WELLINGTON INTERNATIONAL AIRPORT LIMITED

Consolidated Annual Report

For the Year Ended 31 March 2020

DIRECTORS' REPORT

The Directors have pleasure in presenting to shareholders the consolidated annual report for Wellington International Airport Limited (WIAL and/or the Company) for the year ended 31 March 2020.

Directors

The Directors of WIAL during the year were:

- ✈ Timothy Brown, Chairman
- ✈ Alison Gerry
- ✈ Andrew Foster (Retired 30 October 2019. Reappointed 4 December 2019)
- ✈ Jason Boyes
- ✈ Phillip Walker
- ✈ Wayne Eagleson

During the year, Andrew Lamb attended the Board meetings as an observer as part of a Cadetship under the Company's Aspiring Directors Programme.

Group's Affairs and Nature of Business

WIAL and its wholly owned subsidiaries (the Group) provide integrated airport and commercial facilities and services to various airlines and other airport users in Wellington, New Zealand. The Group also operates a commercial retail park adjacent to the airport site.

WIAL has three wholly owned subsidiary companies. Wellington Airport Noise Treatment Limited (WANT Limited) provides noise mitigation activities to manage the impact of noise generated from the airport on the surrounding community. Whare Manaakitanga Limited operates WIAL's airport hotel. Meitaki Limited is a captive insurance company which was incorporated in the Cook Islands on 6 September 2019. As a result WIAL comprises a Group for financial reporting purposes and is required to prepare a consolidated report.

COVID-19 Pandemic

On 11 March 2020, the World Health Organisation declared a global pandemic as a result of the outbreak and spread of COVID-19. Following this, the New Zealand Government imposed significant restrictions around travel including quarantining of international travelers arriving into New Zealand. On 25 March 2020 the New Zealand Government raised its alert to Level 4 (full lockdown of non-essential services) for an initial 4-week period.

Whilst the Directors consider WIAL's long term business fundamentals remain strong, COVID-19 has had a significant impact on the aviation industry and on WIAL's business. The first 4 weeks of the Level 4 lockdown have greatly impacted airline passenger travel and WIAL's passenger numbers for April 2020 were 98.8% below the same month last year. The recent move to Level 2 announced by the New Zealand Government on 11 May 2020 and its impact on air travel has led to an increase in scheduled domestic flights within New Zealand but the timing around international travel resuming is still to be determined. Notwithstanding this, the longer-term effects of COVID-19 on WIAL's business remain uncertain and the potential impacts of the pandemic continue to evolve rapidly.

In response to the impacts of COVID-19, WIAL has taken a number of significant actions to resize its business for the forecast impact of reduced airline travel. This has included reducing operating expenditure, by reducing the number of airport staff, salary reductions and implementation of a 4-day working week. Other expenditure has also been reduced, including reduced passenger related costs and non-essential or discretionary costs. In addition, capital expenditure has been substantially resized to provide for the maintenance of critical services and required expenditure.

In addition, WIAL has also undertaken a range of measures to enhance its liquidity and overall financial flexibility. WIAL has agreed with its banking group an increase in its banking facilities from $100 million to $170 million. WIAL has also obtained a temporary waiver of certain bank covenants for the next three test dates being September 2020, March 2021 and September 2021. In addition, WIAL is expecting to obtain a temporary waiver for its USPP debt covenants for the same test dates. Agreement with its USPP investor is close to being finalised and subject to legal documentation. WIAL has also put in place a $75 million shareholder support agreement, in the form of a commitment from both its shareholders in the form of redeemable preference shares.

On the basis of these actions and under the passenger numbers and cash flows forecast, the Directors have greater confidence that there will be no default event in respect of WIAL's financial covenants through this waiver period and these actions should provide a solid platform for an anticipated return to more normal trading conditions in the year ending 31 March 2022.

With regards to WIAL's annual report, COVID-19 has specifically impacted certain areas of financial reporting. Where material, these impacts have been disclosed in the relevant notes in the financial statements based on information available at the time of preparation.

DIRECTORS' REPORT

The Directors regard the state of the Group's affairs to be satisfactory.

The nature of the Group's business has not changed during the year.

Earnings After Subvention Payment and Dividends

Total revenue for the year was $146.4 million. The net profit after taxation amounted to $28.9 million after $44.3 million in subvention payments were paid to subsidiaries of the Infratil Group.

During the year a dividend of $13.9 million was paid to Wellington City Council.

Retained Earnings

Retained earnings was $137.4 million, an increase for the year of $15.0 million.

Asset Revaluation Reserve

The asset revaluation reserve at 31 March 2020 was $506.8 million.

Liabilities

The liabilities of WIAL are not guaranteed by its shareholders.

Auditors

KPMG remained the Group's auditors during the year.

On behalf of the Board

Timothy Brown	**Alison Gerry**
Chairman	Chair of the Audit and Risk Committee
28 May 2020	28 May 2020

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 MARCH 2020

	Notes	2020	2019
		$000	$000
Aircraft movement and terminal charges		80,780	81,490
Retail and trading activities		52,078	43,542
Property rent and lease income		13,519	12,857
Total revenue	A2	**146,377**	**137,889**
Operating expenses	A3	(29,377)	(24,831)
Employee remuneration and benefits	A4	(13,810)	(11,673)
Subvention payment	D2	(44,329)	(40,463)
Total operating and other expenditure		**(87,516)**	**(76,967)**
Investment properties revaluation net increase/(decrease)	B2	(5,450)	4,754
Depreciation	B1	(28,394)	(23,742)
Gain/(loss) on sale of property, plant and equipment		(323)	16
Impairment of property, plant and equipment	B1	(5,698)	-
Operating earnings before net financing expense		**18,996**	**41,950**
Interest income		680	291
Interest expense	C2	(25,465)	(19,663)
Other finance income	C3	149	1,197
Net financing expense		**(24,636)**	**(18,175)**
Net profit/(loss) from operations before taxation		**(5,640)**	**23,775**
Taxation income/(expense)	A5	34,527	(234)
Net profit after taxation		**28,887**	**23,541**
Other comprehensive income			
Items that will not be reclassified to profit or loss:			
Property, plant and equipment revaluation	B1	33,282	14,000
Income tax on property, plant and equipment revaluation	A5	(5,959)	-
Total items that will not be reclassified to profit or loss		27,323	14,000
Items that may subsequently be reclassified to profit or loss:			
Fair value losses recognised in the cash flow hedge reserve	C3	(6,574)	(9,251)
Tax effect of movements in the cash flow hedge reserve	A5	1,841	2,590
Total items that may subsequently be reclassified to profit or loss		(4,733)	(6,661)
Total other comprehensive income		**22,590**	**7,339**
Total comprehensive income		**51,477**	**30,880**

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 MARCH 2020

	Note	Capital	Asset Revaluation Reserve	Cash Flow Hedge Reserve	Other Reserves	Retained Earnings	Total Equity
				Attributable to Equity Holders			
		$000	**$000**	**$000**	**$000**	**$000**	**$000**
Balance as at 1 April 2019		**9,050**	**479,455**	**(7,547)**	**332**	**122,376**	**603,666**
Comprehensive income							
Net profit		-	-	-	-	28,887	28,887
Other comprehensive income		-	27,323	(4,733)	-	-	22,590
Total comprehensive income		**-**	**27,323**	**(4,733)**	**-**	**28,887**	**51,477**
Contributions by and distributions to owners							
Movement in executive redeemable shares		-	-	-	(332)	-	(332)
Dividends to equity holders		-	-	-	-	(13,880)	(13,880)
Total contributions by and distributions to owners		**-**	**-**	**-**	**(332)**	**(13,880)**	**(14,212)**
Balance as at 31 March 2020	C1	**9,050**	**506,778**	**(12,280)**	**-**	**137,383**	**640,931**

	Note	Capital	Asset Revaluation Reserve	Cash Flow Hedge Reserve	Other Reserves	Retained Earnings	Total Equity
				Attributable to Equity Holders			
		$000	**$000**	**$000**	**$000**	**$000**	**$000**
Balance as at 1 April 2018		**9,050**	**465,455**	**(886)**	**202**	**111,445**	**585,266**
Comprehensive income							
Net profit		-	-	-	-	23,541	23,541
Other comprehensive income		-	14,000	(6,661)	-	-	7,339
Total comprehensive income		**-**	**14,000**	**(6,661)**	**-**	**23,541**	**30,880**
Contributions by and distributions to owners							
Movement in executive redeemable shares		-	-	-	130	-	130
Dividends to equity holders		-	-	-	-	(12,610)	(12,610)
Total contributions by and distributions to owners		**-**	**-**	**-**	**130**	**(12,610)**	**(12,480)**
Balance as at 31 March 2019	C1	**9,050**	**479,455**	**(7,547)**	**332**	**122,376**	**603,666**

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 MARCH 2020

	Notes	2020 $000	2019 $000
Cash and cash equivalents	C3	15,621	20,265
Receivables	C3	14,063	17,890
Prepayments and sundry receivables		5,359	5,788
Current assets		**35,043**	**43,943**
Property, plant and equipment	B1	1,206,427	1,127,029
Investment properties	B2	92,079	86,615
Derivative financial instruments	C3	38,421	2,906
Non current assets		**1,336,927**	**1,216,550**
Total assets		**1,371,970**	**1,260,493**
Trade and other payables	C3	1,649	2,001
Current tax payable	A5	15,073	17,535
Accruals and other liabilities		13,649	16,399
Accrued employee benefits	A4	3,833	4,017
Loans and borrowings	C2	55,000	75,000
Current liabilities		**89,204**	**114,952**
Deferred taxation	A5	97,867	125,854
Lease liabilities	D3	10,729	-
Derivative financial instruments	C3	17,362	10,922
Loans and borrowings	C2	515,877	405,099
Non current liabilities		**641,835**	**541,875**
Attributable to shareholders		640,931	603,666
Total equity		**640,931**	**603,666**
Total equity and liabilities		**1,371,970**	**1,260,493**

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

On behalf of the Board

Timothy Brown
Chairman
28 May 2020

Alison Gerry
Chair of the Audit and Risk Committee
28 May 2020

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 MARCH 2020

	Notes	2020 $000	2019 $000
Cash flows from operating activities			
Cash was provided from:			
Receipts from customers		150,476	133,565
Interest received		680	291
Cash was disbursed to:			
Payments to suppliers and employees		(46,807)	(38,920)
Interest paid		(24,659)	(19,104)
Subvention payment	D2	(44,329)	(40,463)
Net cash flows from operating activities		**35,361**	**35,369**
Cash flows from investing activities			
Cash was provided from:			
Proceeds from sale of property, plant and equipment		-	16
Cash was disbursed to:			
Purchase of property, plant and equipment		(80,568)	(72,492)
Net cash flows from investing activities		**(80,568)**	**(72,476)**
Cash flows from financing activities			
Cash was provided from:			
Increase in borrowings		100,000	50,000
Cash was disbursed to:			
Repayment of borrowings		(45,000)	-
Bond issue costs		(370)	(1,549)
Dividend payment	D2	(13,882)	(12,610)
Repayment of lease liabilities		(185)	-
Net cash flows from financing activities		**40,563**	**35,841**
Net (decrease)/increase in cash and cash equivalents		(4,644)	(1,266)
Cash and cash equivalents balance at the beginning of the year		20,265	21,531
Cash and cash equivalents balance at the end of the year	C3	**15,621**	**20,265**

Reconciliation of net profit after taxation to net cash flows from operating activities:	2020 $000	2019 $000
Net profit after taxation	**28,887**	**23,541**
Other finance income	(149)	(1,197)
Depreciation	28,394	23,742
Investment properties revaluation net decrease/(increase)	5,450	(4,754)
Deferred tax impact from change in depreciation rules	(22,332)	-
Other movements not involving cash flows	(5,743)	906
Movements in working capital	854	(6,869)
Net cash flows from operating activities	**35,361**	**35,369**

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

REPORTING ENTITY

The financial statements presented are those of the consolidated Wellington International Airport Limited Group (the Group), comprising Wellington International Airport Limited (WIAL and/or the Company) and its subsidiaries, Wellington Airport Noise Treatment Limited (WANT Limited), Whare Manaakitanga Limited and Meitaki Limited. Meitaki Limited was incorporated in the Cook Islands as a captive insurance company during the year.

The Group operates in Wellington, New Zealand, providing integrated airport and commercial facilities and services to various airlines and other airport users. The Group also operates a commercial retail park adjacent to the airport site, and provides noise mitigation activities to manage the impact of noise generated from the airport on the surrounding community.

STATUTORY BASE

The parent company, WIAL, is a profit oriented company incoporated and domiciled in New Zealand as a limited liability company registered under the Companies Act 1993. The company has bonds listed on the NZX Debt Market (NZDX) and on that basis meets the definition of a Reporting Entity under the Financial Markets Conduct Act 2013 and the Financial Reporting Act 2013.

BASIS OF PREPARATION

The consolidated financial statements are general purpose financial statements and have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand (NZ GAAP). They comply with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) and other applicable financial reporting standards as appropriate for profit-oriented entities. The consolidated financial statements also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

The consolidated financial statements are presented for the year ended 31 March 2020 and were approved by the Board of Directors on 28 May 2020.

Basis of measurement

The consolidated financial statements have been prepared on a historical cost basis, with the exception of certain items as identified in specific accounting policies, and are presented in New Zealand Dollars which is the Group's functional currency. Where indicated, values are rounded to the nearest thousand dollars ($000).

USE OF ACCOUNTING ESTIMATES AND JUDGEMENT

These consolidated financial statements comply with NZ IFRS, which requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Future outcomes could differ from those estimates.

Areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed within the specific notes shown below:

Area of estimate or judgement	**Note**
Valuation of property, plant and equipment	Note B1 Property, plant and equipment
Valuation of investment properties	Note B2 Investment properties

Covid-19 pandemic

On 11 March 2020, the World Health Organisation declared a global pandemic as a result of the outbreak and spread of COVID-19. Following this, the New Zealand Government imposed significant restrictions around travel including quarantining of international travelers arriving into New Zealand. On 25 March 2020, the New Zealand Government raised its alert to Level 4 (full lockdown of non-essential services) for an initial 4-week period.

COVID-19 has had a significant impact on the aviation industry and on WIAL's business and the longer-term effects of COVID-19 on WIAL’s business remain uncertain and the potential impacts of the pandemic continue to evolve rapidly.

With regards to these financial statements, COVID-19 has specifically impacted certain areas of financial reporting and have required the Group to make estimates or judgements. Due to COVID-19, there is uncertainty around forecast domestic and international air travel and consequently on WIAL’s cash flows. The Group has forecast a significant reduction in passengers for the year ending 31 March 2021 and a slow recovery back to pre-COVID-19 levels occurring in the year ending 31 March 2023. These forecasts are based on the information available to the Group at the time of preparing these financial statements and are based on reference to various data sources including airlines, IATA and travel and tourism bodies.

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

SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements have been consistently applied to all periods presented, except as detailed below.

The Group has applied the following standards and amendments for the first time for its annual reporting period commencing 1 April 2019:

IFRS 16 Leases

NZ IFRS 16 Leases removes the classification of leases as either operating leases or finance leases for the lessee. Consequently all leases for the lessee (other than short term or low value leases) are recognised in the Statement of Financial Position. Lessor accounting remains materially similar to current practice whereby lessors continue to classify leases as finance and operating leases. The standard is effective for annual reporting periods beginning on or after 1 January 2019. The impact of the standard has the effect of taking the current leases that the Group is committed to - land leases - and recognising these as leased assets and liabilities in the consolidated statement of financial position. As a result, payments for leases previously classified as operating leases have been reclassified from other operating expenses to interest expense and payment of the lease liability. The Group has adopted NZ IFRS 16 using the modified retrospective approach and has not restated comparative amounts for the period prior to first adoption.

The impact of adoption of NZ IFRS 16 on the Group's Consolidated Statement of Financial Position is summarised in the table below:

	31 Mar 2020	1 April 2019
	$000	$000
Right-of-use assets (Investment property)	10,914	8,748
Lease liabilities	(10,729)	(8,748)
Change in net assets	**185**	**-**

When compared to the accounting policies applied in the prior comparative period, the adoption of NZ IFRS 16 on the Group's Consolidated Statement of Comprehensive Income for the year ended 31 March 2020 is summarised in the table below:

	31 Mar 2020	31 Mar 2019
	$000	$000
Operating expenses	(649)	-
Interest expense	464	-

The Group has utilised the recognition practical expedients specified in NZ IFRS 16 in respect of short-term and low value leases where appropriate. The Group has also elected to apply the practical expedient which states that an entity is not required to reassess whether a contract is, or contains, a lease at the date of initial application.

The lease liability was measured at the present value of the minimum lease payments, discounted at the incremental borrowing rate applicable to that lease at 1 April 2019. In line with the modified retrospective approach, the associated right-of-use assets were measured at the amount equal to the lease liability relating to that lease at 1 April 2019, with no overall change in net assets. Where the lease pertains to property held to earn rental income, the right-of-use asset is classified as Investment Property and is measured at fair value. The weighted average incremental borrowing cost applied to lease liabilities at 1 April 2019 was 5.0%.

Amounts recognised in the consolidated statement of comprehensive income	31 Mar 2020	31 Mar 2019
	$000	$000
Income from sub-leasing right of use assets	343	296
Expenses relating to short-term leases of low value assets	(54)	(54)
Expenses relating to leases of low-value assets, excluding short-term leases of low-value assets	(61)	(61)

FINANCIAL RISK MANAGEMENT

The Board of Directors has overall responsibility for the establishment and oversight of the Group's financial risk management framework. The Audit and Risk Committee also has a function of reviewing management practices in relation to identification and management of significant business risk areas and regulatory compliance. The Group has developed a comprehensive enterprise wide risk management framework. Management and the Board participate in the identification, assessment and monitoring of new and existing risks. Particular attention is given to strategic risks that could affect the Group. Management report to the Audit and Risk Committee and the Board on the Group's risks and the controls and treatments for those risks. Financial risk management principles are disclosed within the specific notes shown below:

Area of risk management	Note
Capital risk	Note C1 Share capital
Market risk	Note C3 Financial Instruments
Liquidity risk	Note C3 Financial Instruments
Credit risk	Note C3 Financial Instruments

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The notes include information that is required to understand the consolidated financial statements and is material and relevant to the operations, financial position and performance of the Group. Information is considered material and relevant if, for example:

- the amount in question is significant because of its size or nature;
- it is important for understanding the results of the Group;
- it helps to explain the impact of significant changes in the Group's business; and/or
- it relates to an aspect of the Group's operations that is important to its future performance.

NOTE CATEGORIES

NOTE ANNOTATIONS

P Accounting policy

E Key judgements and estimates

R Financial risks

A. FINANCIAL PERFORMANCE

A1. Segment reporting and non-NZ GAAP measure

P

Operating segments are identified based on the nature of the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker of the Group has been identified as the Chief Executive Officer. Based on the internal reporting to the Chief Executive Officer, the Group is considered to have one operating segment.

The Group has two major customers that individually contribute greater than 10% of the Group's revenue. The revenue earned from these customers for the year ended 31 March 2020 was $74.4 million (2019: $79.3 million).

The Group refers to a non-NZ GAAP financial measure of earnings before interest, tax, depreciation, amortisation, change in fair value of financial instruments, impairments, gain/(loss) on sale of assets and subvention payment (EBITDAF) within these consolidated financial statements. The Board and management consider it a useful non-NZ GAAP financial measure as it shows the contribution to earnings prior to non-cash items, cost of financing and subvention and is used by management, in conjunction with other measures, to monitor financial performance. The limited use of this non-NZ GAAP measure is intended to supplement NZ GAAP measures and is not a substitute for NZ GAAP measures. As these measures are not defined by NZ GAAP, NZ IFRS, or any other body of accounting standards, the Group's calculations may differ from similarly titled measures presented by other companies.

	2020	2019
	$000	$000
Net profit after taxation	**28,887**	**23,541**
Subvention payment	44,329	40,463
Net financing expense	24,636	18,175
Taxation (income)/expense	(34,527)	234
Depreciation	28,394	23,742
Investment property revaluation net (increase)/decrease	5,450	(4,754)
(Gain)/Loss on sale of property, plant and equipment	323	(16)
Impairment of property, plant and equipment	5,698	-
EBITDAF	**103,190**	**101,385**

A2. Revenue

Revenue is earned from aircraft movement and terminal charges, retail, hotel and trading activities and property leases.

P

Revenue recognition

Revenue is recognised as the amount of consideration expected to be received in exchange for transferring promised goods or services to a customer.

Aircraft movement and terminal charges

Airfield income, passenger service charges and terminal service charges are recognised as revenue when the passenger travels or the airport facilities are used.

Hotel and other trading activities

Hotel and other trading activities includes revenue earned from the airport's hotel and access to the airport's car parking facilities. Revenue from the hotel is recognised at the point in time the service is delivered. Revenue from car parking is recognised at the point in time where the utilisation of car parking facilities have been completed.

Retail concession fees

Retail concession fees are recognised as revenue on an accrual basis based upon passenger throughput or the turnover of the concessionaires.

Property rent and lease income

Rental revenue, net of lease incentives, is recognised on a straight line basis over the term of the lease.

Interest income

Interest income is recognised as it accrues, using the effective interest rate method. Refer to note C3 for further information regarding the interest rate contracts in place.

Total contract and other revenue	2020	2019
	$000	$000
Aircraft movement and terminal charges	80,780	81,490
Hotel and other trading activities	39,122	30,490
Total contract revenue	**119,902**	**111,980**
Retail concession fees	12,956	13,052
Property rent and lease income	13,519	12,857
Total revenue	**146,377**	**137,889**

A3. Operating expenses

The Group incurs operating expenses in delivering its services as an integrated airport to various airlines and other airport users. The main components comprising operating expenses are outlined below.

	2020	2019
Fees paid to auditors:	$0	$000
Audit of statutory financial statements	106	110
Taxation and other assurance services *(Note 1)*	90	68
Directors' fees	674	607
Regulatory compliance and airline pricing consultation	344	293
Marketing and development	2,456	2,413
Cleaning and energy	2,852	2,350
Rates and insurance	7,208	6,070
Repairs and maintenance	2,379	2,475
Noise mitigation program	2,018	2,018
Expected credit loss provision	1,000	42
Administration and other expenses	10,250	8,385
Total operating expenses	**29,377**	**24,831**

Note 1 - Includes audit of WIAL's regulatory annual disclosures.

A4. Employee remuneration and benefits

P

Provision is made for benefits accruing to employees in respect of wages and salaries, annual leave and long service leave when it is probable that settlement will be required and the amount can be measured reliably. Provisions made in respect of employee benefits expected to be settled within 12 months are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

During the year, WIAL participated in a staff Infratil share purchase scheme which concluded during the year ended 31 March 2020. No interest free loans were recorded as at 31 March 2020 (2019: $8,120). In addition, the company operates an executive long term, non-equity based incentive scheme.

Accrued employee benefits	2020	2019
	$000	$000
Salaries and wages	2,959	3,149
Annual and long service leave	874	868
Total accrued employee benefits at the end of the year	**3,833**	**4,017**

Key management personnel disclosures

Key management personnel include the Directors of WIAL, the Chief Executive Officer and those personnel reporting directly to the Chief Executive Officer. The Directors' fees for the year ended 31 March 2020 of $674,178 (2019: $606,597) disclosed in Note A3 are included within short-term employee benefits as they form part of the remuneration to key management personnel.

Key management personnel benefits	2020	2019
	$000	$000
Short-term employee benefits	3,810	3,535
Long-term employee benefits	826	634
Key management personnel benefits expense for the year	**4,636**	**4,169**

A5. Taxation

P

Current and deferred tax is recognised in profit or loss in the statement of comprehensive income, except when it relates to items credited or debited directly to equity or in other comprehensive income, in which case the deferred tax or current tax is also recognised directly in equity or in other comprehensive income. Current tax is the expected tax receivable/(payable) on the taxable (loss)/income for the year, using tax rates enacted or substantially enacted at the balance date, and any adjustment to tax payable in respect of previous years.

	2020	2019
	$000	$000
Net profit/(loss) before taxation	**(5,640)**	**23,775**
Taxation at 28%	1,579	(6,657)
Subvention payment made in respect of prior period	(12,411)	(11,330)
Taxation effect of non deductible items	4,954	(351)
Deferred tax impact from reinstatement of depreciation on buildings	22,332	-
Loss offset	4,971	4,654
Over provision in prior years	13,102	13,450
Taxation income/(expense)	**34,527**	**(234)**
Current taxation	2,422	(1,585)
Deferred taxation	32,105	1,351
Taxation income/(expense)	**34,527**	**(234)**

In March 2020, the Government re-introduced the deductibility of depreciation on buildings for tax purposes, for buildings not primarily used for residential accommodation. This amendment applies from 1 April 2020 and the depreciation rate is 2% diminishing value. The impact of this change increases the tax base for these assets, giving rise to a reduced difference between the carrying cost and tax base and results in a reduction in deferred tax liability and reduction in tax expense of $22.3 million.

P

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts for taxation purposes. Income taxes relating to items recognised in other comprehensive income or directly in equity are recognised in other comprehensive income or directly in equity and not in the income statement. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at balance date.

	Property, plant and equipment	Investment properties	Derivative financial instruments	Accrued employee benefits	Other	Total
	$000	$000	$000	$000	$000	$000
Balance at 1 April 2019	(114,721)	(14,898)	3,567	743	(545)	(125,854)
Recognised in profit and loss	20,901	10,612	(272)	(35)	899	32,105
Recognised in other comprehensive income	(5,959)	-	1,841	-	-	(4,118)
Balance at 31 March 2020	**(99,779)**	**(4,286)**	**5,136**	**708**	**354**	**(97,867)**
Balance at 1 April 2018	(117,595)	(13,392)	1,171	485	(464)	(129,795)
Recognised in profit and loss	2,874	(1,506)	(194)	258	(81)	1,351
Recognised in other comprehensive income	-	-	2,590	-	-	2,590
Balance at 31 March 2019	**(114,721)**	**(14,898)**	**3,567**	**743**	**(545)**	**(125,854)**

B. FIXED ASSETS

B1. Property, plant and equipment

Property, plant and equipment are recorded at cost less accumulated depreciation and impairment losses, or at fair value less accumulated depreciation and impairment losses. Fair value is based on valuations which are undertaken on a systematic basis at least every five years. The fair value of assets are reviewed at the end of each reporting period to ensure that there is no material difference to the carrying value at the reporting date. Property, plant and equipment are also reviewed annually for indications of impairment with any identified impairment adjustments charged to profit or loss.

Depreciation

Depreciation is calculated systematically on a straight-line basis to allocate the cost or revalued amount of an asset, less any residual value, over its estimated useful life. Land and certain civil foundation works are not depreciated.

The Group makes estimates of the remaining useful lives of assets, which are as follows:

Building ancillary services	2 – 30 years
Buildings	40 – 55 years
Civil works	0 – 120 years
Vehicles, plant and equipment	3 – 40 years

Individual asset remaining useful lives and residual values are assessed at least annually.

Capitalised interest

For the year ended 31 March 2020, capitalised borrowing costs relating to capital work in progress, as referred to in Note C2, amounted to $1.8 million (2019: $4.4 million), with an average interest rate of 4.58% per annum (2019: 4.90% per annum).

Valuation of property, plant and equipment

Fair value is determined by an independent valuation or by management using recognised valuation techniques. An independent valuer is engaged to provide a valuation if management does not have sufficient expertise to perform the valuation. Where the assets are of a specialised nature and do not have observable market values in their existing use, optimised depreciated replacement cost is used as the basis of the valuation. Where there is an observable market, an income based approach is used.

Civil assets were revalued at 31 March 2020 by WSP Opus International Consultants Limited.

Land and buildings were last revalued at 31 March 2018 by Savills (NZ) Limited, with the exception of the Hotel Business assets which were independently valued at 31 March 2020 by Jones Lang LaSalle. At the end of the current reporting period, the Group made an assessment of whether the carrying amounts of assets differed materially from fair value. This assessment considered changes in significant inputs since the last revaluation, movements in the capital goods price index and changes in valuations of investment property as an indicator of property, plant and equipment. A summary of the assessment is outlined below:

The Group's assessment of land, assisted by Savills (NZ) Limited, was that the fair value of land has increased by $12 million (2019: $14 million). Buildings are assessed as three main components; Specialised buildings, Vehicle Business and Hotel Business assets. Savills (NZ) Limited assisted with specialised buildings and vehicle business assets with that assessment indicating a material difference from carrying value with a net increase of $14.7 million (2019: no material movement) which has been recognised at 31 March 2020. This includes a reduction in the vehicle business assets of $7.7 million. The vehicle business valuation is based on a discounted cash flow and capitalisation rate approach and the decrease in carrying value is due to a forecast reduction in short term cashflows due to fewer passengers and vehicle business customers at Wellington Airport.

Hotel business assets were valued by Jones Lang LaSalle due to the current year being the first full reporting period in which the Wellington Airport Rydges Hotel has been operating. The valuation by Jones Lang Laselle indicated a reduction to carrying value of $4.4 million and therefore a provision for impairment of this amount has been recognised in the Statement of Comprehensive Income. This valuation is based on a discounted cash flow and capitalisation rate approach and the decrease in carrying value is due to a forecast reduction in short term cashflows due to fewer passengers and hotel guests at Wellington Airport.

Due to the impact of COVID-19, the assessment of fair value of land and buildings by Savills (NZ) Limited and the Hotel Business valuation by Jones Lang LaSalle have been reported by both valuers on the basis of "material valuation uncertainty as defined by RICS (the Royal Institution of Chartered Surveyors)". Savills (NZ) Limited and Jones Lang LaSalle reported that as a consequence of this material valuation uncertainty, "less certainty and a higher degree of caution" should be attached to the work undertaken.

Due to COVID-19, there is uncertainty around forecast domestic and international air travel and consequently on WIAL’s cash flows. The Group has forecast a significant reduction in passengers during the commencement of the financial year 2020-21 and a slow recovery back to pre-COVID-19 levels occurring in financial year ending 31 March 2023. These forecasts are based on the information available to the Group at the time of preparing these financial statements and are based on reference to various data sources including airlines, IATA and travel and tourism bodies.

The Groups estimates of passengers, recovery and growth rates remain uncertain and dependent on a number of factors with respect to COVID-19 including timing of New Zealand moving into lower alert levels, any remaining restrictions on domestic travel, border controls for international travel, public demand and behaviour with respect to travel and airline scheduling. Material changes in any of these factors might have a material impact on the Group’s estimates of income and cashflows used in the valuations and fair value assessments at 31 March 2020. In addition, the longer-term effects of COVID-19 on WIAL’s business remain uncertain and the potential impacts of the pandemic continue to evolve rapidly.

The major inputs and assumptions that form the basis of determining fair value and the relevant relationship of the inputs requiring judgement are outlined in the table below.

Description of different valuation approaches

Discounted cash flow (DCF)	A valuation methodology which requires the application of financial modelling techniques. Discounted cash flow analysis requires assumptions to be made regarding the prospective income and expenses of a property. Such assumptions pertain to the quantity, quality, variability, timing, and duration of inflows and outflows over an assumed period. The assessed cash flows are discounted to present value at an appropriate, market-derived discount rate to determine fair value.
Income capitalisation approach (Cap rate)	A valuation methodology which determines fair value by capitalising an asset's sustainable net income at an appropriate, market derived capitalisation rate based on an analysis of sales of comparable assets.
Optimised depreciated replacement costs (ODRC)	A valuation methodology whereby fair value is determined by calculating the cost of constructing a modern equivalent asset at current market based input cost rates, adjusted for the remaining useful life of the assets (depreciation) and any sub-optimal usage of the assets in their current application (optimisation).
Market value existing use approach (MVEU)	A valuation methodology whereby fair value, based on the highest and best alternative use (MVAU), is determined as the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's length transaction plus consenting and holding costs to provide land suitable for airport use. The consenting and holding costs are derived by the valuer using assumptions regarding the direct costs of obtaining consent, the developer's weighted average cost of capital and the holding period for conversion to airport use.

Fair value hierarchy levels

The Group discloses fair value measurements by level of the following fair value measurement hierarchy:

• Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities;

• Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices); or

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

There were no transfers between levels of the fair value hierarchy during the year ended 31 March 2020 (2019: none).

Unobservable inputs

The valuation methodology adopted by the Group makes use of inputs which do not have any market data available and are developed using the best information available that market participants would use when evaluating pricing.

B1. Property, plant and equipment (continued)

The following table summarises the valuation approach and key assumptions used by the valuers to arrive at fair value at the date of the last full valuation:

Description	Valuation approach	Fair value hierarchy level	Significant unobservable inputs		Sensitivity valuation impact	Relationship of unobservable inputs to fair value
Land						
Aeronautical land - used for airport activities and specialised aeronautical assets. Non-aeronautical land - used for non-aeronautical purposes e.g. industrial, service, retail, residential and land associated with the vehicle business.	MVEU	3	Average MVAU rate per hectare	$1.86 million per hectare	A 5% change equates to +/- $10.0m	The higher the rate per hectare, the higher the fair value.
			Developer's WACC rate	10.40%	A 5% change equates to +/- $7.4m	The higher the WACC rate, the higher the fair value.
			Holding period	6 years	A 6 month change equates to +/- $11.1m	The longer the holding period, the higher the fair value.
Valued at 31 March 2018 by Savills (NZ) Limited, registered valuers, at $333.1 million. The valuation was then subject to a peer review before being adopted by WIAL.						
Civil						
Civil works include sea protection and site services, excluding such site services to the extent that they would otherwise create duplication of value.	ODRC	3	Average cost rates per sqm for concrete, asphalt, base course and foundations	Concrete $887 Asphalt $989 Base course $127 Foundations $20	A 5% change equates to +/- $9.5m	The higher the average cost rates, the higher the fair value.
			Estimated remaining useful life	Average remaining useful life 30 years	A 5% change equates to +/- $9.5m	The longer the estimated remaining useful life, the higher the fair value.
Valued at 31 March 2020 by WSP Opus International Consultants Limited at $190.5 million.						
Buildings						
Specialised buildings used for identified airport activities. Non specialised buildings used for purposes other than for identified airport activities, including space allocated within the main terminal building for retail activities, offices and storage.	ODRC	3	Average modern equivalent asset rate per sqm	Specialised $5,567	A 5% change equates to +/- $13.0m	The higher the modern equivalent asset rate, the higher the fair value.
				Non specialised $1,711	A 5% change equates to +/- $0.4m	The higher the modern equivalent asset rate, the higher the fair value.
Vehicle business assets associated with car parking and taxi, shuttle and bus services (excluding land and civil).	DCF and Cap rate	3	Revenue growth	3.00%	A 10% change equates to +/- $1.6m	The higher the assumed revenue growth, the higher the fair value.
			Cost growth	3.00%	A 10% change equates to +/- $0.4m	The higher the assumed cost growth, the lower the fair value.
			Discount rate	12.00%	A 5% change equates to +/- $6.6m	The higher the discount rate, the lower the fair value.
			Income capitalisation rate	9.00%	A 5% change equates to +/- $9.0m	An increase in the capitalisation rate will decrease the fair value.
Valued at 31 March 2018 by Savills (NZ) Limited, registered valuers, at $423.4 million. The valuation was then subject to a peer review before being adopted by WIAL.						
Hotel business assets	DCF and Cap rate	3	Income capitalisation rate	6.50%	A 5% change equates to +/- $1.4m	An increase in the capitalisation rate will decrease the fair value.
			Discount rate	8.25%	A 5% change equates to +/- $0.7m	The higher the discount rate, the lower the fair value.
Vehicles, plant and equipment						
Vehicles, plant and equipment comprises a mixture of specialised and non-specialised assets.	Cost less accumulated depreciation and impairment losses					

B1. Property, plant and equipment (continued)

A reconciliation of movements for each class of the Group's assets during the reporting period is outlined below.

	Land at fair value $000	Civil at fair value $000	Buildings at fair value $000	Vehicles, Plant and Equipment at cost $000	Capital work in progress at cost $000	Total $000
Cost or valuation						
Balance at 1 April 2019	347,147	205,072	535,970	60,909	53,361	1,202,459
Additions	15,257	-	-	-	64,951	80,208
Transfer from capital work in progress	-	9,571	12,515	6,352	(28,438)	-
Transfer from property, plant and equipment assets to investment properties	-	-	-	-	-	-
Disposals	-	-	-	-	-	-
Impairment losses	-	-	(4,398)	-	(1,300)	(5,698)
Movement in asset revaluation	12,002	(24,149)	14,661	-	-	2,514
Balance at 31 March 2020	**374,406**	**190,494**	**558,748**	**67,261**	**88,574**	**1,279,483**
Accumulated depreciation and impairment losses						
Balance at 1 April 2019	-	22,808	11,864	40,758	-	75,430
Depreciation for the year	-	7,960	14,058	6,376	-	28,394
Disposals	-	-	-	-	-	-
Movement in asset revaluation	-	(30,768)	-	-	-	(30,768)
Balance at 31 March 2020	**-**	**-**	**25,921**	**47,133**	**-**	**73,056**
Net book value at 31 March 2020	**374,406**	**190,494**	**532,826**	**20,128**	**88,574**	**1,206,427**
Cost or valuation						
Balance at 1 April 2018	333,147	171,201	423,449	49,219	138,981	1,115,997
Additions	-	24	25	228	72,218	72,495
Transfer from capital work in progress	-	33,847	112,496	11,495	(157,838)	(0)
Transfer from property, plant and equipment assets to investment properties	-	-	-	-	-	-
Disposals	-	-	-	(33)	-	(33)
Movement in asset revaluation	14,000	-	-	-	-	14,000
Balance at 31 March 2019	**347,147**	**205,072**	**535,970**	**60,909**	**53,361**	**1,202,459**
Accumulated depreciation and impairment losses						
Balance at 1 April 2018	-	15,318	-	36,394	-	51,712
Depreciation for the year	-	7,490	11,864	4,388	-	23,742
Disposals	-	-	-	(24)	-	(24)
Movement in asset revaluation	-	-	-	-	-	-
Balance at 31 March 2019	**-**	**22,808**	**11,864**	**40,758**	**-**	**75,430**
Net book value at 31 March 2019	**347,147**	**182,264**	**524,106**	**20,151**	**53,361**	**1,127,029**

Impairment relates to $4.4 million COVID-19 impact on Hotel Business assets valuation, and $1.3 million provision against the delayed runway and seawall strengthening resource consent project.

At 31 March 2020, had assets been carried at historic cost less accumulated depreciation and accumulated impairment losses, their carrying amount would have been $103.0 million for land (2019: $88.8 million), $151.7 million for civil assets (2019: $146.5 million) and $308.4 million for buildings (2019: $317.1 million).

B2. Investment properties

P

Investment properties are measured at fair value with any change recognised in profit or loss. Investment properties are revalued annually at fair value as determined by an independent valuer.

	Owned Property	Right-of-use assets	2020 $000	2019 $000
Balance at the beginning of the year	86,615	8,748	95,363	81,861
Additions of investment properties	-	2,166	2,166	-
Transfer from property, plant and equipment assets to investment properties	-	-	-	-
Investment properties revaluation net increase/(decrease)	(5,450)	-	(5,450)	4,754
Balance at the end of the year	**81,165**	**10,914**	**92,079**	**86,615**

Amounts recognised in profit or loss (excluding revaluations):	**2020**	**2019**
Rental income from investment properties	6,840	6,623
Direct operating expenses arising from investment properties	(1,335)	(800)
Net amount recognised in profit or loss (excluding revaluations)	**5,505**	**5,823**

The Right-of-use assets mainly relate to the Group's ground leases that meet the definition of investment property.

Valuation of investment properties

E

The fair value of investment properties is estimated by an independent valuer which reflects market conditions at balance date. Changes to market conditions or to assumptions made in the estimation of fair value will result in changes to the fair value of the investment properties.

Due to the impact of COVID-19, the valuation of investment properties performed by Jones Lang LaSalle has been reported on the basis of "material valuation uncertainty as defined by RICS (the Royal Institution of Chartered Surveyors)". Jones Lang LaSalle state that as a consequence of the material valuation uncertainty, "less certainty and a higher degree of caution" should be attached to the valuations. Jones Lang LaSalle state that "market activity is being impacted in many sectors" and that "as at the valuation date, Jones Lang LaSalle consider that less weight can be attached to previous market evidence for comparison purposes, to inform opinions of value". The valuers also note that "market transactions agreed prior to COVID-19 restrictions may not necessarily reflect current market conditions, and that there are limited post-restrictions evidence to consider at the date of reporting".

The Group has provided information to the investment property valuers including assessment of current tenants, rent agreements and lease terms as part of the valuation process and, along with the inputs outlined below, are based on information available at the time of preparing the financial statements. This valuation is based on a discounted cash flow and capitalisation rate approach and the decrease in valuation is due to a forecast reduction in short term cashflows due to reduced tenancy income. A material change in tenancy or a tenants' ability to meet lease payments from those used in the valuation model, may have a material impact on the investment property values.

The following table summarises the valuation approach and key assumptions used by the valuers to arrive at fair value:

Description	Valuation approach	Fair value hierarchy level	Significant unobservable inputs		Relationship of unobservable inputs to fair value
Investment Properties					
Properties held for investment income earning purposes.	DCF and Cap rate	3	Weighted average discount rate	8.04% (2019: 7.88%)	An increase in the discount rate will decrease the fair value.
			Weighted average income capitalisation rate	7.24% (2019: 7.06%)	An increase in the capitalisation rate will decrease the fair value.
			Weighted average lease term	4.98 years (2019: 3.08 years)	An increase in the average lease term will ordinarily increase the fair value.
Valued at 31 March 2020 by Jones Lang LaSalle, registered valuers, at $81.2 million (2019: $86.6 million).					

C. FUNDING

C1. Share capital

	2020 $000	2019 $000
Share capital is represented by:		
Total issued capital at the beginning and end of the year 40,155,942 ordinary shares	9,050	9,050
Balance at the end of the year	**9,050**	**9,050**

All ordinary shares have equal voting rights and share equally in dividends and equity. All shares have no par value.

WIAL has entered into a $75 million shareholder support agreement in the form of redeemable preference shares with its shareholders. Refer to Note D4: Contingency and subsequent events for further information.

Capital risk

The Group's capital includes share capital, reserves, retained earnings and loans and borrowings. The key factors in determining the Group's optimal capital structure are quality and dependability of earnings and cash flows, appropriate credit rating, capital needs and available sources, relative cost of capital and ability to withstand business shocks. The Group is subject to certain compliance ratios relevant to its bank facility agreements, USPP Note Purchase Agreement, Negative Pledge Deed Poll and Trust Deeds applicable to the bond borrowings.

C2. Loans and borrowings

Loans and borrowings are recorded at amortised cost. Fees and other costs incurred in raising debt finance are capitalised and amortised over the term of the relevant debt instrument or debt facility.

Borrowing costs are recognised as an expense in the period in which they are incurred using the effective interest rate method except to the extent that they are capitalised. Borrowing costs that are directly attributable to construction projects of a qualifying asset are capitalised as part of the cost of the assets, as set out in Note B1.

	Issue Date	Maturity	2020 Interest Rate	2019 Interest Rate	2020 $000	2019 $000
Commercial Paper/Drawn bank facilities	12-Mar-20	12-Jun-20	Floating	Floating	30,000	50,000
Wholesale bonds WIA0619	17-Jun-13	17-Jun-19	Floating	Floating	-	25,000
Wholesale bonds WIA0620	11-Jun-13	11-Jun-20	5.27%	5.27%	25,000	25,000
Retail bonds WIA020	15-Nov-13	15-May-21	6.25%	6.25%	75,000	75,000
Retail bonds WIA030	12-May-16	12-May-23	4.25%	4.25%	75,000	75,000
Retail bonds WIA040	5-Aug-16	5-Aug-24	4.00%	4.00%	60,000	60,000
Retail bonds WIA050	16-Dec-16	16-Jun-25	5.00%	5.00%	70,000	70,000
Retail bonds WIA060	1-Apr-19	1-Apr-30	4.00%	-	103,010	-
USPP Notes - Series A (US$36 million)	27-Jul-17	27-Jul-27	3.47%	3.47%	68,134	51,969
USPP Notes - Series B (US$36 million)	27-Jul-17	27-Jul-29	3.59%	3.59%	68,134	51,969
Total borrowings at face value					**574,278**	**483,938**
Unamortised transaction costs					(3,401)	(3,839)
Carrying value of borrowings					**570,877**	**480,099**
Current					55,000	75,000
Non-current					515,877	405,099

Retail Bonds

Borrowings under the retail bond programme are supported by a Master Trust Deed and supplemented by the supplemental trust deeds (the “Trust Deeds”) entered into between WIAL and Trustees Executors Limited (the “Supervisor”). The Retail Bonds are unsecured and unsubordinated. At 31 March 2020, the retail bonds had a fair value of $390.7 million (31 March 2019: $304.0 million), based on the NZDX valuation at balance date. This fair value measurement is categorised as level 1 within the fair value hierarchy.

Wholesale Bonds

The Wholesale Bonds are unsecured, unsubordinated medium term notes issued under Deed Poll. At 31 March 2020, the wholesale bonds had a fair value of $25 million (31 March 2019: $50.1 million), based on quoted trading margins at balance date. This fair value measurement is categorised as level 1 within the fair value hierarchy.

USPP Notes

On 27 July 2017 WIAL completed a United States Private Placement (USPP) note issuance, securing US$72 million of long term debt. The USPP comprised two equal tranches, a US$36 million 10 year Note with a coupon of 3.47% and a US$36 million 12 year Note with a coupon of 3.59%. In conjunction with the USPP issuance, WIAL entered into cross currency interest rate swaps to formally hedge the exposure to foreign currency risk over the term of the notes. These are described in more detail below in note C3.

At 31 March 2020, the USPP Notes had a fair value of $122.3 million (31 March 2019: $102.2 million). This debt is carried in the consolidated statement of financial position at amortised cost, translated to New Zealand dollars using foreign exchange rates at balance date.

C2. Loans and borrowings (continued)

Bank Facilities

The Company's debt includes unsecured and unsubordinated bank facilities with a negative pledge arrangement, which with limited exceptions does not permit the Company to grant security over its assets.

Interest rates were determined by reference to prevailing money market rates plus a margin. Interest rates paid for drawn bank facilities was 2.08% for the year ended 31 March 2020 (31 March 2019: 2.74% to 2.93%).

Financial Covenants and Other Restrictions

The Trust Deeds, the Deed Poll in respect of the Wholesale Bonds, the USPP Note Purchase Agreement, bank facility agreements and the Negative Pledge Deed Poll require the Company to operate within various defined performance and gearing ratios throughout the term of the debt agreements. These arrangements also create restrictions over the sale and disposal of certain assets. The Note Purchase Agreement relating to the USPP Notes also restricts the Company from granting security over its assets. The Group has complied with all debt covenant requirements imposed by lenders for the year ended 31 March 2020. The impacts of COVID 19 have resulted in WIAL forecasting a significant reduction in passenger numbers and income. As a result, WIAL has modelled certain scenarios where a breach in certain covenants may occur at the next three measurement dates being 30 September 2020, 31 March 2021 and 30 September 2021, without corrective action being undertaken.

WIAL has entered into a $75m shareholder support agreement and in addition has agreed with its bank debt providers in advance of these measurement dates to obtain temporary waivers for these measurement dates. In addition WIAL has sought and is expecting to obtain a temporary waiver for its USPP debt covenants for the same test dates. Agreement with its USPP investor is close to being finalised and subject to legal documentation. Refer to Note D4: Contingency and subsequent events for further information.

C3. Financial instruments

Derivatives and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently measured to their fair value at the end of each reporting period. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months; it is classified as a current asset or liability when the remaining maturity of the hedged item is less than 12 months.

Cash flow hedges that qualify for hedge accounting

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in the cash flow hedge reserve within equity. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss, within other finance income.

Fair value hedges that qualify for hedge accounting

Changes in the fair value of the the hedging instrument is recognised in profit or loss, together with any changes in the fair value of the hedged asset or liability attributable to the hedged risk. The gain or loss relating to the effective portion of the interest rate swaps hedging the fixed rate borrowing is recognised profit or loss within other finance income, together with changes in the fair value of the hedged fixed rate borrowings attributable to interest rate risk. The gain or loss relating to the ineffective portion is recognised in profit or loss.

As at 31 March 2020, all of the derivative financial instruments held by the group were in designated hedging relationships.

C3. Financial instruments (continued)

The Group has the following derivative financial instruments in hedging relationships:	2020	2019
	$000	$000
Non-current assets		
Cross currency interest rate swaps - cash flow and fair value hedges	35,457	2,906
Interest rate swaps - fair value hedges (non-current assets)	2,964	-
Current liabilities		
Interest rate swaps - cash flow hedges	(265)	(126)
Non-current liabilities		
Interest rate swaps - cash flow hedges	(17,097)	(10,797)
Total	**21,059**	**(8,016)**

As at 31 March 2020, the Group has interest rate swaps with maturities up to July 2029. The fair value of these derivative financial instruments is calculated based on a discounted cash flow analysis using market prices, observable yield curves and market-quoted foreign exchange rates. The fair value measurement of derivatives is categorised as level 2 within the fair value hierarchy and there were no transfers between levels of the hierarchy during the year ended 31 March 2020 (2019: Nil).

The following amounts comprise other finance income in the statement of comprehensive income:

	2020	2019
	$000	$000
Foreign exchange gain/(loss) on USPP Notes	(15,351)	(6,034)
Increase/(decrease) in cross currency interest rate swaps	15,351	6,034
Hedge ineffectiveness of interest rate swaps (including cross currency interest rate swaps)	308	1,207
Other finance income/(expense)	(159)	(10)
Other finance income/(expense)	**149**	**1,197**

Hedge ineffectiveness

Hedge effectiveness is determined at the inception of the hedge relationship, and through periodic prospective effectiveness assessments to ensure that an economic relationship exists between the hedged item and hedging instrument. The Group enters into interest rate swaps that have similar critical terms as the hedged item, using this as a basis of assessing the economic relationship between the hedged item and the hedging instrument for the purpose of assessing hedge effectiveness.

Hedge ineffectiveness may arise due to credit value/debit value adjustments on the interest rate swaps, and differences in critical terms between the interest rate swaps and loans.

Financial Risk Management

As a result of its business activities, the Group has exposure to the following risks:

- Market risk
- Liquidity risk
- Credit risk

The following paragraphs present information about the Group's exposure to each of the above risks and the Group's management of such exposure.

Market risk

Market risk is the risk that changes in market prices, such as interest rates or foreign exchange rates will affect the Group's cash flows and earnings.

Interest rate risk (cash flow and fair value)

The Group’s exposure to market risk from changes in interest rates relates primarily to the loans and borrowings. Loans and borrowings issued at variable interest rates expose the Group to changes in interest rates. The Group’s policy is to manage its interest rate exposure by issuing borrowings at fixed interest rates or entering into derivative financial instruments to convert the majority of floating rate exposures to fixed rate. At 31 March 2020, 85.0% (2018: 93.8%) of the borrowings (including the effect of the derivative financial instruments) were subject to fixed interest rates, which are defined as borrowings with an interest reset date greater than one year.

	2020	2019
At balance date the interest rate contracts outstanding were:	$000	$000
Interest rate swaps notional value	200,000	175,000
Fair value of interest rate swaps asset/(liability)	(14,398)	(10,922)
Change in fair value of outstanding hedging instruments	(3,476)	(7,734)
Change in value of hedged item used to determine hedge effectiveness	2,802	8,792
Cross currency interest rate swaps notional value	99,751	99,751
Fair value of cross currency interest rate swaps asset/(liability)	35,457	2,906
Change in fair value of outstanding hedging instruments	32,551	9,145
Change in value of hedged item used to determine hedge effectiveness	(32,183)	(8,778)

C3. Financial instruments (continued)

Sensitivity analysis for variable rate instruments

A change of 100 basis points in NZ interest rates for the year to the reporting date would have increased/(decreased) profit or loss or equity by the amounts shown below. This analysis assumes that all other variables remain constant.

	2020 100 bp increase $000	2020 100 bp decrease $000	2019 100 bp increase $000	2019 100 bp decrease $000
Impact on profit or loss before taxation				
Floating rate debt	(256)	256	(628)	628
Interest rate swaps & cross currency interest rate swaps	(498)	498	738	(3)
Net profit or loss sensitivity	**(754)**	**754**	**110**	**625**
Impact on equity before taxation				
Cross currency interest rate swaps	(10,163)	11,048	698	(696)
Interest rate swaps	4,954	(5,372)	6,813	(8,255)
Equity sensitivity	**(5,209)**	**5,676**	**7,511**	**(8,951)**

R

Foreign currency risk (cash flow and fair value)

The Group has exposure to foreign currency risk resulting from the issue of USPP Notes. This exposure has been fully hedged by way of cross-currency interest rate swaps, hedging US dollar exposure on both principal and interest. The cross currency interest rate swaps correspond in amount and maturity to the USPP notes with no residual foreign currency risk exposure.

Sensitivity analysis for foreign currency instruments

The following sensitivity analysis is based on the foreign currency risk exposures in existence at the reporting date. At 31 March 2020, had the NZ dollar moved, with all other variables held constant, equity would have been affected as follows. A movement of plus or minus 10% has been determined as plausible based on analysis of historical US dollar to NZ dollar fluctuations over the previous two years to 31 March 2020.

	2020 10% increase $000	2020 10% decrease $000	2019 10% increase $000	2019 10% decrease $000
Impact on equity before taxation				
Cross currency interest rate swaps	(13,883)	16,968	(10,686)	13,112
Equity sensitivity	**(13,883)**	**16,968**	**(10,686)**	**13,112**

Liquidity risk

R

Liquidity risk refers to the potential inability of the Group to meet its financial obligations when they fall due, under normal or abnormal/stressed operating conditions. Liquidity risk is monitored by regularly forecasting cash flows and matching the maturity profiles of financial assets and liabilities. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due and support its capital programme, under both normal and stress conditions, without incurring unacceptable losses or risking damage to the Group's reputation. The Group manages this risk by maintaining sufficient cash, the availability of funding through an adequate amount of undrawn bank facilities, the spreading of debt maturities and its credit standing in capital markets. As at 31 March 2020, WIAL has a BBB+/A-2 credit watch negative rating from S&P Global Ratings (31 March 2019: BBB+/Stable/A-2). The Group has agreed with its banking group an increase in its banking facilities from $100 million to $170 million. Refer to Note D4: Contingency and subsequent events for further information.

The arrangements in place as at 31 March 2020 are outlined in the table below.

Bank facilities	Maturity	2020 Facility $000	2020 Drawn $000	2019 Facility $000	2019 Drawn $000
China Construction Bank (New Zealand)	31-Dec-20	15,000	-	15,000	-
Westpac New Zealand	31-Dec-20	30,000	-	30,000	20,000
MUFG Bank, Auckland Branch	30-Jun-22	30,000	-	30,000	30,000
ANZ Bank New Zealand *(Note 3)*	Evergreen	25,000	-	25,000	-
Total		**100,000**	**-**	**100,000**	**50,000**

Note 3 - This Evergreen facility has an indefinite term subject to cancellation by either party. Upon cancellation the facility has a 13 month notice period after the date either party should elect to cancel the facility.

C3. Financial instruments (continued)

The table below categorises the Group's financial liabilities into relevant maturity groupings based on the remaining period to the earliest possible contractual maturity date. The amounts in the table below are disclosed as contractual undiscounted cash flows and include interest through to maturity.

	Balance sheet	Contractual cash flows	6 months or less	6-12 months	1-2 years	2-5 years	More than 5 years
	$000	$000	$000	$000	$000	$000	$000
At 31 March 2020							
Trade and other payables	1,649	1,649	1,649	-	-	-	-
Commercial paper	30,000	30,000	30,000	-	-	-	-
Wholesale bonds	25,000	25,659	25,659	-	-	-	-
Retail bonds	383,010	469,238	8,888	8,888	90,431	168,281	192,750
USPP Notes	136,268	157,217	2,133	2,133	4,267	12,801	135,883
Cross currency interest rate swaps	(35,457)	(7,204)	(971)	(971)	(1,905)	(3,260)	(97)
Interest rate swaps	14,398	18,282	1,730	1,924	3,950	7,572	3,106
Total contractual cash flows		**694,841**	**69,088**	**11,974**	**96,743**	**185,394**	**331,643**
At 31 March 2019							
Trade and other payables	2,001	2,001	2,001	-	-	-	-
Drawn bank facilities	50,000	50,015	50,015	-	-	-	-
Wholesale bonds	50,000	52,176	25,859	659	25,659	-	-
Retail bonds	280,000	342,013	6,888	6,888	13,775	178,013	136,450
USPP Notes	103,938	140,977	1,863	1,863	3,725	11,175	122,351
Cross currency interest rate swaps	(2,906)	8,329	48	48	95	1,508	6,630
Interest rate swaps	10,922	7,667	772	873	1,696	3,587	738
Total contractual cash flows		**603,178**	**87,446**	**10,330**	**44,950**	**194,282**	**266,169**

Credit risk

The Group is exposed to credit risk in the normal course of business arising from trade receivables with its customers, financial derivatives and transactions (including cash balances) with financial institutions. Maximum exposures to credit risk at 31 March 2020 relate to bank balances of $15.6 million (2019: $20.1 million) and trade receivables of $14.1 million (2019: $18.1 million). No security is held for these amounts.

Cash is held with counterparties approved under the Group's Treasury Policy. At 31 March 2020 cash was held with ANZ Bank New Zealand and MUFG Bank, Auckland Branch. Derivative and cash transactions are limited to high credit-quality financial institutions. The Group's exposure and the credit ratings of counterparties are monitored, and the aggregate value of transactions are spread amongst approved counterparties in accordance with the Treasury Policy.

The Group has exposure to various counterparties in the ordinary course of business. Concentration of credit risk with respect to trade receivables is concentrated in a small number of accounts because the Group has a limited range of customers. At 31 March 2020, 73% of trade receivables were due from the top ten largest debtors (2019: 73%) and 6% of trade receivables were overdue (2019: 9%). The Group actively manages and monitors its accounts receivable on an ongoing basis. The Group is not exposed to any other concentrations of credit risk.

Impairment of financial assets

The Group applies the "simplified approach" for including a general provision for expected credit losses (ECL) as prescribed by NZ IFRS 9 as its financial assets do not include a significant financing component. For the Group, the ECL model applies to its trade receivables and contract assets. The simplified approach uses a lifetime expected loss allowance for all trade receivables and contract assets. To measure the expected credit losses, trade receivables and contract assets have been grouped based on shared credit risk characteristics and the days past due.

Due to the impacts of COVID-19 on the Group and its customers, an assessment was undertaken on trade debtors to assess customers’ ability to meet repayments including a high-level assessment on the ability to trade in the future. As a result of this, the Group has updated its provision for doubtful debts for an increase in expected credit losses of $1 million (2019: Nil).

D. OTHER NOTES

D1. Subsidiaries

	Balance Date	2020 Holding	2019 Holding	Principal activity	Country of incorporation
WANT Limited	31 March	100%	100%	Noise mitigation	New Zealand
Whare Manaakitanga Limited	31 March	100%	100%	Hotel	New Zealand
Meitaki Limited	31 March	100%	-	Captive Insurance	Cook Islands

The Land Use Management and Insulation for Airport Noise Study was undertaken by WIAL in conjunction with its airlines, Board of Airline Representatives New Zealand Inc, Wellington City Council and the local Air Noise Management Committee in order to fulfil WIAL's obligations arising from Environment Court proceedings in 1997. The work identified from this study includes the acquisition and removal of noise affected houses and the provision of noise mitigation and insulation activities for others.
WIAL commenced charging the airlines operating at Wellington Airport for these activities from 1 April 2012 and the charge for the current year is approximately 32 cents per passenger. These charges and noise mitigation activities are managed in WANT Limited, a wholly owned subsidiary of WIAL that commenced trading on 1 April 2012. WANT Limited has forecast that it will have predominantly concluded the noise management activities by the end of the financial year ending 31 March 2026 and it is expected that the charges will recover the noise mitigation costs over the period from 1 April 2012 to 31 March 2026.

Whare Manaakitanga Limited was incorporated on 20 April 2018 to operate WIAL's new airport hotel which opened for customers on 12 February 2019.

Meitaki Limited was incorporated during the year in the Cook Islands on 6 September 2019 as a captive insurance company to assist in managing WIAL's insurances.

D2. Related parties

The Group is 66% owned by NZ Airports Limited, which is wholly owned by Infratil Limited. Wellington City Council owns the remaining 34% of the Group.

	Revenue/(expense) for the year ended 31 March		Balance receivable/(payable) as at 31 March	
Transactions made during the period	**2020**	**2019**	**2020**	**2019**
Infratil and its subsidiaries	**$000**	**$000**	**$000**	**$000**
Infratil Group - subvention payments	(44,272)	(40,463)	-	-
Cityline NZ Limited - Airport Flyer Bus concessions	211	239	-	25
Infratil Limited - Insurance and other costs	(67)	(94)	-	-
Vodafone NZ - commercial rents	129	-	15	-
H.R.L. Morrison & Co Limited				
Directors' fees	(382)	(329)	-	(195)
Consulting and other fees	(9)	(13)	-	-
Wellington City Council				
Dividend payment	(13,880)	(12,610)	-	-
Directors' fees	(89)	(77)	-	-
Rates	(3,621)	(3,339)	-	-
Grants, consents and compliance costs	555	390	-	-

Other related party transactions

Under NZ IAS 24, the related parties of the Group include all key management personnel and directors. Transactions with key management personnel and directors fees are disclosed under note A4.

D3. Financial commitments

Capital commitments	2020 $000	2019 $000
Contracted but not provided for	**21,628**	**12,340**

The commitments contracted but not provided for include the purchase of the Miramar Golf Club. The Group paid a deposit of $10 million on 11 December 2019 with the remainder to be paid upon WIAL taking occupation of the land.

Lease commitments

Lease commitments to the Group
The Group owns investment properties and other properties, plant and equipment which are leased to earn property income. The future minimum lease payments (undiscounted cash flows) under non-cancellable leases are receivable as follows:

	2020 $000	2019 $000
Between 0 to 1 year	24,543	19,396
Between 1 to 2 years	21,042	17,138
Between 2 to 5 years	26,309	32,523
More than 5 years	10,492	5,705
Total lease commitments to the Group	**82,386**	**74,762**

Lease commitments of the Group
The Group has commitments under operating leases relating to the lease of premises and hire of plant and equipment. The lease periods range from 1 to 20 years. The future minimum lease payments (undiscounted cash flows) under non-cancellable leases are payable as follows:

	2020 $000	2019 $000
Between 0 to 1 year	805	834
Between 1 to 2 years	761	764
Between 2 to 5 years	2,280	1,443
More than 5 years	15,061	1,160
Total lease commitments of the Group	**18,907**	**4,201**

Reconciliation of lease commitments to lease liabilities	2020 $000
Operating lease commitments disclosed at 31 March 2019	4,201
Discounted using the incremental borrowing rate at 1 April 2019	(1,105)
Extension and termination options reasonably certain to be exercised	5,756
Contracts reassessed as capital commitments	-
Future dated lease commitments	-
Recognition exemption for:	
- short-term leases	(29)
- leases of low-value assets	(75)
Lease liabilities at 1 April 2019	**8,748**

Total cash outflow for leases for the year ended 31 March 2020 was $0.6 million.

D4. Contingency and subsequent events

The Group is currently in negotiations with a contractor on one of WIAL's capital projects in relation to closing out works and costs. The outcome, timing and expected settlement amounts are unknown at 31 March 2020 and at the time of signing these financial statements (2019: Nil).

Lender and shareholder support
The Group has undertaken a range of measures to enhance its liquidity and overall financial flexibility in response to the impacts of COVID-19. The Group has agreed with its banking group an increase in its banking facilities from $100 million to $170 million. WIAL has also obtained a temporary waiver of certain bank covenants for the next three test dates being September 2020, March 2021 and September 2021. In addition, WIAL has sought and is expecting to obtain a temporary waiver for its USPP debt covenants for the same test dates. Agreement with its USPP investor is close to being finalised and subject to legal documentation.

WIAL has also put in place a $75 million shareholder support agreement, in the form of a commitment from both its shareholders in the form of redeemable preference shares.

On the basis of these actions and under the passenger numbers and cash flows forecast, the Group has greater confidence that there will be no default event in respect of WIAL's financial covenants through this waiver period and the actions should provide a solid platform for an anticipated return to more normal trading conditions in the year ending 31 March 2022.

D5. Changes in financial reporting standards

The following new standards, amendments to standards and interpretations are issued but not yet effective and have not been applied in preparation of these consolidated financial statements.
Amendments to NZ IAS 1 and NZ IAS 8 - This Standard sets out amendments to clarify the requirements for the definition of material in NZ IAS 1 Presentation of Financial Statements and NZ IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.

NZ IFRS 17 - Insurance Contracts becomes effective for annual periods commencing on or after 1 January 2021 and has not been adopted early. It provides consistent principles for all aspects of accounting for insurance contracts. This standard will not have a significant impact on the group financial statements.

Directors' interests

The Directors have given the following notices of disclosure of interest which have been entered into the Company's register of interests.

Director	Name of party in which Director has an interest	Nature of interest
Timothy Brown	Creative Capital Arts Trust	Chairman
	MCL Capital Limited	Chairman
	MCL Capital No. 1 Limited	Chairman
	Mana Capital Holdings Limited	Director
	New Zealand Opera Limited	Director
	North West Auckland Airport Limited	Director
	H.R.L. Morrison & Co Limited	Executive
Jason Boyes	H.R.L. Morrison & Co Limited	Executive
Wayne Eagleson	Wayne Eagleson Consulting Limited	Director
	Thompson Lewis Limited	Director
	Royal Wellington Golf Club	Committee Member
Andrew Foster	Wellington City Council	Wellington City Mayor
Alison Gerry	Sharesies Limited	Chair
	ANZ Bank New Zealand Limited	Director
	Asteron Life Limited	Director
	Glendora Avocados Limited	Director
	Glendora Holdings Limited	Director
	Infratil Limited	Director
	On Being Bold Limited	Director
	Vero Insurance New Zealand Limited	Director
	Vero Liability Insurance New Zealand Limited	Director
Phillip Walker	Queensland Airport Pty Ltd	Alternate Director
	Gold Coast Airport Pty Ltd	Alternate Director
	Townsville Airport Pty Ltd	Alternate Director
	Mount Isa Airport Pty Ltd	Alternate Director
	Longreach Airport Pty Ltd	Alternate Director
	H.R.L. Morrison & Co Limited	Executive

Remuneration of Directors

Fees paid and payable to Directors during the year were as follows:

Director name	Fees paid and payable to directors during the year
Timothy Brown (Chairman)	$177,990
Jason Boyes	$88,995
Andrew Foster*	$88,995
Alison Gerry	$104,754
Phillip Walker	$99,501
Wayne Eagleson	$104,754
Andrew Lamb	$10,200

** Fees paid to Wellington City Council as appointing shareholder*

The Directors received no other remuneration or benefits for services in that office or in any other capacity other than as disclosed in Note D2.

Entries in the interest register

The information below is given pursuant to the New Zealand Exchange Listing Rules.

	Beneficial Interest	Non Beneficial Interest
Retail Bonds		
Timothy Brown	$100,000	-

Loans to Directors

No loans have been made by the Group to a Director nor has the Group guaranteed any debts incurred by a Director.

Use of Group information

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

Directors' indemnity insurance

As authorised by its constitution, the Group has arranged policies of Directors' and Officers' liability insurance with cover appropriate for the Group's operations.

Remuneration of employees

Grouped below, in accordance with section 211(1)(g) of the Companies Act 1993, are the number of employees or former employees of the Company and its subsidiaries, excluding Directors of WIAL, who received remuneration and other benefits in their capacity as employees, totalling $100,000 or more, during the year:

Amount of remuneration	Employees
$100,000 to $110,000	10
$110,001 to $120,000	5
$120,001 to $130,000	3
$130,001 to $140,000	2
$140,001 to $150,000	2
$150,001 to $160,000	2
$160,001 to $170,000	2
$170,001 to $180,000	4
$180,001 to $190,000	2
$190,001 to $200,000	2
$210,001 to $220,000	2
$270,001 to $280,000	1
$280,001 to $290,000	1
$320,001 to $330,000	1
$330,001 to $340,000	1
$350,001 to $360,000	1
$380,001 to $390,000	1
$840,001 to $850,000	1

In accordance with section 211(1)(g) of the Companies Act 1993, the remuneration above does not include unpaid amounts in relation to Executive long term incentive schemes, which are outlined in note A4.

Diversity of personnel

The Group recognises the value of a diverse and skilled workforce and is committed to maintaining an inclusive and collaborative workplace culture. Diversity is a key influence in the selection and promotion of employees and executives, and for the composition of the Board.

At 31 March 2020, the WIAL Board consisted of five male Directors and one female Director (31 March 2019: five male Directors and one female Director), and the Executive consisted of six male Executives and two female Executives (31 March 2019: six male Executives and two female Executives).

CORPORATE GOVERNANCE

Role of the Board

The Board of Directors of WIAL is appointed by the shareholders to supervise the management of WIAL. The Board establishes WIAL's objectives, overall policy framework within which the business is conducted and confirms strategies for achieving these objectives, monitors management performance and ensures that procedures are in place to provide effective internal financial control.

The Board actively engages with the Health and Safety Risk Committee by attending meetings. The Committee is accountable to the Board with its purpose being to promote and execute a safety culture. The Committee provides a formal mechanism for consultation on safety issues whilst ensuring continuous measurement, review and improvement of safety policies and procedures with the goal of zero harm and meeting compliance requirements on an ongoing basis.

Board Membership

The Board currently comprises six non-executive Directors.

Infratil, as the majority shareholder of WIAL, appointed four of the current Directors. The two remaining Board members have been appointed by the Wellington City Council, including W Eagleson, an independent director.

During the period under review, the Board met eight times.

Directors' Shareholding

Under the constitution Directors are not required to hold shares in the Company.

Audit and Risk Committee

The Board has established an Audit and Risk Committee comprising of four Directors, A Gerry (Chair), T Brown, W Eagleson and P Walker with attendances by appropriate WIAL representatives.

The main objectives of the Audit and Risk Committee are to:

- Assist the Board to discharge its responsibility to exercise due care, diligence and skill in relation to the Group's governance processes including assessing the adequacy of the Group's:
  - financial reporting;
  - regulatory disclosure reporting;
  - accounting policies;
  - financial management;
  - internal control system;
  - procurement process controls;
  - risk management system;
  - oversight of Group operational risk;
  - systems for protecting Group assets;
  - related party transactions; and
  - compliance with applicable laws, regulations, standards and best practice guidelines as they relate to financial and non-financial disclosures.
- Enhance the efficiency of the Board by allowing delegated issues to be discussed in sufficient depth and, where necessary, with appropriate independent advice.
- Review management's letters of representation.
- Ensure the adequacy of the internal control system for financial reporting integrity.
- Facilitate the continuing independence of the external and internal auditors and enhancing the effectiveness of external and internal
- Provide a formal forum for enhancing communication between the Board, senior financial management and external and internal
- Provide oversight of WIAL's risks to ensure they are identified, managed, treated and reported appropriately.

The Audit and Risk Committee also has oversight of the following treasury management matters:

- review and recommend to the Board any changes to the treasury management policy;
- oversee the development of the strategy to implement the treasury management policy;
- recommend to the Board instrument types that may be used; and
- recommend to the Board bank counterparties and counterparty limits.

CORPORATE GOVERNANCE (continued)

Remuneration Committee

The Board has established a Remuneration Committee comprising of two Directors, T Brown (Chairman) and W Eagleson with attendances by appropriate WIAL representatives. The purpose of the Committee is to consider changes to human resources policy and to regularly review, and recommend changes to, executive remuneration to ensure that it is at an appropriate level and effectively managed.

Internal Financial Control

The Board has overall responsibility for the Group's system of internal financial control. The Directors have established procedures and policies that are designed to provide effective internal financial control.

Annual budgets and long term strategic plans are agreed by the Board.

Financial statements are prepared regularly and reviewed by the Board throughout the year to monitor performance against budget targets and objectives.

Risk Management and Compliance

The Audit and Risk Committee also has a function of reviewing management practices in relation to the identification and management of significant business risk areas and regulatory compliance. Formal systems have been introduced for regular reporting to the Board on business risk and compliance matters.

Management is required to, and has confirmed to the Audit and Risk Committee and Board in writing that:

• Financial records have been properly maintained and the Group's financial statements present a true and fair view, in all material respects, of the Group's financial condition, and operating results are in accordance with relevant accounting standards;

• The financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice (NZ GAAP) and comply with International Financial Reporting Standards (IFRS) and other applicable financial reporting standards for profit-orientated entities; and

• Appropriate and effective internal controls and risk management practices are in place to safeguard and protect the Group's assets and to identify, assess, monitor and manage risk, and identify material changes to the Group's risk profile.

Directors' and Officers' Insurance

The Group has arranged Directors' and Officers' liability insurance covering Directors acting on behalf of the Group. Cover is for damages, judgements, fines, penalties, legal costs awarded and defence costs arising from wrongful acts committed while acting for the Group. The types of acts that are not covered are dishonest, fraudulent, malicious acts, or omissions, wilful breach of statute or regulations, or duty to the Group, improper use of information to the detriment of the Group or breach of professional duty.

Independent Professional Advice

With the approval of the Chairman, Directors are entitled to seek independent professional advice on any aspect of the Directors' duties, at the Group's expense.

Going Concern

After reviewing the current results and detailed forecasts, taking into account available credit facilities and availability of further funding and making further enquiries as considered appropriate, the Directors are satisfied that the Group has adequate resources to enable it to continue in business for the foreseeable future. For this reason, the Directors believe it is appropriate to adopt the going concern basis in preparing the financial statements.

Shareholder and other Stakeholder Communications

The Board aims to ensure that shareholders and other stakeholders are informed of all major developments affecting the Group's state of affairs. Information is communicated to shareholders and other stakeholders in the annual report, interim report and media releases.

Corporate Governance Best Practice Code

The Group supports the Corporate Governance Best Practice Code promulgated by the New Zealand Exchange. In a number of respects, the Group's practice differs from this Code. In particular, the Group has not established a separate Director Nomination Committee. The Group considers that it is properly dealing with these issues at the full Board level. Copies of the Group's Code of Ethics are available upon request from the Company Secretary.

FIVE YEAR SUMMARY & STATISTICS

WIAL AIRPORT STATISTICS

	2020	2019	2018	2017	2016
Passenger movements	**000**	**000**	**000**	**000**	**000**
Domestic	5,226	5,488	5,249	5,076	4,899
International	920	929	896	889	897
Total	**6,146**	**6,417**	**6,145**	**5,965**	**5,796**

Aircraft movements	**2020**	**2019**	**2018**	**2017**	**2016**
Domestic	75,563	77,483	77,515	78,496	79,541
International	6,644	6,449	6,293	6,554	6,523
Military, freight, private and other movements	12,192	11,170	11,318	9,764	10,985
Total	**94,399**	**95,102**	**95,126**	**94,814**	**97,049**

Number of employees	**2020**	**2019**	**2018**	**2017**	**2016**
FTE	136	120	107	99	94

WIAL CONSOLIDATED FINANCIAL RESULTS

	2020	2019	2018	2017	2016
Summary of financial position	**$000**	**$000**	**$000**	**$000**	**$000**
Non-current assets	1,336,927	1,216,550	1,146,146	1,000,217	938,926
Current assets	35,043	43,943	40,885	85,470	20,221
Total assets	**1,371,970**	**1,260,493**	**1,187,031**	**1,085,687**	**959,147**
Non-current liabilities	641,835	541,875	560,846	447,471	421,087
Current liabilities	89,204	114,952	40,919	125,356	31,420
Total liabilities	**731,038**	**656,827**	**601,765**	**572,827**	**452,507**
Net assets/Shareholders' equity	**640,932**	**603,666**	**585,266**	**512,860**	**506,640**

	2020	2019	2018	2017	2016
Summary of profit and loss	**$000**	**$000**	**$000**	**$000**	**$000**
Revenue	146,377	137,889	128,637	119,563	113,510
Operating expenses (excluding subvention payment)	(43,187)	(36,504)	(33,222)	(29,019)	(27,369)
EBITDAF before subvention payment	**103,190**	**101,385**	**95,415**	**90,544**	**86,141**
Net profit after taxation	**28,887**	**23,541**	**24,681**	**16,098**	**12,523**

Independent Auditor's Report

To the shareholders of Wellington International Airport Limited

Report on the consolidated financial statements

Opinion

In our opinion, the accompanying consolidated financial statements of Wellington International Airport Limited (the company) and its subsidiaries (the group) on pages 4 to 25:

i. present fairly in all material respects the Group's financial position as at 31 March 2020 and its financial performance and cash flows for the year ended on that date; and

ii. comply with New Zealand Equivalents to International Financial Reporting Standards.

We have audited the accompanying consolidated financial statements which comprise:

— the consolidated statement of financial position as at 31 March 2020;

— the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended; and

— notes, including a summary of significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) ('ISAs (NZ)'). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of the group in accordance with Professional and Ethical Standard 1 (Revised) Code of Ethics for Assurance Practitioners issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

Our responsibilities under ISAs (NZ) are further described in the auditor's responsibilities for the audit of the consolidated financial statements section of our report.

Our firm has also provided other services to the group in relation to regulatory reporting and taxation compliance. Subject to certain restrictions, partners and employees of our firm may also deal with the group on normal terms within the ordinary course of trading activities of the business of the group. These matters have not impaired our independence as auditor of the group. The firm has no other relationship with, or interest in, the group.

Materiality

The scope of our audit was influenced by our application of materiality. Materiality helped us to determine the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and on the consolidated financial statements as a whole. The materiality for the consolidated financial statements was set at $2,400,000 determined with reference to a benchmark of adjusted group profit before tax. We chose the benchmark because, in our view, this is a key measure of the group's performance.

KPMG

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements in the current period. We summarise below those matters and our key audit procedures to address those matters in order that the shareholders as a body may better understand the process by which we arrived at our audit opinion. Our procedures were undertaken in the context of and solely for the purpose of our statutory audit opinion on the consolidated financial statements as a whole and we do not express discrete opinions on separate elements of the consolidated financial statements

Key changes in the assessment of audit risks

COVID-19

The COVID-19 pandemic has created significant additional risks across the business, particularly in the valuation of property, plant and equipment and investment property. All forward looking assumptions are inherently more uncertain during these unprecedented times. While the key audit matters "Valuation of property, plant and equipment" and "Valuation of investment property", detailed below, are consistent with last year, the underlying audit risk has increased which impacted the extent of audit evidence that we had to gather.

We have added a further key audit matter in relation to financing as a result of the actions undertaken by the group to address the impact of COVID-19. There is uncertainty arising from future refinancing of the group's bond issue due in May 2021 which is discussed further in the key audit matter below.

We draw attention to the use of accounting estimates and judgement on page 8 of the consolidated financial statements which describes the impact of the COVID-19 on the business.

The key audit matter	How the matter was addressed in our audit
Valuation of property, plant and equipment recorded at fair value	
As disclosed in note B1 of the consolidated financial statements, the group has land, buildings and civil assets recorded at fair value of $1,097,726,000 (2019: $1,053,517,000). The group has a policy of having the assets revalued at least every 5 years by an independent valuer. The last full external revaluation of land and buildings was carried out as at 31 March 2018. The last independent valuation of civil works was carried out as at 31 March 2020. Valuation of property, plant and equipment is considered to be a key audit matter due to the significance of the assets to the group's consolidated statement of financial position, and due to the judgment involved in the assessment of the fair value of these assets by the group's Directors. The judgment relates to the valuation methodology used and the assumptions used in each of those methodologies. The valuation methodology estimates the cost of building the airport in its current location to the specification required to provide its current services, and the business value of the existing vehicle and accommodation assets. In 2020 Management have considered, and sought input from the independent valuers as to, any changes to the key assumptions used in the	Our procedures to assess the fair value of property, plant and equipment included, amongst others: • Assessing the competence, independence and objectivity of each valuer used by the group to determine changes in key assumptions used to value the airport assets; • In conjunction with our valuation specialists, assessing the changes in key assumptions in the valuations which are judgemental in nature and which have the largest impact on the value of property, plant and equipment. This comprised assessing; ▪ the impact of the material valuation uncertainty; ▪ changes to the weighted average cost of capital against observable market data ▪ changes in the cost of buildings and civil assets; ▪ changes in the value of underlying land prices with reference to observable market transactions and relevant indices; and ▪ the future cash flows against budgets, forecast passenger numbers and historical financial performance. ▪ the carrying value of the airport assets to the estimated market value of the airport business with reference to observable market metrics

The key audit matter	How the matter was addressed in our audit
valuation methodologies and whether these changes indicate that the property, plant and equipment is not held at fair value. The independent valuers have undertaken their valuations with reference to COVID-19 and the material uncertainty involved in assessing the fair value of the assets in the current economic environment. The assumptions that have the largest impact on the valuations are: • The potential value of the airport land if there was no airport on the site primarily driven by weighted average cost of capital; • The replacement cost of buildings including the main terminal building; • The replacement cost of civil assets including the runway, taxiways and roads; • The estimated future cash flows and expected rate of return from the vehicle and accommodation assets.	• Comparing the valuation methodologies used by the valuer for the group, to the valuation methodologies used by other airports within New Zealand for comparability.
Valuation of investment property	

As disclosed in note B2 of the consolidated financial statements, the group has investment property of $81,165,000 (2018: $86,615,000). The group is required under accounting standards to fair value investment property.
 	
Valuation of investment property is considered to be a key audit matter due to the significance of the assets to the group's consolidated statement of financial position, and due to the judgement involved in the assessment of the fair value of these assets by the group's Directors. These judgments include weighted average cost of capital, weighted average income capitalisation rate and weighted average lease term.
 	
The independent valuers have undertaken their valuations with reference to COVID-19 and the material uncertainty involved in assessing the fair value of the investment property in the current economic environment.
	Our procedures to assess the fair value of investment property included amongst other:
	
	• Assessing the competence, independence and objectivity of the valuer used by the group to determine the value of the investment property;
	• In conjunction with our valuation specialists assessing the changes in key assumptions in the valuations which are judgemental in nature and which have the largest impact on the value of investment property. This comprised assessing;
	  ▪ the impact of the material valuation uncertainty;
	  ▪ changes to the weighted average cost of capital against observable market data;
	  ▪ agreeing a sample of income streams generated by the investment property to underlying contracts;
	  ▪ confirming the remaining tenure of leases used in the valuation; and,
	  ▪ comparing lease yields to other comparable market transactions within the region.
	• Comparing the valuation methodology used by the group, to the valuation methodology used for other investment property valuations within New Zealand and ensuring they are comparable.

The key audit matter	How the matter was addressed in our audit
Financing – basis of preparation	
As disclosed in note D4 of the consolidated financial statements the group has finalised additional banking facilities, bank debt covenant waivers and a shareholder support agreement. The group is in the process of finalising debt covenant waivers for the USPP Notes. The Directors have determined that the use of the going concern basis of accounting is appropriate in preparing the consolidated financial statements. Their assessment of going concern was based on cash flow forecasts and debt covenant compliance forecasts. The preparation of these forecasts incorporated a number of assumptions and actions undertaken subsequent to balance date.	Our audit procedures included: • Challenging the cash flow forecasts and debt covenant compliance forecasts prepared by management. • Reviewing agreements with financiers to understand the actions the group had taken subsequent to balance date including renegotiation of existing debt facilities and agreeing waivers in meeting financial loan covenants in future periods. • Reading the minutes of meetings of Directors and relevant correspondence with the group's advisors to understand the group's ability to raise additional shareholder funds. • Reviewing documentation relating to the shareholder support agreement which occurred subsequent to balance date. • Considering the group's assumptions regarding the ability to meet debt repayment, and the validity of additional funding options should the USPP Note covenant waivers not be obtained. • Evaluating the group's going concern disclosures in the consolidated financial statements by comparing them to our understanding of the matter, the events or conditions incorporated into the cash flow projection assessment, the group's plans to address those events or conditions, and accounting standard requirements.

Other information

The Directors, on behalf of the group, are responsible for the other information included in the entity's Annual Report. Other information includes the directors' report, statutory information, five year summary and statistics and corporate governance policies. Our opinion on the consolidated financial statements does not cover any other information and we do not express any form of assurance conclusion thereon.

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

Use of this independent auditor's report

This independent auditor's report is made solely to the shareholders as a body. Our audit work has been undertaken so that we might state to the shareholders those matters we are required to state to them in the independent auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the shareholders as a body for our audit work, this independent auditor's report, or any of the opinions we have formed.

Responsibilities of the Directors for the consolidated financial statements

The Directors, on behalf of the Group, are responsible for:

- the preparation and fair presentation of the consolidated financial statements in accordance with generally accepted accounting practice in New Zealand (being New Zealand Equivalents to International Financial Reporting Standards) and International Financial Reporting Standards;
- implementing necessary internal control to enable the preparation of a consolidated set of financial statements that is fairly presented and free from material misstatement, whether due to fraud or error; and
- assessing the ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objective is:

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

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs NZ will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

A further description of our responsibilities for the audit of these consolidated financial statements is located at the External Reporting Board (XRB) website at:

http://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-1/

This description forms part of our independent auditor's report.

The engagement partner on the audit resulting in this independent auditor's report is Graeme Edwards

For and on behalf of

KPMG

KPMG
Wellington

28 May 2020