



Queenstown Airport
Corporation Limited

Interim Report for the
Six Month Period Ended
31 December 2018

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Directory

BOARD OF DIRECTORS

Prudence M Flacks
Grant R Lilly
Michael P Stiasny
Norman J Thompson
Mark R Thomson
Adrienne F Young-Cooper

CHIEF EXECUTIVE OFFICER

R Colin Keel

BANKERS

BNZ
Queenstown Store
11 Rees Street
Queenstown

Westpac
Terrace Junction
1092 Frankton Road
Queenstown

ASB
ASB House, Level 2 166 Cashel Street
Christchurch

Bank of China
Level 17
205 Queen Street
Auckland

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 2018.

1. Financial Statements

The unaudited financial statements of the Company for the six month period ended 31 December 2018 follow this report.

2. Principal Activities of the Company

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

On 1 April 2018, the Company was granted a 100-year lease for the management and development of Wanaka Airport. The financial performance of the airport since lease commencement is included in the Company's financials.

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

Details of the year 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)
 Grant R Lilly
 Michael P Stiassny
 Norman J Thompson
 Mark R Thomson
 Adrienne F Young-Cooper (appointed 27 November 2017)
 John W Gilks (Chair retired 27 November 2017)
 James W P Hadley (retired 27 November 2017)

4. Results for the Six Month Period Ended 31 December 2018

Profit for the six month period was \$8,255,307 compared with profit of \$8,810,460 for the same six month period in the previous year.

The directors resolved on 22 August 2018 that the final dividend for the year ended 30 June 2018 be \$6,186,386, resulting in a full year dividend of \$7,186,386 (2017: \$7,169,007).

This was paid to shareholders on 22 August 2018 as follows:

| | |
|--|-------------|
| Queenstown Lakes District Council | \$4,640,408 |
| Auckland Airport Holdings (No 2) Limited | \$1,545,978 |

The directors resolved on 14 February 2019 to pay an Interim Dividend of \$1,000,000 to shareholders on 15 February 2019, to be distributed to the shareholders as follows:

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

5. Directors Interests

The Company entered into the following transactions during the period with organisations which the directors had an interest in:

- 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, Aviation Security Service.
- 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.
- Go Rentals (Auckland) Limited, is a commercial transport operator. Grant Lilly is a director of Go Rentals (Auckland) Limited.

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 2018 | 6 months to 31 Dec 2017 |
|--|------------------------------------|------------------------------------|
| | \$ | \$ |
| PM Flacks (appointed 27 November 2017) | 30,500 | 5,752 |
| JW Gilks (retired 27 November 2017) | - | 23,630 |
| JWP Hadley (retired 27 November 2017) | - | 18,333 |
| GR Lilly | 22,000 | 21,167 |
| MP Stiasny | 21,000 | 21,000 |
| NJ Thompson | 22,000 | 22,000 |
| MR Thomson | 19,000 | 19,000 |
| AF Young-Cooper | 21,000 | 3,960 |
| | 135,500 | 134,842 |

8. Donations

The Company made donations totalling \$4,120 during the period (December 2017: \$1,000).


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 2018 have not been audited.

On Behalf of the Board



Chair

18/02/2019 4:44 PM



Director

18/02/2019 7:14 PM

Chair and Chief Executive's Report

Queenstown Airport Corporation (QAC), through its operations at Queenstown and Wanaka airports, continued to support communities and businesses in the Southern Lakes region over the six-month period to 31 December 2018, while also investing in the airport customer experience, airside and terminal infrastructure and operational resilience.

New Zealand, and particularly the Southern Lakes region, are attractive places to live, work and visit. The residential population across our region and the businesses, large and small, within it continue to experience growth and greater diversification. With tourism as the primary business sector in the region, tourism operators have announced major expansion plans of more than \$200m over the past year and infrastructure projects supporting tourism with a total of value of \$900m are underway, particularly in Queenstown. QAC, through the airports that it operates, supports the growth in visitors from both New Zealand and beyond generated by these initiatives.

QAC sees its primary purpose as providing infrastructure to connect both residents and visitors to the Southern Lakes region. While we continue to shape our plans for future development, we remain committed to ensuring a safe, efficient and friendly airport experience for our customers at both Queenstown and Wanaka airports as well as playing a role in sustaining – socially, economically and environmentally - the regional communities we serve.

Health, Safety and Security Performance

The health, safety and security of our team, airport community members, customers and contractors is our first business priority with a target to achieve Zero Harm and a safe aviation operating environment. We continued our excellent safety record and are pleased to report that QAC has not had an employee or contractor Lost Time Injury for more than four years. However, our focus continues on the identification, review, mitigation and management of critical risks. Incident reporting, which is a positive indicator of a strong safety culture, has increased by 248% over the last three years, due to QAC's drive for a safety-first culture and the focus on safety and security awareness across the airport community. The past six months has also seen a number of health and safety initiatives implemented or improved across the business, including:

- New weather warning system, powered by MetService, installed to provide automated advice on wind and severe weather conditions at Queenstown Airport and the surrounding area
- New apron code of conduct implemented to enhance airside systems and processes
- Contractor pre-qualification process implemented in a bid to further improve contractor safety performance and collaboration with minimum safety criteria before contractors may submit proposals
- New compliance coordinator role was created to assist with the ongoing improvements in health, safety, security and aviation compliance
- Work with regulators and other airports on drone management initiatives
- Queenstown and Wanaka airports again supported Airport Safety Week, increasing the number of events held and the people involved as well as welcoming staff from Invercargill Airport to join the programme
- Initiation of monthly meetings with the commercial operators at Wanaka Airport to raise awareness of health, safety and security matters
- Litmos, a new e-learning platform, launched to streamline and improve the efficiency of health, safety and security training as well as help mitigate risks to safety and security
- Additional CCTV cameras were installed to improve security monitoring and enhance operational effectiveness
- Queenstown and Wanaka airport websites migrated to a cloud-based platform to ensure best practice in cyber security
- Majority of QAC's staff now trained in emergency and incident management and certified under New Zealand's Coordinated Management System (CIMS) structure. Many of the team have attended or taken part in both live and desktop simulated training exercises covering a variety of CIMS roles and scenarios

Passenger Performance

Over the past six months there were 1,185,746 passenger movements at Queenstown Airport, up 9% for same period last year. Domestic passenger movement numbers were 829,957, an 11% increase on the same period last year. International passenger movement numbers were 355,789, a 7% increase on the same period last year.

The number of commercial general aviation movements at Queenstown Airport were slightly lower, with fixed wing and helicopter landings down 4% on the same period last year due to inclement weather and operators up-gauging their aircraft fleets. Private jet landings increased by 7.3%.

Financial Performance

The first half of the financial year has delivered another solid financial performance underpinned by continued growth in passengers, with revenue of \$25.3 million, an increase of \$2 million (9%) compared to the corresponding period last year. This performance was reflected in both aeronautical and commercial revenues increasing by 8% and 11%, respectively.

Total Operating Expenditure of \$7.8 million increased \$1.7 million (27%), compared to the corresponding period last year as the Company invested in new technology, organisational capability and long-term strategic and infrastructure planning.

Earnings before Interest, Tax, Depreciation and Amortisation (EBITDA) increased by \$0.4 million, or 2%, to \$17.4 million. Reported Net Profit After Tax was \$8.3 million, down by \$0.5 million compared to the same period last year.

The Company's continuing investment in airfield and terminal infrastructure and a \$33 million revaluation of assets at 30 June 2018, resulted in minor increases in the cost of depreciation, amortisation and funding costs. New capital investment in this period included investment in the apron overlay, noise mitigation activities and ongoing terminal improvements as outlined.

As at 31 December 2018, the Company's financial position remains strong, with term debt totalling \$63 million representing 23% of net assets. The equity ratio (total shareholders' funds to total assets) was 76% and interest coverage ratio (EBIT/finance costs) is 9.5 times.

Shareholder Returns

An interim dividend of \$1.0 million was declared and will be paid in February 2019 to shareholders in line with the Company's dividend policy.

Focusing on operational integrity

Ensuring the safe, efficient and friendly airport environment for our customers is a key area of focus for the Company and broader airport community. Over the past six months a number of important initiatives have been undertaken to help us achieve this goal. These included:

- A \$7 million full apron overlay project, using a new low carbon asphalt, incorporating 1.5 million recycled glass bottles and 330,000 waste printer toner cartridges
- Upgrades to the terminal ceiling and related services
- Upgrade works to ensure compliance with current seismic building standards
- Implementing a new customer wayfinding signage programme
- Creating a new dedicated role to manage the airport noise mitigation programme
- Completing or initiating mitigation work on 14 homes in the inner noise area
- Providing a new on-line noise complaint form on the Wanaka Airport website
- Refreshing the environmental management plan
- Realising value from capital investment in major equipment/infrastructure (snow removal, integrated operations centre, parking capacity)

Investing in terminal infrastructure

Several upgrade projects were delivered to ensure that the terminal and connecting areas are positioned to accommodate growth within the current footprint. These included:

- Commencing "Project Pathway", a comprehensive programme of works across the terminal and related infrastructure with a value of approximately \$20 million

- Upgrading the terminal area and dog rest areas used by border agencies
- Creating a swing lounge to increase the domestic departure lounge area
- Increasing the area used by ground transport operators for customer pick-up/drop-off

Enhancing the customer experience

As part of our goal to enhance the “park to place” experience for our customers, we have continued to invest in new and innovative product and retail offerings. These included:

- Launching an online booking and payment offering for the Park and Ride parking product
- Creating a dedicated role to focus on customer ground transport activities
- Providing a new “grab and go” food and beverage offering in the domestic departure lounge
- Continuing to enhance the retail “pop-up” offerings to provide greater seasonal variety for customers providers
- Relocating the customer information desk to central touchpoint in the terminal
- Implementing a new and innovative terminal advertising and information programme including new advertising infrastructure and local/national content

Sustaining the communities we serve

Our ongoing work with and support of the communities across the Southern Lakes region is underpinned by a mindfulness of our social licence to operate and a commitment to social, economic and environmental sustainability. In this context, we regretfully removed two heritage-listed huts from our land at Queenstown Airport during the period and are exploring appropriate mitigation activities with Heritage NZ and other stakeholders.

Our sustainability journey continued over the past 6 months with a broad range of initiatives, including:

- Developing a sustainability framework to benchmark against others and monitor improvement
- Actively supporting the national Tiaki Promise to protect our environment and encourage sustainable tourism practices for visitors to our region
- Committing to the Tourism Aotearoa Sustainability Framework
- Hosting Christmas Community Days at Queenstown Airport and raising over \$2,000 for local charity “Let’s Eat” which promotes feeding people in need, bringing people together by sharing food and reducing food waste
- Incorporating environmentally sustainable practices of recycling and emissions reduction into the apron overlay project at Queenstown Airport
- Hosting approximately 200 students around the region as part of our education programme
- Signing up to the Pride Pledge to support and encourage community diversity
- Providing support and assistance various promotions and events, including the Real Journeys Queenstown Winter Festival, Audi Quattro Winter Games, Winter Pride and the Air New Zealand Queenstown Marathon as well as supporting various other community events and not-for-profit organisations
- Continuing active participation in and support of key community initiatives, including the regional Transport Governance Group, Frankton and Wanaka Town Centre Plans, Vision 2050 and Shaping Our Future

Enabling one team, combined success

We are a direct reflection of the quality, diversity and culture of the over 900 people who work at Queenstown and Wanaka airports. They represent the communities across the Southern Lakes region and our collective success relies on close collaboration and a one-team approach.

Over the past six months, we have grown the capability of our team and made a commitment to paying the national living wage. We also have been a leader in supporting diversity in all forms to foster tolerance and unity and flexible working arrangements to promote balance and well-being. For example, the QAC team represents gender diversity of approximately 50% women and 50% men, including the senior leadership team.

Planning for the future

We are progressing the development options for both Queenstown and Wanaka airports through a significant investment in strategic planning work that will provide a robust and integrated roadmap to support the

infrastructure required to deliver air services to the Southern Lakes region over the next 30 years. This work includes master plans for Queenstown and Wanaka airports with related noise boundaries, land requirements and surface connectivity. It also considers other critical areas, including funding, pricing and organisational design and capability.

Our strategic planning work cannot be done in isolation and ongoing engagement with a broad range of stakeholders is a key part of this work. The feedback that we received from the community and other stakeholders last year on the proposed changes to the current air noise boundaries for Queenstown Airport is an important input to our strategic planning work and will help shape our future development plans. In particular, we are very mindful of the need to work closely with QLDC to ensure that our strategic roadmap takes account of their long-term planning initiatives currently underway or being considered.

We are committed to working with all our key stakeholders – regional communities, business communities, airport communities, teams, shareholders, airline customers, and national and regional organisations - as we look to develop connected, sustainable aviation centres that serve the Southern Lakes region for decades to come.

Prudence Flacks
Chair
14 February 2019

Colin Keel
Chief Executive

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 2018.

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 2018 and the results of operations and cash flows for the period ended on that date.

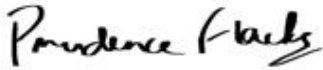
The Directors consider the Financial Statements of the Company have been prepared using accounting policies that have been consistently applied and supported by reasonable judgements and estimates and that all relevant financial reporting and accounting standards have been followed, or otherwise disclosed.

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 14 February 2019 and is signed in accordance with a resolution of the Directors.

On Behalf of the Board



Chair

18/02/2019 4:42 PM



Director

18/02/2019 3:46 PM

Income Statement

For the six months ended 31 December 2018

| | Notes | 6 months to 31 Dec 2018 \$ 000's | 6 months to 31 Dec 2017 \$ 000's |
|--|-------|--|--|
| Income | | | |
| Revenue | 2(a) | 25,254 | 23,157 |
| Other gains | | 17 | 14 |
| Total income | | 25,271 | 23,171 |
| Expenditure | | | |
| Operating expenses | 2(b) | 4,505 | 3,299 |
| Employee benefits expense | 2(c) | 3,331 | 2,849 |
| Total operating expenditure | | 7,836 | 6,148 |
| Operating earnings before interest, taxation, depreciation and amortisation | | 17,435 | 17,023 |
| Depreciation | 7 | 3,799 | 3,428 |
| Amortisation | 8 | 162 | 345 |
| Operating earnings before interest and taxation | | 13,474 | 13,250 |
| Finance costs | 4 | 1,410 | 904 |
| Profit before income tax | | 12,064 | 12,346 |
| Income tax expense | 3(a) | 3,809 | 3,536 |
| Profit for the period | | 8,255 | 8,810 |

The accompanying notes form part of these financial statements.

Statement of Comprehensive Income

For the six months ended 31 December 2018

| | Notes | 6 months to 31 Dec 2018 \$ 000's | 6 months to 31 Dec 2017 \$ 000's |
|--|-------|--|--|
| Profit for the period | | 8,255 | 8,810 |
| Other comprehensive income | | | |
| Items that may be subsequently reclassified to profit and loss | | | |
| Gain/(loss) on cash flow hedging taken to reserves | 13(c) | (165) | (221) |
| Income tax relating to gain/(loss) on cash flow hedging | 13(c) | 46 | 62 |
| Realised gains/(losses) transferred to the income statement | 13(c) | - | - |
| 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 | | (119) | (159) |
| Total comprehensive income for the period, net of tax | | 8,136 | 8,651 |

The accompanying notes form part of these financial statements.

Statement of Financial Position

As at 31 December 2018

| | Notes | As at 31 Dec 2018 \$ 000's | As at 30 Jun 2018 \$ 000's |
|--------------------------------------|-------|----------------------------------|----------------------------------|
| Current assets | | | |
| Cash and cash equivalents | 17(a) | 1,610 | 1,897 |
| Trade and other receivables | 5 | 5,392 | 3,745 |
| Prepayments | | 665 | 489 |
| Total current assets | | 7,667 | 6,130 |
| Non-current assets | | | |
| Property, plant and equipment | 7 | 351,810 | 346,883 |
| Intangible assets | 8 | 3,468 | 3,154 |
| Total non-current assets | | 355,278 | 350,037 |
| Total assets | | 362,945 | 356,168 |
| Current liabilities | | | |
| Trade and other payables | 9 | 4,260 | 3,301 |
| Income in advance | | 36 | 44 |
| Employee entitlements | 10 | 825 | 1,036 |
| Current tax payable | | 2,232 | 4,398 |
| Total current liabilities | | 7,353 | 8,779 |
| Non-current liabilities | | | |
| Borrowings (secured) | 11 | 63,000 | 57,000 |
| Derivatives | 6 | 300 | 136 |
| Deferred tax liabilities | 3(c) | 15,432 | 15,343 |
| Total non-current liabilities | | 78,732 | 72,479 |
| Total liabilities | | 86,085 | 81,258 |
| Net assets | | 276,860 | 274,910 |
| Equity | | | |
| Share capital | 12 | 37,657 | 37,657 |
| Retained earnings | 13(a) | 35,743 | 33,674 |
| Asset revaluation reserve | 13(b) | 204,376 | 204,376 |
| Cash flow hedge reserve | 13(c) | (916) | (797) |
| Total equity | | 276,860 | 274,910 |

The accompanying notes form part of these financial statements.

Statement of Changes in Equity

For the six months ended 31 December 2018

| Six months to 31 Dec 2018 | 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 2018 | 37,657 | 204,376 | (797) | 33,674 | 274,910 |
| Profit for the period | - | - | - | 8,255 | 8,255 |
| Other comprehensive income | - | - | (119) | - | (119) |
| Total comprehensive income for the period | - | - | (119) | 8,255 | 8,136 |
| Transactions with owners in their capacity as owners | | | | | |
| Dividends paid | - | - | - | (6,186) | (6,186) |
| At 31 December 2018 | 37,657 | 204,376 | (916) | 35,743 | 276,860 |

The accompanying notes form part of these financial statements.

Cash Flow Statement

For the six months ended 31 December 2018

| | Notes 6 months to 31 Dec 2018 \$ 000's | 6 months to 31 Dec 2017 \$ 000's |
|---|---|---|
| Cash flows from operating activities | | |
| Receipts from customers | 23,776 | 21,680 |
| Interest received | 10 | 10 |
| Payments to suppliers and employees | (9,026) | (6,853) |
| Interest paid | (1,486) | (891) |
| Income tax paid (net) | (6,205) | (3,280) |
| Net cash inflow/(outflow) from operating activities | 17(b) 7,069 | 10,666 |
| Cash flows from investing activities | | |
| Purchase of property, plant and equipment | (6,686) | (6,023) |
| Purchase of intangible assets | (483) | (357) |
| Net cash inflow/(outflow) from investing activities | (7,170) | (6,380) |
| Cash flows from financing activities | | |
| Net proceeds from borrowings/(repayments) | 6,000 | 2,100 |
| Dividends paid to equity holders | (6,186) | (6,169) |
| Net cash inflow/(outflow) from financing activities | (186) | (4,069) |
| Net increase/(decrease) in cash and cash equivalents | (287) | 217 |
| Cash and cash equivalents at the beginning of the period | 1,897 | 915 |
| Cash and cash equivalents at the end of the period | 17(a) 1,610 | 1,132 |

The accompanying notes form part of these financial statements.

Notes to the Financial Statements

For the six months ended 31 December 2018

1. Summary of Significant Accounting Policies

Reporting Entity

Queenstown Airport Corporation Limited (the Company or Queenstown Airport) 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 provides airport facilities, supporting infrastructure and aeronautical services in Queenstown, New Zealand. The Company earns revenue from aeronautical activities, retail and rental leases, car parking facilities and other charges and rents associated with operating an airport.

The Financial Statements for the six month period ended 31 December 2018 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(g) 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 generally accepted accounting practice in New Zealand (NZ GAAP). They comply with New Zealand International Financial Reporting Standards Reduced Disclosure Regime (NZ IFRS RDR) as appropriate for profit-oriented entities. The Company has applied disclosure concessions for the current reporting period ended 31 December 2018.

(c) Revenue Recognition

(i) Revenue arising from contracts with customers

In the current year, the Company adopted NZ IFRS 15 Revenue from Contracts with Customers. NZ IFRS 15 introduces a 5-step approach to revenue recognition with far more prescriptive guidance to deal with specific scenarios. Details of these new requirements as well as their impact on the Company's financial statements are described below.

The Company has applied NZ IFRS 15 in accordance with modified retrospective approach.

The Company's accounting policies for revenue streams are disclosed below. The adoption of NZ IFRS 15 has not had a significant impact on the financial position or financial performance of the Company. There is no quantitative impact on financial statement line items as a result of the adoption of NZ IFRS 15.

The Company recognises revenue from passenger charges, general aviation charges, car park income, commercial transport income and other income. Revenue is measured based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties. The Company recognises revenue when a customer obtains control of the service.

The Company provides services relating to the aviation sector. As a result of the nature of these services, passenger revenue, general aviation charges and commercial transport income arise at the time when the associated aircraft takes off, lands or is in transit at the airport. This revenue is recognised at a point in time. Car park income is recognised in accordance with the hourly, daily or weekly parking charges at the time the car leaves the car park. The Company does not consider accrued car park charges at a period end to be material and any amounts are not adjusted for.

The Airport recognises rental income in accordance with NZ IAS 17 as described below.

(ii) Rental Income

Rental income on leases where the Company is the lessor is recognised as revenue on a straight-line basis over the term of the leases under NZ IAS 17. 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. 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.

(iii) Interest Revenue

Interest income is recognised as interest accrues using the effective interest method.

(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

A lease is classified at the inception date as a finance lease or an operating lease. A lease that transfers substantially all the risk and rewards incidental to ownership to the Company is classified as a finance lease.

Finance leases are capitalised at the commencement of the lease at the inception date fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in finance costs in the statement of profit or loss. A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Company will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term. An operating lease is a lease other than a finance lease.

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

(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

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities based on the current period's taxable income.

(ii) Deferred Tax

Deferred income tax is provided on all temporary differences at the balance date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Income taxes relating to items recognised in other comprehensive income or directly in equity are recognised in other comprehensive income or directly in equity and not in the income statement. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the periods when the asset and liability giving rise to them are realised or settled, based on tax rates that have been enacted or substantively enacted by reporting date.

(iii) Goods and Services Tax (GST)

Revenues, expenses, assets and liabilities are recognised net of the amount of 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. Commitments and contingencies are disclosed net of the amount of GST.

(g) 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.

Vested assets from majority shareholder is initially measured at fair value at the date on which control is obtained.

Revaluations

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

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

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

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

Fair Value

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

| Asset | Valuation Approach |
|---|--|
| Land | Market Value |
| Right-of-use asset | 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 year in the year incurred.

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

| | Rate (%) | Method |
|----------------------------|-----------------|---------------|
| Right-of-use asset | 1% | SL |
| Buildings | 2.5-33.0% | DV or SL |
| Runways, Taxiways & Aprons | 1.0-20.0% | SL |
| Plant & Equipment | 1.0-67% | 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.

Costs associated with the strategic and master planning work currently underway will be assessed and any costs of a capital nature will be disclosed in the balance sheet at year end.

(h) Intangible Assets

Intangible assets acquired separately are measured on initial recognition at costs. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses. Intangible assets are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. 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 reporting period, with the effect of any changes in estimate being accounted for prospectively.

Assets arising from contracts with customers under NZ IFRS 15

The Company recognises the incremental costs of obtaining a contract with a customer as an asset where the costs are expected to be recovered. The Company applies the practical expedient available in NZ IFRS 15 and recognised the incremental costs of obtaining a contract as an expense when incurred if the amortisation period of the asset would be one year or less.

The costs incurred in fulfilling a contract with a customer which are not within the scope of another Standard are recognised as an asset, only if the costs relate directly to a contract, the costs generate or enhance resources of the Company and the costs are expected to be recovered.

(i) 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.

(j) 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 (k) hedging derivatives).

(k) Financial Instruments

The Company adopted *NZ IFRS 9 Financial Instruments* for the annual period beginning on 1 July 2018. The Company reviewed the measurement and recognition method of the current financial assets and financial liabilities and assessed that there is no material quantitative impact on the financial statements. A hedge effectiveness documentation has been prepared for the cashflow hedges at 30 June 2018, and the hedge relationship has been assessed as effective under NZ IFRS 9.

NZ IFRS 9 replaces the provisions of NZ IAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting. The adoption of NZ IFRS 9 Financial Instruments from 1 July 2018 has not resulted in any adjustments to the amounts recognised in the financial statements.

The Company's financial assets comprise cash and cash equivalents and trade receivables. The Company's financial liabilities comprise accounts payable and accruals, borrowings, provisions, other liabilities (classified as financial liabilities at amortised cost) and derivatives (designated as a hedge).

Financial assets at amortised costs

The Company classifies its financial assets as at amortised cost only if the asset is held within a business model whose objective is to collect the contractual cash flows, and the contractual terms give rise to cash flows that are solely payments of principal and interest.

- (i) *Cash* - Cash in the statement of financial position and the cash flow statement comprises cash on hand, on-call deposits held with banks and short-term highly liquid investments.
- (ii) *Trade receivables* - Trade receivables are amounts due from customers for services performed in the ordinary course of business. They are generally due for settlement within 30 days and therefore are all classified as current. Trade receivables are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value. The Company holds the trade receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method. Due to the short-term nature of the current receivables, their carrying amount is considered to be the same as their fair value.

Financial liabilities at amortised costs

- (iii) *Trade and other payables* - Trade payables are unsecured and are usually paid within 30 days of recognition. The carrying amounts of trade and other payables are considered to be the same as their fair values, due to their short-term nature. Trade and other payables are not interest-bearing.
- (iv) *Borrowings* - For all borrowings, the fair values are not materially different to their carrying amounts, since the interest payable on those borrowings is either close to current market rates or the borrowings are of a short-term nature.

Financial liabilities at fair value

Hedging derivatives - The Company uses derivative financial instruments to hedge its risks associated with interest rates and foreign currency. Derivative financial instruments are recognised at fair value. Cash flow hedges are currently applied to future interest cash flows on variable rate loans and on variable foreign exchange rates. The effective portion of the gain or loss on the hedging instruments is recognised directly in

other comprehensive income and accumulated as a separate component of equity in the cash flow hedge reserve, while the ineffective portion is recognised in the income statement. Amounts taken to equity are transferred to the income statement when the hedged transaction affects the income statement.

The Company applied Hypothetical Hedge/Matched Terms method to measure effectiveness of the hedge relationship, by comparison of hedging instrument to hypothetical derivative (in which the fair value is determined by the credit-risk free benchmark rate).

(I) Changes in Accounting estimates, accounting policies and disclosures

The Company accounts for the changes in accounting estimates prospectively in the financial statements. Therefore, carrying amounts of assets and liabilities and any associated expense and gains are adjusted in the period of change in estimate. There were no changes in the accounting estimates in the current year.

New and amended standards and interpretations

The Company applied for the first time standards, which are effective for annual periods beginning on or after 1 January 2018. The Company has not early adopted any other standards, interpretations or amendments that have been issued but are not yet effective. The new standards and amendments did not have a material impact on the annual financial statements of the Company.

For discussion on NZ IFRS 15 refer to (d)(i), for discussion on NZ IFRS 9 refer to (k).

2. Surplus from Operations

(a) Revenue

| | 6 month to 31 Dec 2018 \$ 000's | 6 month to 31 Dec 2017 \$ 000's |
|--|--|--|
| Revenue consisted of the following items: | | |
| Revenue from contracts with customers | | |
| Passenger/landing charges | 15,060 | 13,921 |
| Ground transport revenue | 2,579 | 2,320 |
| | <hr/> | <hr/> |
| Total revenue from contracts with customers | 17,639 | 16,241 |
| Lease rental revenue | 7,114 | 6,402 |
| Interest revenue | 10 | 10 |
| Other revenue | 491 | 504 |
| | <hr/> | <hr/> |
| Total Revenue | 25,254 | 23,157 |
| | <hr/> <hr/> | <hr/> <hr/> |

Revenues of approximately \$14.3mil are derived from four major customers (December 2017: \$13.5mil). These revenues are attributed mainly to Passenger/landing charges segment.

(b) Operating Expenses

| | | |
|--|--------------|--------------|
| Total Operating Expenses | 4,505 | 3,299 |
| | <hr/> | <hr/> |
| Operating expenses include the following: | | |
| Audit fees - disclosure financial statements | 15 | 13 |
| Audit fees - financial statement audit | 41 | 33 |
| Bad debts written off | 9 | 15 |
| Doubtful debts | (11) | (15) |

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 2018 have not been audited.

(c) Employee Benefits Expense

| | | |
|--|--------------|--------------|
| Salaries and wages | 3,196 | 2,714 |
| Directors fees | 135 | 135 |
| | <hr/> | <hr/> |
| Total Employee Benefits Expense | 3,331 | 2,849 |
| | <hr/> <hr/> | <hr/> <hr/> |

3. Income Taxes

| (a) Income Tax Recognised in the Income Statement | 6 months to 31 Dec 2018 | 6 months to 31 Dec 2017 |
|--|------------------------------------|------------------------------------|
| | \$ 000's | \$ 000's |
| Tax expense/(income) comprises: | | |
| Current tax expense/(credit): | | |
| Current period | 3,669 | 3,862 |
| Adjustments for prior years | 5 | - |
| | <u>3,674</u> | <u>3,862</u> |
| Deferred tax expense/(credit) | | |
| Origination and reversal of temporary differences | 135 | (326) |
| Adjustment for prior year and other | - | - |
| | <u>-</u> | <u>-</u> |
| Total Tax Expense | <u>3,809</u> | <u>3,536</u> |

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

| | 12,064 | 12,347 |
|---|---------------------|---------------------|
| Surplus before income tax | <u>12,064</u> | <u>12,347</u> |
| Income tax expense calculated at 28% | 3,378 | 3,457 |
| Permanent differences | 9 | 1 |
| Creation/reversal of temporary difference | 417 | (326) |
| Adjustment for prior year and other | 5 | 404 |
| | <u>3,809</u> | <u>3,536</u> |
| Income Tax Expense | <u>3,809</u> | <u>3,536</u> |

(b) Income Tax Recognised Directly in Other Comprehensive Income

Deferred tax of \$46,122 (December 2017: \$61,805) 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

Taxable and deductible temporary differences arising from the following:

| As at 31 Dec 2018 | Opening balance 1 July 2018 | Charged to profit for the period | Charged to other comprehensive income | Closing balance 31 Dec 2018 |
|---|--|---|--|--|
| | \$ 000's | \$ 000's | \$ 000's | \$ 000's |
| Gross deferred tax assets/(liability): | | | | |
| Property, plant and equipment | (14,889) | (174) | - | (15,063) |
| Intangible assets | (441) | 45 | - | (396) |
| Employee benefits | 125 | (6) | - | 119 |
| Derivatives | 38 | - | 46 | 84 |
| Trade and other payables | (176) | - | - | (176) |
| | <u>(15,343)</u> | <u>(135)</u> | <u>46</u> | <u>(15,432)</u> |

Deferred Tax - continued

| As at 30 Jun 2018 | Opening balance 1 July 2017 \$ 000's | Charged to profit for the period \$ 000's | Charged to other comprehensive income \$ 000's | Closing balance 30 June 2018 \$ 000's |
|---|---|--|---|--|
| Gross deferred tax assets/(liability): | | | | |
| Property, plant and equipment | (14,296) | 312 | (905) | (14,889) |
| Intangible assets | (625) | 184 | - | (441) |
| Employee benefits | 103 | 22 | - | 125 |
| Derivatives | (74) | - | 112 | 38 |
| Trade and other payables | (188) | 12 | - | (176) |
| | (15,080) | 530 | (793) | (15,343) |

(d) Imputation Credit Account Balances

| | As at 31 Dec 2018 \$ 000's | As at 30 Jun 2018 \$ 000's |
|---|---|---|
| Balance at beginning of the period | 18,220 | 14,343 |
| Income tax and WHT paid during six month period | 1,928 | 6,665 |
| Tax credits relating to dividend payment | (2,406) | (2,788) |
| | 17,742 | 18,220 |

4. Finance Costs

| | 6 months to 31 Dec 2018 \$ 000's | 6 months to 31 Dec 2017 \$ 000's |
|--|---|---|
| Interest on borrowings | 1,410 | 922 |
| Less: Interest capitalised to projects | - | (18) |
| Total Finance Costs | 1,410 | 904 |

No interest has been capitalised for the period ended 31 December 2018 (December 2017: Interest was capitalised at a weighted average cost of borrowings for projects of 3.83%).

5. Trade & Other Receivables

| | As at 31 Dec 2018 \$ 000's | As at 30 Jun 2018 \$ 000's |
|--|---|---|
| Trade and other receivables | 5,427 | 3,791 |
| Allowance for doubtful debts | (35) | (46) |
| Total Trade & Other Receivables | 5,392 | 3,745 |

6. Derivatives

Derivative financial liabilities:

| | As at 31 Dec 2018 \$ 000's | As at 30 Jun 2018 \$ 000's |
|--|---|---|
| Interest rate swap (i) (effective) | 283 | 109 |
| Foreign exchange forward contracts (effective) | 17 | 27 |
| | 300 | 136 |

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 36% (2018:46%) of the principal outstanding. The fixed interest rates range between 2.3450% and 2.6225% (2018: 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 ending 30 June 2016, 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 7th February 2020.

7. Property, Plant and Equipment

| | Land | Right of use Asset | Buildings | Runways, Taxiways & Aprons | Plant & Equipment | Total |
|---|----------------|-----------------------|---------------|----------------------------------|----------------------|----------------|
| | \$000's | \$000's | \$000's | \$ 000's | \$ 000's | \$ 000's |
| At fair value | 202,285 | 11,340 | 51,465 | 48,846 | 17,822 | 331,758 |
| At cost | | | - | - | 19,690 | 19,690 |
| Work in progress at cost | 4,711 | - | 457 | 169 | 350 | 5,687 |
| Accumulated depreciation | - | - | - | - | (10,252) | (10,252) |
| Balances at 1 July 2018 | 206,996 | 11,340 | 51,922 | 49,015 | 27,610 | 346,883 |
| Additions | 1399 | 0 | 2,268 | 4,039 | 1,021 | 8,727 |
| Revaluation | - | - | - | - | - | - |
| Disposals | - | - | - | - | - | - |
| Depreciation | - | (57) | (1,368) | (912) | (1,462) | (3,799) |
| Movement to 31 December 2018 | 1,399 | (57) | 900 | 3,127 | (442) | 4,928 |
| At fair value | 202,285 | 11,340 | 51,465 | 48,846 | 17,822 | 331,758 |
| At cost | 1,252 | | 71 | | 20,391 | 21,714 |
| Work in progress at cost | 4,858 | | 2,654 | 4,208 | 669 | 12,389 |
| Accumulated depreciation | | (57) | (1,368) | (912) | (11,714) | (14,051) |
| Balances at 31 December 2018 | 208,395 | 11,283 | 52,823 | 52,143 | 27,168 | 351,811 |

The carrying value of the asset categories above includes work in progress. Buildings includes noise mitigation works. 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, car parking were independently valued by Seagar & Partners, registered valuers, as at 30 June 2018. The runways, taxiways and aprons were independently valued by Beca Valuations Limited (Beca), registered valuers, as at the same date. The right-of-use asset and Wanaka assets were independently valued by Jones Lang Lasalle Limited (JLL), registered valuers, as at the same date.

8. Intangible Assets

| | As at 31 Dec 2018 \$ 000's | As at 30 Jun 2018 \$ 000's |
|---------------------------------------|----------------------------------|----------------------------------|
| Cost | | |
| Opening balance | 4,831 | 3,946 |
| Additions from internal developments | 476 | 885 |
| Total cost closing balance | 5,307 | 4,831 |
| Accumulated amortisation | | |
| Opening balance | 1,677 | 1,021 |
| Amortisation expense | 162 | 656 |
| Total accumulated amortisation | 1,839 | 1,677 |
| Carrying Value | 3,468 | 3,154 |

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

| | |
|------------------|--------------|
| Noise boundaries | 6 to 9 years |
| Flight fans | 15 years |

The Company has not identified any material assets related to contracts with customers.

9. Trade & Other Payables

| | | |
|---------------------------------------|--------------|--------------|
| Trade payables | 502 | 1,536 |
| Other creditors and accruals | 3,758 | 1,765 |
| Total Trade and Other Payables | 4,260 | 3,301 |

10. Employee Entitlements

| | | |
|------------------------------------|------------|--------------|
| Accrued salary and wages | 401 | 589 |
| Annual leave | 434 | 447 |
| Total Employee Entitlements | 825 | 1,036 |

11. Borrowings

| | Commencement Date | Expiry Date | Line limit \$ 000's | Drawn at 31 December 2018 \$ 000's | Drawn at 30 June 2018 \$ 000's |
|--|-------------------|---------------|------------------------|---------------------------------------|-----------------------------------|
| BNZ Facility A | 23 May 2016 | 22 May 2020 | 30,000 | 27,000 | 21,000 |
| BNZ Facility B | 1 August 2016 | 31 July 2021 | 30,000 | 10,000 | 10,000 |
| Westpac Facility A | 23 May 2016 | 22 May 2020 | 20,000 | 20,000 | 20,000 |
| Westpac Facility B | 1 August 2016 | 31 July 2021 | 20,000 | 6,000 | 6,000 |
| Westpac Facility C | 30 April 2018 | 29 April 2021 | 20,000 | - | - |
| Westpac Facility D | 30 April 2018 | 29 April 2023 | 20,000 | - | - |
| ASB Facility | 30 April 2018 | 29 April 2020 | 20,000 | - | - |
| Bank of China Facility | 30 April 2018 | 29 April 2023 | 60,000 | - | - |
| Total borrowings | | | 220,000 | 63,000 | 57,000 |
| Disclosed in the financial statements as | | | | | |
| Current | | | | - | - |
| Non-current | | | | 63,000 | 57,000 |

The bank 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 ending 31 December 2018 was 4.59% (December 2017: 3.83%).

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

12. Share Capital

| | 31 Dec 2018 No. | 30 Jun 2018 No. | 31 Dec 2018 \$ 000's | 30 Jun 2018 \$ 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 2018 \$ 000's | As at 30 Jun 2018 \$ 000's |
|--|---|---|
| (a) Retained Earnings | | |
| Balance at the beginning of the period | 33,674 | 25,902 |
| Profit for the period after taxation | 8,255 | 14,941 |
| Dividends paid during the period (i) | (6,186) | (7,169) |
| Balance at the end of period | 35,743 | 33,674 |
| | | |
| (i) Dividends Paid | | |
| Final dividend | 6,186 | 6,169 |
| Interim dividend | - | 1,000 |
| Total Dividend Paid | 6,186 | 7,169 |

On 22nd August 2018 a final dividend of 38.52 cents per share (total dividend of \$6,186,386) for the year ended 30 June 2018 was paid to holders of fully paid ordinary shares.

(b) Asset Revaluation Reserve

| | | |
|--|----------------|----------------|
| Balance at the beginning of the period | 204,376 | 172,222 |
| Increase arising on revaluation of assets | - | 33,059 |
| Deferred tax movement arising on revaluation | - | (905) |
| Reclassification in retained earnings | - | - |
| Balance at the end of period | 204,376 | 204,376 |

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 year | (797) | (816) |
| Gain/(loss) recognised on interest rate swaps | (175) | (348) |
| Deferred tax movement arising on interest rate swaps | 49 | 97 |
| Gain/(loss) recognised on forward exchange contracts | 10 | (51) |
| Deferred tax movement arising on forward exchange contracts | (3) | 15 |
| Realised losses/(gains) transferred to the income statement | - | 306 |
| Balance at End of Period | (916) | (797) |

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 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 Capital Expenditure

| | As at 31 Dec 2018 \$ 000's | As at 30 Jun 2018 \$ 000's |
|--|---|---|
| Acquisition of property, plant and equipment | 2,361 | 298 |
| Apron Overlay | 2,836 | 6,816 |
| Noise mitigation packages | 78 | 235 |
| Total Capital Commitments | 5,275 | 7,349 |

15. Operating Lease Arrangements

(a) Company as Lessee; Operating Lease Commitments

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

Non-cancellable operating lease payments:

| | | |
|--|-----|----|
| Not longer than 1 year | 157 | 99 |
| Longer than 1 year and not longer than 5 years | 95 | 69 |

| | | |
|---|------------|------------|
| Total Company as Lessee; Operating Lease Commitments | 252 | 168 |
|---|------------|------------|

(b) Company as Lessor; Operating Lease Rental

Operating leases relate to the commercial and aeronautical property owned by the Company. The lease terms at 31 December 2018, extend between 1 month 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 and aeronautical 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:

| | | |
|---|---------------|---------------|
| Less than 12 months | 7,598 | 8,833 |
| 1-5 years | 14,874 | 14,973 |
| 5 years + | 2,096 | 2,092 |
| Total Company Operating Lease Rental | 24,568 | 25,898 |

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
- P Flacks – Director, Bank of New Zealand
- J W P Hadley – Director, Hadley Consultants Limited
- G R Lilly – Director, Civil Aviation of New Zealand (CAA), Aviation Security Services, and Go Rentals (Auckland) Limited
- M R Thomson – Shareholder representative, Auckland International Airport Limited (AIAL)

(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 2018 | 6 months to 31 Dec 2017 |
|--|------------------------------------|------------------------------------|
| | \$ 000's | \$ 000's |
| <u>Queenstown Lakes District Council</u> | | |
| Rates | (241) | (179) |
| Resource Consent Costs & Collection fees | (8) | - |
| Other Expenses | (1) | (28) |
| Rent – NASA Lease | - | (24) |
| Wanaka Airport Management Fee | - | 171 |
| Wanaka Airport Recoveries | - | 10 |
| Parking Infringement Income | 18 | - |
| Frankton Golf Course | 2 | 2 |

The transactions above include amounts payable to QLDC as at 31 December 2018.

| | 6 months to 31 Dec 2018 | 6 months to 31 Dec 2017 |
|---|------------------------------------|------------------------------------|
| | \$ 000's | \$ 000's |
| <u>Auckland International Airport Limited</u> | | |
| Rescue Fire Training | (36) | (13) |
| Director fees | (19) | (19) |

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

| | 6 months to 31 Dec 2018 \$ 000's | 6 months to 31 Dec 2017 \$ 000's |
|--|---|---|
| <u>Hadley Consultants Limited</u> | | |
| Consultant Engineering Services | - | (3) |
| <u>Civil Aviation Authority of New Zealand</u> | | |
| CAA Certification Audit Fees | (1) | (3) |
| <u>Aviation Security Service</u> | | |
| Airport Security Cards | (4) | (3) |
| Rental, Power recovery and parking revenue | 133 | 104 |
| <u>Go Rentals (Auckland) Ltd</u> | | |
| Commercial parking revenue | 46 | - |
| <u>Bank of New Zealand</u> | | |
| Interest paid, other bank fees and interest received | (657) | (454) |
| (d) The following amounts were receivable from related parties at balance date: | | |
| <u>Queenstown Lakes District Council</u> | | |
| Lakes Leisure Golf Course | 13 | 13 |
| Wanaka Airport Recoveries | - | 53 |
| <u>Aviation Security Service</u> | | |
| Rental, Power recovery and parking revenue | 17 | 1 |
| (e) The following amounts were payable to related parties at balance date: | | |
| Queenstown Lakes District Council | - | (1) |
| Auckland International Airport Limited | - | (7) |
| BNZ Borrowings (refer Note 11) | (63,000) | (57,000) |
| BNZ Foreign exchange forward contracts (refer Note 6) | (17) | (27) |
| BNZ Interest Accruals | (127) | (126) |
| BNZ Credit Card | (9) | (8) |
| Aviation Security Services | - | (1) |

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 \$19,799 (2018: \$19,799) 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 2018 \$ 000's | As at 30 Jun 2018 \$ 000's |
|--|---|---|
| Cash and cash equivalents | 13 | 13 |
| Bank account | 1,597 | 1,884 |
| Total Cash and Cash Equivalents | 1,610 | 1,897 |

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

| | 6 months to 31 Dec 2018 \$ 000's | 6 months to 31 Dec 2017 \$ 000's |
|--|---|---|
| Profit for the period | 8,255 | 8,810 |
| <i>Add/(less) non-cash items:</i> | | |
| Amortisation | 162 | 345 |
| Depreciation | 3,799 | 3,428 |
| Cash Flow Hedge Reserve Adjustment | 135 | 62 |
| | 4,096 | 3,835 |
| <i>Changes in assets and liabilities:</i> | | |
| (Increase)/Decrease in Trade and Other Receivables | (1,647) | (1,585) |
| (Increase)/Decrease in Prepayments | (176) | (199) |
| Increase/(Decrease) in Current Tax Payable | (2,531) | 583 |
| Increase/(Decrease) in Trade and Other Payables | (1,324) | (2,627) |
| Increase/(Decrease) in Income in Advance | (8) | 58 |
| Increase/(Decrease) in Employee Entitlements | (211) | (55) |
| Movement in Items Reclassified as Investing Activities | (2,032) | 2,188 |
| | (5,282) | (1,979) |
| Net Cash Inflow from Operating Activities | 7,069 | 10,666 |

18. Financial Instruments

(a) Foreign Exchange Risk Management

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.

The Company entered into foreign exchange forward contracts with the intention to reduce the foreign exchange risk of expected sales in USD. These foreign exchange forward contracts measured at fair value through other comprehensive income are designated as hedging instruments in cash flow hedges of forecast revenues in USD. These forecast transactions are highly probable, and they comprise 100% of the Company's total expected revenues in USD. As a result, no hedge ineffectiveness arises requiring recognition through profit or loss. At 31 December 2018 a net unrealised gain of \$7,000 net of tax \$3,000 relating to the hedging instruments, is included in other comprehensive income (2018: unrealised loss of \$37,000 net of tax \$14,000). It is anticipated that the lease payments received over the period of lease, will match the timing and amount of each forward foreign exchange contract.

(b) Interest Rate Risk Management

The Company has interest rate risk resulting from its floating rate borrowings under its debt facility. In order to protect against this risk, the Company has entered into interest rate swaps agreements, under which it has the right to transform a series of future variable interest cash flows, attributable to changes in 3 month NZD-BRR-FRA, back to a known fixed interest cash flow based on the relevant swap rate that existed at the inception of the hedge relationship.

At 31 December 2018 the Company had interest rate swap agreements in place with a notional amount of \$22.5 million (2018: \$22.5 million), covering approximately 36% of the principal outstanding (2018: 40%). The interest rate swaps are designated hedge relationships and the hedge was assessed to be highly effective over the term of the hedge relationship. As a result, a net unrealised loss of \$126,000 net of tax \$49,000 relating to the hedging instruments, is included in other comprehensive income (2018: unrealised loss of \$251,000 net of tax \$97,000).

(c) Capital Risk Management

When managing capital, management ensures: the Company continues as a going concern; the Company has access to sufficient capital to fund investments including Master Plan capital expenditure; capital can be accessed at a competitive cost; and optimal returns are delivered to shareholders.

The Company is not subject to any externally imposed capital requirements apart from covenants in respect of bank facilities.

19. Contingent Liabilities

(a) Noise Mitigation

The Company has implemented a programme of works to assist homeowners closest to the airport to mitigate the effects of aircraft noise within defined airport noise boundaries. The focus for FY18 and FY19 was to progress the inner noise mitigation packages, into physical works. In early June 2018, 107 letters were sent out, 84 offering mid noise mitigation works (mechanical ventilation packages), and 23 for the second round of inner noise mitigation packages. As at 31 December 2018, the Company had started or completed inner noise mitigation works on 14 houses, at a cost of \$984k. These costs have been recognised as part of buildings within the property, plant and equipment of the Company (Note 7). The current committed cost is \$78k, which has been disclosed as a capital commitment in Note 14.

Noise levels are monitored regularly and as the noise contours expand further offers will be made. The Company estimates approximately 200 properties eventually will be offered noise mitigation works under the approved/consented boundaries. As it is not possible to predict accurately 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 quantify the overall cost or timing of mitigation works.

20. Subsequent Events

The directors resolved on 14 February 2019 that an interim dividend of \$1,000,000 be paid to shareholders on 15 February 2019. There were no other significant events after balance date.