Queenstown Airport Corporation Limited

Annual Report for Financial Year Ended 30 June 2016

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

Annual Report

Your Directors have pleasure in submitting the Annual Report together with the financial statements of the Company for the year ended 30 June 2016.

1. **Financial Statements**
   The financial statements of the Company for the year ended 30 June 2016 follow this report.

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

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

   Details of the year under review and future prospects are included in the Chairman'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)
   James WP Hadley
   Grant R Lilly
   Michael P Stiassny
   Norman J Thompson

4. **Results For the Year Ended 30 June 2016**
   Profit for the year was $7,763,134 compared with a profit of $8,312,148 in the previous year.

   The directors resolved on 19 August 2016 that the dividend for the year ended 30 June 2016 be $6,264,124 (2015: $5,156,074).

   An Interim dividend of $1,000,000 was paid to the shareholders on 4th February 2016, leaving a final dividend of $5,264,124 to be paid on 19th August 2016, to be distributed to the shareholders as follows:

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

Appropriation Account for the year ended 30 June 2016	**$ 000's**
Balance at the beginning of the year	17,436
Profit for the year	7,763
Reclassification to retained earnings from revaluation reserve	47
Dividends paid	(5,156)
Retained earnings to be carried forward	**20,090**

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..

   During the year the Queenstown Airport Corporation Limited made a contribution to Warbirds Over Wanaka Community Trust. John W Gilks is a Trustee of Warbirds Over Wanaka Community Trust.

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

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

6. Share Dealings
No director acquired or disposed of any interest in shares in the Company during the year.

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

	2016 $	2015 $
JW Gilks	52,000	52,000
A Gerry	-	8,875
JWP Hadley	35,500	35,000
GR Lilly	33,500	33,500
MP Stiassny	33,500	17,875
NJ Thompson	29,500	16,936
RG Tweedie	-	13,573
	184,000	**177,759**

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

Bracket	2016 Number of Employees	2015 Number of Employees
$100,000 – $110,000	2	1
$110,000 – $120,000	1	-
$130,000 – $140,000	1	-
$140,000 – $150,000	1	1
$150,000 – $160,000	-	1
$170,000 – $180,000	1	-
$180,000 – $190,000	1	-
$190,000 – $200,000	1	-
$220,000 – $230,000	-	1
$310,000 – $320,000	1	-
$320,000 – $330,000	-	1

9. Donations
The Company made donations totalling $3,450 during the year.

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

11. Auditor

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

On Behalf of the Board

Chairman Director

Chairman and Chief Executive's Report

2015/16 was a year of exciting progress for Queenstown Airport with runway and infrastructure improvements, strongly growing passenger numbers, and by year's end a significantly increased daily operating window with the introduction of after-dark flights.

Sustained passenger growth has again underpinned QAC's strong financial performance for the 2015/16 financial year, delivering value for our shareholders and the community.

Visitor growth and demand for both New Zealand and our region remains strong, predominantly driven by the attractiveness of the destination, new international air services and better domestic connectivity, cheaper fuel prices and strong marketing campaigns.

Queenstown and the broader region are nationally important visitor destinations. Our long-range forecasts continue to predict strong visitor growth and as a result, local and central government investment and development of infrastructure is critical for the region to accommodate this projected growth and maintain a quality visitor experience. QAC is committed to working with local and central government, the community and key stakeholders to address this ongoing challenge.

Financial performance

QAC is pleased to report another strong performance across both aeronautical and commercial activities in the financial year to June 2016.

Underlying Net Profit After Tax was $10.5 million, up $2.2 million or 27 per cent on the previous year. Following an adverse taxation ruling related to depreciation claimed on the Runway End Safety Area, statutory Net Profit After Tax was reduced for a non-cash provision of $2.6 million to $7.8 million, down 7 per cent from the prior year.

Total revenue of $31.5 million grew 27 per cent from $24.8 million last year driven by strong passenger volumes, greater retail spend per passenger and improved commercial leasing revenues. Operating expenses were up $1.8 million to $10.0 million as the organisation built capacity primarily to service evening flights. Operating Earnings before Interest, Tax, Depreciation and Amortization (EBITDA) increased by $4.9 million, or 29 per cent, to $21.5 million.

The Company invested significantly in airport infrastructure during the year with capital expenditure of $21.2 million compared to $16.5 million in the previous year. The highlight of this investment was the completion of the runway widening and overlay in April 2016 to enable evening flights.

The Company's financial position remains strong. As at 30 June 2016, term debt totalled $39.0 million, representing 19.6 per cent of net assets. The equity ratio (total shareholders' funds to total tangible assets) was 78.5 per cent and interest cover (EBITDA/interest) 14.8 times.

Returns to shareholders

QAC returned a total of $6.3 million to its two shareholders Queenstown Lakes District Council (75.1%) and Auckland Airport (24.9%) for the 2015-16 year. This compares with dividends totalling $5.2 million in the previous financial year, an increase of 21 per cent.

A fully imputed interim dividend of 6.2 cents a share ($1.0 million) was paid on 4 February 2016 and a fully imputed final dividend of 32.8 cents a share ($5.26 million) was declared on 19 August 2016. These dividends are covered 1.2 times by after tax earnings for the year.

Period of outstanding growth

Aeronautical growth

Queenstown Airport enjoyed another period of sustained record passenger growth, welcoming a total of 1,651,109 passengers in the 12 months ended June 2016 - up 252,469 or 18.1 per cent on the previous year's record.

Domestic passenger numbers grew strongly by 18 per cent to 1,176,330, though a significant portion of these passengers on domestic flights were themselves international visitors to the region. International passenger traffic rose 19 per cent to 474,779 with growth across all direct trans-Tasman routes – Sydney, Melbourne, Brisbane and Coolangatta – as a result of extra airline capacity and frequency.

Overall, commercial general aviation landings increased 5 per cent, with strong growth (10 per cent) in helicopter landings balanced by a slight decrease (4 per cent) in fixed wing landings.

Our strategic alliance with Auckland Airport, New Zealand's largest travel gateway, continues to deliver long-term value, providing improved connectivity and resources otherwise not available to us. This has been reflected in our passenger growth and helped us improve operational and cost efficiency.

We greatly appreciate the ongoing support of our four major commercial airline customers – Air New Zealand, Jetstar, Qantas, and Virgin Australia - and their global airline partners. Their forward schedules demonstrate a strong desire to meet continuing demand, grow sustainable capacity and improve connectivity, to give travellers more choice and flexibility. In particular, Air New Zealand's and Jetstar's commitment to introducing evening flights for winter 2016 was extremely positive and we will continue to work closely with both airlines to ensure these flights are a success.

Commercial/retail growth
In the year under review, we saw continued commercial revenue growth. The speed and willingness with which operators took up new space demonstrated the popularity of Queenstown Airport as a retail destination.

New or upgraded offerings in the past year include Premium NZ (opened February 2016), Ezi Car Rentals (April 2016) and Enterprise Car Rentals (June 2016). All have proved very popular with airport visitors.

Evening flights take off
Getting ready for evening flights in winter 2016 was a key priority in this financial year and has ultimately delivered a long term growth opportunity for the airport and the region's visitor sector.

From QAC's perspective, the completion of the required infrastructure upgrades (runway widening, overlay and airfield lighting) was critical to our success and these were delivered on time and under budget in April.

The first after-dark domestic flight (operated by Air New Zealand) on 23 May 2016 and our first international service (operated by Jetstar) on 24 June 2016 were major milestones for New Zealand aviation and tourism, and marked a new era for Queenstown Airport. After-dark flights enhance our potential as an international airport, allow better utilisation of our infrastructure by spreading peak loads, and create new employment opportunities. Within a six-month period the airport community grew from 350 people to close to 500 as most of the 60-strong businesses moved to double shift operations.

Managing sustained growth
Together with our airline partners, border agencies and tenants, we are working hard to optimise our customer experience and achieve operating efficiencies through the use of smart planning, new technology and process innovation.

After completing a two-year programme to standardise and refresh the airport's technology infrastructure and upgrade all applications, FY16 saw us move to improve our customers' online experience with new high speed free public WiFi, digital signage and further enhancements to our website.

We also improved operational efficiency by introducing eGate into the Customs areas. This increased processing rates for international arrivals from around 360 passengers per hour to 1,000 passengers per hour and significantly reduced queues. Online slot scheduling was also implemented to optimise the use of our aircraft stands.

Ahead of our long term strategic Master Plan we have begun a series of interim safety and capacity improvements to our car parking and road network which commenced in 2016. These enhancements will continue to be rolled out over the next financial year.

We are progressing our efforts to acquire the Lot 6 land adjacent to the airfield. An interim decision on the Notice of Requirement was issued by the Environment Court in December 2015, confirming the separation distance requirements between the runway and proposed heavy taxiway. The Environment Court requested the preparation of an aeronautical study to show the operationalisation of the airfield including the proposed changes. This report is currently with the CAA for approval as required by the Environment Court timetable.

We are mindful of the impact of a busier airport on our neighbours. This year our Aircraft Noise Management Plan was primarily directed at the 13 'Inner Noise Sector' homes most affected by aircraft noise. By July 2016, the first tranche of QAC's Noise Mitigation Programme was made available to homeowners in the 'Inner Noise Sector' as the programme tracked the path agreed with the Liaison Committee. The next phase, expected to take 18-24 months, will include mechanical ventilation offers to an estimated 135 'Mid Noise Sector' houses in the second half of 2016. The programme will then continue in scheduled tranches for the next 20 years.

Community involvement

We work hard to support our regional communities in various ways, including through marketing promotions, local events and the efforts of various not-for-profit organisations. We also contribute staff to initiatives such as "Shaping Our Future" and its associated Visitor and Tourism Industry and Transport Task Forces.

We recognise the success of large-scale events in promoting our region and attracting visitors through the airport. This year we provided in-kind support to events such as the Winter Festival, NZ Golf Open, Warbirds Over Wanaka and the Queenstown Marathon, as well as participating in a joint Ski Tourism Marketing Network campaign. We also provided operational support to Wanaka Airport and once again assisted with the logistics of the NASA balloon launch in May.

Our team

Queenstown Airport is a direct reflection of the quality, diversity and culture of its people. Our sincere thanks go to our QAC board of directors, team and wider airport community, service providers, contractors and stakeholders for their hard work, expertise, and commitment to excellence to help us deliver a strong financial result and an outstanding visitor experience.

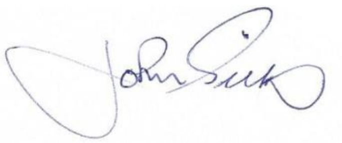
We would also like to particularly acknowledge the hard work and dedication of Acting CEO Mark Edghill and the QAC team as they transitioned through a challenging time following the passing of CEO Scott Paterson in September 2015.

In June 2016, we welcomed aviation and transport infrastructure specialist Colin Keel to the role of CEO. Colin brings significant international experience to QAC having worked in Australia, North America and the United Kingdom.

Outlook

Looking ahead, we remain confident about the sustainability of both domestic and trans-Tasman growth, particularly with the addition of winter evening flights which we anticipate will grow over time. Forward flight schedules are stronger and we are confident that 2016/17 will be another successful year for QAC.

Longer term, the work we are doing on our 30-year Master Plan will provide us with a roadmap to the future, as we continue to develop the airport to serve the community and region for many decades to come.



John Gilks
Chairman
19 August 2016

Colin Keel
Chief Executive Officer

Directors' Responsibility Statement

The Directors of Queenstown Airport Corporation Limited are pleased to present the Annual Report and Financial Statements for Queenstown Airport Corporation Limited for the year to 30 June 2016.

The Directors are responsible for presenting financial statements in accordance with New Zealand law and generally accepted accounting practice which give a true and fair view of the financial position of the Company as at 30 June 2016 and the results of operations and cash flows for the year ended on that date.

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

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

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

This Annual Report is dated 19 August 2016 and is signed in accordance with a resolution of the Directors made pursuant to section 211(1)(k) of the Companies Act 1993.

For and on behalf of the Board by:

Director

Director

INCOME STATEMENT
For the financial year ended 30 June 2016

	Notes	2016 $ 000's	2015 $ 000's
Income			
Revenue	2(a)	31,544	24,836
Total income		**31,544**	**24,836**
Expenditure			
Operating expenses	4	6,673	5,669
Employee benefits expense	2(b)	3,376	2,554
Total operating expenditure		**10,049**	**8,223**
Operating earnings before interest, taxation, depreciation and amortisation		**21,495**	**16,613**
Depreciation	2(c)	5,346	4,100
Amortisation		203	131
Operating earnings before interest and taxation		**15,946**	**12,383**
Finance costs	2(d)	1,133	877
Profit before income tax		**14,813**	**11,506**
Income tax expense	3(a)	7,050	3,194
Profit for the year		**7,763**	**8,312**

The accompanying notes form part of these financial statements.

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STATEMENT OF COMPREHENSIVE INCOME
For the financial year ended 30 June 2016

	Notes	2016 $ 000's	2015 $ 000's
Profit for the year		**7,763**	**8,312**
Other comprehensive income			
Items that may be subsequently reclassified to profit and loss			
Gain/(loss) on cash flow hedging taken to reserves	13(c)	(864)	(900)
Realised losses transferred to the income statement	13(c)	(20)	-
Income tax relating to Gain/(loss) on cash flow hedging	13(c)	242	252
Items that may not be subsequently reclassified to profit and loss			
Gain/(loss) on revaluation of property, plant and equipment	13(b)	38,371	-
Income tax relating to Gain/(loss) on revaluation	13(c)	(2,774)	-
Other comprehensive income for the year net of tax		**34,955**	**(648)**
Total comprehensive income for the year, net of taxation		**42,718**	**7,664**

The accompanying notes form part of these financial statements.

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STATEMENT OF FINANCIAL POSITION
As at 30 June 2016

	Notes	2016 $ 000's	2015 $ 000's
Current assets			
Cash and cash equivalents	17(a)	921	271
Trade and other receivables	5	2,690	1,914
Prepayments		167	145
Total current assets		**3,778**	**2,330**
Non-current assets			
Property, plant and equipment	7	249,346	195,282
Intangible assets	8	3,073	2,514
Total non-current assets		**252,419**	**197,796**
Total assets		**256,197**	**200,126**
Current liabilities			
Trade and other payables	9	3,467	3,305
Income in advance		17	34
Employee entitlements	10	415	299
Current tax payable		1,130	1,206
Total current liabilities		**5,029**	**4,844**
Non-current liabilities			
Borrowings (secured)	11	39,010	25,260
Derivatives	6	160	1,362
Other non-current liabilities		141	-
Deferred tax liabilities	3(c)	13,235	7,601
Total non-current liabilities		**52,546**	**34,223**
Total liabilities		**57,575**	**39,067**
Net assets		**198,622**	**161,060**
Equity			
Share capital	12	37,657	37,657
Retained earnings	13(a)	20,090	17,436
Asset revaluation reserve	13(b)	142,194	106,643
Cash flow hedge reserve	13(c)	(1,319)	(677)
Total equity		**198,622**	**161,060**

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 2016

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

	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 2014	**37,657**	**106,643**	**(29)**	**13,441**	**157,712**
Profit for the period	-	-	-	8,312	8,312
Other comprehensive income	-	-	(648)	-	(648)
Total comprehensive income for the period	**-**	**-**	**(648)**	**8,312**	**7,664**
Reclassification to retained earnings	**-**	**-**	**-**	**-**	**-**
Transactions with owners in their capacity as owners					
Dividends paid	-	-	-	(4,317)	(4,317)
At 30 June 2015	**37,657**	**106,643**	**(677)**	**17,436**	**161,060**

The accompanying notes form part of these financial statements.

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CASH FLOW STATEMENT
For the financial year ended 30 June 2016

	Notes	2016 $ 000's	2015 $ 000's
Cash flows from operating activities			
Receipts from customers		30,892	24,546
Payments to suppliers and employees		(9,218)	(7,742)
Interest paid		(1,368)	(979)
Income tax paid (net)		(4,016)	(4,294)
Net cash inflow/(outflow) from operating activities	17(b)	**16,290**	**11,531**
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		4	-
Purchase of property, plant and equipment		(21,411)	(15,788)
Purchase of intangible assets		(762)	(220)
Net cash inflow/(outflow) from investing activities		**(22,169)**	**(16,008)**
Cash flows from financing activities			
Net proceeds from borrowings/(repayments)		11,685	8,760
Dividends paid to equity holders of the parent		(5,156)	(4,317)
Net cash inflow/(outflow) from financing activities		**6,529**	**4,443**
Net increase/(decrease) in cash and cash equivalents		**650**	**(34)**
Cash and cash equivalents at the beginning of the financial year		**271**	**305**
Cash and cash equivalents at the end of the financial year	17(a)	**921**	**271**

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 2016

1. Summary of Significant Accounting Policies

Reporting Entity

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

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

(a) Basis of Preparation

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

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

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

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

(b) Statement of Compliance

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

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

(c) Revenue Recognition

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

(i) Rendering of Services

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

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

(ii) Rental Income

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

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(iii) Interest Revenue

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

(iv) Sale of Property, Plant and Equipment

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

(d) Leases

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

(i) Company as a Lessee

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

(ii) Company as a Lessor

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

(e) Employee Benefits

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

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

(f) Taxation

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

(i) Current Tax

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

(ii) Deferred Tax

Deferred tax is the tax expected to be payable or recoverable on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit and is accounted for using the comprehensive balance sheet liability method. Deferred tax liabilities are generally recognised for all 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.

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

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

(iii) Current and Deferred Tax for the Year

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

(iv) Goods and Services Tax

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

(g) Statement of Cash Flows

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

Operating activities include cash received from all income sources of the Company and record the cash payments made for the supply of goods and services.

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

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

(h) Property, Plant and Equipment

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

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

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

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

Revaluations

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

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

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

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

Fair Value

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

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

Depreciation

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

Expenditure incurred to maintain these assets at full operating capability is charged to the profit for the 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	4.8-50.0%	DV

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

Disposal

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

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

Capitalisation of costs

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

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(i) Intangible Assets

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

(j) Impairment of Non-Financial Assets

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

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

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

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

(k) 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>

Effective Interest Method

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

Financial Assets at Fair Value through Profit or Loss

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

Loans and Receivables

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

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Impairment of Financial Assets

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

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

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

(ii) Financial Liabilities

Trade & Other Payables

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

Borrowings

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

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

(iii) Derivative Financial Instruments

The Company enters into certain derivative financial instruments to manage its exposure to interest rate risk, 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 include derivatives, as cash flow hedges.

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

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Cash Flow Hedges

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

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

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

(l) Significant Accounting Judgements, Estimations and Assumptions

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

(i) Tax Dispute

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

(ii) Property

The Company is currently involved in legal proceedings associated with the acquisition of land adjacent to the airport, referred to as 'Lot 6', to allow for a new aeronautical precinct and to free up land for terminal expansion. To date, costs of approximately $3.5 million have been capitalised by the Company. However, if the decision is unfavourable for the Company, then all costs may need to be expensed. The Company is confident that the Lot 6 will be acquired as planned.

(iii) Property, Plant and Equipment

The Company has engaged independent valuers to value Property, Plant and Equipment held at fair value and adopted those valuations totalling $238.5 million (refer Note 7) at balance date, consistent with the revaluation policy set out in note (h) above.

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2. Surplus from Operations

(a) Revenue

	2016 $ 000's	2015 $ 000's
Revenue consisted of the following items:		
Revenue from rendering of services:		
Passenger/Landing Charges	19,414	15,005
Car Park Revenue	2,383	2,157
Total revenue from rendering of services	**21,797**	**17,162**
Operating lease rental revenue	**8,716**	**6,883**
Other revenue	**1,031**	**791**
Total Revenue	**31,544**	**24,836**

(b) Employee Benefits Expense

	2016	2015
Salaries and wages	3,192	2,376
Directors fees	184	178
	3,376	**2,554**

(c) Depreciation

	2016	2015
Buildings	2,499	1,378
Runway, taxiways & aprons	1,138	1,022
Plant & equipment	1,709	1,700
Total Depreciation	**5,346**	**4,100**

(d) Finance Costs

	2016	2015
Interest on borrowings	1,457	1,096
Less: Interest capitalised to projects	(324)	(219)
	1,133	**877**

Interest is capitalised at the weighted average cost of borrowings for the project of 5.5%.

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3. INCOME TAXES

(a) Income Tax Recognised in the Income Statement

	2016 $ 000's	2015 $ 000's
Tax expense/(income) comprises:		
Current tax expense/(credit):		
Current year	4,361	3,718
Adjustments for prior years	165	8
	4,526	**3,726**
Deferred tax expense/(credit)		
Origination and reversal of temporary differences	2,469	(546)
Other Movements	-	14
Adjustment for prior year	55	-
Total deferred tax (credit)/expense	**2,524**	**(532)**
Total tax expense	**7,050**	**3,194**

Deferred tax expense includes the recognition of a $2.6 million deferred tax liability in relation to the depreciation of Runway Safety Area East. Further information is provided in the Summary of Significant Accounting Policies: (l) Significant Accounting Judgements, Estimations and Assumptions.

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

	2016	2015
Surplus before income tax	**14,813**	**11,506**
Income tax expense calculated at 28%	4,148	3,222
Permanent Differences	15	4
Creation/Reversal of temporary difference	2,639	(22)
Adjustment for prior years	219	7
Other	29	(17)
Income tax expense	**7,050**	**3,194**

(b) Income Tax Recognised Directly In Other Comprehensive Income

Deferred tax of $2.53 million (2015: $0.25 million) has been charged directly to other comprehensive income during the period, relating to the revaluation of fixed assets and the fair value movement in the interest rate swaps.

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(c) Deferred Tax Balances Comprise

Taxable and deductible temporary differences arising from the following:

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

The movement in deferred tax on derivatives of $578,000 relates to losses on interest rate swaps closed out during the financial year (refer Note 6), which are being amortised over the original life of the swaps for accounting purposes, but which are immediately deductible for tax purposes.

2015	**Opening balance**	**Charged to profit for the year**	**Charged to other comprehensive income**	**Transferred to provision for Tax**	**Closing balance**
	\$ 000's	**\$ 000's**	**\$ 000's**	**\$ 000's**	**\$ 000's**
Gross deferred tax assets/(liability):					
Property, plant and equipment	(7,893)	391	-	-	(7,502)
Intangible assets	(667)	36	-	-	(631)
Employee benefits	31	13	-	-	44
Derivatives	144	(14)	252	-	382
Trade and other payables	-	106	-	-	106
	(8,385)	**532**	**252**	**-**	**(7,601)**

(d) Imputation Credit Account Balances

	2016 \$ 000's	**2015 \$ 000's**
Balance at beginning of year	10,213	8,177
Income tax paid	3,934	3,715
Tax credits relating to dividend payment	(2,005)	(1,679)
Adjustment to prior year	6	-
Balance at end of year	**12,147**	**10,213**

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4. Operating Expenses

	2016 $ 000's	2015 $ 000's
Total Operating Expenses	**6,673**	**5,669**

Operating expenses include the following:

	2016 $ 000's	2015 $ 000's
Audit fees - disclosure financial statements	39	39
Audit fees - financial statement audit	46	44
Bad debts written off	-	-
Doubtful debts	-	14
Loss on disposal of fixed assets	194	61

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

	2016 $ 000's	2015 $ 000's
Trade and other receivables	2,690	1,928
Allowance for doubtful debts	-	(14)
Total Trade & Other Receivables	**2,690**	**1,914**

6. Derivatives

Derivative financial assets/(liabilities):

	2016 $ 000's	2015 $ 000's
Interest rate swap (i) (effective)	(160)	(1,362)
	(160)	**(1,362)**

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

i. Interest rate swaps in place of $22.5 million cover approximately 58% of the principal outstanding. The fixed interest rates range between 2.3450% and 2.6225% (2015: 4.780% and 5.615%). The interest rate swaps are designated hedge relationships and therefore to the extent that the relationship is effective movements are recognised in Other Comprehensive Income.

ii. During the financial year, the Company has closed out $20 million of interest rate swaps at rates ranging from 4.78% to 5.615% at a loss (net of tax) of $1.5 million. As these were designated hedge relationships, the net loss will be recognised in the Income Statement, over the period of the original swap.

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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	103,347	34,147	26,666	7,560	171,720
At Cost	-	516	1,265	12,093	13,874
Work in progress at cost	3,396	14,777	-	679	18,852
Accumulated Depreciation	-	(1,378)	(1,022)	(6,764)	(9,164)
Balances as at 1 July 2015	**106,743**	**48,062**	**26,909**	**13,568**	**195,282**
Additions	1,064	3,018	15,744	1,407	21,233
Revaluation	28,585	1,070	3,579	5,136	38,370
Disposals	-	(22)	(171)	-	(194)
Depreciation	-	(2,499)	(1,138)	(1,709)	(5,346)
Movement to 30 June 2016	**29,649**	**1,567**	**18,014**	**4,834**	**54,064**
At fair value	132,727	49,407	44,924	11,389	238,447
At Cost		-	-	13,616	13,616
Work in progress at cost	3,665	222	-	863	4,750
Accumulated Depreciation	-	-	-	(7,467)	(7,467)
Balances as at 30 June 2016	**136,392**	**49,629**	**44,924**	**18,401**	**249,346**

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

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

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

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

- Direct Comparison
- Optimised Depreciated Replacement Cost
- Investment

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

8. Intangible Assets

	2016 $ 000's	2015 $ 000's
Cost		
Opening balance	2,776	2,556
Additions from internal developments	762	220
Total cost closing balance	**3,538**	**2,776**
Accumulated amortisation		
Opening balance	262	131
Amortisation expense	203	131
Total accumulated amortisation	**465**	**262**
Carrying Value	**3,073**	**2,514**

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. Additions in the current year include costs incurred in relation to noise mitigation amortised on a straight line basis over 23 years and costs incurred in relation to evening flights safety cases amortised on a straight line basis over 2 years.

9. Trade & Other Payables

Trade payables	1,445	749
Other creditors and accruals	2,022	2,556
Total trade and other payables	**3,467**	**3,305**

10. Employee Entitlements

Accrued salary and wages	159	142
Annual leave	256	157
Total employee entitlements	**415**	**299**

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11. Borrowings

	2016 $ 000's	2015 $ 000's
Westpac Bank borrowings (secured)	20,000	25,260
BNZ borrowings (secured)	19,010	-
	39,010	**25,260**
Disclosed in the financial statements as:		
Current	-	-
Non-current	39,010	25,260
Total current and non-current borrowings	**39,010**	**25,260**

The Company has a secured facility with Westpac of $20 million and a secured facility with BNZ of $30 million. The Westpac and BNZ facilities expire on 23 May 2020.

The Westpac and BNZ facilities are secured by a general security agreement over the Company's assets, undertakings and any uncalled capital. The weighted average interest rate on the term loan at balance date was 3.5%. (2015: 4.5%)

The Company has additional facilities with Westpac of $20 million and BNZ of $30 million which commence as at 1 August 2016, expiring on 1 August 2021. These facilities are also secured by the general security agreement noted above.

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

12. Share Capital

	2016 No.	2015 No.	2016 $ 000's	2015 $ 000's
(a) Fully Paid Ordinary Shares				
Balance at beginning of year	16,060,365	16,060,365	37,657	37,657
Balance at end of year	**16,060,365**	**16,060,365**	**37,657**	**37,657**

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

13. Retained Earnings and Reserves

	2016 $ 000's	2015 $ 000's
(a) Retained Earnings		
Balance at the beginning of the year	17,436	13,441
Profit for the year after taxation	7,763	8,312
Reclassification in retained earnings	47	-
Dividends paid during the year (i)	(5,156)	(4,317)
Balance at the end of year	**20,090**	**17,436**

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(i) Dividends Paid	2016 $ 000's	2015 $ 000's
Final Dividend – 25.88c per share	4,156	3,317
Interim Dividend – 6.23c per share	1,000	1,000
Total Dividend Paid	**5,156**	**4,317**

On 19th August 2015 a final dividend of 25.88 cents per share (total dividend of $4,156,074) for the year ending 30 June 2015 was paid to holders of fully paid ordinary shares.

On 3rd February 2016 an interim dividend of 6.23 cents per share (total dividend of $1,000,000) for the year ending 30 June 2016 was paid to holders of fully paid ordinary shares.

(b) Asset Revaluation Reserve

	2016	2015
Balance at the beginning of the year	106,643	106,643
Increase arising on revaluation of assets	38,371	-
Deferred tax movement arising on revaluation	(2,774)	-
Reclassification in retained earnings	(47)	-
Balance at the end of year	**142,194**	**106,643**

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

(c) Cash Flow Hedge Reserve

	2016	2015
Balance at the beginning of the year	(677)	(29)
Gain/(loss) recognised on interest rate swaps	(864)	(900)
Realised losses transferred to the income statement	(20)	-
Income tax relating to gain/(loss) on cash flow hedging	242	252
Balance at the end of year	**(1,319)**	**(677)**

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

14. Commitments for Expenditure

(a) Capital Expenditure Commitments

	2016	2015
Acquisition of property, plant and equipment	1,011	2,731
Noise mitigation packages	630	-
Committed for acquisition of property, plant and equipment	**1,641**	**2,731**

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15. Operating Lease Arrangements

(a) Company as Lessee; Operating Lease Commitments

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

	2016 $ 000's	2015 $ 000's
Non-cancellable operating lease payments:		
Not longer than 1 year	21	17
Longer than 1 year and not longer than 5 years	55	14
Total company operating lease commitments	**76**	**31**

(b) Company as Lessor; Operating Lease Rental

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

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

Less than 12 months	6,958	4,718
1-5 years	16,303	11,827
5 years +	3,857	3,348
Total Company as lessor, operating lease rental	**27,118**	**19,893**

16. Related Party Disclosures

(a) Parent Entity

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

(b) Transactions with Related Parties

Related parties of the Company are:

- Queenstown Lakes District Council (QLDC) – Shareholder
- Auckland International Airport Limited (AIAL) - Shareholder
- J Hadley – Director, Hadley Consultants Limited
- J W Gilks – Trustee, Warbirds Over Wanaka Community Trust
- G Lilly – Director, Civil Aviation of New Zealand (CAA), Aviation Security Services
- N Thompson – Committee member, BMW NZ Golf Open
- A Gerry (previous director) – Director, Pioneer Generation Limited

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

	2016 $ 000's	2015 $ 000's
Queenstown Lakes District Council		
Rates	(295)	(282)
Resource Consent Costs & Collection fees	(4)	(54)
Development Contributions	(279)	-
Other	(5)	-
Wanaka Airport Management Fee	159	110

Queenstown Events Centre netball courts and six holes of the Frankton golf course are located on land to the north west of the runway. Revenue from this arrangement amounted to $25,000 (2015: $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.

	2016 $ 000's	2015 $ 000's
Auckland International Airport Limited		
Rescue Fire Training	(14)	-
Purchase of Fire Appliance	(110)	-

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

	2016 $ 000's	2015 $ 000's
Hadley Consultants Limited		
Consultant Engineering Services	-	(3)
Warbirds Over Wanaka Community Trust		
Contributions towards entrance display	(1)	-
Civil Aviation of New Zealand		
CAA Certification Audit Fees	(12)	(3)
Aviation Security Service		
Airport Security Cards	(5)	(3)
Rental, Power recovery and parking revenue	167	156
BMW NZ Golf Open		
Sponsorship	(15)	-
Pioneer Generation Limited		
Power	-	(312)

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

	2016 $ 000's	2015 $ 000's
Queenstown Lakes District Council		
Frankton Golf Course	25	25
Aviation Security Service		
Rental, Power recovery and parking revenue	4	2

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

	2016 $ 000's	2015 $ 000's
Queenstown Lakes District Council	3	10
CAA	4	-
Pioneer Generation	-	33

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(f) Compensation of key management personnel

The remuneration of directors and other members of key management personnel during the year was $1,247,218 (2015: $1,082,480).

17. Notes to the Cash Flow Statement

(a) Reconciliation of Cash and Cash Equivalents

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

	2016 $ 000's	**2015 $ 000's**
Cash on hand	35	16
Bank account/(overdraft)	886	255
Total cash and cash equivalents	**921**	**271**

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

Profit for the year	**7,763**	**8,312**
Add/(less) non-cash items:		
Amortisation	203	131
Depreciation	5,342	4,100
Loss on sale of Property, Plant & Equipment	193	61
Other	(20)	(36)
	5,719	**4,256**
Changes in assets and liabilities:		
Increase in Trade and other receivables	(776)	(278)
Increase in Prepayments	(23)	(104)
Decrease in Current tax payable	(76)	(568)
Increase in Trade and other payables	255	1,179
Decrease in Income in advance	(17)	(12)
Increase in Employee entitlements	164	19
Decrease in Deferred tax liability	3,102	(546)
Movement in items reclassified as investing and financing activities	178	(727)
	2,808	**(1,037)**
Net cash inflow from operating activities	**16,290**	**11,531**

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18. Financial Instruments

(a) Capital Risk Management

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

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

(b) Interest Rate Risk Management

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

Interest rate swaps in place cover approximately 58% of the principal outstanding. The interest rate swaps are designated hedge relationships and therefore to the extent that the relationship is effective movements are recognised in Other Comprehensive Income.

(c) Fair Value Measurements

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

19. Contingent Liabilities

(a) Property

Queenstown District Council has included in its Long Term Plan in the period 2015-2025, the completion of the construction of Hawthorne Drive (formerly known as the Eastern Access Road) part of which is along the airport boundary. Queenstown District Council has informed the airport that it will seek a developer contribution from QAC and a neighbouring property owner if the road is constructed. QAC estimates that its liability may be in the order of $3 to $4 million.

(b) Noise Mitigation

The Company is implementing plans to assist homeowners closest to the airport to mitigate the effects of aircraft noise within defined airport noise zones. During the next 12 months, the Company plans to make offers of acoustic treatment to approximately 135 homeowners. Noise levels are monitored regularly and as the noise zones expand, further offers will be made. The Company estimates approximately 380 properties will be offered noise mitigation by 2037. 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. As at 30 June 2016, 13 offers had been made and seven homeowners had accepted. The cost of delivering the seven accepted offers is estimated at $630k which has been disclosed as a capital commitment in Note 14.

20. Subsequent Events

The directors resolved on 19 August 2016 that the final dividend for the year ended 30 June 2016 be $5,264,124. There were no other significant events after balance date.

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Statement of Service Performance

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

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

FY2016 objectives

QAC set the following objectives for the FY16 year:

- Deliver excellent service consistently throughout a period of significant growth and infrastructure development
- Grow passenger volumes
- Expand airport capacity to meet the anticipated growth in aircraft movements and passenger volumes
- Grow non-aero revenue
- Pursue operational excellence including being an outstanding corporate citizen within the local community

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Objective 1: Deliver excellent service consistently throughout a period of significant growth and infrastructure development	
Initiatives	**Work completed**
Maintain effective Health and Safety systems which exceed legislative requirements and keeps QAC's staff and contractors, the airport community and passengers safe	Our aspirational target remained zero injuries to our employees, contractors and all those to whom we owe a duty of care. In FY16 the following injuries were reported: • 2 minor employee injuries • 2 minor contractor injuries • 3 passenger injuries It is worth noting that the severity of the above injuries was low with no lost time and or medical treatment involved in any of these injuries. We are also encouraged by the amount of near-miss (non-injury) reporting to proactively identify risks. In the past 12 months we have seen an improvement in near-miss reporting, with 47 near misses reported compared to 6 in the previous comparison period. This serves as an indicator that a more proactive safety culture continues to emerge across the business. This will be leveraged in FY17 as we continue to develop our safety culture and achieve our aspirational targets.
Maintain culture of service both externally and internally	QAC introduced a quarterly Airport Experience Survey in March 2016 and the results so far have highlighted consistent improvements in customer satisfaction in the areas of terminal building cleanliness, ambience, WiFi use, friendliness of staff, gate lounge security, border processing, and the provision of information to passengers. The majority of the areas surveyed received a score of between 4 and 5, with 5 being the highest score achievable.
Improve efficiency through simplification and use of technology	We have improved our visitor experience particularly in international arrivals with the implementation of eGate at Customs. eGate has improved arriving international passenger processing rates from approximately 360 passengers per hour to approximately 1,000 passengers per hour, significantly reducing queues.
Provide passenger amenities and positive experience throughout	QAC has just completed 12 months of operation out of its new international terminal. In this time eGate has been added to the new arrivals processing hall, TravelPharm has opened a second store airside and the Manaia airline lounge has relocated airside and nearly doubled its capacity.
Anticipate challenges to excellent service and resolve to ensure a smooth operation	The QAC operations team is in the process of assessing the Baggage Make-up Unit (BMU) and Arrivals baggage belts to determine ultimate capacity versus actual current demand. QAC will work with stakeholders on the second phase of the project to identify potential efficiencies and improvements.
Promote innovation from all parties who contribute to passenger experience	QAC Operations is in the early stages of setting up a collaborative/multi-stakeholder lean improvement programme. The focus of the programme is to promote innovation and develop a culture of continuous improvement.

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To have staff and a wider airport team that is engaged and working to ensure airport visitors have a wonderful first and lasting impression of our airport	With the recent restructure of QAC's Operations team, the business now has a minimum of a Duty Manager and Rescue Fire Deputy Crew Chief on shift during all operational hours. This has resulted in better engagement across the business and a more dynamic approach to managing day-to-day operational issues. The business is also in the process of implementing a permanently manned operations centre where all operational systems are monitored from a central location and our ability to react and trouble-shoot operational issues is enhanced.
Seamless double shifting staff for evening flights	QAC Operations team was restructured and expanded in late FY16 in order to ready itself for double shift operations. With the implementation of evening flights the transition to double shift operations has been seamless.

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Objective 2: Grow passenger volumes

Initiatives	**Work Completed**
Partner with AIAL and national/regional tourism organisations to leverage marketing activities in line with route development priorities	We worked with tourism and aviation partners on various promotional activities across the year, including a joint ski marketing campaign in Australia, marketing promotions around events, and sharing visitor demographic research as appropriate. Our passenger numbers have increased by 18% to 1.6 million in FY16.
Maintain strong relationships with the existing 4 airlines and support initiatives that increase capacity on existing routes (frequency, hours, up-gauge)	We continued to work closely with Auckland Airport around current and future airport and airline trends. Aircraft capacity (number of seats available) increased 17% in FY16. Senior managers attended both the New Zealand and Australian Airports Conferences during the year. Our aviation consultants are providing detailed analysis of route options both for the immediate future and for our 30-year master plan which will be used for discussions with airlines.
Reset aeronautical prices	Aeronautical prices were reset on 1 September 2015 providing the airport an agreed return on capital invested. Prices increased reflecting the capital investments we have made at the airport.
Introduce evening flights to increase frequency from major cities and improve connectivity with long haul routes	Evening flights commenced in May 2016 ahead of the peak winter season. We continued working with relevant aviation and tourism partners to target long haul travellers and promote connectivity via key hub airports.
SYD and MEL grow as long haul hubs alongside AKL	QAC is increasing its focus on route development and in the past year has worked with Auckland Airport and independent aviation consultants to provide robust data on options to improve connectivity via Queenstown's major connecting hubs of Auckland, Sydney and Melbourne. Auckland passenger numbers were up 23% over FY15 while Sydney and Melbourne numbers were up 16% and 15% respectively.
Encourage sustainable competition on all routes	We continued to work closely with our airline and airport partners to encourage sustainable competition on our domestic and international routes.
Develop the short stay market	The introduction of evening flights has made a short break possible year-round for Australian and domestic leisure travellers and it has provided more flexibility for business travellers, potentially enabling them to do a return day trip instead of having to stay overnight. It has also provided better international connectivity for those travelling through Auckland.

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Objective 3: Expand airport capacity to meet the anticipated growth in aircraft movements and passenger volumes	
Initiatives	**Work Completed**
New International Terminal build is completed in time for 2015 winter peak	The new international terminal was delivered on time for the 2015 winter peak.
Complete the Public Works Act compulsory acquisition process to acquire Lot 6 land, develop a new aviation precinct on Lot 6 land and relocate GA and private jets	We are progressing our efforts to acquire the Lot 6 land adjacent to the airfield, with an interim decision on the Notice of Requirement being issued by the Environment Court in December 2015, confirming the separation distance requirements between the runway and proposed heavy taxiway. The Environment Court requested an aeronautical study be prepared showing the operationalisation of the airfield including the proposed changes. This report is currently with the CAA for approval as required by the Environment Court timetable. The Public Works Act compulsory acquisition process is currently on hold until the Notice of Requirement is confirmed.
Carry out the airside and landside infrastructure upgrades to accommodate evening flights	The Evening Flights project including the delivery of key infrastructure upgrades (runway widening, overlay and airfield lighting) and was delivered on time and under budget.
Enhance roading and parking options	Ahead of our long term strategic Master Plan we have begun a series of interim safety and capacity improvements to our car parking and road network which commenced in 2016. These enhancements will continue to be rolled out over the next financial year.
Establish an Airport Zone within the QLDC District Plan	A Queenstown Airport Mixed Use zone was notified in the Proposed District Plan (PDP) in 2015. Hearings associated with this chapter of the PDP are scheduled for late 2016.

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Objective 4: Grow non-aero revenue	
Initiatives	**Work Completed**
Expand airside retail and F&B offerings for international passengers	Following the opening of the new international terminal in winter 2015, Aelia Duty Free, Airspresso and PaperPlus recommenced trading in new and increased areas, and Travel Pharm opened a new airside retail tenancy.
Continually assess retail tenancy mix and airside/landside split to meet passenger needs to grow retail spends per passenger	The retail tenancy mix is assessed whenever any tenancies expire. Following the closure of the "NZ World" tenancy, "Premium New Zealand" (owned by Travel Pharm) commenced trading in February 2016. G-Shock commenced trading from a new kiosk location in August 2015 and Vodafone reopened in a new kiosk location and fitout. Within the Rental Car portfolio, Ezi Car upgraded to an in-terminal tenancy on 1 April, and Enterprise commenced NZ trading with an in-terminal tenancy in June 2016.
Improve retailer performance with better measurement and feedback by creating positive ambience in terminal, including theming	Regular retailer performance reports are produced and shared with retailers. In addition, material has been prepared and discussed with retailers regarding Queenstown Airport's visitor mix, with a view to assisting these retailers with appropriate product mix. Retailer education has also been undertaken with the Duty Free team targeted on improving specific sales. Seasonal and event-focussed theming has been updated throughout the year to create a positive ambience in the terminal.
Grow car park offering with more spaces and more choice, including on-line booking	Ahead of our long term strategic Master Plan we have begun a series of interim safety and capacity improvements to our car parking and road network which commenced in 2016. As part of these, opportunities for increasing car park capacity have been explored and these enhancements will continue to be rolled out in the next financial year. It has been determined that due to capacity constraints at peak periods, on-line parking would not be appropriate until more capacity is realised.
Establish a Property Master Plan covering future car parking and road layouts around the terminal and the development opportunities for QAC's non-aeronautical land	A 2045 Master Plan for the whole of the airport has commenced with a draft plan scheduled to be completed at the end of the 2016 calendar year. This Master Plan will encompass future car parking and road layouts around the terminal, and determine development opportunities for QAC's non-aeronautical land.
Ground leases earn market rents and the land uses best support QAC's business needs	Ground lease rentals are assessed upon expiry and on rent review dates, and will be progressively negotiated throughout the 2016/17 financial year.

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Objective 5: Pursue operational excellence including being an outstanding corporate citizen within the local community

Initiatives	Work Completed
Minimise the airport's impact on the local environment	The Aerodrome Purposes Designation restricts aircraft operations at the airport to between the hours of 6am to 10pm. Sound emanating from other activities at the airport must also comply with the relevant noise provisions of the District Plan. Airport noise, as measured, has remained within the levels set in the District Plan.
Manage the noise impact of the airport on the surrounding residential areas	The Noise Management Plan sets out how the airport manages aircraft noise and its performance is monitored by the Noise Liaison Committee which meets quarterly to review activities and address any issues arising. The airport produces Annual Aircraft Noise Contours (AANC) each year and at least every three years is required to undertake a monitoring programme to compare the measured aircraft noise levels with the AANC. By the end of FY16, Tranche One of QAC's Noise Mitigation Programme was available to homeowners in the Inner Noise Sector and the roll-out of the programme was tracking the path agreed with the Liaison Committee.
Engage with the community, keeping them informed on airport developments and future plans	A range of communication methods, including newsletters, website updates, public forums and regular airport community briefings, were employed throughout the year to keep tenants, stakeholders and the community updated and engaged with the airport's performance, developments and future plans.
Projects are delivered on time, within budget and to quality	The Evening Flights project, which included the delivery of key infrastructure upgrades (runway widening, overlay and airfield lighting), was delivered on time and under forecast budget.
Upgrade IT infrastructure and applications to help future-proof the business	Over the last two years, the airport has standardised and refreshed its IT infrastructure and upgraded all applications. This year we have improved our visitor digital experience by launching a high speed public WiFi, installing new digital signage and making further upgrades to our website. We have also improved operational efficiency, implementing a slot scheduling module to optimise the use of aircraft stands.
Maintain cost effective, flexible funding to match investment requirements	In April we expanded and extended our bank facilities at competitive rates. As of 1 August 2016 we will have $100m of 4 and 5 year facilities with BNZ and Westpac which will fund at least the next five years of expansion.

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Establish an effective Business Continuity Management Plan	A comprehensive Business Continuity Plan was developed with the purpose of preventing or minimising business disruptions wherever practicable and to appropriately respond to any event that causes a significant disruption to day-to-day operations, the business or the local community.
Support local community events through sponsorship and, where feasible, access to airport facilities	We supported our regional communities in various ways including through marketing promotions, local events and the efforts of various not-for-profit organisations. We also contributed staff to initiatives such as Shaping Our Future and its associated Visitor and Tourism Industry and Transport Task Forces. We recognise the success of large-scale events in promoting our region and attracting visitors through the airport and in FY2016 provided in-kind support to events such as the Winter Festival, Gay Ski Week, NZ Golf Open, Queenstown Marathon, and Warbirds Over Wanaka. We also provided operational support to Wanaka Airport for the NASA balloon launch in May.

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Objective: Achieve Statement of Intent Financial Forecasts

Year Ending 30 June	Forecast 2016 $'000	Actual 2016 $'000	Variance 2016 $'000
Revenue	**28,123**	**31,544**	**3,421**
Operating Expenditure	9,354	10,049	695
EBITDA	18,769	21,495	2,726
Interest Expense	1,738	1,134	(604)
Depreciation & Amortisation	5,256	5,549	293
Profit Before Tax	11,789	14,813	3,024
Net Profit After Tax	**8,270**	**7,763**	**(507)**
Dividends Paid	5,113	5,156	43
Total Assets	228,391	256,197	27,806
Total Liabilities	53,299	57,575	4,276
Shareholders Funds	175,092	198,622	23,530
Operating Cash Flow	12,733	16,290	3,557
Capital Expenditure	20,473	21,526	1,054
Closing Debt	40,700	39,010	(1,690)
Net Drawdown/(Repayment of) Debt	12,853	11,685	(1,168)
Total Pax (000)	**1,477**	**1,651**	**174**
Percentage International Pax	29%	29%	

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Forecast 2016: As set out in Statement of Intent dated 9 June 2015

Financial Ratios		Forecast 2016		Actual 2016		Variance 2016
Revenue per Pax	$	19.33	$	19.11	-$	0.22
NPAT per Pax	$	5.67	$	4.70	-$	0.97
Return on Equity (NPAT to Avg SH Funds)		4.9%		4.3%		
Return on Assets (NPAT to Avg Total Assets)		3.8%		3.4%		
EBITDA to Total Assets		8.2%		8.4%		
Gearing: Debt : EBITDA		2.2		1.8		
EBITDA > 2 times funding expense		12.1		14.8		
Shareholders Funds to Total Tangible Assets > 50%		78%		78%		

Assessment of Actual vs Forecast Financial Performance

The growth in revenue (12% ahead of forecast) has been driven by the growth in passenger numbers (12% above forecast), increased revenue from passenger/landing charges and retail spend.

Operating expenses were 7% above forecast, following further investment in capability.

Interest costs were lower than forecast following the refinancing of interest rate swaps and capitalisation of funding costs for the new international terminal and runway widening.

EBITA was 14.5% higher than forecast with underlying Net Profit After Tax of $10.5 million, up $2.3 million or 27 per cent on forecast. Following an adverse taxation ruling related to depreciation claimed on the Runway End Safety Area, statutory Net Profit After Tax was reduced for a tax provision of $2.6 million to $7.8 million, down 6% on forecast.

Dividends declared for the year were $6.3 million, up 21% on the previous year. Dividends paid in the year of $5.2 million related to the previous financial year.

The majority of the Capital Expenditure related to the completion of the international terminal and the widening of the runway, a requirement for after dark flights. Strong operating cash flow of $16.3 million (up 28% on forecast) reduced the level of debt drawdown required.

Returns on equity and assets were impacted by the effect of the RESA tax adjustment. Funding ratios remained well within covenants.

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INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF QUEENSTOWN AIRPORT CORPORATION LIMITED'S FINANCIAL STATEMENTS AND PERFORMANCE INFORMATION FOR THE YEAR ENDED 30 JUNE 2016

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 the performance information of the company on her behalf.

Opinion on the financial statements and the performance information

We have audited:

- the financial statements of the company on pages 10 to 33, that comprise the statement of financial position as at 30 June 2016, the income statement, statement of comprehensive income, statement of changes in equity and cash flow statement 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 34 to 43.

In our opinion:

- the financial statements of the company:
    - present fairly, in all material respects:
        - its financial position as at 30 June 2016; and
        - its financial performance and cash flows for the year then ended; and
    - comply with generally accepted accounting practice in New Zealand in accordance with New Zealand Equivalents to International Financial Reporting Standards Reduced Disclosure Regime.
- the performance information of the company presents fairly, in all material respects, the company's actual performance compared against the performance targets and other measures by which performance was judged in relation to the company's objectives, for the year ended 30 June 2016.

Our audit was completed on 19 August 2016. This is the date at which our opinion is expressed.

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

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 the 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 shareholders overall understanding of the financial statements and the 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 in the performance information. The procedures selected depend on our judgement, including our assessment of risks of material misstatement of the financial statements and the 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 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 appropriateness of the reported performance information within the company's framework for reporting performance;
- the adequacy of the disclosures in the financial statements and in the performance information; and
- the overall presentation of the financial statements and the performance information.

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

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 the preparation and fair presentation of financial statements for the company that comply with generally accepted accounting practice in New Zealand and New Zealand Equivalents to International Financial Reporting Standards Reduced Disclosure Regime. The Board of Directors is also responsible for preparation of the performance information for the company.

The Board of Directors' responsibilities arise from the Local Government Act 2002.

The Board of Directors is responsible for such internal control as it determines is necessary to enable the preparation of financial statements and the 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 the performance information, whether in printed or electronic form.

Responsibilities of the Auditor

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

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

B E Tomkins
Deloitte

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