Queenstown Airport Corporation Limited

Annual Report for Financial Year Ended 30 June 2017

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BOARD OF DIRECTORS	John W Gilks (Chairman) James W P Hadley Grant R Lilly Michael P Stiassny Norman J Thompson Mark R Thomson (appointed 23 June 2017)
CHIEF EXECUTIVE OFFICER	R Colin Keel
AUDITORS	B E Tomkins of Deloitte Limited (on behalf of the Auditor General) PO Box 1245 Dunedin
BANKERS	BNZ Queenstown Store 11 Rees Street Queenstown Westpac Terrace Junction 1092 Frankton Road Queenstown

Annual Report

Your Directors have pleasure in submitting the Annual Report together with the financial statements of the Company for the year ended 30 June 2017.

1. Financial Statements

The financial statements of the Company for the year ended 30 June 2017 follow this report.

2. Principal Activities of the Company

The principal activity of the Company during the year was airport operator.

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

Details of the year 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 year under review were:

John W Gilks (Chairman)
James WP Hadley
Grant R Lilly
Michael P Stiassny
Norman J Thompson
Mark R Thomson (appointed 23 June 2017)

4. Results for the Year Ended 30 June 2017

Profit for the year was $12,075,722 compared with a profit of $7,763,134 in the previous year.

The directors resolved on 22 August 2017 that the final dividend for the year ended 30 June 2017 be $6,169,007, resulting in a full year dividend of $7,169,007 (2016: $6,264,124).

An interim dividend of $1,000,000 was paid to the shareholders on 20th February 2017, leaving a final dividend of $6,169,007 to be paid on 23 August 2017, to be distributed to the shareholders as follows:

Queenstown Lakes District Council	$4,627,372
Auckland Airport Holdings (No 2) Limited	$1,541,635

Appropriation Account for the year ended 30 June 2017	**$ 000's**
Balance at the beginning of the year	20,090
Profit for the year	12,076
Dividends paid	(6,264)
Retained earnings to be carried forward	**25,902**

5. Directors Interests

The Company entered into the following transactions during the year with organisations which the directors had an interest in:

During the year 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) has regulatory oversight of Queenstown Airport Corporation Limited as a certified airport operator. Grant Lilly is a director of CAA.

Aviation Security Service (AVSEC) is an official provider of aviation security at Queenstown Airport Corporation Limited. Grant Lilly is a director of AVSEC.

5. Directors Interests (cont.)

During the year the Company sponsored the 2017 ISPS Handa NZ Golf Open. Norm Thompson was a committee member of the 2017 ISPS Handa NZ Golf Open.

All of the transactions were provided on normal commercial terms and appropriate arrangements 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 year.

7. Directors Remuneration

The following are particulars of director's remuneration authorised and received during the year.

	2017 $	2016 $
JW Gilks	52,000	52,000
JWP Hadley	35,500	35,500
GR Lilly	33,500	33,500
MP Stiassny	33,500	33,500
NJ Thompson	29,500	29,500
MR Thomson	-	-
	184,000	**184,000**

8. Remuneration of Employees

There were 11 employees who received remuneration and any other benefits in excess of $100,000 for the financial year as follows:

Bracket	2017 Number of Employees	2016 Number of Employees
$100,000 – $110,000	2	2
$110,000 – $120,000	-	1
$120,000 – $130,000	1	-
$130,000 – $140,000	1	1
$140,000 – $150,000	2	1
$150,000 – $160,000	1	-
$170,000 – $180,000	1	1
$180,000 – $190,000	-	1
$190,000 – $200,000	-	1
$200,000 – $210,000	1	-
$270,000 – $280,000	1	-
$310,000 – $320,000	-	1
$360,000 – $370,000	1	-

9. Donations

The Company made donations totalling $4,785 during the year.

10. Use of Company Information

During the year 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.

11. Auditor

The Auditor General is the statutory auditor of the Company in accordance with the Public Audit Act 2001. The Auditor General has appointed Brett Tomkins of Deloitte Limited to undertake the audit on his behalf.

On Behalf of the Board

Chairman | Director

Chairman and Chief Executive's Report

New Zealand and the Southern Lakes region continued to experience unprecedented growth in the last year, driven by our attractiveness as a destination, new air services, more attractive fares and support from strong marketing campaigns.

Queenstown Airport has a key role to play in supporting sustainable long-term growth to our region and ensuring it continues to be a desirable place to live, work and play. As well as providing air connectivity and a world-class airport experience, we also have to take into account economic, social and environmental considerations to ensure the business serves the needs of our customers and the community, operates profitably and returns dividends to our shareholders, and mitigates any environmental impacts as far as possible.

Appropriately focused investment in regional infrastructure and tourism facilities continues to be a critical factor in keeping pace with growth and retaining a quality visitor experience. As such, we are committed to working with the communities we serve and key stakeholders to help address these important issues.

The year ended 30 June 2017 was another significant year for Queenstown Airport with a number of key strategic, operational and financial milestones achieved.

Financial performance

QAC's excellent financial performance was underpinned by a record number of passengers at 1.89 million for the year ended 30 June 2017. This performance, in turn, allowed the company to deliver greater benefits to the regional economy and higher returns to shareholders.

Underlying Profit for the year was $12.3 million, up $1.8 million or 17 per cent on the prior year. Consistent with the Annual Report at 30 June 2016, underlying Profit has been arrived at by adjusting for the costs associated with appealing the adverse taxation ruling related to depreciation claimed on the Runway End Safety Area. Statutory Profit before this adjustment increased from $7.8 million to $12.1 million, up 56 per cent from the prior year.

Total revenue of $39.0 million grew 24 per cent on the prior year driven by strong passenger volumes and improved ground transport and leasing revenues. Operating expenses were up $2.8 million to $12.8 million as the organisation built substantial capacity primarily to service after-dark flights and developed its 30-year Master Plan. Operating Earnings before Interest, Tax, Depreciation and Amortization (EBITDA) increased by $4.7 million, or 22 per cent, to $26.2 million.

The Company invested in major airport infrastructure and additional land during the year, with capital expenditure of $23.8 million compared to $21.2 million in the previous year. These investments included car parking and roading improvements as well as the acquisition of approximately 150 hectares of land adjacent to Wanaka Airport.

The Company's financial position remains strong. As at 30 June 2017, term debt totalled $47.0 million. The equity ratio (total shareholders' funds to total tangible assets) was 76.6 per cent and interest cover (EBITDA/interest) 13.4 times.

Returns to shareholders

QAC returned a total dividend of $7.2 million to its two shareholders Queenstown Lakes District Council (75.01%) and Auckland Airport (24.99%) in FY17 - a 14 per cent increase on the $6.3 million delivered the previous year.

A fully imputed interim dividend of 6.2 cents a share ($1.0 million) was paid on 20 February 2017, and a fully imputed final dividend of 38.4 cents a share ($6.2 million) was declared on 22 August 2017. These dividends are covered 1.7 times by after tax earnings for the year.

Annual highlights

Unprecedented passenger growth continues

Queenstown Airport continued to benefit from the region's attractiveness as a destination and a place to live. In the 12 months to 30 June 2017, the airport welcomed 1,892,443 passengers – an increase of 241,334 or 14.6 per cent on the previous year. Domestic passenger numbers grew 15.6 per cent to 1,360,158, though a significant portion of these passengers were international visitors travelling on domestic flights in and out of the region.

International passenger numbers rose 12.1 per cent to 532,285 with growth across all direct trans-Tasman routes – Sydney, Melbourne, Brisbane and Coolangatta – as a result of additional airline capacity.

The commercial general aviation operators at Queenstown Airport also performed strongly, with fixed wing and helicopter landings up 12.5 per cent on the previous year. Private jet landings increased by 14.1 per cent.

Our strategic alliance with Auckland Airport, New Zealand's largest travel gateway, continued to deliver long-term value. This positive impact was reflected in the airport's performance.

After-dark flights expand capacity

By the end of the financial year, a milestone was achieved with all four airlines with operations at Queenstown Airport – Air New Zealand, Jetstar, Qantas and Virgin Australia – certified to operate after-dark services. We are grateful for the airlines' ongoing support and commitment to growing sustainable capacity and improving connectivity to the region, which ultimately provides our customers with more flexibility and choice. In particular, we congratulate Qantas and Virgin Australia for their efforts in becoming after-dark certified this year.

After-dark flights have not only provided our customers with more choice, they have also provided local employment opportunities. Within the 12-month period, the airport community grew from 350 people to 700, as most of the 60-strong businesses moved to double-shift operations.

Investing in the customer experience and operational resilience continued

Improving parking and traffic flow at the airport was a priority and a $4.6 million upgrade over an 18-month period has provided more options for local residents and visitors. These improvements included an increase in terminal and staff car parking, a new Park and Ride facility and the re-introduction of a public drop-off zone. Other enhancements were a new roundabout at the entrance of the airport as well as a purpose-built coach parking zone and commercial drop-off/pickup area.

Our airfield investment programme continued with the final stage of the upgrades - grooving the runway - being completed this year. A further $1.3 million investment is being made in new runway and apron snow removal and de-icing equipment to complement the grooved runway.

A number of enhancements were also completed inside the terminal, including new-look airline lounges, which have both almost doubled in capacity, as well as expanded food and beverage and retail offerings.

Focusing on safety

Safety continued to be our top priority with several new initiatives introduced in the past year.
These included:

- Establishment of a Board committee to oversee matters related to health & safety as well as the management of operational risk
- Enhanced health & safety and corrective action reporting systems across both Queenstown and Wanaka airports
- Introduction of an 'authority to work' permit system and induction program to better manage contractor activity across the airport
- Development of an interactive schedule of events for airport community staff during Airport Safety Week
- Improvements to our emergency response capability and crisis management planning

Our target is to achieve zero harm to our people and environment and we're pleased to report no lost time injuries to staff or contractors over the 12-month period.

Managing environmental impacts

We are very aware of the potential impact of aircraft noise on neighbouring residents and have an active programme to monitor and mitigate this.

To date, our aircraft noise management programme has been primarily focused on the homes in the airport's 'Inner Noise Sector', as they are most affected by aircraft noise. The focus for FY17 was to complete the design of custom noise mitigation packages for each of these homes and commence the associated works. We also have finalised the package specifications for homes in the 'Mid Noise Sector' and will begin an engagement process with homeowners over the next 12 months.

Planning for the future

Developing a 30-year Master Plan

To support the long term growth of our region and its continued attractiveness as a place to live, work and play, we need to provide sustainable air connectivity and a world-class airport experience. At the same time, we strive be a good neighbour and continue to recognise our social, economic and environmental responsibilities. Over the past 12 months, we developed Master Plan options to help manage future growth and identify infrastructure requirements at the airport out to 2045. We hope that this work also will assist the region with its own master planning efforts and inform related infrastructure developments. The final Master Plan option will be developed at a detailed level following a period of extensive community and stakeholder engagement.

Guiding Wanaka Airport's future

In April 2017, Queenstown Lakes District Council (QLDC) decided to grant QAC a long-term lease at Wanaka Airport. This decision supports our "one airport company, two complementary airports" approach to facilitating aviation services across the region. We are currently working with QLDC to finalise the lease arrangement and will then actively engage with the local community on future planning and development activities.

Supporting the communities we serve

We are committed to supporting our regional communities and continue to be involved in initiatives such as Shaping Our Future and the regional Transport Governance Group, as well as supporting various community events and not-for-profit organisations.

To help facilitate the promotion of our region, we provided support for filming, marketing promotions and large-scale events such as the NZ Golf Open, Festival of Colour, Winter Festival and the Queenstown Marathon. We also provided operational support to Wanaka Airport which included assisting NASA both with logistics for its super pressure balloon launch in May and negotiating a lease which ensures Wanaka Airport is one of its global launch bases for up to 10 years.

Recognising a great team effort

Queenstown Airport is a direct reflection of the quality, diversity and culture of its people and our collective success relies on close collaboration and a one-team approach. We would sincerely like to thank our board of directors, team and wider airport community, service providers, contractors and stakeholders for their continued hard work, expertise and commitment to excellence and to help us deliver an outstanding visitor experience and a strong financial result.

We would also like to welcome new director Mark Thomson, who joined the Board of Directors on 23 June 2017. Currently a senior executive at Auckland Airport Limited, Mark has more than 20 years of experience in property management and development as well as significant knowledge in the transport and logistics sectors.

Going forward

More technology, products and infrastructure improvements are on the way over the next year as part of the airport's investment programme. By December 2017, the airport's car parking capacity will have increased by 70 per cent over a 12-month period. In addition, a full overlay of the airfield apron area will be completed. This continued investment is focused on providing a better customer experience, with the ultimate goal of making it easier for visitors to travel to and from the region.

Our current forecasts continue to predict solid passenger growth. We are confident about the sustainability of both the domestic and trans-Tasman markets, particularly with the introduction of new winter after-dark services. The work we are doing on our 30-year Master Plan will provide a critical roadmap for our future, as we continue to develop the airport to serve our customers, local communities, region and nation for decades to come.

John Gilks
Chairman
22 August 2017

Colin Keel
Chief Executive Officer

Directors' Responsibility Statement

The Directors of Queenstown Airport Corporation Limited are pleased to present the Annual Report and Financial Statements for Queenstown Airport Corporation Limited for the year to 30 June 2017.

The Directors are responsible for presenting financial statements in accordance with New Zealand law and generally accepted accounting practice which present fairly in all material respects the financial position of the Company as at 30 June 2017 and the results of operations and cash flows for the year 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.

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 Annual Report is dated 22 August 2017 and is signed in accordance with a resolution of the Directors made pursuant to section 211(1)(k) of the Companies Act 1993.

For and on behalf of the Board by:

Director

Director

Income Statement

For the financial year ended 30 June 2017

	Notes	2017 $ 000's	2016 $ 000's
Income			
Revenue	2(a)	38,895	31,544
Other gains	2(b)	102	-
Total income		**38,997**	**31,544**
Expenditure			
Operating expenses	4	7,967	6,673
Employee benefits expense	2(c)	4,876	3,376
Total operating expenditure		**12,843**	**10,049**
Operating earnings before interest, taxation, depreciation and amortisation		**26,154**	**21,495**
Depreciation	2(d)	6,751	5,346
Amortisation	8	571	203
Operating earnings before interest and taxation		**18,832**	**15,946**
Finance costs	2(e)	1,951	1,133
Profit before income tax and subvention payment		**16,881**	**14,813**
Subvention payment	3(a)	555	-
Profit before income tax		**16,326**	**14,813**
Income tax expense	3(a)	4,250	7,050
Profit for the year		**12,076**	**7,763**

The accompanying notes form part of these financial statements.

Deloitte.
For
Identification

Statement of Comprehensive Income

For the financial year ended 30 June 2017

	Notes	2017 $ 000's	2016 $ 000's
Profit for the year		**12,076**	**7,763**
Other comprehensive income			
Items that may be subsequently reclassified to profit and loss:			
Gain/(loss) on cash flow hedging taken to reserves	13(c)	423	(864)
Realised gains/(losses) transferred to the income statement	13(c)	198	(20)
Income tax relating to gain/(loss) on cash flow hedging	13(c)	(118)	242
Items that may not be subsequently reclassified to profit and loss:			
Gain on revaluation of property, plant and equipment	13(b)	32,055	38,371
Income tax relating to gain on revaluation	13(b)	(2,027)	(2,774)
Other comprehensive income for the year net of tax		**30,531**	**34,955**
Total comprehensive income for the year, net of taxation		**42,607**	**42,718**

The accompanying notes form part of these financial statements.

Deloitte.
For
Identification

Statement of Financial Position

As at 30 June 2017

	Notes	2017 $ 000's	2016 $ 000's
Current assets			
Cash and cash equivalents	17(a)	915	921
Trade and other receivables	5	3,440	2,690
Prepayments		392	167
Total current assets		**4,747**	**3,778**
Non-current assets			
Property, plant and equipment	7	297,915	249,346
Intangible assets	8	2,925	3,073
Derivatives	6	263	-
Total non-current assets		**301,103**	**252,419**
Total assets		**305,850**	**256,197**
Current liabilities			
Trade and other payables	9	5,645	3,467
Income in advance		44	17
Employee entitlements	10	869	415
Current tax payable		2,132	1,130
Total current liabilities		**8,690**	**5,029**
Non-current liabilities			
Borrowings (secured)	11	47,000	39,010
Derivatives	6	-	160
Other non-current liabilities		115	141
Deferred tax liabilities	3(c)	15,080	13,235
Total non-current liabilities		**62,195**	**52,546**
Total liabilities		**70,885**	**57,575**
Net assets		**234,965**	**198,622**
Equity			
Share capital	12	37,657	37,657
Retained earnings	13(a)	25,902	20,090
Asset revaluation reserve	13(b)	172,222	142,194
Cash flow hedge reserve	13(c)	(816)	(1,319)
Total equity		**234,965**	**198,622**

The accompanying notes form part of these financial statements.

Deloitte.
For
Identification

Statement of Changes in Equity

For the financial year ended 30 June 2017

	Ordinary shares $ 000's	Asset revaluation reserve $ 000's	Cash flow hedge reserve $ 000's	Retained earnings $ 000's	Total $ 000's
At 1 July 2016	**37,657**	**142,194**	**(1,319)**	**20,090**	**198,622**
Profit for the period	-	-	-	12,076	12,076
Other comprehensive income	-	30,028	503	-	30,531
Total comprehensive income for the period	**-**	**30,028**	**503**	**12,076**	**42,607**
Reclassification to retained earnings	-	-	-	-	-
Transactions with owners in their capacity as owners					
Dividends paid	-	-	-	(6,264)	(6,264)
At 30 June 2017	**37,657**	**172,222**	**(816)**	**25,902**	**234,965**

	Ordinary shares $ 000's	Asset revaluation reserve $ 000's	Cash flow hedge reserve $ 000's	Retained earnings $ 000's	Total $ 000's
At 1 July 2015	**37,657**	**106,643**	**(677)**	**17,436**	**161,060**
Profit for the period	-	-	-	7,763	7,763
Other comprehensive income	-	35,597	(642)	-	34,955
Total comprehensive income for the period	**-**	**35,597**	**(642)**	**7,763**	**42,718**
Reclassification to retained earnings	-	(47)	-	47	-
Transactions with owners in their capacity as owners					
Dividends paid	-	-	-	(5,156)	(5,156)
At 30 June 2016	**37,657**	**142,194**	**(1,319)**	**20,090**	**198,622**

The accompanying notes form part of these financial statements.

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For
Identification

Cash Flow Statement

For the financial year ended 30 June 2017

	Notes	2017 $ 000's	2016 $ 000's
Cash flows from operating activities			
Receipts from customers		38,194	30,892
Interest received		36	-
Payments to suppliers and employees		(12,568)	(9,218)
Interest paid		(1,627)	(1,368)
Subvention payment made		(555)	-
Income tax paid (net)		(3,640)	(4,016)
Net cash inflow from operating activities	17(b)	**19,840**	**16,290**
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		23	4
Purchase of property, plant and equipment		(21,172)	(21,411)
Purchase of intangible assets		(423)	(762)
Net cash (outflow) from investing activities		**(21,572)**	**(22,169)**
Cash flows from financing activities			
Net proceeds from borrowings/(repayments)		7,990	11,685
Dividends paid to equity holders of the parent		(6,264)	(5,156)
Net cash inflow/(outflow) from financing activities		**1,726**	**6,529**
Net increase/(decrease) in cash and cash equivalents		**(6)**	**650**
Cash and cash equivalents at the beginning of the financial year		**921**	**271**
Cash and cash equivalents at the end of the financial year	17(a)	**915**	**921**

The accompanying notes form part of these financial statements.

Notes to the Financial Statements

For the financial year ended 30 June 2017

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.

(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, foreign currency bank accounts and certain items of property, plant and equipment (see notes 1(h) and 1(k)). 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.

The Company qualifies for NZ IFRS (RDR) as it does not have public accountability and is not a large for-profit public 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 rebates 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 and commercial transport revenue are recognised in the accounting period in which the actual service is provided to the customer.

Deloitte. For Identification

(ii) Rental Income

Rental income from 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

Employee benefits including salary and wages, superannuation and leave entitlements are expensed as the related service is provided. A liability is recognised for benefits accruing to employees for salaries and wages and annual leave as a result of services rendered by employees up to balance date at current rates of pay.

(f) Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

(i) Current Tax

Tax currently payable is based on taxable profit for the period. Taxable profit differs from 'profit before income tax' as reported in the Income Statement 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 statement of financial position date.

(ii) Deferred Tax

Deferred tax is the tax expected to be payable or recoverable on temporary 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 deductible 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. 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.

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.

(iii) Current and Deferred Tax for the Year

Current and deferred tax is recognised in profit for the year, 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 include cash received from all income sources of the Company and record the cash payments made for the supply of goods and services.

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

Financing activities comprise 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 year, in which case the increase is recognised in profit for the year.

Revaluation decreases are recognised in the profit for the year, 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 (including noise mitigation works) 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 building (noise mitigation), 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 year in the year incurred.

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

	Rate (%)	**Method**
Buildings	2.5-33.0%	DV or SL
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 year in the period the asset is derecognised.

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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 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 year 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 year 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) Foreign Currencies

The financial statements are presented in New Zealand dollars, being the Company's functional currency Transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date.

Exchange differences on monetary items are recognised in profit or loss in the period in which they arise except for exchange differences on transactions entered into in order to hedge certain foreign currency risks (refer (l)(iv) hedging accounting policy).

(l) 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 year. The net gain or loss is recognised in the profit for the year 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 the income statement, 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 year.

For financial assets measured at amortised cost, 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 year 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 and foreign currency exchange rate risks, including interest rate swaps and foreign exchange forward contracts. 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 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 attributable to the hedged risk 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.

(m) Change in Accounting Estimate

In prior years, work undertaken to plan for and assist homeowners closest to the airport to mitigate the effects of aircraft noise within defined airport noise zones totalling $0.36 million was recognised as an intangible asset, and amortised over its useful life. To reflect that this noise mitigation work enables the Company to derive future economic benefits from the property, plant and equipment held by it, these costs will be recognised as part of buildings within the property, plant and equipment of the Company (note 7). This will be depreciated over its estimated useful life. There is no change in total assets, liabilities or equity in the current or future years resulting from this change. For the purposes of financial reporting, the estimated useful life is assumed to end in June 2023.

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(n) 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 next financial year are as follows:

(i) Property

The Company is currently involved in statutory 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 $3.9 million have 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.

(ii) Property, Plant and Equipment

The Company has engaged independent valuers to value Property, Plant and Equipment held at fair value and adopted those valuations totalling $281.4 million (refer Note 7) at balance date, consistent with the revaluation policy set out in note (h) above.

(iii) Intangible Assets

The Company holds as intangible assets, the cost of obtaining the existing noise boundary - PC 35. The amortisation of these costs is spread on a systematic basis over its expected useful life, which is reviewed at each reporting date. The useful life is driven by a range of factors such as aircraft movements, aircraft type and timing of flights and is therefore uncertain. For the purposes of financial reporting, the estimated useful life is assumed to end in June 2023.

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2. Surplus from Operations

(a) Revenue

	2017 $ 000's	2016 $ 000's
Revenue consisted of the following items:		
Revenue from rendering of services:		
Passenger/landing charges	23,403	19,414
Car park and ground transport revenue	3,080	2,383
Total revenue from rendering of services	26,483	21,797
Operating lease rental revenue	11,330	8,716
Interest revenue	47	-
Other revenue	1,035	1,031
Total Revenue	**38,895**	**31,544**

(b) Other Gains

	2017 $ 000's	2016 $ 000's
Gain on disposal of property, plant and equipment	7	-
Net foreign currency exchange gains	95	-
Total Other Gains	**102**	**-**

(c) Employee Benefits Expense

	2017 $ 000's	2016 $ 000's
Salaries and wages	4,692	3,192
Directors fees	184	184
Total Employee Benefits Expense	**4,876**	**3,376**

(d) Depreciation

	2017 $ 000's	2016 $ 000's
Buildings	2,726	2,499
Runway, taxiways & aprons	1,834	1,138
Plant & equipment	2,191	1,709
Total Depreciation	**6,751**	**5,346**

(e) Finance Costs

	2017 $ 000's	2016 $ 000's
Interest on borrowings	1,974	1,457
Less: Interest capitalised to projects	(23)	(324)
Total Finance Costs	**1,951**	**1,133**

Interest was capitalised at a weighted average cost of borrowings for projects of 4.27%.

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3. INCOME TAXES

(a) Income Tax Recognised in the Income Statement

	2017 $ 000's	2016 $ 000's
Tax expense/(income) comprises:		
Current tax expense/(income):		
Current year	5,242	4,361
Adjustments for prior years	(58)	165
Subvention payment	(555)	-
	4,629	**4,526**
Deferred tax expense/(income)		
Origination and reversal of temporary differences	(314)	2,469
Adjustment for prior year	30	61
Amortisation of tax component of derivatives	(95)	(6)
	(379)	**2,524**
Total Tax Expense	**4,250**	**7,050**

During the year ending 30 June 2017, a subvention payment of $554,541, to purchase $1.98 million of tax losses from the Queenstown Lakes District Council at 28c per $1.00 of tax loss. These tax losses were used to offset tax payable for the year ending 30 June 2016, and are recognised in current year's tax expense as 'Subvention payment.

During the year ending 30 June 2016, the deferred tax expense included the recognition of a $2.6 million deferred tax liability in relation to the depreciation of Runway Safety Area East.

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

Surplus before income tax	**16,326**	**14,813**
Income tax expense calculated at 28%	4,571	4,148
Permanent differences	83	15
Creation/reversal of temporary difference	116	2,639
Adjustment for prior years	(26)	219
Other	-	35
Subvention payment	(399)	-
Amortisation of tax component of derivatives	(95)	(6)
Income Tax Expense	**4,250**	**7,050**

(b) Income Tax Recognised Directly In Other Comprehensive Income

Deferred tax of $2.1. million (2016: $2.5 million) has been charged directly to other comprehensive income during the period, relating to the revaluation of fixed assets and the fair value movement in the interest rate swaps and foreign exchange forward contracts.

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(c) Deferred Tax Balances Comprise

Taxable and deductible temporary differences arising from the following:

2017	**Opening balance $ 000's**	**Charged to profit for the year $ 000's**	**Charged to other comprehensive income $ 000's**	**Transferred to provision for tax $ 000's**	**Closing balance $ 000's**
Gross deferred tax assets / (liability):					
Property, plant and equipment	(12,654)	385	(2,027)	-	(14,296)
Intangible assets	(757)	132	-	-	(625)
Employee benefits	67	36	-	-	103
Derivatives	45	-	(118)	-	(74)
Trade and other payables	64	(252)	-	-	(188)
	(13,235)	**301**	**(2,145)**	**-**	**(15,080)**

2016	**Opening balance $ 000's**	**Charged to profit for the year $ 000's**	**Charged to other comprehensive income $ 000's**	**Transferred to provision for tax $ 000's**	**Closing balance $ 000's**
Gross deferred tax assets / (liability):					
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
	(7,601)	**(2,524)**	**(2,532)**	**(578)**	**(13,235)**

During the year ending 30 June 2016, a movement in deferred tax on derivatives of $578,000 occurred relating to losses on interest rate swaps closed out during that financial year (refer Note 6) . These are being amortised over the original life of the swap, reducing the tax expense for accounting purposes, but were immediately deductible for tax purposes. During the year ending 30 June 2017, $94,810 was recognised as a reduction in tax expense (refer Note 3(a)).

(d) Imputation Credit Account Balances

	2017 $ 000's	**2016 $ 000's**
Balance at beginning of year	12,147	10,213
Income tax paid	5,270	3,934
Tax credits relating to dividend payment	(2,436)	(2,005)
Refund of tax	(638)	-
Adjustment to prior year	-	6
Balance at end of year	**14,343**	**12,147**

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	2017 $ 000's	2016 $ 000's
4. Operating Expenses		
Total Operating Expenses	**7,967**	**6,673**

Operating expenses include the following:

Audit fees - disclosure financial statements	25	39
Audit fees - financial statement audit	65	46
Doubtful debts	15	-
Loss on disposal of fixed assets	-	194

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

5. Trade & Other Receivables

Trade and other receivables	3,455	2,690
Allowance for doubtful debts	(15)	-
Total Trade & Other Receivables	**3,440**	**2,690**

6. Derivatives

Derivative financial assets/(liabilities):

Interest rate swap (i) (effective)	239	(160)
Foreign exchange forward contracts (effective)	24	-
Total Derivatives	**263**	**(160)**

In order to protect against rising interest rates the Company has entered into interest rate swap 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% (2016: 2.3450% and 2.6225%). 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.

ii. During the year ending 30 June 2016, the Company closed out $20 million of interest rate swaps at rates ranging from 4.78% to 5.615% at a loss (net of tax) of $1.5 million. As these were designated hedge relationships, the net loss and related tax benefit will be recognised in the Income Statement, over the period of the original swap. During the year ending 30 June 2017, the interest expense of $339,000 and tax benefit of $94,810 was recognised. (refer Note 3(a))

During the year the Company entered into a contract to lease land near Wanaka to The National Aeronautics and Space Administration (NASA) of the United States of America, the rental of which is received in US dollars. To mitigate the exchange risk on these receipts, the Company has also entered into foreign exchange forward contracts to sell US dollars and buy NZD, to hedge the revenue payable by NASA over the next three years.

7. Property, Plant and Equipment

	Land	Buildings	Runways, Taxiways & Aprons	Plant & 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)
Balance as at 1 July 2016	**136,392**	**49,629**	**44,924**	**18,401**	**249,346**
Additions	13,859	1,927	732	6,765	23,283
Revaluation	24,816	1,349	3,633	2,258	32,055
Disposals	-	-	-	(18)	(18)
Depreciation	-	(2,726)	(1,834)	(2,191)	(6,751)
Movement to 30 June 2017	**38,675**	**550**	**2,530**	**6,814**	**48,569**
At fair value	170,620	49,689	47,454	13,658	281,421
At cost		-	-	15,767	15,767
Work in progress at cost	4,447	490	-	4,514	9,451
Accumulated depreciation	-	-	-	(8,724)	(8,724)
Balance as at 30 June 2017	**175,067**	**50,179**	**47,454**	**25,215**	**297,915**

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

The Company's assets are secured by way of a general security agreement.

Land, buildings, roading and car parking were independently valued by Seagar & Partners, registered valuers, as at 30 June 2017. 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 has been undertaken in accordance with NZ IAS-16 and therefore assets have been recorded at their 'Fair Value'. The following methods of valuation were applied in order to determine the fair value:

- Direct Comparison
- Investment
- Optimised Depreciated Replacement Cost

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'.

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8. Intangible Assets

	2017 $ 000's	2016 $ 000's
Cost		
Opening balance	3,538	2,776
Transfer to property, plant and equipment	(384)	-
Additions from internal developments	792	762
Total cost closing balance	**3,946**	**3,538**
Accumulated amortisation		
Opening balance	465	262
Transfer to property, plant and equipment	(15)	-
Amortisation expense	571	203
Total accumulated amortisation	**1,021**	**465**
Total Carrying Value of Intangible Assets	**2,925**	**3,073**

The following useful lives are used in the calculation of amortisation:

Noise boundaries	6 to 9 years
Flight fans	15 years
Evening flights safety cases	1 to 2 years.

During the year, planning costs were incurred totalling $692,580. As this work was in progress at 30 June 2017, the costs were not amortised. Work undertaken to plan for and assist homeowners closest to the airport to mitigate the effects of aircraft noise within defined airport noise zones has been transferred as an addition to property, plant and equipment (note 7) to reflect that this work enables the Company to derive future economic benefits from those assets.

9. Trade & Other Payables

	2017	2016
Trade payables	1,479	1,445
Other creditors and accruals	4,166	2,022
Total Trade and Other Payables	**5,645**	**3,467**

10. Employee Entitlements

	2017	2016
Accrued salary and wages	502	159
Annual leave	367	256
Total Employee Entitlements	**869**	**415**

11. Borrowings

	2017	2016
BNZ borrowings (secured)	27,000	19,010
Westpac Bank borrowings (secured)	20,000	20,000
	47,000	**39,010**

	2017 $ 000's	2016 $ 000's
Disclosed in the financial statements as:		
Current	-	-
Non-current	47,000	39.010
Total Current and Non-Current Borrowings	**47,000**	**39,010**

The Company has a secured facility with BNZ of $30 million and a secured facility with Westpac of $20 million, expiring on 23 May 2020 and we have further secured facilities with BNZ of $30 million and Westpac of $20 million expiring on 31 July 2021.

The BNZ and Westpac 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 for the year ending 30 June 2017 was 3.8%. (2016: 4.9%)

There were no default breaches on the Company's banking facilities during the year.

12. Share Capital

	2017 No.	2016 No.	2017 $ 000's	2016 $ 000's
(a) Fully Paid Ordinary Shares				
Balance at beginning of year	16,060,365	16,060,365	37,657	37,657
Balance at End of Year	**16,060,365**	**16,060,365**	**37,657**	**37,657**

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

	2017 $ 000's	2016 $ 000's
(a) Retained Earnings		
Balance at the beginning of the year	20,090	17,436
Profit for the year after taxation	12,076	7,763
Reclassification in retained earnings	-	47
Dividends paid during the year	(6,264)	(5,156)
Balance at End of Year	**25,902**	**20,090**

(i) Dividends Paid

	2017 $ 000's	2016 $ 000's
Final Dividend	5,264	4,156
Interim Dividend	1,000	1,000
Total Dividend Paid	**6,264**	**5,156**

On 19th 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.

On 20th February 2017 an interim dividend of 6.23 cents per share (total dividend of $1,000,000) for the year ending 30 June 2017 was paid to holders of fully paid ordinary shares.

(b) Asset Revaluation Reserve

	2017 $ 000's	2016 $ 000's
Balance at the beginning of the year	142,194	106,643
Increase arising on revaluation of assets	32,055	38,371
Deferred tax movement arising on revaluation	(2,027)	(2,774)
Reclassification in retained earnings	-	(47)
Balance at End of Year	**172,222**	**142,194**

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

	2017 $ 000's	2016 $ 000's
Balance at the beginning of the year	(1,319)	(677)
Gain/(loss) recognised on interest rate swaps	399	(864)
Gain recognised on forward exchange contracts	24	-
Realised losses/(gains) transferred to the income statement	198	(20)
Income tax relating to gain/(loss) on cash flow hedging	(118)	242
Balance at End of Year	**(816)**	**(1,319)**

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 (refer Note 6).

14. Commitments for Expenditure

(a) Capital Expenditure Commitments

	2017 $ 000's	2016 $ 000's
Acquisition of property, plant and equipment	754	1,011
Noise mitigation packages	594	630
Committed for Acquisition of Property, Plant and Equipment	**1,348**	**1,641**

The commitment for noise mitigation packages as at 30 June 2017 was lower than the prior year due to works undertaken during the year, variation in forecast costs and the exclusion of houses owned by the Company. This was offset by new commitments for offers accepted during the financial year and revision of cost estimates.

15. Operating Lease Arrangements

(a) Company as Lessee; Operating Lease Commitments

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

	2017 $ 000's	2016 $ 000's
Non-cancellable operating lease payments:		
Not longer than 1 year	39	21
Longer than 1 year and not longer than 5 years	60	55
Total Company as Lessee; Operating Lease Commitments	**99**	**76**

(b) Company as Lessor; Operating Lease Rental

Operating leases relate to the commercial property owned by the Company with lease terms of between 4 months to 33 years, with options to extend for up to a further 10 years. The lease terms at 30 June 2017, extend up to 20 years in the future. 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 commercial property is set out in note 2. The Company has contractual rights under leases to the following Minimum Annual Guaranteed rentals and contracted escalations but excludes at risk receipts such as turnover rents and CPI increases:

	2017 $ 000's	2016 $ 000's
Less than 12 months	9,123	6,958
1-5 years	16,399	16,303
5 years +	5,095	3,857
Total Company as Lessor, Operating Lease Rental	**30,617**	**27,118**

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 W P Hadley – Director, Hadley Consultants Limited
- J W Gilks – Trustee, Warbirds Over Wanaka Community Trust
- G R Lilly – Director, Civil Aviation of New Zealand (CAA), Aviation Security Services
- N J Thompson – Committee member, ISPS Handa NZ Golf Open
- M R Thomson – Shareholder representative, Auckland International Airport Limited (AIAL)

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

	2017 $ 000's	2016 $ 000's
Queenstown Lakes District Council		
Rates	(332)	(295)
Resource and building consent costs & collection fees	(22)	(4)
Development contributions	(408)	(279)
Payment for construction works	(549)	-
Other	(8)	(5)
Subvention payment	(555)	-
Rent – NASA Lease	(24)	-
Wanaka Airport management fee	230	159

The transactions above include amounts payable to QLDC as at 30 June 2017.

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 lease was $25,000 (2016: $25,000).

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	2017 $ 000's	2016 $ 000's
Auckland International Airport Limited		
Rescue fire training	(50)	(14)
Purchase of fire appliance	-	(110)

Queenstown Airport Corporation Limited receives services from Auckland International Airport Limited for which no consideration is paid.

	2017 $ 000's	2016 $ 000's
Hadley Consultants Limited		
Consultant engineering services	(2)	-
Warbirds Over Wanaka Community Trust		
Contributions towards entrance display	-	(1)
Civil Aviation of New Zealand		
CAA certification audit fees	(9)	(12)
Aviation Security Service		
Airport security cards	(7)	(5)
Rental, power recovery and parking revenue	194	167
ISPS Handa NZ Golf Open		
Sponsorship	(10)	(15)

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

	2017 $ 000's	2016 $ 000's
Aviation Security Service		
Rental, power recovery and parking revenue	3	4

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

	2017 $ 000's	2016 $ 000's
Queenstown Lakes District Council	(957)	(3)
Auckland International Airport Limited	(10)	-
Civil Aviation Authority	-	(4)
Aviation Security Services	(1)	-

(f) Compensation of key management personnel

The remuneration of directors and other members of key management personnel during the year was $1,430,802 (2016: $1,247,218).

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. As required under the Construction Contracts Act 2002, cash includes retentions of $512,170 held on trust, which are payable by the Company on completion of contractual obligations by third parties. Cash and cash equivalents at the end of the financial year as shown in the Cash Flow Statements is reconciled to the related items in the Statement of Financial Position as follows:

	2017 $ 000's	2016 $ 000's
Cash on hand	15	35
Bank account	900	886
Total Cash and Cash Equivalents	**915**	**921**

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

	2017 $ 000's	2016 $ 000's
Profit for the year	**12,076**	**7,763**
Add/(less) non-cash items:		
Amortisation	571	203
Depreciation	6,751	5,346
Gain on sale of property, plant & equipment	(7)	-
Loss on sale of property, plant & equipment	-	193
Other	199	(23)
	7,514	**5,719**
Changes in assets and liabilities:		
Increase in trade and other receivables	(751)	(776)
Increase in prepayments	(225)	(23)
Increase/(decrease) in current tax payable	1,002	(76)
Increase in trade and other payables	2,201	225
Increase/(decrease) in income in advance	28	(17)
Increase in employee entitlements	405	164
Increase/decrease in deferred tax liability	(301)	3,102
Movement in items reclassified as investing and financing activities	(2,108)	178
	250	**2,808**
Net Cash Inflow from Operating Activities	**19,840**	**16,290**

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 at 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) Forward foreign exchange contracts

It is the policy of the Company to enter into forward foreign exchange contracts to cover committed foreign currency payments and receipts over $0.5 million by at least 80% of the exposure generated. At 30 June 2017 the aggregate amount of gains under forward foreign exchange contracts recognised in other comprehensive income and accumulated in the cash flow hedging reserve relating to highly probable future revenues is $17,000 (2016: nil). It is anticipated that the lease payments received over the next 32 months, will match the timing and amount of each forward foreign exchange contract.

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(d) 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) 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. The focus for FY17 was to agree customised noise mitigation packages for these homes and works have commenced on several of the houses. As at 30 June 2017, we have made 11 offers to homeowners, of which seven have been accepted. The cost of delivering the seven accepted offers is estimated at $594k which has been disclosed as a capital commitment in Note 14. We have also been finalising the mechanical ventilation package specifications for the ‘Mid Noise Sector’ houses and will begin a consultation process with homeowners over the next 12 months.

Noise levels are monitored regularly and as the noise zones expand, further offers will be made. The Company estimates approximately 180 properties will be offered noise mitigation under the approved/consented boundaries. As it is not possible to predict accurately the rate of change in aircraft noise levels over time, nor the rate of acceptance of offers of mitigation packages to homeowners, the Company cannot accurately quantify the overall cost or timing of mitigation work.

20. Subsequent Events

The Directors resolved on 22 August 2017 that the final dividend for the year ended 30 June 2017 be $6,169,007. There were no other significant events after balance date.

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Statement of Service Performance

QAC's principal objective is to be a successful business and it aims to achieve this by regularly identifying and setting a set of clear targets and the practical steps it will undertake to achieve them.

The success of QAC's vision is measured through three sets of objectives - *People, Place and Performance*, as seen through the perspectives of its four major stakeholder groups – *Its Visitors, QAC employees, the Airport Community, and the Wider Community.*

The Company's annual Statement of Intent provides a list of objectives to be achieved in the next financial year and its performance against these is measured, reported and audited as part of the Statement of Service Performance in the Company's annual report.

FY2017 objectives

QAC set the following strategies for the FY17 year:

- Aeronautical strategy
  - Making journeys safe, secure, efficient and rewarding for us all
- Commercial strategy
  - Providing value for our visitors
- Property strategy
  - Making best use of our land
- One Team strategy
  - Working together to achieve the best outcomes.

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AERONAUTICAL STRATEGY

Making journeys safe, secure, efficient and rewarding for us all

Objectives	Key initiatives	Performance targets	Timing	Work completed
Work with our airline and airport partners to deliver passenger growth and share the rewards	• Continue to work on initiatives with Auckland Airport and key Australian hub airports to encourage airlines to fly direct to Queenstown and to grow sustainable air connectivity with a focus on expanding existing links and capitalising on new opportunities. • To further understand how visitors connect with Queenstown, we will commission a study to assist with 30-year demand forecasting and our route development strategy. This will be embedded into the Master Plan process to determine terminal spatial requirements.	• Growth in passengers across shoulder months • Airline route planning study completed	• Jun 2017 • Jul 2016	• Airlines added 19% capacity in shoulder months in FY17 • Detailed passenger demand forecast completed to 2045
Deliver affordable, timely infrastructure for the safe, secure and efficient movement of people	• Maximise existing airport terminal capacity through the introduction of evening (after-dark) flights in winter 2016. Evening flights will allow the airport to take advantage of its full consented operational hours between 06:00 and 22:00, moving from an approximate 8-hour operating window during the winter peak to a 16-hour operating window. • Address resourcing within Operations team to manage expanded hours of operation. A recent restructure has seen staff increases in some areas, particularly Rescue Fire, and more focus placed on collaborative operations, continuous improvement and facilities management. • The compulsory acquisition of Lot 6 will be paramount to optimising airfield operations, allowing the optimum positioning of a parallel taxiway and relocating the General Aviation precinct away from scheduled operations.	• Phase 4 - airfield upgrade project • QAC Operations team restructured but ongoing review of resources following evening flights • Roll out communications for phase 4 of airfield upgrade project • Proposed step-change Winter Operations Plan agreed by Airlines and board • Aeronautical Study developed, consulted on with airport users, endorsed by CAA and successfully satisfies Environment Court requirements	• Feb 2017 • Dec 2016 • Sept 2016 – Feb 2017 • Apr 17 • Aug 2016	• Runway grooving completed within time and budget • Operations team's new structure well embedded and additional resource being delivered in line with growth • Communications successfully rolled out for runway grooving process • New winter operations equipment purchased and continues to come on line • Aeronautical study approved by CAA and satisfied Environment Court requirements

AERONAUTICAL STRATEGY

Making journeys safe, secure, efficient and rewarding for us all

Objectives	Key initiatives	Performance targets	Timing	Work completed
Deliver New Zealand's most safe, secure and efficient passenger experience through engaging with the airport community in collaborative operations	• Airport operations team will be responsible for the promotion, scope and delivery of improvements to passenger facilitation and operational processes and systems • Establish baseline passenger processing time in arrivals and departure processing halls and set processing performance targets with Border Agencies • Continue to work with Customs to accelerate the deployment of E-Gates • IATA service level C maintained for all but peak days	• Develop a Queenstown Airport Collaborative Operations Group to focus on end-to-end process improvement of passenger facilitation and operational efficiencies • Seasonal-based passenger processing targets are agreed by Border agencies, reviewed weekly and reported • Biometric automated passenger processing implemented • Top 5 and bottom 5 quarterly targets shared with collaborative operations team and improvement targets set	• Dec 2016 • Nov 2016 and Mar 2017 • Aug 2016 • Mar 2016, ongoing	• Border Agency and Baggage Make-up Unit collaborative improvement forums set up and operational • Technology currently being procured to measure passenger processing times on a real-time basis • E-gates delivered – 2 in Departures and 4 in Arrivals • Ongoing monitoring and reporting of DKMA customer service results
Achieve Zero Harm (People and Environmental Incident) through leadership focused on health, safety and risk management, clear accountabilities and effective systems	• Engage the wider airport community in a collaborative approach to continuous improvement in site health and safety • Continue to develop the organisation's risk management framework • Through focused leadership, continue to develop a strong Health and Safety culture within QAC • Promote a 'just culture' and open reporting system where we focus on key learnings • Maintain effective Health & Safety environmental systems which exceed legislative requirements • Update our Business Continuity Management (BCM) to reflect size and response scale of operation. • Practise and stress-test our emergency preparedness – Airport emergency plan.	• Target = achieve zero harm to people and environment • Target = Zero Harm injuries to the airport community or passengers while within the airport precinct • A comprehensive safety leadership engagement programme for the Senior Leadership team in place • Just culture procedures imbedded in business as usual operations • QAC health and safety systems audited against AS/NZS 14001, AS/NZA 4801, AC90 • Robust BCM plan and contingency procedures in place and stress-tested	• Ongoing • Ongoing • Nov 2016 • Jun 2017 • Sept 2016 • Jun 2017	• No lost time injuries for staff/contractors in 12 months • Hazard and incident report culture has improved significantly across airport • Safety leadership training and development delivered • Site Just Culture increasingly embedded and continues to develop • Safety Management Systems implementation plan approved by CAA with ongoing implementation and improvement

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AERONAUTICAL STRATEGY *Making journeys safe, secure, efficient and rewarding for us all*				
Objectives	**Key initiatives**	**Performance targets**	**Timing**	**Work completed**
		• Full-scale emergency exercise planned and delivered to stress-test our emergency preparedness		• Business Continuity Plan completed and 3 emergency exercises executed.
Deliver reliable facilities and infrastructure through asset lifecycle management, effective maintenance and contingency planning	• Build a comprehensive inventory of assets, understand their current performance and condition in order to develop a Asset Management Plan • Implement a Project Management system to manage the delivery of capital projects • Implement Maintenance Management System • Contingency plans and or infrastructure in place for all key airport utility services and aeronautical systems, i.e. power, water, waste water, runway lighting, CCTV, Access control, FIDs, Air Traffic Control • Develop an energy conservation programme for Airport Terminal infrastructure • Waste minimisation programmes developed	• Comprehensive facilities maintenance and lifecycle replacement programme scoped • Projects can be easily and effectively managed through their entire life cycle • Maintenance faults and defects can be identified and managed through to resolution • Airport utility and systems contingency risks identified, documented and an implementation plan in place • Set energy conservation targets • Set waste minimisation targets	• Aug 2017 • Dec 2016 • Nov 2016 • Jun 2017 • Jan 2017 onwards • Jul 2016 onwards	• Phase 1 completed - ongoing development of programme • Project management processes in place and delivering excellent project outcomes • New maintenance fault reporting system in place and defects managed through to resolution • Risks identified, documented and a programme of works in place for potable water contingency • Energy audit of terminal infrastructure completed with energy consumption rates and baseline data recorded

COMMERCIAL STRATEGY

Providing value to our visitors

Objectives	Key initiatives	Performance targets	Timing	Work completed
Develop a boutique terminal retail mix that reflects the uniqueness and quality of the Queenstown experience and optimises returns and visitor experience	• Continue to develop terminal retail to provide a boutique shopping environment for consumers, with a mix of local owner-operators and larger corporate-owned stores • Continue to optimise and expand the terminal for passenger flow, processing areas and retail mix through the master planning process	• Commercial revenue growth – as per budget • Commercial revenue as percentage of QAC revenue – targets as per year 3 of the 10 year plan	• Jun 2017 • Jun 2019	• Retail tenancies renewed • Pop-up offers introduced seeking to increase the retail offering in the terminal space available inside the main doors and in the terminal forecourt • New retail offer introduced in international departure lounge • New F&B fit-out in the international departure lounge
Optimise returns from transport networking activity by optimising products, price and partnerships	• Changes to the terminal road network and carparks will be made in 2016/17 to improve flow and reduce congestion. This will in turn provide us with opportunities to review and diversify products and the pricing structure for the commercial and public car parks • Our new vehicle strategy will assist us in delivering increased car parking, transport capacity and products	• Improvements to road layout and flow completed • New commercial vehicle layout and licence structure introduced • Public car park pricing reviewed and new products and sales channels added	• Mar 2017 • Jun 2017 • Jun 2018	• Improvements to the roading layout and flow completed 30 June 2017. • P2 Drop-off forecourt zone reinstated 1 July 2017 • Over 10% additional parking capacity added in 2016 • Additional staff parking capacity added, and new pricing introduced 1 July 2017 • Dedicated coach parking area introduced, and a pricing structure to be introduced 1 August 2017 • Dedicated taxi and shuttle queuing lanes introduced • New commercial pick up / drop off area created and new licence

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COMMERCIAL STRATEGY *Providing value to our visitors*				
Objectives	**Key initiatives**	**Performance targets**	**Timing**	**Work completed**
				and pricing structure introduced 1 December 2016 • Park and Ride facility launched • Public car parking pricing reviewed and changed by 1 July 2017 • New external wayfinding and signage introduced by 1 July 2017
Introduce innovative new revenue opportunities, particularly through the use of digital media and technology	• Monitor new technologies and trends and form strategic partnerships to provide new revenue opportunities, customer enhancements or airport efficiencies • Use WiFi heatmapping technology to monitor dwell times and utilise the information to develop most valuable terminal spaces • Input into master plan to ensure there are optimal spaces for advertising with a focus on more flexibility to introduce/update digital technology • Work collaboratively with advertising agencies and potential advertisers to create new and different ways to connect with customers. Focus on experiential advertising to help create a sense of place and ambience in the terminal.	• Monitor customer experience via quarterly Airport Experience Survey results • Complete a phased plan of digital media and technology improvements • Monitor customer experience via quarterly Airport Experience Survey results • Develop at least two new advertising partnerships • Review advertising assets, contracts and suppliers	• Quarterly • Dec 2016 • Ongoing • Dec 2016 • Feb 2017	• Physical advertising medium opportunities reviewed and rationalised, with removal of some fittings, and installation of improved solutions • A large hi resolution FID screen will be installed in the central concourse in October 2017. 1/3 of the screen area will be devoted to media revenue • Leased freephone board replaced with QAC-managed lightbox • Rationalisation and relocation of concessions within the terminal (eg ATMs and vending machines) creating space of pop-up retail tenancies and interactive media

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PROPERTY STRATEGY

Making best use of our land

Objectives	Key initiatives	Performance targets	Timing	Work completed
Develop a master plan that will inform internal planning, facilitate external community leadership objectives and provide a spatial framework for our future	• The 30-Year Master Planning process will provide guidance on the land needed for future aeronautical operations and opportunities for commercial development leading to a greater return on land holdings • Explore the opportunity to extract value from the growth in Frankton Flats by integrating the airport into the surrounding area to support another economic area for the district	• Procurement process complete • Draft Master Plan completed • Public consultation on Draft Master Plan	• Apr 2016 • Dec 2016 • By Jun 2017	• Specialised advisors procured • Draft Master Plan Options completed in Dec 2016 and presented to the QAC Board. • Final Master Plan Options presented to the QAC Board in June 2017 • Stakeholder consultation undertaken throughout the process • Community engagement scheduled July – October 2017
Protect the airport's long term objectives and capacity by inputting to national, regional and local planning, and addressing proposed developments/land uses within the airport's designations	• Be proactive in regulatory planning issues, submitting as required on national, regional and local planning frameworks • Engage with the QLDC Proposed District Plan (PDP) process to ensure Queenstown and Wanaka airport's planning frameworks are provided for, protected or enhanced • Actively participate in community discussions to help maintain visitor experience and quality of life for the permanent resident base. This would assist in integrating the airport in the local community as it expands over the coming 30 years	• Airport Mixed Use Zone is approved and operative • Wanaka specific rules confirmed within the Rural Zone • PC35 (QAC) and PC26 (Wanaka) provisions and recognition of Queenstown Airport as nationally significant infrastructure is effectively confirmed within the District Plan review	• Jun 2017 (subject to PDP time frame)	• QAC has submitted and, when appropriate, was present to support its submissions in the hearing process. These include submissions relating to the Airport Mixed Use Zone (Queenstown and Wanaka), and ensuring PC35 and PC26 provisions are recognised • Stage I decisions are due to be issued in Q1 2018

PROPERTY STRATEGY

Making best use of our land

Objectives	Key initiatives	Performance targets	Timing	Work completed
Develop land holdings to maximise return on investment while complementing long term aviation growth	• Assess development opportunities for their long term sustainable value to the airport within our relatively constrained land available for this use. Specific opportunities being explored include working with QLDC on the development of a transport hub linked to QAC's transport network, visitor accommodation, and commercial/industrial development.	• Broad land uses determined in Master Plan process	• Dec 2016	• Opportunities for land use have been identified through the Master Planning process, however, these will not be developed until the final master plan option is determined • A transport hub continues to be one of the opportunities being pursued
Acquire or rationalise land holdings to support our strategies	• Secure and develop Lot 6 to accommodate a 168m separated heavy taxiway and a General Aviation precinct.	• Secure the acquisition of 'Lot 6'	• FY18	• The Environment Court issued a final decision in favour of QAC on the Lot 6 Notice of Requirement. However, this decision has now been appealed
Optimise returns on all property, leases, licences and commercial property held within QAC's portfolio	• Ensure adequate resourcing is in place to deliver an effective and efficient property management function. In the short-term our opportunities to grow commercial property portfolio revenues are limited to re-negotiating rents during reviews and when establishing new leases in existing areas. A step-change can occur in the medium term, and following completion of the master plan, as our land holdings are developed and land use planning is optimised across aeronautical and property activities.	• Leases and licences optimised • Revenue targets	• FY17	• A backlog of lease events (lease expiries, rent reviews and renewals) is being actively worked through and will be completed in FY18 • Revenue targets exceeded

PROPERTY STRATEGY

Making best use of our land

Objectives	Key initiatives	Performance targets	Timing	Work completed
Design & deliver affordable, timely transport infrastructure for the safe and efficient movement of people and supporting an outstanding visitor experience	• Implement improvements to the vehicle transport and roading networks within QACs landholdings • Integrate with and support the economic development of Queenstown and the surrounding region including a transport hub which would support local and visitor traffic, linking private vehicles, commercial tourism transport, public buses and possibly ferries.	• Airport carpark and roading network improvements • Draft transport strategy and plan (developed through Master Planning process)	• Mar 2017 • Dec 2016	• As per deliverables noted in "Commercial" strategies above • A Car Parking and Ground Transport strategy has been developed and initiatives will be assessed and implemented as determined by the business
Provide for region-wide aviation growth and capacity by working with QLDC to develop a long term strategy for Wanaka Airport	• Agree an appropriate management agreement with QLDC for the management of Wanaka Airport • Support QLDC in evaluating governance options for Wanaka	• A Management Agreement (including agreement on compensation arrangements) is in place and agreed by both QAC and QLDC • Input as required into QLDC's governance review process • Complete QAC's due diligence into the governance option identified	• Jul 2016 • Dec 2016 • Dec 2017	• Management Services Agreement with QLDC for Wanaka Airport negotiated and executed • Recommendations from the QLDC governance process were approved in April 2017. QAC provided input as requested by QLDC • QAC is working with QLDC to agree long-term lease arrangements that reflect the recommendations of the hearing panel

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ONE TEAM STRATEGY

Working together to deliver the best outcomes

Objectives	Key initiatives	Performance targets	Timing	Work completed
Invest in our people's development and wellbeing and build an empowered one team culture	• Roll out and incorporate QAC's Team Values programme throughout the company • Roll out the new Wellness Programme • Develop a Training and Development Framework – FY2017 • Implement new Performance Management processes – June 2016 • Establish dedicated operations Emergency Operations Centre & shared staff facilities (kitchen, shower etc.) – FY2017 • Investigate efficient use of desk space and layout of corporate office • Leadership development programme – FY2018	• Employee survey engagement matrix analysis • Staff feel valued and are recognised for a job well done • High level of engaged and motivated staff • Physical environment is conducive to enjoyment of work	• Sept 2016-17	• QAC Values programme rolled out and being incorporated throughout the company • Wellness programme launched • Performance and development frameworks and processes implemented • Corporate office layout changed
Create a deep understanding of our customers, their needs and desires - and how they'll change - to provide a great airport experience and effective value propositions	• Review and enhance current customer data sets to build more comprehensive demographic information and passenger segmentation • Collaborate with partners on a joint data report which profiles visitor flows around the region	• Implement new quarterly Airport Experience Survey • Implement visitor flow report • Visitor experience metrics	• Mar 2016 • Jul 2016 • From Mar 2016	• DKMA survey implemented, runs each quarter • Digital report implemented • Partners receive own reports and share data
Work with our airline & airport partners to optimise operational efficiency and visitor experience through technology and innovation	• New position created in the QAC Operations team – Manager Operational Planning and Process Improvement – responsible for promotion, scope and delivery of process improvement, with a particular focus on improving passenger facilitation and the optimisation of airport supporting systems and process • Refer to initiatives in Aeronautical and Commercial strategies	• Refer to targets in Aeronautical and Commercial strategies	• Refer to timing in Aeronautical and Commercial strategies	• Implemented Tap and Go and Car Park entrance/exit • Implemented RFID for commercial users including online account management • Implemented Smart Parking for taxis

ONE TEAM STRATEGY *Working together to deliver the best outcomes*				
Objectives	**Key initiatives**	**Performance targets**	**Timing**	**Work completed**
Build engagement with the whole airport and wider region to connect more deeply with our community	• Refresh stakeholder engagement plan • Proactive and regular communication to stakeholders • Develop and roll out project-specific communications • Use our company values to identify/refine community engagement opportunities • Actively participate in community discussions to help maintain visitor experience and quality of life for the permanent resident base. This would assist in integrating the airport in the local community as it expands over the coming 30 years	• QAC staff are recognised leaders and role models among the wider airport team and community • High level of engaged and motivated staff • Supportive environment for wider airport community to work as one team	• Ongoing • Ongoing • Ongoing	• Cross-functional leadership and operational groups set up across the airport community • Member of DQ's Strategic Review Board, Shaping Our Future, Transport Governance Group • Ongoing regular internal and external communications and engagement with the communities we serve.

ONE TEAM STRATEGY

Working together to deliver the best outcomes

Objectives	Key initiatives	Performance targets	Timing	Work completed
Be a leader, working collaboratively at a local and national level to find solutions to the region's destination management issues	• Work with QLDC and the business community on discussing solutions to destination management issues	• Regular report to the Board • Be an integral member and respected voice within the wider business community on key issues	• Monthly	• Strong working relationships with key local organisations • Member of Regional Transport Governance Group, working on transport issues. • CFO is Chair of Shaping Our Future • Member of TIA • Directors on a number of key national boards e.g. CAA, Tourism NZ, TIA • CEO is a director of NZ Airports Association • Met with Prime Minister, Tourism & Transport Ministers and Tourism NZ to discuss various regional issues
Execute the Noise Management Plan to mitigate noise impacts and address neighbour concerns	• Mitigation work will continue rolling out for homes in the Inner Noise Sector • Start work on homes in the Mid Noise Sector in 2017 - this phase involves some 123 homes. • Noise mitigation works to continue in annual or two-yearly tranches for the next 20 years	• Airport noise, as measured, is within the levels set in the District Plan • Inner Noise Sector mitigation works commenced on first round of homes • Communications are regular, accurate and relevant e.g. passenger stats, website content, ZQN Newsletter, and media releases	• Ongoing • Jun 2017	• 2016 Average Annual Noise Contours (modelled) completed and reported to the Noise Liaison Committee • Communication updates as required

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ONE TEAM STRATEGY *Working together to deliver the best outcomes*				
Objectives	**Key initiatives**	**Performance targets**	**Timing**	**Work completed**
Optimise facilities and infrastructure to reduce energy consumption, reduce waste and enhance environmental sustainability	• Reduce the climate change impacts of Queenstown Airport and realise cost savings from energy and fuel efficiencies • Set targets for annual total potable water consumption (m3), annual total potable water savings (m3) and uptake water efficient technologies and opportunities, e.g. bore water, grey water, rain capture etc. • Set targets for annual waste production (tonnes), annual waste recycled (tonnes), and annual waste minimised (tonnes) • Build targeted supply chain partnerships to enhance Queenstown Airport's sustainability performance • Set annual environmental performance targets, (including aircraft noise), identify opportunities and implement projects to enhance New Zealand's biodiversity	• Refer Aeronautical Strategy targets • Quarterly report to the Board	• Refer Aeronautical Strategy timing • Mar 2017	• Refer Aeronautical Strategy timing
Fund airport strategies cost-effectively through banking and other partnerships	• Review existing banking relationships and debt provider, to prepare the business for future capital project requirements including funding of airfield and terminal upgrades and property acquisition and development	• Implementation of banking relationships across two or more top tier banks for the provision of transactional services and debt facilities	• By FY17	• $100 million facility arranged with BNZ and Westpac
Technology enhancements to assist lean culture and operating environment	• Using lean methodologies, work with airline and agency partners to identify and implement initiatives to improve operational efficiency and provide an outstanding visitor experience using technology	• Implement one initiative each year that delivers pre-agreed operational/visitor experience targets	• FY17 • FY18 • FY19	• Completed Departures process lean project in conjunction with Avsec

Objective: Achieve Statement of Intent Financial Forecasts

Year Ended 30 June 2017	Forecast 2017 $'000	Actual 2017 $'000	Variance 2017 $'000
Revenue	**38,322**	**38,997**	**675**
Operating Expenditure	12,450	12,843	393
EBITDA	25,872	26,154	282
Interest Expense	2,572	1,951	(621)
Depreciation & Amortisation	6,531	7,322	791
Profit Before Tax & Subvention Payment	16,769	16,881	112
Net Profit After Tax	**11,646**	**12,076**	**430**
Dividends Paid	6,342	6,264	(78)
Total Assets	284,852	305,850	20,998
Total Liabilities	58,866	70,885	12,019
Shareholders Funds	225,986	234,965	8,979
Operating Cash Flow	19,945	19,840	(105)
Capital Expenditure	18,424	23,794	5,370
Closing Debt	44,579	47,000	2,421
Net Drawdown/(Repayment) of Debt	4,966	7,990	3,024

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Year Ended 30 June 2017		Forecast 2017 $'000		Actual 2017 $'000		Variance 2017 $'000
Total PAX (000's)		**1,884**		**1,892**		**9**
Percentage International PAX		30%		28%		
Revenue per PAX	$	20.35	$	20.61	$	0.26
NPAT per PAX	$	6.18	$	6.38	$	0.20
Return on Equity (NPAT to Avg SH Funds)		5.5%		5.6%		
Return on Assets (NPAT to Avg Total Assets)		4.4%		4.3%		
EBITDA to Total Assets		9.1%		8.6%		
Gearing: Debt : EBITDA		1.7		1.8		
EBITDA > 2 times funding expense		10.1		13.4		
Shareholders Funds to Total Tangible Assets > 50%		80%		77%		

Assessment of Actual vs Forecast Financial Performance

The growth in revenue (2% ahead of forecast) has been driven by improved commercial revenues. This was offset by a reduction in aero revenue due to the mix of domestic and international passengers, and a slightly lower price per passenger than anticipated.

Operating expenses were 3% above forecast, with additional one-off costs to undertake the RESA Court of Appeal process and building further capacity to service after dark flights.

As a result EBITDA was 1% higher than forecast.

Interest costs were lower than forecast due to a reduction in interest rates and the timing of capital expenditure. Offsetting this, depreciation and amortisation was higher due to a review of the useful lives of noise assets and evening flight safety cases.

Net Profit After Tax was 4% above forecast.

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Dividends declared for the year were $7.2 million, up 14% on the previous year. Dividends paid in the year of $6.3 million related to earnings from the previous financial year.

Strong operating cash flows of $19.8 million were maintained in line with forecast.

The majority of the Capital Expenditure related to the investment in car parking and roading improvements at Queenstown Airport (including Park and Ride facility), the acquisition of land adjacent to Wanaka Airport and completion of the airfield upgrade with grooving of the runway. This was $5.4 million higher than forecast, resulting in higher debt levels than forecast.

Returns on equity and assets were under forecast due to higher asset revaluations and capital expenditure. Funding ratios remained well within covenants.

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INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF QUEENSTOWN AIRPORT CORPORATION LIMITED'S FINANCIAL STATEMENTS AND PERFORMANCE INFORMATION FOR THE YEAR ENDED 30 JUNE 2017

The Auditor-General is the auditor of Queenstown Airport Corporation Limited (the company). The Auditor-General has appointed me, B E Tomkins, using the staff and resources of Deloitte Limited, to carry out the audit of the financial statements and the performance information of the company on his behalf.

Opinion

We have audited:

- the financial statements of the company on pages 11 to 35, that comprise the statement of financial position as at 30 June 2017, the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information; and

- the performance information of the company on pages 36 to 51.

In our opinion:

- the financial statements of the company on pages 11 to 35:

  - present fairly, in all material respects:

    - its financial position as at 30 June 2017; and

    - its financial performance and cash flows for the year then ended;

  - comply with generally accepted accounting practice in New Zealand in accordance with New Zealand Equivalents to International Financial Reporting Standards Reduced Disclosure Regime.

- the performance information of the company on pages 36 to 51 presents fairly, in all material respects, the company's actual performance compared against the performance targets and other measures by which performance was judged in relation to the company's objectives, for the year ended 30 June 2017.

Our audit was completed on 22 August 2017. This is the date at which our opinion is expressed.

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

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Basis for Opinion

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

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

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

Responsibilities of the Board of Directors for the Financial Statements and the Performance Information

The Board of Directors is responsible on behalf of the company for preparing financial statements and performance information that are fairly presented and that comply with generally accepted accounting practice in New Zealand.

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

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

The Board of Directors' responsibilities arise from the Local Government Act 2002, and the Airport Authorities (Airport Companies Information Disclosure) Regulations 1999.

Responsibilities Of the Auditor for the Audit of the Financial Statements and the Performance Information

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

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

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

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

- We identify and assess the risks of material misstatement of the financial statements and the performance information, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of the internal control.

- We obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.

- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.

- We evaluate the appropriateness of the reported performance information within the company's framework for reporting performance.

- We conclude on the appropriateness of the use of the going concern basis of accounting by the Board of Directors and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements and the performance information or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company to cease to continue as a going concern.

- We evaluate the overall presentation, structure and content of the financial statements and the performance information, including the disclosures, and whether the financial statements and the performance information represent the underlying transactions and events in a manner that achieves fair presentation.

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

Our responsibilities arise from the Public Audit Act 2001.

Other Information

The Board of Directors is responsible for the other information. The other information comprises the information included on pages 3 to 10, but does not include the financial statements and performance information, and our auditor's report thereon.

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

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

Independence

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

Other than the audit of the financial statements and disclosure financial statements, we have no relationship with, or interests in, the company.

B E Tomkins

Deloitte Limited

B E Tomkins
Deloitte Limited
On behalf of the Auditor-General
Dunedin, New Zealand