Statement of Intent

Year ending 30 June 2019
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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 2018 to 30 June 2021.

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.
NATURE AND SCOPE OF ACTIVITIES

Christchurch International Airport’s primary activity is to operate a safe and efficient 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.

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.

PRINCIPAL OBJECTIVES

Christchurch International Airport’s core business is being an efficient airport operator. CIAL’s key objectives are to operate as a successful commercial entity and through that deliver sustainable 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
- 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 workplace 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 VISION AND STRATEGY

In 2014 CIAL completed a 10-year strategy review process and set a series of 2025 outcomes it is targeting, 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 then and 2025.

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”

FY19 will see us continue our focus of building a "Champion Airport", recognised at home and abroad as an engine room for the social and economic contribution of Christchurch and the South Island to New Zealand.

At its centre will be a Champion Team that is strongly connected to this mission and focused on building Leadership, Ambition and Capability within it.

Being a champion airport will be built on three pillars:
- Building a Stronger Business; and
- Enhancing our customer journeys; and
- Being good Kaitiaki (Guardians of Safety, Security & 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.
Over the last four years Christchurch Airport has seen record nominal passenger growth, adding around 1.5 million passengers from post-quake lows, to be closing in on 7 million passengers a year. That is, CIAL has just about added the equivalent size of total passengers at Queenstown Airport in growth over this period. Christchurch Airport is driving the growth for the South Island, adding 1.52 international passengers for every 1 added at Queenstown Airport.

Christchurch Airport is the most powerful gateway for regional dispersal of tourists with 75% of international visitors staying in regions outside of Canterbury. This compares to 67% for Auckland, 53% for Wellington and 46% for Queenstown.

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.
The regional dispersal effects of different airports are especially relevant as we have seen a narrowing of the footprint of dispersal over time. (Refer to chart below)

![Regional Dispersal of International Visitor Nights (all ports)](chart)

**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 and Planet which provide a more strategic approach to people’s performance and engagement, the safety of all who enter onto the airport campus and our sustainability philosophies and objectives.

Within the RG25 framework, FY19 will be focused on Understanding the current outlook for the wider environment in which each area operates, the risks and opportunities that these factors will create, and the strategic activation projects required to address those risks and opportunities.

This will be complemented with an exploration of some external items that have the potential to re-shape CIAL’s environment over the medium to long term including exponential technology and sustainability.
Aeronautical (Planes)

- The aeronautical strategy remains focused on 'finding planes' and 'filling planes'. However, with the changing aviation dynamics, rising oil prices, and with a new aeronautical pricing structure linked to passengers, CIAL's focus, priorities and activation within this strategy have migrated accordingly.
- Having begun to see capacity increases from our strategy reset on Tasman and long haul routes, the focus will move to how to structurally improve CIAL’s position within the New Zealand aviation market.
- Priorities for aeronautical growth will focus on connectivity to our four key airport hubs – Melbourne, Sydney, Brisbane and Auckland, along with lifting regional feed into those hubs over Christchurch.
- Strategically CIAL’s most powerful opportunity is in strengthening its position as gateway into and out of the South Island and our role as a domestic hub and spoke to regional New Zealand.
- CIAL’s business development and passenger attraction activity will continue to focus on working narrower and deeper partnerships with existing and some new carriers, complimentary airports and tourism organisations.

Terminal (Passengers)

- CIAL’s ‘Park to Plane’ ("P2P") strategy remains crucial to CIAL achieving its RG25 objectives because the terminal is our largest centre of business activity. Building from what we already have, to what we can achieve will depend on striking the optimal balance between increasing commercial outcomes, enhancing customer journeys and keeping people safe.
- 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 key activations in developing the P2P strategy include:
  - New and enhanced retail and food and beverage offerings in the right places along a customer's journey, coupled with the development of new commercial models to meet the changes in retail, car-parking and ground transport.
  - Improved way finding and information (digital, Augmented reality).
  - Better utilising digital technologies and big data, developing digital platforms which allow customers to have access to entertainment and commerce i.e. virtual reality, QR codes, during and after they travel. Focus will be on widening CIAL’s retail throat and driving micro export lead parcel freight.
  - Use of research to better inform the design and creation of new, more comfortable dwell spaces, coupled with bringing the South Island to life with a sense of a warm welcome and a combination of entertainment, interest and interaction i.e. gap filler.
- Improve operational efficiency and making better use of current assets before expansions. Working with strategic partners to deliver enhanced terminal productivity (e.g. hours and zones of operation, passenger flow paths, level of service objectives etc.). Long term focus on creating a truly integrated terminal.

**Property**

- CIAL’s commercial portfolio strategy remains to develop its bare land holdings by ‘being a Landlord’.
- 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 Park and Mustang Park is assumed under RG25.
- Seek to diversify the property market segments in which CIAL participates, within those permitted under Plan Change 84 (which defines the activities in which CIAL may engage within the Airport Zone). For example – the development of a trade retail precinct (Harvard Park).
- Focus on the planning environment in Christchurch and alignment with Christchurch City Council planning regulations and policies.
- 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.
- Active asset management focused on continued improvement of property investment performance.

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

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**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 13 regions of the South Island) and New Horizons (small business mentoring program)
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.

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 a number of 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.
- The continuing advancement of our Strategic Property Plan will require a continuing focus on maintaining the planning environment to expedite and implement value-enhancing investment initiatives.
- 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 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 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 administered by 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 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 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 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 and Culture 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.

**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 Committee be a “financial expert”.

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 business assurance advisor 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 advisor 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.

**People and Culture Committee**

The People and Culture Committee’s role is to oversee the relationship of company values to the People and Culture strategy and ensure that they are designed to support and deliver the Company’s overall strategy and business plans. The responsibilities of the Committee are as follows:

- Provide oversight and review annually the People and Culture strategy, implementation plan, key sub-strategies and policies to ensure they are aligned with and support the delivery of the overall company strategy
- Provide oversight and review annually the Remuneration Strategy and policies
- To oversee CIAL’s recruitment, retention and termination policies and procedures for senior leadership, and the succession planning for senior leadership 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 senior executive 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 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 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 was previously recognised that an uplift in performance was required to achieve acceptable rates of shareholder return, and as outlined earlier the RG25 strategy employed out to 2025 is focused on an improved commercial performance and a target return on equity ("ROE") for shareholders of a consistent 7% p.a. (after tax and noting the FY14 starting point was a ROE of 2.6%).

When considering the sustainable target return on equity, it should be noted that:

- it is forecast that for FY18, approximately 45% 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 Asset 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).

- CIAL holds land for long term airport development, for which a fair return is unable to be achieved in the short term. In addition, CIAL’s Regulated Asset Base (value) on which it is permitted to seek the Commerce Commission’s return is lower than the accounting asset base (value). This arises via the difference in valuation methodologies required by the regulatory and accounting frameworks.

The financial forecasts below identify the outcomes to be achieved over the ensuing three years; however, it must be accepted that it will take some time to consistently achieve the targeted returns, due to the following factors:

- 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 rebuilding this segment will only be possible through a combination of delivering on the anchor projects and implementing a co-ordinated visitor strategy that covers both destination management and destination attractions across all the 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. 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, predominantly the integrated terminal project, will be determined by the market conditions of the aviation sector, external factors such as oil prices and the levelised price path set to achieve the required economic return.
CIAL has a key focus on capital management and only investing where investment is on strategy, grow’s CIAL’s balance sheet, meets internal required return rates and enhances dividend flows long term.

**Current Financial Environment**

When considering the financial forecasts of CIAL over the upcoming three years, the following points should be noted to understand where CIAL is at in its current financial cycle:

- CIAL’s current EBITDA margin (EBITDA as a percentage of operating revenue) is forecast to be 62.6% for FY18, with a goal of 70% at FY25. This still currently benchmarks below Auckland and Wellington airports and is reflective of the relatively high incremental cost of revenue growth for CIAL e.g.
  - Whilst CIAL has enjoyed passenger growth since FY14, it continues to have to invest to achieve that growth and hence the full revenue impact from increased capacity and passengers is not experienced for a number of years following any such investments. 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 revenue.
  - Similarly, whilst CIAL continues to invest in its property development portfolio, there is a lead time of approximately 12-18 months on average from the time of the commencement of a development to when rental income is reflected in CIAL’s revenue. CIAL has also had to increase its operating costs and level of investment to crystalise increased property development opportunities; and
  - CIAL has a relatively fixed operating cost base, particularly in respect to its major terminal and airfield assets and productivity gains are incremental in nature.

- In June 2017, CIAL set its revised aeronautical prices for the period 1 July 2017 to 30 June 2022 (‘PSE3’). These prices came into effect from 1 July 2017. The result of CIAL’s price setting process was that the allowable revenue that CIAL can earn from its regulated aeronautical activities is circa $6m per annum lower than was earned during the last year of the previous five year period, FY17. This was due to the lower than expected base interest rate environment which lead to a lower return on our capital (“WACC”) that the Commerce Commission will allow.

- 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).
<table>
<thead>
<tr>
<th></th>
<th>2018 Forecast</th>
<th>2019 Forecast</th>
<th>2020 Forecast</th>
<th>2021 Forecast</th>
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<td>Return on Average Total Assets $ \textsuperscript{3} \ %</td>
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<td>3.7%</td>
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<td>4.0%</td>
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</tbody>
</table>

The financial performance targets as detailed in the table above show the revenue, profit and financial return expectations for the rest of the 2018 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 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).

- CIAL’s revenue streams from the leases and concessions in the terminal have to some extent been insulated from the changing retail landscape due to the legacy agreements that were signed over five years ago. Several leases and concessions expire in FY18 and FY19 and are currently in the process of being market tested. Until those processes have been completed and agreed there is some uncertainty around these 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.

---

$ \textsuperscript{1} \ $ Earnings before interest, tax, depreciation, amortisation and fair value movements.

$ \textsuperscript{2} \ $ Net profit after tax as % of average equity.

$ \textsuperscript{3} \ $ Net profit after tax as % of average total assets.
As an example of this, the forecasts above reflect deferred revenue from the delay in the completion of the hotel construction project and also in securing an anchor tenant for the Trade Retail Harvard Park precinct.

CIAL remains focused on reviewing the productivity and efficiency of its cost base in particular, and has a number of initiatives underway currently. However, as noted above productivity gains will incremental by nature across the next three year period.

### Passenger Numbers

<table>
<thead>
<tr>
<th>Passengers</th>
<th>2018 Forecast</th>
<th>2019 Forecast</th>
<th>2020 Forecast</th>
<th>2021 Forecast</th>
</tr>
</thead>
<tbody>
<tr>
<td>Domestic</td>
<td>5,129,747</td>
<td>5,238,957</td>
<td>5,372,926</td>
<td>5,507,205</td>
</tr>
<tr>
<td>International</td>
<td>1,750,713</td>
<td>1,819,275</td>
<td>1,873,243</td>
<td>1,942,661</td>
</tr>
<tr>
<td><strong>Total Passengers</strong></td>
<td><strong>6,880,460</strong></td>
<td><strong>7,058,232</strong></td>
<td><strong>7,246,169</strong></td>
<td><strong>7,449,866</strong></td>
</tr>
</tbody>
</table>

CIAL continues to engage with Three Consulting to assist in forecasting demand for the next three year period in conjunction with updating demand forecasts used for the most recent pricing consultation process.

Key features of the demand calculation are:

- **Domestic** – During FY17 and the first half of FY18, CIAL has continued to see domestic passenger growth approximating 4.7% year on year. This growth is forecast to taper back over the next 3-year period and track close to growth in GDP. The compound growth rate over the forecast period is 2.4% per annum.

- **International** – over the last three financial years, CIAL’s international traffic growth has trended either with or slightly below the national average. This suggests that CIAL has not yet regained its pre-earthquake proportion of national international passenger volumes. CIAL expects this trend to largely continue over the next 3-5 year period. The compound growth rate over the forecast period is 3.5% per annum.

- 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 off season months. Current forecasts out to FY21 are based on the completion of the current ‘anchor projects’ (including the Convention Centre and Metro Sports). Major events are another key area of development that would add growth 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 passengers in particular, relative to growth being achieved nationally.
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>2018 Forecast</th>
<th>2019 Forecast</th>
<th>2020 Forecast</th>
<th>2021 Forecast</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shareholder Funds/Total Assets %</td>
<td>60.2%</td>
<td>59.1%</td>
<td>58.9%</td>
<td>58.7%</td>
</tr>
<tr>
<td>Gearing (debt/(debt + equity)) %</td>
<td>33.2%</td>
<td>34.5%</td>
<td>34.8%</td>
<td>34.9%</td>
</tr>
<tr>
<td>EBITDAF Interest Cover x</td>
<td>4.7</td>
<td>5.1</td>
<td>5.3</td>
<td>5.4</td>
</tr>
<tr>
<td>Free Funds Interest Cover x</td>
<td>4.0</td>
<td>4.4</td>
<td>4.6</td>
<td>4.7</td>
</tr>
<tr>
<td>Free Funds/Debt %</td>
<td>17.2%</td>
<td>18.7%</td>
<td>19.6%</td>
<td>20.4%</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 AND WELLBEING

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 and approach to continue our momentum towards building a culture of safety leadership, and to ensure that our people feel protected, supported and have the tools to keep healthy, safe and able to perform at their best.

At the core of our Health, Safety and Wellbeing Strategy is the ‘Protection of our People’. There is no priority higher and protecting them is always the first step in anything we do.

In order to protect our people, we will further develop our:

- Safety Leadership Culture – permits the presence of safety and drives behaviour
- Safety Management Systems – drives continuous improvement
- Risk Management – reduces the opportunity for incidents

Activating this through our Golden Rules of Safety:

- SAFETY – before everything
- STOP - and think before you do
- SPEAK UP – so together we can fix it

Building a culture of safety leadership, taking a strategic approach to risk management, focusing on our safety assurance program and extending this across airside and aviation operations, taking a holistic approach to wellbeing and developing a framework to map our varied stakeholder relationships and responsibilities will all support the achievement of our safety strategy of protection of our people.

<table>
<thead>
<tr>
<th>Performance Measures</th>
<th>Performance Targets</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1. Safety Culture</strong> - through leadership and accountability, continue to build our safety culture across both people and aviation safety to permit the presence of safety and drive behaviour.</td>
<td>- Year on year improvements in our annual culture and engagement survey for health, safety and wellbeing. - Introduce safety-II principles.</td>
</tr>
</tbody>
</table>
2. Risk Management – reduce the opportunity for incidents.

- Year on year reduction in high potential and significant outcome safety risk measured through risk matrix.
- CIAL people and aviation safety assurance program delivered.

### 3. Safety Management Systems to drive continuous improvement.

- Bi-annual review of SMS and HSMS to identify and action continuous improvement opportunities.

### 4. Lost Time Injuries

- Better than industry standards, with ultimate target of Nil.

### 5. Near Miss Frequency Rate (Near misses/million hours worked)

- Year on year improvements, reflecting an improved near miss reporting culture.
- Maintaining strong levels of near miss reporting and development of near miss database.
- Development of internal trend reporting and risk management activity from near miss database.

## 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.

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.

CIAL has 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, 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 that will create a sustainable long term evolution to our Airport.

In 2016 CIAL reset its Sustainability Strategy which focuses our sustainability efforts across five key areas at the Airport – Water, Energy, Waste, Land and Noise. In addition, we established a sustainability advisory group, consisting of internal team members who have a passion in this area and complimented by several external stakeholders who are either experts or passionate stakeholders in our sustainability journey.

This panel offers advice and, most importantly, challenges our thinking to help ensure we are doing all we can to become even more sustainable.

<table>
<thead>
<tr>
<th>Performance Measures</th>
<th>Performance Targets</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Waste</strong></td>
<td></td>
</tr>
<tr>
<td></td>
<td>2019</td>
</tr>
<tr>
<td>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.</td>
<td>• Work with airlines to achieve greater recycling of waste off aircraft. Achieve 52.5% diversion rate.</td>
</tr>
<tr>
<td><strong>Energy</strong></td>
<td></td>
</tr>
<tr>
<td>---</td>
<td>---</td>
</tr>
<tr>
<td>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.</td>
<td>2 more domestic jet ground power stands commissioned.</td>
</tr>
<tr>
<td></td>
<td>Continue to investigate and implement energy-saving initiatives that ensure energy consumption is reduced.</td>
</tr>
<tr>
<td></td>
<td>Introduce electric vehicles to the CIAL fleet.</td>
</tr>
<tr>
<td><strong>Water</strong></td>
<td>Install accurate water metering devices to better understand passenger terminal water use.</td>
</tr>
<tr>
<td>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.</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><strong>Noise</strong></td>
<td>Continued commitment to an Airport Noise Liaison Committee to improve communications with our community.</td>
</tr>
<tr>
<td>Noise is the environmental issue of greatest focus at airports around the world. Our responsibility and bias is to engage and collaborate with all stakeholders, especially residents and businesses close to the airport and its flight paths.</td>
<td>Successful implementation of world leading engine testing noise management software.</td>
</tr>
<tr>
<td></td>
<td>Noise complaints are limited to 10 per 10,000 aircraft movements per annum.</td>
</tr>
</tbody>
</table>
Land
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.

- Achieve a Bird Strike incidence rate of <4/10,000 aircraft movements on a 12-month rolling average basis for airports of a similar scale
- Work with territorial authorities and other stakeholders to implement management strategies for pest birds which pose bird strike hazard risks
- Continue to liaise with authorities to ensure planning rules do not compromise communities’ safety or quality of life while allowing the airport to grow.
- Achieve a Bird Strike incidence rate of <4/10,000 aircraft movements, on a 12-month rolling average basis, in line with the level set for airports of a similar scale
- Ongoing commitment to the Avanex grass program such that it covers our entire airfield.

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>2019</strong></td>
<td><strong>2020</strong></td>
</tr>
<tr>
<td>1. To make a positive contribution to the social and community outcomes of our City and the South Island.</td>
<td>To continue to demonstrate support for events which attract visitors, enhance the City’s image and that residents can enjoy.</td>
</tr>
<tr>
<td></td>
<td>To actively involve our staff in Corporate Social Responsibility initiatives to enhance engagement.</td>
</tr>
<tr>
<td></td>
<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>
</tr>
<tr>
<td></td>
<td>To support community initiatives and organisations through the CIAL Community Fund, charity fundraisers and other donations through the year.</td>
</tr>
<tr>
<td></td>
<td>To actively involve our staff in Corporate Social Responsibility initiatives to enhance engagement.</td>
</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 and we are focused on building Leadership, Ambition and Capability into our team through our People Strategy.

Our People Strategy is designed to build a Champion Team with the capability and passion to achieve our purpose and our mission. We will do this by continuing our journey to develop a culture of high performance driven by our purpose, with an engaged team who are motivated by, and connected to, our success and by embedding our values into our culture.

Our People Strategy focuses on three key pillars, Purpose, Capability and Delivery. It is supported by an embedded culture of leadership and ambition, high performance and accountability, connection and collaboration.

<table>
<thead>
<tr>
<th>Performance Measures</th>
<th>Performance Targets</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. 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.</td>
<td>2019</td>
</tr>
<tr>
<td>• Purpose driven leadership and people excellence, clear performance accountabilities and outcome focused expectations are part of the way we do business.</td>
<td>• Purpose driven leadership and people excellence, clear performance accountabilities and outcome focused expectations are part of the way we do business.</td>
</tr>
<tr>
<td>• Year on year improvements for common purpose and leadership in annual culture and engagement survey.</td>
<td>• Year on year improvements for common purpose and leadership in annual culture and engagement survey.</td>
</tr>
<tr>
<td>• People Strategy Activation Projects delivered.</td>
<td>• People Strategy Activation Projects delivered.</td>
</tr>
<tr>
<td>2. 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.</td>
<td>2019</td>
</tr>
<tr>
<td>• Activate fair employer charter</td>
<td>• Year on year improvements in “being a fair employer” in annual culture and engagement survey.</td>
</tr>
<tr>
<td>• Develop a “being a fair employer” category in annual culture and engagement survey.</td>
<td>• Year on year improvements in “being a fair employer” in annual culture and engagement survey.</td>
</tr>
</tbody>
</table>
| | • Be recognised externally through award that recognises CIAL’s for its fair employer 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+.

Effective from the FY16 financial year, the Directors completed a review of its dividend policy and as a consequence of that review resolved to adopt a dividend policy which will provide for payment of 90% of distributable profit.

Based on CIAL’s improved performance and trading outlook, the Board remains satisfied the company can sustain this higher dividend stream, while continuing to build a strong and resilient business to support its target stand alone 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.

However, 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.

Based on this approach, the forecast dividend payments are:

<table>
<thead>
<tr>
<th></th>
<th>2018 Forecast</th>
<th>2019 Forecast</th>
<th>2020 Forecast</th>
<th>2021 Forecast</th>
</tr>
</thead>
<tbody>
<tr>
<td>Forecast Net Profit After Tax</td>
<td>47.5</td>
<td>49.7</td>
<td>52.0</td>
<td>56.0</td>
</tr>
<tr>
<td>Less</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Revaluation Gains (net of tax)</td>
<td>8.0</td>
<td>4.9</td>
<td>3.9</td>
<td>3.9</td>
</tr>
<tr>
<td>Net Profit After Tax base for dividend</td>
<td>39.5</td>
<td>44.8</td>
<td>48.1</td>
<td>52.1</td>
</tr>
<tr>
<td><strong>Dividend Forecast (@ 90%)</strong></td>
<td><strong>35.5</strong></td>
<td><strong>40.3</strong></td>
<td><strong>43.3</strong></td>
<td><strong>46.9</strong></td>
</tr>
</tbody>
</table>
Dividend Pay-outs (Cash Flows)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Current Year Interim Dividend</td>
<td>17.4</td>
<td>19.4</td>
<td>20.8</td>
<td>22.5</td>
</tr>
<tr>
<td>Prior Year Final Dividend</td>
<td>21.9</td>
<td>18.1</td>
<td>20.9</td>
<td>22.5</td>
</tr>
<tr>
<td>Forecast Dividend Cash Flow</td>
<td>39.3</td>
<td>37.5</td>
<td>41.7</td>
<td>45.0</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 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 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 Master Plan and shorter term strategic framework.

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

**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 ongoing 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 growth 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.

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**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
- Big 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.

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**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 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

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 $1,217 million (2017 $1,187 million).

Key factors taken into consideration in determining this valuation were:

- The valuation calculated as at 30 June 2018, 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 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 7.30% (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 $1,217 million (often referred to as the equity value) was calculated by taking the midpoint range of the enterprise value of $1,628 million (2017 $1,550 million) and deducting net debt of $411 million (2017 $363 million).

The change in commercial value from 2017 ($1,187 million) to the $1,217 million at 30 June 2018 was due to several off-setting factors:

- An increase in the value of the Regulated Asset Base to reflect recent work done on the airfield pavement works and the terminal gates.
- The growth of the Investment property portfolio, reflecting the uplift in the current valuations and on-going new commercial property developments.
- When considering the valuation of property rental income streams, it should be noted that prior to development future rental streams are included in “contestable activities” for the next 20-year period with a terminal value. Once the development is completed the relevant property (and related rental streams) is transferred to the “investment property” portfolio and valued based on committed rental streams and a market capitalisation rate. This transfer does mean a reduction in overall value when assets are transferred across.
- 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 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 2017, as published on our company website. http://www.christchurchairport.co.nz/media/879323/cial_financial_statements_2017_-_final_-_web_-_spreads.pdf.