



**Queenstown Airport
Corporation Limited**

**Disclosure Financial Statements for
Financial Year Ended 30 June 2014**

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Directors Report

The Directors have pleasure in presenting the Disclosure Financial Statements of Queenstown Airport Corporation Limited (the Company) for the year ended 30 June 2014. These statements present the results of the aeronautical operations of the Company and additional information and have been prepared for the purposes of, and in accordance with the Airport Authorities (Airport Companies Information Disclosure) Regulations 1999.

1. Board of Directors

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

John W Gilks (Chairman)
Alison Gerry
James WP Hadley
Grant R Lilly
Richard G Tweedie

2. Principal Activities of the Company

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

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

For and on behalf of the Board


.....
Director


.....
Director

.....
Date

STATEMENT OF COMPREHENSIVE INCOME
For the financial year ended 30 June 2014

| | Notes | 2014 \$ 000's | 2013 \$ 000's |
|--|-------|------------------|------------------|
| Income | | | |
| Revenue | 3(a) | 14,705 | 13,218 |
| Other gains/(losses) | 3(a) | - | (7) |
| Total income | | 14,705 | 13,211 |
| Expenditure | | | |
| Operating expenses | 5 | 4,186 | 3,635 |
| Employee benefits expense | 3(b) | 1,566 | 1,370 |
| Total operating expenditure | | 5,752 | 5,005 |
| Operating earnings before interest, taxation, depreciation and amortisation | | 8,953 | 8,206 |
| Depreciation | 3(c) | 3,332 | 3,290 |
| Amortisation | | 53 | 37 |
| Operating earnings before interest and taxation | | 5,568 | 4,879 |
| Finance costs | 3(d) | 2,565 | 1,880 |
| Profit before income tax | | 3,003 | 2,999 |
| Income tax expense | 4(a) | 2,027 | 921 |
| Profit for the year | | \$976 | \$2,078 |
| Other comprehensive Income | | | |
| Items that may be subsequently reclassified to profit and loss | | | |
| Gain/(loss) on cash flow hedging taken to reserves | 7 | 694 | 785 |
| Income tax relating to Gain/(loss) on cash flow hedging | 4(b) | (194) | (220) |
| Items that may not be subsequently reclassified to profit and loss | | | |
| Gain/(loss) on revaluation of property, plant and equipment | | 15,501 | - |
| Income tax relating to Gain/(loss) on revaluation | 4(b) | (1,397) | - |
| Other comprehensive Income for the year net of tax | | 14,604 | 565 |
| Total comprehensive Income for the year, net of taxation | | \$15,580 | \$2,643 |

The accompanying notes form part of these financial statements.

STATEMENT OF FINANCIAL POSITION

As at 30 June 2014

| | Notes | 2014 \$ 000's | 2013 \$ 000's |
|--------------------------------------|-------|------------------|------------------|
| Current assets | | | |
| Cash and cash equivalents | 17(b) | 305 | 77 |
| Trade and other receivables | 6 | 1,330 | 1,321 |
| Prepayments | | 35 | 29 |
| Total current assets | | 1,670 | 1,427 |
| Non-current assets | | | |
| Property, plant and equipment | 8 | 107,336 | 86,165 |
| Intangible assets | 9 | 2,425 | 2,422 |
| Total non-current assets | | 109,761 | 88,586 |
| Total assets | | 111,431 | 90,013 |
| Current liabilities | | | |
| Trade and other payables | 10 | 1,656 | 1,654 |
| Income in advance | | 9 | 1 |
| Employee entitlements | 11 | 210 | 116 |
| Current tax payable | | 1,170 | 390 |
| Total current liabilities | | 3,046 | 2,161 |
| Non-current liabilities | | | |
| Borrowings (secured) | 12 | 35,865 | 30,623 |
| Derivatives | 7 | 512 | 1,206 |
| Deferred tax liabilities | 4(c) | 6,234 | 4,004 |
| Total non-current liabilities | | 42,611 | 35,833 |
| Total liabilities | | 45,657 | 37,994 |
| Net assets | | \$65,774 | \$52,019 |
| Equity | | | |
| Share capital | 13 | 18,892 | 18,892 |
| Retained earnings | | 5,097 | 5,947 |
| Asset revaluation reserve | 14 | 41,743 | 27,639 |
| Cash flow hedge reserve | 14 | 42 | (458) |
| Total equity | | \$65,774 | \$52,019 |

The accompanying notes form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY
For the financial year ended 30 June 2014

| | 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 2013 | 18,892 | 27,639 | (458) | 5,947 | 52,019 |
| Profit for the year | | | | 976 | 976 |
| Other comprehensive income | - | 14,104 | 500 | - | 14,604 |
| Total comprehensive income for the year | - | 14,104 | 500 | 976 | 15,580 |
| Transactions with owners in their capacity as owners | | | | | |
| Dividends paid | - | - | - | (1,826) | (1,826) |
| At 30 June 2014 | 18,892 | 41,743 | 42 | 5,097 | 65,774 |
| | 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 2012 | 18,892 | 27,639 | (1,023) | 5,669 | 51,176 |
| Profit for the year | | | | 2,078 | 2,078 |
| Other comprehensive income | - | - | 565 | - | 565 |
| Total comprehensive income for the year | - | - | 565 | 2,078 | 2,643 |
| Transactions with owners in their capacity as owners | | | | | |
| Dividends paid | - | - | - | (1,799) | (1,799) |
| At 30 June 2013 | 18,892 | 27,639 | (458) | 5,947 | 52,019 |

The accompanying notes form part of these financial statements.

Notes to the Disclosure Financial Statements

For the financial year ended 30 June 2014

1. General Information

Queenstown Airport Corporation Limited (the Company) owns and operates Queenstown Airport. The Company is owned 75.01% by Queenstown Lakes District Council and 24.99% by Auckland Airport Holdings (No. 2) Ltd.

The Company is a limited liability company incorporated and domiciled in New Zealand. The address of its registered office is Level 1 Terminal Building, Queenstown Airport.

These financial statements have been approved for issue by the Board of Directors on 3rd November 2014. The entity's owners do not have the power to amend these financial statements once issued.

The disclosure financial statements are presented in accordance with the Airport Authorities Act 1966 as amended by the Airport Authorities Amendment Act 1997 and the Airport Authorities (Airport Companies Information Disclosure) Regulations 1999 ("The Regulations").

The disclosure financial statements are for the reporting entity's Identified Airport Activities. Identified Airport Activities are defined as:

Airfield activities means the activities undertaken (including the facilities and services provided) to enable the landing and take-off of aircraft and includes:

- a) The provision of any one or more of the following:
 - (i) Airfields, runways, taxiways, and parking aprons for aircraft
 - (ii) Facilities and services for air traffic and parking apron control
 - (iii) Airfield and associated lighting
 - (iv) Services to maintain and repair airfields, runways, taxiways and parking aprons for aircraft
 - (v) Rescue, fire, safety and environmental hazard control services
 - (vi) Airfield supervisory and security services
- b) The holding of any facilities and assets (including land) acquired or held to provide airfield activities in the future (whether or not used for any other purpose in the meantime).

Specified passenger terminal activities (specified terminal) means the activities undertaken (including the facilities and services provided) in relation to aircraft passengers while those passengers are in a security area or areas of the relevant airport and includes:

- a) The provision, within a security area or security areas of the relevant airport of any one or more of the following:
 - (i) Passenger seating areas, thoroughfares and air bridges
 - (ii) Flight information and public address systems
 - (iii) Facilities and services for the operation of customs, immigration and quarantine checks and control
 - (iv) Facilities for the collection of duty-free items
 - (v) Facilities and services for the operation of security and police services
- b) Any activities undertaken (including the facilities and services provided) in a passenger terminal to enable the check in of aircraft passengers, including services for baggage handling.

- c) The holding of any facilities and assets (including land) acquired or held to provide specified passenger terminal activities in the future (whether or not used for any other purpose in the meantime)

But does not include the provision of any space for retail activities. Each of the Identified Airport Activities also includes an allocation of supporting infrastructure. Also included in each of the above Identified Airport Activities are assets specifically held for use in that activity.

The numbers presented in these financial statements are for the Identified Airport Activities unless it is stated they are for the Company.

2. Summary of Accounting Policies

Reporting Entity

The 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 1993.

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.

Statement of Compliance

These financial statements have been prepared in accordance with the Financial Reporting Act 1993, the Companies Act 1993, New Zealand generally accepted accounting practice (NZ GAAP), the Airport Authorities Act 1966 and the Airport Authorities (Airport Companies Information Disclosure) Regulations 1999, which includes the requirement to comply with NZ GAAP.

The Company qualifies for Differential Reporting exemptions as it does not have public accountability and is not large. All available reporting exemptions allowed under the Framework for Differential Reporting have been adopted with the exception of NZ IAS-12 'Income Taxes' with which the Company has fully complied.

These financial statements comply with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) and other applicable Financial Reporting Standards, as appropriate for profit-oriented entities that qualify for and apply differential reporting concessions, except in so far as the Regulations require reporting solely on the activities of the Company comprising Identified Airport Activities and segment reporting of those Identified Airport Activities under SSAP 23 Financial Reporting for Segments.

Basis of Preparation

The preparation of financial statements in conformity with NZ IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and in future periods if the revision affects both current and future periods.

The financial statements have been prepared on the basis of historical cost, except for the revaluation of derivative financial instruments and certain items of property, plant and equipment. Cost is based on the fair values of the consideration given in exchange for assets.

Accounting policies are selected and applied in a manner which ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events is reported.

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

The following accounting policies which materially affect the measurement of results and financial position have been applied:

Revenue Recognition

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

(i) Rendering of services

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

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

(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.

Leasing

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 statement of comprehensive income 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 are recognised as revenue in the period in which they are earned.

Taxation

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

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

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

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

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

Current and deferred tax is recognised as an expense or income 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.

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.

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

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.

The Company holds derivative contracts that do not qualify for hedge accounting.

Loans and Receivables

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

Impairment of Financial Assets

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

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

With the exception of available-for-sale equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through the profit or loss for the 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 profit or loss over the period of the borrowing using the effective interest method.

(iii) Derivative Financial Instruments

The Company enters into a variety of derivative financial instruments to manage its exposure to interest rate risk, including interest rate swaps. Further details of the derivative financial instruments are disclosed in note 7.

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

(iv) Hedge Accounting

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

At the inception of the hedging relationship the entity documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Company documents whether the hedging instrument that is used in a hedged relationship is highly effective in offsetting changes in fair values or cash flows hedged item.

Note 7 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 profit or loss.

Amounts recognised in the hedging reserve are reclassified from equity to profit or loss (as a reclassification adjustment) in the periods when the hedging item is recognised in 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 asset or 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 profit or loss.

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 |
| Runway & Aprons | Optimised Depreciated Replacement Cost |
| Terminal and Rescue Fire Buildings | Optimised Depreciated Replacement Cost |
| Ground leases and Commercial buildings | Market Value |
| Roading and Car Parking | Market Value |

Depreciation

Depreciation is provided on a diminishing value (DV) basis for all assets except runways so as to write-off the carrying value cost of each asset to its estimated residual value over its estimated useful life. The runway is 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 |
|----------------------------|-------------|--------|
| Operational Assets | | |
| Buildings | 2.5-33% | DV |
| Runways, Taxiways & Aprons | 1.0 -20.0% | SL |
| Plant & Equipment | 4.8 – 33.0% | 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.

Intangible Assets

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

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.

Employee Benefits

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

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

Segment reporting

For the purposes of reporting in accordance with SSAP 23: Financial Reporting for Segments, under the Regulations an industry segment is a distinguishable component of the entity that is engaged in providing products or services that are subject to risks and returns that are different to those of other segments. A geographical segment is a distinguishable component of the entity that is engaged in providing products or services within a particular country or groups of countries and is subject to risks and returns that are different than those of segments operating in other country or groups of countries. The company does report identified activities as required under Airport Authorities Act but these do not meet the industry segment test.

Significant Accounting Judgements, Estimates 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 a significant effect on amounts recognised and estimates and assumptions that have a significant risk of causing a material adjustment to the carrying values of assets and liabilities within the next financial year are as follows:

Carrying value of property, plant and equipment

The company records land, land improvements, buildings, runways and roading and carparking at fair value. Land, land improvements, buildings, runways and roading and carparking acquired or constructed after the date of the last revaluation are carried at cost, which approximates fair value. Revaluations are carried out, by independent valuers, with sufficient regularity to ensure that the carrying amount does not differ materially from the fair value at balance date. Accounting judgement is required to determine whether the fair value of land, land improvements, buildings, runways and roading and carparking has changed materially from the last revaluation. The determination of fair value at the time of the revaluation requires estimates and assumptions based on market conditions at that time.

Changes to estimates, assumptions or market conditions subsequent to the revaluation will result in changes to the fair value of property, plant and equipment. The carrying value of property, plant and equipment and the valuation methodologies used at the last revaluation are disclosed in note 8, and above respectively.

Allocation Methodologies

The disclosure financial statements are for the Company's Identified Airport Activities. In order to report the financial results of the Identified Airport Activities, the company performs allocations on shared expenditure, assets, debt and equity movements. The allocation rules used require the use of judgement and assumptions to determine the values recorded in the disclosure financial statements. Changes to assumptions will result in changes to the disclosure financial statements. The allocation methodologies used in the disclosure financial statements are summarised in note 21 of the additional information required by the disclosure regulations.

Standards and Interpretations effective in the current period

The New Zealand Financial Reporting Framework is changing and the differential reporting framework is being withdrawn from periods beginning on or after 1 April 2015. The Company is expected to be able to make use of the NZ IFRS Reduced Disclosure Regime under the new financial reporting framework. The company has not early adopted any of the reporting standards required under this regime. The impacts of this are currently being considered by the Company, but are expected to require changes to both recognition and disclosure requirements.

3. Surplus from Operations

| (a) Revenue | 2014 \$ 000's | 2013 \$ 000's |
|---|--------------------------------|--------------------------------|
| Revenue consisted of the following items: | | |
| Revenue from rendering of services: | | |
| Passenger / Landing Charges | 14,159 | 11,931 |
| Licenses & Aircraft Parking | 546 | 1,287 |
| Total revenue from rendering of services | \$14,705 | \$13,218 |
| Other gains/(losses): | | |
| Net change in fair value of derivative financial instruments classified at fair value through profit or loss (forward exchange contracts and options) | - | (7) |
| Total Other | \$- | \$(7) |
| (b) Employee Benefits Expense | | |
| Salaries and wages | 1,416 | 1,243 |
| Directors fees | 150 | 127 |
| | \$1,566 | \$1,370 |
| (c) Depreciation | | |
| Buildings | 942 | 917 |
| Runways, Taxiways & Aprons | 1,141 | 1,156 |
| Plant & Equipment | 1,249 | 1,217 |
| Total Depreciation | \$3,332 | \$3,290 |
| (d) Finance Costs | \$2,565 | \$1,880 |
| Interest on borrowings | | |

| | 2014 \$ 000's | 2013 \$ 000's |
|---|------------------|------------------|
| 4. INCOME TAXES | | |
| (a) Tax expense/(Income) comprises: | | |
| Current tax expense/(credit): | | |
| Current year | 1,252 | 1,155 |
| Adjustments for prior years | 137 | 319 |
| | <u>1,389</u> | <u>1,474</u> |
| Deferred tax expense/(credit) | | |
| Origination and reversal of temporary differences | 653 | (218) |
| Adjustment for prior year | (14) | (336) |
| | <u>639</u> | <u>(553)</u> |
| Total deferred tax (credit) /expense | | |
| | <u>639</u> | <u>(553)</u> |
| Total tax expense | <u>\$2,027</u> | <u>\$921</u> |

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 | <u>3,003</u> | <u>2,999</u> |
| Income tax expense calculated at 28% | 841 | 840 |
| Permanent Differences | 33 | - |
| Reversal of temporary difference | 1,031 | - |
| Adjustment for prior years | 122 | (16) |
| Other | | 97 |
| | <u>2,027</u> | <u>921</u> |
| Income tax expense | <u>\$2,027</u> | <u>\$921</u> |

(b) Income Tax Recognised Directly In Other Comprehensive Income

Deferred tax of \$194,430 (2013: \$219,909) has been charged directly to other comprehensive income during the period, relating to the fair value movement of derivative financial instruments. Deferred tax of \$1,397,576 has been charged directly to other comprehensive income relating to the fair value movement of fixed assets (2013: Nil).

(c) Deferred Tax Balances Comprise

Taxable and deductible temporary differences arising from the following:

| 2014 | Opening balance | Charged to profit for the year | Charged to other comprehensive Income | Closing balance |
|---|--------------------|--------------------------------------|--|--------------------|
| | \$ 000's | \$ 000's | \$ 000's | \$ 000's |
| Gross deferred tax assets/(liability): | | | | |
| Property, plant and equipment | (4,269) | (72) | (1,398) | (5,738) |
| Intangible assets | (137) | (530) | - | (667) |
| Employee benefits | 36 | (8) | - | 28 |
| Derivatives | 338 | - | (194) | 143 |
| Trade and other payables | 29 | (29) | - | - |
| | <u>\$(4,004)</u> | <u>\$(639)</u> | <u>\$(1,592)</u> | <u>\$(6,234)</u> |

NOTES TO THE DISCLOSURE FINANCIAL STATEMENTS
For the financial year ended 30 June 2014

| 2013 | Opening balance | Charged to profit for the year | Charged to other comprehensive Income | Closing balance |
|---|----------------------------|---|--|----------------------------|
| | \$ 000's | \$ 000's | \$ 000's | \$ 000's |
| Gross deferred tax assets/(liability): | | | | |
| Property, plant and equipment | (5,298) | 730 | 299 | (4,269) |
| Intangible assets | (350) | - | 213 | (137) |
| Employee benefits | 9 | - | 27 | 36 |
| Derivatives | 558 | - | - | 558 |
| Trade and other payables | 14 | - | 15 | 29 |
| | \$(5,067) | \$730 | \$553 | \$(3,783) |

(d) Imputation Credit Account Balances (Whole Company)

| | 2014 \$ 000's | 2013 \$ 000's |
|--|--------------------------|--------------------------|
| Balance at beginning of year | 7,006 | 5,491 |
| Income tax paid | 3,079 | 2,852 |
| Tax credits relating to dividend payment | (1,416) | (1,337) |
| Adjustment to prior year | (492) | - |
| Balance at end of year | \$8,177 | \$7,006 |
| 5. Operating Expenses | \$4,186 | \$3,634 |

Operating expenses include the following:

| | | |
|--|----|----|
| Audit fees - disclosure financial statements | 38 | 35 |
| Audit fees - financial statement audit | 43 | 43 |
| Other assurance fees paid to auditors | - | - |
| Bad debts written off | - | - |

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

| | 2014 \$ 000's | 2013 \$ 000's |
|--|--------------------------|--------------------------|
| 6. Trade & Other Receivables | | |
| Trade and other receivables | 1,330 | 1,321 |
| Allowance for doubtful debts | - | - |
| Total Trade & Other Receivables | \$1,330 | \$1,321 |

7. Derivatives

| | 2014 \$ 000's | 2013 \$ 000's |
|--|------------------|------------------|
| Derivative financial assets/(liabilities); | | |
| Interest rate swap (I) (effective) | (512) | (1,206) |
| Interest rate option (II) (not designated) | - | - |
| | <u>\$(512)</u> | <u>\$(1,206)</u> |

Interest bearing loans of the Company currently bear an average variable interest rate of 4.4%. In order to protect against rising interest rates the Company has entered into interest rate swap and option contracts under which it has a right to receive interest at variable rates and to pay interest at fixed rates.

- i. Interest rate swaps in place cover approximately 91% of the principal outstanding. The fixed interest rates range between 4.735% and 5.695% (2013: 4.735% and 6.075%). 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. The Company holds an interest rate option for \$10,000,000 which is effective from 1 January 2013 at a rate of 7%. The interest rate option is not part of a designated hedge relationship and therefore movements are recognised in the profit or loss.

8. Property, Plant and Equipment

| | Cost/ Valuation \$000 | 2014 Accumulated Depreciation \$000 | Net Book Value \$000 |
|----------------------------|-----------------------------|--|----------------------------|
| Land | 42,657 | - | 42,657 |
| Buildings | 28,994 | (3,846) | 25,148 |
| Runways, Taxiways & Aprons | 31,731 | (3,901) | 27,830 |
| Plant & Equipment | 17,471 | (5,770) | 11,701 |
| | <u>\$120,853</u> | <u>\$(13,517)</u> | <u>\$107,336</u> |

| | Cost/ Valuation \$000 | 2013 Accumulated Depreciation \$000 | Net Book Value \$000 |
|----------------------------|-----------------------------|--|----------------------------|
| Land | 27,780 | - | 27,780 |
| Buildings | 25,148 | (2,907) | 22,241 |
| Runways, Taxiways & Aprons | 31,246 | (2,761) | 28,485 |
| Plant & Equipment | 11,627 | (3,968) | 7,659 |
| | <u>\$95,801</u> | <u>\$(9,636)</u> | <u>\$86,165</u> |

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

The company's assets are secured by way of a debenture charge and a general security agreement.

Land, buildings, roading and car parking were independently valued by Seagar & Partners, registered valuers, as at 30 June 2014. The runways, taxiways and aprons were independently valued by Beca Valuations Limited (Beca), registered valuers, as at the same date.

9. Intangible Assets

| | 2014 \$ 000's | 2013 \$ 000's |
|---------------------------------------|--------------------------------|--------------------------------|
| Cost | | |
| Opening balance | 2,500 | 2,247 |
| Additions from internal developments | 56 | 253 |
| Total cost closing balance | 2,556 | 2,500 |
| Accumulated amortisation | | |
| Opening balance | 78 | 41 |
| Amortisation expense | 53 | 37 |
| Total accumulated amortisation | 131 | 78 |
| Carrying Value | \$2,425 | \$2,422 |

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

10. Trade & Other Payables

| | | |
|---------------------------------------|----------------|----------------|
| Trade payables | 862 | 660 |
| Other creditors and accruals | 795 | 994 |
| Total trade and other payables | \$1,656 | \$1,654 |

11. Employee Entitlements

| | | |
|------------------------------------|--------------|--------------|
| Accrued salary and wages | 120 | 57 |
| Annual leave | 90 | 59 |
| Total employee entitlements | \$210 | \$116 |

12. Borrowings

| | | |
|---|-----------------|-----------------|
| Westpac Bank borrowings (secured) | 16,500 | 20,613 |
| Internal debt from Commercial Activities | 19,365 | 10,010 |
| Disclosed in the financial statements as: | | |
| Current | - | - |
| Non-current | 35,865 | 30,623 |
| Total current and non-current borrowings | \$35,865 | \$30,623 |

| | Statutory Financials 2014 \$000 | Disclosure Financials 2014 \$000 |
|---------------------------------|--|---|
| Finance costs (II) | 1,352 | 2,565 |
| Borrowings (I) (secured) (III): | | |
| Current | - | - |
| Non-current | 16,500 | 35,865 |
| | <u>\$16,500</u> | <u>\$35,865</u> |

- (I) On 8th July 2010 the Company, as a whole, issued 4,013,485, fully paid up shares, to Auckland Airport Holdings (No 2) Limited for a total value of \$27,245,183. These funds were applied in full to reduce the company's debt. For the purposes of the disclosure financial statements the share capital issued has been allocated on the basis of the percentage of assets that relate to the specified airport activities. The effect of this allocation is that \$14,558,279 (or 53% of the total) of the share capital issued has been recognised within the disclosure financial statements. This allocation reduces the cash available to repay debt on specified activities compared to the statutory financial statements. Further, under the methodology applied in preparing these disclosure financial statements debt becomes the balancing figure in the disclosure financials and is therefore impacted by the profitability and capital expenditure of each specified activity.
- (ii) As noted in (I) above, Auckland Airport Holdings (No.2) Limited has been issued shares in the whole company, a proportion of which has been included within these disclosure financial statements. The result of this allocation is that specified airport activities reflected in these financial statements have a higher allocation of debt than the position for the whole company, with internal debt of \$19,365,000 (2013: \$10,010,097) from the commercial activities. This impacts the finance costs reflected in these disclosure financial statements. The finance costs recognised within the disclosure financial statements, have been calculated using an average interest rate of 7.2% applied to the allocated debt.
- (iii) The Westpac loan is secured by a general security agreement over the Company's assets, undertakings and uncalled capital. The weighted average interest rate on the term loan at balance date was 4.4% (2013: 3.8%).
- (iv) The Company has a secured facility with Westpac of \$30 million. On 31 March 2015 the facility increases to \$40 million. The facility expires on 30 June 2018. There were no default breaches on the Company's banking facility during the year.

| 13. Share Capital | 2014 No. 000's | 2013 No. 000's | 2014 \$ 000's | 2013 \$ 000's |
|--------------------------------|----------------------|----------------------|------------------|------------------|
| (a) Fully Paid Ordinary Shares | | | | |
| Balance at beginning of year | 7,142 | 7,142 | 18,892 | 18,892 |
| Balance at end of year | <u>7,142</u> | <u>7,142</u> | <u>\$18,892</u> | <u>\$18,892</u> |

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

| | 2014 | 2013 |
|------------------------------------|-----------------|-----------------|
| | \$ 000's | \$ 000's |
| (b) Dividends Paid | | |
| Final Dividend – 16.44c per share | 1,326 | 1,297 |
| Interim Dividend – 6.23c per share | 500 | 502 |
| Total Dividend Paid | \$1,826 | \$1,799 |

On 31st January 2014 an interim dividend of 6.23 cents per share (total dividend of \$500,000) was paid to holders of fully paid ordinary shares.

On 23rd August 2013 a final dividend of 16.44 cents per share (total dividend of \$1,325,922) was paid to holders of fully paid ordinary shares.

14. Reserves

Asset revaluation reserve

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.

Cash flow hedge reserve

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 profit and loss 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.

15. Commitments for Expenditure (For Whole Company)

| | 2014 | 2013 |
|--|-----------------|-----------------|
| | \$ 000's | \$ 000's |
| (a) Capital Expenditure Commitments | | |
| Committed for acquisition of property, plant and equipment | \$1,340 | \$725 |
| (b) Company as Lessee; Operating Lease Commitments | | |
| Non-cancellable operating lease payments | | |
| Not longer than 1 year | 17 | 16 |
| Longer than 1 year and not longer than 5 years | 29 | 46 |
| Total company operating lease commitments | \$46 | \$62 |
| (c) Company as Lessor; Operating Lease Rental | | |
| Less than 12 months | 4,615 | 3,867 |
| 1-5 years | 13,876 | 12,007 |
| 5 years + | 4,857 | 5,986 |
| Total company as lessor, operating lease rental | \$23,348 | \$21,860 |

16. Related Party Disclosures (For Whole Company)

(a) Parent Entity

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

(b) Transactions with Related Parties

Related parties of the Company are:

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

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

| | 2014 \$ 000's | 2013 \$ 000's |
|---|------------------|------------------|
| <u>Queenstown Lakes District Council</u> | | |
| Rates | (291) | (259) |
| Resource Consent Costs & Collection fees | (47) | (234) |
| Parking Infringement Recovery | 30 | 15 |
| Wanaka Airport Management Fee | 70 | 70 |
| | | |
| <u>Lakes Leisure netball courts and six holes of the Frankton golf course are located on land to the north west of the runway. Negotiations between QLDC and Queenstown Airport Corporation Limited for the lease of the land are continuing. Revenue from this arrangement amounted to \$25,000 (2013 \$25,000).</u> | | |
| | | |
| <u>Queenstown Airport Corporation Limited held a bond with Westpac for \$150,000 in favour of QLDC relating to resource consent to extract gravel and carry out remediation work on land (RM090321). The work is no longer required and the bond has now been released.</u> | | |
| | | |
| <u>Auckland International Airport Limited</u> | | |
| Rescue Fire Training | (8) | - |
| | | |
| <u>Queenstown Airport Corporation Limited receives services from Auckland International Airport Limited for which no consideration is paid.</u> | | |
| | | |
| <u>Hadley Consultants Limited</u> | | |
| Consultant Engineering Services | (5) | (13) |
| | | |
| <u>Civil Aviation of New Zealand</u> | | |
| CAA Certification Audit Fees | (8) | (3) |
| | | |
| <u>Pioneer Generation Limited</u> | | |
| Power | (265) | - |

Murray Valentine was a director of Queenstown Airport Corporation Limited until his retirement on 12 November 2012. For the year ended 30 June 2013, he was also a director of Trojan Holdings Limited and Alpine Deer Group Limited. The related party disclosures reported last year are as follows:

| | | |
|------------------------------------|---|------|
| <u>Trojan Holdings Limited</u> | | |
| Rubbish removal services | - | (52) |
| Rent & Recovered Expenses Received | - | 38 |
| | | |
| <u>Alpine Deer Group Limited</u> | | |
| Landing Revenue | - | 2 |

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

| | | |
|--|----|----|
| <u>Queenstown Lakes District Council</u> | | |
| Infringement Parking Fees | 4 | - |
| Wanaka Airport Management Fee | - | 18 |
| Lakes Leisure Golf Course | 25 | - |

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

| | | |
|--|---|---|
| Auckland International Airport Limited | 6 | - |
| Queenstown Lakes District Council | 2 | - |
| CAA | 1 | 1 |

17. 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) Categories of Financial Instruments

| | 2014 \$ 000's | 2013 \$ 000's |
|------------------------------|------------------|------------------|
| Financial Assets | | |
| Cash and cash equivalents | 305 | 77 |
| Trade and other receivables | 1,330 | 1,321 |
| | | |
| Financial Liabilities | | |
| Trade and other payables | 1,656 | 1,654 |
| Borrowings | 35,865 | 30,623 |
| Derivatives | 512 | 1,206 |
| Current tax payable | 1,170 | 390 |

All financial assets and liabilities are recognised at amortised cost except derivatives which are recognised at fair value.

18. Subsequent Events (Whole Company)

The directors resolved on 19 August 2014 that the dividend for the year ended 30 June 2014 be \$4,316,766. There were no other significant events after balance date.

19. Contingent Liabilities & Contingent Assets

(a) Property

The Company is currently involved in legal proceedings associated with the acquisition of land adjacent to the airport, referred to as 'Lot 6', to allow for a new aeronautical precinct and to free up land for terminal expansion. To date, costs of approximately \$2.6 million has been capitalised by the Company. However, if the decision is unfavourable for the Company, then all costs will need to be expensed.

Under an agreement with a neighbouring developer, the Company and the developer have agreed to pay for the construction of a proposed Eastern Access Road, if either the Company or the developer trigger the development. The portion of construction cost that would be payable by the Company is for any construction on the airport land holdings.

(b) Noise Mitigation

The Company has announced plans to assist homeowners closest to the airport to mitigate the effects of aircraft noise within defined airport noise zones. During the next 12 months, the Company plans to make offers of acoustic treatment to approximately 170 homeowners. Noise levels are monitored regularly and as the noise zones expand, further offers will be made. As it is not possible to accurately predict 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 predict the overall cost or timing of mitigation work. The Company estimates approximately 380 properties will be offered noise mitigation by 2037 with a potential mitigation cost of up to \$7 million.

If a homeowner accepts the offer, the Company records a provision for the estimated cost of delivering the mitigation package. As at 30 June 2014, no offers had been made and no provision has been recognised in the financial statements for noise mitigation.

(c) Tax Dispute

The Company is involved in a dispute with the Inland Revenue Department with regard to the deductibility of depreciation for the construction of Runway End Safety Area East. The Company has received independent advice that this will be resolved in the Company's favour. Should this not be resolved in the Company's favour the Company would recognise a deferred tax liability of approximately \$2.7 million.

20. Segment Information

The company is located in one geographic segment in Queenstown, New Zealand, and operates in the airport industry. The company earns revenue from aeronautical activities and other charges and rents associated with operating an airport.

Management have assessed the activities of Queenstown Airport Corporation Limited and allocated them to segments as required by the Airport Authorities (Airport Companies Information Disclosure) Regulations 1999. Management have determined that no material Aircraft and Freight Activities are undertaken by Queenstown Airport Corporation Limited.

The Company is required to present segmented information for two specified airport activities. These activities are defined in the Airport Authorities Act 1966 and subsequent amendments.

NOTES TO THE DISCLOSURE FINANCIAL STATEMENTS
For the financial year ended 30 June 2014

30 June 2014

| | Specified Terminal \$000 | Airfield \$000 | Total \$000 |
|--|---|---------------------------|------------------------|
| External Revenue | | | |
| Airport Charges | 6,723 | 7,436 | 14,159 |
| International Departure Fees | - | - | - |
| Licences & Aircraft Parking | 225 | 321 | 546 |
| Other Gains/(Losses) | - | - | - |
| | <u>6,948</u> | <u>7,757</u> | <u>14,705</u> |
| Total revenue | | | |
| | <u>6,948</u> | <u>7,757</u> | <u>14,705</u> |
| Expenses | | | |
| Operating Expenses | 2,508 | 1,316 | 3,824 |
| Administration | 4 | 133 | 137 |
| Repairs & Maintenance exc Runway | 225 | - | 225 |
| Employee Benefits Expense | 363 | 1,054 | 1,417 |
| Depreciation Expense | 1,541 | 1,791 | 3,332 |
| Amortisation | 16 | 37 | 53 |
| Finance Costs | 718 | 1,847 | 2,565 |
| Runway Maintenance | - | 151 | 151 |
| | <u>5,375</u> | <u>6,329</u> | <u>11,704</u> |
| Total expenses | | | |
| | <u>5,375</u> | <u>6,329</u> | <u>11,704</u> |
| Segment operating surplus (deficit) before income tax | <u>1,573</u> | <u>1,428</u> | |
| Income tax | | | <u>2,027</u> |
| Net operating surplus (deficit) after income tax | | | <u>976</u> |
| Segment assets | <u>31,201</u> | <u>80,230</u> | <u>111,431</u> |
| Average number of full-time staff equivalents | 6 | 9 | 15 |

There are no significant inter-segment transactions.

Segment Information cont.

30 June 2013

| | Specified Terminal | Airfield | Total |
|--|-----------------------|---------------|---------------|
| | \$000 | \$000 | \$000 |
| External Revenue | | | |
| Airport Charges | 5,023 | 6,908 | 11,931 |
| International Departure Fees | - | - | - |
| Licences & Aircraft Parking | 1,015 | 272 | 1,287 |
| Other Gains/(Losses) | (7) | - | (7) |
| Total revenue | <u>6,031</u> | <u>7,179</u> | <u>13,210</u> |
| Expenses | | | |
| Operating Expenses | 2,187 | 897 | 3,084 |
| Administration | 75 | 85 | 160 |
| Repairs & Maintenance exc Runway | 197 | 175 | 372 |
| Employee Benefits Expense | 744 | 626 | 1,370 |
| Depreciation Expense | 1,516 | 1,774 | 3,290 |
| Amortisation | 13 | 24 | 37 |
| Finance Costs | 508 | 1,372 | 1,880 |
| Runway Maintenance | - | 18 | 18 |
| Total expenses | <u>5,240</u> | <u>4,972</u> | <u>10,212</u> |
| Segment operating surplus (deficit) before income tax | <u>791</u> | <u>2,207</u> | <u>3,000</u> |
| Income tax | - | - | 921 |
| Net operating surplus (deficit) after income tax | - | - | <u>2,079</u> |
| Segment assets | <u>25,986</u> | <u>64,027</u> | <u>90,013</u> |
| Average number of full-time staff equivalents | 9 | 6 | 15 |

There are no significant inter-segment transactions.

21. Allocation Methodology used in the preparation of these statements

Revenue Categories

Revenue falls into one of the following categories:

- Airport charges, this relates to the revenue that is directly attributable to aircraft landings and the associated passenger charge. This revenue is readily allocated between Specified Terminal and Airfield based on the makeup of the charge.
- International Departure Fee is the revenue that is generated from departing international passengers and relates wholly to the Specified Terminal segment.
- Licenses and Aircraft Parking, this is the revenue from aircraft parking and the revenue from licenses relating to aviation services.
- Other Gains/(Losses), this is the gain/loss on Interest rate hedges and allocated on the basis of debt.

Expenditure Categories and Allocation

Expenditure falls into one of the following categories:

- Direct operational costs are incurred solely by Identified Airport Activities, or another business unit of the airport, and have been allocated directly to the area affected.
- Indirect operational costs are either incurred by a number of Identified Airport Activities, or in conjunction with other business units. The company primarily allocates indirect costs on a share of space attributable to each activity in the terminal building, consistent with the most recent consultation. Each year an analysis is made of space in the international terminal building attributed to Identified Airport Activities versus non-Identified Airport Activities.
- Non-operational costs have been allocated to the Identified Airport Activities on the following basis:
 - Depreciation allocated across segments consistent with the methodology used for assets (see below).
 - Interest expense is allocated to segments consistent with the methodology used for debt (see below).
 - Taxation is allocated based on a consistent allocation methodology applied to the relevant assessable expenses, for asset allocation (see below) and expenses (see above).

Expense items are generally analysed at the business unit level, however further analysis is conducted where significant costs within a business unit are known to have a different driver.

Allocation of Assets

The company maintains a detailed property, plant and equipment register. Each asset has been either coded directly to an Identified Airport Activity, a non-Identified Airport Activity or allocated using a specific rule. Where assets are allocated to a number of segments, they have been apportioned between the affected activities using an activity based cost methodology or the nearest proxy to it. Material asset classes and apportionment approaches are:

- Terminal property, plant and equipment, including land and buildings, have been generally apportioned on the basis of an area analysis of terminal usage.
- Land held for future airport development has been allocated between the various activities based on its intended future use.
- Roads have been allocated using an estimation of their primary purpose and usage, excluding through traffic.
- Stormwater assets have been allocated on the basis of the sealed areas. Wastewater assets have been allocated on the basis of their estimated usage across the business.

Allocation of Debt

Debt is allocated between segments on the assumption that it represents the net position of the segments after all other cash flows. It represents intra-segmental borrowing.

Allocation of Equity

The equity position of each segment is calculated with reference to the following:

- The opening level of equity.
- Adjustment for movements due to net profit less dividends in the segment.
- Adjustments for any capital issued or repaid.

22. Weighted average cost of capital

The Company has estimated the prospective weighted average cost of capital (WACC) for its identified airport activities as at 1 July 2013, being the commencement of the current disclosure period. The Company has applied a post-tax WACC model. The post investor tax version of the capital asset pricing model (CAPM) has been used to estimate the appropriate cost of equity capital. The debt premium has been based on the estimated margin over the swap rate that the company would pay for longer-term debt. The swap rate, and therefore the cost of debt, reflects the market conditions as at 1 July 2013.

The following table summarises the key parameters used in the company WACC model.

| | 2014 | 2013 |
|-----------------------------------|-----------|-----------|
| | Parameter | Parameter |
| Risk free rate | 3.43% | 4.5% |
| 5 year swap rate | 3.95% | 3.2% |
| Market risk premium | 7.5% | 7.5% |
| Company tax rate | 28.0% | 28.0% |
| Debt / (Debt + Equity) | 25% | 25% |
| Debt premium | 3.2% | 4.3% |
| Business risk factor (asset beta) | 0.65 | 0.65 |
| Calculated WACC | 8.03% | 8.66% |

Based on these parameters the company estimates that, as at 1 July 2013, the appropriate prospective WACC for its identified airport activities was 8.03% on a nominal after-tax basis.

The Company revises its WACC periodically to coincide with its aeronautical consultation processes or as required prior to a major aeronautical investment. The calculation of WACC for a particular portion of a company is subject to variables that require expert assessment and judgement.

The Company uses a generally-accepted approach to the calculation of the WACC. This represents the weighted average costs of equity (adopting the simplified version of the Brennan-Lally CAPM) plus the cost of debt, net of corporate tax deductions, as follows:

$$WACC = r_D \times (1 - T_C) \times (D/V) + r_E \times (E/V)$$

Where

r_D = The Company's pre-tax cost of debt.

T_C = The corporate tax rate.

D = The value of the Company's debt.

r_E = The Company's post-tax cost of equity.

E = The value of the Company's equity.

V=The Company's total enterprise value, i.e. (V = E + D).

23. Methodology used to determine airport charges

Airport charges in respect of airfield and terminal building use for Regular Air Transport Operations were reviewed on 1 July 2012.

The determination setting the charges on 1 July 2012 included the following key attributes:

- A long run marginal cost model (the Model) was developed in consultation with the Company's Substantial Customers in accordance with Section 4B of the Airport Authorities Act 1966.
- The Model derives breakeven Base Aeronautical Charges for turboprop, domestic jet and international jet operations based on the Company's WACC.
- Base Aeronautical Charges fund Identified Airport Activities existing on 1 July 2012 with the exception of the Baggage Make Up facility and those activities relating to General Aviation that are funded by their own charges.
- The Model is intended to persist for nine years from 1 July 2012.
- A review of charges derived by the Model will occur at end of years three and six to correct charges for differences between forecast and actual levels of passenger volumes and movements in various WACC parameters.
- Growth incentive rebates are available to airlines who contribute to better than forecast growth in classes of passenger volumes.
- Substantial capital expenditure that may occur during the period covered by the Model will be subject to Development Asset Charges derived by a mechanism consulted upon during the review.

Baggage Make Up charges were set to balance the funding of the recently expanded Baggage Make Up facility.

Landing Charges for General Aviation and Helicopters were set to balance funding for General Aviation and Helicopter facilities.

24. Schedule of Airport Charges

Regular Air Transport Operations

A flight forming part of a series of flights performed by aircraft for the transport of passengers, cargo, or mail between the Airport and one or more points in New Zealand or in any other country or territory, where the flights are so regular and frequent as to constitute a systematic service, whether or not in accordance with a published timetable, and which are operated in such a manner that each flight is open to use by members of the public.

Maximum Certified Take-off Weight (MCTOW)

For an aircraft the lower of its maximum certified take-off weight as specified by the manufacturer (or as approved by the Civil Aviation Authority) and the maximum authorised operating weight as specified by the company.

Landing Charge – General Aviation

A landing charge is payable in respect of each arriving fixed wing aircraft that is not on a Regular Air Transport Operation, based on the MCTOW of the aircraft as set out in the table below

| Aircraft MCTOW (kg) | Charge (excl GST) |
|---------------------|-------------------|
| 0 to 1,500 | \$21.25 |
| 1,501 – 2,000 | \$32.00 |
| 2,001 – 4,000 | \$69.25 |
| 4,001 – 5,700 | \$111.75 |
| 5,701 – 8,000 | \$191.50 |
| 8,001 – 10,000 | \$244.75 |
| 10,001 – 15,000 | \$372.50 |
| 15,001 – 20,000 | \$521.50 |

| | |
|--------------------|------------|
| 20,001 – 25,000 | \$681.25 |
| 25,001 – 40,000 | \$904.75 |
| 40,001 – 45,000 | \$1,011.25 |
| 45,001 and greater | \$2,022.25 |

Landing Charge – Helicopters

For each rotary wing aircraft arriving on any part of Queenstown Airport, including leased and licensed premises, a charge per landing is payable based on the helicopter's MCTOW as set out in the table below.

| Helicopter MCTOW (kg) | Charge (excl GST) |
|-----------------------|-------------------|
| 0 to 1,100 | \$21.25 |
| 1,101 – 1,500 | \$32.00 |
| 1,501 – 2,000 | \$42.50 |
| 2,001 – 4,000 | \$69.25 |
| 4,001 – 5,700 | \$111.75 |
| 5,701 – 8,000 | \$191.50 |
| 8,001 – 10,000 | \$244.75 |
| 10,001 – 15,000 | \$372.50 |
| 15,001 – 20,000 | \$521.50 |
| 20,001 – 25,000 | \$681.25 |
| 25,001 and greater | \$904.75 |

Aircraft Parking Charge

For each aircraft parked in a designated aircraft parking area for a period in excess of three hours (aircraft with MCTOW greater than 5,700kg) or twenty four hours (aircraft with MCTOW at or below 5,700kg), an aircraft parking charge based on the aircraft MCTOW is payable per calendar day or part thereof as set out in the table below.

| Aircraft MCTOW (kg) | Charge (excl GST) |
|---------------------|-------------------|
| 0 to 1,500 | \$20 |
| 1,501 – 2,000 | \$30 |
| 2,001 – 4,000 | \$55 |
| 4,001 – 5,700 | \$90 |
| 5,701 – 10,000 | \$250 |
| 10,001 – 20,000 | \$500 |
| 20,001 – 30,000 | \$1,000 |
| 30,001 and greater | \$1,500 |

No aircraft parking charge is payable for an aircraft that arrives after 1500 (NZ) and departs before 1000 (NZ) the following day.

For the purposes of aircraft parking charges, "designated aircraft parking area" means an aircraft parking area owned or leased by the Company other than an aircraft parking area which is subject to a lease or license granted by the Company.

Passenger Charges Regular Air Transport Operations

Passenger Charge – International Jet Services

A charge of \$17.86 (excluding GST) per embarking and disembarking passenger (excluding transit passengers, transfer passengers, infants and positioning crew) on fixed wing aircraft operating an international service.

Passenger Charge – Domestic Jet Services

A charge of \$7.52 (excluding GST) per embarking and disembarking Passenger (excluding infants and positioning crew) on fixed wing aircraft operating a domestic service.

Passenger Charge – Domestic Turboprop Services

A charge of \$6.97 (excluding GST) per embarking and disembarking Passenger (excluding infants and positioning crew) on fixed wing aircraft operating a domestic service.

25. Baggage Make Up Charges

A charge of \$0.725 per departing passenger in 2014 is payable for use of Queenstown Airport's Baggage Make Up facility.

A charge of \$0.734 per departing passenger in 2013 was payable for use of Queenstown Airport's Baggage Make Up facility.

Baggage Make Up facility users also contribute to Specific Operating Expenses. The allocation of specific operating expenses between users is on the basis of a simple percentage calculated as:

$$\text{Percentage Cost Allocation for User A} = \frac{X}{Y}$$

Where:

$$X = \frac{\text{Total of User A's departing passenger numbers over the preceding 12 months.}}{\text{The number of months User A has operated at Queenstown Airport over the preceding 12 months.}}$$

$$Y = \text{the sum of the Xs for all users of the Baggage Make Up facility.}$$

As the Company's charges are determined on an aircraft arrival basis, the aircraft movements as required by the Airport Authorities Amendment Act 1997 are based on aircraft arrivals.

26. Landing Statistics

Scheduled Domestic Services

| Aircraft MCTOW (kg) | Aircraft Type | Year to 30 June 2014 | Year to 30 June 2013 |
|---------------------|------------------|----------------------|----------------------|
| 0 to 20,000 | DH8C | - | - |
| 20,001 – 26,000 | ATR72 | 1,806 | 1,725 |
| 26,001 – 56,000 | | - | - |
| 56,001 – 71,000 | B737-300 | - | 911 |
| 71,001 and greater | A320 B737-800 | 2,575 | 2,064 |

Scheduled International Services

| Aircraft MCTOW (kg) | Aircraft Type | Year to 30 June 2014 | Year to 30 June 2013 |
|---------------------|------------------|----------------------|----------------------|
| 0 – 71,000 | | - | - |
| 71,001 and greater | A320 B737-800 | 721 495 | 599 358 |

Other Landings

| Aircraft MCTOW (kg) | | Year to 30 June 2014 | Year to 30 June 2013 |
|---------------------|--|-------------------------|-------------------------|
| All weights | | 15,442 | 14,408 |

Passengers

| Class of Passenger | Year to 30 June 2014 | Year to 30 June 2013 |
|--|-------------------------|-------------------------|
| Passengers arriving and departing on domestic flights | 940,477 | 957,204 |
| Passengers arriving and departing on international flights | 308,402 | 241,714 |

27. Interruptions to Services

Interruption to services as required by the Airport Authorities (Airport Companies Information Disclosure) Regulations 1999 is set out below.

Planned Disruptions

| Service | Number of Events | | Total Duration (nearest 15 mins) | |
|---------------------------|-------------------------|-------------------------|----------------------------------|-------------------------|
| | Year to 30 June 2014 | Year to 30 June 2013 | Year to 30 June 2014 | Year to 30 June 2013 |
| Runway Services | - | - | - | - |
| Stand Position Services | - | - | - | - |
| Airbridge Services | - | - | - | - |
| Baggage Handling Services | - | - | - | - |

Un-planned Disruptions

| Service | Number of Events | | Total Duration (nearest 15 mins) | |
|---------------------------|-------------------------|-------------------------|----------------------------------|-------------------------|
| | Year to 30 June 2014 | Year to 30 June 2013 | Year to 30 June 2014 | Year to 30 June 2013 |
| Runway Services | - | - | - | - |
| Stand Position Services | - | - | - | - |
| Airbridge Services | - | - | - | - |
| Baggage Handling Services | - | - | - | - |



INDEPENDENT AUDITOR'S REPORT

TO THE DIRECTORS OF QUEENSTOWN AIRPORT CORPORATION LIMITED

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, to provide an opinion, on her behalf, on the company's disclosure financial statements for its identified airport activities (disclosure financial statements) for the year ended 30 June 2014 on pages 3 to 32. The disclosure financial statements have been prepared under the Airport Authorities (Airport Companies Information Disclosure) Regulations 1999 (the Regulations) and are made up of both historical financial and non-financial information.

Opinion

We have obtained all the information and explanations we have required to provide a basis for our audit opinion.

In our opinion:

- the company has kept proper accounting records, in accordance with the requirements of the Companies Act 1993, as far as appears from our examination of those records; and
- the company's disclosure financial statements on pages 3 to 32:
 - comply with the guidelines issued under the Regulations; and
 - subject to the Regulations comply with generally accepted accounting practice in New Zealand; and
 - give a true and fair view of:
 - the financial position of the company's identified airport activities as at 30 June 2014;
 - the results of its operations for the year ended on that date; and
 - the matters disclosed in accordance with the Regulations.

Our audit was completed on 3 November 2014. This is the date at which our opinion is expressed.

The basis of our opinion is explained below. In addition, we outline the responsibilities of the Board of Directors and our responsibilities, and explain our independence.

Limitations and use of this independent auditor's report

This independent auditor's report has been prepared solely to discharge the Auditor-General's responsibilities under the Regulations for the year ended 30 June 2014. This independent auditor's report has been prepared solely for the Directors of the company. We disclaim any assumption of responsibility for any reliance on this report to any persons or users other than the Directors of the company, or for any purpose other than that for which it was prepared.

Because of the inherent limitations in evidence gathering procedures, it is possible that fraud, error or non-compliance might occur and not be detected. As the procedures performed for this engagement are not performed continuously throughout the year and the procedures performed in respect of the company's compliance with the Regulations are undertaken on a test basis, our engagement cannot be relied on to detect all instances where the company might not have complied with the Regulations. Our opinion has been formed on the above basis.

Basis of Opinion

Our work has been carried out in accordance with the Standard on Assurance Engagements 3100: *Compliance Engagements* and the International Standards on Auditing (New Zealand) issued by the External Reporting Board. Those standards require that we comply with ethical requirements and plan



and carry out our audit to obtain reasonable assurance about whether the disclosure financial statements are in compliance with the Regulations.

Material non-compliance with the Regulations relates to differences or omissions of amounts and disclosures that would affect an overall understanding of the disclosure financial statements. If we had found material non-compliance that was not corrected, we would have referred to the non-compliance in our opinion.

The company's financial statements have been subject to audit. The audit opinion on the financial statements of the company for the year ended 30 June 2014 was unmodified and was dated 19 August, 2014.

Our work in respect of amounts and disclosures in the disclosure financial statements that were audited under the financial statement audit has been limited to agreeing the amounts and disclosures to the underlying records and audited financial statements of the company.

Our work in respect of amounts and disclosures that were not audited under the financial statement audit has been planned and performed to obtain all the information and explanations we considered necessary in order to obtain reasonable assurance that the disclosure financial statements give a true and fair view in all material respects in accordance with the Regulations.

An audit also involves evaluating:

- the appropriateness of accounting policies used and whether they have been consistently applied; and
- the reasonableness of the significant accounting estimates and judgements made by the Board of Directors.

We did not examine every transaction, nor do we guarantee complete accuracy of the disclosure financial statements.

Responsibilities of the Board of Directors

The Board of Directors is responsible for preparing disclosure financial statements that:

- comply with the Regulations;
- comply with generally accepted accounting practice in New Zealand;
- give a true and fair view of the company's identified airport activities financial position and financial performance; and
- give a true and fair view of the matters disclosed in accordance with the Regulations.

The Board of Directors is also responsible for such internal control as it determines is necessary to enable the preparation of disclosure financial statements, including the matters disclosed in accordance with the Regulations, that are free from material misstatement, whether due to fraud or error.

Responsibilities of the Auditor

We are responsible for expressing an independent opinion on the disclosure financial statements and reporting that opinion to you based on our audit. Our responsibility arises from the Regulations and the Public Audit Act 2001.



Independence

When carrying out this engagement under the Regulations we followed the independence requirements of the Auditor-General, which incorporate the independence requirements of the External Reporting Board.

Other than this engagement carried out under the Regulations, the annual audit of the company's financial statements, taxation compliance services and assistance with annual report presentation we have no relationship with or interests in the company.

A handwritten signature in blue ink, appearing to read "B E Tomkins".

A handwritten version of the Deloitte logo in blue ink, with the word "Deloitte" written in a cursive style.

B E Tomkins
Deloitte
On behalf of the Auditor-General
DUNEDIN, New Zealand
3 November 2014

INDEPENDENT AUDITOR'S REPORT

TO THE DIRECTORS OF QUEENSTOWN AIRPORT CORPORATION LIMITED

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, to provide an opinion, on her behalf, on the company's disclosure financial statements for its identified airport activities (disclosure financial statements) for the year ended 30 June 2014 on pages 3 to 32. The disclosure financial statements have been prepared under the Airport Authorities (Airport Companies Information Disclosure) Regulations 1999 (the Regulations) and are made up of both historical financial and non-financial information.

Opinion

We have obtained all the information and explanations we have required to provide a basis for our audit opinion.

In our opinion:

- the company has kept proper accounting records, in accordance with the requirements of the Companies Act 1993, as far as appears from our examination of those records; and
- the company's disclosure financial statements on pages 3 to 32:
 - comply with the guidelines issued under the Regulations; and
 - subject to the Regulations comply with generally accepted accounting practice in New Zealand; and
 - give a true and fair view of:
 - the financial position of the company's identified airport activities as at 30 June 2014;
 - the results of its operations for the year ended on that date; and
 - the matters disclosed in accordance with the Regulations.

Our audit was completed on 3 November 2014. This is the date at which our opinion is expressed.

The basis of our opinion is explained below. In addition, we outline the responsibilities of the Board of Directors and our responsibilities, and explain our independence.

Limitations and use of this independent auditor's report

This independent auditor's report has been prepared solely to discharge the Auditor-General's responsibilities under the Regulations for the year ended 30 June 2014. This independent auditor's report has been prepared solely for the Directors of the company. We disclaim any assumption of responsibility for any reliance on this report to any persons or users other than the Directors of the company, or for any purpose other than that for which it was prepared.

Because of the inherent limitations in evidence gathering procedures, it is possible that fraud, error or non-compliance might occur and not be detected. As the procedures performed for this engagement are not performed continuously throughout the year and the procedures performed in respect of the company's compliance with the Regulations are undertaken on a test basis, our engagement cannot be relied on to detect all instances where the company might not have complied with the Regulations. Our opinion has been formed on the above basis.

Basis of Opinion

Our work has been carried out in accordance with the Standard on Assurance Engagements 3100: *Compliance Engagements* and the International Standards on Auditing (New Zealand) issued by the External Reporting Board. Those standards require that we comply with ethical requirements and plan

and carry out our audit to obtain reasonable assurance about whether the disclosure financial statements are in compliance with the Regulations.

Material non-compliance with the Regulations relates to differences or omissions of amounts and disclosures that would affect an overall understanding of the disclosure financial statements. If we had found material non-compliance that was not corrected, we would have referred to the non-compliance in our opinion.

The company's financial statements have been subject to audit. The audit opinion on the financial statements of the company for the year ended 30 June 2014 was unmodified and was dated 19 August, 2014.

Our work in respect of amounts and disclosures in the disclosure financial statements that were audited under the financial statement audit has been limited to agreeing the amounts and disclosures to the underlying records and audited financial statements of the company.

Our work in respect of amounts and disclosures that were not audited under the financial statement audit has been planned and performed to obtain all the information and explanations we considered necessary in order to obtain reasonable assurance that the disclosure financial statements give a true and fair view in all material respects in accordance with the Regulations.

An audit also involves evaluating:

- the appropriateness of accounting policies used and whether they have been consistently applied; and
- the reasonableness of the significant accounting estimates and judgements made by the Board of Directors.

We did not examine every transaction, nor do we guarantee complete accuracy of the disclosure financial statements.

Responsibilities of the Board of Directors

The Board of Directors is responsible for preparing disclosure financial statements that:

- comply with the Regulations;
- comply with generally accepted accounting practice in New Zealand;
- give a true and fair view of the company's identified airport activities financial position and financial performance; and
- give a true and fair view of the matters disclosed in accordance with the Regulations.

The Board of Directors is also responsible for such internal control as it determines is necessary to enable the preparation of disclosure financial statements, including the matters disclosed in accordance with the Regulations, that are free from material misstatement, whether due to fraud or error.

Responsibilities of the Auditor

We are responsible for expressing an independent opinion on the disclosure financial statements and reporting that opinion to you based on our audit. Our responsibility arises from the Regulations and the Public Audit Act 2001.

Independence

When carrying out this engagement under the Regulations we followed the independence requirements of the Auditor-General, which incorporate the independence requirements of the External Reporting Board.

Other than this engagement carried out under the Regulations, the annual audit of the company's financial statements, taxation compliance services and assistance with annual report presentation we have no relationship with or interests in the company.



B E Tomkins
Deloitte
On behalf of the Auditor-General
DUNEDIN, New Zealand
3 November 2014

