



Statement of Intent

Year ending **30 June 2020**



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INTRODUCTION

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

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 2019 to 30 June 2022.

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

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

NATURE AND SCOPE OF ACTIVITIES

Christchurch International Airport Limited's (CIAL) primary activity is to create value for shareholders, customers and the travelling public through the provision of aviation services, operating safe and efficient airport facilities where requested to do so on a commercial basis by its various customers.

This encompasses providing appropriate landside and airside facilities for airport users, including both commercial and non-commercial aviation users, and pursuing commercial opportunities with wider complementary products, services and business solutions where needed.

PRINCIPAL OBJECTIVES

Christchurch International Airport's core business is to create value for shareholders, customers and the travelling public through being an efficient airport operator. CIAL's key objectives are to operate as a successful commercial entity and through that deliver sustainable benefits to customers and the travelling public and to deliver growth in long-term value and dividends to shareholders.

Consistent with these primary objectives, Christchurch International Airport will:

- 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 its people
- ensure the company adopts an environmentally sustainable approach to the operation of the business (including land use, water, energy, waste and noise management) and pursue a commitment to protecting the environment, minimising use of natural resources where possible and improving the quality of life for our community
- pursue initiatives to grow shareholder value and provide a sustainable revenue stream through continuing to increase the investment in, and development of, the company's property holdings
- focus on the health, safety and wellbeing of our people through a culture of safety leadership, a strategic approach to risk management and a robust safety management system
- unequivocally champion Christchurch, Canterbury and the South Island's social and regional economic contribution to New Zealand, ensuring they are well positioned within Australasian and Pacific Rim aviation networks.
- recognise that exponential technologies and the digital revolution will disrupt and reshape our business and embracing that challenge through a commitment to participating in and partnering to drive itself up the innovation curve

- be a fair employer in providing a work place that values people and builds capable and confident human beings, through a focus on working together to be highly productive and to ensure all are fairly rewarded for success
- exhibit a sense of social responsibility by having regard to the interests of the community in which it operates

REAL GROWTH 2025 PURPOSE & MISSION

Our Mission

“To be a champion airport, recognised at home and abroad as the engine room of the South Island’s social and economic prosperity”

At its centre will be a Champion Team that is strongly connected to this mission and focused on building leadership underpinned by our core culture and leadership philosophies of building belief, belonging and trust.

The central focus of being a Champion Airport will be built on achieving three core objectives at the same time:

- Building a Stronger Business; **and**
- Enhancing our customer journeys; **and**
- Being good Kaitiaki (Guardians of Safety, Social & Sustainability)

Our Purpose

“Unequivocally championing the South Island, changing residents and visitors’ lives for the better, forever”

The activities at Christchurch Airport make a significant contribution to the social and economic wellbeing of the communities and economies of Christchurch, Canterbury and in regional social and economic development of the South Island – making a better contribution to the nation’s outcomes, because building a socially strong and prosperous South Island helps build a strong New Zealand.

Airports have a strong multiplier effect on the economies they serve, and they are critical regional economic development and social infrastructure. For CIAL, this has been independently estimated at 50:1, or for every \$1 CIAL earns, the wider South Island economy earns \$50.

The positive impact of CIAL on the wider South Island is evidenced by Christchurch Airport being the most powerful gateway for regional dispersal of tourists. Additionally, we also know that when you add one international airline seat into Auckland it generates an average of 1.5 commercial guest nights in the South Island. When you add one international airline seat into Christchurch it generates an average of 7.5 commercial guest nights into the South Island.

KEY INITIATIVES

RG25 has three core strategic commercial pillars focused on building a stronger business and enhancing customer journeys and being good Kaitiaki – Planes, Passengers and Property. These are supported through enabling management strategies in the areas of People, Protection, Planet and Possibility.

Our goal for each of these is to provide a more strategic approach to people’s well-being, performance and engagement, the safety of all who use the airport campus, our environmental sustainability strategy and objectives, whilst creating a customer centric culture of innovation.

FY20 will adopt a business as usual approach to all our commercial and enabling pillars except for Passengers and Planet, while also outlining the process to start considering CIAL’s current role in the New Zealand aviation market and how that may evolve in the future, including opportunities to cement its position within the national context from a passenger, freight and tourism destination perspective.

During FY20, CIAL will undertake a deeper review of the strategy serving our Passengers pillar, Park to Plane. Under our Planet pillar we will look at de-carbonisation as a priority, in particular how CIAL may take a leadership role beyond itself in this area.

Aeronautical (Planes)

- The aeronautical strategy remains focused on ‘finding planes’ and ‘filling planes’. However, with the slowdown in international travel and changing airline dynamics, our focus, priorities and activation within our strategy will continue to migrate accordingly.
- Strategically CIAL’s most powerful opportunity remains in strengthening its position as gateway into and out of the South Island and our role as a domestic hub and spoke airport.
- Our priority for Domestic aeronautical growth focuses on increasing the competitive dynamic on Christchurch and strengthening our hub and spoke connectivity and feed to regional New Zealand.
- For international aeronautical growth, our focus is on connectivity to our four key airport hubs, Melbourne, Sydney, Brisbane and Auckland and selectively growing direct capacity to the Pacific Rim.
- CIAL’s position within the New Zealand aviation market remains under pressure with our growth not keeping pace with national growth, therefore we are losing share. The appeal of Christchurch as a destination continues to be a drag on our performance and to achieve growth ahead of the market and reclaim share, we will need to over invest to structurally improve our position.
- CIAL’s business development and passenger attraction activity will continue to focus on working narrower and deeper, building partnerships with existing and some new carriers, complimentary airports and tourism organisations.

Terminal (Passengers)

- CIAL's 'Park to Plane' ("P2P") strategy is the strategic priority for the passenger portfolio and is critical to CIAL achieving its RG25 objectives and long-term value creation. The terminal (including ground transport) is our largest centre of business activity and represents an opportunity for building long term value.
- The globally recognised Airport Experience Satisfaction ("AES") Model sits at the heart of the P2P strategy and works off the basis that customer satisfaction is the sum of three dimensions – processes (service), drivers (experiences, which are often emotive factors), and the commercial offering. Delivering across the three dimensions will increase customer satisfaction.
- The challenge is to have a customer centric approach which strikes a balance between increasing commercial outcomes, enhancing customer journeys and keeping people safe. The delivery of the P2P strategy requires coordinated teamwork from all CIAL staff and terminal based stakeholders (e.g. government agencies, airlines, retailers).
- The immediate focus for FY20 will be on gaining a better understanding of the specific value drivers within P2P and then developing strategies and capability to engineer for value. In addition, ongoing focus will be on executing against the business as usual P2P activities identified previously.

Property

- CIAL's commercial portfolio strategy remains to develop its bare land holdings by 'being a Landlord'.
- CIAL's investment strategy in this portfolio is to pursue new investment where the proposed investment grows CIAL's balance sheet, increases (and de-risks) revenue streams and enhances dividend flows.
- CIAL's property development program is focused on the development of quality income producing properties for reputable, well-resourced tenants which meet CIAL's long term investment criteria.
- Completing the development of the Novotel Christchurch Airport Hotel and continuing to progress the on-going development of Dakota, Mustang and Harvard parks and the Agri/Export precinct, on budget and program, is a key focus for FY20.
- Asset planning and maintenance remains a priority, with the objective being to create a strategic and planned approach to asset management targeting an outcome of productive and resilient assets that are aligned to CIAL's business needs and strategic direction.

Refer to later sections in this document for discussion around People, Protection (Health & Safety) and Planet (Sustainability).

BEYOND CIAL

CIAL is aware of and acknowledges that Christchurch City Council has objectives regarding Community Outcomes under its Long-Term Plan and that the Crown also has objectives regarding Regional Economic Development under its national growth agenda.

CIAL's strategy is focused on more than just being an airport in Christchurch – our team is proud that what they do makes a difference to the social and economic contribution our Airport, our City and our Island make to New Zealand.

CIAL has played a significant role in supporting the tourism recovery of Christchurch, Kaikoura and the Upper South Island (in conjunction with the City and MBIE). CIAL has made significant contributions to the promotion of Christchurch and the South Island through its investment in ChristchurchNZ, the South initiative (all 15 regions of the South Island) and New Horizons (small business mentoring program)

CIAL is also active with the Chamber of Commerce in supporting work on the future of work places and with Missing Link as they introduce front line educators in Canterbury to issues such as disruptive technology and sustainability. In addition, CIAL also recognises the key role it plays in supporting the Christchurch Antarctic Gateway Strategy, and actively supports Antarctic entities at Christchurch Airport, most notably Antarctica New Zealand and the Antarctic Heritage Trust.

CIAL has partnered with BOMA New Zealand to create the Education Fellow program, funding 10 secondary teachers each year through a one year exponential technology in education development program. CIAL's philosophy in supporting wider community objectives is to try and have them link to a core strategy CIAL is activating within RG25.

As a commercial entity CIAL will always act and operate as a responsible corporate citizen, noting CIAL must compete for its outcomes, especially in aviation, in a highly competitive environment with several very strong commercial entities that have a purely commercial focus.

CIAL believes that the best way it can support both shareholders' strategies in these areas is by successfully executing its Real Growth 2025 strategy, which will not only deliver wide ranging social and economic benefits to the City and the regions of the South Island, but also grow both the value of CIAL and increase shareholder cash flows which will then be available for each shareholder for investment in specific areas of interest as they see fit.

In addition, CIAL will continue to focus on the pursuit of essential on-going objectives that will be important to the Council's documented Community Outcomes and the wider local community in general.

- Ensure effective stewardship of the City's airport asset, including meeting all relevant statutory obligations.
- Create and maintain an attractive and well-designed airport environment.
- To operate the airport and its various activities in a way that supports Christchurch's sustainable economic growth.

- 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.
- Health and Safety as a priority with a commitment to a safe environment for all staff and airport users.
- CIAL will continue to ensure staff engagement remains high and CIAL continues to be regarded as an employer of choice.
- Minimise any adverse effects of CIAL's activities and facilities on the environment (land, waste, water, energy, noise and emissions), to be a responsible corporate citizen and to maintain strong links and regard for the community.
- 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.

GOVERNANCE

Commitment

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

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

Regulatory Framework

The company operates solely in New Zealand and is governed by a range of New Zealand legislation and regulation. CIAL's approach to the access to and pricing of its aeronautical activities is regulated by the general law relating to competition in New Zealand, namely the Commerce Act 1986, and specific legislation relating to airports, including the Airport Authorities Act 1966 and the Airport Authorities (Airport Companies Information Disclosure) Regulations 1999. 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
- Ensure the occupational health and safety of the company's people and contractors working for CIAL across the Christchurch International Airport campus
- 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 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 leadership 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 Officer ("CEO"), approving his or her contracted terms, monitoring his or her performance and, where necessary, terminating the CEO's employment;
- Approving and monitoring the company's financial statements and other reporting, including reporting to shareholders, and ensuring the company's disclosure obligations are met;
- Adopting appropriate procedures to ensure compliance with all laws, governmental regulations, applicable codes and accounting standards;
- Ensuring that CIAL's internal decision making and compliance policies and procedures are implemented, to ensure that the business of the company is conducted in an open and ethical manner;
- Approving performance criteria for CIAL and monitoring the performance of the CEO and executive leadership team against these;
- Deciding necessary actions to protect CIAL's financial position and the ability to meet its debts and other obligations when they fall due, and ensuring that such actions are taken
- Ensuring that the company adheres to high ethical and corporate behaviour standards;
- Establishing procedures and systems to ensure the occupational health and safety of the company's people and contractors working for CIAL across the 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 CEO. 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 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 regularly 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 CEO and senior executives. The terms of the delegation by the Board to the CEO are clearly documented.

The CEO 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 People, Culture and Safety Committee, the Property and Commercial Committee and the Aeronautical Committee. All committees have Board-approved terms of reference outlining the committee's authority, duties and responsibilities, and its relationship with the Board. Additional committees may be established based on need. Each committee must include a representative of each shareholder.

FINANCIAL PERFORMANCE TARGETS

CIAL's key objectives are to operate as a successful commercial entity, actively benchmarked against the industries we operate in and through that deliver sustainable growth in long-term value and dividends to our shareholders.

At the time of the development of the RG25 strategy (post-earthquakes), the primary financial objective for CIAL was simply to return the business to an acceptable level of profitability, to be measured by targeting a sustainable 6% post-tax return on equity ('ROE') (noting the FY14 starting point was a ROE of 2.6%).

Now that RG25 has delivered on this initial financial objective of lifting shareholders returns to acceptable levels, focus has turned to considering an appropriate measure of CIAL financial performance through the next stage of evolution of RG25.

Through the value work that has been carried out to date, it has been agreed that the key value metric which CIAL will focus on is Return on Invested Capital ('ROIC'). CIAL has defined this measure for its own purposes as

$$\frac{EBIT}{Equity + Debt}$$

CIAL has set a goal of achieving a group 8.0% ROIC by FY25. When considering a targeted ROIC for CIAL (and the time taken to achieve such targets), there are some key commercial environmental factors in play which are worth highlighting:

- Under PSE3, our aeronautical revenue (and therefore our aeronautical risk profile) shifts from being driven by aircraft movements to passenger movements. Future passenger movements will be determined by the performance and investment in destination Christchurch's recovery, aviation market conditions (including oil prices), airline strategies and dynamics, and the competitive behavior of other airports and regions.
- For CIAL to reach its RG25 aspirations, it needs to have both gateway and destination passenger growth. The earthquakes significantly impacted Christchurch as a destination.
- CIAL's view remains that ChristchurchNZ rebuilding the market segments that relate to Destination Christchurch is a priority for the City and will only be possible through a combination of delivering on the anchor projects and implementing a coordinated and appropriately funded visitor strategy that covers both destination management and destination attractions across all sectors of the visitor economy. The delay in these outcomes is still resulting in Christchurch not experiencing the level of passenger growth experienced by other major New Zealand tourism destinations;
- It is forecast that for FY20, approximately 43.5% of CIAL's operating revenues are regulated under the Commerce Commission's Information Disclosure Regime. This effectively caps the revenue that CIAL can earn from its Regulated Assets Base for each 5-year pricing cycle relative to a published mid-point WACC calculated by the Commerce Commission at the start of that period (this was assessed at 6.41% for the most recent five year pricing period from 1 July 2017 to 30 June 2022).

- The current review of the aviation industry regulatory environment, specifically the Civil Aviation Act 1990 and the Airport Authorities Act 1966, creates further regulatory risk in respect to the economic regulation of airports in New Zealand.
- CIAL's land bank can only be developed at a rate that market demand and planning requirements allow, and at the rate at which CIAL's current capital structure allows.

Current Financial Environment

When considering the financial forecasts of CIAL over the upcoming three years, the following points should be noted to understand some of the key drivers behind CIAL's current financial metrics and outcomes:

- While CIAL has enjoyed strong passenger growth since FY14, it continues to have to invest heavily in aeronautical development to achieve that growth. One third of CIAL's passenger volumes relate to residents of the regions it serves, two thirds is driven by non-residents. CIAL can be substituted by non-residents at both Queenstown and Auckland.

While the economies surrounding CIAL experience economic benefit of this investment from day one, the full revenue impact on CIAL from increased passenger numbers is not experienced for several years following any such investments (3-5 years). In fact, in some instances CIAL will have to invest ahead of the curve in respect to aeronautical development and incentives to minimise exposure to a loss in aeronautical existing and future revenue.

- Similarly, whilst CIAL continues to invest in its property development portfolio, there is a lead time of approximately 18-24 months (contracting and construction) on average from the time of the initiation of a development opportunity to when rental income is reflected in CIAL's revenue. CIAL has also had to increase its operating costs and level of investment to crystallise increased property development opportunities.
- CIAL has no influence over airline capex or scheduling decisions. Air New Zealand's recent announcement that it is delaying material capex relating to new aircraft and reducing domestic seat capacity at Christchurch by circa 4% for FY20, has impacted CIAL's revenue line by circa \$2.3m in FY20 with no associated operating cost reductions.
- CIAL has a relatively fixed operating cost base, particularly in respect to its major terminal and airfield assets and while we have seen material productivity gains over the past five years, we are now in the long tail of those gains and they will be small and incremental in nature going forward.
- CIAL has significant elements of its cost base where cost increases are outside of its control and are likely to increase at rates higher than CPI – e.g. rates and insurance, which are rising much faster than inflation.
- CIAL's revised pricing approach for PSE3 also uses a tilted annuity approach to depreciation, which in effect smooths prices over the underlying life of the assets, hence deferring capital recovery out into PSE4 and PSE5. Whilst this reduces aeronautical recovered in the early years of the price path, it provides some certainty to revenue to be earned in the later years of that path (i.e. PSE4 and PSE5 – assuming passenger growth forecasts can be achieved).

\$m	2019 Forecast	2020 Forecast	2021 Forecast	2022 Forecast
Total Revenue	188.5	193.3	207.9	213.2
EBITDAF ¹	126.2	127.1	139.0	142.9
Net Profit After Tax	58.5	53.7	57.9	59.6
EBITDAF as % of Revenue	66.9%	65.7%	66.8%	67.0%
Return on Invested Capital ²	6.8%	6.7%	6.9%	6.9%

The financial performance targets as detailed in the table above show the revenue, profit and financial return expectations for the rest of the 2019 financial year and the following three years.

Key Financial Parameters

CIAL's financial forecasts for the period of this SoI are subject to the following risks and sensitivities that need to be understood:

- Under PSE3 our aeronautical revenue (and therefore our aeronautical risk profile) shifts from being driven by aircraft movements to passenger movements. Consequently, should CIAL not achieve the passenger forecasts outlined below, then this will directly impact CIAL's bottom line financial performance.
- CIAL's current retail offering is the most likely to suffer disruption from the current traditional "bricks and mortar" model in the short to medium term, meaning that concession based revenue streams from these traditional retailers will come under pressure. (CIAL also expects car parking revenue to be disrupted further out into the future).
- Several significant leases and concessions have been re-negotiated during FY18 and FY19 (including Duty Free, Advertising & Forex), however there remain several expiring leases and concessions over this forecast period (including Food & Beverage) that will need to be market tested. Until these processes have been completed and agreed there is some uncertainty around the relevant revenue forecasts.
- Whilst CIAL has focused on increasing its property development program as a cornerstone to RG25 to diversify its revenue streams, it should be noted that should the level of property development spend be lower than the current forecasts (or the timing of the spend delayed through extended commercial negotiations), then this will impact on any corresponding rental streams accordingly.
- CIAL has significant elements of its cost base where cost increases are outside of its control. Hence future increases in these costs could be higher than is currently forecast e.g. rates, insurance, electricity, aviation security and other regulatory change.

¹ Earnings before interest, tax, depreciation, amortisation and fair value movements.

² Net profit after tax as % of average equity.

Passenger Numbers

Passengers	2019 Forecast	2020 Forecast	2021 Forecast	2022 Forecast
Domestic	5,162,866	5,038,593	5,164,123	5,293,228
International	1,763,006	1,836,859	1,926,339	1,990,395
Total Passengers	6,925,873	6,875,452	7,090,462	7,283,623

While CIAL has experienced strong passenger growth recently, it should be noted that passenger growth has slowed nationally. At this point in time, the forward outlook is somewhat unclear, however the impact of world events such as the US/China trade wars, Brexit, decline in Australian house prices, and some bi-lateral relationships with key tourism markets are combining to create a softer environment for tourism demand over the near term:

Key features of the demand calculation are:

- Domestic* – In FY19, there has been little domestic passenger growth, as demand has flattened reflecting a softening domestic leisure travel segment and slowing international arrivals. Airline strategies have changed from volume growth to yield management, as evidenced by Air New Zealand (‘NZ’) announcing a profit warning, a major review of routes, a deferral of capital expenditure on new planes, and a review of operating costs. This is significant given NZ is circa 2/3’s of the airline seats at Christchurch.

NZ has also signaled that there will be a 4% domestic capacity reduction at Christchurch for the first 4 months of FY20 and CIAL has assumed this will hold true for the remainder of that year.

Beyond FY20, CIAL is forecasting annual domestic growth of circa 2.5% p.a. in line with consensus GDP forecasts.

- International* – international passenger growth in FY20 is assumed to remain relatively strong. Growth beyond FY20 is organic growth, assumed at an average rate of circa 3% per annum in line with PSE3 growth assumptions.
- In general terms, demand forecast is based upon known current and scheduled increases in capacity, coupled with current assessment of load factors and increases in passenger demand.
- The timing of the Christchurch City redevelopment will have an influence on the level of passenger growth CIAL will achieve over the period of this SoI, especially during low season months. Forecasts to 2022 assume the completion and operation of ‘anchor projects’ (including the conference centre and Metro Sports). Major events (national and international) are another key development that would add growth to passenger demand at CIAL. Delays in the key anchor projects or a loss of confidence in Christchurch as a destination may create some risk around these forecasts and continue to influence the forecast growth patterns for international passenger expansion in particular, relative to the growth anticipated at a national level.

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	2019 Forecast	2020 Forecast	2021 Forecast	2022 Forecast
Shareholder Funds/Total Assets %	62.2%	60.8%	60.9%	62.2%
Gearing (debt/(debt + equity)) %	30.5%	32.3%	32.3%	31.6%
EBITDAF Interest Cover x	5.4	5.0	5.3	5.4
Free Funds Interest Cover x	4.6	4.3	4.6	4.7
Free Funds/Debt %	18.2%	16.5%	17.5%	17.6%

- 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 3x and 15% respectively.

HEALTH, SAFETY AND WELLBEING

At the core of our current health, safety and wellness strategy is the protection of our people. This is the platform we have established to take us to the next level - from protection to performance.

Over the past three years we have developed a comprehensive strategic framework for health, safety and wellness. Over this time, we have taken our focus from risk management to be centred around the presence of three key objectives: Culture - which permits the presence of safety behaviour, Risk Management - which reduces the opportunity for incidents to occur and Safety Management Systems - which drive continuous improvement.

In 2018, we commenced our journey from Safety-I to Safety-II and our focus is on continuing to drive the momentum of this journey through to and beyond FY20/21.

Safety-I is defined as the freedom from unacceptable risk. Safety-II changes safety from protective safety and a focus on how things might go wrong, to the presence of safety and how things go right. For Safety-II, the aim is not just the elimination of hazards, prevention of failures and malfunctions and the management of risks but also how to best develop our potential for resilient performance – the way we respond, monitor, learn and anticipate.

We will continue to bring our strategy to life through developing safety leadership from everyone involved, strong safety values within our culture, participation and inclusiveness and critical risk management within a robust safety management system. We will focus on our people as key linkages between these parts of the safety eco system.

Performance Measures	Performance Targets		
	2020	2021	2022
Culture and People - through leadership, engagement, trust and strong safety values continue to build our safety culture across both people and aviation safety	<ul style="list-style-type: none"> ▪ Incremental improvements in our annual culture and engagement survey for health, safety and wellbeing. ▪ Continue to activate Safety-II principles and strategy activation initiatives 	<ul style="list-style-type: none"> ▪ Incremental improvements in our annual culture and engagement survey for health, safety and wellbeing. ▪ Continue to activate Safety-II principles and strategy activation initiatives 	<ul style="list-style-type: none"> ▪ Incremental improvements in our annual culture and engagement survey for health, safety and wellbeing. ▪ Continue to activate Safety-II strategy and build momentum. ▪ Be recognised externally through award that recognises CIAL's for its Safety-II approach
Assurance – through robust Systems, Risk and Monitoring	<ul style="list-style-type: none"> ▪ CIAL people and aviation safety assurance program delivered. ▪ Incorporate Safety-II principles into Assurance Programme 	<ul style="list-style-type: none"> ▪ CIAL people and aviation safety assurance program delivered ▪ Continue to incorporate Safety-II principles into Assurance Programme 	<ul style="list-style-type: none"> ▪ CIAL people and aviation safety assurance program delivered. ▪ Continue to incorporate Safety-II principles into Assurance Programme
Improvement – Collective and Continuous	<ul style="list-style-type: none"> ▪ Bi-annual review of SMS and HSMS to identify and action continuous improvement opportunities. ▪ Develop operational delivery framework based on high performance high engagement principles 	<ul style="list-style-type: none"> ▪ Bi-annual review of SMS and HSMS to identify and action continuous improvement opportunities. ▪ Implement operational delivery framework based on high performance high engagement principles 	<ul style="list-style-type: none"> ▪ Bi-annual review of SMS and HSMS to identify and action continuous improvement opportunities. ▪ Implement operational delivery framework based on high performance high engagement principles

<p>Wellness – giving our people the best chance to stay and succeed in their roles</p>	<ul style="list-style-type: none"> ▪ Incremental improvements in our annual culture and engagement survey for health, safety and wellbeing and work/life blend. ▪ Continued activation of our Whare Tapa Wha wellness strategy ▪ Mental Health and Resilience Programme implementation 	<ul style="list-style-type: none"> ▪ Incremental improvements in our annual culture and engagement survey for health, safety and wellbeing and work/life blend. ▪ Continued activation of our Whare Tapa Wha wellness strategy and mental health and resilience programme 	<ul style="list-style-type: none"> ▪ Development of internal trend reporting and risk management activity from near miss database. ▪ Be recognised externally through award that recognises CIAL’s for its approach to wellness
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Emergency Response and Resilience

Operational readiness for emergency and business interruption events will continue to be a key focus for CIAL’s operations and people safety teams and forms part of our overall People and Aviation Assurance Programme.

Work has been completed to update CIAL’s Airport Emergency Plan in partnership with key airport stakeholders (i.e. NZ Police, NZ Fire Service, St John Ambulance etc.). To assist operational readiness for emergency events, CIAL leads and/or is involved various exercises including seismic events, pandemics, acts of terrorism and an aeroplane incident.

CIAL also stands ready to assist in actual emergency events off campus, and has played significant roles most recently in assisting Kaikoura and the regions of the top of the South Island following the earthquake and the Port Hills fires.

SUSTAINABILITY

Christchurch City, as the main gateway to the South Island, exists in an area of unique, spectacular and beautiful geology. We believe, as citizens of the South Island, it’s our responsibility and privilege to be one of many kaitiaki to this very special place and we take that role seriously.

We are passionate about protecting the environment, minimising the use of natural resources and improving the quality of life for our community.

Our approach to sustainability is centred in the Maori concept of kaitiakitanga (responsibility, care and guardianship). We continually challenge ourselves to seek out, develop and implement new processes that make our business more sustainable.

We have two lenses through which we view sustainability activity within our business.

1. If the change cannot be a permanent feature of the way we do business at the Airport, then it is not sustainable.
2. If it’s green but puts us in the red, it won’t be permanent, then it’s not sustainable.

While we strive to make meaningful improvements in each of our focus areas (as noted below), we are particularly focused on our commitment to reduce and eliminate fossil fuel based energy from our operations and acting where we can help our suppliers, customers and the wider economy reduce or eliminate fossil fuels.

We are a founding signatory of the Climate Leaders Coalition, are mindful of the Government’s Carbon Neutral Amendment Bill and as such are committed to action to reduce our own direct emissions and to offset our emissions where they cannot practically be eliminated.

Performance Measures	Performance Targets		
	2020	2021	2022
<p>Carbon</p> <p>As a company, we accept the role carbon dioxide and other greenhouse gases play in climate change. We also believe in the science behind climate change and have committed to eliminating all non-emergency related Scope 1 emissions, reducing our scope 2 emissions from electricity and managing our Scope 3 emissions</p>	<ul style="list-style-type: none"> 20% reduction on CIAL carbon emissions benchmarked against FY16 ACI ACA Level 3 certified 80% of CIAL’s road vehicle fleet made up of EV and hybrid vehicles 	<ul style="list-style-type: none"> On-site renewable energy integrated into CIAL facilities/businesses 	<ul style="list-style-type: none"> Commencement of viable de-carbonisation projects
<p>Waste</p> <p>Waste is a by-product of operating a diverse and large organisation but we can work with all our stakeholders to reduce, reuse and recycle so we minimise the impact on our environment</p>	<ul style="list-style-type: none"> Work with airlines to achieve greater recycling of waste off aircraft Implement food court waste upgrades Complete feasibility analysis for onsite processing of organic waste 	<ul style="list-style-type: none"> Continue to work with airlines and tenants to improve recycling and reduce waste Complete feasibility analysis for upgrade of Northern Waste Room into a transitional waste facility for aircraft cabin waste 	<ul style="list-style-type: none"> Maintain watching brief on developments in the NZ waste industry Revise waste planning in line with developments observed
<p>Energy</p> <p>By minimising our energy use, we reduce our carbon footprint, reduce costs to our businesses and reduce demand on the national grid. We strive for growth without impact, and for our business to protect our city region and island.</p>	<ul style="list-style-type: none"> Domestic jet ground power stands commissioned Passenger terminal energy consumption at least 10% further reduced on FY18 levels 90% reduction of Scope 1 emissions (baseline year FY15) achieved ITB energy centre commissioned and operational 	<ul style="list-style-type: none"> Continue to investigate and implement energy-saving initiatives that ensure energy consumption is reduced. Decommission diesel boilers Achieve the KPI metric of a monthly average total terminal energy consumption at 23.5KWH/m². 	<ul style="list-style-type: none"> Continue to investigate and implement energy-saving initiatives that ensure energy consumption is reduced Achieve the KPI metric of a monthly average total terminal energy consumption at 23.5KWH/m².

<p>Water</p> <p>Christchurch is unique in using 100% naturally filtered water. Our passion is to maintain its integrity, avoid accidental contamination and minimise use of this precious resource as it passes under the airport. By doing so, we ensure water supply safety and security, protect the aquifer, reduce costs and our business protects the city, region and island</p>	<ul style="list-style-type: none"> ▪ Install accurate water metering devices to better understand passenger terminal water use ▪ Ensure on-going compliance with NZ Drinking Water Standards through regular monitoring of potable drinking groundwater supply ▪ Continue Environmental Compliance and Monitoring Programme with existing airport operators and new operators on airport land 	<ul style="list-style-type: none"> ▪ Target a 10% reduction in passenger terminal water usage from the FY18 base ▪ Ensure on-going compliance with NZ Drinking Water Standards through regular monitoring of potable drinking groundwater supply ▪ Continue Environmental Compliance and Monitoring Programme with existing airport operators and new operators on airport land 	<ul style="list-style-type: none"> ▪ Ensure on-going compliance with NZ Drinking Water Standards through regular monitoring of potable drinking groundwater supply ▪ Continue Environmental Compliance and Monitoring Programme with existing airport operators and new operators on airport land
<p>Noise</p> <p>Noise is the environmental issue of greatest focus at airports around the world.</p> <p>Our responsibility and bias is to engage and collaborate with all stakeholders, especially residents and businesses close to the airport and its flight paths</p>	<ul style="list-style-type: none"> ▪ Continued commitment to an Airport Noise Liaison Committee to improve communications with our community ▪ Successful implementation of world leading engine testing noise management software ▪ Noise complaints are limited to 10 per 10,000 aircraft movements per annum ▪ Successful delivery of the updated noise compliance contours to Environment Canterbury ▪ Successful implementation of the CIAL Noise Management Plan ▪ Offers of acoustic mitigation to noise impacted properties currently eligible 	<ul style="list-style-type: none"> ▪ Noise complaints are limited to 10 per 10,000 aircraft movements per annum ▪ Repeat complaints also limited to 10 per 10,000 aircraft movements ▪ Ongoing offers of acoustic mitigation to any noise impacted eligible properties 	<ul style="list-style-type: none"> ▪ Noise complaints are limited to 10 per 10,000 aircraft movements per annum ▪ Repeat complaints also limited to 10 per 10,000 aircraft movements ▪ Ongoing offers of acoustic mitigation to any noise impacted eligible properties
<p>Land</p> <p>Our Place is an area of unique natural beauty. We have a responsibility to maintain it, improve it and remediate contaminated land. We also have a responsibility to ensure the safety of travellers and our airline partners, and so understanding the hazards and addressing the risks of bird strike is a critical and on-going activity</p>	<ul style="list-style-type: none"> ▪ Ongoing commitment to the Avanex grass program such that it covers our entire airfield ▪ Completion of the Canada Goose Tracking Masters project ▪ Development of estate wide sustainable development guidelines for use in our property development portfolio 	<ul style="list-style-type: none"> ▪ Submissions on the Selwyn and Waimakariri District Plans 	<ul style="list-style-type: none"> ▪ Submissions on the Canterbury Regional Policy Statement Review

COMMUNITY ENGAGEMENT

CIAL is a proud member of the Christchurch, Canterbury and South Island 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		
	2020	2021	2022
To make a positive contribution to the social and community outcomes of our City and the South Island	<ul style="list-style-type: none"> ▪ To continue to demonstrate support for events which attract visitors, enhance the City's image and that residents can enjoy ▪ Support community initiatives and organisations through the CIAL Community Fund, charity fundraisers and other donations through the year ▪ To engage and communicate openly with stakeholders through the Chief Executive and GMs initiating and accepting invitations to meetings, speeches, addresses and workshops ▪ To actively involve our staff in Corporate Social Responsibility initiatives to enhance engagement 	<ul style="list-style-type: none"> ▪ To continue to demonstrate support for events which attract visitors, enhance the City's image and that residents can enjoy ▪ Support community initiatives and organisations through the CIAL Community Fund, charity fundraisers and other donations through the year ▪ To engage and communicate openly with stakeholders through the Chief Executive and GMs initiating and accepting invitations to meetings, speeches, addresses and workshops ▪ To actively involve our staff in Corporate Social Responsibility initiatives to enhance engagement 	<ul style="list-style-type: none"> ▪ To continue to demonstrate support for events which attract visitors, enhance the City's image and that residents can enjoy ▪ Support community initiatives and organisations through the CIAL Community Fund, charity fundraisers and other donations through the year ▪ To engage and communicate openly with stakeholders through the Chief Executive and GMs initiating and accepting invitations to meetings, speeches, addresses and workshops ▪ To actively involve our staff in Corporate Social Responsibility initiatives to enhance engagement

OUR PEOPLE

Our purpose to unequivocally champion the South Island and our mission to be a Champion Airport will both be achieved as a direct result of the efforts of our Champion Team. Our Champion Team will always sit at the heart of our success and our RG25 outcomes.

Our goal is to be aspirational and performing at a world class level, actively benchmarking ourselves against the best companies in our region and beyond as we build a stronger business and enhance customer journeys and be great kaitiaki (safety + social + sustainable).

Our People Strategy is designed to build a Champion Team who has the capability and passion to achieve our purpose and our mission and is focused on continuing to support our evolution from an activity focused organisation to a purpose driven organisation.

We have developed a framework around which to orientate ourselves, one that is focused on the overlap between individual and organisational purpose, values and connection. This framework underpins and helps us to focus on how we are building engagement, alignment and trust across our culture (culture is aggregated individual behaviour over time).

We have a wide range of activations across the business regarding building our culture around our purpose and our values. These focus on building belief in our purpose, belonging to our values and trust in ourselves and others.

Performance Measures	Performance Targets		
	2020	2021	2022
To build a Champion Team who has the capability and passion to achieve our purpose to champion the South Island and our mission – to be a Champion Airport	<ul style="list-style-type: none"> ▪ Purpose driven leadership and people excellence, clear performance accountabilities and outcome focused expectations are part of the way we do business. ▪ Incremental improvements for purpose and values, leadership and company confidence in annual culture and engagement survey ▪ People Strategy Activation Projects delivered 	<ul style="list-style-type: none"> ▪ Purpose driven leadership and people excellence, clear performance accountabilities and outcome focused expectations are part of the way we do business ▪ Incremental improvements for purpose and values, leadership and company confidence in annual culture and engagement survey ▪ People Strategy Activation Projects delivered 	<ul style="list-style-type: none"> ▪ Purpose driven leadership and people excellence, clear performance accountabilities and outcome focused expectations are part of the way we do business ▪ Incremental improvements for purpose and values, leadership and company confidence in annual culture and engagement survey
To be a fair employer that celebrates equality and diversity that is renowned for going beyond compliance and creating value and opportunity for our people	<ul style="list-style-type: none"> ▪ Activate Wawata Iwi fair employer charter ▪ Incremental improvements for leadership, enablement and work/life blend in annual culture and engagement survey ▪ Create new Wawata Iwi specific engagement measures in annual culture and engagement survey 	<ul style="list-style-type: none"> ▪ Incremental improvements in Wawata Iwi specific engagement measures in annual culture and engagement survey 	<ul style="list-style-type: none"> ▪ Incremental improvements in Wawata Iwi specific engagement measures in annual culture and engagement survey ▪ Be recognised externally through award that recognises CIAL’s for all or part of its Wawata Iwi strategy

DISTRIBUTIONS

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 stand-alone credit rating of BBB+.

In addition, CIAL notes Shareholders' expectations regarding dividends and understands that certainty of dividend stream is a key financial component in ensuring Christchurch City's long term financial stability.

Based on this approach, CIAL is proposing that for the next 3-year financial cycle (FY20-FY22), it provides a minimum targeted dividend flow, subject to trading conditions remaining as forecast.

Minimum targeted dividend flows are proposed as follows:

\$m	2020 Forecast	2021 Forecast	2022 Forecast
Targeted Dividend	40.0	40.0	40.0
Dividend Pay-outs (Cash Flows)			
Current Year Interim Dividend	20.0	20.0	20.0
Prior Year Final Dividend	21.4	20.0	20.0
Targeted Dividend Cash Flow	41.4	40.0	40.0

It should be cautioned that aviation is an inherently volatile sector. This volatility coupled with other market sector variables means that trading conditions can be materially and quickly impacted.

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.

INFORMATION TO BE PROVIDED TO THE SHAREHOLDER

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.

It must be noted that the 'no surprises' approach will be adhered to, as long as this does not cause non-compliance with CIAL's requirement for continuous disclosure, under the listing rules of the NZ Stock Exchange, as part of their bond listing obligations.

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

CIAL is subject to the disclosure regime under Part 4 of the Commerce Act. Under this regime CIAL is required to disclose publicly detailed information after each price setting event and annually after each financial year within the relevant 5-year period.

A quarterly report will also be provided to shareholders, which includes financial, strategic and operational updates for the period. This includes a report on health and safety practices and performance, environment and sustainability, legal, risk, regulation and people.

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 Master Plan and shorter term strategic framework.

INNOVATION AND DISRUPTION

CIAL recognises that exponential technologies and the digital revolution will disrupt and reshape our business, however more importantly CIAL recognises that these same technologies provide an ever-expanding set of opportunities to reshape customer experience, add new services and build a stronger future business.

CIAL has decided that the best way to migrate culture and adapt to innovation and disruption is by participating in and partnering to drive itself up the innovation curve.

CIAL's initial focus regarding this is centred on three areas of current innovation and disruptive technology:

- Autonomy
- Data
- Artificial Intelligence ("AI") and Augmented Reality ("AR")

It is CIAL's intention to evolve our internal environment to create both a culture that can not only survive in an accelerated technology revolution but also thrive in it. This will involve using project partnering with innovative organisations and cross department project teams to migrate CIAL's culture to becoming more responsive to innovation and disruption.

COMPENSATION SOUGHT FROM SHAREHOLDERS

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

FAIR EMPLOYER CHARTER

CIAL is committed to delivering a fair workplace, which means a work place that values people and builds capable and confident human beings. It is in support of these commitments that CIAL is currently developing our Fair Employer Charter ("Wawata Iwi Charter").

A key commitment of our Charter is to create a culture that has high trust and embraces diversity and inclusiveness. CIAL's wants to be focused on working together to be highly productive and to ensure that all are fairly rewarded for success.

CIAL recognises that we are part of our people's lifelong journey and where we can, we will positively contribute to their learning, development and future success, both now and beyond.

REMUNERATION APPROACH

CIAL will look to attract, retain, develop and motivate high calibre employees at all levels – to support our principal objective, to operate as a successful business. CIAL is a socially responsible and equal opportunities employer.

CIAL has policies and procedures in place to ensure remuneration levels are set at market rates that are able to attract and retain the people we need to manage, operate and grow the business.

We regularly compare our employee remuneration against market data and in general will meet the market, subject to employee performance.

The company is especially conscious of its public responsibilities in the setting of remuneration for senior executives, which is closely managed by the Board and made publicly available via the Annual Report.

ACQUISITION/DIVESTMENT PROCEDURES

CIAL will continually assess the best way to maximise its contribution to New Zealand's sustainable aviation growth and its contribution to the social and economic value added to the regions. CIAL's business development activity may include direct investment or partnership activities with appropriate organisations.

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.

The nature and scope of CIAL's activities may include activities requested by Council by way of Council resolution during the SoI period.

ESTIMATE OF COMMERCIAL VALUE

The current estimate of the commercial value of Christchurch International Airport is \$1,393 million (2018: \$1,307 million).

Key factors taken into consideration in determining this valuation were:

- The valuation calculated as at 30 June 2019, was prepared by CIAL management and independently peer reviewed.
- 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;
 - *Regulated 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,
 - *Investment Property/Land Held for Development* - being land held for future airport and commercial development, and
 - *Contestable Activities* - comprising all other assets generating an income that is not regulated (including retail, ground transport, the hotel and other commercial operations/leases)
- 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 Regulated Airport Activities reflected the asset-based valuation methodology adopted as part of the Commerce Commission regulatory regime;
 - Investment Property/Land Held for Development is included at the values assessed by independent registered valuations. Valuation methodologies used are a direct capitalisation of rental income using market comparison of capitalisation rates;

- 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 7.00% (2018: 7.30%) (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 \$1,393 million (often referred to as the equity value) was calculated by taking the midpoint range of the enterprise value of \$1,857 million (2018: \$1,718 million) and deducting net debt of \$464 million (2018: \$411 million).

The change in commercial value from 2018 (\$1,307 million) to the \$1,393 million at 30 June 2019 was due to several factors:

- The growth of the Investment property portfolio, reflecting the uplift in the current valuations and on-going new commercial property developments.
- Higher forecast cash flows from contestable activities including the Novotel hotel cash flows being included for the first time, newly negotiated duty free agreement, car parking and restricted access activities.
- The value of the contestable activities has increased by a reduction in the applied discount factor from 7.3% to 7.0%.
- An increase in the level of current borrowings due to the on-going property development program.

The directors note that the estimation of the commercial value of CIAL each year is somewhat of an "academic" exercise. In particular, the approach used for the purposes of this SoI would almost certainly come up with a different estimate to:

- A valuation for financial statement purposes – prepared in accordance with the rules set out in the relevant accounting standards; or
- An earnings multiplier approach – used predominantly for transactional purposes.

Consequently, the directors note the commercial value a shareholder may realise on any sale of its investment in CIAL will almost certainly differ from the value estimated in this SoI, depending on the circumstances of sale, the identity of the buyer, and market conditions applicable or forecast at the time. This value is re-estimated annually.

ACCOUNTING POLICIES

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 detailed accounting policies are available in our most recent annual report for the year ended 30 June 2018, as published on our company website. https://www.christchurchairport.co.nz/media/912505/cial_financial_statements_2018.pdf