



STATEMENT OF INTENT

Year ending 30 June 2015

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Summary of Accounting Policies

INTRODUCTION

This Statement of Intent ("SoI") is prepared by the Board of Directors of Christchurch International Airport Ltd (CIAL) in accordance with Section 64(1) of the Local Government Act 2002. Christchurch International Airport Ltd is a council-controlled trading organisation (CCTO) for the purposes of the Local Government Act 2002.

It sets out the Board's overall intentions and objectives for CIAL (and subsidiary companies) for the year ending 30 June 2015 and the succeeding two financial years.

OBJECTIVES

Christchurch International Airport Ltd.'s principal objective is to operate as a successful business,

and to that end its vision is:

“To be the BEST Airport Business”

This means:

Christchurch Airport will be a leading airport by delivering world-class passenger experiences, being an innovative business partner and delivering excellent economic returns through sustainable management practises.

To realise this vision and deliver sustainable growth in long-term value to our shareholders, CIAL will focus on five strategic objectives:

- Maintain an engaged workforce which performs strongly
- Deliver outstanding airport and airport-related services and aeronautical growth
- Maximise economic value through commercial opportunities
- Maximise economic value through property development and management
- Deliver robust business enablers to ensure success.

To deliver these strategic objectives, Christchurch International Airport will continue to enhance its position as the gateway to the south and actively support the development of the South Island regional economy, with a particular focus on tourism development.

This will require a focus on improving aeronautical returns and maximising business performance as an airport.

This includes the

- stimulation of passenger growth through expanded aeronautical services both internationally and domestically;
- diversification of revenue through expanded commercial and property development activities, pursuing new revenue opportunities while containing operating cost growth;
- drive to improve the overall performance of the company, delivering improvements in service delivery and business performance;
- enhancement of South Island tourism through a targeted initiative - “South”; and
- a continued focus on the engagement of our people.

In particular, performance improvement will be achieved through:

- incremental growth through existing, emerging and new aeronautical markets, aiming to minimise market constraint in the short term and grow new air services over the medium to long term;
- working collaboratively with promotional organisations whose strategic objectives support regional development and with organisations seeking to establish or enhance tourist attractions in Christchurch, Canterbury and the wider South Island;
- the development and management of infrastructure that is fit-for-purpose, timely, meets customer needs and achieves the required returns, including leveraging customer and business performance excellence through the Integrated Terminal following its completion;
- improving service delivery to all our customers, ensuring that by doing so we are operating a safe and secure operating environment, are spending efficiently and have a workforce aligned and engaged to achieve the desired objectives and outcomes;
- the diversification of business activity, both directly and indirectly, through commercial arrangements and property developments to improve overall earnings and protect against volatility in the core aviation markets;
- optimising and pursuing opportunities for the development of airport land (including the interim use of land not immediately required for airport operations) and facilities, to enable the company to expand and enhance value through its core capability as an airport operator;
- having regard to relevant local authority planning rules, policies and objectives in the active pursuit of enabling the continued operation, development and expansion of the airport; using all reasonable endeavours to give effect to the intended direction of the Recovery Strategy for Greater Christchurch, the Land Use Recovery Plan, the Canterbury Regional Policy Statement 2013, the Greater Christchurch Transport Statement 2012 and the Christchurch City Plan (including plan change 84 which has been promulgated by the Christchurch City Council); and working with Christchurch City and other key stakeholders and interested persons in the achievement of the above;;
- pursuing the sustainable management and development of all aspects of the company's operations and being socially responsible through having regard to the interests and concerns of the community in which we operate;
- proactively facilitating Christchurch as the gateway base of choice to the both the South Island tourism market and to the Antarctic;
- a continuing focus on control of costs; and
- taking such other strategic and operational measures as CIAL considers appropriate to best protect and grow the value of the shareholders' investment in CIAL.

NATURE AND SCOPE OF ACTIVITIES

Christchurch International Airport's core business is being an efficient airport operator. This encompasses providing appropriate landside and airside facilities for the airport and airport users, including both commercial and non-commercial aviation users, and pursuing commercial opportunities with wider complementary products, services and business solutions.

Consistent with these principal activities, Christchurch International Airport will:

- operate the airport in accordance with the terms of its aerodrome licence, which define standards and conditions laid down by the Civil Aviation Authority of New Zealand
- provide well-designed and maintained runways, taxiways, turnouts and aprons in co-operation with the Airways Corporation of New Zealand and other airport users
- provide airfield and terminal facilities and infrastructure that deliver the required outcomes for CIAL and existing / potential operators, with an emphasis on efficient airside activities
- pursue activities designed to ensure the safe and effective utilisation of its assets and human resources
- ensure the prudent management of its business risks across markets and locations
- ensure the company adopts an environmentally responsible attitude to the operation of the business (including land use, storm water runoff and noise management) and pursue a commitment to the sustainable management and development of the natural, physical and human resources utilised in the business
- pursue opportunities to diversify revenue streams and increase the value of commercial and non-aeronautical business streams
- pursue initiatives to grow shareholder value and provide a sustainable revenue stream through maximising the investment in, and development of, the company's property holdings
- actively market Christchurch, Canterbury and the South Island as a major destination for overseas visitors, in order to strengthen the position of Christchurch International Airport as the aviation and tourism hub to the South Island.

In striving to achieve these outcomes, CIAL has developed and continues to pursue a broad three-tier strategy to protect, diversify and increase the company's revenues, to enable CIAL to grow profitability and to improve dividend flows to shareholders. The three strategies are:

1. Increase international and domestic travel through Christchurch as the gateway to the wider South Island with a particular focus on growing trans-Tasman services and new long-haul routes.
2. Continuing to develop CIAL's property portfolio within the Christchurch City planning provisions.
3. Diversify and maximise income across the wider campus through increasing yields from our improved ground transport offering, improving revenue from existing and new

concessions and expanding and improving retail and commercial offerings to the airport community. In progressing this objective CIAL will continue to investigate other commercial opportunities on the wider airport campus.

Within these broad strategies, emphasis over the coming year will be placed on the pursuit of essential initiatives that are important to the long-term commercial and operational success of the company. These are:

- *Economic Performance* – The prevailing economic environment continues to have an impact on tourism activity and airline financial performance globally. CIAL is actively pursuing initiatives to minimise market contractions and to expand trans-Tasman markets presently under/un-serviced by Christchurch. It will also pursue opportunities to expand new long-haul routes to the wider Asia and North American markets destinations.

This is necessary not only to grow overall passenger and aircraft movements in total, but also to counterbalance the residual effects of the Canterbury earthquakes. The delay in the timing of the Christchurch City redevelopment is still resulting in Christchurch not experiencing the level of international passenger growth experienced by other major New Zealand tourist destinations.

CIAL will achieve improvements in aeronautical revenue following the setting of new airline charges in December 2012 following comprehensive consultation with the airlines, The full effect of these increases come into effect in the 2015 financial year.

Commercial initiatives not directly related to aeronautical activity will continue to be actively pursued, to provide the best possible economic offset to the constrained aviation market conditions and to provide improved cash flow to finance necessary capital investment and airline route development initiatives. Capital investment will continue to be carefully scrutinised to ensure investment is necessary, having taken consideration of the prevailing economic environment and available financial resources.

Initiatives will be further progressed with airport and other business partners to progress opportunities where CIAL can facilitate economic growth of Canterbury, including cargo freight initiatives to increase the direct handling of freight through Christchurch and diminish the leakage of cargo volume to northern ports.

- *Customer Service* – a continuing focus on service excellence has enabled significant improvement in customer service performance to be achieved. Continuing improvements in such service standards will be further enhanced through the coordinated service performance ethos across the total campus titled “One Team: Best Airport”.
- *Commercial Diversification* - Enhancement of commercial initiatives across the wider campus and expanding the retail experience remains an imperative to the achievement of commercial revenue growth; accordingly, a focus on both increasing the range of offerings available and the quality of service remains a priority.
- *Ability to operate 24/7* - The ability to operate under a 24/7 operating environment is essential to the financial and economic well-being of both CIAL and the regional economy. Planning for future growth, within the recently released Land Use Recovery Plan and the proposed Plan Change 84, will be actively pursued with all planning, regulatory and community bodies to ensure this capability is maintained. CIAL is committed to work with key stakeholders and partners on matters impacting its operations and future commercial development strategies, including actions that will meet the needs of the updated Regional Policy Statement and Urban Development Strategy.

- *Property Development Strategy* - The continuing advancement of our Strategic Property Plan to improve return on airport landholdings, with a continuing focus on creating the planning environment to expedite and implement value-enhancing investment initiatives.

The delivery of CIAL's Commercial Strategy requires the development of land currently not used for aeronautical purposes. CIAL will further the discussions already held with CCC planning staff to seek compatibility with CCC's planning strategy and vision for the city and with the overall Urban Development Strategy.

- *Business Recovery* - The recovery of Christchurch since the Canterbury earthquakes is progressing, but remains at a significantly slower pace than previously anticipated. This has impacted not only Christchurch and Canterbury, but also the wider South Island tourism market.

CIAL will continue to progress its proactive stance in pursuing initiatives to stimulate South Island tourism under the umbrella programme titled "South". This programme involves actively working with South Island Regional Tourism Organisations to drive increased tourism volumes into the South Island, through Christchurch Airport. CIAL continues to present Christchurch as the tourism gateway, to ensure that when Canterbury tourism infrastructure recovers, tourism volumes will return to the city in the short term. A critical impact on this relates to the availability of accommodation in Christchurch and the improvement in accommodation capacity is beginning to influence the recovery outlook of the expected passenger volumes.

In addition, CIAL continues to pursue a proactive role to attract new airline services through Christchurch, with a particular focus being on the long haul Asian markets such as Japan and China, together with the short haul services to capital cities of Australia not currently served through Christchurch.

CIAL will continue the targeted programme implemented to ensure staff engagement continues its positive trend to ensure CIAL continues to be regarded as an employer of choice and is seen as a "great place to work".

- *Financial Performance* - The residual impact of the earthquakes on Canterbury and South Island tourism continues to influence aircraft and passenger movements, with only minimal increases in aircraft and passenger movements being experienced over the current period. This trend is likely to continue over the near term, but will increase when the pace of the reinstatement of Christchurch progresses. CIAL is making maximum effort pursuing development initiatives with the airlines to ensure this trend is reversed.

Financial performance will be enhanced in 2015 through the improved revenue performance following the aeronautical price reset.

The company also continues the work to identify possible actions to further enhance revenue and reduce costs to partially offset the downturn in financial performance arising, through value growing diversification opportunities.

CIAL will continue seek to grow the scale and scope of the business, actively pursuing commercial opportunities to diversify non-aeronautical revenue, having regard to its core functions, services and activities.

GOVERNANCE

COMMITMENT

Directors and management are committed to effective governance. As with safety and quality, governance includes a set of systems and processes, supported by people with the appropriate competencies and principles. This provides shareholders and other stakeholders with the assurance that the company delivers on its promises.

Governance by its very nature is on-going; it does not have a finite end. Changing commercial circumstances require regular review and continually evolving systems that implement newly developed techniques and industry best practice.

REGULATORY FRAMEWORK

The company operates in New Zealand and is governed by a range of legislation and regulation. This includes regulatory control under the Commerce Amendment Act; for the monitoring of Aeronautical Economic performance under the Information Disclosure monitoring regime under the Commerce Commission. In addition it is regulated as an Airport under the Civil Aviation Act, Part 139, in terms of operational and safety performance. Christchurch International Airport Limited (CIAL) aims to make sufficient disclosure so that the reader of the Annual Report will be able to assess the effectiveness of the company's corporate governance.

Governance objectives

The Board has adopted the following governance objectives:

- Approve Corporate Strategy and direction, laying down solid foundations for management and oversight
- Structure itself to utilize the expertise of Directors to add value at a governance level
- Promote ethical and responsible decision-making
- Safeguard the integrity of its financial reporting and make timely and balanced disclosure
- Recognise and manage risk and encourage enhanced performance
- Remunerate fairly and responsibly
- Respect the rights, and recognise the legitimate interests, of stakeholders.

These objectives are reflected in the Board's management of Board and Committee activities, CIAL's policies and governance practices.

Role of the Board of Directors

The Board is ultimately responsible for approving CIAL's strategic direction; oversight of the management of the company and achievement of its business strategy, with the ultimate aim being to increase shareholder value while sustaining and ensuring the obligations of the company are properly met.

The Board is accountable to shareholders for the performance of the company.

In carrying out its principal function, the Board's specific responsibilities include:

- Working with company management to ensure that the company's strategic goals are clearly established and communicated, and that strategies are in place to achieve them;
- Monitor management performance in strategy implementation;
- Appointing the Chief Executive, approving his or hers performance and, where necessary, terminating the chief executives employment; Approving and monitoring the company's financial statements and other reporting, including reporting to shareholders, and ensuring the company's disclosure obligations are met;
- Adopting appropriate procedures to ensure compliance with all laws, governmental regulations, applicable codes and accounting standards
- Ensuring that CIAL's internal decision making and compliance policies and procedures are implemented, to ensure that the business of the company is conducted in an open and ethical manner
- Approving policies for strengthening CIAL's performance, including ensuring that management is proactively seeking to build the business through innovation, initiative, technology, service excellence and the development of its business capital
- Approving performance criteria for CIAL and monitoring the performance of the Chief Executive Officer (CEO) and executive management against these;
- Deciding necessary actions to protect CIAL's financial position and the ability to meet its debts and other obligations when they fall due, and ensuring that such actions are taken
- Ensuring that the company adheres to high ethical and corporate behaviour standards;
- Establishing procedures and systems to ensure the occupational health and safety of the company's employees and contractors working for CIAL across the Christchurch airport campus;
- Promoting a company culture and remuneration practice which facilitates the recruitment, professional development and retention of staff;
- Ensuring that CIAL has appropriate risk management and regulatory compliance policies in place and monitoring the appropriateness and implementation of these policies.

The Board delegates day-to-day operations of the company to management under the control of the chief executive. Such day-to-day operations are required to be conducted in accordance with strategies set by the Board.

All directors are required to comply with a formal code of conduct, which is based on the New Zealand Institute of Directors Code of Proper Practice for Directors.

Responsibility to Shareholders

Statement of Intent

In accordance with the Local Government Act 2002, the company submits a draft SoI for the coming financial year to Shareholders. The SoI sets out the company's overall objectives, intentions and financial and performance targets. After due consultation and discussion, the SoI is accepted by the Shareholders.

Information Flows

CIAL is very aware of Shareholders' requirements in this respect. The Board aims to ensure Shareholders are informed of all major developments affecting the company's state of affairs, while at the same time recognising commercial sensitivity may preclude certain information from being made public. Within this constraint, information is communicated to the Shareholders through periodic reports, occasional briefings, both the annual report and the half-yearly report, and "no surprises" updates on issues of importance as they may arise.

In addition, CIAL will develop positive and proactive relationships with stakeholders, to ensure effective communication of the initiatives being pursued through the implementation of the ten year strategic plan.

Consistency with wider objectives of Shareholder(s)

The majority shareholder, Christchurch City Holdings Limited, seeks to support the objective of the ultimate shareholder (Christchurch City Council) of developing the greater Christchurch and the Canterbury region through implementing:

- the vision of the *Recovery Strategy for Greater Christchurch*;
- the various provisions of the *Land Use Recovery (LURP)* which came into effect on 6 December 2013 and puts in place policies and rules to assist the rebuilding and recovery of communities (including housing and businesses) that have been disrupted by the earthquakes;
- the *Canterbury Regional Policy Statement 2013 (RPS)*, which seeks to manage development across the greater Christchurch Metropolitan area in an integrated manner; and
- the *Christchurch City Plan* which, together with the RPS and the Selwyn and Waimakariri District Plans, includes the revised air noise contours and associated provisions that govern development in areas that can be expected to be exposed to increased aircraft noise as traffic numbers recover and grow. Plan change 84 (promulgated by the Christchurch City Council) is currently proposed and includes a number of further provisions that will better enhance the efficient and effective operation, development and future expansion of Christchurch International Airport.

It remains essential that the air noise contours, and the existing objective, policy and rule framework is both maintained and ultimately improved through plan change 84 being made operative. Any change to the present 24/7 operating status of the airport or its ability to undertake expansions would be detrimental to the future economic growth for Christchurch, Canterbury and the South Island.

CIAL has also been a participant in the Greater Christchurch Transport Group from the beginning, working with the various bodies to develop the Greater Christchurch Transportation Statement (GCTS). The Board has endorsed the formal GCTS document as a signatory and CIAL will make its best endeavours to give effect to the intended direction of the GCTS – including working with the Christchurch City Council and other key partners to ensure it is implemented.

Overall, CIAL is committed to the region's recovery and will continue its involvement with the City Council and all other stakeholders and interested parties to ensure the airport, as both nationally significant infrastructure and a critical component of the region is appropriately protected and enhanced as recovery and regional growth continue

CIAL is committed to Christchurch Airport being recognised as a good place to do business and through this create and grow the airport as strong economic base. To achieve this, CIAL will actively pursue development of infrastructure and provide a development environment to support aeronautical and commercial investment on the wider airport campus by businesses which have a synergy with the airport campus and/or require ready access by air. This will be further strengthened by the benefits provided through the "One Team: Best Airport" ethos and an engaged staff focussed on customer service excellence. CIAL will also ensure it promotes Christchurch as a great place to live, work and do business.

Board Composition and Fees

The Board comprises six Directors, four appointed by CCHL and two appointed by the NZ Government.

Directors' appointments are for periods determined by the relevant shareholder, but shall not exceed three years. Retiring Directors may be reappointed by the relevant shareholder by way of notice prior to the Annual General Meeting.

Fees for the Board are reviewed annually by the shareholders using independent advice.

The Board generally meets at monthly intervals and at other times as required. To enhance efficiency, the Board has delegated some of its powers to Board Committees and other powers to the Chief Executive Officer and senior executives. The terms of the delegation by the Board to the Chief Executive Officer are clearly documented. The Chief Executive Officer has, in some cases, formally delegated certain authorities to his direct reports and has established a formal process for his direct reports to sub-delegate certain authorities.

The Board has four formally constituted committees: the Risk, Audit and Finance Committee, the Remuneration Committee, the Property Committee and the Aeronautical Committee. All committees have a Board-approved charter outlining the committee's authority, duties and responsibilities, and its relationship with the Board. Additional committees may be established on the basis of need.

Risk Audit and Finance Committee

The Risk, Audit & Finance Committee consists of three board members who have appropriate financial experience and understanding of the company's industry. The Board requires at least one member of the Audit Committee to be a "financial expert".

The role of the Risk, Audit and Finance Committee is to assist the Board of Directors to discharge its responsibility to exercise due care, diligence and skill in relation to:

- Risk management systems and the internal control system
- Business policies and practices
- Protection of the company's assets
- Compliance with applicable laws, regulations, standards and rules
- Reporting of financial information and disclosure requirements
- Financial management.

The Board authorises and empowers the Audit Committee to:

- Review and approve accounting policies and practices as they apply to the company
- Approve the annual business assurance plan, and regularly monitor business assurance findings
- Approve the external auditor's fee
- Appoint and remove internal and external auditors
- Recommend approval of the Annual Report
- Review the current risk management framework, and associated procedures for the effective identification and management of the company's financial and business risks
- Approve the treasury policy and monitor adherence to policy. Review proposed financing arrangements and recommend approval to the Board
- Review the robustness and integrity of the adherence to the Information Disclosure regulated as regulated and monitored by the Commerce Commission
- Seek any information it may require from any employee or external party that it requires to fulfil its objectives
- Seek any outside external advice it may require.

In order to fulfil this role, the Committee meets independently with both the business assurance and external auditors to provide a forum for open discussion regarding management's integrity and performance. The external auditors are only permitted to engage in assurance work.

Remuneration Committee

The Remuneration Committee's role is to assist the Board in overseeing the management of CIAL's human resources activities. The responsibilities of the Committee are as follows:

- To review the remuneration and human resources strategy, structure and policy for the company and review remuneration practices to ensure they are consistent with such policies
- To oversee CIAL's recruitment, retention and termination policies and procedures for senior management, and the succession planning for senior management and the Chief Executive Officer
- To review the performance of the Chief Executive Officer, the engagement agreement and benefit structure for the Chief Executive Officer and Executive Management team, and recommend to the Board senior executive incentive remuneration plans, other employee benefits and key performance objectives of the Chief Executive Officer and Executive Management team.

Property & Commercial Committee

The Property Committee's role is to assist the Board in ensuring that the Company maximises the level of returns received (and wider economic value to the business as a whole) from investments made in property development, on-going property management and other commercial opportunities.

The responsibilities of the Committee are to:

- Review, test and recommend for approval the property and commercial development and management strategy for CIAL

- Review and recommend for approval the principles and standards with respect to property and commercial investment strategy, property leasehold versus development, and rates of return parameters to be achieved
- Periodically review the method and basis of land valuation to be considered in property developments
- Review and recommend to the Board approval of all;
 - Property Investment and development proposals, in excess of \$2 million
 - Commercial investment and development opportunities, including structures to be used, in excess of \$2m or where duration is greater than 5 years, and
 - Proposals for the disposal of any property or property developments and the exit, termination or sale of any commercial investments.
- Review and recommend to the Board the long term Property Investment and Commercial development path to be pursued

Aeronautical Committee

The Aeronautical Committee's role is to assist the Board in overseeing aeronautical activity to ensure CIAL obtains the best level of return aeronautical business is reasonably able to produce, while ensuring its aeronautical operations are safe and efficient, and represent best aviation practice.

The responsibilities of the Committee are to:

- Review strategies in respect of the provision of aeronautical facilities and aeronautical business development, and specific proposals relating to aeronautical charging, commercial arrangements to support route development initiatives, and airline incentives or promotions.
- Review General Aviation strategy and analysing proposed initiatives.
- Consider post project reviews of approved proposals or initiatives to identify and review achievement against the specific business case.
- Make recommendations to the board on aeronautical strategies, proposals and initiatives, including the outcome of post project reviews.
 - Periodically review returns being achieved by CIAL's aeronautical business to ensure it is in line with the overall objectives of CIAL's business strategy.
 - Periodically review CIAL's aeronautical market position, and consider proposals or initiatives, including with tourism and travel operators, where that may assist CIAL's market position.
- Report annually to the board, or as required, on; the safety, effectiveness and operational bench-marking of CIAL's aeronautical operations; the market position (NZ stand-alone as well as Australasian position) of its aeronautical business; the returns being achieved on individual aeronautical initiatives; and, the effectiveness and the implementation of CIAL's aeronautical strategies

Ratio of shareholders' funds to total assets

The forecast Capital Structure, ratio of shareholders' funds to total assets and gearing ratios for the next three years are:

\$m	2014 Forecast	2015 Forecast	2016 Forecast	2017 Forecast
Total Liabilities	\$ 413.3	\$ 444.4	\$ 448.9	\$ 434.0
Equity	\$ 684.8	\$ 699.4	\$ 717.7	\$ 735.4
Total Assets	\$ 1,098.1	\$ 1,143.8	\$ 1,166.6	\$ 1,169.4
Equity Ratio	62.4%	61.1%	61.5%	62.9%
EBITDA Interest Cover x	3.35	4.05	4.56	4.78
FFO Interest Cover x	3.2	3.9	4.0	4.1

\$m	2014 Forecast	2015 Forecast	2016 Forecast	2017 Forecast
Equity	\$ 684.8	\$ 699.4	\$ 717.7	\$ 735.4
Debt	\$ 302.5	\$ 328.0	\$ 332.0	\$ 319.0
Total Debt + Equity	\$ 987.3	\$ 1,027.5	\$ 1,049.7	\$ 1,054.4
Gearing (debt/(debt + equity))	30.6%	31.9%	31.6%	30.3%
Net Asset Backing	\$11.89	\$12.14	\$12.46	\$12.77

- The target ratio of debt-to-debt plus equity is to be within a range of 30% to 40%
- The target minimum floor for free funds from operations interest cover and target minimum ratio for free funds from operations to debt is to be no less than 2.5x and 10% respectively.

Performance Targets

CIAL's key objectives are to operate as a successful business and through that deliver sustainable growth in long-term value to our shareholders. Within that scope, our strategic objectives are detailed below, identifying the key performance indicators that measure the progress toward achievement of these objectives.

Objective	Measure
Deliver sustainable growth in revenue and earnings	a, b, c, e (2/3)
Grow South Island tourism and position CIAL as a shaper of future tourism growth	a, b
Deliver superior customer service	b, d, e (2/5)
Provide "fit for purpose" infrastructure with the flexibility to meet future growth	b, c, e (1/2/5)
Provide an environment where staff are high-performing and fully engaged	a, b, c, d, e (4/5)
Operate in a sustainable manner and be recognised as a positive contributor to the community	a, b, c, d, e (1-5)

It is recognised an uplift is required to achieve acceptable rates of return. The forecast performance below identifies the improvement to be made over the ensuing three years, but in light of the prevailing economic conditions and also the fact that the company has just commissioned significant infrastructure, it must be accepted that it will take some time to achieve the required returns, due to two factors:

- the land bank can only be developed at a rate that planning requirements and market demand allow; and
- returns on new infrastructure development, such as the recently commissioned terminal project, will be determined by the market conditions of the aviation sector and the price path set to achieve the required economic return.

a) Financial performance targets

\$m	2014 Forecast	2015 Forecast	2016 Forecast	2017 Forecast
Operating Revenue	\$ 131.9	\$ 156.7	\$ 173.3	\$ 179.4
EBITDA	\$ 72.3	\$ 92.8	\$ 107.1	\$ 113.0
Net Profit After Tax	\$ 15.0	\$ 26.2	\$ 35.4	\$ 38.1
EBITDA as % of Revenue	54.8%	59.2%	61.8%	63.0%
Net Profit After Tax to Average Equity	2.2%	3.8%	5.0%	5.2%
Return on Assets (NPAT as % average total assets)	1.4%	2.3%	3.1%	3.3%

b) Operational Movement targets

Pax and Movements	2014 Forecast	2015 Forecast	2016 Forecast	2017 Forecast
a. Aircraft				
Commercial Aircraft Movements	65,886	66,713	66,873	67,805
b. Passengers				
Domestic	4,376,101	4,496,110	4,631,646	4,718,765
International	1,340,392	1,408,290	1,503,690	1,620,930
Total Passengers	5,716,493	5,904,400	6,135,336	6,339,695

c) Operational Performance targets

Pax ratios	2014 Forecast	2015 Forecast	2016 Forecast	2017 Forecast
Aeronautical Revenue per Passenger	\$8.38	\$11.69	\$12.46	\$12.49
EBITDA per Passenger	\$12.64	\$15.72	\$17.46	\$17.83
Total Assets per Passenger	\$192.1	\$193.7	\$190.1	\$184.5
Net Debt per Passenger	\$52.9	\$55.6	\$54.1	\$50.3
Ratio of Aeronautical to Total Operating Revenue	36.3%	44.0%	44.1%	44.1%

d) Health and Safety targets

Performance target	Performance Measures		
	2015	2016	2017
1. Lost time Injuries	Nil	Nil	Nil
2. Lost Time injury frequency rate (LTI / million hours worked)	Nil	Nil	Nil

e) Corporate Social Responsibility Performance targets

Performance target	Performance Measures		
	2015	2016	2017
3. To minimise the impact of airport activities on groundwater quality through cost-effective measures to avoid or mitigate the risks of contamination	<ul style="list-style-type: none"> ▪ Ensure on-going compliance with NZ Drinking Water Standards through implementation of the Public Risk and Management Plan for Managing Potable Water and regular monitoring of potable drinking groundwater supply ▪ Continue Environmental Compliance and Monitoring Programme with existing airport operators and new operators on airport land. ▪ Ensure all new operators are provided with Environmental Training Label storm water drainage systems in all new developments 	<ul style="list-style-type: none"> ▪ Ensure on-going compliance with NZ Drinking Water Standards through implementation of Public Risk and Management Plan for Managing Potable Water and regular monitoring of potable drinking groundwater supply ▪ Continue Environmental Compliance and Monitoring Programme with existing airport operators and new operators on airport land. ▪ Ensure all new operators are provided with Environmental Training ▪ Label storm water drainage systems in all new developments 	<ul style="list-style-type: none"> ▪ Ensure on-going compliance with NZ Drinking Water Standards through implementation of Public Risk and Management Plan for Managing Potable Water and regular monitoring of potable drinking groundwater supply ▪ Continue Environmental Compliance and Monitoring Programme with existing airport operators and new operators on airport land. ▪ Ensure all new operators are provided with Environmental Training ▪ Label storm water drainage systems in all new developments.
4. To investigate and implement cost-effective ways in which to progressively reduce the amount of solid waste arising from airport activities being disposed of to landfill through the development of waste minimisation and recovery measures	<ul style="list-style-type: none"> ▪ Continue to investigate and implement waste minimisation initiatives that ensure landfill diversion rates are sustained or increased 	<ul style="list-style-type: none"> ▪ Continue to investigate and implement waste-minimisation initiatives that ensure landfills diversion rates are sustained or increased. 	<ul style="list-style-type: none"> ▪ Continue to investigate and implement waste-minimisation initiatives that ensure landfills diversion rates are sustained or increased.
5. To minimise the energy consumption by airport activities through the pursuit of efficient energy practices	<ul style="list-style-type: none"> ▪ Continue to investigate and implement energy saving initiatives that ensure energy consumption is reduced 	<ul style="list-style-type: none"> ▪ Continue to investigate and implement energy-saving initiatives that ensure energy consumption is reduced 	<ul style="list-style-type: none"> ▪ Increased engagement with New Zealand Green Building Council and Energy Efficiency and Conservation Authority (ECCA) to achieve accreditation for new buildings ▪ Investigate energy efficiency options which have a mid to long term payback (5-10 years) ▪ Continue to investigate and implement energy-saving initiatives that ensure energy consumption is reduced with a targeted reduction of 5-7%
6. To deliver on our corporate social responsibility and community interest obligations	<ul style="list-style-type: none"> ▪ To sponsor key events which bring visitors to Christchurch (including the Christchurch Airport Marathon) 	<ul style="list-style-type: none"> ▪ Continue to be a key sponsor of meaningful events which attract visitors to Christchurch and the city's residents to attend and/or take part 	<ul style="list-style-type: none"> ▪ To be the naming rights sponsor of a significant event which underpins the airport's commitment to support meaningful events

	<ul style="list-style-type: none"> ▪ To sponsor cultural events important to the city ▪ Support community initiatives and organisations through the CIAL Community Fund and other donations through the year ▪ To host two charities a month to operate their fundraising day activities within the terminal ▪ Take opportunities to engage with stakeholders and the community through public speaking by the CEO and GMs, offering members of the public opportunities to carry out volunteer tasks at the airport 	<p>and contribute to the growing city</p> <ul style="list-style-type: none"> ▪ Support community initiatives and organisations through the CIAL Community Fund, charity fundraisers and other donations through the year ▪ Take opportunities to engage with stakeholders and the community through public speaking by the CEO and GMs, offering members of the public opportunities to carry out volunteer tasks at the airport 	<p>in the city</p> <ul style="list-style-type: none"> ▪ To continue to demonstrate support for events which bring people to the city (preferably through the airport) and the residents out to enjoy it ▪ To distribute the Community Fund to support relevant community initiatives and organisations, to complement selected charity fundraisers and charity collectors on their fundraising appeal days ▪ To engage and communicate openly with stakeholders through the Chief Executive and GMs initiating and accepting invitations to meetings, speeches, addresses and workshops ▪ To continue to support members of the public to operate as Airport Ambassadors at the airport
7. To manage Operational Risk	<ul style="list-style-type: none"> ▪ Achieve a Bird Strike incidence rate of 3<4/10,000 aircraft movements on a 12 month rolling average basis in line with level set for airports of a similar scale ▪ Work with territorial authorities and other stakeholders to implement management strategies for pest birds which pose bird strike hazard risks ▪ Work with statutory authorities and the community to achieve general acceptance of noise contours and associated policies and rules in regional and district plans to protect the 24/7 airport operating status 	<ul style="list-style-type: none"> ▪ Achieve a Bird Strike incidence rate of 3<4/10,000 aircraft movements, on a 12 month rolling average basis, in line with the level set for airports of a similar scale ▪ Work with territorial authorities and other stakeholders to implement management strategies for pest birds which pose bird strike hazard risks ▪ Achieve general acceptance of noise contours and associated policies and rules in regional and district plans to protect the 24/7 airport operating status ▪ Continue to facilitate a community liaison group to discuss noise and airport operational and developmental activities 	<ul style="list-style-type: none"> ▪ Achieve a Bird Strike incidence rate of 3<4/10,000 aircraft movements, on a 12 month rolling average basis, in line with the level set for airports of a similar scale ▪ Work with territorial authorities and other stakeholders to implement management strategies for pest birds which pose bird strike hazard risks ▪ Achieve general acceptance of noise contours and associated policies and rules in regional and district plans to protect the 24/7 airport operating status ▪ Continue to facilitate a community liaison group to discuss noise and airport operational and developmental activities
8. To minimise the effects of noise and vibration associated with aircraft and airport operations and to comply with relevant noise rules	<ul style="list-style-type: none"> ▪ Adhere to new noise contours in the Regional Policy Statement 	<ul style="list-style-type: none"> ▪ Refresh Environmental Policy and Strategy with respect to noise management 	<ul style="list-style-type: none"> ▪ Ongoing compliance with Noise Management Plan and associated policies
9. To deliver an environment for staff that is supportive, stimulating and engaging	<ul style="list-style-type: none"> ▪ Refresh strategies aligned with employee attraction, engagement and talent development 	<ul style="list-style-type: none"> ▪ Clear succession planning and people development is part of the way we do business 	<ul style="list-style-type: none"> ▪ Further develop our talent pool to maximise engagement and performance

Distributions

CIAL will distribute funds surplus to its investment and operating requirements, subject to meeting the solvency requirements of the Companies Act 1993.

CIAL notes Shareholders' expectations regarding dividends, particularly with respect to the request to enhance dividend levels over the next three years. There are only two methods to enhance dividend pay-out - either through an increase in operating earnings or through an increase in the pay-out rate / payment of special dividends. The company's objective is to increase earnings as the Board does not favour an increase in the pay-out level of dividends / payment of special dividends, as this would constrain the ability to further develop the business to increase operating earnings.

The actual dividends payable are subject to an annual review by the Directors of CIAL, taking into account the prevailing financial and economic circumstances in which Christchurch International Airport is operating.

In determining the level of funds available for dividend, the directors will take into consideration:

- Working capital requirements, aeronautical infrastructure developments, the medium-term asset investment requirements and the property development programme
- A sustainable financial structure having regard to the risks from predicted short-term and medium-term economic conditions and predicted financial performance
- The requirement to make any prudential provision as a consequence of the detrimental impact on revenues, or any increased costs, from any major/natural disaster event, and
- The CIAL-targeted credit rating.

The dividends are forecast to be paid in two instalments each year, with the interim dividend payment being made after the half year meeting of Shareholders in March of each year and the final dividend payment after the annual meeting in October of each year.

To assist shareholders with budgeting, the following ordinary dividend payments to shareholders based on a projection of 60% of Net Operating Profit after tax (after excluding:

- revaluation gains/losses on investment properties
- The deferred tax impact arising from the removal, or reinstatement post-June 2010 for the terminal, of the ability to claim depreciation on Buildings for tax purposes, including both the one-off deferred tax adjustment at 30 June 2010 and any annual write-back that may occur post 2010 for the building assets in question).

The pay-out amounts are forecast to be as follows:

\$m	2014 Forecast	2015 Forecast	2016 Forecast	2017 Forecast
Forecast Net Profit After Tax	\$ 15.0	\$ 26.2	\$ 35.4	\$ 38.1
<i>Less</i>				
Revaluation gains/(losses) (net of tax)	\$ 3.2	\$ 3.3	\$ 3.7	\$ 3.9
Deferred Tax Adjustment	\$ 0.3	\$ 0.3	\$ 0.3	\$ 0.3
Net Profit After Tax base for dividend	\$ 11.4	\$ 22.6	\$ 31.4	\$ 33.9
Dividend Forecast (@ 60%)	\$ 6.9	\$ 13.5	\$ 18.8	\$ 20.3
Dividend Pay-outs (Cash Flows)				
Current Year Interim Dividend	\$ 3.6	\$ 8.1	\$ 11.3	\$ 12.2
Prior Year Final Dividend	\$ 2.9	\$ 3.3	\$ 5.4	\$ 7.5
Forecast Dividends to be paid	\$ 6.5	\$ 11.4	\$ 16.7	\$ 19.7

If the company is successful in implementing actions to improve the forecast financial performance, as noted on page 8 - "Financial Performance", these dividends may be increased.

Information to be provided to shareholders

An annual report will be submitted to the shareholders. The annual report will include audited financial statements and other details which permit an informed assessment of the company's performance and financial position during the reporting period provided to the shareholders.

Half-yearly reports will also be provided to the shareholders. These reports will contain unaudited information and comply with NZ IAS 34.

A quarterly report will also be provided to shareholders, which includes a report on health and safety practices and performance within the company.

Annual reports will be produced, consistent with the company's objective to be a long-term sustainable and responsible business. The reports will outline the company's objectives and performance in terms of its economic, environmental and social outcomes.

The Statement of Intent will be submitted to the shareholders for consultation annually, as required by the Local Government Act 2002. The directors will include any other information they consider appropriate. Where appropriate, revised forecasts will be submitted to shareholders.

The company will operate on a "no surprises" basis in respect of significant shareholder-related matters, to the extent possible in the context of commercial sensitivity and confidentiality obligations.

The company will provide information requested by the shareholders in accordance with the requirements of the Local Government Act 2002.

Acquisition/divestment procedures

The subscription or acquisition of securities in any company or organisation, or a divestment of part of the existing business, will only be considered where it is consistent with the long-term commercial objectives of Christchurch International Airport Ltd.

When the subscription, acquisition or divestment is considered by directors to be significant to the company's business operations, it will be subject to consultation with the shareholders.

Major transactions as defined in the Companies Act 1993, s129 (2), will be subject to shareholders' approval by special resolution.

Notwithstanding the above, if CIAL is considering a significant acquisition or disposal of assets or securities, the shareholders will be consulted with as much lead-time as is commercially practicable in the prevailing circumstances.

Where the company decides to incorporate, or subscribe to, shares in subsidiaries to undertake its commercial activities, the company will ensure effective management, with Board control of any subsidiary being exercised by CIAL's directors and staff.

Compensation sought from Shareholders

At the request of the shareholders, the company may undertake activities that are not consistent with normal commercial objectives. Where necessary, a specific subsidy will be sought to meet the full commercial cost of providing such activities.

Currently, CIAL provides dedicated facilities and infrastructure to the New Zealand Antarctic operations at lower rates than those charged to commercial airlines and tenants. This service provides an economic benefit to the Christchurch region, but at an annual concession cost to CIAL estimated at approximately \$0.9 million per annum. CIAL has communicated with shareholders on this issue, who have confirmed their acceptance of the lower commercial return resulting as a consequence of this concession.

Estimate of commercial value

The Board's current estimate of the commercial value of Christchurch International Airport is \$970 million (2013 \$908 million).

Key factors taken into consideration in determining this valuation were:

- The valuation calculated as at 30 June 2014, was prepared by CIAL management and independently peer reviewed by Northington Partners Limited.
- In determining this valuation, the most appropriate basis of preparation was still considered to be the sum of the parts of the business, with the total valuation being comprised of the sum of;

- *Specified Airport Activities* - as determined by the Commerce Commission under the Information Disclosure Determination, effective 1 January 2011, building from the prescribed opening Regulated Asset base at 30 June 2009,
 - *Development Land* – being land held for future airport and commercial development, and
 - *Contestable Activities* – comprising all commercial and property investment activities.
- Given the different characteristics of these individual components, the valuations were assessed using a range of valuation methodologies:
 - The primary valuation approach for assets used for Specified Airport Activities reflected the asset-based valuation methodology adopted as part of the Commerce Commission regulatory regime;
 - Development Land is included at the values assessed by independent registered valuations;
 - Contestable Activities were valued using a discounted cash flow model based on a 20 year earnings projection. Future earnings were discounted at a mid-point required return of 8.70% (expressed on a post-tax nominal basis), with an assumed terminal growth rate of 2.5%;
 - The current commercial value of the Shareholders’ investment of \$970 million (often referred to as the equity value) was calculated by taking the midpoint range of the enterprise value of \$1,272 million (2013 \$1,221 million) and deducting net debt of \$302 million (2013 \$313 million).

The change in commercial value from 2013 (\$908 million) to the \$970 million at 30 June 2014 were primarily due to an increase in;

- The value of Contestable activities, from the forecast growth in future revenue streams and the lower cost of capital applied, and
- The growth of the Investment property portfolio, reflecting the uplift in the current valuations and on-going new commercial property developments.

The directors note the commercial value a shareholder may realise on any sale of its investment in CIAL may differ from this value, depending on the particular circumstances of sale, the identity of the buyer, and market conditions applicable or forecast at the time. This value is reassessed annually.

Role in the Christchurch City Council group and regional economy

a) Commercial relationships within the CCC group

Christchurch International Airport acknowledges, as a majority-owned subsidiary of Christchurch City Holdings Ltd, that there may be commercial opportunities within, or in partnership with, other group companies that may be able to be developed to benefit Christchurch International Airport, CCHL and the Canterbury region. These opportunities will and are being considered as part of the strategic initiatives being developed to progressively grow commercial revenues as the company endeavours to improve operating efficiency, and to diversify and offset the volatility of aeronautical revenues.

These include;

- Joint purchasing arrangements
- Communication network development
- Operational service delivery opportunities.

b) Role in the growth of the regional economy

Christchurch International Airport is the tourism gateway to the South Island and provides a significant contribution to both the Canterbury region and the South Island as a whole, with the total airport operation employing over 4,500 employees across a diverse range of companies. An Economic Impact Assessment review in 2012 (using 2010 as the most recent period indicator of underlying economic performance pre the Canterbury earthquakes) identified that Christchurch Airport contributed to the generation of \$1.8 billion in regional GDP, representing 7.1% of the total GDP in the Canterbury region and created employment for 9.7% of the region's workforce.

CIAL is seeking to grow the economic development of both the region and the South Island, through pursuing growth in airlines visiting Christchurch and international passengers holidaying in the South Island and through being a catalyst to growing the wider South Island tourism market. Such growth will provide a flow-on effect through increasing tourism revenue and activities. In addition, the on-going development of our property portfolio will create value through construction and the provision of a greater range of commercial services to all users of the airport campus.

Accounting Policies

CIAL has adopted accounting policies consistent with New Zealand International Financial Reporting Standards, generally accepted accounting practice and the policies adopted by the Christchurch City Council group.

The company's current accounting policies are attached to this Statement of Intent.

The Company has also adopted the following policy, which is in addition to the policy framework described above:

Capitalisation of Interest

The capital cost of all projects in excess of one year in duration and with a total capital cost in excess of \$10,000,000 shall include the additional charge of interest on funds employed during the construction phase through to the date of commissioning.

Appendix 1

The following accounting policies were included in the 2013 annual report of CIAL

Statement of Accounting Policies

a) Basis of preparation

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

Entity reporting

The financial statements are for Christchurch International Airport Limited and its wholly owned subsidiaries:

- CIAL Holdings Number 1 Limited
- CIAL Holdings Number 2 Limited
- CIAL Holdings Number 3 Limited
- CIAL Holdings Number 4 Limited
- CIAL Holdings Number 5 Limited

As the wholly owned subsidiaries were not trading and held no assets and liabilities during and at the end of the period of review, the financial statements for the group are the same as that of the parent.

The company is designated as a profit-oriented entity for financial reporting purposes.

Statutory base

Christchurch International Airport Limited is a company registered under the Companies Act 1993. The financial statements have been prepared in accordance with the requirements of the Airports Authorities Act 1966, the Local Government Act 2002, the Financial Reporting Act 1993 and the Companies Act 1993.

Functional and presentation currency

These financial statements are presented in New Zealand dollars and all values are rounded to the nearest thousand dollars (\$1,000). The functional currency of the company is New Zealand dollars.

Historical cost convention

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain assets and liabilities as identified in specific accounting policies. Derivative financial instruments are revalued to fair value.

Critical accounting estimates and assumptions

The preparation of financial statements requires the use of certain critical accounting estimates and assumptions. It also requires the company to exercise its judgement in the process of applying the accounting policies. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are set out below.

i. Identification of Property, Plant and Equipment to be reclassified to Investment Property.

The company makes a decision on the assets to be included in Investment Properties based on their "interim use" as outlined in accounting policy (o). A key factor of this classification is that the "interim use" of such property is not for aircraft related activities. The classification

of property between categories gives rise to different accounting treatments which can impact the Statement of Financial Performance.

ii. Determining the fair value of Property, Plant and Equipment and Investment Property

The company uses independent valuers to determine the fair value of certain assets within the business. The valuation process requires the use of assumptions and estimates which are based on market conditions at the time. Any changes in market conditions subsequent to balance date will impact future valuations. A movement in the fair value of an asset is subsequently recorded within the Statement of Financial Performance or Statement of Comprehensive Income, depending on the asset classification.

Impairment assessments are completed annually on various asset classes. An impairment assessment measures the recoverable amount of an asset based on projections and estimates of future cash flows specifically related to the asset. An impairment charge is recognised for any asset with a carrying value in excess of its recoverable amount.

New and amended standards adopted by the company

The following standards, interpretations and amendments have become effective during the annual period:

- NZ IAS 12 Income Taxes (amendment) – Deferred Taxes: Recovery of Underlying Assets
- IFRS 1 First-Time Adoption of International Financial Reporting Standards (Amendment) – Severe Hyperinflation and Removal of Fixed Dates for First-Time Adopters
- IFRS 7 Financial Instruments: Disclosures (Amendments)
- IFRS 7 Financial Instruments : Disclosures – Enhanced Derecognition Disclosure Requirements

These pronouncements are not considered to have a material effect on the company.

Standards issued and not yet adopted

- NZ IFRS 9 Financial Instruments will eventually replace NZ IAS 39 Financial Instruments: Recognition and Measurement. NZ IAS 39 is being replaced through the following three main phases: Phase 1 Classification and Measurement, Phase 2 Impairment Methodology, and Phase 3 Hedge Accounting. Phase 1 has been completed and has been published in the new financial instrument standard NZ IFRS 9. NZ IFRS 9 uses a single approach to determine whether a financial asset is measured at amortised cost or fair value, replacing the many different rules in NZ IAS 39. The approach in NZ IFRS 9 is based on how an entity manages its financial assets (its business model) and the contractual cash flow characteristics of the financial assets. The financial liability requirements are the same as those of NZ IAS 39, except for when an entity elects to designate a financial liability at fair value through the surplus/deficit. The new standard is required to be adopted for the year ended 30 June 2016. Management are still determining the impact phase 2 and phase 3 will have on the company.
- NZ IFRS 13 'Fair value measurement' – effective for annual periods beginning on or after 1 January 2013. The new standard outlines a single, unified definition of fair value and requires significant additional disclosures where fair values are used. Management are still determining the impact NZ IFRS 13 will have on the company.

b) Foreign currency translation

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary

assets and liabilities denominated in foreign currencies are recognised in the Statement of Financial Performance, except when deferred in equity as qualifying cash flow hedges.

c) Revenue recognition

Revenue comprises the fair value of the sale of goods and services, excluding Goods and Services Tax, rebates and discounts. Revenue is recognised as follows:

i. Sales of goods

Sales of goods are recognised when the company has delivered a product to the customer.

ii. Sales of services

Sales of services are recognised in the accounting period in which the services are rendered, by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

iii. Interest income

Interest income is recognised on a time-proportion basis using the effective interest method.

iv. Rental income

Rental income is recognised on a straight line basis in accordance with the substance of the relevant agreements.

d) Income tax

Income tax expense in relation to the surplus or deficit for the period comprises current tax and deferred tax.

Current tax is the amount of income tax payable based on the taxable profit for the current year, plus any adjustments to income tax payable in respect of prior years. Current tax is calculated using the rates that have been enacted or substantively enacted by balance date.

Deferred tax is the amount of income tax payable or recoverable in future periods in respect of temporary differences and unused tax losses. Temporary differences are differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit.

Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which the deductible temporary differences or tax losses can be utilised.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, using tax rates that have been enacted or substantively enacted by balance date.

Current tax and deferred tax is charged or credited to the Statement of Financial Performance, except when it relates to items charged or credited directly to other comprehensive income, in which case the tax is dealt with in the Statement of Comprehensive Income.

e) Goods and Services Tax (GST)

The Statement of Financial Performance and the Statement of Cash Flows have been prepared so that all components are stated exclusive of GST.

All items in the Statement of Financial Position are stated exclusive of GST, with the exception of receivables and payables, which include GST invoiced. Commitments and contingencies are stated exclusive of GST.

f) Leases

Operating leases

An operating lease is a lease that does not transfer substantially all the risks and rewards incidental to ownership of an asset to the lessee. Lease payments under an operating lease are recognised as an expense on a straight-line basis over the lease term.

g) Impairment

Non-financial assets

Non-financial assets are assessed for indicators of impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

Financial assets

Assets are reviewed for impairment on a regular basis and any possible loss is recognised when the carrying amount exceeds its recoverable amount.

h) Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held on call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within the current liabilities on the Statement of Financial Position.

i) Trade receivables

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

Collectability of trade receivables is reviewed on an on-going basis. Debts which are known to be uncollectible are written off. A provision for doubtful receivables is established when there is objective evidence that the company will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision 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 amount of the provision is recognised in the Statement of Financial Performance.

j) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on a weighted average basis, and includes cost of materials. Net realisable value is the estimated selling price in the ordinary course of business.

k) Other financial assets

Investments are recognised and derecognised on trade date where purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned.

The classification into the relevant category depends on the purpose for which the investment was acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting date.

l) Derivatives

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and

are subsequently re-measured to their fair value at balance date. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The company designates certain derivatives as either:

- v. hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge); or
- vi. hedges of highly probable forecast transactions (cash flow hedges).

The company documents, at the inception of the transaction, the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The company also documents its assessment, both at hedge inception and on an on-going basis, of whether the derivatives that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in fair values or cash flows of hedged items.

vii. Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the Statement of Financial Performance, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The company only applies fair value hedge accounting for hedging fixed interest risk on borrowings. The gain or loss relating to the effective portion of interest rate swaps hedging fixed rate borrowings is recognised in the Statement of Financial Performance within "Financing and Interest Costs". Changes in the fair value of the hedged fixed rate borrowings attributable to interest rate movements are also recognised in the Statement of Financial Performance within "Financing and Interest Costs".

viii. Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the Statement of Financial Performance. Amounts accumulated in other comprehensive income are recycled in the Statement of Financial Performance in the periods when the hedged item will affect profit or loss (for instance when the forecast transaction that is hedged takes place). However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, asset purchase) or a non-financial liability, the gains and losses previously deferred in other comprehensive income are transferred from other comprehensive income and included in the measurement of the initial cost or carrying amount of the asset or liability.

When a hedging instrument expires or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in other comprehensive income at that time remains in other comprehensive income and is recognised when the forecast transaction is ultimately recognised in the Statement of Financial Performance or is capitalised on the recognition of a non-financial asset. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in other comprehensive income is immediately transferred to the Statement of Financial Performance.

- ix. Derivatives that do not qualify for hedge accounting

Where derivative instruments do not qualify for hedge accounting or for which hedge accounting has not been adopted, changes in the fair value of these derivative instruments will be recognised immediately in the Statement of Financial Performance.

m) Fair value estimation

The fair value of financial assets, financial liabilities and interest rate swaps must be estimated for recognition and measurement or for disclosure purposes.

The fair value of financial instruments are valued using market rates at balance date.

For further information refer to note 27.

n) Property, plant and equipment

The following assets are shown at fair value, based on periodic valuations (but at least every five years), by external independent valuers, less subsequent depreciation:

- Land
- Buildings
- Terminal facilities
- Airport sealed surfaces
- Infrastructure assets
- Car park.

The last valuation was performed by Seagar and Partners (land and car park assets) as at 30 June 2013. The buildings, terminal facilities, sealed surfaces and infrastructure assets were reviewed for impairment as at 30 June 2013. Seagar and Partners reviewed the buildings and Opus International Limited reviewed the terminal facilities, sealed surfaces and infrastructure assets, with no adjustment for impairment being deemed necessary.

Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. All other property, plant and equipment is stated at historical cost less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the assets.

Costs subsequent to revaluation are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the company and the cost of the item can be measured reliably. Repairs and maintenance is charged to the Statement of Financial Performance during the financial year in which they are incurred.

Increases in the carrying amounts arising on revaluation are credited to reserves in shareholders' equity through the Statement of Comprehensive Income. To the extent that the increase reverses a decrease previously recognised in the Statement of Financial Performance, the increase is first recognised in the Statement of Financial Performance. Decreases that reverse previous increases of the same asset are first charged against revaluation reserves directly in equity to the extent of the remaining reserve attributable to the asset; all other decreases are charged to the Statement of Financial Performance.

Depreciation

Land is not depreciated. Depreciation of property, plant and equipment is calculated on a straight line basis so as to expense the cost of the assets over their estimated useful lives. The useful lives are as follows:

- | | |
|-------------------|---------------------------------------|
| ▪ Terminal | 40 years |
| ▪ Other buildings | 10 to 40 years |
| ▪ Sealed surfaces | 15 to 120 years (some components non- |
| depreciable) | |

- Roading 50 years
- Plant and equipment 3 to 25 years
- Motor vehicles 5 to 16 years
- Office and computer equipment 3 to 9 years
- Car park assets (excluding land) 7 to 50 years
- Infrastructure 15 to 60 years

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount of the asset. These are included in the Statement of Financial Performance.

o) Investment property

Land is held by the company for long term and strategic purposes and is not held for resale. Investment properties are land and buildings where the building is built to maximise the return on land and buildings as an "interim use", are held for long term rental yield and are not occupied by the company. Investment property also includes property that is being constructed or developed for future use as investment property.

Properties leased to third parties under operating leases are generally classified as investment property unless:

- The occupants provide services that are integral to the operation of the company's business
- The property is being held for future delivery of services

Land where there are infrastructure services in place up to its boundary or there is a firm commitment to provide such infrastructure and the further development of that land is signalled within the next 3 years (being the current business planning cycle) is classified as investment property. Buildings that are held for a currently undetermined future use, or that are vacant but held to be leased out under one or more operating leases, are classified as investment properties.

The classification of properties is done at the lowest possible level. Thus, where part of a property is occupied by a party other than the company, consideration is given to whether that portion of the building could be classified as an investment property. Classification as an investment property will be indicated if the section of the building could be separately sold or leased under a finance lease. If the section of the property occupied by a party other than the company is unable to be sold or leased separately from the rest of the building, the building is assessed as a whole and will usually only be classified as investment property if the company occupies an insignificant portion of the total building.

Investment property is carried at fair value, based on discounted cash flow projections, as determined annually by external valuers. Gains or losses arising from a change in fair value are recorded in the Statement of Financial Performance.

Seagar and Partners prepared the 2013 and 2012 investment property valuations.

Fair value measurement on property under construction is only applied if the fair value is considered to be reliably measurable.

If it is determined that the fair value of an investment property under construction is not reliably determinable but the company has an expectation that the fair value of the property will be reliably determinable when construction is complete, the investment property under construction will be

measured at cost until either its fair value becomes reliably determinable or construction is completed (whichever is earlier).

p) Finite life intangible assets

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These have a finite useful life and are amortised on a straight line basis over the useful economic life of 2 to 5 years. Computer software licences are carried at cost less accumulated depreciation.

Costs associated with developing or maintaining computer software programmes are recognised as an expense as incurred.

q) Trade and other payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method. These amounts represent liabilities for goods and services provided to the company prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

r) Borrowings

Borrowings are recognised initially at fair value, net of directly attributable transaction costs incurred. Borrowings (other than those subject to a fair value hedge relationship – see accounting policy I (i)) are subsequently carried at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the Statement of Financial Performance over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities, unless the company has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Borrowing costs that are directly attributable to the acquisition or construction of an item of property, plant and equipment (qualifying asset) have been capitalised where the construction exceeds \$10 million and is greater than 12 months in duration.

Borrowing costs that are not capitalised are expensed as incurred.

s) Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

t) Provisions

The company recognises a provision for future expenditure of an uncertain amount or timing when there is a legal or constructive obligation as a result of a past event; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

Provisions are measured at the present value of the expenditure expected to be required to settle the obligation.

u) Employee benefits

Liabilities for wages and salaries, including non-monetary benefits, annual leave, long service leave and accumulating sick leave and other contractual payments expected to be settled within 12 months of the reporting date are recognised in other payables in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled.

v) Dividends

Provision is made for the amount of any dividend declared on or before the end of the financial year but not distributed at balance date.

Dividend distribution to the company shareholders is recognised as a liability in the company's financial statements in the period in which the dividends are approved by the directors and notified to the company's shareholders.

w) Lease inducements

Lease inducements are incentives provided for the agreement of a new or renewed operating lease with a lessee. Lease inducements are recognised as an integral part of the net consideration agreed for the use of the leased asset and are recognised over the lease term, on a straight line basis unless another systematic basis is representative of the time pattern over which the benefit of the leased asset is diminished.

x) Financial instruments

Financial assets

The company classifies its financial assets in the following categories: financial assets at fair value through profit or loss and loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the company has transferred substantially all risks and rewards of ownership.

Financial assets at fair value through profit or loss

This category comprises financial assets held for trading which have been acquired principally for the purpose of selling in the short term. Derivatives also fall within this category unless they are designated as hedges and the hedge is effective for accounting purposes.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and with no intention of trading. They are included in current assets, except for maturities greater than 12 months after the Balance Sheet date, which are classified as non-current assets.

Financial liabilities

The company classifies its financial liabilities in the following categories: financial liabilities at fair value through the profit and loss, borrowings or as derivatives designated as hedging instruments in an effective hedge. The classification depends on the purpose for which the financial liabilities were incurred. Management determines the classification of its financial liabilities at initial.

The company's financial liabilities include trade and other payables, borrowings and derivative financial instruments.

Financial liabilities at fair value through profit and loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit and loss. Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. Gains or losses on liabilities held for trading are recognised in the income statement. The company has no liabilities held for trading as at 30 June 2013.

Financial liabilities designated at fair value through profit and loss are designated at the initial date of recognition. The company has not designated any financial liability as fair value through profit or loss.

y) Goodwill

All business combinations are accounted for by the purchase method. Goodwill represents the difference between the cost of the acquisition and the fair value of the net identifiable assets acquired.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment, by comparing the carrying value (including goodwill) with the recoverable value of the cash-generating unit. The recoverable value is determined by assessing the future cash flows directly associated with the asset.

Negative goodwill arising on acquisition is recognised directly in the Statement of Financial Performance.