QUEENSTOWN
airport

Queenstown Airport Corporation Limited

Annual Report for Financial Year Ended 30 June 2014

Contents

Directory

BOARD OF DIRECTORS	John W Gilks (Chairman) Alison Gerry Grant R Lilly James WP Hadley Richard G Tweedie
CHIEF EXECUTIVE OFFICER	Scott Paterson
AUDITORS	Deloitte (on behalf of the Controller and Auditor General) PO Box 1245 Dunedin
BANKERS	Westpac Terrace Junction 1092 Frankton Road Queenstown
SOLICITORS	Lane Neave Te Ahi Building Level 1 13 Camp Street Queenstown Anderson Lloyd Te Ahi Building Level 2 13 Camp Street Queenstown

Annual Report

Your Directors have pleasure in submitting the Annual Report together with the financial accounts of the Company for the year ended 30 June 2014.

1. **Financial Statements**
   The financial statements of the Company for the year ended 30 June 2014 follow this report.

2. **Principal Activities of the Company**
   The principal activity of the Company during the year was airport operator.

   There have been no material changes in the business that the Company is engaged in, during the year 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 and Chief Executive's Report.

3. **Board of Directors**
   The Directors of the Company during the year under review were:
   John W Gilks (Chairman)
   Alison Gerry
   Grant R Lilly
   James WP Hadley
   Richard G Tweedie

4. **Results For the Year Ended 30 June 2014**
   Profit for the year was $6,633,533 compared with a profit of $5,279,769 in the previous year.

   The directors resolved on 19 August 2014 that the dividend for the year ended 30 June 2014 be $4,316,766 (2013: $3,639,884).

   An Interim dividend of $1,000,000 was paid to the shareholders on 31 January 2014, leaving a final dividend of $3,316,766 to be paid on 20 August 2014, to be distributed to the shareholders as follows:

Queenstown Lakes District Council	$2,487,906
Auckland Airport Holdings (No 2) Limited	$828,860

Appropriation Account

Profit for the year	$6,633,533
Plus retained earnings brought forward	$10,447,546
Dividends paid	$(3,639,884)
Retained earnings to be carried forward	**$13,441,195**

5. **Directors Interests**
   The directors of the company entered into the following transactions during the year.

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

   The Civil Aviation Authority of New Zealand (CAA) has regulatory oversight of Queenstown Airport Corporation Limited as a certified airport operator. Grant Lilly is a director of CAA. Appropriate arrangements are in place to manage this relationship.

   Alison Gerry is a director of Pioneer Generation Limited. The company receives its power from Pioneer Generation Limited.

   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.

	2014	2013
JW Gilks	45,500	45,500
A Gerry	30,000	30,000
JW Hadley	28,000	28,000
GR Lilly	28,000	28,000
RG Tweedie	24,000	24,000
MG Valentine	-	10,000
	$155,500	$165,500

9. **Remuneration of Employees**
There were two employees who received remuneration and any other benefits in excess of $100,000 for the financial year as follows:

Bracket	2014 Number of Employees	2013 Number of Employees
$100,000 – $110,000	-	1
$140,000 – $150,000	1	-
$160,000 – $170,000	-	1
$270,000 – $280,000	1	1

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 Brett Tomkins of Deloitte to undertake the audit on her behalf.

On Behalf of the Board

Chairman

Chairman and Chief Executive's Report

As New Zealand's fastest growing airport and the gateway to Central Otago and the Southern Lakes region, Queenstown Airport is a key economic driver of the region's tourism industry and economy.

Queenstown Airport Corporation Limited (QAC) is responsible for ensuring this critical national infrastructure asset is efficient, operationally robust and provides value for money. QAC strives to deliver world-class facilities, an outstanding passenger experience and reflect the best of what our region has to offer.

Strong financial performance

QAC is pleased to report a strong year across both aeronautical and commercial activities. Net profit after tax of $6.6 million was up 25 per cent from the previous year's profit of $5.3 million - a result driven by continuing growth in passenger numbers and improved commercial revenues. Our increased profit also delivered a higher dividend to the airport's shareholders, three-quarters of which ($3.2 million) will be returned to Queenstown Lakes District Council.

Total revenue grew 12 per cent from $19.6 million last year to $21.9 million driven by passenger growth, increased spend per passenger and improved commercial leasing revenues. Due to prudent management of operating expenses, all the revenue uplift flowed to Operating Earnings before Interest, Tax, Depreciation and Amortization (EBITDA) which increased by $2.3 million or 18 per cent to $15.2 million.

Operating cashflow for the financial year was $12.1 million which was applied to fully fund capital expenditure, dividends and to reduce term debt by $4.1 million. At 30 June 2014, term debt totalled $16.5 million, representing 8.8 per cent of total assets. In May 2014 the Company extended the term of its $30 million facility by four years to 30 June 2018 with an agreed increase to $40 million from 31 March 2015. This increased facility will be used to fund planned airport expansion.

Capital expenditure for the year was modest and totalled $4.1 million ($6.5 million previous year). The major components of this spend included improving passenger flows in the arrivals/departures areas, acquiring a third baggage reclaim belt, resurfacing car parks, completing the build of a new AVSEC office and relocating the Airport Administration office to make way for a second airport lounge.

In accordance with company policy, land, buildings and property, plant and equipment were revalued at 30 June 2014, resulting in an increase in value of $33.4 million. The revaluation was based on independent valuations and reflects increases in both land values in the Frankton Flats area and airport commercial revenues.

Finance costs remained stable at $1.4 million, reflecting low interest rates and low debt levels.

The company's financial position remains strong. The equity ratio (total shareholders' funds to total tangible assets) improved to 85.3 per cent from 81.1 per cent last year, due in part to the revaluation of land and buildings.

A fully imputed interim dividend of 6.23 cents a share ($1.0 million) was paid on 31 January 2014 and on 19 August 2014 a fully imputed final dividend of 20.65 cents a share ($3.3 million) was declared. These dividends, totalling $4.3 million, are covered 1.5 times by after tax earnings for the year.

Record-breaking passenger growth

Increased passenger numbers underpinned QAC's strong financial performance for 2013-2014. Queenstown Airport experienced its busiest year on record with a 4.2 per cent increase in passenger movements compared to the previous 12 months, itself a record.

A total of 1,248,878 passengers travelled through the airport, 75 per cent of which were domestic passengers and 25 per cent were international passengers.

A key contributor to this strong performance was stellar month-on-month trans-Tasman passenger growth which jumped 27.6 per cent from 241,714 to 308,402 in a year.

All three trans-Tasman routes – Brisbane, Sydney and Melbourne – enjoyed double digit percentage growth thanks to extra capacity and frequency added by Air New Zealand, Jetstar, Qantas and Virgin Australia. The Brisbane route in particular was a standout performer, achieving 57 per cent growth.

Domestic passenger numbers experienced a small decline, decreasing 1.7 per cent to 940,476. Contributing factors included Jetstar withdrawing its services from Wellington and realigning its schedules to increase capacity on trans-Tasman routes. Overall, the Auckland-Queenstown route was the strongest performer with passenger numbers growing 5 per cent year-on-year.

The airport's private jet business went from strength to strength, increasing 13.7 per cent to 231 landings. In May 2014 a dedicated private jet terminal was opened by joint venture partners Air Center One and Capital Jet Services to better service their premium clients.

General aviation users – flightseeing aircraft and helicopters – also had a strong year with landings up 7.2% on previous year.

Growing passenger volumes
We work closely with aviation and tourism partners to build sustainable capacity growth and improve connectivity.

Airline alliances, like those between Air New Zealand and Virgin Australia and between Qantas and Emirates, have been instrumental in opening us up to international flying networks, giving short and long haul travellers better access and more flexibility to visit our region.

Forward schedules show a strong desire from our four airlines – Air New Zealand, Jetstar, Qantas, and Virgin Australia - to continue to meet rising demand from our key market of Australia. We are very grateful for their on-going support and are working hard to ensure we have the appropriate infrastructure in place to meet this growth and maintain service levels.

By working closely with our airlines, we have agreed a pathway to support the forecast growth in international passenger numbers. The key elements agreed are:
- Providing temporary arrivals capacity for winter 2014;
- Undertaking a major build to the terminal through summer 2014/15 to provide a new and larger international arrivals area;
- Increasing the size of the international departure lounge by July 2015;
- Modifying the check-in process and check-in area to more efficiently accommodate the peaks.

Looking to the future, a key driver for taking the airport to the next level will be to secure evening flights. We have worked with industry partners for the past two years to determine its feasibility and in May 2014 we were delighted that New Zealand's Civil Aviation Authority, in consultation with Australia's Civil Aviation Safety Authority, approved the Foundation Safety Case for flights in and out of Queenstown after dark. This is the first step towards securing evening flights, which we believe will be a game changer for Queenstown Airport and the region's tourism industry and economy. Much work is still to be undertaken and we are anticipating evening flights to commence by winter 2016.

Commercial development – meeting our passenger needs
The commercial and retail improvement programme we embarked on almost two years ago is reaping rewards.

Our spectacular growth in passenger numbers in recent years and a continued positive outlook has allowed us to agree increased rents and improved fitouts with existing tenants as well as attracting new retail offerings to the airport. In many cases rents are now linked to a tenant's turnover which rewards and motivates both parties to grow passenger spend.

New offerings in the past year include The Remarkable Sweet Shop (opened June 2013), Kapa (December 2013), Patagonia Café (March 2014) and Airspresso (July 2014). All have proved very popular with airport visitors.

In October 2013, the Bing Bong Bar was removed to make way for a new domestic arrivals entrance. The change has worked well, with incoming passengers now separated from outbound passenger queues moving through the Aviation Security screening point.

In May 2014, our corporate office moved into new ground floor offices to make way for a new passenger lounge to be built on Level One. The Manaia Lounge will primarily cater for premium Qantas Club members but other passengers will also be able to gain entry by paying a small fee.

In an effort to provide passengers with more car parking options at different price points – an offering we believe is very important - we introduced long term airport parking last year. While the initiative has proven popular it has also come at a price - our car park revenues fell year-on-year as we lost a portion of the higher revenue stream from the main short term car park. Demand for car parks remains high and new car park spaces will be added to the main car park in time for summer 2014/2015.

Noise management – working with our community

In October 2013, the Queenstown Airport Community Liaison Committee was formed and held its first meeting. The Committee comprises an independent chair Jane Taylor, three community members, representatives from the airport, airlines; General Aviation users; Airways; and Council.

In February 2014, the Committee formally adopted the Queenstown Airport Noise Management Plan that prescribes how QAC and its users will work with our local community to address noise concerns. Part of the plan involves QAC offering noise mitigation works to an estimated 380 homes close to the airport by 2037. The mitigation works will commence at the end of 2014 and will continue in annual or two yearly tranches for the next 20 to 23 years. An estimated 170 home owners will be offered mitigation works in the first two years of the programme.

Managing long-term growth

To meet the long-term growth projections we must secure land. Negotiations with our neighbour, Remarkables Park Limited (RPL), have been underway for a number of years to acquire a parcel of land to the south of the runway referred to as Lot 6. Our preference is to conclude a negotiated settlement, but should this fail, we also have a statutory right to compulsorily acquire the land. To date we have spent $2.6 million on the acquisition process and, while this is a significant amount, it is an unfortunate but necessary cost to acquire the land at a fair price. We remain firm in our resolve to acquire the land we need for future airport developments.

To help position the airport for future growth, two new executive roles were created which focus on the strategic direction of the airport and its development. The General Manager of Operations now has the overall responsibility for airside and terminal operations with an emphasis on aeronautical relationships and enhancing the consumer experience, while the General Manager of Property manages the company's commercial property portfolio - a key revenue driver for the airport.

We are currently working with key stakeholders to update our Airport Masterplan and a summary will be released before the end of the 2014 calendar year for public feedback.

Our strategic alliance with 24.9 per cent shareholder Auckland Airport continues to deliver benefits. Having the ability to tap into the country's number one travel gateway for both operational learning and tourism promotion has helped us reduce costs, gain visitor market share and improve efficiencies in managing future capital investment and property development.

Supporting our community

Queenstown Airport is committed to giving back to the community and supports the efforts of various not-for-profit organisations. Organisations supported in the past year include Bruce Grant Memorial Trust, Queenstown Volunteer Fire Brigade, Queenstown Coastguard, AngelFlightNZ, Kelvin Heights Sports Facility, Queenstown's Heart Kids Day Out, NZ Cancer Society, Autism NZ, and Queenstown Lions Club.

As a key community stakeholder, Queenstown Airport also contributes to longer term projects such as Shaping Our Future and its associated Visitor and Tourism Industry Task Force.

In line with our focus on attracting visitors to the region through the airport, we provide in-kind or value-add support to large-scale events such as the Winter Festival, NZ Golf Open and Warbirds Over Wanaka.
We also contribute to logistics planning for events such as the Royal Tour 2014. While the Duke and Duchess of Cambridge's visit in April was brief, months of detailed planning and inter-agency co-operation went into ensuring all airport logistics were professional and seamless. In addition, the RNZAF Boeing 757 they travelled on was the largest to ever land in Queenstown, which required meticulous forward planning and execution.

Our people

Queenstown Airport's enduring success is a testament to the quality and culture of its people. Huge thanks go to our QAC team and wider airport community, service providers, contractors, and stakeholders for their hard work, expertise, passion and commitment to excellence in helping us deliver a solid financial result and an outstanding passenger experience.

John Gilks	Scott Paterson
Chairman	Chief Executive Officer

19 August, 2014

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 2014.

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 2014 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 19 August 2014 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

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

	Notes	2014 $ 000's	2013 $ 000's
Income			
Revenue	2(a)	21,905	19,574
Other gains/(losses)	2(a)	-	(7)
Total income		**21,905**	**19,567**
Expenditure			
Operating expenses	4	4,448	4,647
Employee benefits expense	2(b)	2,220	1,997
Total operating expenditure		**6,668**	**6,644**
Operating earnings before interest, taxation, depreciation and amortisation		**15,237**	**12,923**
Depreciation	2(c)	3,848	4,148
Amortisation		53	37
Operating earnings before interest and taxation		**11,337**	**8,738**
Finance costs	2(d)	1,352	1,350
Profit before income tax		**9,985**	**7,388**
Income tax expense	3(a)	3,351	2,108
Profit for the year		**$6,634**	**$5,280**
Other comprehensive income			
Items that may be subsequently reclassified to profit and loss			
Gain/(loss) on cash flow hedging taken to reserves	6	694	785
Income tax relating to Gain/(loss) on cash flow hedging	3(b)	(194)	(220)
Items that may not be subsequently reclassified to profit and loss			
Gain/(loss) on revaluation of property, plant and equipment	7	33,350	-
Income tax relating to Gain/(loss) on revaluation	3(b)	(1,695)	-
Other comprehensive income for the year net of tax		**32,155**	**565**
Total comprehensive income for the year, net of taxation		**$38,789**	**$5,845**

The accompanying notes form part of these financial statements.

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STATEMENT OF FINANCIAL POSITION
As at 30 June 2014

	Notes	2014 $ 000's	2013 $ 000's
Current assets			
Cash and cash equivalents	16(a)	305	77
Trade and other receivables	5	1,636	1,738
Prepayments		41	37
Total current assets		**1,982**	**1,852**
Non-current assets			
Property, plant and equipment	7	182,928	149,350
Intangible assets	8	2,425	2,422
Total non-current assets		**185,353**	**151,772**
Total assets		**187,335**	**153,624**
Current liabilities			
Trade and other payables	9	2,126	1,745
Income in advance		46	24
Employee entitlements	10	280	236
Current tax payable		1,774	870
Total current liabilities		**4,226**	**2,875**
Non-current liabilities			
Borrowings (secured)	11	16,500	20,613
Derivatives	6	512	1,206
Deferred tax liabilities	3(c)	8,385	6,366
Total non-current liabilities		**25,397**	**28,185**
Total liabilities		**29,623**	**31,060**
Net assets		**$157,712**	**$122,564**
Equity			
Share capital	12	37,657	37,657
Retained earnings		13,441	10,448
Asset revaluation reserve	13	106,643	74,988
Cash flow hedge reserve	13	(29)	(529)
Total equity		**$157,712**	**$122,564**

The accompanying notes form part of these financial statements.

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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	**37,657**	**74,988**	**(529)**	**10,448**	**122,564**
Profit for the period	-	-	-	6,634	6,634
Other comprehensive income	-	31,655	500	-	32,155
Total comprehensive income for the period	**-**	**31,655**	**500**	**6,634**	**38,789**
Transactions with owners in their capacity as owners					
Dividends paid	-	-	-	(3,640)	(3,640)
At 30 June 2014	**$37,657**	**$106,643**	**$(29)**	**$13,441**	**$157,712**

	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	**37,657**	**74,988**	**(1,094)**	**8,754**	**120,305**
Profit for the period	-	-	-	5,280	5,280
Other comprehensive income	-	-	565	-	565
Total comprehensive income for the period	**-**	**-**	**565**	**5,280**	**5,845**
Transactions with owners in their capacity as owners					
Dividends paid	-	-	-	(3,587)	(3,587)
At 30 June 2013	**$37,657**	**$74,988**	**$(529)**	**$10,448**	**$122,564**

The accompanying notes form part of these financial statements.

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CASH FLOW STATEMENT
For the financial year ended 30 June 2014

	Notes	2014 $ 000's	2013 $ 000's
Cash flows from operating activities			
Receipts from customers		22,029	19,018
Interest received		-	-
Payments to suppliers and employees		(6,280)	(6,576)
Interest paid		(1,271)	(1,334)
Income tax paid (net)		(2,379)	(1,973)
Net cash inflow/(outflow) from operating activities	16(b)	**12,099**	**9,135**
Cash flows from investing activities			
Purchase of property, plant and equipment		(4,062)	(6,244)
Purchase of intangible assets		(56)	(253)
Net cash inflow/(outflow) from investing activities		**(4,118)**	**(6,497)**
Cash flows from financing activities			
Net proceeds from issue of shares		-	-
Net proceeds from borrowings/(repayments)		(4,113)	803
Dividends paid to equity holders of the parent		(3,640)	(3,587)
Net cash inflow/(outflow) from financing activities		**(7,753)**	**(2,784)**
Net increase/(decrease) in cash and cash equivalents		**228**	**(146)**
Cash and cash equivalents at the beginning of the financial year		**77**	**223**
Cash and cash equivalents at the end of the financial year	16(a)	**$305**	**$77**

The accompanying notes form part of these financial statements.

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Notes to the Financial Statements

For the financial year ended 30 June 2014

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.

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

(b) Statement of Compliance

The financial statements have been prepared in accordance with 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.

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

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(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
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.

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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.

(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 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 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.

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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 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

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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
Buildings	2.5-33.0%	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.

(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

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.

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2. 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	13,541	12,226
Car Park Revenue	1,885	1,983
Total revenue from rendering of services	**15,426**	**14,209**
Operating lease rental revenue	**5,743**	**4,499**
Interest Revenue:		
Inland Revenue Department	4	-
Total interest revenue	**4**	**-**
Other revenue	**732**	**866**
Total Revenue	**$21,905**	**$19,574**
Other gains/(losses):		
Net change in fair value of derivative financial instruments classified at fair value through profit or loss (forward exchange contracts and options)	-	(7)
Total other	**$-**	**$(7)**

(b) Employee Benefits Expense

	2014	2013
Salaries and wages	2,065	1,835
Directors fees	155	162
	$2,220	**$1,997**

(c) Depreciation

	2014	2013
Buildings	1,234	1,279
Runway, taxiways & aprons	1,141	1,156
Vehicles, plant & equipment	1,473	1,713
Total Depreciation	**$3,848**	**$4,148**

(d) Finance Costs

	2014	2013
Interest on borrowings	**$1,352**	**$1,350**

3. INCOME TAXES

(a) Income Tax Recognised in Profit or Loss

	2014 $ 000's	2013 $ 000's
Tax expense/(income) comprises:		
Current tax expense/(credit):		
Current year	3,084	2,426
Adjustments for prior years	137	320
	3,221	**2,746**
Deferred tax expense/(credit)		
Origination and reversal of temporary differences	144	(302)
Adjustment for prior year	(14)	(336)
Total deferred tax (credit) /expense	**130**	**(638)**
Total tax expense	**$3,351**	**$2,108**

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

	2014 $ 000's	2013 $ 000's
Surplus before income tax	**9,985**	**7,388**
Income tax expense calculated at 28%	2,796	2,069
Permanent Differences	(46)	
Reversal of temporary difference	479	-
Adjustment for prior years	123	(16)
Other	-	55
Income tax expense	**$3,351**	**$2,108**

(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 $1,695,212 has been charged directly to other comprehensive income relating to the fair value movement of fixed assets.

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(c) Deferred Tax Balances Comprise

Taxable and deductible temporary differences arising from the following:

2014	Opening balance $ 000's	Charged to profit for the year $ 000's	Charged to other comprehensive income $ 000's	Closing balance $ 000's
Gross deferred tax assets/(liability):				
Property, plant and equipment	(6,646)	448	(1,695)	(7,893)
Intangible assets	(138)	(530)	-	(667)
Employee benefits	51	(20)	-	31
Derivatives	338	-	(194)	144
Trade and other payables	29	(29)	-	-
	$(6,366)	$(131)	$(1,889)	$(8,385)

2013	Opening balance $ 000's	Charged to profit for the year $ 000's	Charged to other comprehensive income $ 000's	Closing balance $ 000's
Gross deferred tax assets/(liability):				
Property, plant and equipment	(7,085)	439	-	(6,646)
Intangible assets	(291)	153	-	(138)
Employee benefits	20	31	-	51
Derivatives	558	-	(220)	338
Trade and other payables	14	15	-	29
	$(6,783)	$638	$(220)	$(6,366)

(d) Imputation Credit Account Balances

	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

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4. Operating Expenses

	2014 $ 000's	2013 $ 000's
Total Operating Expenses	**$4,448**	**$4,647**
Operating expenses include the following:		
Audit fees - disclosure financial statements	38	37
Audit fees - financial statement audit	43	34
Other assurance fees paid to auditors	-	14
Bad debts written off	3	-

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

5. Trade & Other Receivables

	2014 $ 000's	2013 $ 000's
Trade and other receivables	1,636	1,738
Allowance for doubtful debts	-	-
Total Trade & Other Receivables	**$1,636**	**$1,738**

6. Derivatives

Derivative financial assets/(liabilities);

	2014	2013
Interest rate swap (i) (effective)	(512)	(1,206)
Interest rate option (ii) (not designated)	-	-
	$(512)	**$(1,206)**

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.

7. Property, Plant and Equipment

	Land	Buildings	Runways, Taxiways & Aprons	Plant & Equipment	Total
	$ 000's	$ 000's	$ 000's	$ 000's	$ 000's
At fair value	76,050	34,524	30,337	6,282	147,193
At Cost	-	-	-	10,056	10,056
Work in progress at cost	2,189	1,015	909	130	4,243
Accumulated Depreciation	-	(3,826)	(2,760)	(5,555)	(12,141)
Balances as at 1 July 2013	**$78,239**	**$31,713**	**$28,486**	**$10,912**	**$149,350**
Additions	443	1,023	299	2,340	4,106
Revaluation	27,297	3,643	216	2,194	33,350
Disposals	-	(1)	(30)	-	(30)
Depreciation	-	(1,235)	(1,141)	(1,473)	(3,848)
Movement to 30th June 2014	**$27,741**	**$3,431**	**$(655)**	**$3,061**	**$33,578**
At fair value	103,347	34,147	26,666	7,560	171,720
At Cost	-	379	1,097	11,423	12,899
Work in progress at cost	2,633	618	67	422	3,739
Accumulated Depreciation	-	-	-	(5,430)	(5,430)
Balances as at 30th June 2014	**$105,980**	**$35,144**	**$27,830**	**$13,974**	**$182,928**

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.

Accumulated depreciation as at 30 June 2014 has been reduced by $10,559,370 as a result of the revaluation of certain assets.

8. 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.

9. Trade & Other Payables

	2014 $ 000's	2013 $ 000's
Trade payables	1,160	654
Other creditors and accruals	966	1,091
Total trade and other payables	**$2,126**	**$1,745**

10. Employee Entitlements

Accrued salary and wages	168	126
Annual leave	112	110
Total employee entitlements	**$280**	**$236**

11. Borrowings

Westpac Bank borrowings (secured)	$16,500	$20,613
Disclosed in the financial statements as:		
Current	-	-
Non-current	$16,500	$20,613
Total current and non-current borrowings	**$16,500**	**$20,613**

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.

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The Westpac facility is secured by a general security agreement over the Company's assets, undertakings and any uncalled capital. The weighted average interest rate on the term loan at balance date was 4.4%(2013: 3.8%)

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

12. Share Capital

(a) Fully Paid Ordinary Shares

	2014 No.	2013 No.	2014 $ 000's	2013 $ 000's
Balance at beginning of year	16,060,365	16,060,365	$37,657	$37,657
Balance at end of year	**16,060,365**	**16,060,365**	**$37,657**	**$37,657**

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

(b) Dividends Paid

	2014 $ 000's	2013 $ 000's
Final Dividend – 16.44c per share	2,640	2,587
Interim Dividend – 6.23c per share	1,000	1,000
Total Dividend Paid	**$3,640**	**$3,587**

On 31st January 2014 an interim dividend of 6.23 cents per share (total dividend of $1,000,000) 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 $2,639,844) was paid to holders of fully paid ordinary shares.

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 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.

14. Commitments for Expenditure

	2014 $ 000's	2013 $ 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**

15. Related Party Disclosures

(a) Parent Entity

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

(b) Transactions with Related Parties

Related parties of the Company are:

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

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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
Queenstown Lakes District Council		
Rates	(291)	(259)
Resource Consent Costs & Collection fees	(47)	(234)
Parking Infringement Recovery	30	15
Wanaka Airport Management Fee	70	70

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).

Queenstown Airport Corporation Limited holds 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 Company has applied to have the bond released.

Auckland International Airport Limited		
Rescue Fire Training	(8)	-

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

Hadley Consultants Limited		
Consultant Engineering Services	(5)	(13)
Civil Aviation of New Zealand		
CAA Certification Audit Fees	(8)	(3)
Pioneer Generation Limited		
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:

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

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

	-	-
Queenstown Lakes District Council		
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

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:

	2014 $ 000's	2013 $ 000's
Cash and cash equivalents	13	16
Bank account/(overdraft)	292	61
Total cash and cash equivalents	**$305**	**$77**

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

Profit for the year	**6,634**	**5,280**
Add/(less) non-cash items:		
Amortisation	53	37
Depreciation	3,848	4,148
Net change in fair value of derivative financial instruments	-	7
Loss on sale of Property, Plant & Equipment	30	-
	3,930	**4,193**
Changes in assets and liabilities:		
Decrease in Trade and other receivables	102	(389)
Increase in Prepayments	(4)	(19)
Increase in Current tax payable	904	772
Increase in Trade and other payables	381	(992)
Increase in Income in advance	22	(2)
Increase in Employee entitlements	44	(18)
Increase in Deferred tax liability	130	(418)
Movement in items reclassified as investing and financing activities	(44)	727
Net cash inflow from operating activities	**$12,099**	**$9,135**

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	1,636	1,738
Financial Liabilities		
Trade and other payables	2,126	1,817
Borrowings	16,500	20,613
Derivatives	512	1,206
Current tax payable	1,774	870

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

18. Subsequent Events

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.

Statement of Service Performance

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

Goals,

To achieve its mission QAC has established a number of goals. These are to:

- develop the Airport infrastructure and facilities to support the Region's growth while maximising utilisation of the existing facilities to avoid over capitalisation
- provide people using the Airport with a 'wonderful experience' consistent with our vision
- promote the Airport and the Region to grow visitor numbers
- establish the Airport as a preferred place to work and do business within the region
- be socially and environmentally responsible for the benefit of the community in alignment with Queenstown Lakes District Council's (QLDC) desired outcomes
- operate as a successful business growing the return on funds invested in the medium and long term.

Objectives

It is QAC's principal 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 which we believe can and should be achieved within that year. These objectives will be measurable and QAC's performance against these objectives will be reported and audited annually.

Goal 1: Develop the Airport Infrastructure and facilities to support the Region's Growth while maximising utilisation of existing facilities to avoid over capitalisation	
Objectives	**Work Completed**
To be well informed of airport and aviation trends and drivers of passenger volumes that will positively or negatively impact demands on our infrastructure. Develop plans for continued growth so as not to impede the Region's growth. To expand the approved window for airlines to arrive and depart ZQN, taking advantage of ZQN's consented operating hours of 6am to 10pm. Ensure expansions to the Airport infrastructure and facilities are delivered in a timely manner to balance the risks of overcapitalisation with the risks of turning away passengers and aircraft.	Capacity studies have been completed and assess the peak hour capacity limitations on the terminal and airfield. QAC's masterplan was updated by year-end and is being discussed with stakeholders. Civil Aviation Authority (NZ) and Civil Aviation Safety Authority (Australia) approval was received for the Foundation Safety Case to allow flying after dark. Plans are now being developed to implement the infrastructure needed to allow evening flights – flights up to 10pm – for winter 2016. A 'pop up' temporary international arrivals area was established in June 2014 incorporating a 3rd baggage reclaim belt in time for the winter peaks of July and August 2014. The MPI area was expanded to improve queuing areas. Plans for a permanent expansion to the international arrivals and departure areas are well advanced. Construction is due to commence in September 2014 to allow facilities to be available for winter 2015.

Goal 2: Provide people using the Airport a 'wonderful experience' consistent with our vision	
Objectives	**Work Completed**
Provide a superior experience for people using the airport from access roads, parking, and in terminal experience. Ensure people flow through the terminal is efficient such that: • congestion in the terminal and overcrowding in the departure lounges is minimised • congestion for international arrivals is reduced so that passengers queuing outside the arrivals hall is minimised	A long term parking option was introduced in 2013 and has proved very popular. Parking disrupts occurred while the resealing of the main carpark was completed. Demand for parks exceeded capacity on a couple of weekends during the year as local residents travelled to major events in Auckland and Wellington. A refresh of the terminal's retail and F&B offering was undertaken and resulted in an increase in retail sales per passenger and increased returns for QAC. Patagonia opened the second café in March and Airspresso opened the main café in July 2014. A mystery shopper programme commenced in July 2014 to test product offerings from our retail tenants. A new arrivals entrance for domestic passengers was built and the aviation security screening area expanded to allow better separation of arriving and departing passengers. To achieve these changes the airport bar was removed and has been incorporated in the new main café offering. Improved processing of inbound international passengers meant the queues for customs were managed within the arrivals hall.

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Goal 3: Promote the Airport and the Region to grow visitor numbers	
Objectives	**Work Completed**
To be actively involved in route development focusing on new services or increased capacity from Australia, Pacific Island and New Zealand. This includes adding capacity and frequency to existing routes.	No new routes were added during FY14. All existing international routes saw increased frequency of services and reflected in our 27% increase in international passenger numbers. The Brisbane-Queenstown route saw the greatest increase in services and passenger numbers on this route grew 57% to 53,000. Domestically, the Auckland-Queenstown route benefited from Air NZ replacing the 737 jets with the larger capacity A320 jets. Jetstar withdrew its services from the Wellington route during the year. The use of predominantly ATR planes on Christchurch and Wellington makes these services more vulnerable to weather disrupts at Queenstown. Air NZ are aware of the problem and from time to time they will schedule jet services to replace some ATR flights.
Assist selected local events as far as possible by allowing promotion within and around the terminal.	In line with QAC's focus on attracting visitors to the region through the airport, it gave in-kind or value-add support to large-scale local events like the Winter Festival, NZ Golf Open and Warbirds Over Wanaka. QAC also supported various community events organised by not-for-profit organisations including the Queenstown Volunteer Fire Brigade, Queenstown Coastguard, Queenstown's Heart Kids Day Out, NZ Cancer Society, Autism NZ, and the Queenstown Lions Club.

Goal 4: Establish the Airport as a preferred place to work and do business within the Region	
Objectives	**Work Completed**
The Region understands the diversity of businesses and jobs at the Airport.	According to New Zealand Airports Association research (2013), the economic benefits associated with Queenstown Airport are almost $275 million per year and this is now expected to grow.
Businesses serving passengers are professional and successful. They employ people that embrace the QAC's vision for the travelling public.	The introduction of further evening flights would require the introduction of a 'split-shift' operating model at the airport, potentially adding significant numbers to the 350 people already working in and around Queenstown Airport.
The benefits from growing passenger numbers flows through to all businesses operating at the Airport.	A mystery shopper programme commenced in July 2014 to test service levels across our retail tenants. Spend per passenger is up 53% on last year.

Goal 5: Be socially and environmentally responsible for the benefit of the community and in alignment with QLDC's desire outcomes.

Objective	Work Completed
Reduce our impact on Council's infrastructure with a particular focus on water and waste management.	We have worked with Air New Zealand to reduce waste from aircraft as part of their sustainability programme and with Airways in reducing fuel wastage. We have recently met with QLDC in developing their Three Waters strategy.
Manage the noise impact of the airport on the surrounding residential and business areas.	The Queenstown Airport Liaison Committee was established and held its first meeting in October 2013. The Queenstown Airport Noise Management Plan was ratified in February 2014 and letters sent to 380 home owners outlining QAC's plans to for noise mitigation. An estimated 170 homes will be eligible for noise mitigation measures over the next 2 years. An information session was held for local residents in March.
Engage with the Community, keeping them informed on developments at the airport and future plans.	QAC is committed to keeping the community informed and engaged with its plans. It employs a range of communication initiatives to achieve this including media relations, direct correspondence and face-to-face community meetings/business speaking engagements as well as regular updates through its newsletter, website and social media channels.
Support QLDC with its plans for Wanaka Airport.	We continue to manage and maintain Wanaka airport on behalf of QLDC including collecting aeronautical charges and managing properties and leases and licences to operators. Warbirds Over Wanaka was held at Wanaka Airport over Easter 2014 and was supported by QAC through logistics planning, promotional support and a dedicated Rescue Fire unit being onsite on show days. Scheduled services remain elusive for Wanaka though the local aviation businesses based there continue to operate successfully.
Participate in Council and Regional Planning and the RMA process to protect the Airport from unintended planning consequences	Queenstown Lakes District Council's Strategic Direction Chapter for the new District Plan recognises the important role Queenstown Airport plays in contributing to the development of a 'prosperous, resilient and sustainable economy' for the Lakes District. To reinforce this position, QAC is promoting the need to create an Airport Zone in the District Plan. QAC's CFO, Mark Edghill, is chairman of the 'Shaping Our Future' Visitor & Tourism Industry Task Force. The terms of reference are to develop a draft strategy paper for the industry looking out to 2030 and beyond and seek feedback on that paper from community forums in November. This is allowing the airport to engage with the community in the future of the district.

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Goal 6: Operate as a successful business growing the return on funds invested in the medium and long term.	
Objective	**Work Completed**
Generate improved business returns over the forecast period sufficient to: • Support the funding of growth capital. • Provide a dividend that meets shareholder expectations.	NPAT for FY14 was up 25% on last year and exceeded forecast by 9%. Profits were sufficient to fully fund the year's capital expenditure and dividends and achieve a $4 million reduction in debt. QAC's bankers, Westpac, have agreed to a new four year banking facility that gives the company the confidence it can fully fund its expansion plans over this period while maintaining increasing dividends in line with its dividend policies.
Strive for Operational Excellence through continuous improvement programmes.	The terminal service levels were maintained to IATA Service Level C. Total costs for FY14 were $5.34 per passenger ($5.55 in FY13).
Develop and motivate staff to embrace our vision for the business and to want to make a difference.	All QAC staff completed the Queenstown Resort College Ambassador programme during the year with positive feedback on an excellent programme. An annual staff survey was implemented in 2013 which established a baseline to measure staff satisfaction going forward.
Diversify revenues to de-risk the business.	New tenancies provide for QAC to receive rents in line with the tenant's turnover motivating both QAC and our tenants to grow passenger spends at their tenancy. The contribution from Commercial revenues grew 28% and makes up 26% of total contribution, up from 23% in FY13.

Objective: Achieve Statement Of Intent Financial Forecasts

Year Ended 30 June	Forecast 2014 ($000's)	Actual 2014 ($000's)	Variance 2014 ($000's)
Total Revenue	20,235	21,905	1,670
Total Operating Expenditure	6,048	6,668	620
Operating EBITDA	14,187	15,237	1,050
Funding costs	1,900	1,352	-548
Depreciation & Amortisation	3,827	3,900	73
Profit Before Tax	8,459	9,985	1,526
Profit After Tax	6,091	6,634	543
Total Liabilities	30,575	29,623	-952
Total Shareholder's Funds	124,615	157,712	33,097
Total Assets	155,190	187,335	32,145
Shareholder's Funds to Total Assets	80.3%	84.2%	-
Net Profit After Tax to Shareholder's Funds	4.9%	4.2%	-
Dividends	3,806	4,317	511
Anticipated Capital Expenditure	4,470	4,118	-352
Total Closing Debt	17,484	16,500	-984
Net Drawdown/(Repayment of) Debt	(2,660)	(4,113)	(1,453)
Passenger Numbers (Pax) 000	1,256	1,249	-7

Assessment of Actual vs Forecast Financial Performance

Revenue exceeded forecast with a greater proportion of higher paying international passengers than forecast and strong retail spend. We achieved lower funding costs due to reductions in debt and a continued low interest environment. This generated Profit After Tax of $6.6 million 9% above forecast, providing funds for dividends for the year of $4.3 million 13% above forecast.

Land and building were revalued upwards $33.4 million by the directors based on an independent valuation by Seagar & Partners, improving Shareholders Funds and the ratio of Shareholders Funds to Total Assets.

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INDEPENDENT AUDITOR'S REPORT

TO THE READERS OF QUEENSTOWN AIRPORT CORPORATION LIMITED'S FINANCIAL STATEMENTS AND PERFORMANCE INFORMATION FOR THE YEAR ENDED 30 JUNE 2014

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 carry out the audit of the financial statements and performance information of the company on her behalf.

We have audited:

- the financial statements of the company on pages 10 to 31, that comprise the statement of financial position as at 30 June 2014, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information; and
- the performance information of the company on pages 32 to 38.

Opinion

Financial statements and performance information

In our opinion:

- the financial statements of the company on pages 10 to 31:
  - comply with generally accepted accounting practice in New Zealand;
  - give a true and fair view of the company's:
    - financial position as at 30 June 2014; and
    - financial performance and cash flows for the year ended on that date;
- the performance information of the company on pages 32 to 38:
  - complies with generally accepted accounting practice in New Zealand; and
  - gives a true and fair view of the achievements measured against the performance targets adopted for the year ended on 30 June 2014.

Other legal requirements

In accordance with the Financial Reporting Act 1993 we report that, in our opinion, proper accounting records have been kept by the company as far as appears from an examination of those records.

Our audit was completed on 19 August 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 we explain our independence.

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Basis of opinion

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and carry out our audit to obtain reasonable assurance about whether the financial statements and performance information are free from material misstatement.

Material misstatements are differences or omissions of amounts and disclosures that, in our judgement, are likely to influence readers' overall understanding of the financial statements and performance information. If we had found material misstatements that were not corrected, we would have referred to them in our opinion.

An audit involves carrying out procedures to obtain audit evidence about the amounts and disclosures in the financial statements and performance information. The procedures selected depend on our judgement, including our assessment of risks of material misstatement of the financial statements and performance information whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the preparation of the company's financial statements and performance information that give a true and fair view of the matters to which they relate. We consider internal control in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.

An audit also involves evaluating:

- the appropriateness of accounting policies used and whether they have been consistently applied;
- the reasonableness of the significant accounting estimates and judgements made by the Board of Directors;
- the adequacy of all disclosures in the financial statements and performance information; and
- the overall presentation of the financial statements and performance information.

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements and performance information. Also we did not evaluate the security and controls over the electronic publication of the financial statements and performance information.

In accordance with the Financial Reporting Act 1993, we report that we have obtained all the information and explanations we have required. We believe we have obtained sufficient and appropriate audit evidence to provide a basis for our audit opinion.

Responsibilities of the Board of Directors

The Board of Directors is responsible for preparing financial statements and performance information that:

- comply with generally accepted accounting practice in New Zealand;
- give a true and fair view of the company's financial position, financial performance and cash flows; and
- give a true and fair view of its service performance achievements.

The Board of Directors is responsible for such internal control as it determines is necessary to enable the preparation of financial statements and performance information that are free from material misstatement, whether due to fraud or error. The Board of Directors is also responsible for the publication of the financial statements and performance information, whether in printed or electronic form.

The Board of Directors' responsibilities arise from the Local Government Act 2002 and the Financial Reporting Act 1993.

Responsibilities of the Auditor

We are responsible for expressing an independent opinion on the financial statements and performance information and reporting that opinion to you based on our audit. Our responsibility arises from section 15 of the Public Audit Act 2001 and section 69 of the Local Government Act 2002.

Independence

When carrying out the audit, we followed the independence requirements of the Auditor-General, which incorporate the independence requirements of the External Reporting Board.

Other than the audit, and the provision of limited taxation compliance services, we have no relationship with or interests in the company.

B E T

B.E. Tomkins
DELOITTE
On behalf of the Auditor-General
Dunedin, New Zealand