



# **STATEMENT OF INTENT**

## **For the year ending 30 June 2011**

**May 2010**

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## INTRODUCTION

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This Statement of Intent ("SoI") is submitted by the Board of Directors of Christchurch International Airport Ltd (CIAL) and is prepared in accordance with Section 64(1) of the Local Government Act 2002.

The SoI specifies for Christchurch International Airport Ltd and its non trading subsidiaries (CIAL Holdings No. 1-5), the objectives, nature and scope of activities to be undertaken, and the performance targets and other measures by which the performance of the group may be judged in relation to its objectives, amongst other requirements.

The process of negotiation and determination of an acceptable SoI is a public and legally required expression of the accountability relationship between CIAL and its shareholders, Christchurch City Holdings Ltd and the Minister of Finance and Minister for State Owned Enterprises (on behalf of the New Zealand Government).

The SoI is reviewed annually with Shareholders and covers a three-year period.

Christchurch International Airport Ltd's registered office is located on Level 2, of the Arrivals Hall in the International Terminal at Christchurch International Airport.

Contact details for both the Chairman and Chief Executive are:

Address	Level 2 International Arrivals Hall, Christchurch International Airport
Telephone no.	03 358 5029
Web	<a href="http://www.christchurch-airport.co.nz">www.christchurch-airport.co.nz</a>

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

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## OBJECTIVES

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a) Christchurch International Airport Ltd's vision is;

**“To be the BEST Airport in New Zealand”**

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

In order to achieve this vision and through that deliver sustainable growth in long-term value to our shareholders CIAL has developed the following strategic objectives;

- An engaged workforce who perform strongly
- Deliver outstanding Airport and Airport Related services and Aeronautical growth
- Maximise economic value through Commercial opportunities
- Maximise economic value through Property development and management
- Deliver robust Business Enablers to ensure success

**To deliver these strategic objectives Christchurch International Airport will** continue to enhance its position as the gateway to the South Island and actively support the development of the regional economy. To achieve this position the Company will:

- Continue to promote Christchurch, Canterbury and the South Island as a premier tourism destination
- Work to increase Christchurch's point-to-point access to major aviation hubs, and actively pursue increases in airline capacity flying into and out of Christchurch
- Work collaboratively with promotional organisations whose strategic objectives support regional development, and with organisations seeking to establish or enhance tourist attractions in Christchurch, Canterbury and the South Island
- Consider opportunities for the Airport to align with other transport modes to generate a 'hub' approach, maximising travel connections and ease of passenger transfers
- Continue to work toward the successful substantial completion of the Integrated Terminal Development Project by mid 2012
- Optimise and pursue opportunities for the development of airport land (including the short term use of land not required for airport use at this time) and facilities to enable the company to expand and enhance value through its core capability as an Airport Operator, and to that end actively pursue planning requirements to enable the development and expansion of the Airport Commercial horizon.
- Identify and undertake value enhancing initiatives, to proactively grow commercial opportunities as a support to constrained aeronautical revenues
- Be an attractive location and pursue commercial opportunities for businesses that need to access convenient airport and related services

- Pursue the sustainable management and development of all aspects of the company's operations, being socially responsible through having regard to the interests of the community in which we operate
- Design and implement business processes and customer interaction touch-points with the objective of giving the customer the 'best' service experience, while accepting that compromises will need to be reached in situations where there are competing requirements or costs
- Proactively facilitate Christchurch as the gateway base of choice to the Antarctic
- Develop and promote sustainable and proactive engagement and communication with customers, stakeholders and the community.

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## **NATURE AND SCOPE OF ACTIVITIES**

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Christchurch International Airport's core business is to be 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 from wider complementary products, services and business solutions.

Consistent with these principal activities Christchurch International Airport will;

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

In striving to achieve these outcomes CIAL emphasis will be placed on the pursuit of four essential initiatives over the coming year that are important to the long term commercial and operational success of the company. These are;

- *Economic Performance* – The prevailing economic environment will have a marked impact on tourism activity and airline financial performance globally. Initiatives to minimise market contraction will be pursued where CIAL has an ability to influence such outcomes. CIAL will seek to achieve pricing resets to the maximum level allowed by the market. Commercial initiatives not directly related to aeronautical activity will be actively pursued to provide the best possible economic offset to the constrained aviation market conditions.
- *Integrated Terminal Project (ITP)* – The implementation of agreed service delivery solutions to meet the differential needs of both regional and main trunk passengers. Substantial completion of the integrated terminal will be achieved by mid 2012 with final airside works by 2013. The construction programme will follow a methodology designed to provide certainty of cost and project delivery outcome. Issues being addressed are;
  - Changing airline business models
  - Ensure functionality/design provides flexibility to meet growth and changing customer expectations
  - Pursuit of return on investment over the life of the investment

Outcomes to be achieved are;

- Removal of congestion and the delivery of an improved passenger service experience
  - Integration of domestic and international services
  - Improved service performance and reliability for airline customers
  - Improved aircraft parking and the provision of flexibility through an identified expansion path for the future
  - Improved scope and range of retail offerings
  - Airline pricing commensurate with the investment made and the timing of returns taking account of the prevailing economic climate.
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- *Ability to operate 24/7* - The ability to operate under a 24/7 operating environment is essential to the financial and economic wellbeing of both CIAL and the regional economy. Planning for future growth, within the recently reviewed noise contours, will be actively communicated and pursued with all planning, regulatory and community bodies to ensure this capability is maintained. To this end CIAL is committed to work with key stakeholders and partners on matters impacting its operations and future commercial development strategies, including further submissions and constructive input to the review of the determinations of the Regional Policy Statement and Urban Development Strategy.
  - *Property Strategy*- The continuing advancement of our Strategic Property Plan to improve return on airport landholdings, with a continuing focus on creating the planning environment to expedite and implement value enhancing investment initiatives. The delivery of CIAL's Commercial Strategy requires the development of land currently not used for aeronautical purposes. CIAL will liaise with CCC Planning staff to seek compatibility with CCC's planning strategy and vision for the city and with the overall urban development strategy.

CIAL will seek to grow the scale and scope of the business, actively pursuing commercial opportunities to diversify non aeronautical revenue activity and should any opportunity arise to invest in another business CIAL will ensure that such acquisition is consistent with the company's objectives. Investments of a material nature will be subject to consultation with the shareholders.

All activities will be carried out with the objective of protecting and growing shareholder value.

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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 ongoing; it does not have a finite end. It continually evolves to meet changing commercial circumstances; new techniques are developed, learnings gained from past experiences and other organisations that need to be considered, and if deemed necessary, incorporated into our systems

### **REGULATORY FRAMEWORK**

CIAL operates in New Zealand and is governed by a range of legislation and regulation. It is subject to regulatory control under the Airport Authorities Act with future monitoring of Aeronautical Economic performance reverting to the Commerce Commission from 2010 following the passing of the Commerce Amendment Act 2008. In addition it is regulated as an Airport under the Civil Aviation Act, Part 139, in terms of operational performance. CIAL aims to make sufficient disclosure so that the reader of the Annual Report will be able to assess the effectiveness of the company's corporate governance.

### **Governance objectives**

The Board has adopted the following governance objectives:

- Approve Corporate Strategy and direction, laying down solid foundations for management and oversight;
- Structure itself to utilize the expertise of Directors to add value
- 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; and
- 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 CIAL's performance and in carrying out its principal function, the Board's specific responsibilities include:

- Providing strategic direction for, and approving, CIAL's business strategies and objectives
- 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 adhered to, to ensure that the business of the Company is conducted in an open and ethical manner
- Ensuring that CIAL's goals are clearly established, and that strategies are in place for achieving them (such strategies being expected to originate, in the first instance, from management)
- Establishing policies for strengthening CIAL's performance, including ensuring that management is proactively seeking to build the business through innovation, initiative, technology, service excellence and the development of its business capital
- Establishing performance criteria for CIAL and monitoring the performance of the Chief Executive Officer (CEO) and management against these
- Appointing the CEO, setting the terms of the CEO's employment contract and, where necessary, terminating the CEO's employment with the company
- Deciding necessary actions to protect CIAL's financial position and the ability to meet its debts and other obligations when they fall due, and ensuring that such actions are taken
- Ensuring that CIAL's financial statements are true and fair and otherwise conform with law
- Ensuring that the Company adheres to high standards of ethics and corporate behaviour
- Ensuring that CIAL has appropriate risk management/regulatory compliance policies in place and that these are monitored on a regular basis.

In the normal course of events, day-to-day management of CIAL will be delegated to management.

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

## **Responsibility to Shareholders**

### **Statement of Intent**

In accordance with the Local Government Act 2002, the company submits a draft Sol for the coming financial year to Shareholders. The Sol sets out the company's overall objectives,

intentions and financial and performance targets. After due consultation and discussion, the Sol is accepted by the Shareholders.

### **Information Flows**

The Board aims to ensure that Shareholders are informed of all major developments affecting the company's state of affairs, while at the same time recognising that commercial sensitivity may preclude certain information from being made public. Within this constraint, information is communicated to the Shareholders through periodic reports, occasional briefings and through both the annual report and the half-yearly report.

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

### **Consistency with wider objectives of Shareholder(s)**

- Majority shareholder, Christchurch City Holdings Ltd, seeks to support its ultimate Shareholder (Christchurch City Council) objective of developing the greater Christchurch and the Canterbury region through pursuing an integrated Urban Development Strategy (UDS). Christchurch International Airport will seek to support the wider initiatives of the urban development Strategy where it relates to the business. The company's development strategy will be supported by the UDS through changes incorporated in the Regional Policy Statement to protect the long term objective for uncurfewed operations through provision and recognition of noise contours in its planning maps. Commercial development would further support wider economic development through the recognition of CIAL as a key transport and employment node. The strategies for roading and highway development as part of the UDS will support greater commercial density at the airport through land use that cannot be supported in a central business district environment.

### **Board Composition and Fees**

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

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

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

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

The Board has three formally constituted committees; the Risk Audit and Finance Committee the Remuneration Committee and the Property Committee. All committees have a Board-approved charter outlining the committee's authority, duties and responsibilities and 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 be a "financial expert".

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

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

The Board authorises and empowers the Audit Committee to:

- Review and approve accounting policies and practices as they apply to the company
- Approve the annual business assurance plan, and regularly monitor business assurance findings
- Approve the external auditor's fee
- Appoint and remove internal and external auditors
- Recommend approval of the Annual Report
- Seek any information it may require from any employee or external party that it requires to fulfil its objectives
- Seek any outside external advice it may require.

In order to fulfil this role the Committee meets independently with both the business assurance and external auditors to provide a forum for open discussion regarding management's integrity and performance. The external auditors are only permitted to engage on 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 Chief Executive Officer
- To review the performance of the Chief Executive Officer, the engagement agreement and benefit structure for the Chief Executive Officer and Executive Management group, and recommend to the Board senior executive incentive remuneration plans, other employee benefits, and key performance objectives of the Chief Executive Officer and Executive Management group.

## Property Committee

The Property Committee's role is to assist the Board in overseeing the development and implementation of the property portfolio development and investment strategies and implementation of investment initiatives within that portfolio to maximise the value of CIAL's property holdings.

The responsibilities of the Committee are as follows

- To review the company's property strategy (including its priorities) regularly 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 from time to time, and at least annually, the company's progress in implementing the approved property strategy, in respect of both its property investment and property management activities
- To report the outcome of reviews undertaken under this heading to the Board, with any necessary analysis, commentary, and reports, and make resulting recommendations to the Board.

## 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:

Period	Total Liabilities	Equity	Total Assets	Equity Ratio	Interest Cover	FFO Interest Cover
30 June 2009a	182,904	560,117	743,021	75.4%	6.50	5.73
30 June 2010f	255,574	583,161	838,735	69.5%	5.01	4.31
30 June 2011p	352,562	594,921	947,483	62.8%	4.06	3.58
30 June 2012p	423,864	600,683	1,024,547	58.6%	3.31	3.01
30 June 2013p	440,526	607,559	1,048,085	58.0%	3.13	2.85

Period	Equity	Debt	Total Debt +Equity	Gearing (debt : debt+equity)	Net Asset Backing
30 June 2010 f	583,161	169,982	753,143	23%	10.12
30 June 2011 p	594,921	260,350	855,271	30%	10.33
30 June 2012 p	600,683	332,412	933,095	36%	10.43
30 June 2013 p	607,559	348,390	955,949	36%	10.55

- Long term the company will endeavour to operate within an optimal capital structure of shareholder's funds to total assets of between 50% and 60%
- The target ratio of debt-to-debt plus equity is to be within a range of 30% to 40%

- The target minimum floor for free funds from operations interest cover is to be no less than 2.5x

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## Accounting Policies

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

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

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

### ***Capitalisation of Interest***

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

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## Performance Targets

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

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

It is recognised an uplift is required to achieve acceptable rates of return and the forecast performance below identifies the improvement being made over the ensuing three years, but in light of the prevailing economic conditions it must be accepted that it will take some time to achieve the required returns as;

- The land bank can only be developed at a rate that planning requirements and market demand allow
- Returns on new infrastructure development (ITP) will be determined by the market conditions of the aviation sector and the company's ability to negotiate price increases to achieve the required economic return, with reduced Airline yields significantly influencing the timing and period over which increased such airline charge increases can be achieved
- The time required to achieve efficiency gains.

**a) Financial performance targets**

The financial performance targets for the company are as follows:

\$000	2009 Actual	2010 Forecast	2011 Plan	2012 Plan	2013 Plan
Operating Revenue	89,882	92,435	97,791	104,612	116,508
EBITDA	55,536	59,691	62,899	68,501	79,913
FFO	40,433	39,486	39,931	41,694	47,247
Net Surplus After Tax	14,686	22,805	25,621	18,988	16,653
Net Surplus After Tax to Average Equity	2.6%	4.1%	4.5%	3.2%	2.8%
Return on Assets (NPAT as % average total assets)	2.0%	2.9%	2.9%	1.9%	1.6%

**b) Operational Movement targets**

	2009 Actual	2010 Forecast	2011 Plan	2012 Plan	2013 Plan
<b>a. Aircraft</b>					
Aircraft Movements	75,154	73,580	73,560	73,770	74,074
<b>b. Passengers</b>					
Domestic	4,333,294	4,341,830	4,401,907	4,498,749	4,553,441
International	1,574,783	1,628,266	1,666,881	1,727,258	1,775,698
Total Passengers	5,908,077	5,970,096	6,068,788	6,226,007	6,329,139

**c) Operational Performance targets**

	2009 Actual	2010 Forecast	2011 Plan	2012 Plan	2013 Plan
Total Operating Revenue per Passenger	\$ 15.21	\$ 15.48	\$ 16.11	\$ 16.80	\$ 18.41
<i>Aeronautical Revenue per pax</i>	\$6.67	\$7.25	\$7.52	\$7.66	\$8.29
<i>Commercial Revenue per pax</i>	\$8.54	\$8.23	\$8.60	\$9.14	\$10.11
Total Operating Revenue per Employee	\$ 548,061	\$ 563,628	\$ 552,492	\$ 591,028	\$ 658,237
NPAT per Employee	\$ 89,549	\$ 139,055	\$ 144,751	\$ 107,277	\$ 94,085
NPAT per Passenger	\$ 2.49	\$ 3.82	\$ 4.22	\$ 3.05	\$ 2.63
Total Assets per Passenger	\$ 126.94	\$ 132.47	\$ 147.16	\$ 158.37	\$ 163.74
Net Debt per Passenger	\$ 18.87	\$ 23.03	\$ 35.45	\$ 47.60	\$ 53.78
Ratio of Aeronautical Revenue to Commercial Revenue	43.8%	46.8%	46.6%	45.6%	45.1%

**d) Corporate Social Responsibility Performance targets**

Performance target	Performance Measures		
	2011	2012	2013
1. To minimise the impact of airport activities on groundwater quality through cost effective measures to avoid or mitigate the risks of contamination	<ul style="list-style-type: none"> <li>▪ Compliance with NZ Drinking Water Standard through continuation of groundwater monitoring programme and preparation of Draft Public Risk and Management Plan for Managing Potable Water Supplies.</li> <li>▪ Continue Environmental Compliance and Monitoring Programme with existing airport operators and new operators on airport land.</li> <li>▪ Label stormwater drainage systems in all new developments</li> <li>▪ Provide environmental training to all airport operators</li> </ul>	<ul style="list-style-type: none"> <li>▪ Regular monitoring of potable drinking groundwater monitoring programme and have Public Risk and Management Plan for Managing Potable Water Supplies accepted by Ministry for Health.</li> <li>▪ Continue Environmental Compliance and Monitoring Programme with existing airport operators and new operators on airport land.</li> <li>▪ Ensure that all new operators are provided with Environmental Training.</li> <li>▪ Label stormwater 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.</li> <li>▪ Continue Environmental Compliance and Monitoring Programme with existing airport operators and new operators on airport land.</li> <li>▪ Ensure that all new operators are provided with Environmental Training</li> <li>▪ Label stormwater drainage systems in all new developments</li> </ul>
2. 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>▪ Progressively increase amount of material being diverted from landfill from 15% to 23% of total waste produced by CIAL by 2011.</li> <li>▪ Monitor impact of recycling initiatives established in 2009 with key Terminal operators.</li> <li>▪ Manage and measure amount of construction and waste disposal to landfill during ITP development through Target REBRI</li> </ul>	<ul style="list-style-type: none"> <li>▪ Progressively increase amount of material being diverted from landfill from 24% to 32% of total waste produced by CIAL by 2012.</li> <li>▪ Carry out audit of waste generated within Integrated Terminal Building and review management of waste and recycling from Terminal Operations</li> <li>▪ Manage and measure amount of construction and waste disposal to landfill during ITP</li> </ul>	<ul style="list-style-type: none"> <li>▪ Progressively increase amount of material being diverted from landfill from 32% to 40% of total waste produced by CIAL by 2013.</li> <li>▪ Manage and measure amount of construction and waste disposal to landfill during ITP development through Target REBRI Programme</li> </ul>

	<p>Programme</p> <ul style="list-style-type: none"> <li>Facilitate implementation of CCC's Target Sustainability Programme by relevant airport operators.</li> </ul>	development through Target REBRI Programme	
3. To minimise the energy consumption by airport activities through the pursuit of efficient energy practices	<ul style="list-style-type: none"> <li>Maintain carbon neutral status</li> <li>Investigation options for implementation of airport-wide carbon neutral programme</li> <li>Achieve a further 5% (Kwh/m2) energy consumption reduction over 2010 levels, by 2013</li> </ul>	<ul style="list-style-type: none"> <li>Maintain carbon neutral status</li> <li>Continue to recruit new airport tenants to participate in the carbon neutral programme</li> <li>Continue strategy to achieve a further 5% (Kwh/m2) energy consumption reduction over 2010 levels by 2013.</li> </ul>	<ul style="list-style-type: none"> <li>Maintain carbon neutral status for CIAL's operational activities</li> <li>Achieve a 5% (Kwh/m2) energy consumption reduction over 2010 levels by 2013</li> </ul>
4. To deliver on our corporate social responsibility and community interest obligations	<ul style="list-style-type: none"> <li>Support the Ellerslie Flower show and targeted sponsorship activities</li> <li>Implement a community engagement program for customer, community and stakeholder consultation and engagement</li> </ul>	<ul style="list-style-type: none"> <li>Support community through targeted sponsorship activities</li> <li>Engage with the Community and key influencers to ensure support to/of CIAL initiatives</li> </ul>	<ul style="list-style-type: none"> <li>Support the community through targeted sponsorship activities</li> <li>Continue engagement with the Community and key influencers to ensure support to/of CIAL initiatives</li> </ul>
5. To manage Operational Risk	<ul style="list-style-type: none"> <li>Achieve a Bird Strike incidence rate of 3&lt;5/10,000 aircraft movements on a 12 month rolling average basis, in line with level set for airports of a similar scale.</li> <li>To work with statutory authorities and the community toward achieving acceptance of need for noise contours 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;5/10,000 aircraft movements on a 12 month rolling average basis in line with level set for airports of a similar scale.</li> <li>General acceptance of need for noise contours 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;5/10,000 aircraft movements, on a 12 month rolling average basis, in line with the level set for airports of a similar scale.</li> <li>General acceptance of need for noise contours to protect the 24/7 airport operating status</li> </ul>
6. To minimise the effects of noise and vibration associated with aircraft and airport operations and to comply with relevant noise rules	<ul style="list-style-type: none"> <li>Develop Noise Management Plan</li> </ul>	<ul style="list-style-type: none"> <li>Adoption of new noise contours in the Regional Policy Statement</li> </ul>	<ul style="list-style-type: none"> <li>Refresh Environmental Policy and Strategy</li> </ul>
7. 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, Retention and Engagement</li> </ul>	<ul style="list-style-type: none"> <li>Implement outcomes from employee environment refresh</li> </ul>	<ul style="list-style-type: none"> <li>Support staff and proactively seek to consolidate staff after organisational change</li> </ul>

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## Distributions

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CIAL will pay dividends to shareholders after taking into account its profitability and future investment requirements. The dividends payable will be determined by the Board after consideration of the company's funding requirements and the requirement to meet the solvency test under the provisions of the Companies Act 1993. The actual percentage paid is subject to an annual review by the Directors taking into account the prevailing financial and economic circumstances in which Christchurch International Airport is operating.

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

- Working capital requirements, the investment required for the Integrated Terminal Project and the medium term asset investment and property development programme
- A sustainable financial structure having regard to the risks from predicted short and medium term economic conditions and predicted financial performance

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

To assist shareholders with budgeting the following ordinary dividend payments to shareholders, (based on a projection of 60% of Net Operating Profit after tax (excluding revaluation gains on Investment properties) payout ratio are forecasted to be as follows:

2010/11	2011/12	2012/13
\$14.517m	\$13.097m	\$9.653m

**Information to be provided to shareholders**

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An annual report will be submitted to the shareholders. The annual report will include audited financial statements and such other details as are necessary to 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.

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 the shareholders.

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

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

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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 for 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. A specific subsidy where necessary 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 concessionary rates to 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 \$1 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 enterprise value of Christchurch International Airport Ltd is estimated to be \$880m at 30 June 2010.

This valuation estimate was prepared using a discounted cashflow of expected cashflows using a 20-year cashflow model which captured the operations of the business and the periodic but significant capital expenditures required to maintain and enhance the operations of the business. The 20-year free cashflow forecast has been discounted at the company's weighted average cost of capital, currently 9.15%. To that outcome a terminal value was applied to recognise the value in the business beyond the 20 year time horizon, with a 2% annual growth rate being used to derive the terminal value. The methodology used to determine the enterprise valuation was independently peer reviewed.

The valuation approach is consistent with that used in prior years with key assumptions updated to reflect the Business Plan (2011-13). This commercial value will be reassessed on an annual basis.

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## **Role in the Christchurch City Council group and regional economy**

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### **a) Commercial relationships within the CCC group**

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

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

### **b) Role in the growth of the regional economy**

Christchurch International Airport is the tourism gateway to the South Island and provides a significant contribution to both the Canterbury region and the South Island as a whole, with the total airport operation employing over 4,500 employees across a diverse range of companies. A recent Economic Impact Assessment review identified that Christchurch Airport contributed to the generation of \$1.5 billion in regional GDP, representing 7.2% of annual GDP in the Canterbury region and 8.8% of employment.

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. Such growth will provide a flow on effect through increasing tourism revenue and activities. In addition the ongoing development of our Property portfolio will create value through the construction sector and the provision of a greater range of commercial services to all users of the airport campus.

## Appendix 1: Statement of Accounting Policies

The accounting policies as set out below form the basis of preparation of Christchurch International Airports NZ IFRS financial statements and forecasts.

### a) Basis of preparation

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

#### *Entity reporting*

The financial statements are for Christchurch International Airport Limited. The 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

have not been consolidated as they were not trading and held no assets or liabilities during and at the end of the period under review.

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

#### *Statutory base*

Christchurch International Airport Limited is a company registered under the Companies Act 1993.

The financial statements have been prepared in accordance with the requirements of the Airports Authorities Act 1966, the Local Government Act 2002, the Financial Reporting Act 1993 and the Companies Act 1993.

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 as identified in specific accounting policies.

#### *Critical accounting estimates*

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires the Company to exercise its judgement in the process of applying the accounting policies. 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 as follows;

### a) Identification of Property, Plant & Equipment to be reclassified to Investment Property.

The Company makes a decision on the assets to be included in Investment Properties by using a predetermined method of classification.

b) Estimate life of the existing Domestic Terminal

The Company has estimated the life of the existing Domestic Terminal for valuation purposes. This period equals the estimated build time for the new terminal.

c) Provisions

The company has made a number of provisions based on information available relating to anticipated expenditure of an uncertain amount which relates to a past event.

*Standards issued and not yet adopted*

The following new standards are not yet effective for the year ended 30 June 2008 and have not been adopted in preparing these financial statements.

- NZIFRS 8 Operating Segments
- NZIAS 23 (Amendment) Borrowing Costs

b) Foreign currency translation

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges.

c) Revenue recognition

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

*i. Sales of goods*

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

*ii. Sales of services*

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

*iii. Interest income*

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

*iv. Rental income*

Rental income is recognised on an accruals basis in accordance with the substance of the relevant agreements.

d) Income tax

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

Current tax is the amount of income tax payable based on the taxable profit for the current year, plus any adjustments to income tax payable in respect of prior years. Current tax is calculated using the rates that have been enacted or substantially 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 income statement, except when it relates to items charged or credited directly to equity, in which case the tax is dealt with in equity.

e) Goods and Services Tax (GST)

The Statement of Financial Performance has been prepared so that all components are stated exclusive of GST. All items in the Statement of Financial Position are stated net of GST, with the exception of receivables and payables, which include GST invoiced. Commitments and contingencies are stated exclusive of GST.

f) Leases

*Operating Leases*

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

g) Impairment of non financial assets

Assets are reviewed for 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.

h) Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at 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 balance sheet.

i) Trade receivables

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

Collectability of trade receivables is reviewed on an ongoing 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 effective interest rate. The amount of the provision is recognised in the Statement of Financial Performance.

j) Inventories

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

k) Other financial assets

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

The classification into the following 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.

*Financial assets at fair value through income statement*

The group has certain derivatives which are stated at fair value and the movements are recognised in the income statement.

l) Derivatives

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

*i. Fair value hedge*

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

*ii. 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 equity in the hedging reserve. The gain or loss relating to the ineffective portion is recognised immediately in the income statement. Amounts accumulated in equity are recycled in the income statement in the periods when the hedged item will affect profit or loss (for instance when the forecast sale 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 equity are transferred from equity 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 equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the Statement of Financial Performance.

*iii. Derivatives that do not qualify for hedge accounting*

Certain 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 are recognised immediately in the Statement of Financial Performance.

m) Fair value estimation

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

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques. The fair value of forward exchange contracts is determined using forward exchange market rates at the balance date.

n) Property, plant and equipment

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

- Land
- Buildings

- Terminal facilities
- Airport sealed surfaces
- Infrastructure assets
- Car park

The last valuation was performed by Seagar and Partners (land, buildings and car park) and Opus International Limited (Airport sealed surfaces, terminal facilities and infrastructure assets) as at 30 June 2007.

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 depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs 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. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Increases in the carrying amounts arising on revaluation of land, buildings, airport sealed surfaces and infrastructure assets are credited to other reserves in shareholders' equity. To the extent that the increase reverses a decrease previously recognised in profit or loss, the increase is first recognised in profit and loss. 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 rates are as follows:

- |                                   |                |
|-----------------------------------|----------------|
| ▪ Terminal                        | 40 years       |
| ▪ Other buildings                 | 10 to 40 years |
| ▪ Sealed surfaces                 | 9 to 100 years |
| ▪ Roading                         | 50 years       |
| ▪ Plant and equipment             | 3 to 25 years  |
| ▪ Motor vehicles                  | 5 to 16 years  |
| ▪ Office and computer equipment   | 3 to 9 years   |
| ▪ Carpark assets (excluding land) | 50 years       |

Capital work in progress is not depreciated until commissioned.

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

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

o) Investment property

Land is held by the company for long term and sustainable airport development 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 rental yield and are currently not occupied by the Company for aeronautical purposes.

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 and/or these services could not be provided efficiently and effectively by the lessee in another location
- The property is being held for future airport related purposes
- The lessee uses services of the Company and those services are integral to the reasons for the lessee's occupancy of the property.

Properties 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 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 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, representing open-market value determined annually by external valuers. Gains or losses arising from a change in fair value are recorded in the Statement of Financial Performance.

p) Intangible assets

Software costs have a finite useful life. Software costs are capitalised and amortised on a straight line basis over the useful economic life to 2 to 5 years.

q) Trade and other payables

These amounts represent liabilities for goods and services provided to the Company prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

r) Borrowings

Borrowings are recognised at fair value, net of transaction costs incurred.

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

Borrowing costs that are not capitalised are expensed as incurred.

s) Share Capital

Ordinary shares are classified as equity.

t) Provisions

The company recognises a provision for future expenditure of an uncertain amount or timing when there is an obligation as a result of a past event.

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

Provisions are not recognised for future operating losses.

u) Employee benefits

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

Contributions to multi employer defined benefit schemes are expensed when incurred.

v) Dividends

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

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