILITY FRAMEWORK

SOCIAL OPPORTUNITY

GOAL:
Invest in & positively contribute to sustainable and healthy communities while being a good neighbour.

OUTCOMES
- Local job creation & skills training
- Support local charities & communications initiatives
- Staff engagement – diversity & inclusion
- Effective noise management

FINANCIAL RETURN

GOAL:
Stimulate economic growth via intelligent solutions with attractive payback periods to deliver life-cycle savings & revenue.

OUTCOMES
- Support local & regional businesses
- Facilitate local procurement
- Attract inward investment
- Expand global business networks
- Enhance retail products

ENVIRONMENTAL EXCELLENCE

GOAL
Focus on innovation, new technology & asset utilisation to deliver exceptional environmental outcomes.

OUTCOMES
- Carbon neutrality – improve air quality
- Reduce noise annoyance
- Optimise natural resource use
- Pollution prevention & control
- Wildlife control – future proofing

OPERATIONAL EFFICIENCY

GOAL
Optimise the airfield layout & core processing nodes to enhance punctuality, operational flexibility & resilience.

OUTCOMES
- Terminal capacity
- Simple spacial & functional layouts
- Efficient operational procedures
- Intuitive wayfinding – safety & security
- Passenger & staff wellbeing

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"OUR ASPIRATION IS TO BE NEW ZEALAND'S FIRST CARBON-NEUTRAL AIRPORT. WE WILL ACHIEVE THIS BY PUTTING SUSTAINABILITY AT THE HEART OF EVERYTHING WE DO".

STRATEGIC PILLARS

PROPERTY

Making the best use of our land while safeguarding our airport to optimise returns and increase value to our shareholders.

PEOPLE

Working together to get the best outcomes from our people in a great place to work and live.

COMMERCIAL

Maximising the returns across our aeronautical business while delivering greater value and a strong sense of place.

OPERATIONS

Ensuring a safe, rewarding and delightful journey for our travellers. Striving for excellence in everything we do.

PARTNERS

Engaging with our customers, stakeholders, business partners and community to grow our airport in a way which benefits everyone. A great place to do business.

BOARD OF DIRECTORS

WENDIE HARVEY
CHAIR

SARAH PARK
DIRECTOR

TAINE RANDELL
RETIRING DIRECTOR

TONY PORTER
RETIRING CHAIR

SENIOR MANAGEMENT

STUART AINSLIE
CHIEF EXECUTIVE OFFICER

RACHEL ORCHARD
CHIEF FINANCIAL OFFICER

DEAN SMITH
BUSINESS DEVELOPMENT
& MARKETING MANAGER

GARETH MENTZER
OPERATIONS MANAGER

STEPHANIE MURPHY
AIRPORT PLANNER


As a key strategic asset the redeveloped terminal has been designed to stringent seismic assessment criteria.
OVER 322 TONNES OF STEEL HAVE BEEN INCORPORATED TO ENSURE RESILIENCE
HAWKE'S BAY AIRPORT LTD – ANNUAL REPORT 2020 – 15

HIGHLIGHTS

Attainment of our certified Safety Management System (SMS).

Commencing our membership of the Airport Council International's Airport Service Quality program with our Airport Ambassador team administering over 700 passenger surveys to provide valuable insights into satisfaction levels and benchmarks for improvement.

Completing our first step towards carbon neutrality by gaining Level 1 of the internationally recognised Airport Carbon Accreditation (ACA) program.

Hawke's Bay Airport Construction Limited delivering Stage 2 of the Airport Expansion project in November 2019 with the opening of new back of house and check-in facilities.

Completing a $1.1 million dollar project to replace ageing car park equipment and implement an improved traffic management plan.

Signing of a joint venture agreement with Centralines to develop the feasibility for an on-airport solar energy project.

Signing an agreement with Uber to introduce ride-sharing services to the airport in November 2019.

Insourcing of our rescue fire service after 25 years of outsourced service.

The Airport Ambassador Programme celebrating its first anniversary with over 30 of the initial team of 35 signing up for a second year of service.

Receiving the Infrastructure Project of the Year award at the NZAA annual awards for the recently completed Watchman Road Project.

A YEAR IN BRIEF 2020

PASSENGERS
541,000
Down 28%

REVENUE
$6.28m
Down 18.3%

EBITDA - YEAR END
$2.18m
EBITDA - HALF YEAR $1.89m

NPAT - YEAR END
$-1.01m
NPAT - HALF YEAR $0.77m

1,000+
Hours of service by airport ambassadors

airport carbon accredited MAPPING
Airport Carbon Accreditation (ACA)
LEVEL 1

NZ Airports Association Infrastructure Project of the Year - Watchman Road Award

17,664
Engagements with the HBAL Facebook page

95 Toolbox safety talks held on construction site
No time lost to injuries

Birdstrikes per aircraft movement down by 11%

HAWKE'S BAY AIRPORT LTD – ANNUAL REPORT 2020 – 17


FIRE
HTE488
25
YEARS
For the first time in more than two decades the airport fire service is directly resourced by the airport company.
WE THANK TASK PROTECTION SERVICES FOR THEIR **25 YEARS OF CONTRACTED SERVICE.**
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A STRONG FOUNDATION

OPERATIONS: *Ensuring a safe, rewarding and delightful journey for our travellers. Striving for excellence in everything we do.*

SAFETY MANAGEMENT SYSTEM

In an airport environment, safety is always paramount. At Hawke's Bay Airport, we operate an overarching safety management system that provides a systematic, explicit and comprehensive process for managing health and safety risks across the business. The success in implementing this holistic safety system was evidenced by the organisation being one of the first airports in New Zealand to receive an unqualified CAA SMS accreditation in 2019. The framework also proved itself to be well-equipped to integrate the airport's COVID-19 management plan.

WILDLIFE MANAGEMENT

Wildlife management remains a core focus. A pasture management plan has been developed to maintain the long grass, which discourages the larger species of birds. The Airport Fire team continue to perform regular patrols and species control activities. It has been encouraging to see some significant reductions in both the number and combined mass of bird strikes.

SOAR BRAND

During the second week of October 2019 the team engaged in a wide range of activities as part of its participation in Airport Safety Week. The programme culminated with the launch of Hawke's Bay Airport's new safety brand "SOAR". The brand is an acronym for "Safety On and Around Airport". It was developed by local design agency Coast & Co and is being used to anchor safety-related communications on and around the airport.

AIR TRAFFIC CONTROL

In April 2020 notice was received from the Airways New Zealand of a proposal to cease operations of the control tower at Hawke's Bay Airport. A consultation process is underway with the regional airports impacted by this proposal with regional impact studies to be undertaken to inform and support a final decision. It is by no means certain this process will result in the complete shutdown of the control tower operation, and alternative technologies and resourcing options are being considered alongside the current solution. HBAL has taken an active lead in this process and is confident that the outcome will be one that meets our operational requirements without compromise to passenger safety or services.

WITHDRAWAL OF JETSTAR

Jetstar's decision to withdraw services from regional New Zealand took effect from 1 December 2019. This concluded a four-year period during which it carried over 420,000 passengers on the Hawke's Bay–Auckland route. This reduction in capacity was initially buffered by additional Air New Zealand services prior to the impact of COVID-19. Jetstar continues to operate jet services from Auckland, Wellington, Christchurch, Dunedin and Queenstown airports and Hawke's Bay Airport will continue to advocate for their return to the region.

CONSTRUCTION SITE SAFETY

Construction in an airport environment presents unique risks that must be managed carefully. Throughout the project the team have worked hard on building a strong safety culture.

To date the project has recorded no lost time to injuries and had no notifiable incidents. A robust reporting system is in place with near misses recorded and regular tool box talks and sub-contractor safety meetings occurring.

Regular and detailed communications are sent by the Construction Team to the Hawke's Bay Airport Operations Team about any activity that may have an impact on airport operations.

In accordance with COVID-19 Alert Level 4 requirements, the site was temporarily shut down on 23 March 2020. While construction was halted, the project's design and management teams continued working remotely to develop a comprehensive COVID-19 management plan. This enabled construction to continue safely in a level 3 environment with the site reopening on 28 April 2020, thus miminising the time lost to five weeks.

THE BEST PEOPLE

PEOPLE: *Working together to get the best outcomes from our people in a great place to work and live.*

RESTRUCTURING OUR BUSINESS

A capability review of HBAL's organisational structure was undertaken during the year. This examined the opportunity for improved efficiencies and compared the relative merits of insourced and outsourced models of delivery.

The airport's fire service was a key part of the review process with a move away from the previous contracted delivery model recommended. An insourced structure was implemented from June 2020 with the advantages identified including a greater focus on training and development, greater autonomy and responsibility for HBAL activity and an improved alignment with HBAL processes and systems. The review also identified an opportunity, to safely reduce the airport's categorisation which in turn delivered savings to the costs associated with the delivering the service.

The Airport Fire team are now employed directly by HBAL which also provides team members with potential career progression opportunities inside the wider business.

TEMPORARY OFFICE ENVIRONMENT

The airport team temporarily relocated from its level 1 office in November 2019 to enable construction of Stage 3 of the redevelopment to commence. A temporary office was established adjacent to the new baggage make-up area with access from behind the check-in counters. The ability to operate from within the footprint of the terminal provided savings to the construction project by eliminating the need for additional office space to be leased during the construction period.

AMBASSADORS

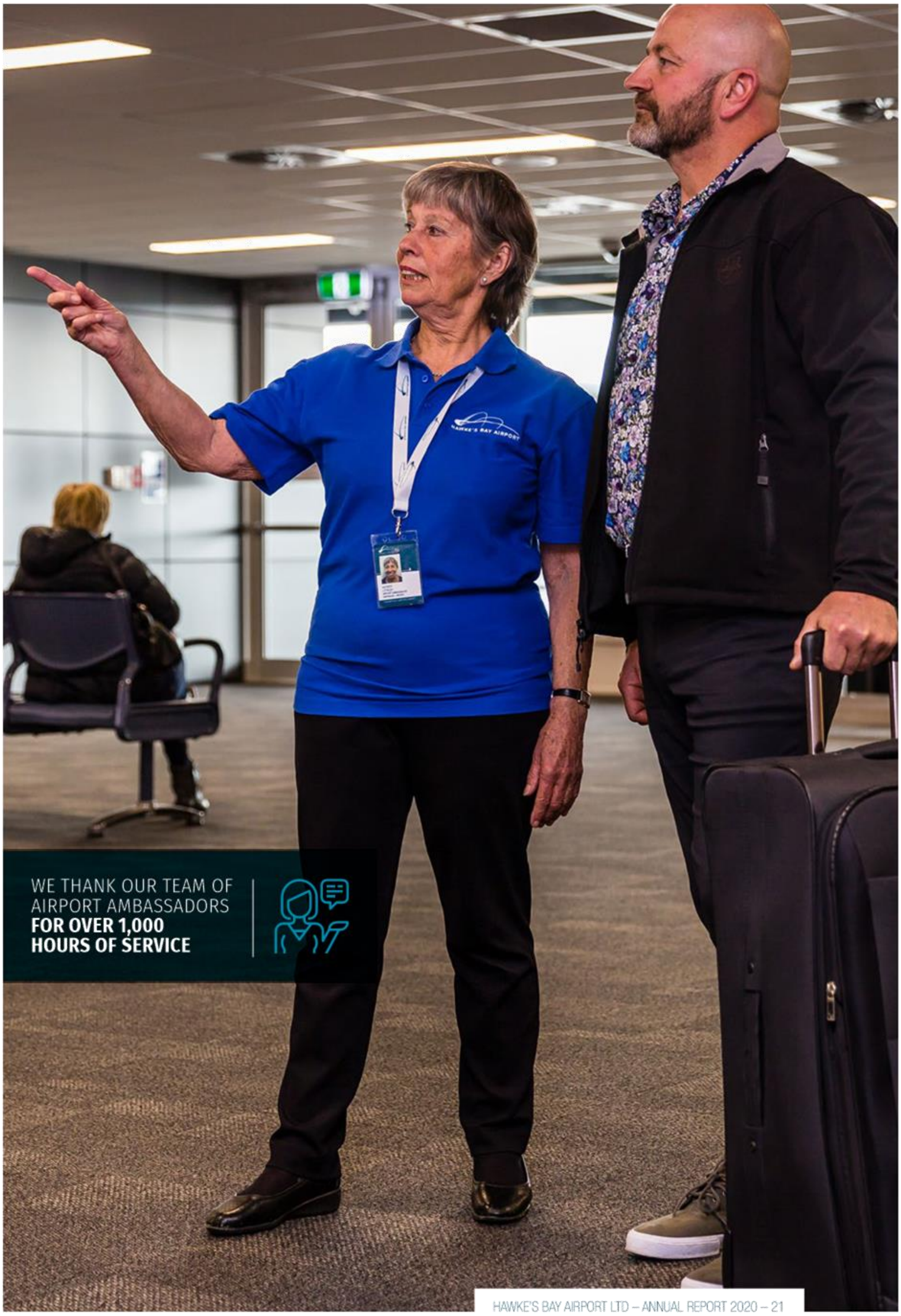
The Airport Ambassador Program is now into its second successful year with the team of over 30 volunteers continuing to add huge value to travellers and the wider airport campus. Of particular note is that all members of the team have been on board since the beginning. We are indeed fortunate to have such a pleasant and committed bunch of people.

In the future we are committed to ensuring that our organisation is adequately resourced and that Hawke's Bay Airport is not only seen as a great place to work but also a key enabler in the community and broader economy.

Along with welcoming people and providing information and support the team have also been invaluable in administering our biannual airport survey quality questionnaires as well as contributing positively to the airport's health and safety culture.

TRAINING AND DEVELOPMENT

The HBAL continues to invest in the ongoing development of our people. This has included both staff and ambassadors completing training modules with Airports Council International. Staff also continue to be active in attending various industry- related workshops and conferences.


WE THANK OUR TEAM OF
AIRPORT AMBASSADORS
FOR OVER 1,000
HOURS OF SERVICE
HAWKE'S BAY AIRPORT LTD – ANNUAL REPORT 2020 – 21

GROWTH AND RESILIENCE

COMMERCIAL: *Maximising the returns across our business while delivering greater value and a strong sense of place.*

CAR PARK UPGRADE

Airports are a hub of commercial activity and the airport car park is the first touchpoint for most passengers. This is where the airport experience starts, so it is important the process is as smooth and efficient as possible.

Car parking provides a critical source of funding for all commercial airports. Hawke's Bay Airport is no different with car park revenue contributing over 30% of total annual income.

Against objectives to elevate customer satisfaction and improve commercial performance, a significant upgrade to the car park was completed in November 2019. The scope of works included the implementation of a revised traffic management plan, the construction of a roundabout feeding new dual entries and exits and the installation of new access control and payment technology.

IMPROVED PAYMENT OPTIONS

The new payment system includes the option of using paywave to pay on exit and the completely ticketless option of using paywave on both entry and exit. Both of these options eliminate the reliance on traditional payment machines and provide a more seamless customer experience.

TEMPORARY RETAIL

To enable the third and final stage of the terminal redevelopment to be completed in a safe and efficient manner, the decision was made to relocate the airport's food and beverage offering to a temporary location adjacent to departures. HBAL acknowledge the effort of the team at Shani's who have operated this "pop up" location which has traded admirably through a challenging commercial environment.

DIGITAL ADVERTISING

The roll out of HBAL's digital advertising strategy commenced during the year with a large digital wall installed behind baggage collection and a number of smaller screens located inside the new departure area. Additional digital assets will be installed through the final stage of the project.

This new advertising format has been well-received by the market who have appreciated the opportunity to display dynamic messages and the reduced production costs over traditional lightboxes and billboards. The ability to display more than one advertiser at each location has also improved the returns available to the airport from space allocated to advertising.

The airport is reserving 30% of the available screen time to support community and sense-of-place messaging.

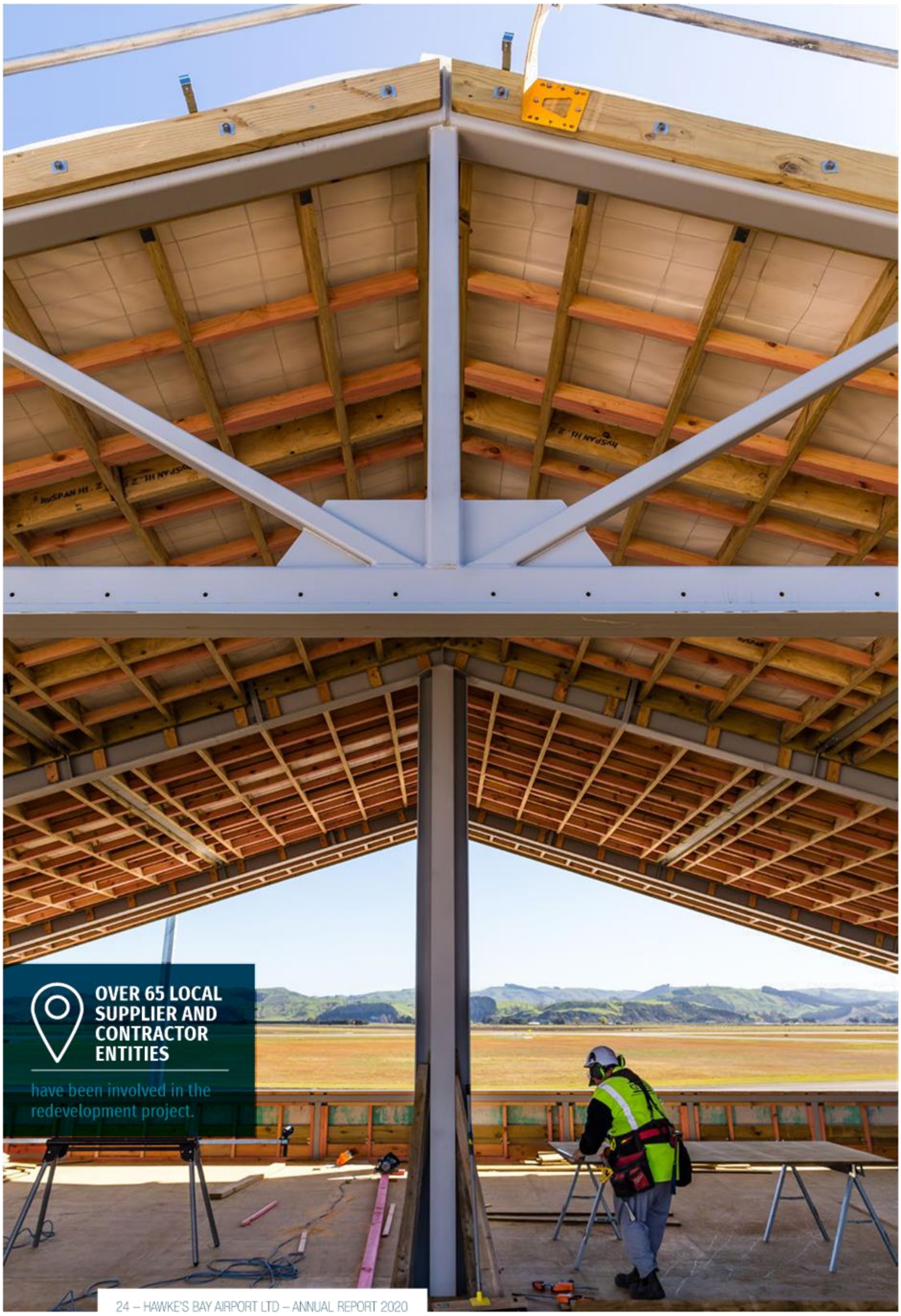
SOLAR FARM JOINT VENTURE

After measuring HBAL's carbon footprint as part of its Level 1 ACA accreditation it was established that the airport's largest source of greenhouse gas emissions is from its use of grid electricity. In alignment with its aspiration to be New Zealand's first carbon-neutral airport a joint venture agreement has been entered into with Waipukurau-based lines company Centralines to explore the potential for a commercial solar farm at the airport.

The agreement will see the parties work through a structured project development process to select technical partners and progress the project to an investment ready state. The intent beyond this is to establish a limited liability partnership through which a viable project could be funded and developed. It is anticipated that the project would be constructed in stages with resource consents to be sought for an array capable of producing up to 10 megawatts of electricity.

A project of the scale planned will not only meet the airport's direct requirements but also create an additional revenue stream with surplus energy available for sale directly to the airport's tenants and indirectly to other entities looking for a 100% renewable supply.


VISA
ANZ
Windcave
“OUR AIM IS TO DELIVER A SMOOTH AND EFFICIENT EXPERIENCE FROM CAR PARK TO GATE - THE IMPLEMENTATION OF A TICKETLESS PAYWAVE SOLUTION IS AN IMPORTANT STEP TOWARDS ACHIEVING THIS.”


OVER 65 LOCAL SUPPLIER AND CONTRACTOR ENTITIES
have been involved in the redevelopment project.
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SECURING OUR FUTURE

PROPERTY: *Making the best use of our land while safeguarding our airport to optimise returns and increase value to our shareholders.*

TERMINAL REDEVELOPMENT – STAGE 2 OPENING

Stage 2 of the terminal redevelopment project was completed in November 2019 with the opening of common use airline check-in, back of house and departure facilities along with new office and cargo tenancies for Air New Zealand.

To enable Stage 3 construction Air New Zealand's Regional Lounge was relocated to a temporary location which had previously been allocated to Jetstar.

The ability to maintain the lounge inside the envelope of the building was a win for the construction programme as it eliminated the need for temporary external facilities which would have been costly to operate and inconvenient for travellers. The lounge will move back upstairs upon completion of Stage 3 with the vacated space to be repurposed for commercial meeting facilities.

MASTERPLAN

Work commenced on our next generation master plan in March 2019. This document will guide the development of the airport for the next 20 years. The underlying growth assumptions were revised following the exit of Jetstar and again following the COVID-19 lockdowns.

The process has included engagement with key stakeholders including Air New Zealand, the general aviation community and NZ Airways. The master plan summary will be released later in 2020.

RMA PLANNING FRAMEWORK

HBAL has been working with Napier City Council on the district plan review in parallel to the development of its master plan. The objective is to ensure that revisions to the plan accomodate the airport's future aspirations for aeronautical and non-aeronautical (property) development including proposed changes to noise contours.

DEVELOPMENT PLANNING

Work continues to accelerate the activation of HBAL's property aspirations in alignment with the updated master plan.

A property development strategy is currently underway. This will quantify the investment required to advance HBAL's property aspirations and identify a property partnership framework through which opportunities can be commercialised.

NEW BAGGAGE SYSTEM

An automated baggage make-up system was commissioned ahead of Stage 2 completion. The system was specified in alignment with HBAL's master plan and growth aspirations. It is designed to integrate with future security screening requirements and has a capacity to handle 3 million bags per annum.

NEW JET CENTRE

Existing tenant Airport Holdings Ltd completed construction of a new 850 sqm development on a site adjacent to their Skyline Aviation complex. Extensive ground works were required to support the development with an existing storm water swale extended to ensure additional runoff is managed in accordance with HBAL's three waters policy.

The new facility is providing private jet hangarage and will also house a purpose-built guest lounge to support the future growth of private charter and ground handling services.

RELOCATION OF AIR BP TANK FARM

The BP aviation fuel farm was relocated to a location south of the terminal during the year. The move frees up land for future car park expansion in alignment with HBAL's master plan.

The new development also serves to improve regional resilience with on-site fuel storage increased courtesy of a larger 50,000 litre super-vault tank and the upguaging to a 17,000 litre aircraft refueling truck.

PLAYING OUR PART

PARTNERS: *Engaging with our customers, stakeholders, business partners and community to grow our airport in a way which benefits everyone. A great place to do business.*

BIODIVERSITY HAWKE'S BAY

HBAL is proud to be the Platinum Sponsor of Biodiversity Hawke's Bay. The partnership involves an annual financial contribution and on-airport exposure to raise its profile to accelerate biodiversity outcomes for the region. The partnership will also see the airport working directly with Biodiversity Hawke's Bay on projects to plant out additional areas at the airport.

ART DECO TRUST

In the 1980s the Art Deco Trust was formed to protect the heritage buildings which were at risk of being demolished. The Art Deco Trust has grown into a significant and influential social enterprise that actively preserves, restores, promotes and celebrates the identity of Napier and Hawke's Bay. The Trust is also the entity behind the Napier Art Deco Festival which has become one of New Zealand's largest and most iconic events.

HBAL sponsored the "Planes, Trains and Automobile" category at the 2020 Napier Art Deco Festival.

HAWKE'S BAY AIR AMBULANCE SERVICE

The Hawke's Bay Air Ambulance Service provides transportation for patients who require specialist cardiac or neurological services at hospitals outside of the Hawke's Bay region. The service is based at Hawke's Bay Airport and is delivered via a commercial partnership between the Hawke's Bay District Health Board and Skyline Aviation.

HBAL has been supporting the Air Ambulance service since 2016. Since this time over $90,000 has been contributed to assist with funding for air ambulance and patient ground handling equipment and costs associated with aero medical training and education.

EIT

The Eastern Institute of Technology (EIT) is the major tertiary education provider in Hawke's Bay. HBAL acknowledges the important role the EIT plays in the community and specifically the value its School of Hospitality and Tourism plays in preparing students for careers in the aviation and wider tourism industries. The HBAL is proud to fund EIT's annual Tourism Scholarship and congratulates 2019 recipient Audrey Gardiner for her success.

HB DC-3 PROJECT

HBAL management have been supporting a recently formed charitable trust which is planning to base a DC-3 at Hawke's Bay Airport with a view to operating Art Deco inspired scenic flights.


HBAL congratulates Marie Taylor who received a QSM in June 2020 for her services to horticulture and native regeneration.

MARIE WAS AN INAUGURAL GUARDIAN FOR BIODIVERSITY HB AND WAS PART OF THE IMPLEMENTATION PLANNING GROUP WHO TOGETHER WROTE THE HAWKE'S BAY **BIODIVERSITY ACTION PLAN 2017–2020.**


B2 34-16

FINANCIAL STATEMENTS

DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2020

DIRECTORS

DIRECTORS' REMUNERATION

The amount of $115,304 per annum was paid to members of the Board for the 12 months to 30 June 2020.

T M Porter	44,804
S N Park	23,500
T C Randell	23,500
W N Harvey	23,500
	115,304

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

CHANGES OF DIRECTORS

Taine Randell ceased to be a Director on 30 June 2020. Sarah Reo was appointed as a Director, effective 1 July 2020 and Jon Nichols was appointed as a Director, effective 1 September 2020.

BOARD COMMITTEES

As at 30 June 2020 HBAL had the following committee:

AUDIT AND FINANCE COMMITTEE: Members are Sarah Park (Chair), Tony Porter, Wendie Harvey and Taine Randell.

ENTRIES IN THE INTERESTS REGISTER

As at 30 June 2020, the Directors have declared general disclosure of interest in the following entities:

T M PORTER

Pornell Tractor Company Limited	Director
Hawke's Bay Airport Construction Limited	Director

S N PARK

Scotch & Sparkles Limited	Director/Shareholder
Focus Genetics Management Limited	Director
Focus Genetics Partnership Limited	Director
Eurogrow Potatoes Limited	Director
Hereworth School Trust Board	Trustee
Pacific Edge Limited	Director
National Provident Fund	Director
Hawke's Bay Airport Construction Limited	Director

T C RANDELL

Fiordland Lobster Company Limited	Director
Australian Lobster Company (GP) Limited	Director
FLC Trustee Limited	Director
Deltop Holdings Limited	Director
ZSB Holdings Limited	Director/Shareholder
Kahungunu Asset Holding Company Limited	Director

KAHC Investments Limited	Director
Kiwigarden Limited	Director
Hawke's Bay Airport Construction Limited	Director

W N HARVEY

Centralines Limited	Director
Excellence in Business Solutions Limited	Director/Shareholder
New Zealand Gambling Commission	Commissioner
Eastland Group Limited	Director
Eastland Network Limited	Director
Eastland Port Limited	Director
The Electrical Training Company Limited	Director
Aurora Energy Limited	Director
Fire and Emergency New Zealand	Director
Hawke's Bay Airport Construction Limited	Director
Gisborne Airport Limited	Director

EMPLOYEE REMUNERATION

Employee remuneration and other benefits exceeding $100,000:

	2020	2019
$100,000 - $110,000	-	-
$110,001 - $120,000	-	-
$120,001 - $130,000	-	-
$130,001 - $140,000	-	2
$140,001 - $150,000	2	-
$150,001 - $160,000	-	-
$160,001 - $170,000	1	-
$170,001 - $180,000	-	-
$180,001 - $190,000	-	-
$190,001 - $200,000	-	-
$200,001 - $210,000	-	1
$210,001 - $220,000	-	-
$220,001 - $230,000	-	-
$230,001 - $240,000	-	-
$240,001 - $250,000	-	-
$250,001 - $260,000	-	1
$260,001 - $270,000	-	-
$270,001 - $280,000	-	-
$280,001 - $290,000	-	-
$290,001 - $300,000	1	-

AUDITORS

The Office of the Auditor General is appointed as auditor under Section 15 of the Public Audit Act 2001 and Section 70 of the Local Government Act 2002. Philip Pinckney of Baker Tilly Staples Rodway Audit Limited has been appointed to provide these services.

DIRECTORS' RESPONSIBILITY STATEMENT

The Directors are responsible for ensuring that the financial statements and the Statement of Service Performance present fairly the financial position of HBAL as at 30 June 2020 and its financial performance and cash flows for the year ended on that date.

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

DIRECTORS' INFORMATION

DIRECTOR	TONY PORTER	WENDIE HARVEY	SARAH PARK	TAINE RANDELL
Qualifications	BE(Hons)	LLB	MA Economics/AIF	LLB/Bcom
Specific Knowledge/Experience				
Airport Operation/Management	◕	◕	◕	◑
Management of Long-Life Assets	●	◕	◕	◔
SOE/COO Experience	◑	●	◔	◔
Property Development & Management	◔	◔	◔	◕
Generic Skills				
Executive Leadership and Strategy	●	●	●	●
Governance	●	●	●	●
Financial	◔	◔	●	◕
Understanding of Iwi and Treaty of Waitangi Issues	◔	◔	◔	●
Risk and Compliance	◕	●	◕	◔
Legal and Regulation	◔	●	◑	◔
People Management	◕	●	◔	◑
Other Factors				
Geographical Location	Hawke's Bay	Hawke's Bay	Hawke's Bay	Hawke's Bay
Tenure Years	11 years	4 years	6 years	5 years
Date of Appointment	1 July 2009	1 July 2016	1 July 2014	1 April 2015
Date Last (Re-)Elected	1 July 2018	1 October 2019	3 July 2017	26 April 2017
Gender	M	F	F	M

STATEMENT OF

SERVICE PERFORMANCE

FOR THE YEAR ENDED 30 JUNE 2020

THE FOLLOWING IS A STATEMENT OF SERVICE PERFORMANCE RELATING TO THE KEY OBJECTIVES LISTED IN HBAL'S STATEMENT OF CORPORATE INTENT FOR THE YEAR ENDING 30 JUNE 2020.

ACTIVITY & OUTCOME

	Achieve Performance Targets:	SOI	Actual Result	% Increase	Status
OPTIMISE SHAREHOLDER VALUE & RETURNS	Passenger Numbers	772,000	541,000	-30%	🔴
	Revenue	$8,333,136	$6,276,501	-25%	🔴
	EBITDA	$4,459,088	$2,182,496	-51%	🔴
	NPAT	$1,874,067	$(1,012,640)	-154%	🔴
	ROE – annualised	5.8%	-3.0%	-8.8%	🔴
	Gearing	37%	35%	-2%	🔴
	Dividend	749,627	0	-100%	🔴
SUSTAINABILITY	Implement Sustainability Framework Develop & Implement				🟢
	Establish Energy & Carbon Baseline Policy & Framework				🟢
	Develop a Three Water Policy				🟡
OPERATIONS	Enhance understanding of our travellers and key customers				🟢
	Implement our Safety Management System				🟢
	Complete Stage 2 of the Terminal Expansion Project				🟢
	Develop our digital strategy incorporating improved business efficiency, passenger journey enhancement and advertising solutions				🔴
	Design and development of apron capacity plan to guarantee level of service to airline operators and enable future airside business development				🟡
	Biannual strategic Risk Review				🟢
	Wildilfe Management Plan developed and operational				🟢
COMMERCIAL	Implement car park System Enhancement				🟢
	Review Aeronautical Revenue and Route Development Strategy				🟡
	Develop terminal retail in line with the revised terminal expansion to provide a balanced shopping environment for consumers, with a mix of local owner-operators and corporate-owned stores				🟡
	Complete Airfreight Feasibility study				🟢
PROPERTY	Finalise the 20 year master plan incorporating forecasts/noise/land use				🟡
	Stimulate property development opportunities to leverage land bank returns				🟢
	Property development underway for new tenancies				🟢
PARTNERS	Proactively engage with the HB community, local and central government and other key stakeholders				🟢
	Undertake stakeholder and public consultation as part of master plan development				🟢
	Continued collaboration with mana whenua on terminal development sense of place/master plan				🟢
	Partnership with key business, airlines & community groups				🟢
PEOPLE	Create a HBAL team culture where the focus is external, on our customers and our key stakeholders, where excellent service is the norm and our business enjoys a strong reputation for delivering a high standard of services, facilities and initiatives				🟢
	Review economies of scale and insourcing versus outsourcing of key operational resources				🟢
	Invest in teams development & training				🟢
	Develop team capability				🟢

KEY: 🟢 Meets or exceeds target 🟡 Within 10% of target 🔴 10% or more below target

CONSOLIDATED STATEMENT OF

COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2020

	NOTE	2020 $	2019 $
Aviation		3,750,257	4,891,625
Car parking		1,910,202	2,275,721
Business Park		398,886	390,597
Other Revenue		217,156	127,971
Total Revenue	3	**6,276,501**	**7,685,915**
Less Operating Expenses	4	**(4,094,005)**	**(3,751,419)**
Operating Profit Before Financing Costs and Depreciation		**2,182,496**	**3,934,196**
Depreciation		(2,140,097)	(1,550,531)
Impairment Reversal/(Charge)	8	696,400	-
Gain/(Loss) on Disposal of Assets	5	(1,371,441)	-
Finance Income		569	392
Finance Expense		(349,309)	(130,061)
Net Profit before income tax		**(981,382)**	**2,253,996**
Income Tax Expense	6	(31,258)	(757,877)
Net Profit after income tax		**(1,012,640)**	**1,496,120**
Items that will not be reclassified into profit or loss:			
Revaluation of Property, Plant & Equipment, net of deferred tax		-	2,944,287
Deferred tax on revaluation	6	138,336	96,373
TOTAL COMPREHENSIVE INCOME		**(874,305)**	**4,536,780**

CONSOLIDATED STATEMENT OF

CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2020

	ISSUED CAPITAL	RETAINED EARNINGS	REVALUATION RESERVE	TOTAL EQUITY
BALANCE AT 1 JULY 2019	13,789,155	8,893,400	11,420,801	34,103,356
Profit/(Loss) for the period	-	(1,012,640)	-	(1,012,640)
Revaluation of Property, Plant & Equipment			-	-
Reclassification of depreciation on revalued assets	-	494,056	(494,056)	-
Movement in deferred tax on revaluation reserve	-	-	138,336	138,336
Total comprehensive income		(518,584)	(355,721)	(874,305)
Distributions to shareholders (note 10)	-	-	-	-
Movement in equity for the period	-	(518,584)	(355,721)	(874,305)
BALANCE AT 30 JUNE 2020	13,789,155	8,374,816	11,065,081	33,229,051
BALANCE AT 1 JULY 2018	13,789,155	7,631,082	8,724,329	30,144,567
Revaluation of Property, Plant & Equipment			2,944,287	2,944,287
Reclassification of depreciation on revalued assets	-	344,188	(344,188)	-
Movement in deferred tax on revaluation reserve	-	-	96,373	96,373
Total comprehensive income		1,840,308	2,696,472	4,536,780
Distributions to shareholders (note 10)	-	(577,990)	-	(577,990)
Movement in equity for the period	-	1,262,318	2,696,472	3,958,790
BALANCE AT 30 JUNE 2019	13,789,155	8,893,400	11,420,801	34,103,356

CONSOLIDATED STATEMENT OF
FINANCIAL POSITION
AS AT 30 JUNE 2020

	NOTE	2020 $	2019 $
ASSETS			
Property, plant and equipment	7	52,127,424	47,317,601
Investment property	8	4,960,606	4,376,319
Intangibles		961	1,538
Right-of-use Assets	14	420,510	-
Total non-current assets		57,509,500	51,695,458
Trade and other receivables	9	748,178	1,035,893
Cash and cash equivalents		281,818	182,046
Total current assets		1,029,996	1,217,939
TOTAL ASSETS		58,539,495	52,913,397
EQUITY			
Issued capital		13,789,155	13,789,155
Retained earnings		8,374,815	8,893,400
Revaluation Reserve		11,065,081	11,420,801
TOTAL EQUITY	10	33,229,051	34,103,356
LIABILITIES			
Deferred tax liability	6	4,355,256	4,487,178
Rentals in advance	11	1,011,549	1,096,022
Borrowings	12	-	10,688,562
Lease Liabilities	14	315,329	-
Total non-current liabilities		5,682,135	16,271,762
Trade and other payables	11	996,514	2,055,132
Employee benefits		110,882	69,889
Provision for Retentions Payable	13	153,971	37,520
Borrowings	12	18,261,762	375,738
Lease Liabilities	14	105,181	-
Total current liabilities		19,628,309	2,538,279
Total liabilities		25,310,444	18,810,041
TOTAL EQUITY AND LIABILITIES		58,539,495	52,913,397

These financial statements were authorised for issue by the Board on 21 September 2020 on behalf of Hawke's Bay Airport Limited.

WN Harvey
Chair

SN Park
Director & Audit and Finance Committee Chair

CONSOLIDATED STATEMENT OF
CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2020

	NOTE	2020 $	2019 $
CASH FLOWS FROM OPERATING ACTIVITIES			
CASH WAS PROVIDED FROM:			
Revenues		6,281,680	7,597,581
Interest Received		569	392
		6,282,249	7,597,974
CASH WAS DISBURSED TO:			
Suppliers and Employees		(4,069,868)	(3,744,543)
Goods & Services Tax (Net)		190,993	(116,750)
Interest Paid		(383,955)	(252,563)
Income Tax Paid		(235,304)	(863,547)
		(4,498,133)	(4,977,404)
NET CASH FLOWS FROM OPERATING ACTIVITIES		1,784,116	2,620,570
CASH FLOWS FROM INVESTING ACTIVITIES			
CASH WAS PROVIDED FROM:			
Sale of fixed assets		46,549	
CASH WAS DISBURSED TO:			
Capital Works		(8,894,021)	(9,176,021)
NET CASH FLOWS FROM INVESTING ACTIVITIES		(8,847,472)	(9,176,021)
CASH FLOWS FROM FINANCING ACTIVITIES			
CASH WAS PROVIDED FROM:			
Borrowings		7,197,462	7,037,508
CASH WAS DISBURSED TO:			
Dividends Paid		-	(577,990)
Lease Payments		(34,333)	-
Debt Repayment		-	-
NET CASH FLOWS FROM FINANCING ACTIVITIES		7,163,129	6,459,518
Net increase/(decrease) in cash and cash equivalents		99,772	(95,933)
Add Opening Cash and Cash equivalents		182,046	277,979
CLOSING CASH AND CASH EQUIVALENTS AT END OF YEAR		281,818	182,046
REPRESENTED BY:			
Cash at Bank		277,332	167,578
Cash in hand		4,486	14,469
		281,818	182,046

ACCOUNTING POLICIES

FOR THE YEAR ENDED 30 JUNE 2020

SIGNIFICANT ACCOUNTING POLICIES

REPORTING ENTITY

Hawke's Bay Airport Limited is a company incorporated in New Zealand under the Companies Act 1993 and is owned by the Crown 50%, Napier City Council 26%, Hastings District Council 24%.

The Company is domiciled in New Zealand and its principal place of business is 111 Main North Road, Westshore, Napier. The Company operates the Hawke's Bay Airport.

Hawke's Bay Airport Limited is defined as a Council-controlled organisation pursuant to Part 5 of the Local Government Act 2002.

STATEMENT OF COMPLIANCE

The financial statements have been prepared as required by the Local Government Act 2002 and in accordance with all applicable financial reporting standards and other generally accepted accounting practices in New Zealand. They comply with the New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) as appropriate to profit-oriented entities applying the Reduced Disclosure Regime.

BASIS OF CONSOLIDATION

The consolidated financial statements comprise the financial statements of Hawke's Bay Airport Limited and its wholly owned subsidiary, Hawke's Bay Airport Construction Limited (the Group).

Subsidiaries are entities controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Intragroup balances and transactions are eliminated in preparing the consolidated financial statements.

MEASUREMENT BASE

The financial statements have been prepared on a going concern basis in accordance with historical cost concepts as modified by the revaluation of certain assets and liabilities as identified in specific accounting policies below.

Refer to Note 2 of the Notes to the Accounts for detail regarding the Directors' assessment of going concern.

PRESENTATION CURRENCY

These financial statements are presented in New Zealand dollars ($), which is the functional currency of the Group, rounded to the nearest dollar.

CRITICAL ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGMENTS

The preparation of financial statements in conformity with NZ IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies.

The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical estimates are included in the impairment assessment of Investment Property, and in the assessment of the recoverable amounts of Capital Work in Progress, the calculation of disposal of demolished terminal assets and the fair value of Property, Plant and Equipment. Management has exercised its judgement on the selection of depreciation rates and the classification of financial assets.

Judgements are exercised in relation to the timing of capitalisation of interest, the application of NZ IFRS 16 *Leases* to the perpetual lease, and the current/non-current presentation of borrowings.

PARTICULAR ACCOUNTING POLICIES

REVENUES

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of goods and services tax (if applicable), returns, rebates and discounts. The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the Company and when specific criteria have been met for each of the Group's activities. Revenues consist mainly of landing charges, car parking fees, terminal and leased land rentals and concessions. Lease income is recognised on a straight-line basis over the term of the lease.

TRADE AND OTHER RECEIVABLES

Trade and other receivables are stated at net realisable value after provision for doubtful debts.

TAXATION

INCOME TAX EXPENSE

Income tax on profits for the period comprises current tax, deferred tax and any adjustment for tax payable in previous periods. Income tax is recognised in profit or loss as tax expense except when it relates to items credited directly to equity, in which case it is recorded in other comprehensive income.

CURRENT TAX

Current tax is the expected tax payable on the income for the period based on tax rates and tax laws which are enacted or substantively enacted by the reporting date.

DEFERRED TAX

Deferred tax arises by providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the equivalent amounts used for tax purposes.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the periods when the assets or liabilities giving rise to them are realised or settled.

Deferred tax assets, including those related to the tax effect of income tax losses available to be carried forward are recognised only to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences or unused tax losses can be realised. Deferred tax assets are reviewed each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

CASH FLOW STATEMENT

The following definitions have been used for the preparation of the Statement of Cash Flows.

Cash and cash equivalents: cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Operating activities: Transactions and other events that are not investing or financing activities.

Investing activities: Activities relating to the acquisition, holding and disposal of non-current assets and of investments, such as securities, not falling within the definition of cash.

Financing activities: Activities which result in changes in the size and composition of the capital structure of the Group, both equity and debt not falling within the definition of cash.

PROPERTY, PLANT AND EQUIPMENT

PROPERTY, PLANT AND EQUIPMENT

Items of property, plant and equipment are initially recognised at cost. As well as the purchase price, cost includes directly attributable costs. Subsequent, to initial recognition, land and land improvement and airport infrastructure and buildings are carried at fair value less accumulated depreciation and accumulated impairment losses. Capital work in progress is carried at cost and transferred to another category as assets are completed. Other assets are recorded at cost less accumulated depreciation and accumulated impairment losses.

Any revaluation increment is credited to the revaluation reserve and included in other comprehensive income, except to the extent that it reversed a previous decrease of the same asset previously recognised within net profit in the Statement of Comprehensive Income, in which case the increase is recognised within net profit in the Statement of Comprehensive Income.

Each year the difference between depreciation based on the revalued carrying amount of the asset charged to the income statement, and the depreciation based on the original cost is transferred from the revaluation reserve to retained earnings.

Property, plant and equipment comprises airfield and other infrastructure, car parks, buildings and equipment.

ASSETS UNDER CONSTRUCTION

The cost of assets under construction is recorded at incurred cost as at balance date.

DISPOSAL OF PROPERTY, PLANT AND EQUIPMENT

When an item of plant, property and equipment is disposed of any gain or loss is recognised in the profit or loss calculated at the difference between the sale price and the carrying value of the asset.

CYCLICAL MAINTENANCE UPGRADES

Significant expenditure involving renewal of runway surface components is capitalised and subject to depreciation at the appropriate rates.

INVESTMENT PROPERTY

Investment property, which is property held to earn rentals and/or for capital appreciation, is initially recognised at cost, including transaction costs. Costs include all expenditure relating to infrastructure development and construction. Investment property is depreciated using the cost model allowed under NZ IAS 40 *Investment Property*. Investment properties include all aspects of the business park development adjacent to the airport.

DEPRECIATION

Depreciation is charged on a straight-line basis to write off the cost or value of property, plant and equipment and investment property over their expected economic lives.

The principal depreciation rates are as follows:

Airfield Infrastructure	Base	0.71% to 5.56%
	Surface	6.67% to 10.00%
Business Park Infrastructure		0.00% to 10.00%
Buildings		2.50% to 10.00%
Plant & Equipment		2.90% to 40.00%
Car Park & Roading		1.67% to 5.00%
Fencing		5.00% to 15.00%
Lighting		4.00% to 10.00%
Furniture & Fittings		10.00%
Office Equipment		30.00%

INTANGIBLES

Intangibles comprise computer software that is not an integral part of the related hardware. This software has been either purchased or developed internally and is initially recorded at cost. Subsequent costs are included in the software's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The costs of maintaining the software are charged to profit or loss. Software is amortised over three years using the straight-line method.

FINANCIAL INSTRUMENTS RECOGNITION AND MEASUREMENT

FINANCIAL ASSETS

The Group classifies its financial assets in the following categories: fair value through profit or loss, fair value through other comprehensive income or amortised cost. The classification depends on the Group's business model for managing the financial asset and the contractual cash flow characteristics of the financial asset. Management determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting date. At balance date, the Group had financial assets classified only at amortised cost.

AMORTISED COST

Financial assets at amortised cost have contractual terms that give rise to cash flow on specified dates that are solely principal and interest and are held within a business model whose objective is to hold assets in order to collect those contractual cash flows.

The Group's amortised cost financial assets comprise of cash and cash equivalents and accounts receivable.

Purchases and sales of financial assets are recognised on trade date – the date on which the Group commits to purchase or sell the asset. Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed.

After initial recognition, amortised cost financial assets are carried at amortised cost using the effective interest method, less impairment.

Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred, and the Group has transferred substantially all the risks and rewards of ownership.

FINANCIAL LIABILITIES

Non-derivative financial liabilities are recognised at amortised cost, comprising original debt less principal payments and amortisation. Trade payables and borrowings are classified as financial liabilities.

IMPAIRMENT TESTING OF ASSETS

At each reporting date, the Group reviews the carrying values of its assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to profit or loss.

GST

All amounts are shown exclusive of goods and services tax (GST), except for receivables and payables that are stated inclusive of GST.

LEASES

All leases are accounted for by recognising a right-of-use asset and a lease liability in accordance with NZ IFRS 16, except for:

- leases of low value assets
- leases with a duration of 12 months or less.

Lease liabilities are measured at the present value of the contractual payments due to the lessor over the lease term, with the discount rate determined by reference to the rate inherent in the lease unless (as is typically the case) this is not readily determinable, in which case the Group's incremental borrowing rate on commencement of the lease is used. Variable lease payments are only included in the measurement of the lease liability if they depend on an index or rate. In such cases, the initial measurement of the lease liability assumes the variable element will remain unchanged throughout the lease term. Other variable lease payments are expensed in the period to which they relate.

On initial recognition, the carrying value of the lease liability also includes:

- amounts expected to be payable under any residual value guarantee
- the exercise price of any purchase option granted in favour of the group if it is reasonably certain to access that option
- any penalties payable for terminating the lease, if the term of the lease has been estimated based on a termination option being exercised.

Right-of-use assets are initially measured at the amount of the lease liability, reduced for any lease incentives received, and increased for:

- lease payments made at or before commencement of the lease
- initial direct costs incurred
- the amount of any provision recognised where the group is contractually required to dismantle, remove or restore the leased asset.

Subsequent to initial measurement, lease liabilities increase as a result of interest charged at a constant rate on the balance outstanding and are reduced for lease payments made. Right-of-use assets are amortised on a straight-line basis over the remaining term of the lease or over the remaining economic life of the asset if this is judged to be shorter than the lease term.

When the Group revises its estimate of the term of any lease (for example, it reassesses the probability of a lessee extension or termination option being exercised), it adjusts the carrying amount of the lease liability to reflect the payments over the revised term, which are discounted using a revised discount rate. The carrying value of lease liabilities is similarly revised when the variable element of future lease payments dependent on a rate or index is revised, except the discount rate remains unchanged. In both cases, an equivalent adjustment is made to the carrying value of the right-of-use asset, with the revised carrying amount being amortised over the remaining (revised) lease term. If the carrying amount of the right-of-use asset is adjusted to zero, any further reduction is recognised in the profit or loss.

When the Group renegotiates the contractual terms of a lease with the lessor, the accounting depends on the nature of the modification:

- If the renegotiation results in one or more additional assets being leased for an amount commensurate with the standalone price for the additional rights-of-use obtained, the modification is accounted for as a separate lease in accordance with the above policy.
- In all other cases where the renegotiation increases the scope of the lease (whether that is an extension to the lease term, or one or more additional assets being leased), the lease liability

is remeasured using the discount rate applicable on the modification date, with the right-of-use asset being adjusted by the same amount.

- If the renegotiation results in a decrease in the scope of the lease, both the carrying amount of the lease liability and right-of-use asset are reduced by the same proportion to reflect the partial or full termination of the lease with any difference recognised in the profit or loss. The lease liability is then further adjusted to ensure its carrying amount reflects the amount of the renegotiated payments over the renegotiated term, with the modified lease payments discounted at the rate applicable on the modification date. The right-of-use asset is adjusted by the same amount.

For contracts that both convey a right to the Group to use an identified asset and require services to be provided to the Group by the lessor, the Group has elected to account for the entire contract as a lease, i.e. it allocates any amount of the contractual payments to, and accounts separately for, any services provided by the supplier as part of the contract.

CHANGES IN ACCOUNTING POLICIES

All accounting policies are consistent with prior year with the exception of the following;

NZ IFRS 16 *Leases* was adopted on 1 July 2019. The Company applied the modified retrospective transition method and thus prior comparatives were not restated. The Company has elected to present right-of-use assets and lease liabilities separately in the Statement of Financial Position. Depreciation of right-of-use assets is included in depreciation and amortisation expense in the Statement of Comprehensive Income. The cash outflows related to the principal portion of the lease liability and the related interest are presented separately within the financing activities in the Statement of Cash Flows.

IMPACT OF ADOPTION OF NZ IFRS 16 ON THE COMPANY'S FINANCIAL STATEMENTS.

As indicated above, the Company has adopted NZ IFRS 16 from 1 July 2019, but has not restated comparatives for the 2019 reporting period, as permitted under the transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 July 2019. The new accounting policies are disclosed in the Leases accounting policy note above.

i) Practical expedients applied

In applying NZIFRS 16 for the first time, the Company has used the following practical expedients permitted by the standard:

a) determined the start date of all existing leases was the date of initial application, being 1 July 2019.

The Company also elected not to reassess whether a contract is or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Company relied on its assessment made applying NZ IAS 17 and NZ IFRIC 4 *Determining Whether an Arrangement Contains a Lease.*

ii) Measurement of lease liabilities

The aggregate lease liability recognised in the statement of financial position at 1 July 2019 and the Company's operating lease commitment as at 30 June 2019 can be reconciled as follows:

	2020 $
Operating lease commitments disclosed as at 30 June 2019	867,000
Adjustment for recognition of perpetual nature of lease	818,110
(Less): short-term leases not recognised as a liability	-
(Less): low-value leases not recognised as a liability	-
Lease liability recognised as at 1 July 2019	48,890
Of which are:	
Current lease liabilities	-
Non-current lease liabilities	48,890
	48,890

iii) Measurement of right-of-use assets

The associated right-of-use assets for land leases were measured on a modified retrospective basis at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the Balance Sheet as at 30 June 2019.

iv) Lessor accounting

The Company did not need to make any adjustments to the accounting for assets held as lessor under operating leases as a result of the adoption of NZ IFRS 16.

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 30 JUNE 2020

1. SIGNIFICANT TRANSACTIONS AND EVENTS IN THE FINANCIAL YEAR

The financial position and performance of the Group was particularly affected by the following events and transactions during the reporting period.

COVID-19

Both globally and in New Zealand, international border closures, domestic lockdowns and ongoing travel restrictions due to COVID-19 have had an immediate and dramatic impact on airlines, air services, airport traffic and therefore revenues for those in the industry.

On 23 March 2020 the NZ Government announced that the nation would enter COVID-19 Alert Level 4 at 11.59pm on Wednesday 25th March 2020, severely limiting all travel within New Zealand to essential services only. This national lockdown remained in place for a five-week period, followed by several weeks at Alert Level 3 throughout which all travel remained restricted.

The Government mandate for Air New Zealand to cease air services to regional airports under Level 4 saw the airport closed for the duration of the lockdown period, effectively reducing airline and passenger traffic, aeronautical and commercial revenue streams (such as car parking and retail concessions) to zero throughout that period.

At that time HBAL management moved swiftly to preserve the cash position of the business by implementing a recovery plan that has, among other factors, significantly reduced the cost base, deferred non-essential capital expenditure and accessed all available Government subsidies. The purpose of those actions was to offset as much of the reduction in revenue as possible, while still being able to operate safely to the required CAA standards and provide needed services for airport users.

Since the return to Levels 1 and 2, air traffic and associated revenues are in line with post Level 4 lockdown forecasts; however, they remain vulnerable to changes in Alert Levels by the NZ Government, as recently experienced in August when Auckland moved to Level 3 and the rest of the Country to Level 2.

The ongoing uncertainty around Alert Level restrictions and the negative economic impacts that will follow the pandemic will continue to drive lower demand for air travel in the immediate future. The extent of this reduced demand and the timeframe for recovery are uncertain. The Board and management team continue to evolve a series of forward-looking scenarios to enable the airport to rapidly respond to changes in operating conditions, while also building resilience from diversified revenue streams.

Hawke's Bay Airport remains focused on achieving its strategic goals, albeit within the context of navigating the recovery cycle from the effects of COVID-19.

2. GOING CONCERN

The 2020 financial statements have been prepared on the going concern basis which assumes that the Group will have sufficient cash to pay its debts as they fall due for a period greater than 12 months.

The Directors have determined the going concern basis is appropriate based on the following key estimates and judgements:

- assessments of the positive impact of the actions taken by the Group since the start of the pandemic to significantly reduce the cost base and to manage capital

- Cancellation and deferral of all non-essential capital expenditure, reflecting lower passenger numbers
- Applied for and received the New Zealand Government wage subsidy, wage subsidy extension and resurgence subsidy extension
- Forecast passenger numbers for the three-year period from 1 July 2020, which show a recovery from the lows in March-April 2020 period and a consequential return to profitability for the Group in FY23
- Cash flow forecasts for the period FY21–23 prepared by the Group which indicate the Group has sufficient cash to meet its operational expenditure and complete the terminal redevelopment project
- As at 10 July 2020, the Group has entered into a two-year loan facility of $9m provided by its shareholders (Crown $4.5m, NCC $2.34m, HDC $2.16m)
- On 27 August 2020, obtained a letter from ANZ Bank waiving the leverage covenant on its existing $21m loan facility and a commitment of ongoing financial support with access to loan facilities
- The decision to not pay a dividend for FY20, to strengthen the balance sheet and preserve capital in the face of uncertainty as to the ongoing impact of COVID-19 on New Zealand and the possibility of changing Alert Levels on the aviation sector.

3. OPERATING REVENUES

Aviation income includes all revenue from landing charges, aircraft parking, concessions, airfield and terminal rentals.

Car parking includes all income from the short-term, daily and long-stay car parks.

Business park revenue includes all rental income from tenants occupying sites on the business park investment property.

Other revenue includes advertising, use of the conference facilities and other revenue.

The Group applied for the New Zealand Government COVID-19 wage subsidy in late March 2020 and received payment on 2 April 2020.

A total of $49,207 has been recognised in "Other Revenue" in the Consolidated Statement of Comprehensive Income as the amount offsetting wages paid from the date of lockdown in March 2020 to balance date.

All revenue is net of discounts and rebates.

4. OPERATING EXPENSES

	2020 $	2019 $
Audit Fees – audit of financial statements	60,062	30,879
Directors Fees	115,304	105,000
Lease of Land	-	34,000
Employee Benefits	1,113,126	1,106,536
One-off Restructuring Costs	218,060	-
Other Operating Expenses	2,587,453	2,475,304
	4,094,005	3,751,719

5. GAIN/(LOSS) ON DISPOSAL ASSETS

	2020 $	2019 $
Write off of the net book value relating to parts of the old terminal building which were demolished during the financial year.	(1,371,441)	-

6. TAXATION

	2020 $	2019 $
A. CURRENT YEAR RECONCILIATION		
Profit Before Taxation	**(981,382)**	**2,253,996**
Prima Facie Taxation @ 28%	(274,787)	631,119
ADJUSTED FOR THE TAX EFFECT OF:		
Depreciation on revalued assets	138,336	96,373
Non-deductible expenses	167,708	30,384
Prior Years (over)/under provision	-	-
INCOME TAX EXPENSE	**31,258**	**757,877**
COMPRISING:		
Current Tax	24,844	801,398
Deferred Tax	6,414	(43,522)
	31,258	**757,877**
B. TAXATION PAYABLE/(RECEIVABLE)		
Balance at 1 July	245,733	307,764
Prior period adjustment	3,474	-
Terminal Tax (paid)/refunded	(235,120)	(294,404)
	14,087	**13,360**
Current Tax Payable	24,844	801,398
Provisional Tax paid	-	(569,084)
RWT paid on Interest	-	59
BALANCE AT 30 JUNE	**38,931**	**245,733**
C. IMPUTATION CREDIT ACCOUNT		
Imputation Credits carried forward	3,300,173	2,662,304
Decrease arising from tax refunded during the year	(24,715)	(22,890)
Increase arising from tax paid during the year	260,100	885,533
Applied to Dividends paid	-	(224,774)
BALANCE AT 30 JUNE	**3,535,558**	**3,300,173**
D. DEFERRED TAX RECONCILIATION		
Opening balance	4,487,178	3,577,996
Deferred tax expense	6,414	(139,895)
Revaluation of PP&E	(138,336)	1,049,077
CLOSING BALANCE	**4,355,256**	**4,487,178**
RECONCILIATION OF DEFERRED TAX EXPENSE		
Reclassified from current tax		
Credited to tax expense	6,414	(43,522)
Charged to other comprehensive income	(138,336)	(1,145,450)
	(131,922)	**(1,188,971)**

E. DEFERRED TAX ANALYSIS

Holiday Pay	(8,246)	(9,736)
Impairment Provision	-	(194,992)
Provision for doubtful debt	4,526	60
Intangibles	(47)	(47)
Income in Advance	(309,209)	(332,809)
Runway Refurbishment	386,552	446,157
Capitalised interest	53,615	34,301
Revaluation of PP&E	2,942,396	3,080,732
Asset Base and Depreciation Differences	1,285,668	1,463,512
	4,355,256	**4,487,178**

7. PROPERTY, PLANT AND EQUIPMENT

	Land & Land Improvements	Airport Infrastructure & Buildings	Other Assets	Capital Work in Progress	Total
AT 30 JUNE 2019					
Fair Value	5,800,362	33,893,393	1,705,788	6,985,037	48,384,580
Acc dep	(0)	(0)	1,066,979	0	1,066,979
	5,800,362	**33,893,393**	**638,809**	**6,985,037**	**47,317,601**
Opening net book value	5,800,362	33,893,393	638,808	6,985,037	47,317,601
Additions	0	331,932	206,338	7,730,991	8,269,261
Disposals	0	1,378,687	0	100,869	1,479,556
Revaluation	0	0	0	0	0
Depreciation	965	1,823,548	155,369	0	1,979,882
Transfers	278,291	7,873,870	803,013	(8,955,174)	0
CLOSING NET BOOK VALUE	**6,077,688**	**38,896,960**	**1,492,789**	**5,659,986**	**52,127,424**
AT 30 JUNE 2020					
Fair Value	6,077,688	38,896,960	2,698,457	5,659,987	53,333,092
Acc dep	0	(0)	1,205,668	0	1,205,668
	6,077,688	**38,896,960**	**1,492,789**	**5,659,987**	**52,127,424**

As at 30 June 2020 the land and land improvements were valued by an independent valuer – Telfer Young Limited – and the Airport Infrastructure & Buildings were valued by an independent valuer – Peter Seed Ltd. The last independent valuation of these Property, Plant and Equipment assets was performed at 30 June 2019.

The valuations were on the basis of current fair value. Telfer Young Limited determined the fair value by direct reference to recent market transactions on arm's length terms for properties comparable in size and location, taking into account the highest and best use for the land. This is level 2 on the fair value hierarchy – see note 18.

Peter Seed Ltd used a discounted cash flow valuation model as there was an absence of sales of similar properties and this is industry practice. This discounted cash flow valuation was based on future forecast income and expenditure for the aeronautical and non-aeronautical assets. The land held for future development was valued separately at $1.4m and later added to the discounted cash flow value.
This is level 3 on the fair value hierarchy – see note 18.

Due to the impact of COVID-19 on the Group and the uncertainty that exists around the timeframe for recovery of the aviation sector, the sensitivity of the discounted cash flow valuation to the key variables of passenger numbers and WACC was calculated. With all other variables held constant, the impact of these changes is:

	RANGE	IMPACT ON VALUE
Passenger Volume	low-6% to high+38%	-$5.3m to +$4.6m The passenger related sensitivity range is not symmetrical as based on specific passenger forecasts.
WACC	-0.5% to +0.5%	+$2.2m to -$0.9m

Additions subsequent to the revaluation are carried at cost.

As shown in the Statement of Changes in Equity there was an additional depreciation charge of $494,056 (2019: $344,188) as a result of the prior year revaluation of the Airport Infrastructure & Buildings assets.

8. INVESTMENT PROPERTY

	Land & Land Improvements	Business Park Infrastructure & Buildings	Capital Work in Progress	Total
AT 30 JUNE 2019				
Cost	2,977,203	2,875,214	145,402	5,997,819
Accumulated depreciation and impairment	262,506	1,358,994	-	1,621,500
	2,714,697	**1,516,220**	**145,402**	**4,376,319**
Opening net book value	2,714,697	1,516,220	145,402	4,376,319
Additions		48,101		48,101
Disposals				-
Depreciation	33,619	126,595		160,214
Prior Period Impairment Reversal		696,400		696,400
CLOSING NET BOOK VALUE	**2,729,179**	**2,086,025**	**145,402**	**4,960,606**
AT 30 JUNE 2020				
Cost	2,899,688	3,000,830	145,402	6,045,920
Accumulated depreciation and impairment	170,509	914,806	-	1,085,315
	2,729,179	**2,086,025**	**145,402**	**4,960,606**

The Group is developing a business park complex on the surplus airfield land. The development commenced in 2013. The initial tenant of the business park has prepaid its rentals for the 21-year term of the lease. This income is being recognised over the term of the lease.

As at 30 June 2020 the Group has considered whether any new indicators of impairment exist or whether there was sufficient evidence to support the reversal of previous impairments. The recoverable amount of the land has been considered separately for the developed and the undeveloped land components.

The recoverable amount of the developed land has been calculated by undertaking a lease capitalisation calculation on the net lease income from existing tenants. The recoverable amount of the prepaid lease has been calculated by undertaking a discounted cash flow calculation based on the lease income for the remainder of the lease term.

The recoverable amount of the undeveloped land has been valued by a third party valuation expert, Telfer Young Ltd, as at 30 June 2020, based on a value per square metre derived from knowledge of recent market transactions.

When the estimated value of the developed land and the valuation of the undeveloped land is combined, the recoverable value is estimated to be $8.4m. The asset has not been revalued to reflect this value due to the economic uncertainty as a result of COVID-19, however, the previous impairment of $696,400 was reversed as at 30 June 2020.

9. TRADE AND OTHER RECEIVABLES

	2020 $	2019 $
Accounts Receivable	396,909	503,971
Provision for doubtful debts	(15,951)	-
Prepayments	287,796	261,933
GST Receivable	79,423	269,989
	748,178	**1,035,893**

Management have assessed the impact of COVID-19 on all aspects of the balance sheet. Specifically the carrying value of receivables was considered in light of rent relief sought by tenants and expected financial difficulties of customers. Provisioning reflects management's best estimate of the impact based on information available at the time of preparing these financial statements. There has been no material impact on receivables.

10. EQUITY

	Shares on issue	2020 $	2019 $
Ordinary shares	1004	13,789,155	13,789,155
Revaluation Reserve		11,065,081	11,420,801

All shares have equal voting rights and share equally in dividends and surpluses on winding up. All shares are fully paid and have no par value. No dividend was declared or paid during the 2020 financial year 2019: $575.69 per share)

The revaluation reserve arises on the revaluation of property, plant and equipment. When revalued property, plant and equipment is sold, the portion of the revaluation reserve that relates to that asset is transferred directly to retained earnings.

11. TRADE AND OTHER PAYABLES

	2020 $	2019 $
General - Trade	412,543	420,943
- Capital Expenditure	464,366	1,336,642
Rentals in Advance	84,286	89,334
Income Tax Payable	35,320	245,733
	996,514	**2,092,652**

Rentals in advance due beyond 12 months totals $1,011,549 (2019: $1,096,022).

12. BORROWINGS

The Group has a flexible facility up to $1.5m, (2019: up to $1.5m), and a term facility of $19.5m (2019: $14.5m) as at 30 June 2020, available from the ANZ Bank. At balance date the term facility was drawn down to $16,9m (2019: $10,7m) and the Flexible Facility was drawn down to $1,296,337 (2019: $375,738).

The average interest rate on the term facility was 2.56% p.a (2019: 3.27% p.a). The term facility matures on 30 November 2021. The current interest rate on the Flexi Facility is 4.89% (2019: 4.89%). The Flexi Facility matures on 30 November 2021. The facilities are secured by a General Security Agreement.

At balance date the Group was in breach of the leverage covenant as per the facility agreement with the ANZ Bank. The Group sought a waiver from the ANZ Bank for the impending covenant breach in April 2020. Such waiver was contingent upon shareholder support in the form of shareholder loans, which were finalised subsequent to balance date on 10 July 2020. On 27 August 2020 the ANZ Bank issued written confirmation of a leverage covenant waiver as at 30 June 2020 and continued access to facilities until expiry at November 2021.

13. PROVISION FOR RETENTIONS PAYABLE

Various subcontractors engaged on the Terminal Expansion Project are subject to retention clauses within their construction contracts. Retentions are held in trust by the Group until such time as it is appropriate to release them i.e. either upon practical completion of the works or at the end of the defects liability period.

	2020 $	2019 $
Provision at the Start of the Year	**37,520**	-
Increase/(decrease) to the Provision during the year	116,451	37,520
Use of the Provision during the year	-	-
PROVISION AT THE END OF THE YEAR	**153,971**	**37,520**

14. RIGHT-OF-USE ASSETS AND LEASE LIABILITIES

	2020 $	2019 $
a) Amounts Recognised in the Balance Sheet		
Right of Use Assets		
Land	48,890	-
Vehicles (Fire Appliance)	371,620	-
	420,510	-
Lease Liabilities related to leases are split between current and non-current		
Current	105,181	-
Non-current	315,329	-
	420,510	

Additions to the right-of-use assets during the 2020 financial year were $420,510.

b) Amounts recognised in the statement of comprehensive income		
Depreciation charge on Right-of-Use Assets		
Right-of-Use Assets	-	-
Land	-	-
	-	-
Interest expense	34,333	

15. COMMITMENTS

OPERATING COMMITMENTS

As at 30 June 2019 the Group had 2.5 years remaining of a five-year contract with a provider of rescue fire, grounds maintenance and security services at $799,000 per annum. This contract ran until 31 December 2021, but the contract was terminated at 30 June 2020 and the Group has employed the required staff and leased the fire appliance. The lease is included in lease liabilities in note 14.

The Group has a lease agreement to lease land as part of the runway extension for a term of 35 years expiring on 30 April 2045 with ongoing rights of renewal. The lease commitment at 30 June 2019 was $897,000. This is now recorded as a lease liability under NZ IFRS 16 *Leases*. Due to the perpetual nature of the lease, the lease liability is calculated as $48,890.

CAPITAL COMMITMENTS

As at 30 June 2020 the Group is contractually committed to capital expenditure totalling $6,625,217 with $6,593,038 of this relating to the Terminal Expansion Project and the balance associated with general business. The capacity to meet these commitments was provided by the Shareholder Loan Facility, dated 10 July 2020. Refer Note 19 – Events Subsequent to Balance Date.

In the prior year at 30 June 2019 the Group was contractually committed to capital expenditure totalling $9,789,229, with $9,061,395 of this relating to the Terminal Expansion Project and the balance associated with master plan and car park development projects.

For further information on the Terminal Expansion Project refer to the Chair's and Chief Executive's report.

16. CONTINGENCIES

There are no known contingent liabilities (2019: Nil).

17. TRANSACTIONS WITH RELATED PARTIES

Hawke's Bay Airport Ltd is owned by Napier City Council, Hastings District Council and the Crown. The Group enters into numerous transactions with government departments, Crown entities, State-owned enterprises and other entities controlled by the Crown, and pays rates to the Napier City Council.

These transactions are not separately disclosed when 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.

The Group has entered into a Shareholder Loan Facility as at 10 July 2020. Refer Note 2 – Going Concern and note 19 – Events Subsequent to Balance Date.

Hawke's Bay Airport Limited incorporated a 100% owned subsidiary, Hawke's Bay Airport Construction Limited on 15 March 2019.

Hawke's Bay Airport Construction Limited is the company that contracts to Hawke's Bay Airport Limited to undertake the construction management of the Airport Expansion Project.

All transactions between Hawke's Bay Airport Limited and Hawke's Bay Airport Construction Limited are eliminated on consolidation so there are no related-party transactions to disclose at Group level.

Amounts paid to key management personnel (Chief Executive, Chief Financial Officer and the Directors) during the year were $566,721 (2019: $678,247).

18. FINANCIAL INSTRUMENTS

The Group is party to financial instruments as part of its normal day to day operations. The main financial instruments are:

- cash and cash equivalents
- accounts receivable
- trade payables
- borrowings.

The Group has no off balance sheet financial instruments.

FAIR VALUE OF FINANCIAL INSTRUMENTS

All financial assets and financial liabilities carrying amounts are a reasonable approximation of fair value. The fair value estimates were determined by the following methodologies and assumptions.

CASH AND CASH EQUIVALENTS: The reported amounts approximate fair value.

ACCOUNTS RECEIVABLES: The reported amount approximates fair value because they are assessed for impairment and all amounts are receivable within three months of balance date.

TRADE PAYABLES: The reported amount approximates fair value because they are payable in the short term.

BORROWINGS: The reported amounts approximate fair value because they are at market interest rates.

FAIR VALUE ESTIMATION

Assets and liabilities are recorded at fair value are valued according to the fair value hierarchy as follows:

LEVEL 1
Quoted prices (unadjusted) in active markets for identical assets or liabilities.

LEVEL 2
Inputs rather than quoted prices included in level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).

LEVEL 3
Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

EVENTS SUBSEQUENT TO BALANCE DATE

SHAREHOLDER LOAN
On 10 July 2020, the Group entered into agreement with the shareholders for a shareholder loan totalling $9m (Crown $4.5m, NCC $2.34m, HDC $2.16m) to enable completion of the Terminal Expansion Project and ensure the Group's working capital requirements can be met throughout the recovery period.

BANKING COVENANTS
On 27 August 2020 the Group received written confirmation from the ANZ Bank that it waives the breach of the leverage covenant by the Group as at 30 June 2020 and that existing debt facilities remain available to the Group to support Terminal Expansion Project expenditure and operational working capital until expiry of the facilities in November 2021.

(2019: Jetstar announced it would be ceasing its turboprop service between Hawke's Bay and Auckland after the release of the 2019 financial statements. The estimated impact on the net book value of Property, Plant and Equipment was a potential decrease of $0.95m to $3.6m.)

INDEPENDENT AUDITOR'S REPORT

TO THE READERS OF HAWKE'S BAY AIRPORT LIMITED'S GROUP FINANCIAL STATEMENTS AND PERFORMANCE INFORMATION FOR THE YEAR ENDED 30 JUNE 2020.

The Auditor-General is the auditor of Hawke's Bay Airport Limited group (the Group). The Auditor-General has appointed me, Philip Pinckney, using the staff and resources of Baker Tilly Staples Rodway Audit Limited, to carry out the audit of the financial statements and the performance information of the Group on his behalf.

OPINION

We have audited:

- the financial statements of the Group on pages 34 to 51, 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 Group on page 33.

In our opinion:

- the financial statements of the Group on pages 34 to 51:
  - 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 Group on page 3 presents fairly, in all material respects, the Group's actual performance compared against the performance targets and other measures by which performance was judged in relation to the Group's objectives, for the year ended 30 June 2020.

Our audit was completed on 21 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 Group as set out in note 1 to the financial statements.

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 audit opinion.

bakertilly
STAPLES RODWAY

RESPONSIBILITIES OF THE BOARD OF DIRECTORS FOR THE FINANCIAL STATEMENTS AND THE PERFORMANCE INFORMATION

The Board of Directors is responsible on behalf of the Group 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 Group 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 it 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 decision of readers taken on the basis of these financial statements and the performance information.

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 scepticism 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 Group'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 Group 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 obtain sufficient appropriate audit evidence regarding the financial statements and the performance information of the entities or business activities within the Group to express an opinion on the consolidated financial statements and the consolidated performance information. We are responsible for the direction, supervision and the performance of the Group audit. We remain solely responsible for our audit opinion.

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.

INDEPENDENCE

We are independent of the Group 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 Group.

PHILIP PINCKNEY
Baker Tilly Staples Rodway Audit Limited
On behalf of the Auditor-General Hastings, New Zealand


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