QUEENSTOWN airport

Queenstown Airport Corporation Limited

Interim Report for the Six Month Period Ended 31 December 2017

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BOARD OF DIRECTORS	Prudence M Flacks (Chair appointed 27 November 2017) John W Gilks (Chair resigned 27 November 2017) James W P Hadley (resigned 27 November 2017) Grant R Lilly Michael P Stiassny Norman J Thompson Mark R Thomson Adrienne F Young-Cooper (appointed 27 November 2017)
CHIEF EXECUTIVE OFFICER	R Colin Keel
BANKERS	BNZ Queenstown Store 11 Rees Street Queenstown Westpac Terrace Junction 1092 Frankton Road Queenstown

Interim Report

Your Directors have pleasure in submitting the Interim Report together with the financial accounts of the Company for the six month period ended 31 December 2017.

1. Financial Statements

The unaudited financial statements of the Company for the six month period ended 31 December 2017 follow this report.

2. Principal Activities of the Company

The principal activity of the Company during the six month period was airport operator.

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

Details of the period under review and future prospects are included in the Chair and Chief Executive's Report.

3. Board of Directors

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

Prudence M Flacks (Chair appointed 27 November 2017)
John W Gilks (Chair resigned 27 November 2017)
James W P Hadley (resigned 27 November 2017)
Grant R Lilly
Michael P Stiassny
Norman J Thompson
Mark Thomson
Adrienne F Young-Cooper (appointed 27 November 2017)

4. Results for the Six Month Period Ended 31 December 2017

Profit for the six month period was $8,810,460 compared with profit of $6,161,357 for the same six month period in the previous year.

The directors resolved on 22 August 2017 a final dividend for the year ended 30 June 2017 of $6,169,007 (2016: $5,264,124). This was paid to shareholders on 23 August 2017 as follows:

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

The directors resolved on 15 February 2018 to pay an Interim Dividend of $1,000,000 to shareholders on 16 February 2018, to be distributed to the shareholders as follows:

Queenstown Lakes District Council	$750,100
Auckland Airport Holdings (No 2) Limited	$249,900

Appropriation Account for the six month period ended 31 December 2017	**$ 000's**
Profit for the six month period ended 31 December 2017	8,810
Retained earnings brought forward	25,902
Dividends paid	(6,169)
Retained earnings as at 31 December 2017	**28,543**

5. Directors Interests

The directors of the Company entered into the following transactions during the period:

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) and Aviation Security Service have regulatory oversight of Queenstown Airport Corporation Limited as a certified airport operator. Grant Lilly is a director of CAA and Aviation Security Service.

The Company has committed to sponsor the 2018 ISPS Handa NZ Golf Open 2018. Norm Thompson is a committee member of the 2018 ISPS Handa NZ Golf Open 2018.

Auckland International Airport Limited has provided Rescue Fire Training to the QAC operational staff, and other services based on the Strategic Alliance Agreement for which no consideration was paid. Mark Thomson is an executive of Auckland International Airport Limited.

The Company has two facilities with Bank of New Zealand (BNZ), which are secured by a general security agreement over the Company's assets. To mitigate foreign exchange risk, the Company has entered into foreign exchange forward contracts with BNZ. Prudence Flacks is a director of BNZ.

All of the transactions were provided on normal commercial terms except where noted above, and appropriate relationships 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 period.

7. Directors Remuneration

The following are particulars of directors' remuneration authorised and received during the six month period.

	6 months to 31 Dec 2017	**6 months to 31 Dec 2016**
	$	**$**
PM Flacks (appointed 27 November 2017)	5,752	-
JW Gilks (resigned 27 November 2017)	23,630	26,000
JWP Hadley (resigned 27 November 2017)	18,333	17,750
GR Lilly	21,167	16,750
MP Stiassny	21,000	16,750
NJ Thompson	22,000	14,750
MR Thomson	19,000	-
AF Young-Cooper	3,960	-
	134,842	**92,000**

8. Donations

The Company made donations totalling $1,000 during the period (December 2016: $1,135).

9. Use of Company Information

During the period 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.

10. Auditor

The Interim Report and Financial Statements for the six month period ended 31 December 2017 have not been audited.

On Behalf of the Board

Chair

Director

Chair and Chief Executive's Report

New Zealand and the Southern Lakes region continue to experience unprecedented tourism growth, primarily driven by increased domestic and international air capacity, competitive pricing and a global reputation as a safe, beautiful and friendly destination.

As a key driver of the region's economy, we are pleased to report that Queenstown Airport Corporation (the Company) also has maintained a strong growth trajectory. The six months ending 31 December 2017 was another significant period for the Company with a number of strategic, operational and financial milestones achieved during that time. The Company's strong financial performance and sustained passenger growth continued to deliver value and benefits for shareholders and the communities it serves.

We are mindful that we play a key role in supporting sustainable long-term growth to our region and ensuring it continues to be an attractive place to live, work and play. As part of providing a world-class airport experience, we consider matters related to long-term social, economic and environmental sustainability to ensure the Company continues to serve the needs of its customers and the community, operates profitably and mitigates environmental impacts as far as possible.

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

Safety Performance
Safety continues to be the top priority. Our target is to achieve Zero Harm to our people and customers and ensure a safe operating environment. We are pleased to report that the Company has not had an employee or contractor Lost Time Injury for over three years. Despite this excellent record, the identification, review, mitigation and management of our critical risks continues to be a key focus. The past six months has seen numerous safety improvement initiatives implemented across the business. Highlights included:

Queenstown Airport

- Progress on the Company's Safety Management Systems under CAA rule Part 100 to ensure endorsement by February 2018.
- Review of QAC's Health and Commitment Policy in-line with current best practice.
- Participation in the annual Airport Safety Week with a diverse programme of activities.
- Work on RMSS, a new cloud-based Health & Safety reporting tool to help promote a strong safety culture within the organisation, started in November 2017 and is nearing completion.
- Introduction of an apron code of conduct involving collaborative auditing with our apron stakeholders.
- Opening of the airport's first dedicated operations centre. This facility now houses the Operations team, Emergency Operations Centre and Operations Control room.
- Stage 4 of the ground transport and car parking infrastructure works was completed in July 2017 and included a new dedicated coach park, road widening, a new roundabout inside the airport entrance, and landscaping and infrastructure improvements, designed to improve safety and customer flow.

Wanaka Airport

- Monthly Health, Safety and Operational meetings with commercial operators were established, bringing together all parties to discuss and address safety concerns.
- For the first time Wanaka Airport took part in Airport Safety Week, conducting a series of safety workshops and activities alongside Queenstown Airport. The event helped highlight the importance of safety and QAC's leadership role across Queenstown and Wanaka airports.
- Worked closely with the Warbirds Over Wanaka team to support further development of their health, safety and risk management frameworks.
- Conducted a full scale simulated emergency aircraft exercise involving the airport community and locally-based emergency services.

Financial Performance
The first half of the financial year has delivered another strong financial performance underpinned by continued growth in passengers, with revenue of $23.2 million, an increase of $3.5 million (18%) compared to the corresponding period last year. This performance was reflected in both aeronautical and commercial revenues, ahead by 13% and 28%, respectively.

Reported Net Profit After Tax was $8.8 million, up by $2.6million or 43% compared to the same period last year. Underlying Net Profit After Tax for the six months was also $8.8 million, up 39% compared to $6.3 million for the same period last year. Consistent with the Annual Report at 30 June 2017, underlying Net Profit After Tax was arrived at by adjusting for additional costs to appeal the adverse tax ruling related to depreciation claimed on the Runway End Safety Area.

Total Operating Expenditure of $6.1 million decreased $0.4 million (5%), compared to the corresponding period last year, with the completion of the Master Plan options in the prior year. The Company continued to build capacity and provide services to strengthening passenger numbers. Operating Earnings before Interest, Tax, Depreciation and Amortisation (EBITDA) increased by $3.9 million, or 30%, to $17.0 million.

The Company's investment in major airport infrastructure and additional land in the prior year, and a $32.1 million revaluation of assets at 30 June 2017, have resulted in minor increases in the cost of depreciation, amortisation and funding cost. New capital investment in this period included investment in winter operations equipment, a new operations centre and ongoing terminal improvements.

As at 31 December 2017, QAC's financial position remains strong, with term debt totalling $49.1 million representing 21% of net assets. The equity ratio (total shareholders' funds to total tangible assets) was 77% and interest cover (EBITDA/interest on 12 month average) is 15.1 times.

Shareholder Returns
An interim dividend of $1.0 million was declared and will be paid in February 2018 to shareholders in line with the Company's dividend policy.

Period Highlights

Unprecedented passenger growth continues
A sustained period of passenger growth over the past six months set new records, including reaching 2 million passenger movements over a 12-month period (as at December 2017) for the first time. The natural beauty of our alpine environment combined with the innovation and hard work of the business community in creating world-class experiences has made the region a destination of choice, supported by airlines increasing air capacity and connectivity over the years. This growth has brought both social and economic opportunities and benefits to the regional community with more jobs and more flexible, affordable travel. The airport communities in Queenstown and Wanaka alone are a strong network of over 900 people across more than 90 businesses who work together day in and day out with one goal in mind – to give a warm welcome to our customers and ensure they have a safe and memorable experience every time they visit.

In the six months ending 31 December 2017, passenger numbers reached 1,084,495 - 13% ahead of the same period last year.

- International passenger numbers were 333,439, a 11% increase on the same period last year.
- Domestic passenger numbers were 751,056, a 14% increase on the same period last year.
- The commercial general aviation operators at Queenstown Airport also performed strongly, with fixed wing and helicopter landings up 12.6% on the same period last year. Private jet landings increased by 7.9%.

Investing in the customer experience
Improving parking and traffic flow around the airport was a priority and enabled the return of the P2 drop-off zone directly outside the terminal which was welcomed by the community. From 1 July 2017, new car parking products and other enhancements included:

- Launch of a new terminal car parking product across 2 locations close to the terminal building.

- Introduction of a Park and Ride offering as an affordable long-term paerking option. The Park and Ride trial commenced with 150 spaces, which then increased to 300 in December.
- Installation of new external wayfinding signage, including new directional signs, coloured walkways, glass and new pavement icons to better guide visitors.
- Expansion of the retail offering to include seasonal "pop-up" offerings. Winter saw Taco Medic in the forecourt and Mons Royale in the terminal, followed by Hikari Sushi, Life's A Grind coffee cart, Chunky, and the Plant B food cube concept.

Supporting technology and process innovation
Our technology strategy is delivering enhancements to the customer experience, operational efficiency and business resilience. Highlights included:

- Introduction of transport solutions such as time-saving Tap & Go technology in the terminal car parks and RFID cards for all commercial operators to make it easier to access the airport.
- Installation of car parking sensor technology across the terminal car parks to provide customers real-time information on the availability of public car spaces.
- Upgrades to Flight Information Display screens including a new state-of-the-art digital screen in the main concourse to better inform our passengers.
- Launch of a Chinese language version of the Queenstown Airport website to better communicate essential information with Chinese speaking visitors.

Planning for the future
Developing a 30-year Master Plan
Following an 18-month planning and consultation process with key stakeholders, the Company released the airport's proposed 30-Year Master Plan options in August.

As part of a comprehensive engagement programme, the senior leadership team travelled across the region to share the proposed options and seek feedback at community group meetings, industry briefings and drop-in sessions. Print, radio and online channels were used to promote the sessions and connect people with the supporting documentation, which included a summary document, dedicated microsite and an online survey. The direct feedback, combined with over 350 online survey responses and individual submissions, have provided valuable insights which will be considered in the next stages of the process.

The Company continues to evaluate the Master Plan options and work on unlocking constraints which include land and noise boundaries as well as destination infrastructure issues.

Land acquisition
The Lot 6 land acquisition process continues to progress with a final decision on the Notice of Requirement issued by the Environment Court in March 2017. This decision has been appealed by the other party, with a hearing in the High Court held in December 2017 and a decision expected in the first half of 2018. The other party has also sought a full rehearing of the final decision on the Notice of Requirement, with an initial hearing in the Environment Court scheduled in April 2018.

Noise planning
In early 2018, the Company will commence public consultation around the airport's noise boundaries consistent with the Master Plan options. We are very aware of the potential impact of aircraft noise on neighbouring residents and as part of our noise management plan, which was implemented in 2014, we have developed a programme to monitor and mitigate this impact. We also continued to work closely with affected residents and communities to address issues as they arise.

Wanaka Airport
In April 2017 the Queenstown Lakes District Council agreed to grant to the Company a long-term lease of Wanaka Airport. The parties have been working together to agree the key terms of the lease and it is anticipated that the lease will be finalised in early 2018. The Company will engage with the community to help inform the future development of Wanaka Airport, prior to commencing a master planning process.

Supporting the communities we serve

We are committed to promoting and supporting our region and continue to be involved in initiatives such as the regional Transport Governance Group and Shaping Our Future, as well as supporting various community events and not-for-profit organisations. In this six month period, we have provided support for filming, promotions and events such as the Winter Festival, Winter Games and the Queenstown Marathon.

The rapid growth of our region is increasingly impacting the communities we serve. We are mindful that we must maintain our social license to operate throughout this period of increased activity and beyond, whilst achieving the outcomes required of a world-class tourism airport group. With that in mind, we will launch our Sustainability Programme in early 2018. The programme will reflect the Company's core values and commitment to social, economic and environmental sustainability. QAC's new role at Wanaka Airport also provides opportunities to build strong relationships and a positive reputation across the region in this context.

Recognising and building on a great team effort

The Company is a direct reflection of the quality, diversity and culture of its people. Our collective success relies on close collaboration and a one-team approach in delivering an outstanding customer experience and a strong financial result.

In November 2017, two of our longstanding directors John Gilks and James Hadley retired from the airport board and we would like to acknowledge their huge contribution and valuable leadership over a period of rapid growth and challenges. We welcomed new directors, Queenstown-based legal and commercial specialist Prudence Flacks, who replaced John as Chair, and planning specialist Adrienne Young-Cooper, both appointed for an initial three-year term. In addition, Olivia Pierre joined the senior leadership team as General Manager, Commercial and Customer Experience, placing greater focus on commercial relationships and the customer experience.

Going forward

More technology, products and infrastructure improvements are on the way over the next six months as part of the airport's investment programme. These include online parking and frequent parker products, internal wayfinding to reflect the new external wayfinding design and new retail and food and beverage offerings. This continued investment is focused on providing a better customer experience, with the ultimate goal of making it easier for visitors to travel to and from the region.

Providing for future growth in the near term by making the best use of our existing airport footprint also will be a key focus area over the coming 6 months and beyond. This work will help shape the requirements for Queenstown Airport in the period prior to implementation of the preferred Master Plan option.

Our current forecasts continue to predict solid passenger growth and we are confident about the sustainability of our domestic and international markets, particularly the winter after-dark services. The work we are doing today will provide a critical roadmap for our future, as we continue to develop the airport to serve our customers, local communities, region and nation for decades to come.

Prudence Flacks
Chair
15 February 2018

Colin Keel
Chief Executive Officer

Directors' Responsibility Statement

The Directors of Queenstown Airport Corporation Limited are pleased to present the Interim Report and Financial Statements for Queenstown Airport Corporation Limited for the six month period ended 31 December 2017.

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 31 December 2017 and the results of operations and cash flows for the period 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, or otherwise disclosed.

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 Interim Report is dated 15 February 2018 and is signed in accordance with a resolution of the Directors.

For and on behalf of the Board by:

Prudence Flacke

Director

Director

Income Statement

For the six months ended 31 December 2017

	Notes	6 months to 31 Dec 2017 $ 000's	6 months to 31 Dec 2016 $ 000's
Income			
Revenue	2(a)	23,157	19,591
Other gains/(losses)		14	-
Total income		**23,171**	**19,591**
Expenditure			
Operating expenses	4	3,299	4,142
Employee benefits expense	2(b)	2,849	2,354
Total operating expenditure		**6,148**	**6,496**
Operating earnings before interest, taxation, depreciation and amortisation		**17,023**	**13,095**
Depreciation	2(c)	3,428	3,224
Amortisation		345	218
Operating earnings before interest and taxation		**13,250**	**9,653**
Finance costs	2(d)	904	860
Profit before income tax		**12,346**	**8,793**
Income tax expense	3(a)	3,536	2,632
Profit for the period		**8,810**	**6,161**

The accompanying notes form part of these financial statements.

Statement of Comprehensive Income

For the six months ended 31 December 2017

	Notes	6 months to 31 Dec 2017 $ 000's	6 months to 31 Dec 2016 $ 000's
Profit for the period		**8,810**	**6,161**
Other comprehensive income			
Items that may be subsequently reclassified to profit and loss			
Gain/(loss) on cash flow hedging taken to reserves	13(c)	(221)	(313)
Realised losses transferred to the income statement	13(c)	-	-
Income tax relating to gain/(loss) on cash flow hedging	13(c)	62	88
Items that may not be subsequently reclassified to profit and loss			
Gain/(loss) on revaluation of property, plant and equipment	13(b)	-	-
Income tax relating to gain/(loss) on revaluation	13(b)	-	-
Other comprehensive income for the period net of tax		**(159)**	**(225)**
Total comprehensive income for the period, net of tax		**8,651**	**5,936**

The accompanying notes form part of these financial statements.

Statement of Financial Position

As at 31 December 2017

	Notes	As at 31 Dec 2017 $ 000's	As at 30 Jun 2017 $ 000's
Current assets			
Cash and cash equivalents	17(a)	1,132	915
Trade and other receivables	5	4,979	3,440
Prepayments		591	392
Total current assets		**6,702**	**4,747**
Non-current assets			
Property, plant and equipment	7	298,235	297,915
Intangible assets	8	3,024	2,925
Derivatives	6	42	263
Total non-current assets		**301,301**	**301,103**
Total assets		**308,003**	**305,850**
Current liabilities			
Trade and other payables	9	2,324	5,645
Income in advance		103	44
Employee entitlements	10	812	869
Current tax payable		3,410	2,132
Total current liabilities		**6,649**	**8,690**
Non-current liabilities			
Borrowings (secured)	11	49,100	47,000
Other non-current liabilities		115	115
Deferred tax liabilities	3(c)	14,692	15,080
Total non-current liabilities		**63,907**	**62,195**
Total liabilities		**70,556**	**70,885**
Net assets		**237,447**	**234,965**
Equity			
Share capital	12	37,657	37,657
Retained earnings	13(a)	28,543	25,902
Asset revaluation reserve	13(b)	172,222	172,222
Cash flow hedge reserve	13(c)	(975)	(816)
Total equity		**237,447**	**234,965**

The accompanying notes form part of these financial statements.

Statement of Changes in Equity

For the six months ended 31 December 2017

Six months to 31 Dec 2017	Ordinary shares $ 000's	Asset revaluation reserve $ 000's	Cash flow hedge reserve $ 000's	Retained earnings $ 000's	Total $ 000's
At 1 July 2017	**37,657**	**172,222**	**(816)**	**25,902**	**234,965**
Profit for the period	-	-	-	8,810	8,810
Other comprehensive income	-	-	(159)	-	(159)
Total comprehensive income for the period	-	-	**(159)**	**8,810**	**8,651**
Reclassification to retained earnings	-	-	-	-	-
Transactions with owners in their capacity as owners					
Dividends paid	-	-	-	(6,169)	(6,169)
At 31 December 2017	**37,657**	**172,222**	**(975)**	**28,543**	**237,447**

The accompanying notes form part of these financial statements.

Cash Flow Statement

For the six months ended 31 December 2017

	Notes	6 months to 31 Dec 2017 $ 000's	6 months to 31 Dec 2016 $ 000's
Cash flows from operating activities			
Receipts from customers		21,680	18,010
Interest received		10	-
Payments to suppliers and employees		(6,853)	(7,587)
Interest paid		(891)	(823)
Income tax paid (net)		(3,280)	(2,507)
Net cash inflow/(outflow) from operating activities	17(b)	**10,666**	**7,093**
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		-	23
Purchase of property, plant and equipment		(6,023)	(9,529)
Purchase of intangible assets		(357)	(460)
Net cash inflow/(outflow) from investing activities		**(6,380)**	**(9,966)**
Cash flows from financing activities			
Net proceeds from borrowings/(repayments)		2,100	8,190
Dividends paid to equity holders		(6,169)	(5,264)
Net cash inflow/(outflow) from financing activities		**(4,069)**	**2,926**
Net increase/(decrease) in cash and cash equivalents		**217**	**53**
Cash and cash equivalents at the beginning of the period		**915**	**921**
Cash and cash equivalents at the end of the period	17(a)	**1,132**	**974**

The accompanying notes form part of these financial statements.

Notes to the Financial Statements

For the six months ended 31 December 2017

1. Summary of Significant Accounting Policies

Reporting Entity

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

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

The Financial Statements for the six month period ended 31 December 2017 have not been audited.

(a) Basis of Preparation

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

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

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

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

(b) Statement of Compliance

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

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

(c) Revenue Recognition

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

(i) Rendering of Services

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

Passenger charges and car park and commercial transport revenue are recognised in the accounting period in which the actual service is provided to the customer.

(ii) Rental Income

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

(iii) Interest Revenue

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

(iv) Sale of Property, Plant and Equipment

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

(d) Leases

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

(i) Company as a Lessee

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

(ii) Company as a Lessor

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

(e) Employee Benefits

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

(f) Taxation

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

(i) Current Tax

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

(ii) Deferred Tax

Deferred tax is the tax expected to be payable or recoverable on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit and is accounted for using the comprehensive balance sheet liability method. Deferred tax liabilities are generally recognised for all deductible temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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

(iii) Current and Deferred Tax for the Period

Current and deferred tax is recognised in profit for the period, 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 includes 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 period, in which case the increase is recognised in profit for the period.

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

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

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

Fair Value

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

Asset	Valuation Approach
Land	Market Value
Runways, taxiways & aprons	Optimised Depreciated Replacement Cost
Terminal (including noise mitigation works) and rescue fire buildings	Optimised Depreciated Replacement Cost
Ground leases and commercial buildings	Market Value
Roading and car parking	Market Value

Depreciation

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

Expenditure incurred to maintain these assets at full operating capability is charged to the profit for the period in the period incurred.

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

	Rate (%)	**Method**
Buildings	2.5-33.0%	DV or SL
Runways, Taxiways & Aprons	1.0-20.0%	SL
Plant & Equipment	4.8-50.0%	DV

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

Disposal

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

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

(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 period 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 period immediately, unless the relevant asset is carried at fair value, in which case the reversal of the impairment loss is treated as a revaluation increase.

(k) Foreign Currencies

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

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

(l) Financial Instruments

Financial assets and financial liabilities are recognised on the Company's Statement of Financial Position when the Company becomes a party to contractual provisions of the instrument.

(i) <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 period. The net gain or loss is recognised in the profit for the period and incorporates any dividend or interest earned on the financial asset. Fair value is determined in the manner described later in this note.

Loans and Receivables

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

Impairment of Financial Assets

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

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

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 period to the extent the carrying amount of the investment at the date of impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

(ii) Financial Liabilities

Trade & Other Payables

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

Borrowings

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

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

(iii) Derivative Financial Instruments

The Company enters into certain derivative financial instruments to manage its exposure to interest rate risk and foreign currency exchange rate risks, including interest rate swaps and foreign exchange forward contracts. Further details of the derivative financial instruments are disclosed in note 6.

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

(iv) Hedge Accounting

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

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

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

Cash Flow Hedges

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

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

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

(m) 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 period are as follows:

(i) 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 $4.1 million have been capitalised by the Company. However, if the decision is unfavourable for the Company, then all costs may need to be expensed. The Company is confident that the Lot 6 will be acquired as planned.

(ii) Property, Plant and Equipment

The Company engaged independent valuers to value Property, Plant and Equipment held at fair value and adopted these valuations at 30 June 2017. Consistent with the revaluation policy set out in note (h) above assets acquired during this six month period are carried at cost, which approximates fair value.

An assessment will be made prior to 30 June 2018 to determine the significance of the movement in fair value during the current financial year and any resulting changes in fair value reflected at 30 June 2018.

(iii) Intangible Assets

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

2. Surplus from Operations

(a) Revenue

	6 month to 31 Dec 2017 $ 000's	6 month to 31 Dec 2016 $ 000's
Revenue consisted of the following items:		
Revenue from rendering of services:		
Passenger/landing charges	13,921	12,279
Car park and ground transport revenue	2,320	1,375
Total revenue from rendering of services	16,241	13,654
Operating lease rental revenue	6,402	5,454
Interest revenue	10	-
Other revenue	504	483
Total Revenue	**23,157**	**19,591**

(b) Employee Benefits Expense

Salaries and wages	2,714	2,262
Directors fees	135	92
Total Employee Benefits Expense	**2,849**	**2,354**

(c) Depreciation

Buildings	1,322	1,305
Runways, taxiways & aprons	948	913
Plant & equipment	1,158	1,006
Total Depreciation	**3,428**	**3,224**

(d) Finance Costs

Interest on borrowings	922	860
Less: Interest capitalised to projects	(18)	-
Total Finance Costs	**904**	**860**

Interest is capitalised at the weighted average cost of borrowings for the project, during the period to bring the asset to its intended use. Interest has been capitalised for the period ended 31 December 2017 at 3.8% No interest has been capitalised for the period ended 31 December 2016.

3. Income Taxes

(a) Income Tax Recognised in the Income Statement

	6 months to 31 Dec 2017 $ 000's	6 months to 31 Dec 2016 $ 000's
Tax expense/(income) comprises:		
Current tax expense/(credit):		
Current period	3,862	2,632
Adjustments for prior years	-	-
	3,862	**2,632**
Deferred tax expense/(credit)		
Origination and reversal of temporary differences	(326)	-
Other movements	-	-
Adjustment for prior year	-	-
	-	-
Total Tax Expense	**3,536**	**2,632**

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

Surplus before income tax	**12,347**	**8,793**
Income tax expense calculated at 28%	3,457	2,462
Permanent differences	1	13
Reversal of temporary difference	(326)	-
Adjustment for prior years	-	-
Other	404	156
Income Tax Expense	**3,536**	**2,632**

(b) Income Tax Recognised Directly in Other Comprehensive Income

Deferred tax of $61,805 (December 2016: $87,724) has been charged directly to other comprehensive income during the period, relating to the fair value movement in the interest rate swaps and foreign exchange forward contracts.

(c) Deferred Tax Balances Comprise

Taxable and deductible temporary differences arising from the following:

As at 31 Dec 2017	Opening balance 1 July 2017	Charged to profit for the period	Charged to other comprehensive income	Transferred to provision for tax	Closing balance 31 Dec 2017
	$ 000's	$ 000's	$ 000's	$ 000's	$ 000's
Gross deferred tax assets/(liability):					
Property, plant and equipment	(14,296)	180	-	-	(14,116)
Intangible assets	(625)	(56)	-	-	(681)
Employee benefits	103	14	-	-	117
Derivatives	(74)	-	62	-	(12)
Trade and other payables	(188)	188	-	-	-
	(15,080)	**(326)**	**62**	**-**	**(14,692)**

As at 30 Jun 2017	Opening balance 1 July 2016 $ 000's	Charged to profit for the period $ 000's	Charged to other comprehensive income $ 000's	Transferred to provision for Tax $ 000's	Closing balance 30 June 2017 $ 000's
Gross deferred tax assets/(liability):					
Property, plant and equipment	(12,654)	385	(2,027)	-	(14,296)
Intangible assets	(757)	132	-	-	(625)
Employee benefits	67	36	-	-	103
Derivatives	45	-	(118)	-	(74)
Trade and other payables	64	(252)	-	-	(188)
	(13,235)	**301**	**(2,145)**	**-**	**(15,080)**

(d) Imputation Credit Account Balances

	As at 31 Dec 2017 $ 000's	As at 30 Jun 2017 $ 000's
Balance at beginning of the period	14,343	12,147
Income tax and WHT paid during six month period	1,183	5,270
Tax credits relating to dividend payment	(2,399)	(2,436)
Refund of tax	-	(638)
	13,127	**14,343**

4. Operating Expenses

	6 months to 31 Dec 2017 $ 000's	6 months to 31 Dec 2016 $ 000's
Total Operating Expenses	**3,299**	**4,142**

Operating expenses include the following:

Audit fees - disclosure financial statements	13	19
Audit fees - financial statement audit	33	23
Bad debts written off	15	-
Doubtful debts	(15)	-
Loss on disposal of fixed assets	-	-

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

The Interim Report and Financial Statements for the six months ended 31 December 2017 have not been audited.

5. Trade & Other Receivables

	As at 31 Dec 2017 $ 000's	As at 30 Jun 2017 $ 000's
Trade and other receivables	4,979	3,455
Allowance for doubtful debts	-	(15)
Total Trade & Other Receivables	**4,979**	**3,440**

6. Derivatives

Derivative financial assets/(liabilities):

Interest rate swap (i) (effective)	22	239
Foreign exchange forward contracts (effective)	20	24
	42	**263**

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. Interest rate swaps in place of $22.5 million cover approximately 46% of the principal outstanding. The fixed interest rates range between 2.3450% and 2.6223% (2017: 2.3450% and 2.6225%). The interest rate swaps are designated hedge relationships and therefore to the extent that the relationship is effective movements, are recognised in Other Comprehensive Income.

During the year ended 30 June 2017, the Company entered into a contract to lease land near Wanaka to The National Aeronautics and Space Administration (NASA) of the United States of America, the rental of which is received in US dollars. To mitigate the exchange risk on these receipts, the Company has also entered into foreign exchange forward contracts to sell US dollars and buy NZD, to hedge the revenue payable by NASA until January 2020.

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	170,620	49,689	47,455	13,658	281,421
At cost	-	-	-	15,767	15,767
Work in progress at cost	4,447	490	-	4,514	9,451
Accumulated depreciation	-	-	-	(8,724)	(8,724)
Balances at 1 July 2017	**175,067**	**50,179**	**47,454**	**25,215**	**297,915**
Additions	318	1,576	128	1,726	3,748
Revaluation	-	-	-	-	-
Disposals	-	-	-	-	-
Depreciation	-	(1,322)	(949)	(1,157)	(3,428)
Movement to 31 December 2017	**318**	**254**	**(821)**	**569**	**(320)**
At fair value	170,620	49,689	47,454	13,658	281,421
At cost	-	1,455	7	17,464	18,926
Work in progress at cost	4,765	611	122	4,543	10,041
Accumulated depreciation	-	(1,322)	(949)	(9,882)	(12,153)
Balances at 31 December 2017	**175,385**	**50,433**	**46,634**	**25,783**	**298,235**

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

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

Land, buildings, roading and car parking were independently valued by Seagar & Partners, registered valuers, as at 30 June 2017. The runways, taxiways and aprons were independently valued by Beca Valuations Limited (Beca), registered valuers, as at the same date.

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

- Direct Comparison
- Investment
- Optimised Depreciated Replacement Cost

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

8. Intangible Assets

	As at 31 Dec 2017 $ 000's	As at 30 Jun 2017 $ 000's
Cost		
Opening balance	3,946	3,538
Transfer to property, plant and equipment	-	(384)
Additions from internal developments	444	792
Total cost closing balance	**4,390**	**3,946**
Accumulated amortisation		
Opening balance	1,021	465
Transfer to property, plant and equipment	-	(15)
Amortisation expense	345	571
Total accumulated amortisation	**1,366**	**1,021**
Carrying Value	**3,024**	**2,925**

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

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

During the six months period, planning costs were incurred totalling $442,296. As this work was in progress at 31 December 2017 (June 2017: $692,580), the costs were not amortised. In prior year, work undertaken to plan for and assist homeowners closest to the airport to mitigate the effects of aircraft noise within defined airport noise zones has been transferred as an addition to property, plant and equipment (note 7) to reflect that this work enables the Company to derive future economic benefits from those assets.

9. Trade & Other Payables

Trade payables	800	1,479
Other creditors and accruals	1,524	4,166
Total Trade and Other Payables	**2,324**	**5,645**

10. Employee Entitlements

Accrued salary and wages	395	502
Annual leave	417	367
Total Employee Entitlements	**812**	**869**

11. Borrowings

	As at 31 Dec 2017 $ 000's	As at 30 Jun 2017 $ 000's
Westpac Bank borrowings (secured)	26,000	20,000
BNZ borrowings (secured)	23,100	27,000
	49,100	**47,000**
Disclosed in the financial statements as:		
Current	-	-
Non-current	49,100	47,000
Total Current and Non-Current Borrowings	**49,100**	**47,000**

The Company has a secured facility with Westpac of $20 million and a secured facility with BNZ of $30 million, expiring on 23 May 2020 and we have further secured facilities with Westpac of $20 million and BNZ of $30 million expiring on 31 July 2021. 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 for the period ended 31 December 2017 was 3.6% (2017: 3.8%)

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

12. Share Capital

	31 Dec 2017 No.	30 Jun 2017 No.	31 Dec 2017 $ 000's	30 Jun 2017 $ 000's
Fully Paid Ordinary Shares				
Balance at beginning of period	16,060,365	16,060,365	37,657	37,657
Balance at end of period	**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

	As at 31 Dec 2017 $ 000's	As at 30 Jun 2017 $ 000's
(a) Retained Earnings		
Balance at the beginning of the period	25,902	20,987
Profit for the period after taxation	8,810	5,915
Dividends paid during the period (i)	(6,169)	(1,000)
Balance at the end of period	**28,543**	**25,902**
(i) Dividends Paid		
Final dividend – 38.41c per share	6,169	-
Interim dividend – 6.23c per share	-	1,000
Total Dividend Paid	**6,169**	**1,000**

On 22nd August 2017 a final dividend of 38.41 cents per share (total dividend of $6,169,007) for the year ended 30 June 2017 was paid to holders of fully paid ordinary shares.

(b) Asset Revaluation Reserve	As at 31 Dec 2017 $ 000's	As at 30 Jun 2017 $ 000's
Balance at the beginning of the period	172,222	142,194
Increase arising on revaluation of assets	-	32,055
Deferred tax movement arising on revaluation	-	(2,027)
Reclassification in retained earnings	-	-
Balance at the end of period	**172,222**	**172,222**

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

Balance at the beginning of the period	(816)	(1,319)
Gain/(loss) recognised on interest rate swaps	(217)	399
Gain/(loss) recognised on forward exchange contracts	(4)	24
Realised losses/(gains) transferred to the income statement	-	198
Income tax relating to gain/(loss) on cash flow hedging	62	(118)
Balance at the end of period	**(975)**	**(816)**

The cash flow hedge reserve represents hedging gains and losses recognised on the effective portion of cash flow hedges. The cumulative deferred gain or loss on the hedge is recognised in the Income Statement when the underlying hedged transaction impacts the profit and loss, when the hedge relationship is discontinued or is included as a basis adjustment to the non-financial hedged item, consistent with applicable accounting treatment (refer Note 6).

14. Commitments for Expenditure

(a) Capital Expenditure Commitments

Acquisition of property, plant and equipment	87	754
Noise mitigation packages	424	594
Total Capital Commitments	**511**	**1,348**

15. Operating Lease Arrangements

(a) Company as Lessee; Operating Lease Commitments

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

Non-cancellable operating lease payments:		
Not longer than 1 year	88	39
Longer than 1 year and not longer than 5 years	72	60
Total Company as Lessee; Operating Lease Commitments	**160**	**99**

(b) Company as Lessor; Operating Lease Rental

Operating leases relate to the commercial property owned by the Company with lease terms of between 4 months to 33 years, with options to extend for up to a further 10 years. The lease terms at 31 December 2017, extend up to 20 years in the future. All operating lease contracts contain market review clauses in the event that the lessee exercises its option to renew. The lessee does not have an option to purchase the property at the expiry of the lease period.

Rental income earned by the Company from its commercial property is set out in note 2. The Company has contractual rights under leases to the following Minimum Annual Guaranteed rentals and contracted escalations but excludes at risk receipts such as turnover rents and CPI increases:

	As at 31 Dec 2017 $ 000's	As at 30 Jun 2017 $ 000's
Less than 12 months	9,238	9,123
1-5 years	20,177	16,399
5 years +	8,340	5,095
Total Company Operating Lease Rental	**37,755**	**30,617**

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
- G Lilly – Director, Civil Aviation of New Zealand (CAA), Aviation Security Services
- M Thomson – Executive, Auckland International Airport Limited
- P Flacks – Director, Bank of New Zealand

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

	6 months to 31 Dec 2017 $ 000's	6 months to 31 Dec 2016 $ 000's
Queenstown Lakes District Council		
Rates	(179)	(165)
Resource Consent Costs & Collection fees	-	(2)
Other Expenses	(28)	-
Rent – NASA Launch	(24)	-
Wanaka Airport Management Fee	171	115
Wanaka Airport Recoveries	10	7

Queenstown Events Centre netball courts and six holes of the Frankton Golf Course are located on company land to the north west of the runway. Revenue from this arrangement amounted to $12,500 (2017: $12,500) for the period.

	6 months to 31 Dec 2017 $ 000's	6 months to 31 Dec 2016 $ 000's
Auckland International Airport Limited		
Rescue Fire Training	(13)	(37)

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

Hadley Consultants Limited		
Consultant Engineering Services	(3)	(1)
Civil Aviation Authority of New Zealand		
CAA Certification Audit Fees	-	(3)
Aviation Security Service		
Airport Security Cards	(3)	(3)
Rental, Power recovery and parking revenue	104	89
Bank of New Zealand		
Interest, other bank fees and interest received	(454)	-

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

Queenstown Lakes District Council		
Lakes Leisure Golf Course	13	13
Wanaka Airport Recoveries	53	7
Aviation Security Service		
Rental, Power recovery and parking revenue	1	3

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

Queenstown Lakes District Council	(1)	(1)
Auckland Airport	(7)	-
BNZ Borrowings (refer Note 11)	(23,100)	-
BNZ Foreign exchange forward contracts (refer Note 6)	(20)	-
BNZ Credit Card Accruals	(15)	-

17. Notes to the Cash Flow Statement

(a) Reconciliation of Cash and Cash Equivalents

For the purposes of the cash flow statement, cash and cash equivalents includes cash on hand and in bank and deposits in money market instruments, net of outstanding bank overdrafts. As required under the Construction Contracts Act 2002, cash includes retentions of $22,998 (2017: $512,170) held on trust, which are payable by the Company on completion of contractual obligations by third parties. Cash and cash equivalents at the end of the financial year as shown in the Cash Flow Statements is reconciled to the related items in the Statement of Financial Position as follows:

	As at 31 Dec 2017 $ 000's	As at 30 Jun 2017 $ 000's
Cash and cash equivalents	13	15
Bank account/(overdraft)	1,119	900
Total Cash and Cash Equivalents	**1,132**	**915**

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

	6 months to 31 Dec 2017 $ 000's	6 months to 31 Dec 2016 $ 000's
Profit for the period	**8,810**	**6,161**
Add/(less) non-cash items:		
Amortisation	345	218
Depreciation	3,428	3,217
Cash Flow Hedge Reserve Adjustment	62	-
	3,835	**3,435**
Changes in assets and liabilities:		
(Increase)/Decrease in trade and other receivables	(1,538)	(1,585)
(Increase)/Decrease in prepayments	(199)	(510)
Increase/(Decrease) in current tax payable	583	697
Increase/(Decrease) in trade and other payables	(2,627)	(1,272)
Increase/(Decrease) in income in advance	58	5
Increase/(Decrease) in employee entitlements	(55)	172
Increase/(Decrease) in deferred tax liability	(388)	-
Movement in items reclassified as investing and financing activities	2,188	(11)
	(1,979)	**(2,504)**
Net Cash Inflow from Operating Activities	**10,666**	**7,093**

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 rate variable rates and to pay interest at fixed rates.

Interest rate swaps in place cover approximately 46% of the principal outstanding. The interest rate swaps are designated hedge relationships and therefore to the extent that the relationship is effective movements are recognised in Other Comprehensive Income.

(c) Forward foreign exchange contracts

It is the policy of the Company to enter into forward foreign exchange contracts to cover committed foreign currency payments and receipts over $0.5 million by at least 80% of the exposure generated. At 31 December 2017 the aggregate amount of gains under forward foreign exchange contracts recognised in other comprehensive income and accumulated in the cash flow hedging reserve relating to highly probable future revenues is $14,285 (June 2017: $17,372). It is anticipated that the lease payments received over the next 26 months, will match the timing and amount of each forward foreign exchange contract.

(d) Fair Value Measurements

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

19. Contingent Liabilities

(a) Noise Mitigation

The Company is implementing plans to assist homeowners closest to the airport to mitigate the effects of aircraft noise within defined airport noise zones. The focus for FY17 was to agree customised noise mitigation packages for these homes and works have commenced on several of the houses. As at 31 December, we have made 11 offers to homeowners, of which seven have been accepted. Two have now been completed. The cost of delivering the remaining five accepted offers is estimated at $424k which has been disclosed as a capital commitment in Note 14.

The Company is also finalising the mechanical ventilation package specifications for the 'Mid Noise Sector' houses and will begin a consultation process with homeowners over the next 12 months. Noise levels are monitored regularly and as the noise zones expand, further offers will be made. The Company estimates approximately 217 properties will be offered noise mitigation under the approved/consented boundaries This estimate may vary over time if new properties are built within the boundaries. 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.

20. Subsequent Events

The directors resolved on 15 February 2018 that an interim dividend of $1,000,000 be paid to shareholders on 16 February 2018. There were no other significant events after balance date.

INCOME STATEMENT

For the six months ended 31 December 2017

	SOI/Budget 6 months to 31 Dec 2017 000s	Actual 6 month to 31 Dec 2017 000s	Actual 6 month to 31 Dec 2016 000s
Passenger Numbers			
Domestic	719,434	751,056	660,231
International	323,254	333,439	299,088
Total Pax	**1,042,688**	**1,084,495**	**959,319**
	$000's	$000's	$000's
Income			
Aero	14,161	14,582	12,887
Commercial	8,454	8,589	6,704
Total Income	**22,615**	**23,171**	**19,591**
Expenditure			
Operating Expenses	4,306	3,298	4,142
Employee Benefits Expense	3,062	2,849	2,354
Total Operating Expenditure	**7,368**	**6,147**	**6,496**
Operating earnings before interest, taxation, depreciation and amortisation	**15,247**	**17,024**	**13,095**
Depreciation	3,877	3,428	3,224
Amortisation	308	345	218
Operating earnings before interest and taxation	**11,062**	**13,251**	**9,653**
Finance Costs	787	904	860
Profit before Income Tax	**10,275**	**12,347**	**8,793**
Income Tax Expense	2,877	3,536	2,632
Profit for the Year	**7,398**	**8,811**	**6,161**

STATEMENT OF FINANCIAL POSITION

As at 31 December 2017

	SOI/Budget As at 31 Dec 2017 $000's	Actual As at 31 Dec 2017 $000's	Actual As at 30 June 2017 $000's
Current assets			
Cash and cash equivalents	600	1,132	915
Trade and other receivables	4,821	4,979	3,440
Prepayments	700	591	392
Total current assets	**6,121**	**6,702**	**4,747**
Non-current assets			
Property, plant and equipment	307,770	298,235	297,915
Intangible assets	6,989	3,024	2,925
Derivatives		42	263
Total non-current assets	**314,759**	**301,301**	**301,103**
Total assets	**320,880**	**308,003**	**305,850**
Current liabilities			
Trade and other payables	3,040	2,324	5,645
Income in advance	161	102	44
Employee entitlements	799	813	869
Current tax payable	894	3,410	2,132
Total current liabilities	**4,894**	**6,649**	**8,690**
Non-current liabilities			
Borrowings (secured)	67,930	49,100	47,000
Derivatives	312	-	-
Other non-current liabilities	-	115	115
Deferred tax liabilities	13,277	14,691	15,080
Total non-current liabilities	**81,520**	**63,906**	**62,195**
Total liabilities	**86,413**	**70,555**	**70,885**
Net assets	**234,467**	**237,448**	**234,965**
Equity			
Share capital	37,657	37,657	37,657
Retained earnings	26,647	28,543	25,902
Asset revaluation reserve	171,390	172,222	172,222
Cash flow hedge reserve	- 1,227	(974)	(816)
Total equity	**234,467**	**237,448**	**234,965**