



*Statement of Intent*  
*Year ending 30 June 2016*

# Contents

<b>INTRODUCTION .....</b>	<b>3</b>
<b>PRINCIPAL OBJECTIVES .....</b>	<b>4</b>
<b>REAL GROWTH 2025 VISION AND STRATEGY.....</b>	<b>5</b>
<b>KEY INITIATIVES .....</b>	<b>6</b>
<b>OUR JOURNEY .....</b>	<b>8</b>
<b>GOVERNANCE.....</b>	<b>9</b>
<b>PERFORMANCE TARGETS.....</b>	<b>14</b>
<b>DISTRIBUTIONS .....</b>	<b>20</b>
<b>INFORMATION TO BE PROVIDED TO SHAREHOLDERS.....</b>	<b>22</b>
<b>ROLE IN THE CCC GROUP &amp; REGIONAL ECONOMY .....</b>	<b>23</b>
<b>ACQUISITION/DIVESTMENT PROCEDURES .....</b>	<b>24</b>
<b>COMPENSATION SOUGHT FROM SHAREHOLDERS .....</b>	<b>25</b>
<b>ESTIMATE OF COMMERCIAL VALUE.....</b>	<b>25</b>
<b>ACCOUNTING POLICIES .....</b>	<b>26</b>

***Attachment***

***Summary of Accounting Policies***

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## INTRODUCTION

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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.

CIAL has five wholly owned subsidiaries. These wholly owned subsidiaries are currently non-trading and are not holding any assets or liabilities.

This SoI sets out for CIAL (and subsidiary companies) the objectives, the nature and scope of the activities to be undertaken, and the performance targets and other measures by which the performance of the company may be judged in relation to its objectives.

CIAL's achievements against the objectives outlined in last year's Statement of Intent are referred to in this year's Annual Report.

The SoI is a public and legally required document, reviewed and agreed annually with its shareholders and covers a three year period. This SoI covers the period from 1 July 2015 to 30 June 2018.

Contact details for both the Chairman and Chief Executive are CIAL's registered office:

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Christchurch International Airport  
Memorial Avenue, PO Box 14-001, Christchurch

Telephone: +64 3 358 5029

Website: [www.christchurchairport.co.nz](http://www.christchurchairport.co.nz)

Christchurch International Airport Ltd is a council-controlled trading organisation ("CCTO") for the purposes of the Local Government Act 2002.

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## PRINCIPAL OBJECTIVES

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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 this primary objective, 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 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
- to operate the business in a way that generates appropriate financial returns and dividend streams for the Shareholders
- pursue opportunities to diversify revenue streams and increase the value of 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
- to achieve excellence in health and safety management
- actively market Christchurch, Canterbury and the South Island as a major destination and gateway for overseas visitors, in order to strengthen the position of Christchurch International Airport as the aviation and tourism hub to the South Island
- be a good employer in providing a work environment that recruits, fosters and retains competent, motivated, committed and productive employees
- exhibit a sense of social responsibility by having regard to the interests of the community in which it operates.

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## REAL GROWTH 2025 VISION AND STRATEGY

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In 2014/15 CIAL completed a 10 year strategy review process, entitled Real Growth 2025 ("RG25"). This was focused on putting the current environment to one side (post-quake, non-stable state), understanding and being clear on why CIAL exists and what success might look like in the years between now and 2025.

### Mission

The long term direction and sustainability of CIAL is set out in our mission:

#### "To be the **BEST** Airport Business"

The strategy review process has helped us refine our mission to reflect the fact that by many operational and service measures Christchurch is already independently recognised as being "the best airport". It is recent commercial outcomes which need to be improved (noting the earthquakes removed around \$15 million per annum from CIAL's bottom line by way of passenger reductions).

RG25 seeks to build on "the best airport business" mission, which will add commercial success on top of existing operational and service success, with a target return on equity for shareholders of a consistent 7% p.a. (after tax).

Best Airport Business will be defined by these three outcomes:

- **Our Service Outcomes**
- **Our Commercial Outcomes**
- **Our safety & Security Outcomes**

### Journey

The journey is the most important aspect of RG25 as it recognises that the Canterbury earthquakes occurred and these impacted the airport, the city and regional South Island.

Recognising this starting point, the journey has been conceptualised into three phases.

#### "Re-build, Reclaim then Real Growth"

- **Re-build (circa FY16-FY18)** – the period covered by this SoI (1 July 2015 to 30 June 2018) coincides with the re-build phase of RG25. The events of 2011 had a material impact on the Christchurch visitor experience and economy, including Christchurch International Airport.

Consequently providing vision and certainty to Christchurch's future visitor experience is a key building block to re-building the visitor economy. Understanding this and focusing resources and investment into areas which either make a difference now or build capacity to make a difference in the post re-build phase will be key.

- **Reclaim (FY19-FY25) then Real Growth** – following the re-build phase Christchurch (and CIAL) will need a strategy, based on the future Christchurch visitor experience, to re-claim its position as both a primary destination and the main gateway to the South Island.

This will lead to real growth, where CIAL is growing at or above the national average, and it will be required long term for CIAL to reclaim its lost market share of international arrivals.

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## KEY INITIATIVES

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Within this broad strategic framework, emphasis over the coming year will be placed on the pursuit of essential initiatives that are important to the execution of the journey that delivers us to where we want to be in 2025.

These initiatives will seek to structurally change outcomes, challenge the status quo and look to change the current “business as usual” for enhanced long term outcomes above base case growth scenarios. They include:

### Property & Commercial

- Completing the development of Spitfire Square, Dakota Park and Mustang Park is assumed under RG25. Focus is on considering whether CIAL can accelerate these developments in the future through investigating potential partnerships and having the right resourcing in place.
- Seek to broaden the property market segments in which CIAL participates. This will require on-going focus on the planning environment in Christchurch.
- CIAL’s investment strategy in this portfolio is to seek to invest capital where the proposed investment grows CIAL’s balance sheet, increases revenue and dividend flows and utilises existing land holdings over the long term.
- CIAL has undertaken a detailed review of land assets, their purpose for being held (aviation, terminal and commercial) and current returns from each block. Where a development purpose is yet to be identified, CIAL will look to improve its return on those assets over time.

### Terminal & Airfield

- Maximise CIAL’s and our strategic partner’s passenger returns, through development of a terminal eco-system focused on providing a commercial offering that our customers want and that lifts commercial outcomes.
- Terminal productivity is optimised to deliver the best value terminal experience for Airline customers in New Zealand. This to be achieved through a concerted focus on cost management, operational efficiency and revenue growth, and through working with strategic partners to deliver step change improvement in terminal eco-system productivity (e.g. hours and zones of operation, passenger flow paths, level of service objectives etc.)

- Create a truly integrated passenger terminal capable of delivering a memorable travel experience in a manner that is commercially sustainable. Focus on enlisting key internal and external stakeholders to develop a comprehensive terminal precinct plan that supports productivity objectives and provides for long term growth and operational requirements.
- Increase airfield productivity, becoming more efficient for major airfield users and increasing productivity of capital investment. Ensure that airfield works programs and future development plans are optimised and develop solutions that provide for growth and can be delivered incrementally.
- Enhance a team culture that understands strategic partners' key drivers and then develops solutions that help them achieve their growth, customer experience, productivity and safety objectives. New developments should reduce operating costs, reduce long term capital investment and deliver benefits that customers are willing to pay for on a commercial basis.

## Aeronautical

- Maintain the integrity of New Zealand's Open Skies policy to ensure the aviation and associated regional development opportunities remain available to both CIAL and the South Island's regional economies.
- Focus on growing passenger numbers by working with the right partners and reclaiming Christchurch's position as both a primary destination and the main gateway to the South Island, CIAL will develop strategies and capabilities to stimulate passenger growth through expanded aeronautical services in the three key markets of:
  - Domestic;
  - Trans-Tasman; and
  - Long Haul.

## General

- The major shift in travel patterns caused by the earthquakes has impacted Christchurch's role as both a primary destination and the main gateway to the South Island. In order to achieve the aspirational growth pathway for CIAL, Christchurch requires an overarching Visitor Strategy that will deliver beyond "business as usual" growth in the visitor economy over the next decade. CIAL's role will be to promote awareness of the need for such a visitor strategy and support any project team tasked to develop it.
- Christchurch's 100 year relationship with Antarctica is a unique aspect of Christchurch which could be used as an attractor in support of any Christchurch Visitor Strategy. CIAL will review the International Antarctic Centre to consider how it could be developed further as a world class attraction in support of the Antarctica story.

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## OUR JOURNEY

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Successfully navigating the way to Real Growth 2025 will be assisted by reference to three important cultural principles – Team, growth and Kaitiaki.

TEAM FOCUS	GROWTH FOCUS	KAITIAKI FOCUS
<ul style="list-style-type: none"> <li>• Our customers drive our actions</li> <li>• Our place shapes our thinking</li> <li>• Our people make our success</li> </ul>	<ul style="list-style-type: none"> <li>• Grow markets</li> <li>• The right partners in the right places</li> <li>• Passionate storytellers for our place in the world</li> </ul>	<ul style="list-style-type: none"> <li>• Responsible guardianship</li> <li>• Productivity driven investment, management &amp; outcomes</li> <li>• Safety as a priority</li> </ul>

In addition, CIAL will continue to focus on the pursuit of essential on-going objectives that will continue to be important to the long-term commercial and operational success of the company. i.e.

- *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 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.
- The continuing advancement of our Strategic Property Plan will require a continuing focus on creating the planning environment to expedite and implement value-enhancing investment initiatives. 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.
- Health and Safety as a priority with a commitment to a safe environment for all staff and airport users.
- 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".
- Minimise any adverse effects of CIAL's activities and facilities on the environment, to be a responsible corporate citizen and to maintain strong links and regard for the community.
- 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".
- 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.
- A continuing focus on control of costs.

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## GOVERNANCE

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### 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.

### 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 executive 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 regulatory 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 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 meets 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**

In accordance with Section 64 of the Local Government Act 2002, each February 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 with the Shareholders and completion of the annual business planning and budgeting, the final SoI is approved by the Board of Directors and delivered to the Shareholders in June.

## Board Composition and Fees

The Board consists of six Directors, four appointed by majority shareholder, Christchurch City Holdings Limited ("CCHL") and two appointed by the Minister of Finance and the Minister for State Owned Enterprises (on behalf of the New Zealand Government). From 1 July 2014, CCHL has also been appointing an intern director for a period of eighteen months in order to enable prospective directors to gain an insight into good governance practice and to observe the dynamics of sitting on a Board.

Directors' appointments are for such 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 periodically 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 and Commercial 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 that at least one member of the Audit Committee to be a "financial expert". In addition the Board will nominate an appropriately experienced Director as a "health and safety champion", who will attend and contribute to all Audit Committee meetings.

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

- Risk management and systems of internal control
- Business policies and practices
- Protection of the company's assets
- Compliance with applicable laws and regulations
- Reporting of financial information and regulatory disclosure requirements

- Financial management.

The Board authorises and empowers the Risk, Audit and Finance Committee to:

- Review and approve accounting policies and practices as they apply to the company
- Review the current risk management framework, and associated procedures for effective identification and management of the company's financial and business risks
- Review management's approach to maintaining an effective internal control environment, including implementation of relevant policies and procedures
- Review the adequacy of insurance cover at each insurance renewal and recommend to the Board any significant changes to insurance cover
- Review and approve the annual business assurance plan, and regularly monitor business assurance findings
- Recommend to the Board the appointment of the external and internal auditor and approve their fee
- Provide advice on and review the company's Annual Report and Financial Statements prior to consideration and approval by the Board
- Provide advice on and review the company's regulatory Annual Information Disclosure prior to consideration and approval by the Board
- Review, on an on-going basis, the company's capital structure and optimal funding portfolio
- Establish 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
- 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 reviewing remuneration practices to ensure that 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 CEO
- To review the performance of the CEO, the engagement agreement and benefit structure for the CEO and Executive Management Team, and recommend to the Board senior executive incentive remuneration plans, other employee benefits, and key performance objectives of the CEO and Executive Management Team.

## Property & Commercial Committee

The Property and Commercial 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:

- To regularly review, test and recommend for approval the company's property and commercial development and management strategy (including its priorities) to ensure that it remains appropriate having regard to all relevant matters. Such matters shall include the company's financial position, maintenance of a balanced property portfolio, property market conditions, regulatory planning issues, strategic focus and priorities, timetabling of investments, and any other matters considered relevant by the Committee
- To review and recommend for approval the principles and standards with respect to the company's property and commercial investment strategy, in respect of the type of property investment, and rates of return parameters to be achieved.
- Review and recommend to the Board approval of significant property and commercial investment and development proposals.
- 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:

- To review and recommend to the Board strategies in respect of the provision of aeronautical facilities, general aviation and aeronautical business development (including marketing and pricing issues)
- To review specific proposals, and subsequent post project reviews, relating to aeronautical charging, commercial arrangements to support route development initiatives, and airline incentives or promotions
- To review the returns and aeronautical market position being achieved by CIAL's aeronautical business to ensure it is in line with the overall objectives of CIAL's business strategy
- To report to the Board annually, or as required, on; the safety, effectiveness and operational bench-marking of CIAL's aeronautical operations; the market position of its aeronautical business; the returns being achieved on individual aeronautical initiatives; and, the effectiveness and the implementation of CIAL's aeronautical strategies.

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## PERFORMANCE TARGETS

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### Financial

CIAL's key objectives are to operate as a successful business and through that deliver sustainable growth in long-term value to our shareholders.

It is recognised an uplift in performance is required to achieve acceptable rates of shareholder return, and as explained earlier the RG25 strategy employed for the next 10 years is focused on an improved commercial performance and a target return on equity for shareholders of a consistent 7% p.a. (after tax).

The forecast performance below identifies the improvement to be made over the ensuing three years, but in light of the prevailing state of the Christchurch Visitor Economy during the rebuild phase 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 the following factors:

- in the initial years following the earthquakes, CIAL had underestimated the time it would take for passenger numbers to recover. This is largely because of the pace of the city's rebuild journey and the ability to develop confidence in how Christchurch's visitor experience will evolve moving forward. The delay in the timing of the Christchurch City redevelopment is still resulting in Christchurch not experiencing the level of passenger growth experienced by other major New Zealand tourism destinations. This trend is likely to continue over the near term, but will increase as the pace of the reinstatement of Christchurch picks up.
- 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.

\$m	2015 Forecast	2016 Forecast	2017 Forecast	2018 Forecast
Total Revenue	156.7	169.7	176.6	184.9
EBITDAF <sup>1</sup>	94.0	102.3	110.5	117.5
Net Profit After Tax	29.1	34.7	37.2	40.1
EBITDAF as % of Revenue	59.9%	60.3%	62.6%	63.5%
Return on Average Equity <sup>2</sup>	3.8%	4.5%	4.7%	4.9%
Return on Average Total Assets <sup>3</sup>	2.4%	2.8%	2.9%	3.1%

<sup>1</sup> Earnings before interest, tax, depreciation, amortisation and fair value movements.

<sup>2</sup> Net profit after tax as % of average equity.

<sup>3</sup> Net profit after tax as % of average total assets.

The financial performance targets as detailed in the table above show the revenue, profit and financial return expectations for the rest of the 2015 financial year and the following three years.

- CIAL has achieved improvements in aeronautical revenue following the setting of new airline charges in December 2012 which reflect the increased asset base being employed. The full effect of these increases came into effect in the current 2015 financial year.
- This improved aeronautical revenue performance relating to the revised charges will continue through to 2017 when the next price reset process will take effect. This revised price reset will come into effect from FY18, and hence the unknown outcome of this currently creates some uncertainty around aeronautical revenue streams from FY18 onwards.
- Current assumption is that aeronautical revenue growth will be supplemented by a 'base case' growth in passenger numbers and movements. (refer to commentary below).
- Non-aeronautical revenue will also continue to grow, predominantly reflecting a market rate rental return from the planned property development capital program over the next three years (as outlined in previous SoIs and budgets).
- Through a focus on productivity driven investment, CIAL will look to offset as far as possible, any future increases in the operating cost base, ensuring that revenue gains can flow through to an improved EBITDAF outcome over the period. However the structure and processes associated with the current District Plan Review , together with work on the development of an updated aeronautical strategy, have the potential to drive material unbudgeted costs for the remainder of FY15 and through to FY16. These have been assumed in the relevant forecasts.

## Passenger Numbers

Passengers	2015 Forecast	2016 Forecast	2017 Forecast	2018 Forecast
Domestic	4,459,207	4,633,116	4,748,944	4,867,668
International	1,426,489	1,486,402	1,538,426	1,592,270
<b>Total Passengers</b>	<b>5,885,696</b>	<b>6,119,518</b>	<b>6,287,370</b>	<b>6,459,938</b>

- During the 2014 financial year and the seven months to the end of January 2015, CIAL's passenger volumes have experienced year on year growth in the range of 3.5%-4%. This growth is considered to represent the early stages of an overall passenger movement recovery, however remains below national averages.
- Current expectation is that this "base case" level of growth in passenger numbers will continue through the re-build phase of RG25, which coincides with the period covered by this SoI.
- The timing of the Christchurch City redevelopment will have a key influence on the level of passenger growth CIAL will experience over the period of this SoI. Current forecasts out to FY18 are based on the completion of the current 'anchor projects' (including the convention centre) in line with current timelines indicated. Any further delay in such timelines will delay CIAL's move towards the 'reclaim' phase of RG25, and any accelerated growth assumed within that phase.

## 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	2015 Forecast	2016 Forecast	2017 Forecast	2018 Forecast
Shareholder Funds/Total Assets %	62.8%	62.2%	60.9%	61.2%
Gearing (debt/(debt + equity)) %	29.1%	29.9%	31.6%	31.5%
EBITDAF Interest Cover x	4.31	4.47	4.33	4.39
Free Funds Interest Cover x	4.22	4.12	4.02	4.01
Free Funds/Debt %	23%	22%	21%	22%

- The maximum targeted ratio of debt-to-debt plus equity is 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.

## Health & Safety

Safety at CIAL is a core pillar of our business that is everyone's responsibility. We are committed to developing, implementing, maintaining and constantly improving safety strategies and outcomes as demonstrated in our RG25 Kaitiaki focus of '*Safety as a Priority*'.

We aim to achieve the highest level of safety performance whilst striving to exceed national and international industry standards. Our safety focus is not limited to our own staff but includes public, tenants, contractors and sub-contractors.

With the impending changes scheduled to Health & Safety legislation, the Board of CIAL will look to develop a refreshed Health & Safety Strategy, and to provide a heightened level of focus on a quality Health & Safety culture at CIAL, involving hazard identification, and risk management via best practice policies and mitigation procedures.

The success of the Health & Safety Strategy at CIAL will be measured by internal trend reporting around near misses and incidents, external benchmarking, and CIAL's performance around Health & Safety training and culture.

Performance Measures	Performance Targets		
	2016	2017	2018
1. Lost Time Injuries	Better than industry standards, with ultimate target of Nil.	Better than industry standards, with ultimate target of Nil.	Better than industry standards, with ultimate target of Nil.
2. Lost Time injury frequency rate (LTI / million hours worked)	Better than industry standards, with ultimate target of Nil.	Better than industry standards, with ultimate target of Nil.	Better than industry standards, with ultimate target of Nil.
3. Near Miss Frequency Rate (Near misses/million hours worked)	Increase over the prior year, reflecting an improved near miss reporting culture.	Increase over the prior year, reflecting an improved near miss reporting culture.	Increase over the prior year, reflecting an improved near miss reporting culture.

## Environmental

As the gateway to the South Island, CIAL places great importance in protecting our place in the world and minimising our impacts on the environment and New Zealand's natural resources. Our focus is on continual improvement and as such we will be developing a multi-aspect corporate sustainability policy and strategy with key deliverables.

Along with this strategy CIAL will continue to monitor our activities and those of our tenants to ensure on-going regulatory compliance. We will also challenge ourselves to consider industry best practice techniques when designing and planning developments to ensure impacts on the surrounding environment and the community are minimised.

Performance Measures	Performance Targets		
	2016	2017	2018
1. 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"> <li>▪ Continue to investigate and implement waste minimisation initiatives that ensure landfill diversion rates are sustained or increased</li> <li>▪ Develop a Sustainability Strategy with key targets and objectives towards waste reduction and corporate sustainability</li> </ul>	<ul style="list-style-type: none"> <li>▪ Continue to investigate and implement waste-minimisation initiatives that ensure landfills diversion rates are sustained or increased.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Continue to investigate and implement waste-minimisation initiatives that ensure landfills diversion rates are sustained or increased.</li> </ul>

<p>2. To minimise the impact of airport activities on groundwater quality through cost-effective measures to avoid or mitigate the risks of contamination</p>	<ul style="list-style-type: none"> <li>▪ 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</li> <li>▪ Continue Environmental Compliance and Monitoring Programme with existing airport operators and new operators on airport land.</li> <li>▪ Ensure all new operators are provided with Environmental Training</li> <li>▪ Label storm water drainage systems in all new developments</li> <li>▪ Develop a Sustainability Strategy with key targets and objectives towards Stormwater Quality and corporate sustainability</li> </ul>	<ul style="list-style-type: none"> <li>▪ 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</li> <li>▪ Continue Environmental Compliance and Monitoring Programme with existing airport operators and new operators on airport land.</li> <li>▪ Ensure all new operators are provided with Environmental Training</li> <li>▪ Label storm water drainage systems in all new developments</li> </ul>	<ul style="list-style-type: none"> <li>▪ 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</li> <li>▪ Continue Environmental Compliance and Monitoring Programme with existing airport operators and new operators on airport land.</li> <li>▪ Ensure all new operators are provided with Environmental Training</li> <li>▪ Label storm water drainage systems in all new developments.</li> </ul>
<p>3. To manage Operational Risk</p>	<ul style="list-style-type: none"> <li>▪ Achieve a Bird Strike incidence rate of 3&lt;4/10,000 aircraft movements on a 12 month rolling average basis in line with level set for airports of a similar scale</li> <li>▪ Work with territorial authorities and other stakeholders to implement management strategies for pest birds which pose bird strike hazard risks</li> <li>▪ 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</li> </ul>	<ul style="list-style-type: none"> <li>▪ Achieve a Bird Strike incidence rate of 3&lt;4/10,000 aircraft movements, on a 12 month rolling average basis, in line with the level set for airports of a similar scale</li> <li>▪ Work with territorial authorities and other stakeholders to implement management strategies for pest birds which pose bird strike hazard risks</li> <li>▪ Achieve general acceptance of noise contours and associated policies and rules in regional and district plans to protect the 24/7 airport operating status</li> <li>▪ Continue to facilitate a community liaison group to discuss noise and airport operational and developmental activities</li> </ul>	<ul style="list-style-type: none"> <li>▪ Achieve a Bird Strike incidence rate of 3&lt;4/10,000 aircraft movements, on a 12 month rolling average basis, in line with the level set for airports of a similar scale</li> <li>▪ Work with territorial authorities and other stakeholders to implement management strategies for pest birds which pose bird strike hazard risks</li> <li>▪ Achieve general acceptance of noise contours and associated policies and rules in regional and district plans to protect the 24/7 airport operating status</li> <li>▪ Continue to facilitate a community liaison group to discuss noise and airport operational and developmental activities</li> </ul>
<p>4. To minimise the effects of noise and vibration associated with aircraft and airport operations and to comply with relevant noise rules</p>	<ul style="list-style-type: none"> <li>▪ Adhere to new noise contours in the Regional Policy Statement</li> </ul>	<ul style="list-style-type: none"> <li>▪ Refresh Environmental Policy and Strategy with respect to noise management</li> </ul>	<ul style="list-style-type: none"> <li>▪ On-going compliance with Noise Management Plan and associated policies</li> </ul>

<p>5. To minimise the energy consumption by airport activities through the pursuit of efficient energy practices</p>	<ul style="list-style-type: none"> <li>▪ Continue to investigate and implement energy saving initiatives that ensure energy consumption is reduced</li> <li>▪ Develop a Sustainability Strategy with key targets and objectives towards energy reduction, air quality from energy and heating activities and corporate sustainability</li> <li>▪ Conduct a review and feasibility study into power generation and heating on airport with a view towards conversion to more efficient technology</li> </ul>	<ul style="list-style-type: none"> <li>▪ Continue to investigate and implement energy-saving initiatives that ensure energy consumption is reduced</li> <li>▪ Investigate energy efficiency options which have a mid to long term payback (5-10 years)</li> <li>▪ Continue to investigate and implement energy-saving initiatives that ensure energy consumption is reduced with a targeted reduction of 5-7%</li> <li>▪ Increased engagement with industry bodies involved with sustainable building design and energy efficiency</li> </ul>	<ul style="list-style-type: none"> <li>▪ Continue to investigate and implement energy-saving initiatives that ensure energy consumption is reduced</li> <li>▪ Continued review of energy efficiency options with consideration of developing technology.</li> <li>▪ Implementation of trials of technology that has been found to be feasible.</li> </ul>
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## Community Engagement

CIAL is a proud member of the Canterbury community and seeks to support its community. CIAL will continue to work to broaden and deepen its links with its community.

Performance Measures	Performance Targets		
	2016	2017	2018
1. To deliver on our corporate social responsibility and community interest obligations	<ul style="list-style-type: none"> <li>▪ 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 and contribute to the growing city</li> <li>▪ Support community initiatives and organisations through the CIAL Community Fund, charity fundraisers and other donations through the year</li> <li>▪ Take opportunities to engage with stakeholders and the community through public speaking by the CEO and GMs.</li> </ul>	<ul style="list-style-type: none"> <li>▪ To continue to demonstrate support for events which bring people to the city and the residents out to enjoy it</li> <li>▪ 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</li> <li>▪ To engage and communicate openly with stakeholders through the Chief Executive and GMs initiating and accepting invitations to meetings, speeches, addresses and workshops</li> </ul>	<ul style="list-style-type: none"> <li>▪ To continue to demonstrate support for events which bring people to the city (preferably through the airport) and the residents out to enjoy it</li> <li>▪ 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</li> <li>▪ To engage and communicate openly with stakeholders through the Chief Executive and GMs initiating and accepting invitations to meetings, speeches, addresses and workshops</li> </ul>
2. To deliver an environment for staff that is supportive, stimulating and engaging	<ul style="list-style-type: none"> <li>▪ Refresh strategies aligned with employee attraction, engagement and talent development</li> </ul>	<ul style="list-style-type: none"> <li>▪ Clear succession planning and people development is part of the way we do business</li> </ul>	<ul style="list-style-type: none"> <li>▪ Further develop our talent pool to maximise engagement and performance</li> </ul>

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## DISTRIBUTIONS

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CIAL aims to distribute funds surplus to its on-going and forecast investment and operating requirements, subject to meeting the solvency requirements of the Companies Act 1993.

The Directors will review dividend policy annually and recommend such dividend payments as are consistent with CIAL's earnings, capital expenditure and future investment requirements, subject to targeting a gearing ratio which does not exceed 40% and maintaining CIAL's targeted credit rating of BBB+.

CIAL notes Shareholders' expectations regarding dividends, particularly with respect to the request to enhance dividend levels over the next three years, and understands that its dividend stream is a key financial component in ensuring the city's long term financial stability.

For the three year period covered by this SoI, the Directors consider that maintaining the current dividend policy of a minimum of 60% of Net Operating Profit after tax (after excluding revaluation gains/losses on investment properties) provides a balance between maximising the short-term dividend returns whilst also providing the funding structures to execute the re-build phase of the company's RG25 strategy inside the requirements outlined above. This is critical to both the short term recovery of CIAL's business, the long term outcomes for CIAL's shareholders, recovery of the city and the wider regional South Island economic benefits that will accrue from that growth.

CIAL's focus is on the successful implementation of RG25 which is essential to increasing commercial outcomes, matching capital investment with balance sheet and dividend growth and managing the business towards sustainable 6-7% returns on equity for shareholders.

The actual dividends payable are subject to an annual review by the Directors of CIAL as part of the business planning process and at each declaration date.

Additional dividend payments may be made from surplus funds at the end of any year depending on the circumstances of the business.

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 at the end of February each year and the final dividend payment after the annual meeting in October of each year.

To assist shareholders with budgeting, the ordinary dividend payments to shareholders are forecast to be as follows:

\$m	2015 Forecast	2016 Forecast	2017 Forecast	2018 Forecast
Forecast Net Profit After Tax	29.1	34.7	37.2	40.1
Less				
Revaluation Gains (net of tax)	3.9	4.1	4.3	3.3
Net Profit After Tax base for dividend	25.2	30.6	33.0	36.8
<b>Dividend Forecast (@ 60%)</b>	<b>15.1</b>	<b>18.4</b>	<b>19.8</b>	<b>22.1</b>
<b>Dividend Pay-outs (Cash Flows)</b>				
Current Year Interim Dividend	5.9	7.3	7.9	8.8
Prior Year Final Dividend	4.0	9.2	11.0	11.9
<b>Forecast Dividend Cash Flow</b>	<b>9.9</b>	<b>16.5</b>	<b>18.9</b>	<b>20.7</b>

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## INFORMATION TO BE PROVIDED TO THE SHAREHOLDER

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### No Surprises

CIAL is very aware of Shareholders' requirements in this respect. 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. Any sensitive issues that could result in media attention or issues will be communicated to the Shareholders as soon as possible.

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.

### Statement of Intent

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.

### Annual & Half Year Report

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.

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.

### Other Reporting

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

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.

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## ROLE IN THE CHRISTCHURCH CITY COUNCIL GROUP AND REGIONAL ECONOMY

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### Christchurch City Council Capital Release Program

Following the series of damaging earthquakes since September 2010, the Council has undertaken a comprehensive review of its financial position, including an evaluation of its commercial assets in conjunction with Christchurch City Holdings (CCHL). As a result of this review, the Council has proposed a financial strategy that, amongst other initiatives, envisages the sale of some of CCHL's equity investments. This proposed strategy is referred to generally, and in this SoI, as the "Capital Release Program". The Council is consulting with the community on the adoption of this financial strategy as part of the process for developing its Long Term Plan, which is due to be finalised in June 2015.

CIAL will work with CCHL to implement the final form of the Capital Release Program so far as it relates to CIAL, if adopted as part of the Council's Long Term Plan, and other objectives stated in this SoI must be read in light of this exigency.

In implementing the Capital Release Program, however, the Directors will not be required to act in a manner which would be inconsistent with their duties at law.

### 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 and CIAL will work actively with other CCHL group companies to explore any opportunities that could provide value to either party.

CIAL as a large purchaser of materials and services, actively participates in the "All of Government" procurement initiatives to maximise the value from this spend.

### 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 5,500 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.

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 a 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. CIAL will also ensure it promotes Christchurch as a great place to live, work and do business.

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## **ACQUISITION/DIVESTMENT PROCEDURES**

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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.

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## COMPENSATION SOUGHT FROM SHAREHOLDERS

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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 \$0.8 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.

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## ESTIMATE OF COMMERCIAL VALUE

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The current estimate of the commercial value of Christchurch International Airport is \$1,041 million (2014 \$970 million).

Key factors taken into consideration in determining this valuation were:

- The valuation calculated as at 30 June 2015, 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 8.40% (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 \$1,041 million (often referred to as the equity value) was calculated by taking the midpoint range of the enterprise value of \$1,351 million (2014 \$1,272 million) and deducting net debt of \$310 million (2014 \$302 million).

The change in commercial value from 2014 (\$970 million) to the \$1,041 million at 30 June 2015 was primarily due to an increase in:

- The value of Contestable activities – this arising from the forecast growth in rental revenue streams from the future property development program, coupled with 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 will likely 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 re-estimated annually.

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## **ACCOUNTING POLICIES**

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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.

## Appendix 1

**The following accounting policies were included in the 2014 annual report of CIAL**

### **Statement of Accounting Policies**

#### **b) 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 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 (p). 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 19 Employee Benefits (Revised 2011) – 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
- NZ IFRS 13 Fair Value Measurement - Guidance on how to measure fair value under NZ IFRS
- NZ IAS 1 amendments to Presentation of Financial Disclosures : 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.

**b) Current vs. Non-Current Classification**

The Group presents assets and liabilities in the statement of financial position based on current/non-current classification. An asset as current when it is:

- expected to be realised or intended to sold or consumed in normal operating cycle
- held primarily for the purpose of trading
- expected to be realised within twelve months after the reporting period; or
- cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period

All other assets are classified as non-current. A liability is current when:

- it is expected to be settled in normal operating cycle
- it is held primarily for the purpose of trading
- it is due to be settled within twelve months after the reporting period; or
- there is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period

The company classifies all other liabilities as non-current.

Deferred tax assets and liabilities are classified as non-current assets and liabilities.

**c) 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.

**d) 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.

iii. *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.

iv. *Interest income*

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

v. *Rental income*

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

**e) 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.

**f) 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.

**g) 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.

**h) 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.

**i) 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.

**j) 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.

**k) 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. Any write-down is recognised in the Statement of Financial Performance.

## I) 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.

### m) 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:

- i. hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge); or
- ii. 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.

#### iii. *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".

#### iv. *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.

v. 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.

**n) Fair value measurement**

The company measures financial instruments, such as, derivatives, and non-financial assets such as investment properties, at fair value at each balance sheet date. Also, fair values of financial instruments measured at amortised cost are disclosed in Note 27.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible to the company.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the company determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period. External valuers are involved for valuation of significant assets, such as properties and investment properties and significant liabilities.

For the purpose of fair value disclosures, the company has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

**o) Property, plant and equipment**

The following assets are shown at fair value, based on periodic valuations (at minimum 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 Crighton Anderson (car park assets) and Opus International Limited (buildings, terminal facilities, sealed surfaces and infrastructure assets) as at 30 June 2014. The land assets were reviewed for impairment as at 30 June 2014 by Crighton Anderson, with no adjustment for impairment being deemed necessary. The carrying values of property, plant and equipment are assessed annually to ensure they do not differ materially from the assets' fair values. If a material difference exists, then these off cycle asset classes are revalued.

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)
▪ 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 30 years
▪ Infrastructure	15 to 70 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. If disposal is made of an asset that has been revalued, any surplus included in equity is transferred directly to retained earnings when the asset is derecognised.

### **p) 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.

Crighton Anderson prepared the 2014 investment property valuations and Seagar and Partners the 2013 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).

**q) 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.

**r) 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.

**s) 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 (m(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.

**t) 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.

**u) 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.

**v) 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.

**w) Dividends**

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.

**x) 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.

**y) 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 2014.

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.

#### **z) 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.