



Queenstown Airport  
Corporation Limited

INTERIM REPORT

For the six month period ended 31 December 2016

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# Directory

## **BOARD OF DIRECTORS**

John W Gilks (Chairman)  
James W P Hadley  
Grant R Lilly  
Michael P Stiasny  
Norman J Thompson

## **CHIEF EXECUTIVE OFFICER**

Colin Keel

## **BANKERS**

Westpac  
Terrace Junction  
1092 Frankton Road  
Queenstown

BNZ  
Queenstown Store  
11 Rees Street  
Queenstown

# Interim Report

Your Directors have pleasure in submitting the Interim Report together with the financial accounts of the Company for the six month period ended 31 December 2016.

## 1. Financial Statements

The unaudited financial statements of the Company for the six month period ended 31 December 2016 follow this report.

## 2. Principal Activities of the Company

The principal activity of the Company during the six month period was airport operator.

There have been no material changes in the business that the Company is engaged in, during the six month period, which is material to an understanding of the Company's business.

Details of the period under review and future prospects are included in the Chairman and Chief Executive's Report.

## 3. Board of Directors

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

John W Gilks (Chairman)

James WP Hadley

Grant R Lilly

Michael P Stiassny

Norman J Thompson

## 4. Results For the Six Month Period Ended 31 December 2016

Profit for the six month period was \$6,161,357 compared with profit of \$6,157,459 for the same six month period in the previous year.

The directors resolved on 19 August 2016 a final dividend for the year ended 30 June 2016 of \$5,264,124 (2015: \$4,156,074). This was paid to shareholders on 19 August 2016 as follows:

Queenstown Lakes District Council	\$3,948,619
Auckland Airport Holdings (No 2) Limited	\$1,315,505

The directors resolved on 17 February 2017 to pay an Interim Dividend of \$1,000,000 to shareholders on 20 February 2017, to be distributed to the shareholders as follows:

Queenstown Lakes District Council	\$750,100
Auckland Airport Holdings (No 2) Limited	\$249,900

### **Appropriation Account for the six month period ended 31 December 2016** **\$ 000's**

Net Profit for the six month period ended 31 December 2016	6,161
Plus: Retained earnings brought forward	20,090
Less: Dividends paid	(5,264)
Retained earnings as at 31 December 2016	<b>\$20,987</b>

## 5. Directors Interests

The directors of the Company entered into the following transactions during the period:

During the period Hadley Consultants Limited were contracted to provide consultant-engineering services at the airport. James Hadley is a director of Hadley Consultants Limited.

The Civil Aviation Authority of New Zealand (CAA) and Aviation Security Service have regulatory oversight of Queenstown Airport Corporation Limited as a certified airport operator. Grant Lilly is a director of CAA and Aviation Security Service.

All of the transactions were provided on normal commercial terms and appropriate relationships are in place to manage these relationships.

## 6. Share Dealings

No director acquired or disposed of any interest in shares in the Company during the period.

## 7. Directors Remuneration

The following are particulars of directors' remuneration authorised and received during the six month period.

	6 months to 31 Dec 2016	6 months to 31 Dec 2015
	\$	\$
JW Gilks	26,000	26,000
JWP Hadley	17,750	17,750
GR Lilly	16,750	16,750
MP Stiassny	16,750	16,750
NJ Thompson	14,750	14,750
	<b>92,000</b>	<b>92,000</b>

## 8. Donations

The Company made donations totalling \$1,135 during the period.

## 9. Use of Company Information

During the period the Board received no notices from directors of the Company requesting to use Company information received in their capacity as directors which would not otherwise have been available to them.

## 10. Auditor

The Interim Report and Financial Statements for the six month period ended 31 December 2016 have not been audited.

On Behalf of the Board

  
Chairman

  
Director

# Chairman and Chief Executive's Report

Queenstown Airport Corporation (QAC) is pleased to present its results for the six months ended 31 December 2016.

The Company's strong financial performance and sustained passenger growth continue to deliver value and benefits for shareholders and the communities in the Queenstown Lakes District. Significant airfield, parking and technology infrastructure improvements completed in the past year are providing opportunities to enhance the airport experience for our visitors, staff working at the airport and the broader community.

During the current period QAC has continued to make significant investment in the long term future of Queenstown Airport and the broader region. This includes the transition to a new double shift operating model with the introduction of after dark flights and ongoing investment in aerodrome infrastructure, strategic property acquisitions and advancement of a comprehensive 30 year master plan. Many of these costs have fallen in the first six months of FY17 and this is reflected in the financial performance, with revenue up 25% but NPAT only growing a disproportionate 3%, being impacted by these increased expenses. As an infrastructure business, capital investment adversely impacts profit in the early years but strong profits and returns are expected over time from these projects.

## **Financial Performance**

The first half results have delivered another strong performance with revenue of \$19.6 million, an increase of \$3.9 million (25%) compared to the corresponding period last year. This was reflected in both aeronautical and commercial revenues, ahead by 23% and 30% respectively.

Underlying Net Profit After Tax for the six months was \$6.3 million, up \$0.1 million or 3% compared to \$6.2 million for the same period last year. Consistent with the Annual Report at 30 June 2016, underlying Net Profit After Tax has been arrived at by adjusting for additional costs to appeal the adverse tax ruling related to depreciation claimed on the Runway End Safety Area. Reported Net Profit After Tax was \$6.2 million, up 0.1% compared to the same period last year.

Total Operating Expenditure of \$6.5 million increased \$2.5 million (64%), compared to the corresponding period last year. This increase was anticipated, as the organisation built capacity and grew its workforce to service the new extended operating window following introduction of after-dark flights in May 2016. Operating Earnings before Interest, Tax, Depreciation and Amortisation (EBITDA) increased by \$1.4 million, or 12%, to \$13.1 million.

Growth in Profit before Income Tax of \$0.2 million (3%) compared with the same period last year, was impacted by increases in the cost of depreciation, amortisation and funding driven by long term capital investments in airport infrastructure (including \$15.7 million for runway widening to enable evening flights) and a \$38.4 million revaluation of assets.

As at 31 December 2016, QAC's financial position remains strong, with term debt totalling \$47.2 million representing 23.6% of net assets. The equity ratio (total shareholders' funds to total tangible assets) was 75% and interest cover (EBITDA/interest) 15.2 times.

An interim dividend of \$1.0 million was declared and paid in February 2017 in line with the Company's dividend policy.

## **Passenger Growth**

A sustained period of passenger growth in the past six months has set new records, including reaching 1.78 million passenger movements over a 12 month period. In the six months ending 31 December 2016, passenger numbers reached 959,319 - 16% ahead of the same period last year.

- International passenger numbers were 299,088, a 13% increase on the same period last year.
- Domestic passenger numbers were 660,231, a 17% increase on the same period in 2015
- Evening flights comprised approximately 11% of our total number of daily flights.

## **People**

- The introduction of evening flights marked a step-change for the airport community as a major local employment hub. Moving to a double-shift operating model to cater for the extended operating window meant that the airport community almost doubled in size within six months, growing from approximately 350 staff to a 600-strong team.

## **Safety, Operations, Infrastructure Management**

- Safety continues to be a top priority for the QAC Board of Directors, QAC team and the broader airport community. QAC has not had an employee or contractor Lost Time Injury for over two years. Despite that excellent record, the identification, review, mitigation and management of our critical risks continues to be a key focus. The past six months has seen numerous safety improvement initiatives implemented across the business. Highlights include:
  - A revised company-wide Health and Safety Commitment Policy across Queenstown and Wanaka Airports
  - A three-year aviation Safety Management System development and implementation plan which was approved by the Civil Aviation Authority
  - The establishment of a Board of Directors sub-committee specifically focussed on operational safety and risk
- After-dark flight operations were a key priority for the first six months of the financial year, ensuring that the new runway and lighting infrastructure, airline preparations and airport staff moved seamlessly to double-shift operations. The collaborative approach taken among QAC, its partners and the wider airport community throughout the major works programme stood the business in good stead and ensured a smooth transition to the new operating model which is now business as usual. The collaboration was well recognised in October last year when the runway widening, overlay and lighting project was awarded the Airport Project of the Year at the 2016 New Zealand Airports Association annual conference.
- Stage 3 of the Queenstown Airport's car parking expansion/traffic flow improvement programme was completed in November, adding approximately 50 spaces (an increase of over 10%) to assist with car parking demand during the busy summer months and beyond. The commercial area also was expanded and redesigned to accommodate both commercial pick-up and drop-off. QAC, in collaboration with QLDC, announced in December 2016 that it would commence a park and ride offering for customers on a 12-month trial basis beginning by April 2017, subject to regulatory approval.

## **Commercial Performance**

Retail, commercial property, rental car, car parking and ground transport portfolios have all performed well with an overall 31% increase in QAC revenues in a comparative 12 month period Dec 2015 to Dec 2016. Car parking capacity has been significantly increased across both the short and long term parking products. Opportunities such as pop-up stores and a digital FIDS board with incorporated advertising space, are being explored to supplement existing commercial revenues. Research and technology feasibility studies are also underway to optimise QAC's parking options and provide operational efficiencies.

New commercial access agreements have been completed with commercial transport companies and shuttle operators, granting access to the commercial drop off/pick up zone. A standardised approach was adopted whilst moving to a more flexible variable pricing model driven by barrier entry.

## **Strategic Planning**

### ***Master Plan***

Following the introduction of after-dark flights in May 2016, our key strategic focus has been on long-term planning, related primarily to the development of Queenstown Airport's 30-year Master Plan. The Master Plan project scope was finalised in the second quarter of 2016, with advisors appointed and demand forecasting completed in the 3rd quarter. More recently, various high-level options have been researched and are in the process of development.

### ***Land Acquisition (Lot 6)***

The Lot 6 land acquisition process continues to progress. QAC's aeronautical study, which provided details about the 168m runway separation and general aviation precinct relocation, has been accepted by the Civil Aviation Authority. The study was then submitted to the Environment Court for a final determination on the land designation. A hearing before the Environment Court has been scheduled to begin on 27 February.

### ***Noise Management***

Several key milestones were achieved during the six-month period, including:

- First tranche of full mitigation packages finalised for homes in the Inner Noise Sector
- Formal offers of full mitigation packages accepted by 75% of homes in the Inner Noise Sector
- Pre-assessment of 1st tranche of 55 homes in the Mid Noise Sector underway for mechanical ventilation.

### ***Wanaka Airport***

- In November, QLDC conducted a district-wide consultation on governance options for Wanaka Airport, stating its preferred option as a long-term lease to QAC. Over 70 written submissions were received and verbal submissions will be heard at a hearing on 13 February.
- QAC completed a significant land acquisition in December 2016, with the purchase of 106.49 hectares of undeveloped land to the north and south-west of Wanaka Airport.
- QAC has been working with NASA to reduce its impact on airport user operations and affected neighbours as part of its balloon launch programme in the region.

## **Technology and Innovation**

- We have successfully implemented our 2014-2016 IT strategy and our new Technology Manager is currently developing our next three-year strategy which focuses on optimising visitor experience and operational efficiency through technology and innovation.
- Work also continues on enhancing our online offerings and upgrading static signage and terminal advertising to digital displays. As well as improving the visitor experience, it allows us greater flexibility in terms of infrastructure, commercial revenue opportunities, cost-effective messaging and the ability to more accurately measure customer behaviours and preferences.



## **Outlook**

Prospects for the second half of the 2017 financial year remain positive. Strong passenger growth is forecast to continue. QAC expects to achieve approximately 1.9 million passengers for the financial year, with 15% growth in both domestic and international passengers compared to the previous year.

Key priorities for the next six month period are:

- Continuing a focus on safety as the Company's top priority
- Completing the Master Plan and continuing to implement the stakeholder and community engagement plan
- Delivering significant car parking and traffic flow improvements, including re-instatement of the public drop-off area outside of the terminal and launch of a park and ride trial:
- Supporting QLDC in implementing any decisions arising from governance review related to Wanaka Airport.



**John Gilks**  
Chairman



**Colin Keel**  
Chief Executive

**17 February 2017**

# Directors' Responsibility Statement

The Directors of Queenstown Airport Corporation Limited are pleased to present the Interim Report and Financial Statements for Queenstown Airport Corporation Limited for the six month period ended 31 December 2016.

The Directors are responsible for presenting financial statements in accordance with New Zealand law and generally accepted accounting practice which give a true and fair view of the financial position of the Company as at 31 December 2016 and the results of operations and cash flows for the period ended on that date.

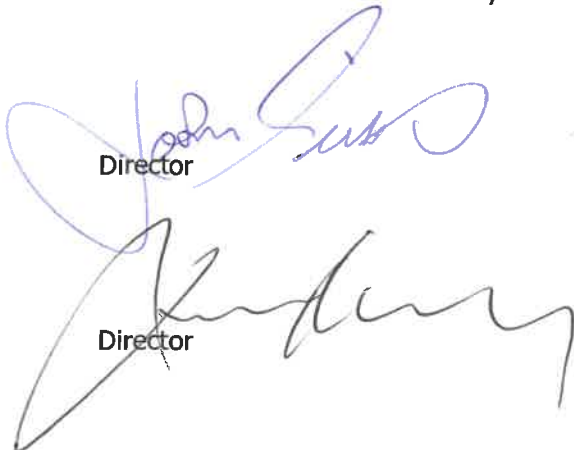
The Directors consider the Financial Statements of the Company have been prepared using accounting policies that have been consistently applied and supported by reasonable judgements and estimates and that all relevant financial reporting and accounting standards have been followed, or otherwise disclosed.

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

The Directors consider that they have taken adequate steps to safeguard the assets of the Company and to prevent and detect fraud and other irregularities. Internal control procedures are also considered to be sufficient to provide a reasonable assurance as to the integrity and reliability of the Financial Statements.

This Interim Report is dated 17 February 2017 and is signed in accordance with a resolution of the Directors.

For and on behalf of the Board by:



Director

Director

## INCOME STATEMENT

For the six months ended 31 December 2016

	Notes	6 months to 31 Dec 2016 \$ 000's	6 months to 31 Dec 2015 \$ 000's
<b>Income</b>			
Revenue	2(a)	19,591	15,657
<b>Total income</b>		<b>19,591</b>	<b>15,657</b>
<b>Expenditure</b>			
Operating expenses	4	4,142	2,421
Employee benefits expense	2(b)	2,354	1,550
<b>Total operating expenditure</b>		<b>6,496</b>	<b>3,971</b>
<b>Operating earnings before interest, taxation, depreciation and amortisation</b>		<b>13,095</b>	<b>11,686</b>
Depreciation	2(c)	3,224	2,470
Amortisation		218	73
<b>Operating earnings before interest and taxation</b>		<b>9,653</b>	<b>9,143</b>
Finance costs	2(d)	860	590
<b>Profit before income tax</b>		<b>8,793</b>	<b>8,553</b>
Income tax expense	3(a)	2,632	2,395
<b>Profit for the period</b>		<b>6,161</b>	<b>6,158</b>

The accompanying notes form part of these financial statements.

**STATEMENT OF COMPREHENSIVE INCOME**  
For the six months ended 31 December 2016

	Notes	6 months to 31 Dec 2016 \$ 000's	6 months to 31 Dec 2015 \$ 000's
<b>Profit for the period</b>		<b>6,161</b>	<b>6,158</b>
<b>Other comprehensive income</b>			
Items that may be subsequently reclassified to profit and loss			
Gain/(loss) on cash flow hedging taken to reserves	13(c)	(313)	(97)
Realised losses transferred to the income statement	13(c)	-	-
Income tax relating to gain/(loss) on cash flow hedging	13(c)	88	27
Items that may not be subsequently reclassified to profit and loss			
Gain/(loss) on revaluation of property, plant and equipment	13(b)	-	-
Income tax relating to gain/(loss) on revaluation	13(b)	-	-
<b>Other comprehensive income for the period net of tax</b>		<b>(225)</b>	<b>(70)</b>
<b>Total comprehensive income for the period, net of tax</b>		<b>5,936</b>	<b>6,088</b>

The accompanying notes form part of these financial statements.

# STATEMENT OF FINANCIAL POSITION

As at 31 December 2016

	Notes	As at 31 Dec 2016 \$ 000's	As at 30 Jun 2016 \$ 000's
<b>Current assets</b>			
Cash and cash equivalents	17(a)	974	921
Trade and other receivables	5	4,275	2,690
Prepayments		677	167
<b>Total current assets</b>		<b>5,926</b>	<b>3,778</b>
<b>Non-current assets</b>			
Property, plant and equipment	7	255,645	249,346
Intangible assets	8	3,315	3,073
<b>Total non-current assets</b>		<b>258,860</b>	<b>252,419</b>
<b>Total assets</b>		<b>264,886</b>	<b>256,197</b>
<b>Current liabilities</b>			
Trade and other payables	9	2,196	3,467
Income in advance		21	17
Employee entitlements	10	587	415
Current tax payable		1,827	1,130
<b>Total current liabilities</b>		<b>4,631</b>	<b>5,029</b>
<b>Non-current liabilities</b>			
Borrowings (secured)	11	47,200	39,010
Derivatives	6	473	160
Other non-current liabilities		141	141
Deferred tax liabilities	3(c)	13,147	13,235
<b>Total non-current liabilities</b>		<b>60,961</b>	<b>52,546</b>
<b>Total liabilities</b>		<b>65,592</b>	<b>57,575</b>
<b>Net assets</b>		<b>199,294</b>	<b>198,622</b>
<b>Equity</b>			
Share capital	12	37,657	37,657
Retained earnings	13(a)	20,987	20,090
Asset revaluation reserve	13(b)	142,194	142,194
Cash flow hedge reserve	13(c)	(1,544)	(1,319)
<b>Total equity</b>		<b>199,294</b>	<b>198,622</b>

The accompanying notes form part of these financial statements.

**STATEMENT OF CHANGES IN EQUITY**  
For the six months ended 31 December 2016

<b>6 months to 31 Dec 2016</b>	<b>Ordinary shares \$ 000's</b>	<b>Asset revaluation reserve \$ 000's</b>	<b>Cash flow hedge reserve \$ 000's</b>	<b>Retained earnings \$ 000's</b>	<b>Total \$ 000's</b>
<b>At 1 July 2016</b>	<b>37,657</b>	<b>142,194</b>	<b>(1,319)</b>	<b>20,090</b>	<b>198,622</b>
Profit for the period	-	-	-	6,161	6,161
Other comprehensive income	-	-	(225)	-	(225)
<b>Total comprehensive income for the period</b>	<b>-</b>	<b>-</b>	<b>(225)</b>	<b>6,161</b>	<b>5,936</b>
Reclassification to retained earnings	-	-	-	-	-
<b>Transactions with owners in their capacity as owners</b>					
Dividends paid	-	-	-	(5,264)	(5,264)
<b>At 31 December 2016</b>	<b>37,657</b>	<b>142,194</b>	<b>(1,544)</b>	<b>20,987</b>	<b>199,294</b>

The accompanying notes form part of these financial statements.

## CASH FLOW STATEMENT

For the six months ended 31 December 2016

	Notes	6 months to 31 Dec 2016 \$ 000's	6 months to 31 Dec 2015 \$ 000's
<b>Cash flows from operating activities</b>			
Receipts from customers		18,010	14,263
Payments to suppliers and employees		(8,160)	(4,367)
Interest paid		(823)	(595)
Taxes paid (net)		(1,934)	(2,110)
Net cash inflow/(outflow) from operating activities	17(b)	<b>7,093</b>	<b>7,191</b>
<b>Cash flows from investing activities</b>			
Proceeds from sale of property, plant and equipment		23	-
Purchase of property, plant and equipment		(9,529)	(4,135)
Purchase of intangible assets		(460)	(87)
Net cash inflow/(outflow) from investing activities		<b>(9,966)</b>	<b>(4,222)</b>
<b>Cash flows from financing activities</b>			
Net proceeds from borrowings/(repayments)		8,190	1,300
Dividends paid to equity holders		(5,264)	(4,156)
Net cash inflow/(outflow) from financing activities		<b>2,926</b>	<b>(2,856)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>53</b>	<b>113</b>
<b>Cash and cash equivalents at the beginning of the period</b>		<b>921</b>	<b>271</b>
<b>Cash and cash equivalents at the end of the period</b>	17(a)	<b>974</b>	<b>384</b>

The accompanying notes form part of these financial statements.

# NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 31 December 2016

## 1. Summary of Significant Accounting Policies

### Reporting Entity

Queenstown Airport Corporation Limited ("the Company") is a company established under the Airport Authorities Act 1966 and registered under the Companies Act 1993. The Company is a reporting entity for the purposes of the Financial Reporting Act 2013.

The Company is a profit oriented company incorporated and domiciled in New Zealand. Its principal activity is the operation of a commercial airport in Queenstown, New Zealand.

The Financial Statements for the six month period ended 31 December 2016 have not been audited.

### (a) Basis of Preparation

The financial statements of the Company have been prepared in accordance with the Financial Reporting Act 2013, the Companies Act 1993 and the Local Government Act 2002, which includes the requirement to comply with New Zealand generally accepted accounting practice (NZ GAAP).

The financial statements have been prepared on a historical cost basis, except for derivative financial instruments and certain items of property, plant and equipment (see notes 1(i) and 1(j)). Historical cost is based on the fair values of the consideration given in exchange for goods and services.

The financial statements are presented in New Zealand dollars. New Zealand dollars are the Company's functional currency.

The financial statements are presented rounded to the nearest one thousand dollars. Due to rounding, numbers presented may not add up precisely to totals provided.

### (b) Statement of Compliance

The financial statements have been prepared in accordance with New Zealand generally accepted accounting practice (NZ GAAP). For the purposes of complying with NZ GAAP, the Company is a for-profit entity. These financial statements comply with New Zealand International Financial Reporting Standards Reduced Disclosure Regime (NZ IFRS RDR).

The Company qualifies for NZ IFRS (RDR) as it does not have public accountability and is not a large for-profit sector entity. The Company has elected to apply NZ IFRS (RDR) and has applied disclosure concessions.

### (c) Revenue Recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts and GST.

#### (i) Rendering of Services

Revenue from the rendering of services is recognised when it is probable that the economic benefits associated with the transaction will flow to the entity. The stage of completion at balance date is assessed based on the value of services performed to date as a percentage of the total services to be performed.

Passenger Charges and Car Park Revenue are recognised in the accounting period in which the actual service is provided to the customer.



(ii) Rental Income

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

(iii) Interest Revenue

Interest revenue is accrued on a time basis, by reference to the principal outstanding and the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

(iv) Sale of Property, Plant and Equipment

Net gains or losses on the sale of property plant and equipment and financial assets are recognised when an unconditional contract is in place and it is probable that the Company will receive the consideration due.

**(d) Leases**

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date, whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset, even if that right is not explicitly specified in an arrangement.

(i) Company as a Lessee

Operating lease payments are recognised as an operating expense in the Income Statement on a straight-line basis over the lease term. Operating lease incentives are recognised as a liability when received and subsequently reduced by allocating lease payments between rental expense and reduction of the liability.

(ii) Company as a Lessor

Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as rental income. Contingent rents, such as turnover based rents, are recognised as revenue in the period in which they are earned.

**(e) Employee Benefits**

Entitlements to salary and wages and annual leave are recognised when they accrue to employees. This includes the estimated liability for salaries and wages and annual leave as a result of services rendered by employees up to balance date at current rates of pay.

Entitlements to sick leave are calculated based on an actuarial approach to assess the level of leave that is expected to be taken over and above the annual entitlement, and calculated using anticipated future pay rates.

**(f) Taxation**

The tax expense is an estimate of the tax payable on the net profit earned for the six month period ended 31 December 2016 and recognises the resulting tax liability in the Statement of Financial Position. This is calculated by adjusting for expected temporary and permanent differences on the income and expenses incurred in the period. It excludes any other movements in the deferred tax liabilities or assets existing at 30 June 2016, which may impact the current tax expense.

A calculation of all deferred tax movements will be included in all tax balances at 30 June 2017.

#### (i) Current Tax

Tax currently payable is based on taxable profit for the period. Taxable profit differs from net profit as reported in the profit or loss because it excludes items of income or expense that are taxable in other years and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted by the balance sheet date.

#### (ii) Deferred Tax

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit and is accounted for using the comprehensive balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period(s) when the asset and liability giving rise to them are realised or settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by reporting date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

#### (iii) Current and Deferred Tax for the Period

Current and deferred tax is recognised in profit for the period, except when it relates to items credited or debited directly to other comprehensive income, in which case the deferred tax is also recognised directly in other comprehensive income.

#### (iv) Goods and Services Tax

Revenues, expenses, assets and liabilities are recognised net of the amount of goods and services tax (GST), except for receivables and payables which are recognised inclusive of GST. Where GST is not recoverable as an input tax it is recognised as part of the related asset or expense.

### **(g) Statement of Cash Flows**

Cash means cash balances on hand, held in bank accounts and bank overdrafts that the Company invests in as part of its day to day cash management.

Operating activities includes cash received from all income sources of the Company, and cash payments for interest, taxes and for the supply of goods and services.

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

Financing activities comprise the change in equity and debt structure of the Company.

### **(h) Property, Plant and Equipment**

Property, plant and equipment are initially recognised at cost. The cost of property, plant and equipment includes all costs directly attributable to bringing the item to working condition for its intended use.

Expenditure on an asset will be recognised as an asset if it is probable that future economic benefits will flow to the entity, and if the cost of the asset can be measured reliably. This principle applies for both initial and subsequent expenditure.

Vehicles, plant and equipment, rescue fire equipment and furniture are carried at cost less accumulated depreciation and impairment losses.

Land, land improvements, buildings, roading and car parking, and runways are carried at fair value, as determined by an independent registered valuer, less accumulated depreciation and any impairment losses recognised after the date of any revaluation. Land, land improvements, buildings, roading and car parking, and runways acquired or constructed after the date of the latest revaluation are carried at cost, which approximates fair value. Revaluations are carried out with sufficient regularity to ensure that the carrying amount does not differ materially from fair value at the balance sheet date.

#### *Revaluations*

Revaluation increments are recognised in the property, plant and equipment revaluation reserve, except to the extent that they reverse a revaluation decrease of the same asset previously recognised in the profit for the period, in which case the increase is recognised in profit for the period.

Revaluation decreases are recognised in the profit for the period, except to the extent that they offset a previous revaluation increase for the same asset, in which case the decrease is recognised directly in the property, plant and equipment revaluation reserve via other comprehensive income.

Accumulated depreciation as at the revaluation date is eliminated against the gross carrying amounts of the assets and the net amounts are restated to the revalued amounts of the assets.

Upon disposal or de-recognition, any revaluation reserve relating to the particular asset being disposed or derecognised is transferred to retained earnings.

#### *Fair Value*

Where the fair value of an asset is able to be determined by reference to market based evidence, such as sales of comparable assets or discounted cash flows, the fair value is determined using this information. Where fair value of the asset is not able to be reliably determined using market based evidence, optimised depreciated replacement cost is used to determine fair value. These valuation approaches have been applied as follows:

Asset	Valuation Approach
Land	Market Value
Runways, Taxiways & Aprons	Optimised Depreciated Replacement Cost
Terminal and Rescue Fire Buildings	Optimised Depreciated Replacement Cost
Ground leases and Commercial buildings	Market Value
Roading and Car Parking	Market Value

#### *Depreciation*

Depreciation is provided on a diminishing value (DV) basis for all assets except runways, taxiways and aprons so as to write-off the carrying value cost of each asset to its estimated residual value over its estimated useful life. Runways, taxiways and aprons are depreciated on a straight line (SL) basis.

Expenditure incurred to maintain these assets at full operating capability is charged to the profit for the period in the period incurred.

The estimated useful lives of the major asset classes have been estimated as follows:

	Rate (%)	Method
Buildings	2.5-33.0%	DV
Runways, Taxiways & Aprons	1.0-20.0%	SL
Plant & Equipment	4.8-50.0%	DV

The estimated useful lives, residual values and depreciation method are reviewed at the end of each annual reporting period.

### *Disposal*

An item of property, plant and equipment is derecognised upon disposal or recognised as impaired when no future economic benefits are expected to arise from the continued use of the asset.

Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the profit for the period in the period the asset is derecognised.

### *Capitalisation of costs*

Labour and funding costs directly attributable to the acquisition, construction or production of a qualifying asset are capitalised to the asset as they are incurred. Borrowing costs are capitalised at the weighted average rate of the borrowing costs of the company during the period the qualifying asset is being brought to intended use. All other labour and funding costs are recognised in the Income Statement in the period in which they are incurred.

## **(i) Intangible Assets**

Intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses. Amortisation is charged on a straight line basis over the assessed estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each annual reporting period, with the effect of any changes in estimate being accounted for prospectively.

## **(j) Impairment of Non-Financial Assets**

At each reporting date, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use for cash-generating assets, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised in the profit for the period immediately, unless the relevant asset is carried at fair value, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised in the profit for the period immediately, unless the relevant asset is carried at fair value, in which case the reversal of the impairment loss is treated as a revaluation increase.

## **(k) Financial Instruments**

Financial assets and financial liabilities are recognised on the Company's Statement of Financial Position when the Company becomes a party to contractual provisions of the instrument.

## (i) Financial Assets

### *Effective Interest Method*

The effective interest method, referred to below, is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the interest rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or, where appropriate, a shorter period.

### *Financial Assets at Fair Value through Profit or Loss*

Financial assets at fair value through profit or loss are stated at fair value with any resultant gain or loss recognised in the profit for the period. The net gain or loss is recognised in the profit for the period and incorporates any dividend or interest earned on the financial asset. Fair value is determined in the manner described later in this note.

### *Loans and Receivables*

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

### *Impairment of Financial Assets*

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that as a result of one or more events that occurred after the initial recognition of the financial asset the estimated future cash flows of the investment have been impacted. For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables where the carrying amount is reduced through the use of an allowance account. When a trade receivable is uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in the Income Statement for the period.

With the exception of available-for-sale equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through the profit or loss for the period to the extent the carrying amount of the investment at the date of impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

## (ii) Financial Liabilities

### *Trade & Other Payables*

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

### *Borrowings*

Borrowings are recorded initially at fair value, net of transaction costs.

Subsequent to initial recognition, borrowings are measured at amortised cost with any difference between the initial recognised amount and the redemption value being recognised in the Income Statement over the period of the borrowing using the effective interest method.

### (iii) Derivative Financial Instruments

The Company enters into certain derivative financial instruments to manage its exposure to interest rate risk, including interest rate swaps. Further details of the derivative financial instruments are disclosed in note 6.

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently re-measured to their fair value at each balance sheet date. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the nature and timing of the recognition in profit or loss depends on the nature of the hedging relationship.

### (iv) Hedge Accounting

The Company designates certain hedging instruments, which may include derivatives, as cash flow hedges.

At the inception of the hedging relationship the entity documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Company documents whether the hedging instrument that is used in a hedged relationship is highly effective in offsetting changes in fair values or cash flows hedged item. Note 6 sets out details of the fair value of the derivative instruments used for hedging purposes. Movements in the hedging reserve in equity are also detailed in other comprehensive income.

#### *Cash Flow Hedges*

The effective portion of changes in the fair value of derivatives that are designated as cash flow hedges are recognised in other comprehensive income and accumulated as a separate component of equity in the hedging reserve. The gain or loss relating to the ineffective portion is recognised immediately in the Income Statement.

Amounts previously recognised in the hedging reserve are reclassified from equity to the Income Statement in the periods when the hedging item affects the profit or loss, in the same line as the recognised hedged item. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously recognised in the hedging reserve are reclassified from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability (as a reclassification adjustment).

Hedge accounting is discontinued when the Company revokes the hedging relationship, the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. Any cumulative gain or loss recognised in the hedging reserve at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was recognised in the hedging reserve is recognised immediately in the Income Statement.

### **(I) Significant Accounting Judgements, Estimations and Assumptions**

In producing the financial statements the Company makes judgements, estimates and assumptions based on known facts, at a point in time. These accounting judgements, estimates and assumptions will rarely exactly match the actual outcome. The judgements that have the most significant effect on the amounts recognised, and estimates and assumptions that have a significant risk of causing a material adjustment to the carrying values of the assets and liabilities within the current financial period are as follows:

(i) Tax Dispute

The Company has been involved in a dispute with the Inland Revenue Department (IRD) with regard to the deductibility of depreciation for the construction of Runway End Safety Area East. In June 2016, the High Court released its decision finding in favour of Inland Revenue. The Company has lodged an appeal against the decision with the Court of Appeal. To reflect the impact of the High Court decision, the Company has recognised the full deferred tax liability and corresponding tax expense of \$2.64 million and an estimate of IRD costs awarded by the High Court. In the event an Appeal is successful, all or part of these expenses will be adjusted in the current or future years.

(ii) Property

The Company is currently involved in legal proceedings associated with the acquisition of land adjacent to the airport, referred to as 'Lot 6', to allow for a new aeronautical precinct and to free up land for terminal expansion. To date, costs of approximately \$3.7 million has been capitalised by the Company. However, if the decision is unfavourable for the Company, then all costs may need to be expensed. The Company is confident that the Lot 6 will be acquired as planned.

(iii) Tax

The tax expense is an estimate of the tax payable on the net profit earned for the six month period ended 31 December 2016 and recognises the resulting tax liability in the Statement of Financial Position. This is calculated by adjusting for expected temporary and permanent differences on the income and expenses incurred in the period. It excludes any other movements in the deferred tax liabilities or assets existing at 30 June 2016, which may impact the current tax expense.

A calculation of all deferred tax movements will be included in all tax balances at 30 June 2017.

(iv) Property, Plant and Equipment

The Company engaged independent valuers to value Property, Plant and Equipment held at fair value and adopted these valuations at 30 June 2016. Consistent with the revaluation policy set out in note (h) above assets acquired during this six month period are carried at cost, which approximates fair value.

An assessment will be made prior to 30 June 2017 to determine the significance of the movement in fair value during the current financial year and any resulting changes in fair value reflected at 30 June 2017.

## 2. Surplus from Operations

### (a) Revenue

6 month to 31 Dec 2016 \$ 000's	6 month to 31 Dec 2015 \$ 000's
---------------------------------------	---------------------------------------

Revenue consisted of the following items:

Revenue from rendering of services:

Passenger/landing charges

Car park revenue

12,279

9,840

1,375

1,195

**Total revenue from rendering of services**

**13,654**

**11,035**

**Operating lease rental revenue**

**5,454**

**4,146**

**Other revenue**

**483**

**476**

**Total Revenue**

**19,591**

**15,657**

### (b) Employee Benefits Expense

Salaries and wages

Directors fees

2,262

1,458

92

92

**2,354**

**1,550**

### (c) Depreciation

Buildings

Runways, taxiways & aprons

Vehicles, plant & equipment

1,305

1,106

913

537

1,006

826

**Total Depreciation**

**3,224**

**2,470**

### (d) Finance Costs

Interest on borrowings

Less: Interest capitalised to projects

860

659

-

(69)

**860**

**590**

Interest is capitalised at the weighted average cost of borrowings for the project, during the period to bring the asset to its intended use. No interest has been capitalised for the period ending 31 December 2016 (2015: 5.5%).



### 3. Income Taxes

#### (a) Income Tax Recognised in the Income Statement

6 months to 31 Dec 2016 \$ 000's	6 months to 31 Dec 2015 \$ 000's
--	--

Tax expense/(income) comprises:

#### Current tax expense/(credit):

Current period	2,632	2,395
Adjustments for prior years	-	-
	<u>2,632</u>	<u>2,395</u>

#### Deferred tax expense/(credit)

Origination and reversal of temporary differences	-	-
Other movements	-	-
Adjustment for prior year	-	-
	<u>-</u>	<u>-</u>

#### Total deferred tax (credit)/expense

	<u>-</u>	<u>-</u>
<b>Total Tax Expense</b>	<b><u>2,632</u></b>	<b><u>2,395</u></b>

The prima facie income tax expense on pre-tax accounting surplus reconciles to the income tax expense in the financial statements as follows:

<b>Surplus before income tax</b>	<b>8,793</b>	<b>8,553</b>
Income tax expense calculated at 28%	2,462	2,395
Permanent differences	13	-
Reversal of temporary difference	-	-
Adjustment for prior years	-	-
Other	156	-
	<u>2,632</u>	<u>2,395</u>
<b>Income Tax Expense</b>	<b><u>2,632</u></b>	<b><u>2,395</u></b>

The tax expense is an estimate of the tax payable on the net profit earned for the six month period ended 31 December 2016 and recognises the resulting tax liability in the Statement of Financial Position. This is calculated by adjusting for expected temporary and permanent differences on the income and expenses incurred in the period. It excludes any other movements in the deferred tax liabilities or assets existing at 30 June 2016, which may impact the current tax expense.

A calculation of all deferred tax movements will be included in all tax balances at 30 June 2017.

#### (b) Income Tax Recognised Directly In Other Comprehensive Income

Deferred tax of \$87,724 (2015: \$27,207) has been charged directly to other comprehensive income during the period, relating to the fair value movement of derivative financial instruments.

A calculation of all other deferred tax movements will be included in all tax balances at 30 June 2017.

### (c) Deferred Tax Balances Comprise

Taxable and deductible temporary differences arising from the following:

<b>As at 31 Dec 2016</b>	<b>Opening balance</b>	<b>Charged to profit for the period</b>	<b>Charged to other comprehensive income</b>	<b>Transferred to provision for Tax</b>	<b>Closing balance</b>
	<b>\$ 000's</b>	<b>\$ 000's</b>	<b>\$ 000's</b>	<b>\$ 000's</b>	<b>\$ 000's</b>
<b>Gross deferred tax assets/(liability):</b>					
Property, plant and equipment	(12,654)	-	-	-	(12,654)
Intangible assets	(757)	-	-	-	(757)
Employee benefits	67	-	-	-	67
Derivatives	45	-	88	-	133
Trade and other payables	64	-	-	-	64
	<b>(13,235)</b>	<b>-</b>	<b>88</b>	<b>-</b>	<b>(13,147)</b>

<b>As at 30 Jun 2016</b>	<b>Opening balance</b>	<b>Charged to profit for the period</b>	<b>Charged to other comprehensive income</b>	<b>Transferred to provision for Tax</b>	<b>Closing balance</b>
	<b>\$ 000's</b>	<b>\$ 000's</b>	<b>\$ 000's</b>	<b>\$ 000's</b>	<b>\$ 000's</b>
<b>Gross deferred tax assets/(liability):</b>					
Property, plant and equipment	(7,501)	(2,379)	(2,774)	-	(12,654)
Intangible assets	(631)	(126)	-	-	(757)
Employee benefits	44	23	-	-	67
Derivatives	381	-	242	(578)	45
Trade and other payables	106	(42)	-	-	64
	<b>(7,601)</b>	<b>(2,524)</b>	<b>(2,532)</b>	<b>(578)</b>	<b>(13,235)</b>

### (d) Imputation Credit Account Balances

	<b>As at 31 Dec 2016 \$ 000's</b>	<b>As at 30 Jun 2016 \$ 000's</b>
Balance at beginning of the period	12,147	10,213
Income tax paid during six month period	1,497	3,934
Tax credits relating to dividend payment	(2,047)	(2,005)
Adjustment to prior year	(44)	6
<b>Balance at 31 December 2016</b>	<b>11,553</b>	<b>12,147</b>

#### 4. Operating Expenses

	6 months to 31 Dec 2016 \$ 000's	6 months to 31 Dec 2015 \$ 000's
<b>Total Operating Expenses</b>	<b>4,142</b>	<b>2,421</b>

Operating expenses include the following:

Audit fees - disclosure financial statements	22	22
Audit fees - financial statement audit	28	28
Bad debts written off	-	-
Doubtful debts	-	-
Loss on disposal of fixed assets	-	-

The auditor of Queenstown Airport Corporation Limited for and on behalf of the Office of the Auditor-General is Brett Tomkins of Deloitte.

The fees will be reset for the year ending 30 June 2017. In the interim an accrual has been made based on the audit fees for the year ending 30 June 2016.

The Interim Report and Financial Statements for the six months ended 31 December 2016 have not been audited.

#### 5. Trade & Other Receivables

	As at 31 Dec 2016 \$ 000's	As at 30 Jun 2016 \$ 000's
Trade and other receivables	4,275	2,690
Allowance for doubtful debts	-	-
<b>Total Trade &amp; Other Receivables</b>	<b>4,275</b>	<b>2,690</b>

#### 6. Derivatives

Derivative financial assets/(liabilities);

Interest rate swap (i) (effective)	(473)	(160)
	<b>(473)</b>	<b>(160)</b>

In order to protect against rising interest rates the Company has entered into interest rate swap and option contracts under which it has a right to receive interest at variable rates and to pay interest at fixed rates.

- i. Interest rate swaps in place of \$22.5 million cover approximately 48% of the principal outstanding. The fixed interest rates range between 2.3450% and 2.6225% (2015: 4.780% and 5.615%). The interest rate swaps are designated hedge relationships and therefore to the extent that the relationship is effective, movements are recognised in Other Comprehensive Income.

## 7. Property, Plant and Equipment

	Land	Buildings	Runways, Taxiways & Aprons	Vehicles, Plant and Equipment	Total
	\$ 000's	\$ 000's	\$ 000's	\$ 000's	\$ 000's
At fair value	132,727	49,407	44,924	11,389	238,447
At cost	-	-	-	13,616	13,616
Work in progress at cost	3,665	222	-	863	4,750
Accumulated depreciation	-	-	-	(7,467)	(7,467)
<b>Balances at 1 July 2016</b>	<b>136,392</b>	<b>49,629</b>	<b>44,924</b>	<b>18,401</b>	<b>249,346</b>
Additions	7,248	764	26	1,503	9,540
Revaluation	-	-	-	-	-
Disposals	-	-	-	(17)	(17)
Depreciation	-	(1,305)	(913)	(1006)	(3,224)
<b>Movement to 31 December 2016</b>	<b>7,248</b>	<b>(541)</b>	<b>(888)</b>	<b>480</b>	<b>6,299</b>
At fair value	132,727	49,407	44,924	11,389	238,447
At cost	7,158	138	26	14,520	21,842
Work in progress at cost	3,755	848	-	1,445	6,048
Accumulated depreciation	-	(1,305)	(913)	(8,474)	(10,691)
<b>Balances at 31 December 2016</b>	<b>143,640</b>	<b>49,088</b>	<b>44,037</b>	<b>18,880</b>	<b>255,645</b>

The carrying value of the asset categories above includes work in progress. Plant & equipment includes plant & equipment, vehicles, roading, car parking and fixtures & fittings.

Land, buildings, roading and car parking were independently valued by Seagar & Partners, registered valuers, as at 30 June 2016. The runways, taxiways and aprons were independently valued by Beca Valuations Limited (Beca), registered valuers, as at the same date.

The assets were categorised into two asset groups for valuation purposes: Aeronautical and Non-Aeronautical. The valuation assessment of the Aeronautical and Non-Aeronautical assets was undertaken in accordance with NZ IAS 16 and therefore assets were recorded at their 'Fair Value'. The following methods of valuation were applied in order to determine the fair value:

- Direct Comparison
- Optimised Depreciated Replacement Cost
- Investment

To the extent that the assets' fair values were able to be determined directly by reference to observable prices in an active market, the value of those assets can be determined on the basis of 'Market Value'.

## 8. Intangible Assets

	As at 31 Dec 2016 \$ 000's	As at 30 Jun 2016 \$ 000's
<b>Cost</b>		
Opening balance	3,538	2,776
Additions from internal developments (including work in progress)	460	762
<b>Total cost closing balance</b>	<b>3,998</b>	<b>3,538</b>
<b>Accumulated amortisation</b>		
Opening balance	465	262
Amortisation expense	218	203
<b>Total accumulated amortisation</b>	<b>683</b>	<b>465</b>
<b>Carrying Value</b>	<b>3,315</b>	<b>3,073</b>

Intangible assets include costs amounts incurred in relation to District Planning processes for extension of the noise boundaries amortised on a straight line basis over 23 years and amendments to the flight fans amortised on a straight line basis over 15 years. Also costs incurred in relation to noise mitigation amortised on a straight line basis over 23 years and costs incurred in relation to evening flights safety case amortised on a straight line basis over 2 years.

Included in work in progress is Phase 1 of the Proposed District Plan review which currently underway and a Proposed District Plan is due to be issued by August 2017. This may be subject to an appeals process prior to becoming operative. Costs will be capitalised and amortisation will begin from the date that the District Plan is operative.

## 9. Trade & Other Payables

Trade payables	756	1,445
Other creditors and accruals	1,441	2,022
<b>Total Trade and Other Payables</b>	<b>2,196</b>	<b>3,467</b>

## 10. Employee Entitlements

Accrued salary and wages	300	159
Annual leave	287	256
<b>Total Employee Entitlements</b>	<b>587</b>	<b>415</b>

## 11. Borrowings

Westpac Bank borrowings (secured)	20,000	20,000
BNZ borrowings (secured)	27,200	19,010
	<b>47,200</b>	<b>39,010</b>
Disclosed in the financial statements as:		
Current	-	-
Non-current	47,200	39,010
<b>Total Current and Non-Current Borrowings</b>	<b>47,200</b>	<b>39,010</b>

The Company has two secured facilities with BNZ, Facility A and Facility B, of \$30 million each. The facilities expire on 23 May 2020 and 1 August 2021 respectively.

The Company has two secured facilities with Westpac, Facility A and Facility B, of \$20 million each. The facilities expire on 23 May 2020 and 1 August 2021 respectively.

The Westpac and BNZ facilities are secured by a general security agreement over the Company's assets, undertakings and any uncalled capital. The weighted average interest rate on the term loan at balance date was 3.8%. (2015: 4.5%)

There were no default breaches on the Company's banking facility during the period.

## 12. Share Capital

### Fully Paid Ordinary Shares

	31 Dec 2016 No.	30 Jun 2016 No.	31 Dec 2016 \$ 000's	30 Jun 2016 \$ 000's
Balance at beginning of period	16,060,365	16,060,365	37,657	37,657
Balance at end of period	<b>16,060,365</b>	<b>16,060,365</b>	<b>37,657</b>	<b>37,657</b>

All ordinary shares have equal voting rights and equal rights to distributions and any surplus on winding up of the company.

## 13. Retained Earnings and Reserves

	As at 31 Dec 2016 \$ 000's	As at 30 Jun 2016 \$ 000's
<b>(a) Retained Earnings</b>		
Balance at the beginning of the period	20,090	19,438
Profit for the period after taxation	6,161	1,605
Reclassification in retained earnings	-	47
Dividends paid during the period (i)	(5,264)	(1,000)
<b>Balance at the end of period</b>	<b>20,987</b>	<b>20,090</b>
<b>(i) Dividends Paid</b>		
Final dividend – 32.78c per share	5,264	-
Interim dividend – 6.23c per share	-	1,000
<b>Total Dividend Paid</b>	<b>5,264</b>	<b>1,000</b>

On 19<sup>th</sup> August 2016 a final dividend of 32.78 cents per share (total dividend of \$5,264,124) for the year ending 30 June 2016 was paid to holders of fully paid ordinary shares.

### (b) Asset Revaluation Reserve

Balance at the beginning of the period	142,194	106,643
Increase arising on revaluation of assets	-	38,371
Deferred tax movement arising on revaluation	-	(2,774)
Reclassification in retained earnings	-	(47)
<b>Balance at the end of period</b>	<b>142,194</b>	<b>142,194</b>

The asset revaluation reserve is used to record increases and decreases in the fair value of property, plant and equipment to the extent that they offset one another.

**(c) Cash Flow Hedge Reserve**

	<b>As at 31 Dec 2016 \$ 000's</b>	<b>As at 30 Jun 2016 \$ 000's</b>
Balance at the beginning of the period	(1,319)	(747)
Gain/(loss) recognised on interest rate swaps	(313)	(767)
Realised losses transferred to the income statement	-	(20)
Income tax relating to gain/(loss) on cash flow hedging	88	215
<b>Balance at the end of period</b>	<b>(1,544)</b>	<b>(1,319)</b>

The cash flow hedge reserve represents hedging gains and losses recognised on the effective portion of cash flow hedges. The cumulative deferred gain or loss on the hedge is recognised in the income statement when the underlying hedged transaction impacts the profit and loss, when the hedge relationship is discontinued or is included as a basis adjustment to the non-financial hedged item, consistent with applicable accounting treatment.

**14. Commitments for Expenditure**

**(a) Capital Expenditure Commitments**

Acquisition of property, plant and equipment	-	1,011
Noise mitigation packages	564	630
<b>Total Capital Commitments</b>	<b>564</b>	<b>1,641</b>

As at 31 December 2016, the estimated cost of delivering noise mitigation packages for homeowners who have accepted at this date is \$0.564 million. Disclosure of further information relating to Noise Mitigation is detailed in Note 19 – Contingent Liabilities.

**15. Operating Lease Arrangements**

**(a) Company as Lessee; Operating Lease Commitments**

Operating leases relate to lease of photocopiers and EFTPOS machines with lease terms of between 1 and 4 years.

Non-cancellable operating lease payments:		
Not longer than 1 year	39	21
Longer than 1 year and not longer than 5 years	127	55
<b>Total Company Operating Lease Commitments</b>	<b>166</b>	<b>76</b>

**(b) Company as Lessor; Operating Lease Rental**

Operating leases relate to the commercial property owned by the Company with lease terms of between 2 to 33 years, with options to extend for up to a further 10 years. All operating lease contracts contain market review clauses in the event that the lessee exercises its option to renew. The lessee does not have an option to purchase the property at the expiry of the lease period.

Rental income earned by the Company from its investment property is set out in note 2.

	As at 31 Dec 2016 \$ 000's	As at 30 Jun 2016 \$ 000's
Less than 12 months	7,334	6,958
1-5 years	15,467	16,303
5 years +	4,339	3,857
<b>Total Company Operating Lease Rental</b>	<b>27,139</b>	<b>27,118</b>

## 16. Related Party Disclosures

### (a) Parent Entity

Queenstown Airport Corporation Limited is 75.01% owned by the ultimate parent entity, Queenstown Lakes District Council, and 24.99% owned by Auckland Airport Holdings (No 2) Limited.

### (b) Transactions with Related Parties

Related parties of the Company are:

- Queenstown Lakes District Council (QLDC) – Shareholder
- Auckland International Airport Limited (AIAL) – Shareholder
- J Hadley – Director, Hadley Consultants Limited
- G Lilly – Director, Civil Aviation of New Zealand (CAA), Aviation Security Services

### (c) During the period the following (payments)/receipts were (made to)/ received from related parties which were conducted on normal commercial terms:

	6 months to 31 Dec 2016 \$ 000's	6 months to 31 Dec 2015 \$ 000's
<u>Queenstown Lakes District Council</u>		
Rates	(165)	(147)
Resource Consent Costs & Collection fees	(2)	(1)
Wanaka Airport Management Fee	115	79
Wanaka Airport Recoveries	7	-
 Queenstown Events Centre netball courts and six holes of the Frankton Golf Course are located on company land to the north west of the runway. Revenue from this arrangement amounted to \$12,500 (2015: \$12,500) for the period.		
<u>Auckland International Airport Limited</u>		
Purchase of Rescue Fire Vehicle and Equipment	-	(110)
Rescue Fire Training	(37)	-
 Queenstown Airport Corporation Limited receives services from Auckland International Airport Limited for which no consideration is paid.		
<u>Hadley Consultants Limited</u>		
Consultant Engineering Services	(1)	-
 <u>Civil Aviation of New Zealand</u>		
CAA Certification Audit Fees	(3)	(3)
 <u>Aviation Security Service</u>		
Airport Security Cards	(3)	(2)
Rental, Power recovery and parking revenue	89	92



**(d) The following amounts were receivable from related parties at balance date:**

	<b>6 months to 31 Dec 2016 \$ 000's</b>	<b>6 months to 31 Dec 2015 \$ 000's</b>
<u>Queenstown Lakes District Council</u>		
Lakes Leisure Golf Course	13	13
Wanaka Airport Recoveries	7	-
<u>Aviation Security Service</u>		
Rental, Power recovery and parking revenue	3	2

**(e) The following amounts were payable to related parties at balance date:**

Queenstown Lakes District Council	(1)	(10)
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**17. Notes to the Cash Flow Statement**

**(a) Reconciliation of Cash and Cash Equivalents**

For the purposes of the cash flow statement, cash and cash equivalents includes cash on hand and in bank and deposits in money market instruments, net of outstanding bank overdrafts. Cash and cash equivalents at the end of the six month period as shown in the Cash Flow Statements is reconciled to the related items in the Statement of Financial Position as follows:

	<b>As at 31 Dec 2016 \$ 000's</b>	<b>As at 30 Jun 2016 \$ 000's</b>
Cash and cash equivalents	16	35
Bank account/(overdraft)	958	886
<b>Total Cash and Cash Equivalents</b>	<b>974</b>	<b>921</b>

**(b) Reconciliation of Surplus for the Period to Net Cash Flows from Operating Activities**

	<b>6 months to 31 Dec 2016 \$ 000's</b>	<b>6 months to 31 Dec 2015 \$ 000's</b>
<b>Profit for the period</b>	<b>6,161</b>	<b>6,158</b>
Add/(less) non-cash items:		
Amortisation	218	73
Depreciation	3,217	2,470
	<b>3,435</b>	<b>2,543</b>
Changes in assets and liabilities:		
(Increase)/Decrease in trade and other receivables	(1,585)	(1,487)
(Increase)/Decrease in prepayments	(510)	(171)
Increase/(Decrease) in current tax payable	697	284
Increase/(Decrease) in trade and other payables	(1,272)	780
Increase/(Decrease) in income in advance	5	93
Increase/(Decrease) in employee entitlements	172	(13)
Increase/(Decrease) in deferred tax liability	-	-
Movement in items reclassified as investing and financing activities	(11)	(996)
	<b>(2,504)</b>	<b>(1,510)</b>
<b>Net cash inflow from operating activities</b>	<b>7,093</b>	<b>7,191</b>

## **18. Financial Instruments**

### **(a) Capital Risk Management**

When managing capital, management's objective is to ensure the entity continues as a going concern as well as to maintain optimal returns to shareholders and benefits to other stakeholders. Management also aims to maintain a capital structure that ensures a competitive cost of capital is available to the entity.

The Company is not subject to any externally imposed capital requirements.

### **(b) Interest Rate Risk Management**

In order to protect against rising interest rates the Company has entered into interest rate swap and option contracts under which it has a right to receive interest rate variable rates and to pay interest at fixed rates.

Interest rate swaps in place cover approximately 48% of the principal outstanding. The interest rate swaps are designated hedge relationships and therefore to the extent that the relationship is effective movements are recognised in Other Comprehensive Income.

### **(c) Fair Value Measurements**

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently re-measured to their fair value at each balance sheet date. The resulting gain or loss is recognised in the Income Statement immediately unless the derivative is designated and effective as a hedging instrument, in which event the nature and timing of the recognition in profit or loss depends on the nature of the hedging relationship.

## **19. Contingent Liabilities**

### **(a) Property**

Queenstown District Council commenced construction of Hawthorne Drive (formerly known as the Eastern Access Road) part of which is along the airport boundary. Queenstown District Council has informed the airport that it will seek developer contributions from QAC and other neighbouring property owners in the future. QAC estimates that its liability may be in the order of \$1 to \$4 million.

### **(b) Noise Mitigation**

The Company is implementing plans to assist homeowners closest to the airport to mitigate the effects of aircraft noise within defined airport noise zones. During the six month period ended 31 December 2016, the Company has made offers of acoustic treatment to 11 homeowners (Inner noise sector) and plans to make offers to approximately 123 homeowners in the Mid noise sector prior to 30 June 2017. Noise levels are monitored regularly and as the noise zones expand, further offers will be made. As at 31 December 2016, six offers had been accepted. It is estimated that the cost to deliver these is \$0.564 million and is recognised as a capital commitment (Note 14).

An unquantifiable contingent liability exists at 31 December 2016 for the future offers of noise mitigation packages as it is not possible to accurately predict the rate of change in aircraft noise levels over time, nor the rate of acceptance of future offers of mitigation packages to homeowners. Therefore the Company cannot accurately predict the overall cost or timing of mitigation work.

## **20. Subsequent Events**

The directors resolved on 17 February 2017 that an interim dividend of \$1,000,000 be paid to shareholders on 20 February 2017. There were no other significant events after balance date.