Statement of Intent

Year ending 30 June 2017
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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 2016 to 30 June 2019.

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

Address: Fourth Floor, Carpark Building
          Christchurch International Airport
          Memorial Avenue, PO Box 14-001, Christchurch

Telephone: +64 3 358 5029

Website: www.christchurchairport.co.nz

Christchurch International Airport Ltd is a council-controlled trading organisation ("CCTO") for the purposes of the Local Government Act 2002.
Christchurch International Airport’s core business is being an efficient airport operator. This encompasses providing appropriate landside and airside facilities for the airport and airport users, including both commercial and non-commercial aviation users, and pursuing commercial opportunities with wider complementary products, services and business solutions.

Consistent with this primary objective, Christchurch International Airport will:

- operate the airport in accordance with the terms of its aerodrome licence, which define standards and conditions laid down by the Civil Aviation Authority of New Zealand
- provide well-designed and maintained runways, taxiways, turnouts and aprons in co-operation with the Airways Corporation of New Zealand and other airport users
- provide airfield and terminal facilities and infrastructure that deliver the required outcomes for CIAL and existing / potential operators, with an emphasis on efficient airside activities
- pursue activities designed to ensure the safe and effective utilisation of its assets and its people
- ensure the company adopts an environmentally responsible attitude to the operation of the business (including land use, water, energy, waste and noise management) and pursue a commitment to the sustainable management and development of the natural, physical and people utilised in the business
- to operate the business in a way that generates appropriate financial returns and dividend streams for the Shareholders
- pursue opportunities to diversify revenue streams and increase the value of non-aeronautical business streams
- pursue initiatives to grow shareholder value and provide a sustainable revenue stream through maximising the investment in, and development of, the company’s property holdings
- to achieve excellence in health and safety management
- unequivocally champion Christchurch, Canterbury and the South Island as a major destination and gateway for overseas visitors, in order to strengthen the position of Christchurch International Airport as the aviation and tourism hub to the South Island
- be a good employer in providing a work environment that recruits, fosters and retains competent, motivated, committed and productive people
- exhibit a sense of social responsibility by having regard to the interests of the community in which it operates.
REAL GROWTH 2025 VISION AND STRATEGY

In FY15/16 CIAL completed a 10 year strategy review process, entitled Real Growth 2025 (“RG25”). This was focused on understanding and being clear on why CIAL exists and what success might look like in the years between now and 2025.

Our Mission

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

The strategy review process assessed many aspects of CIAL’s business and initially helped us refine and focus our mission to reflect the fact that by many operational and service measures Christchurch is already independently recognised as being a champion airport in Australasia.

FY17 will see us migrate our mission from the post-quake recovery focus of building the “Best Airport Business” to the ‘new normal’ focus of building a “Champion Airport”, recognised at home and abroad as an engine room for Christchurch, the South Island and New Zealand.

At its centre will be a Champion Team that is strongly connected to this success and focused on Purpose, Capability and Delivery.

Being a champion airport will be built on three pillars:

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

Our Purpose

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

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.

We know from official statistics 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.

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.
KEY INITIATIVES

Within this broad strategic framework, emphasis over the coming year will be placed on the pursuit of essential initiatives that are important to the execution of driving increased activity in the areas of Planes, Passengers and Property ("the three P’s). The three P’s strategies will be supported by a number of other key management plans covering Safety and Security, Sustainability, our People and Risk Management. These management plans will be used to build and enhance the tool boxes to allow our champion teams to bring that activation to life.

Aeronautical (Planes)

- Maintain the integrity of New Zealand’s Open Skies policy to ensure the aviation and associated regional development opportunities remain available to both CIAL and the South Island’s regional economies.
- Focus on growing passenger numbers by working with the right partners and continuing to build Christchurch’s position as the primary gateway to the South Island. CIAL will execute strategies and capabilities to continue to stimulate passenger growth through expanded aeronautical services, with the following market priorities
  - Australia
  - China & South East Asia;
  - Outbound New Zealand.

Terminal & Airfield (Passengers)

- Protect our people through an enhanced approach to embedding safety into our culture.
- Revenue growth, cost management, service quality & operational efficiency. Working with strategic partners to deliver enhanced terminal productivity (e.g. hours and zones of operation, passenger flow paths, level of service objectives etc.)
- An updated comprehensive Terminal Precinct Plan that supports the three key drivers
- A research based approach to deepening and broadening customer relationships with monetisation built through customer preference and customer driven products and services.
- A focus on new developments that develop leadership, ambition and capability in our teams, increase productivity, hold operating cost growth in line or below CPI, reduce long term capital investment and deliver benefits that customers are willing to pay for on a commercial basis.

Property

- CIAL’s commercial portfolio strategy is ‘to be a Landlord’. CIAL has successfully exited the small businesses it was operating (e.g. The Wash, The International Antarctic Centre and I-Site) setting each one and its teams up for success into the future and returning CIAL to being a landlord.
• Completing the development of the Novotel Christchurch Airport and JUCY Snooze Backpacker development and continuing to progress the on-going development of Dakota Park (including the Dakota Park Freight Apron and distribution centre developments for Freightways and New Zealand Post) and Mustang Park is assumed under RG25.

• Seek to broaden the property market segments in which CIAL participates, within those permitted under PC84. For example – the development of a trade retail precinct. The continuing advancement of this strategy will require on-going focus on the planning environment in Christchurch.

• CIAL’s investment strategy in this portfolio is to pursue new investment where the proposed investment grows CIAL’s balance sheet, increases revenue and dividend flows and productively utilises existing land holdings over the long term.

• CIAL has undertaken a detailed review of land assets, their purpose for being held (supporting aviation, terminal and commercial) and current returns from each block. Where a development purpose is yet to be identified, CIAL will look to improve its return on those assets over time.

• Active asset management focused on continued improvement of property investment performance.

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**BEYOND CIAL**

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

In regards to both, CIAL is a commercial entity and will always act and operate as a responsible corporate citizen. However it also competes in an environment with other very strong commercial entities that have purely commercial focuses and therefore should always operate with a 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. Planning for future growth, within the Land Use Recovery Plan, District Plan and Plan Change 84, will be actively pursued with all planning, regulatory and community bodies to ensure this capability is maintained.

- The continuing advancement of our Strategic Property Plan will require a continuing focus on creating the planning environment to expedite and implement value-enhancing investment initiatives. CIAL will further the discussions already held with CCC planning staff to seek compatibility with CCC’s planning strategy and vision for the city and with the overall Urban Development Strategy.

- Health and Safety as a priority with a commitment to a safe environment for all staff and airport users.

- CIAL will continue to ensure staff engagement remains high and CIAL continues to be regarded as an employer of choice and is seen as a “great place to work”.

- Minimise any adverse effects of CIAL’s activities and facilities on the environment (land, waste, water, energy & noise), 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 in New Zealand and is governed by a range of legislation and regulation. This includes regulatory control under the Commerce Amendment Act; for the monitoring of Aeronautical Economic performance under the Information Disclosure monitoring regime under the Commerce Commission. In addition it is regulated as an Airport under the Civil Aviation Act, Part 139, in terms of operational and safety performance.

Governance objectives

The Board has adopted the following governance objectives:

- Approve Corporate Strategy and direction, laying down solid foundations for management and oversight
- Structure itself to utilize the expertise of Directors to add value at a governance level
- Promote ethical and responsible decision-making
- Safeguard the integrity of its financial reporting and make timely and balanced disclosure
- Recognise and manage risk and encourage enhanced performance
- 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 ultimate aim being to increase shareholder value while sustaining and ensuring the obligations of the company are properly met.

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

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

- Working with executive 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, approving his or hers performance and, where necessary, terminating the Chief Executive’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 Chief Executive Officer (CEO) and executive leadership team against these;
- Deciding necessary actions to protect CIAL’s financial position and the ability to meets its debts and other obligations when they fall due, and ensuring that such actions are taken
- Ensuring that the company adheres to high ethical and corporate behaviour standards;
- Establishing procedures and systems to ensure the occupational health and safety of the company’s people and contractors working for CIAL across the Christchurch International Airport campus;
- Promoting a company culture and remuneration practice which facilitates the recruitment, professional development and retention of staff;
- Ensuring that CIAL has appropriate risk management and regulatory compliance policies in place and monitoring the appropriateness and implementation of these policies.

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

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

In accordance with Section 64 of the Local Government Act 2002, each February the company submits a draft SoI for the coming financial year to Shareholders. The SoI sets out the company’s overall objectives, intentions and financial and performance targets.

After due consultation and discussion with the Shareholders and completion of the annual business planning and budgeting, the final SoI is approved by the Board of Directors and delivered to the Shareholders in June.

Board Composition and Fees

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

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

Fees for the Board are reviewed 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 Chief Executive Officer and senior executives. The terms of the delegation by the Board to the Chief Executive Officer are clearly documented.

The Chief Executive Officer has, in some cases, formally delegated certain authorities to his direct reports and has established a formal process for his direct reports to sub-delegate certain authorities.

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

Risk Audit and Finance Committee

The Risk, Audit & Finance Committee consists of three board members who have appropriate financial experience and understanding of the company’s industry. The Board requires that at least one member of the Audit Committee to be a “financial expert”. In addition the Board will nominate an appropriately experienced Director as a “health and safety” champion, who will attend and contribute to all Committee meetings.
The role of the Risk, Audit and Finance Committee is to act as an advisor to the Board of Directors to assist them to discharge its responsibility to exercise due care, diligence and skill in relation to:

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

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

- Review and approve accounting policies and practices as they apply to the company
- Review the current risk management framework, and associated procedures for effective identification and management of the company’s financial and business risks
- Review management’s approach to maintaining an effective internal control environment, including implementation of relevant policies and procedures
- Review the adequacy of insurance cover at each insurance renewal and recommend to the Board any significant changes to insurance cover
- Review and approve the annual business assurance plan, and regularly monitor business assurance findings
- Recommend to the Board the appointment of the external and internal auditor and approve their fee
- Provide advice on and review the company’s Annual Report and Financial Statements prior to consideration and approval by the Board
- Provide advice on and review the company’s regulatory Annual Information Disclosure prior to consideration and approval by the Board
- Review, on an on-going basis, the company’s capital structure and optimal funding portfolio
- Establish procedures and systems to ensure the occupational health and safety of the company’s people and contractors working for CIAL across the Christchurch International Airport campus
- Seek any outside external advice it may require.

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

The Remuneration Committee’s role is to assist the Board in overseeing the management of CIAL’s people. The responsibilities of the Committee are as follows:

- To review the remuneration and People 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 the Executive Leadership team, and the succession planning for the Executive Leadership team and the CEO.
- To review the performance of the CEO, the engagement agreement and benefit structure for the CEO and the Executive Leadership Team, and recommend to the Board the Executive Leadership team incentive remuneration plans, other employee benefits, and key performance objectives.

**Property & Commercial Committee**

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

The responsibilities of the Committee are to:

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

**Aeronautical Committee**

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

- To review and recommend to the Board strategies in respect of the provision of aeronautical facilities, general aviation and aeronautical business development (including marketing and pricing issues)

- To review specific proposals, and subsequent post project reviews, relating to aeronautical charging, commercial arrangements to support route development initiatives, and airline incentives or promotions

- To review the returns and aeronautical market position being achieved by CIAL’s aeronautical business to ensure it is in line with the overall objectives of CIAL’s business strategy

- To report to the Board annually, or as required, on; the safety, effectiveness and operational benchmarking of CIAL’s aeronautical operations; the market position of its aeronautical business; the returns being achieved on individual aeronautical initiatives; and, the effectiveness and the implementation of CIAL’s aeronautical strategies.
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.

It is recognised an uplift in performance is required to achieve acceptable rates of shareholder return, and as explained previously the RG25 strategy employed out to 2025 is focused on an improved commercial performance and a target return on equity for shareholders of a consistent 7% p.a. (after tax).

The forecast performance below identifies the improvement to be made over the ensuing three years, but in light of the prevailing state of the Christchurch Visitor Economy during the rebuild phase and also the fact that the company has recently commissioned significant infrastructure (the terminal), it must be accepted that it will take some time to achieve the targeted returns, due to the following factors:

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

- the land bank can only be developed at a rate that planning requirements and market demand allow; and

- returns on new infrastructure development, such as the recently commissioned terminal project, will be determined by the market conditions of the aviation sector and the price path set to achieve the required economic return.

<table>
<thead>
<tr>
<th>$m</th>
<th>2016 Forecast</th>
<th>2017 Forecast</th>
<th>2018 Forecast</th>
<th>2019 Forecast</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Revenue</td>
<td>166.5</td>
<td>176.0</td>
<td>189.3</td>
<td>198.9</td>
</tr>
<tr>
<td>EBITDAF</td>
<td>104.1</td>
<td>108.5</td>
<td>121.1</td>
<td>130.8</td>
</tr>
<tr>
<td>Net Profit After Tax</td>
<td>37.9</td>
<td>39.6</td>
<td>48.2</td>
<td>50.2</td>
</tr>
<tr>
<td>EBITDAF as % of Revenue</td>
<td>62.5%</td>
<td>61.6%</td>
<td>64.0%</td>
<td>65.8%</td>
</tr>
<tr>
<td>Return on Average Equity ²</td>
<td>4.9%</td>
<td>5.0%</td>
<td>6.0%</td>
<td>6.2%</td>
</tr>
<tr>
<td>Return on Average Total Assets ³</td>
<td>3.1%</td>
<td>3.1%</td>
<td>3.7%</td>
<td>3.7%</td>
</tr>
</tbody>
</table>

¹ Earnings before interest, tax, depreciation, amortisation and fair value movements.
² Net profit after tax as % of average equity.
³ Net profit after tax as % of average total assets.
The financial performance targets as detailed in the table above show the revenue, profit and financial return expectations for the rest of the 2016 financial year and the following three years.

- CIAL has achieved improvements in aeronautical revenue following the setting of new airline charges in December 2012 which reflect the increased asset base being employed. The full effect of these increases came into effect in FY15.

- This improved aeronautical revenue performance relating to the revised charges will continue through to FY17 when the next price reset process will take effect. This revised price reset will come into effect from FY18, and hence the unknown outcome of this currently creates some uncertainty around aeronautical revenue streams from FY18 onwards.

- Current assumption is that aeronautical revenue growth will be supplemented by growth in passenger numbers and movements as outlined in the commentary below.

- Non-aeronautical revenue will also continue to grow, predominantly reflecting a market rate rental return from the planned property development program over the next three years (as outlined in prior year’s Business Plan).

- Through a focus on productivity driven investment, CIAL will look to keep its core operating cost base inside CPI to allow revenue gains to flow through to an improved EBITDA outcome over the period.

### Passenger Numbers

<table>
<thead>
<tr>
<th>Passengers</th>
<th>2016 Forecast</th>
<th>2017 Forecast</th>
<th>2018 Forecast</th>
<th>2019 Forecast</th>
</tr>
</thead>
<tbody>
<tr>
<td>Domestic</td>
<td>4,815,174</td>
<td>5,175,124</td>
<td>5,326,260</td>
<td>5,481,798</td>
</tr>
<tr>
<td>International</td>
<td>1,543,544</td>
<td>1,682,374</td>
<td>1,746,854</td>
<td>1,771,140</td>
</tr>
<tr>
<td><strong>Total Passengers</strong></td>
<td><strong>6,358,719</strong></td>
<td><strong>6,857,498</strong></td>
<td><strong>7,073,114</strong></td>
<td><strong>7,252,938</strong></td>
</tr>
</tbody>
</table>

- During FY15 and the ten months to the end of April 2016, CIAL’s passenger volumes have experienced year on year growth in the range of 4.2%-6.2%.

- Current expectation is that this level of growth in passenger numbers will continue through the remainder of FY16 and into FY17. This will be followed by a period of more traditional lower long-term growth levels as focus moves towards maximising yields on the new seat capacity introduced into the market.

- The timing of the Christchurch City redevelopment will have a key influence on the level of passenger growth CIAL will experience over the period of this SoI. Current forecasts out to FY19 are based on the completion of the current ‘anchor projects’ (including the convention centre) and assumes these projects will trigger private investment in hotel accommodation and begin to allow Christchurch to re-confirm its South Island gateway status. Delays in the key anchor projects, or an erosion of confidence in Christchurch as a destination may create some risk around these forecasts and continue to influence the forecast growth patterns for international passengers in particular.
**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:

<table>
<thead>
<tr>
<th>$m</th>
<th>2016 Forecast</th>
<th>2017 Forecast</th>
<th>2018 Forecast</th>
<th>2019 Forecast</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shareholder Funds/Total Assets %</td>
<td>62.9%</td>
<td>61.0%</td>
<td>59.6%</td>
<td>59.2%</td>
</tr>
<tr>
<td>Gearing (debt/(debt + equity)) %</td>
<td>28.9%</td>
<td>31.8%</td>
<td>34.0%</td>
<td>35.1%</td>
</tr>
<tr>
<td>EBITDA Interest Cover x</td>
<td>5.0</td>
<td>4.9</td>
<td>4.8</td>
<td>5.0</td>
</tr>
<tr>
<td>Free Funds Interest Cover x</td>
<td>4.4</td>
<td>4.2</td>
<td>4.1</td>
<td>4.3</td>
</tr>
<tr>
<td>Free Funds/Debt %</td>
<td>22.2%</td>
<td>19.7%</td>
<td>19.2%</td>
<td>19.7%</td>
</tr>
</tbody>
</table>

- 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**

After over 100 years, safety is an embedded feature in aviation and the culture of those working in aviation. For CIAL we are part of this legacy and we can borrow from aviation’s safety journey, approach and culture to develop those areas that need catching up.

People are the most valuable area of our business and protecting them is always the first step in anything we do.

**Our safety mission is simply to ‘Protect Our People’**.

In order to protect our people we will further develop our leadership, culture and capability in our safety eco-system by focusing ourselves on a continuous journey of seeking to eliminate and manage three core risk areas:

- Catastrophic Risk
- Fatal Risk
- Personal Injury Risk

Activating this will be undertaken through building our equitable culture around empowering everyone in our organisation to have the courage to always embrace our Golden Rules of Safety:

- SAFETY - is always the first step
- STOP - and think before you do it
- SPEAK UP – so together we can fix it
The success of the Health & Safety Strategy at CIAL will be measured by internal trend reporting around near misses and incidents, external benchmarking, and CIAL’s performance around Health & Safety training and culture.

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

**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 have no interest in green wash that makes good headlines and as a result we have developed two guiding philosophies which will underpin our approach to sustainability at CIAL.

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 and then it’s not sustainable.

Our focus is to be ambitious in our approach to sustainability and be open to external input to our sustainability journey, so we can seek out, develop and implement enduring changes to our business which avoid green wash but will create a sustainable evolution to our Airport.

After review and research we have chosen to focus our sustainability efforts across five key pillars of the Airport – Waste, Water, Noise, Energy and Land.
<table>
<thead>
<tr>
<th>Performance Measures</th>
<th>Performance Targets</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. To investigate and implement cost-effective ways in which to progressively reduce the amount of solid waste arising from airport activities being disposed of to landfill through the development of waste minimisation and recovery measures</td>
<td>- Continue to investigate and implement waste minimisation initiatives that ensure landfill diversion rates are sustained or increased.</td>
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<tr>
<td></td>
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</tr>
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</tr>
<tr>
<td>2. To minimise the impact of airport activities on groundwater quality through cost-effective measures to avoid or mitigate the risks of contamination</td>
<td>- Ensure on-going compliance with NZ Drinking Water Standards through regular monitoring of potable drinking groundwater supply.</td>
</tr>
<tr>
<td></td>
<td>- Continue Environmental Compliance and Monitoring Programme with existing airport operators and new operators on airport land.</td>
</tr>
<tr>
<td></td>
<td>- Ensure all new operators are provided with Environmental Training.</td>
</tr>
<tr>
<td></td>
<td>- Label storm water drainage systems in all new developments.</td>
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<td>- Label storm water drainage systems in all new developments.</td>
</tr>
<tr>
<td>3. To manage Operational Risk</td>
<td>- Achieve a Bird Strike incidence rate of 3&lt;4/10,000 aircraft movements on a 12 month rolling average basis in line with level set for airports of a similar scale.</td>
</tr>
<tr>
<td></td>
<td>- Work with territorial authorities and other stakeholders to implement management strategies for pest birds which pose bird strike hazard risks.</td>
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<td>- Work with territorial authorities and other stakeholders to implement management strategies for pest birds which pose bird strike hazard risks.</td>
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<tr>
<td></td>
<td>- Achieve general acceptance of noise contours and associated policies and rules in regional and district plans to protect the 24/7 airport operating status.</td>
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<tr>
<td>4. To minimise the effects of noise and vibration associated with aircraft and airport operations and to comply with relevant noise rules</td>
<td>Continue to facilitate a community liaison group to discuss noise and airport operational and developmental activities</td>
</tr>
<tr>
<td></td>
<td>Adhere to new noise contours in the Regional Policy Statement</td>
</tr>
<tr>
<td>5. To minimise the energy consumption by airport activities through the pursuit of efficient energy practices</td>
<td>Continue to investigate and implement energy saving initiatives that ensure energy consumption is reduced</td>
</tr>
<tr>
<td></td>
<td>Investigate energy efficiency options which have a mid to long term payback (5-10 years)</td>
</tr>
<tr>
<td></td>
<td>Continue to investigate and implement energy-saving initiatives that ensure energy consumption is reduced with a targeted reduction of 5-7%</td>
</tr>
<tr>
<td></td>
<td>Increased engagement with industry bodies involved with sustainable building design and energy efficiency</td>
</tr>
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</tr>
<tr>
<td></td>
<td>Continued review of energy efficiency options with consideration of developing technology.</td>
</tr>
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<td></td>
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</tr>
</tbody>
</table>
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.

<table>
<thead>
<tr>
<th>Performance Measures</th>
<th>Performance Targets</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1. To deliver on our corporate social responsibility and community interest obligations</strong></td>
<td><strong>2017</strong></td>
</tr>
<tr>
<td>• Continue to be a key sponsor of meaningful events which attract visitors to Christchurch and the city’s residents to attend and/or take part and contribute to the growing city</td>
<td>• To continue to demonstrate support for events which bring people to the city and the residents out to enjoy it</td>
</tr>
<tr>
<td>• Support community initiatives and organisations through the CIAL Community Fund, charity fundraisers and other donations through the year</td>
<td>• To distribute the Community Fund to support relevant community initiatives and organisations, to complement selected charity fundraisers and charity collectors on their fundraising appeal days</td>
</tr>
<tr>
<td>• To engage and communicate openly with stakeholders through the Chief Executive and GMs initiating and accepting invitations to meetings, speeches, addresses and workshops</td>
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</tr>
</tbody>
</table>

OUR PEOPLE

A Champion Airport is the result of the efforts of a Champion Team. A champion team will always sit at the heart of our success and our RG25 targeted outcomes.

CIAL’s People Strategy is focused on continuing to support CIAL’s evolution from an activity focused organisation to a strategy driven organisation.

We will do this by stepping up our journey of development through developing our people, connecting them directly to our success and embedding our values into our culture.

Our People Strategy focuses on three key pillars. Those three pillars which can be described as Purpose, Capability and Delivery will be supported by an embedded culture of development, performance and accountability.
### Performance Measures and Performance Targets

<table>
<thead>
<tr>
<th>Performance Measures</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. To build a Champion Team who has the capability and passion required to create our place in the world.</td>
<td>Refresh strategies aligned with team connection and collaboration, leadership and delivery.</td>
<td>Leadership and people excellence, clear performance accountabilities and outcome-focused expectations are part of the way we do business.</td>
<td>Further develop our leadership capability to maximise connection with our purpose and performance outcomes.</td>
</tr>
</tbody>
</table>

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**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 credit rating of BBB+.

The Directors have completed a review of its dividend policy and as a consequence of that review have resolved to adopt a dividend policy which will provide for payment of 90% of distributable profit, in place of the previous distribution policy of 60% of that profit. This will become effective in the current FY16 financial year.

Based on CIAL’s recovered performance and trading outlook and the strong growth cycle the company is currently experiencing, the Board is satisfied the company can entertain this higher dividend stream, while continuing to build a strong and resilient business to support its target credit rating.

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

Further additional dividend payments may be made from surplus funds at the end of any year depending on the trading conditions and forecast performance of the business.

The dividends are forecast to be paid in two instalments each year, with the interim dividend payment being made after the half year meeting of Shareholders at the end of February each year and the final dividend payment after the annual meeting in October of each year.
To assist shareholders with budgeting, the ordinary dividend payments to shareholders are forecast to be as follows:

<table>
<thead>
<tr>
<th>$m</th>
<th>2016 Forecast</th>
<th>2017 Forecast</th>
<th>2018 Forecast</th>
<th>2019 Forecast</th>
</tr>
</thead>
<tbody>
<tr>
<td>Forecast Net Profit After Tax</td>
<td>37.9</td>
<td>39.6</td>
<td>48.2</td>
<td>50.2</td>
</tr>
<tr>
<td>Less</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Revaluation Gains (net of tax)</td>
<td>4.3</td>
<td>5.0</td>
<td>8.3</td>
<td>6.4</td>
</tr>
<tr>
<td>Net Profit After Tax base for dividend</td>
<td>33.6</td>
<td>34.6</td>
<td>39.9</td>
<td>43.8</td>
</tr>
<tr>
<td>Dividend Forecast (@ 90%)</td>
<td>30.2</td>
<td>31.1</td>
<td>35.9</td>
<td>39.4</td>
</tr>
<tr>
<td>Dividend Pay-outs (Cash Flows)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current Year Interim Dividend</td>
<td>14.6</td>
<td>15.0</td>
<td>17.3</td>
<td>19.0</td>
</tr>
<tr>
<td>Prior Year Final Dividend</td>
<td>14.7</td>
<td>15.6</td>
<td>16.1</td>
<td>18.6</td>
</tr>
<tr>
<td>Forecast Dividend Cash Flow</td>
<td>29.3</td>
<td>30.6</td>
<td>33.4</td>
<td>37.6</td>
</tr>
</tbody>
</table>

**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.
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 publically 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 a report on health and safety practices and performance within the company.

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

ROLE IN THE CHRISTCHURCH CITY COUNCIL GROUP AND REGIONAL ECONOMY

Christchurch City Council Capital Release Program

Following the series of damaging earthquakes since September 2010, the Council has undertaken a comprehensive review of its financial position, including an evaluation of its commercial assets in conjunction with Christchurch City Holdings (CCHL). As a result of this review, the Council has agreed a financial strategy that, amongst other initiatives, envisages the sale of some of CCHL’s equity investments. This strategy is referred to generally, and in this SoI, as the “Capital Release Program”.

CIAL will work with CCHL to implement the final form of the Capital Release Program so far as it relates to CIAL and other objectives stated in this SoI must be read in light of this exigency.
In implementing the Capital Release Program, however, the Directors will not be required to act in a manner which would be inconsistent with their duties at law.

**Commercial Relationships within the CCC Group**

Christchurch International Airport acknowledges, as a majority-owned subsidiary of Christchurch City Holdings Ltd, that there may be commercial opportunities within, or in partnership with, other group companies that may be able to be developed to benefit Christchurch International Airport, CCHL and the Canterbury region. These opportunities will and are being considered as part of the strategic initiatives being developed and CIAL will work actively with other CCHL group companies to explore any opportunities that could provide value to either party.

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

**Role in the Growth of the Regional Economy**

Christchurch International Airport is the tourism gateway to the South Island and provides a significant contribution to both the Canterbury region and the South Island as a whole, with the total airport operation employing over 6,000 people across a diverse range of companies. An Economic Impact Assessment review in 2012 (using 2010 as the most recent period indicator of underlying economic performance pre the Canterbury earthquakes) identified that Christchurch International Airport contributed to the generation of $1.8 billion in regional GDP, representing 7.1% of the total GDP in the Canterbury region and created employment for 9.7% of the region’s workforce.

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

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

CIAL is committed to Christchurch International Airport being recognised as a good place to do business and through this create and grow the airport as a strong economic base. To achieve this, CIAL will actively pursue development of infrastructure and provide a development environment to support aeronautical and commercial investment on the wider airport campus by businesses which have a synergy with the airport campus and/or require ready access by air. CIAL will also ensure it promotes Christchurch as a great place to live, work and do business.
ACQUISITION/DIVESTMENT PROCEDURES

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

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

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

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

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

COMPENSATION SOUGHT FROM SHAREHOLDERS

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

Currently, CIAL provides dedicated facilities and infrastructure to the New Zealand Antarctic operations at lower rates than those charged to commercial airlines and tenants. This service provides an economic benefit to the Christchurch region, but at an annual concession cost to CIAL estimated at approximately $0.8 million per annum.
ESTIMATE OF COMMERCIAL VALUE

The current estimate of the commercial value of Christchurch International Airport is $1,190 million (2015 $1,041 million).

Key factors taken into consideration in determining this valuation were:

- The valuation calculated as at 30 June 2016, was prepared by CIAL management and independently peer reviewed by Northington Partners Limited.
- In determining this valuation, the most appropriate basis of preparation was still considered to be the sum of the parts of the business, with the total valuation being comprised of the sum of:
  - **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 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;
  - 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 7.50% (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 $1,190 million (often referred to as the equity value) was calculated by taking the midpoint range of the enterprise value of $1,507 million (2015 $1,351 million) and deducting net debt of $317 million (2015 $310 million).

The change in commercial value from 2015 ($1,041 million) to the $1,190 million at 30 June 2016 was primarily due to an increase in:

- The value of Contestable activities – this arising from the forecast growth in rental revenue streams from the future property development program, coupled with the lower cost of capital used for discounting future cash flows; and
The growth of the Investment property portfolio, reflecting the uplift in the current valuations and on-going new commercial property developments.

The directors note 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 likely come up with a different estimate to:

- A valuation for financial statement purposes – prepared in accordance with the rule 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 likely differ from the value estimated in this SoI, depending on the particular circumstances of sale, the identity of the buyer, and market conditions applicable or forecast at the time. This value is re-estimated annually.

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 2015, as published on our company website.