Queenstown Airport Corporation Limited

Annual Report for Financial Year Ended 30 June 2012

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Directory

BOARD OF DIRECTORS	John W Gilks (Chairman) (appointed 26 October 2011) Alison Gerry James WP Hadley Grant R Lilly (appointed 21 November 2011) Richard G Tweedie (appointed 21 November 2011) Murray G Valentine (Acting Chairman until 26 October 2011)
CHIEF EXECUTIVE OFFICER	Scott Paterson
ACCOUNTANTS	McCulloch & Partners Level 2 11-17 Church St Queenstown Ernst & Young Limited 20-22 Twigger Street Addington Christchurch
AUDITORS	Deloitte (on behalf of the Controller and Auditor General) Otago House 481 Moray Place Dunedin
BANKERS	Westpac Terrace Junction 1092 Frankton Road Queenstown BNZ Queenstown Branch 11 Rees Street Queenstown
SOLICITORS	Lane Neave Unit 2, 582 Wairakei Road Christchurch

Annual Report

Your Directors have pleasure in submitting the annual report of the Company together with the financial accounts of the Company for the year ended 30 June 2012.

1. Financial Statements

The financial statements for the Company for the year ended 30 June 2012 follow this report.

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.

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

3. Board of Directors

The Directors of the Company during the year under review were:
John W Gilks
Alison Gerry
James WP Hadley
Grant R Lilly
Richard G Tweedie
Murray G Valentine

4. Results For the Year Ended 30 June 2012

Net Tax Paid Profit for the year was $5,173,012 compared to a Profit of $4,576,120 in the previous year.

The Directors recommended on 27 August 2012 that the Dividend for the year ended 30 June 2012 is $3,586,506 (2011: $3,288,060).

An Interim Dividend of $1,000,000 was paid to shareholders on 31 January 2012, leaving a Final Dividend of $2,586,506 be paid on 27 August 2012, to be distributed to shareholders as follows:

Queenstown Lakes District Council	$1,940,138.15
Auckland Airport Holdings (No 2) Limited	$646,367.85

Appropriation Account

Net Tax Paid Profit of	5,173,012
Plus Retained Earnings Brought Forward	7,869,331
Dividends Paid	(4,288,060)
Leaves Retained Earnings to be Carried Forward of	$8,754,283

5. Directors Interests

The following transactions were entered into by the Directors of the Company during the year.

During the year Hadley Consultants Ltd, were contracted to provide consultant engineering services at the airport.

Mr J Hadley, a Director during the year, is also a director of Hadley Consultants Limited.

The Civil Aviation Authority has regulatory oversight of Queenstown Airport Corporation as a certificated airport operator. Mt G R Lilly, a Director, is also a Director of the CAA. Appropriate arrangements are in place to mange this relationship.

During the year Trojan Holdings Ltd, were contracted to provide rubbish removal services at the airport, Mr MG Valentine, a director during the year, is also a director of Trojan Holdings Ltd.

All of the transactions were provided on normal commercial terms.

6. Share Dealings

No Director acquired or disposed of any interest in shares in the Company during the year.

8. Directors Remuneration

The following are particulars of Directors' remuneration authorised in accordance with Section 211(1)(f) of the Companies Act 1993 from the effective date.

	2012	**2011**
JW Gilks	30,333	
A Gerry	28,833	24,000
JW Hadley	26,833	24,000
GR Lilly	14,333	
MA Taylor	-	43,100
RG Tweedie	14,000	
MG Valentine	33,668	24,000
	$148,000	$115,100

9. Remuneration of Employees

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

2012 Number of Employees	**Bracket**
1	$100,000 – $110,000
1	$130,000 – $140,000
1	$150,000 – $160,000
1	$160,000 – $170,000
1	$230,000 – $240,000

10. Donations

The Company made no donations during the year.

11. 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.

12. Auditor

The Auditor General is the statutory auditor of the company in accordance with the Public Audit Act 2001. The Auditor General has appointed Pat Heslin of Deloitte to undertake the audit on her behalf.

On Behalf of the Board

CHAIRMAN

Chairman's Report

Financial Performance

I am pleased to report a strong financial performance from Queenstown Airport Corporation Limited for the year ended 30 June 2012 driven by another year of double digit growth in passenger numbers.

Net profit after tax for the year of $5.2 million compares with a profit of $4.6 million in the prior year, a gain of 13%.

Earnings before interest, tax, depreciation and amortization (EBITDA), which effectively represents the net cash earnings from operations, was a strong $11.5 million. This compares with the EBITDA in the previous year of $9.9 million, an increase of 16.7%.

Top line revenue enjoyed a solid 12% boost to $17.5 million underpinned by strong growth in passenger numbers. A total of 1,047,044 passengers entered or departed Queenstown via – the airport during the year ended 30th June 2012. This number is an all time record for the airport and represents an increase of 13.3% over the prior financial year. International passenger numbers rose by 21.2% to 195,249 while domestic passenger numbers were up by 11.6% to 851,795. These impressive increases were the result of an increase in the number of scheduled flights in and out of Queenstown coupled with an increase in the capacity (aircraft seats) available on some aircraft and recognises the value the airlines place on Queenstown as a destination.

Capital expenditure in the year under review totaled $8.6 million the main components of which were completion of the East Runway End Safety area, the sealing of the Cross Runway and the extension of the apron which included provision for an additional jet stand. As a consequence of this expenditure both the cost of depreciation and interest increased during the year. Depreciation rose from $2.9 million in 2011 to $3.2 million reflecting the higher carrying value of capital infrastructure. Interest paid during the year was $1 million compared to $770,000 in the prior year. This increase reflected drawings on loan facilities to support the necessary expenditure on infrastructure referred to earlier.

Strategic Alliance with Auckland International Airport

The strategic alliance between Queenstown Airport and Auckland Airport continues to benefit both parties. Working closely together on many projects and initiatives covering areas such as marketing, safety and property, the relationship is very buoyant and productive.

Specific deliverables identified from the Alliance, including passenger growth, capital expenditure management, increased EBITDA run rate, master planning and property development/acquisition have, to date, either met or exceeded expectations.

Looking ahead your Directors feel confident that the Strategic Alliance will continue to create opportunities for growth in passenger numbers, improved operating efficiency and profitability and enhanced shareholder and community value.

Dividends

Based on the Company's dividend policy and having regard to the after tax profits reported earlier in this review the final dividend will be $2.6 million bringing to $3.6 million total dividends payable from profits earned for the year ended 30 June 2012 (prior year $3.3 million). At this level the dividends for the year are covered 1.4 times by the tax paid earnings.

Directors and Management
There were several changes in the Board and senior management during the year which are summarised as follows.

I joined the Board in October 2011 and was appointed Chairman. Grant Lilly and Richard Tweedie were appointed in November 2011. These three appointments brought the number of Directors to six.

In February 2012 the Board appointed Scott Paterson as CEO to replace Steve Sanderson. Scott joined Queenstown Airport having had significant senior management experience which included managing businesses involved in successful infrastructure project developments.

Steve Sanderson, who had been CEO at Queenstown Airport since May 2007 resigned in October 2011 to take up the position of CEO at Wellington Airport. On behalf of my fellow Directors I would like to acknowledge the significant contribution which Steve made during his time with the Company and wish him every success in his new appointment.

In conclusion I would like to express my sincere thanks to the "team" at Queenstown Airport for their commitment and loyalty during what has been a year of significant change. The strong financial performance reported earlier would not have been possible without the dedication and skill of our management "team".

John Gilks
Chairman
27 August 2012.

Chief Executive Officer's Report

Our emphasis on managing the exceptional growth of Queenstown Airport has paid off with another successful year in terms of a strong financial performance achieved through growing passenger numbers.

The double-digit growth in Queenstown Airport's passenger numbers continues to be much quicker than the organic growth of the New Zealand aviation market.

We hosted 1,047,044 passengers during the financial year, 13.3% more than the previous financial year. Milestones of: processing over 1 million passengers in a 12-month period and August 2011 being the first month in which passengers exceeded 100,000 (101,747), despite service disruptions due to heavy snowfalls, all contributed to these higher than industry gains.

Driving this growth was the increased activity of our four scheduled airline partners – Air New Zealand, Jetstar, Qantas and Virgin Australia. These airlines continue to recognise Queenstown as a prime destination by increasing flight frequency, boosting the number of seats available on aircraft as well as introducing new routes.

Boosted by increased passenger numbers and airline traffic the financial performance of the Company was strong with revenue sitting at $17.5 million. The revenue from aeronautical activities was up 12.9% and there was an uplift of 11.5% from commercial activities in the year - a direct benefit from the growth in passenger numbers and stronger rental returns from tenants.

Commercial activities include areas such as parking, commercial concessions and retail. Several key leases were renegotiated during the period, most retailers experienced good growth, the demand and plans for expanded rental car operators for tenancies grew. The opening of the new expanded Hertz Car Rental facility in May, the first commercial development completed by the Company outside the terminal in several years, was a highlight and will lift next years commercial performance.

During the year we consulted with our airline partners to set a new series of landing charges with effect from 1 July 2012. When last set in 2004 Queenstown Airport was a very different business. Going forward the new pricing agreed to will allow us to provide the terminal facilities and airfield infrastructure required of us by the airlines and the travelling public now and into the future.

As part of the new landing charges the $25 International Departure Fee was abolished as of July 1, 2012.

The benefits of our strategic alliance with shareholder, Auckland Airport, have been many. Access to greater aeronautical expertise, more competitive insurance rates, more 'buying power' in procurement projects as well as increased exposure of Queenstown in Auckland Airport's international marketing campaigns, are some of the initiatives benefiting Queenstown Airport. Auckland Airport's push to increase tourism and trade through new routes, particularly from Asia, have also been obvious with the Queenstown township experiencing higher levels of Asian visitors.

Growth does come with challenges none more so than ensuring necessary infrastructure is developed on a timely basis.

The completion of the East Runway End Safety Area ahead of the October 2011 deadline, saw the realisation of one of the largest and most challenging projects we have ever undertaken. And the completion of the sealing of the Cross Wind Runway has provided our seven light aircraft operators a much better experience for operator, pilot and passengers for the thousands of take offs and landings they make on this runway each year.

The key capital project started this financial year and well advanced at year-end is Project 2012. Project 2012 includes the major expansion of the airport's departure facilities which on completion, will mean a 50% increase in size of the screening and emigration area and the doubling in size of the domestic and international lounges.

With an eye on the long-term future, we have undertaken several key planning matters that will allow us to meet the anticipated future growth in aircraft and passenger volumes. The Company spent $942,000 on District Planning processes for the extension of its noise boundaries (PC35) and amendments to the flight fans. This was in addition to monies spent on other planning matters including extending the Airport Designation on to neighbouring land (known as Lot 6) to allow for a new aeronautical precinct and free up land for terminal expansion. Both these matters are before the Environment Court and decisions are expected before the end of 2012.

We continue our role as a keen and active member of the Queenstown Lakes District Community. Hosting the official opening of the May 2012 Trenz Conference for more than 1000 wholesalers and agents, and working with our airline partners on route marketing campaigns, have been a few of the activities we have embarked on to help showcase and support Queenstown as an international destination.

Hosting the official airport welcomes for the Irish and Georgia Rugby World Cup teams was heralded by everyone as a great success and an important first impression of Queenstown and New Zealand.

Most scheduled aircraft operating in and out of the airport are equipped with the state-of-the-art satellite-linked landing and navigational systems – commonly referred Required Navigation Performance (RNP). Qantas began flying to Queenstown using RNP on its Boeing aircraft more than eight years ago and Air NZ followed shortly afterwards pioneering the technology on its Airbus aircraft.

The use of RNP has had a major impact on improving flight operations at the airport. For the travelling public this has meant a reduction in delays and diverted flights due to low cloud or adverse weather. Before RNP airlines experienced up to a 14% disrupt rate which has dropped to around 1% with the use of RNP.

We share the view of our airline partners that RNP technology will be the key to allowing non daylight flights. Under our current consent, evening flights are permitted until 10pm, however, the airlines only have approval to conduct daylight operations. This results in extreme peaking in the afternoons during winter as trans tasman flights arrive and turnaround in a short window to avoid being stranded in Queenstown overnight.

With the support of the airlines, we are taking a leadership role in working with the airline industry and Airways to develop a framework to look at operational and safety concerns for non daylight flights. Keeping the community informed is also important and information forums will be held before the end of 2012 calendar year.

For the coming financial year we are confident growth will continue though it will be hard to repeat the double-digit growth rates experienced in the past. Notwithstanding, July 2012 has seen record domestic and international passenger numbers through the airport and Air New Zealand has announced a new Auckland-Queenstown-Auckland service for the 2012/13 summer. A number of tenancies in the terminal expire in the next 12 to 18 months and provide an opportunity to review our terminal layout, retail and service offerings.

It has also been a busy year in personnel changes. My predecessor Steve Sanderson, left to join Wellington Airport as Chief Executive Officer, after a very successful 5-year tenure. Chris Read, a previous General Manager Aeronautical, retired after spending 20 years at the airport and several new airport team members joined our small team including Nina Crawford as Head of Communications and Mark Harrington, Manager of Airside Operations.

The Queenstown Airport team has worked hard during the year working closely with airlines and key agencies including Customs, Aviation Security, CAA, and Airways to achieve a seamless running of the airport and I am grateful for their commitment.

On behalf our team I would also like to acknowledge the dedication and hard work of the hundreds that call Queenstown Airport their place of work and that make up our 'airport community'.

Scott Paterson
Chief Executive
27 August, 2012

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 2012.

The Directors are responsible for presenting financial statements in accordance with New Zealand law and generally accepted accounting practice which give a true and fair view of the financial position of the Company as at 30 June 2012 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 1993.

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 27 August 2012 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

Date

STATEMENT OF FINANCIAL PERFORMANCE
For the financial year ended 30 June 2012

	Notes	2012 $	2011 $
Income			
Revenue	2 (a)	17,467,958	15,628,361
Other gains/(losses)	2 (a)	(10,533)	(49,131)
Total income		**17,457,425**	**15,579,230**
Expenditure			
Operating Expenses	4	4,150,086	4,000,308
Employee benefits expense	2(b)	1,777,825	1,697,888
Total operating expenditure		5,927,911	5,698,196
Operating earnings before interest, taxation, depreciation and amortisation		**11,529,514**	**9,881,034**
Depreciation	2(c)	3,248,747	2,926,321
Amortisation		11,445	11,445
Operating earnings before interest and taxation		**8,269,322**	**6,943,268**
Finance costs	2(d)	1,028,599	768,435
Profit before income tax		**7,240,723**	**6,174,833**
Income tax expense	3(a)	2,067,711	1,598,713
Profit for the year		**5,173,012**	**4,576,120**

STATEMENT OF COMPREHENSIVE INCOME
For the financial year ended 30 June 2012

	Notes	2012	2011
Profit for the year		**5,173,012**	**4,576,120**
Other comprehensive income			
Gain/(loss) on cash flow hedging taken to reserves	6	(1,163,648)	(356,860)
Income tax relating to components of other comprehensive income	3(b)	325,730	99,921
Other comprehensive income for the year net of tax		**(837,918)**	**(256,939)**
Total comprehensive income for the year, net of taxation		**4,335,094**	**4,319,181**

The accompanying notes form part of these financial statements.

STATEMENT OF FINANCIAL POSITION
As at 30 June 2012

	Notes	2012 $	2011 $
Current assets			
Cash and cash equivalents	16 (a)	223,244	485,790
Trade and other receivables	5	1,349,068	1,822,835
Prepayments		18,344	47,920
Total current assets		**1,590,656**	**2,356,545**
Non-current assets			
Property, plant and equipment	7	147,981,253	143,536,983
Derivatives	6	6,768	17,301
Intangible assets	8	2,205,801	1,275,143
Total non-current assets		**150,193,822**	**144,829,427**
Total assets		**151,784,478**	**147,185,972**
Current liabilities			
Trade and other payables	9	2,589,017	3,036,917
Income in advance		26,033	118,223
Employee entitlements	10	181,368	155,713
Current tax payable		97,955	215,801
Borrowings (secured)	11	-	4,000,000
Total current liabilities		**2,894,373**	**7,526,654**
Non-current liabilities			
Borrowings (secured)	11	19,810,000	11,600,000
Derivatives	6	1,991,651	828,330
Deferred tax liabilities	3(c)	6,783,456	6,973,024
Total non-current liabilities		**28,585,107**	**19,401,354**
Total liabilities		**31,479,480**	**26,928,008**
Net assets		**120,304,998**	**120,257,964**
Equity			
Share capital	12	37,657,382	37,657,382
Retained earnings		8,754,283	7,869,331
Asset revaluation reserve	13	74,988,190	74,988,190
Cash flow hedge reserve	13	(1,094,857)	(256,939)
Total equity		**120,304,998**	**120,257,964**

The accompanying notes form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY
For the financial year ended 30 June 2012

	Ordinary shares	Asset revaluation reserve	Cash flow hedge reserve	Retained earnings	Total
At 1 July 2011	37,657,382	74,988,190	(256,939)	7,869,331	120,257,964
Profit for the period	-	-	-	5,173,012	5,173,012
Other comprehensive income	-	-	(837,918)	-	(837,918)
Total comprehensive income for the period	**-**	**-**	**(837,918)**	**5,173,012**	**4,335,094**
Transactions with owners in their capacity as owners					
Shares issued	-	-	-	-	-
Transaction costs on share issue	-	-	-	-	-
Dividends paid	-	-	-	(4,288,060)	(4,288,060)
At 30 June 2012	37,657,382	74,988,190	(1,094,857)	8,754,283	120,304,998

	Ordinary shares	Asset revaluation reserve	Cash flow hedge reserve	Retained earnings	Total
At 1 July 2010	10,412,199	74,988,190	-	3,293,211	88,693,600
Profit for the period	-	-	-	4,576,120	4,576,120
Other comprehensive income	-	-	(256,939)	-	(256,939)
Total comprehensive income for the period	**-**	**-**	**(256,939)**	**4,576,120**	**4,319,181**
Transactions with owners in their capacity as owners					
Shares issued	27,732,183	-	-	-	27,732,183
Transaction costs on share issue	(487,000)	-	-	-	(487,000)
Dividends paid					
At 30 June 2011	37,657,382	74,988,190	(256,939)	7,869,331	120,257,964

CASH FLOW STATEMENT
For the financial year ended 30 June 2012

	Notes	2012 $	2011 $
Cash flows from operating activities			
Receipts from customers		17,285,759	15,541,428
Interest received		6,508	8,333
Payments to suppliers and employees		(5,089,333)	(6,039,483)
Interest paid		(1,028,599)	(768,435)
Income tax paid (net)		(2,049,302)	(2,355,733)
Net GST (payment) /receipt		557,267	(683,626)
Net cash inflow/(outflow) from operating activities	16 (b)	9,682,300	5,702,484
Cash flows from investing activities			
Proceeds from sale of land		-	-
Proceeds from sale of plant and equipment		-	21,609
Purchase of property, plant and equipment		(8,924,682)	(12,168,822)
Purchase of intangible Assets		(942,104)	(330,546)
Net cash inflow/(outflow) from investing activities		(9,866,786)	(12,477,759)
Cash flows from financing activities			
Net proceeds from issue of shares		-	27,245,179
Net proceeds from borrowings/(repayments)		4,210,000	(20,149,951)
Dividends paid to equity holders		(4,288,060)	-
Net cash inflow /(outflow) from financing activities		(78,060)	7,095,228
Net increase/(decrease) in cash and cash equivalents		**(262,546)**	**319,953**
Cash and cash equivalents at the beginning of the financial year		**485,790**	**165,837**
Cash and cash equivalents at the end of the financial year	16(a)	**$223,244**	**$485,790**

The accompanying notes form part of these financial statements.

Notes to the Financial Statements

For the financial year ended 30 June 2012

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 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.

(a) Basis of Preparation

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

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

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

(b) Statement of Compliance

The financial statements have been prepared in accordance with NZ GAAP. They comply with New Zealand equivalents to International Financial Reporting Standards, and other applicable Financial Reporting Standards, as appropriate for profit-orientated entities that qualify for differential reporting concessions.

The Company qualifies for Differential Reporting exemptions as it does not have public accountability (as that term is defined in NZ IFRS) and it is not large. All available reporting exemptions allowed under the Framework for Differential Reporting have been adopted with the exception of:

- The exemptions available in NZ IAS 7 *"Cash Flow Statements"*
- The exemptions available in NZ IAS 12 *"Income Taxes"*

(c) Revenue Recognition

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

(i) Rendering of services

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

Landing Charges, Car park Revenue and Departure Levy's 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.

(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 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
Leases in which the Company retains substantially all the risks and benefits of ownership of the leased asset are classified as operating leases. 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.

(e) 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 a 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.

(f) 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) 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) <u>Financial Assets</u>

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 profir 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 6.

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

(iv) Hedge Accounting

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

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

Note 6 sets out details of the fair value of the derivative instruments used for hedging purposes. Movements in the hedging reserve in equity are also detailed in other comprehensive income.

Cash flow hedges

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

(i) 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 derecognition, any revaluation reserve relating to the particular asset being disposed or derecognised is transferred to retained earnings.

Fair Value

Land holdings and buildings were independently valued by Seagar & Partners, registered valuers, as at 30 June 2010 to fair value. The runway was independently valued by Beca Valuations Limited (Beca), registered valuers, as at 30 June 2010 to fair value. Acquisitions subsequent to 30 June 2010 are at cost.

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.

To arrive at fair value the valuers used different approaches for different asset groups. The following table summarises the valuation approach:

Asset	Valuation Approach
Terminal Building	Optimised depreciated replacement costs
Fire Building	Optimised depreciated replacement costs
Runway & Aprons	Optimised depreciated replacement costs
Land	Direct comparison/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		
Land Improvements	1%	SL
Buildings	2.5-33%	DV
Runway	1.67-20%	SL
Plant and Equipment	25%	DV
Motor Vehicles	26%	DV
Furniture	33%	DV
Rescue Fire	10-33%	DV
Roading & Carparking	4.8-26.4%	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 derecognition 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.

(j) 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.

(k) 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.

(l) 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.

(m) Standards and interpretations effective in the current period

There are a number of standards and interpretations on issue but not effective. None of these are expected to have any impact on QAC (either from a recognition or a disclosure perspective).

2. Surplus from Operations

(a) Revenue

	2012 $	2011 $
Revenue consisted of the following items:		
Revenue:		
Revenue from rendering of services:		
Landing Charges	7,764,271	6,933,428
Car Park Revenue	1,669,987	1,412,610
Departure Levy	1,854,188	1,577,897
	11,288,446	9,923,935
Operating lease rental revenue	5,078,957	4,659,371
	5,078,957	4,659,371
Interest Revenue:		
Bank deposits	11	8,203
Inland Revenue Department	5,608	130
Other	889	-
	6,508	8,333
Other revenue	1,094,047	1,036,722
	$17,467,958	$15,628,361
Other (Losses):		
Net change in fair value of derivative financial instruments classified at fair value through profit or loss (forward exchange contracts and options)	(10,533)	(49,131)
	$(10,533)	$(49,131)

(b) Employee Benefits Expense

	2012 $	2011 $
Salaries and wages	1,629,825	1,582,788
Directors fees	148,000	115,100
	$1,777,825	$1,697,888

(c) Depreciation Expense

	2012 $	2011 $
Land Improvements	99,994	-
Buildings	1,260,130	1,287,111
Roading & Carparking	402,594	422,549
Plant and equipment	477,178	303,359
Runway	808,017	695,303
Motor vehicles	2,236	3,021
Furniture	53,451	68,579
Rescue fire	145,147	146,399
	$3,248,747	$2,926,321

	2012 $	2011 $
(d) Finance Costs		
Interest on loans	1,028,599	752,723
Other interest expense	-	15,712
	$1,028,599	$768,435

3. INCOME TAXES

(a) Income Tax Recognised in Profit or Loss

Tax expense/(income) comprises:

	2012	2011
Current tax expense/(credit):		
Current year	1,931,548	1,850,822
	1,931,548	1,850,822
Deferred tax expense/(credit)		
Origination and reversal of temporary differences	128,674	4,724
Deferred tax relating to future non depreciation of buildings for tax purposes	15,538	(305,381)
Adjustment for prior year	(8,049)	48,548
	136,163	(252,109)
Total tax expense	$2,067,711	$1,598,713

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

	2012	2011
Surplus before income tax	7,240,722	6,174,833
Income tax expense calculated at 28% (2011:30%)	2,027,402	1,852,450
Permanent differences	-	3,096
Adjustment for prior years	(8,048)	48,556
Deferred tax relating to future non depreciation of buildings for tax purposes	15,538	(305,389)
Other	32,819	-
Income tax expense	$2,067,711	$1,598,713

(b) Income Tax Recognised Directly In Other Comprehensive Income

Deferred tax of $325,730 (2011: $99,921) has been charged directly to other comprehensive income during the period, relating to the fair value movement of derivative financial instruments.

(c) Deferred Tax Balances Comprise

Taxable and deductible temporary differences arising from the following:

2012	**Opening balance**	**Charged to profit for the year**	**Charged to other comprehensive income**	**Closing balance**
Gross deferred tax assets/(liability):				
Property, plant and equipment	(7,173,919)	89,519	-	(7,084,400)
Intangible assets	(92,553)	(198,171)	-	(290,724)
Employee benefits	66,359	(46,355)	-	20,004
Derivatives	227,088	4,844	325,730	557,662
Trade and other payables	-	14,000	-	14,000
	(6,973,025)	(136,163)	325,730	(6,783,458)

2011	**Opening balance**	**Charged to profit for the year**	**Charged to other comprehensive income**	**Closing balance**
Gross deferred tax assets/(liability):				
Property, plant and equipment	(7,513,368)	339,449	-	(7,173,919)
Intangible assets	-	(92,553)	-	(92,553)
Employee benefits	26,347	40,012	-	66,359
Derivatives	161,966	(34,799)	99,921	227,088
	(7,325,055)	252,109	99,921	(6,973,025)

(d) Imputation Credit Account Balances

	2012 $	**2011 $**
Balance at beginning of year	4,855,747	2,500,014
Income tax paid	2,044,526	2,352,713
Resident withholding tax paid	4	3,020
Imputation credits on dividends paid	(1,409,168)	-
Balance at end of year	$5,491,109	$4,855,747

4. Operating Expenses

	2012 $	2011 $
Repairs & Maintenance	488,953	387,193
Legal	208,159	639,933
Consultants	351,915	620,014
Planning	100,709	90,914
Administration	457,773	375,433
Marketing, Communication & Promotion	483,426	114,710
Insurance	250,000	157,968
Rates	160,462	103,075
Energy	376,199	298,734
Services	531,961	507,255
Audit fees for financial statement audit	58,669	37,885
Audit fees for disclosure financial statements	30,700	22,200
Other	651,160	644,994
	$4,150,086	$4,000,308

5. Trade & Other Receivables

	2012 $	2011 $
Trade receivables	1,183,916	1,100,415
Allowance for doubtful debts	-	-
	1,183,916	1,100,415
Goods and services tax (GST) receivable	165,152	722,420
	$1,349,068	$1,822,835

6. Derivatives

Derivative financial assets/(liabilities);

	2012 $	2011 $
Interest rate swap (i) (effective)	(1,991,650)	(828,330)
Interest rate option (ii) (not designated)	6,768	17,301
	$(1,984,882)	$(811,029)

Interest bearing loans of the Company currently bear an average variable interest rate of 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 76% of the principal outstanding. The fixed interest rates range between 4.735% and 6.075% (2011: 5.64% to 6.3%). 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 2012 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.

7. Property, Plant and Equipment

	2012 Cost/ Valuation $	 Accumulated Depreciation $	 Net Book Value $
Land	76,066,256	-	76,066,256
Land Improvements	10,197,625	(126,619)	10,071,006
Buildings	34,983,348	(2,547,241)	32,436,107
Roading & Car Parking	6,255,912	(825,143)	5,430,769
Plant & Equipment	4,115,494	(1,654,443)	2,461,051
Runway	21,583,401	(1,476,695)	20,106,706
Motor Vehicles	44,355	(37,992)	6,363
Furniture	564,399	(454,278)	110,121
Rescue Fire	2,178,395	(885,521)	1,292,872
	$155,989,185	$(8,007,932)	$147,981,253

	2011 Cost/ Valuation $	 Accumulated Depreciation $	 Net Book Value $
Land	76,105,872	-	76,105,872
Buildings	31,940,794	(1,287,111)	30,653,683
Roading & Car Parking	5,784,710	(422,549)	5,362,161
Plant & Equipment	2,641,664	(1,177,265)	1,464,399
Runway	29,043,457	(695,303)	28,348,154
Motor Vehicles	44,355	(35,756)	8,599
Furniture	561,451	(400,827)	160,624
Rescue Fire	2,173,865	(740,374)	1,433,492
	$148,296,168	$(4,759,185)	$143,536,983

The carrying value of the asset categories above includes work in progress.

A reclassification of our RESA asset had occurred at the year end, previously this was being classified as runway, after advice from Ernst & Young it is now a Land Improvement asset.

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

8. Intangible Assets

Intangible assets represent costs incurred in relation to District Planning processes for extension of the noise boundaries and amendments to the flight fans and are amortised on a straight line basis over 15 years from the date they are completed and ready to use.

	2012 $	2011 $
Cost		
Opening Balance	1,304,711	974,165
Additions from internal developments	942,104	330,546
Closing balance	2,246,815	1,304,711
Accumulated amortisation		
Opening balance	29,568	18,123
Amortisation expense	11,445	11,445
Closing balance	41,014	29,568
Carrying Value	$2,205,801	$1,275,143

9. Trade & Other Payables

	2012 $	2011 $
Trade payables	1,591,391	2,313,812
Other creditors and accruals	997,626	723,105
	$2,589,017	$3,036,917

10. Employee Entitlements

	2012 $	2011 $
Accrued salary and wages	109,924	72,465
Annual leave	71,444	83,248
	$181,368	$155,713

11. Borrowings

	2012 $	2011 $
Bank borrowings (secured) (i)	19,810,000	15,600,000
	$19,810,000	$15,600,000
Disclosed in the financial statements as:		
Current	-	$4,000,000
Non-current	$19,810,000	$11,600,000
	$19,810,000	$15,600,000

(i) 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% (2011: 5.34%).

The Company has a secured facility with Westpac of $30 million. The Company may draw funding for terms ranging from call to three years.

During the current year, there were no default breaches on the Company's banking facility.

	2012 $	2011 $
Amount used		
- Overdraft	-	-
- Borrowings	19,810,000	15,600,000
Amount unused	10,190,000	10,400,000
	$30,000,000	$26,000,000

12. Share Capital

	Number		Value	
	2012	2011	2012	2011
(a) Fully Paid Ordinary Shares				
Balance at beginning of year	16,060,365	12,046,880	37,657,382	10,412,199
Issue of shares	-	4,013,485	-	27,245,183
Balance at end of year	16,060,365	16,060,365	$37,657,382	$37,657,382

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

On 8 July 2010 the Company issued 4,013,485, fully paid up shares, to Auckland Airport Holdings (No 2) Ltd.

Proceeds received are net of issue costs of $487,000.

(b) Dividends Paid

	2012
Final Dividend – 20c per share	$3,288,060
Interim Dividend – 6c per share	$1,000,000
Total Dividend Paid	$4,288,060

On 22nd August 2011 a final dividend of 20 cents per share (total dividend of $3,288,060) was paid to holders of fully paid ordinary shares, out of profits for the year ended 30 June 2011.

On 31st January 2012 an interim dividend of 6 cents per share (total dividend of $1,000,000) was paid to holders of fully paid ordinary shares, out of profits for the year ended 30 June 2012.

13. 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 hedging 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.

14. Commitments for Expenditure

(a) Capital Expenditure Commitments

	2012 $	2011 $
Project 2012 (Expanded Departure Lounges, Toilets and Baggage Claim Facilities)	1,892,103	-
Jucy Rentals New Depot	136,597	-
Project Windsock (Designation of Additional Airport Land)	300,000	-
Taxiway Bravo	31,130	-
Frankton Noise Insulation & Ventiliation Project	1,000,000	-
Airline Pricing Consultation	25,000	-
New Hertz Depot	49,550	-
Runway End Safety Area	-	430,000
Lot 22 – Staff Carpark	-	256,000
BP Fuel Farm	-	250,000
	$3,434,380	$936,000

(b) Company as Lessee; Operating Lease Commitments

Non-cancellable operating lease payments		
Not longer than 1 year	24,323	20,379
Longer than 1 year and not longer than 5 years	24,293	20,961
	$48,616	$41,340

(c) Company as Lessor; Operating Lease Rental

Less than 12 months	2,556,977	3,000,167
1-5 years	5,766,861	3,990,857
5 years +	3,305,050	1,631,745
	11,628,888	8,622,770

15. Related Party Disclosures

(a) Shareholders

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

(b) Transactions with Related Parties

Related parties of the Company are:

- Queenstown Lakes District Council (QLDC) – Shareholder
- Auckland International Airport Ltd (AIAL) - Shareholder
- Lakes Environmental Ltd – wholly owned by QLDC
- Lakes Leisure Limited – wholly owned by QLDC
- MG Valentine – Director – Trojan Holdings Ltd
- J Hadley – Director – Hadley Consultants Ltd
- G. Lilly – Director - CAA

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

	2012 $	2011 $
Queenstown Lakes District Council		
Rates	(227,155)	(168,231)
Resource Consent costs	(258,082)	(138,407)
Computer Equipment & Support	-	(11,624)
Consultants	(39,935)	(3,583)
Parking Infringement Recovery	15,629	13,288
Wanaka Airport Management Fee	70,000	70,000
Lakes Environmental Ltd		
Resource Consent costs & Collection Fees	(41,252)	(16,126)
Trojan Holdings Limited		
Rubbish removal services	(52,889)	(43,893)
Rent & Recovered Expenses Received	37,466	37,221
Lakes Leisure Ltd		
Rescue Fire Training	(2,600)	-
G Lilly – Director – CAA		
CAA	7,621	-

Lakes Leisure's netball courts and six holes of the Frankton golf course managed by Lakes Leisure are located on the QAC land to the north west of the runway.

Negotiations between LL and QAC for the lease of the land are continuing. No revenue has been derived from this arrangement in the year (2011 $Nil).

QAC holds a Bond with Westpac for $150,000 in favour of QLDC related to a resource consent to extract gravel and carry out remediation work on land (RM090321). The Bond will be discharged once the work is complete.

	2012	2011
Hadley Consultants Limited		
Consultant Engineering Services	(59,694)	(7,711)
Auckland International Airport		
Secondment Costs	(21,953)	-
Recovery of Sponsorship	3,922	-
Travel Expenses	-	(138)
The following amounts were receivable from related parties at balance date:		
Trojan Holdings Ltd	-	-
Queenstown Lakes District Council (Wanaka Airport Management Fee)	17,500	20,125
The following amounts were payable to related parties at balance date:		
Trojan Holdings Ltd	4,786	6,526
Lakes Environmental Ltd	12,776	1,311
Auckland Airport	2,643	-
QLDC	36,328	-

16. Notes to the Cash Flow Statement

(a) Reconciliation of Cash and Cash Equivalents

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

	2012 $	2011 $
Cash and cash equivalents	11,391	15,241
Bank account /(overdraft)	211,853	470,549
	$223,244	$485,790

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

Profit for the year	5,173,012	4,576,120
Add non-cash items:		
Amortisation	11,445	11,445
Depreciation	3,248,747	2,926,321
Net change in fair value of derivative financial instruments	10,533	49,131
	3,270,725	2,986,897
Changes in assets and liabilities:		
Decrease in Trade and other receivables	473,767	(790,356)
Decrease in Prepayments	29,577	256,505
Decrease in Current tax payable	(117,845)	(504,911)
Decrease in Trade and other payables	(447,904)	1,484,679
Decrease in Income in advance	(92,191)	28,131
Increase in Employee entitlements	25,655	(26,221)
Increase in Deferred tax liability	136,254	(252,109)
Movement in items reclassified as investing and financing activities	1,231,250	(2,056,250)
	1,238,563	(1,860,533)
Net cash inflow from operating activities	$9,682,300	$5,702,484

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 the lowest cost of capital available to the entity.

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

(b) Categories of Financial Instruments

	2012 $	2011 $
Financial Assets		
Cash and cash equivalents	223,244	485,790
Trade and other receivables	1,349,068	1,822,835
Other financial assets	6,768	17,301
Financial Liabilities		
Trade and other payables	2,589,017	3,036,917
Borrowings	19,810,000	15,600,000
Other financial liabilities	1,991,650	828,330
Current tax payable	97,955	215,801

All financial assets and liabilities are recognised at amortised cost except other financial assets and liabilities which are recognised at fair value through profit for the year.

18. Subsequent Events

On 27 August 2012 the Board resolved to pay a dividend of $0.1610 per share, resulting in a dividend of $2,586,506. There were no other significant events after balance date.

19. Contingent Liabilities & Contingent Assets

There are no known contingent liabilities or contingent assets.

Statement of Service Performance

The Company sets various performance measures in its annual Statement of Corporate Intent. These are now reported on:

Goals

- To provide a quality of service to its customers and take all reasonable steps to enhance safety wherever possible.
- To continue operating the company as a successful business and in an effective and efficient manner maximising the return on funds invested in the medium and long term – subordinating the latter when appropriate and necessary in order to achieve broader economic objectives.
- To expand maintain and plan the facilities at the airport to allow for full domestic and trans-Tasman operational capability of aircraft types currently in use, and likely to be in use in the foreseeable future, by New Zealand major domestic airlines and international airlines likely to operate here.
- To promote Lakes District's tourism, commercial and non-commercial air travel and maximise the usage of the airport facilities.
- To seek and develop profitable business opportunities that make best use of the people, technical and financial resources of the Company.
- To act as a good employer by providing equal employment opportunities, good and safe working conditions as well as opportunities for individual career development.
- To act as a good corporate citizen in regard to the needs of the greater Lakes District Community and the environment.
- To act as a 'responsible neighbour' to the adjacent residential areas.

Objectives

It is QAC's objective to be a successful business. This success will be measured by setting a number of objectives identified at the start of each financial year that we believe can and should be achieved within that year. These objectives will be measurable and achievable and QAC's performance against these objectives will be reported annually.

<table>
<tr><td colspan="2">Objective: Provide suitable terminal facilities for satisfactory Trans-Tasman and domestic operations that satisfy our customers' needs</td></tr>
<tr><td>Measurable

Plan and construct facilities based on forward aviation requirements and passenger projections in conjunction with effective and efficient capacity planning.

Survey Airport customers and users. Consider feedback and incorporate into future planning.</td>
<td>Work Completed

The Airport began a Terminal Expansion project, called "Project 2012" in late 2011, with the aim of ensuring the Terminal could effectively and efficiently continue to cater for passenger growth.
Project 2012 is underway and due for completion in September 2012 with a total budget of $4.2M.

In determining the need for Project 2012:

- QAC carried out a capacity study to determine pinch-points in the Terminal. The Terminal's design was based on 700,000 passengers per annum and a 95%/5% domestic/international mix. By early 2012, the Terminal reached the milestone of 1million passengers in a 12 month period, with a 81%/19% domestic/international mix. The variation between the Terminal's design and its current and forecast requirements necessitated the need for an updated capacity study.
- QAC surveyed its stakeholders including Airlines and Boarder Control Agencies and took the feedback into account when determining the key areas of the Terminal targeted by Project 2012.

Project 2012 targets four areas that align with the Airport's master plan and passenger projections:

- Constructing 700m2 of new ground floor Terminal space in the Departures Area to enlarge the security screening point, Customs and the international and domestic departure lounges
- Adding new toilets in domestic bag claim and doubling the size of the main toilets in the Retail Area
- Adding new oversize baggage facilities to cater for skis, bikes, golf clubs

As an added benefit of Project 2012, QAC is adding 170m2 of first floor space above the expanded departures area. The new space has been leased to Air NZ to more than double the size of their Koru Lounge.

Construction work began in April 2012 and the first targeted areas – the doubling in size of the main toilets in the Retail Area and the new oversize baggage facilities – opened in late June 2012. Airport users have provided extremely good feedback about the new facilities. The new Departures Area, Koru Club and additional toilet facilities are scheduled to be in use during August 2012</td></tr>
</table>

Objective: Provide suitable land transport options for access to and from the Airport.	
Measurable Provide suitable facilities for public and commercial transport options.	**Work Completed** The Airport is well serviced by a broad range of transport options. QAC has encouraged the use of public transport from the Airport by constructing a large new bus shelter in May 2011 in a prominent place immediately in front of the Terminal. The Airport Help Desk sells bus tickets and assists passengers to book bus trips. QAC has added a bike rack to cater for Airport staff who cycle to work and a bike assembly station for passengers who bring their bikes with them on their trip to Queenstown. With regard to commercial transport options, the Airport is well serviced by an Airport Shuttle operator, various taxi operators, VIP operators and rental car operators.

Objective: Promote regional planning measures designed to ensure the mission and goals of QAC can be achieved	
Measurable Active involvement in surrounding land developments and plan changes Achieve planning that is consistent with Airport operations driven by the Master Plan Progress Noise Boundary Plan Change (PC35) to a final decision	**Work Completed** QAC involves itself in surrounding land developments and plan changes where reverse sensitivity effects have the potential to impact on future Airport growth and the wellbeing of residents. In the year ended 30 June 2012, QAC has been involved in: - Plan Change 19 (PC19) – Frankton Flats - PC34 – Remarkables Park Zone - PC41 – Shotover Country - PC43 – Frankton Mixed Use (beside the BP) - Float Plane Application, Frankton Christian School application, RPL's circus application QAC has made significant progress on its Notice of Requirement to acquire 19ha of land on the south side of the runway from Remarkables Park Limited. The land is required for the development of an Aviation Park, as set out in QAC's Master Plan. All evidence has been filed and the case will be heard by the Environment Court first quarter FY13. QAC completed the hearing on the Noise Boundary Plan Change (PC35) in January 2012. The Court has indicated it will issue a decision once the Notice of Requirement for Lot 6 is determined QAC is also actively involved in the District Plan review and has submitted a draft Airport Zone chapter to QLDC.

Objective: Ensure appropriate communication exists between QAC, the community and its elected representatives by way of an ongoing public information service and the holding of regular open meetings with a liaison group comprising community group representatives, interested individuals, airport users, etc. while continuing existing reporting systems.	
Measurable Attend and participate in community, user groups and appropriate business meetings. QAC Environmental Meeting Reporting to Shareholders 6 Monthly Annual Report Document ZQN Newsletter	**Work Completed** QAC's CEO have been active in organising a number of sessions with community and user groups to ensure open communication, including Rotary, Frankton and Kelvin Heights residents groups, Probus, Lions, Business Associations and Tourism Groups. QAC convenes a monthly meeting with Airport stakeholders to review and discuss issues. Weekly operational meetings are held during Winter months. QAC has resolved to establish a Community Liaison Group to promote communication with the community. QAC has reported to QLDC 6 monthly and in addition, the CEO and Chair have established regular meetings with the Mayor, Chair of Finance Committee and Council CEO. QAC revamped its annual reporting in 2011 to provide a user friendly "Annual Review" called "Growing with Queenstown" outlining the Airport's activities over the year. An Annual Report with full financials is available on the Company's Website. The ZQN newsletter has been a real success, published quarterly, providing the Airport Community with regular and relevant information. Monthly updates are provided of passenger volumes. QAC has also completed a website redesign to make the site more attractive and user-friendly.
Objective: Manage the noise impact of the Airport in accordance with the District Plan taking into account the surrounding residential and business areas	
Measurable Noise monitoring to ensure compliance with the District Plan Manage noise to mitigate impact – liaise through traffic management where possible.	**Work Completed** QAC carried out actual noise monitoring at a McBride St site from Dec 10 to Feb 11. The results indicated compliance with QAC's noise boundaries at that site and were generally consistent with the modelling work completed based on the Summer flights in 09/10. QAC is at the limit of its current noise boundaries in various places and has addressed this through its Noise Plan Change application, PC35. QAC is awaiting PC35 becoming operative, expected in October 2012.

	QAC communicates with local residents regarding upcoming construction activities that may cause noise disturbance. Pre-Winter 2012 QAC undertook patch repairs of the main runway at night and kept local residents informed via the Frankton Residents' Association President of the expected noise impact. QAC has a management procedure to respond to any complaints regarding aircraft noise. These complaints are relatively rare and are dealt with by discussing the complaint with the operator and implementing where possible changes to mitigate noise impact.
Objective: Promote environmental sustainability and minimise airport impact on the environment	
Introduction of recycling and waste awareness policy Commence project to identify requirements to become carbon neutral	QAC has undertaken initial work towards the introduction of a recycling and waste awareness policy by becoming involved in OCS's sustainable waste solutions division, WasteLine, waster minimisation research project. QAC will continue working on this initiative. QAC promotes recycling throughout the Airport by providing recycling bins inside and outside the Terminal. QAC also provides a recycling skip and encourages Airport tenants to recycle their waste. QAC has undertaken a project to reduce paper waste through the installation of Dyson Airblade handdryers in the majority of the Airport's public toilets. This project has successfully held paper towel usage at 2010 levels despite increasing passenger numbers. QAC administration is progressing towards "paperless" finance, with invoices, statements and remittances issued by email where possible. QAC has commenced a project to comprehensively audit its energy needs and intends to encompass this audit in its wider project to identify requirements to become carbon neutral.
Objective: Complete the construction of Runway Extension Safety Area Requirements within the prescribed timeframes.	
Measurable Report on RESA progress against project plan to meet prescribed timeframes.	RESA East (Shotover River end) completed on 29 July 2011, on time for September 2011 deadline. RESA West and Blast Fence, (Frankton end) completed December 2010.

Objective: Achieve Financial Forecasts

Year Ended 30 June	Forecast 2012 ($000's)	Actual 2012 ($000's)	Variance 2012 ($000's)
Total Revenue	18,358	17,457	-901
Total Operating Expenditure	5,249	5,928	679
Operating Cashflow (EBITDA)	13,109	11,530	-1,579
Interest expense	1,436	1,029	-407
Depreciation & Amortisation	2,892	3,260	368
Profit Before Tax	8,781	7,241	-1,540
Profit After Tax	6,075	5,174	-901
Total Liabilities	35,525	31,479	-4,047
Total Shareholder's Funds (Exc Revaluations)	122,264	120,305	-1,958
Total Assets[1]	157,790	151,784	-6,006
Shareholder's Funds to Total Assets	77.5%	79.3%	0
Net Profit After Tax to Average Shareholder's Funds	5.1%	4.3%	0
Dividends	4,038	4,288	250
Capital Expenditure	10,017	7,693	-2,706
Total Closing Debt[1]	25,509	19,810	-5,699
Net Drawdown/(Repayment of) Debt	7,273	4,210	-3,063
Domestic Pax 000	897	852	(45)
International Pax 000	197	195	-2
Total Pax 000	1,094	1,047	-47

Notes
1. Difference between total liabilities and total debt comprises short term liabilities and deferred tax.

Assessment of Actual vs Forecast Financial Performance

The Forecasts set out in the table above are prepared in the Company’s Statement of Corporate Intent six months in advance of the start of the financial year. At that time, the Company does not have confirmed airlines schedules for the financial year and the Forecast is the Company’s best estimate only.