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building for the next generation...

# FINANCIAL STATEMENTS

# BUSINESS PERFORMANCE OVERVIEW

## A record year

2010 was a record year for Christchurch International Airport Limited (CIAL). For the first time total passenger movements exceeded six million, resulting in record revenues and the highest operating profit after tax (excluding the adjustment for deferred tax).

This result reflected the emphasis placed on working with airlines and tourism organisations to support the growth of tourists coming to Christchurch and the South Island, the benefit of improved returns through terminal retail activity and a focus on managing and containing operating costs.

All this was achieved in a year that CIAL began one of the most complex construction programmes seen in Christchurch in recent times – the commencement of building the new integrated terminal on the same site as the existing terminal, with minimal disruption to airport operations.

However, while the financial and operating performance was superior to any previous period, the return on assets and return on equity measures continue to reflect the constrained pricing environment in which CIAL operates. The overall return on assets was below the required performance outcomes, and while there are sound and robust reasons for this, improving the overall return on investment is a specific goal for the future.

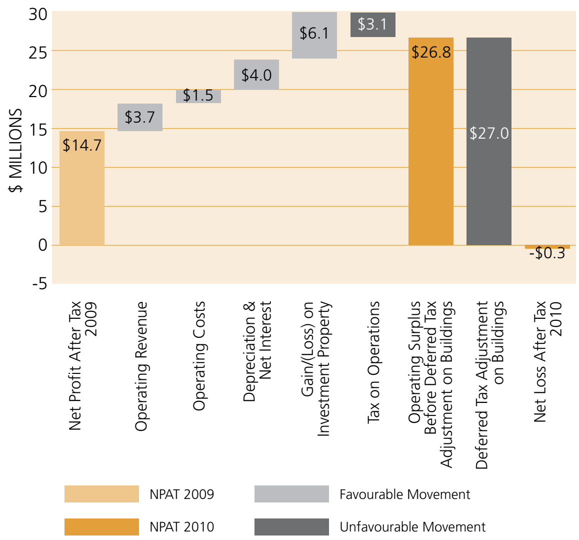
A summary and discussion of this financial performance for 2010 is outlined below.

| | **2010** | **Performance to target** | 2009 | Change |
|---|---|---|---|---|
| Total revenue | **$96.1m** | ✓ | $86.8m | $9.3m (10.7%) |
| Total operating costs | **$32.8m** | ✓ | $34.3m | -$1.5m (-4.4%) |
| Earnings before interest, tax, depreciation and amortisation (EBITDA) | **$60.8m** | ✓ | $55.5m | $5.3m (9.4%) |
| Net operating surplus before tax | **$37.3m** | ✓ | $22.1m | $15.2m (68.8%) |
| Adjusted operating surplus after tax* | **$26.8m** | ✓ | $14.7m | $12.1m (82.3%) |
| Total assets | **$852.0m** | ✓ | $743.0m | $109.0 (14.7%) |
| Return on average assets* | **3.4%** | ✓ | 2.0% | 1.4% (70.0%) |
| Return on average equity* | **4.7%** | ✓ | 2.6% | 2.1% (80.8%) |
| Gearing | **22%** | ✓ | 16% | 6% (37.5%) |
| EBITDA Interest Cover | **9.0x** | ✓ | 7.3x | 1.7x (23.3%) |
| FFO Interest Cover | **5.3x** | ✓ | 5.9x | -0.6x (-10.2%) |
| Net operating (deficit)/ surplus after tax** | **($0.3m)** | n/a | $14.7m | -$15.0m (-102.0%) |

* excluding the one-off deferred tax adjustment on buildings and buildings under construction

** operating surplus after tax, less the one-off deferred tax adjustment of $27.0m

**Net profit after tax**

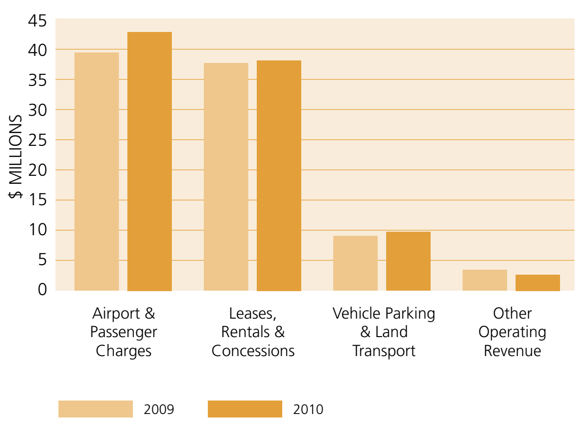



## Discussion of key performance drivers

### Revenue

Revenue comes from a range of sources, including charges paid by airlines to use runways and terminal facilities, rents collected from tenants, car parking and other activities such as infrastructure, IT and travel services. In 2010, aeronautical revenue improved through a staged price increase for the major airline customers, the first increase in aeronautical prices for eight years. Combined with strong growth in passenger numbers, solid performance from the major retail concessions – duty-free, food and beverage and vehicle rental concessions – plus good performances from the campus property activity and car parking, this led to an overall revenue improvement.

**Operating revenues**




**Airport and passenger charges.** This revenue represents the charges paid by aircraft operators and passengers for the use of runway and terminal facilities and the provision of associated services. At $42.9m this comprises 46% of total operating revenue in 2010, up from $39.4m in 2009 (44% of operating revenue). The increase in revenue this year resulted from greater passenger numbers and changes to aeronautical charges from 1 April 2009.

**Leases, rentals and concessions.** This category includes revenue earned from retailers, duty free, food and beverage operators and other commercial operators in the terminal building, in addition to leases and rental revenues earned from buildings and land across the greater airport campus. Tenants include rental car operators, freight and cargo operators, aircraft maintenance, engine maintenance and many others. At $38.1m this represented 41% of total operating revenue in 2010, up slightly from $37.8m in 2009 (42% of operating revenue). This small increase was caused by improved commercial property returns, offsetting slightly lower retail spending by passengers reflecting reduced disposable income as a consequence of the global economic recession.

**Vehicle parking and land transport.** This category covers revenue from public car parking, parking for people working on the airport campus and charges for taxis, shuttles and other public transport operators. Revenue from these activities was $9.8m this year (10% of operating revenue), up from $9.2m in 2009. The increase in revenue was due to the overall greater number of passengers and resultant ground transport movements, and a rebalancing of car park pricing during the year to improve overall car park use.

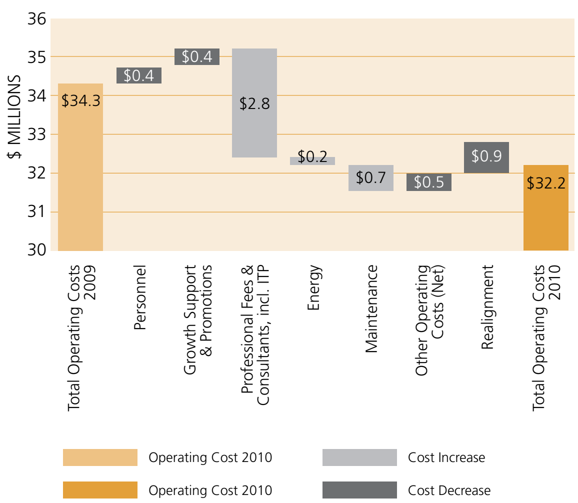
**Other operating revenue.** Other revenue of $2.8m was earned during the year ($3.5m in 2009). This was earned from a variety of activities, including travel and tourism sales commissions, farming activities and private works undertaken by the infrastructure services business. The reduction over 2009 was primarily due to the cessation of some activities in the terminal previously carried out by CIAL.

## Operating costs

As an infrastructure business, CIAL has a large fixed cost component and as such, management and control of the variable operating costs is a crucial determinant of overall performance. With this in mind, CIAL focused on achieving value for money in all areas of spending in 2010 and actively searched for ways to achieve cost and process efficiencies. Following the completion of the integrated terminal, operating costs will take a 'step change' upwards as the various stages are commissioned. This is why management has ensured a focus on establishing an efficient operating and corporate cost base from which to move forward.

In 2010, total operating costs came in both below budget and below last year (-$1.5m below 2009). These savings were achieved through energy efficiency improvements, lower cleaning and maintenance costs and lower consultancy fees as the company established or added to in-house expertise.

**Operating costs**




**Personnel.** Personnel costs increased by $0.4m or 3% in 2010 compared to 2009. This was a result of increased staff as CIAL added to or established in-house expertise at a lower cost instead of using external consultants. The voluntary acceptance of a pay freeze by the senior executive team also improved this cost area.

**Growth Support & Promotions.** In order to grow passenger movements, it is necessary to promote Christchurch and the South Island as a destination for international travellers and assist the establishment of new routes and services. 2010 saw a moderate increase to support the growth strategy.

**Professional fees and consultants, including integrated terminal project fees.** This year saw significant moves to reduce the level of expenditure on external consultants. Substantial and lasting cost savings were made by bringing expertise in-house across such diverse areas as property development, legal advice and aeronautical route development. These moves will provide ongoing savings and bring other, but not immediate, financial benefits such as improved effectiveness and responsiveness to the company. Consultancy operating expenses for the integrated terminal project were also lower in 2010 than 2009. Costs for the integrated terminal project were capitalised where appropriate, but additional operating costs have been incurred as CIAL seeks to minimise any disruption to travellers over the construction period.

**Energy.** Significant improvement in energy efficiency (reduced consumption) was a notable part of CIAL's overall sustainability programme. Building management systems and energy use were fine-tuned in 2010, resulting in energy and costs savings from an already low base. Savings came primarily from reduced energy costs for heating the terminal buildings.

**Maintenance.** Maintenance costs were lower in 2010 because of a combination of factors, including lower vehicle maintenance requirements, reduced air conditioning maintenance and reduced maintenance in the terminal building as construction of the new terminal commenced.

**Realignment.** During the year CIAL reorganised some elements of the business to meet future operational requirements. This resulted in some one-off change costs. In addition, CIAL is currently engaging with the Commerce Commission on new regulatory arrangements for all New Zealand airports which are due to take effect from 1 January 2011. Work on developing and responding to the Commerce Commission on the new information disclosure regime has been taking place over the last two years, and increased significantly in 2010 as the Commission moved to cement its views. CIAL's costs relating to these changes reflect the amount of specialist economic and legal advice the company has sought both as a company and as part of the NZ Airports Association to ensure effective input into the Commerce Commission's consultation process.

## EBITDA

EBITDA is the most effective measure of operating performance. In considering the above factors, EBITDA for 2010 was $60.8m, a solid improvement over 2009 of $55.5m (+9.4%).

### Depreciation and interest costs

The favourable depreciation charge overall in 2010 (-$3.6m) compared to 2009 was due primarily to the one-time write-off of capitalised terminal development costs in 2009 ($4.5m). Excluding this one-time charge and amortisation, core depreciation charges increased slightly in 2010 compared to 2009. Interest expenses were lower in 2010 than budgeted, as the combination of stronger than expected operating cashflows and planning and market-related delays to the property development programme resulted in lower borrowings than originally forecast. Interest charged to earnings was lower in 2010 than in 2009, even though total borrowing increased, as interest incurred on the construction of the integrated terminal project was capitalised in line with accounting policy.

### Tax on operations

The underlying tax bill was higher this year as a result of significantly higher pre-tax profit.

### Gain on investment properties

The revaluation gain on investment properties is a non-cash revenue item reflecting changes in the value of CIAL's investment property assets. The valuation improvement on these assets reflects the improvement in value following the significant write-downs experienced in 2009 caused by the global financial crisis. 2010 saw an increase in value of $2.1m, partly reversing the $4.0m fall in value experienced in 2009. As a long-term investor in property assets, CIAL looks beyond these annual movements to measure its return over a period of years.

### Deferred tax adjustment

This year CIAL, along with many other businesses in New Zealand, was affected by an unexpected change in Government tax policy announced in the May Budget. The removal of the ability to claim depreciation on buildings for tax purposes from the 2011 financial year has resulted in the need to make a one-time adjustment for those buildings currently being depreciated and for buildings under construction. The requirement of the NZIFRS financial reporting standards has resulted in an adjustment to operating surplus after tax of $27.0m. The deferred tax liability adjustment is a one-off, non-cash accounting entry and has minimal impact on CIAL's underlying profitability and cash flows.

## Looking to the future

Aviation is a volatile business. Airlines have the choice to travel to Christchurch or to alternative destinations, with financial returns of routes being a critical determinant for airlines. In addition, travellers themselves can choose to stop flying if times get tough. CIAL experienced this during the global economic downturn, when the total number of passengers fell from 2008 to 2009, but pleasingly recovered in 2010.

As an airport, CIAL is actively working to ensure airlines see the South Island as a destination of choice for their passengers and CIAL is perceived as an effective business partner. Initiatives to date are providing positive signals for the future, as the company seeks to tap new long-haul markets for travellers to and from Asia and improve links with different parts of Australia and the west coast of the United States. CIAL is confident in the future of aviation and is investing in new facilities and partnerships to take advantage of future opportunities.

However the company is aware that circumstances can change quickly and that global events can affect people's propensity to travel. To compensate for this volatility in aeronautical activities, CIAL is actively seeking to develop the land that it owns for interim commercial use. This diversification will provide a steady and comparatively stable income, and act as a buffer to the fluctuations experienced in aviation and travel.

Ultimately, CIAL seeks to keep Christchurch airport operating at its best and through that, provide substantial benefits for the people of Christchurch, the South Island and New Zealand now and into the future.

# DIRECTORS' RESPONSIBILITY STATEMENT

The Directors are responsible for ensuring that the financial statements give a true and fair view of the financial position of the company as at 30 June 2010, and the financial performance and cash flows for the year ended on that date.

The Directors consider that the financial statements of the company have been prepared using appropriate accounting policies, consistently applied and supported by reasonable judgments and estimates, and that all relevant financial reporting and accounting standards have been followed.

The Directors consider that proper accounting records have been kept, which enable, with reasonable accuracy, the determination of the financial position of the company and facilitate compliance of the financial statements with the Financial Reporting Act 1993.

The Directors consider they have taken adequate steps to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

The Directors have pleasure in presenting the financial statements, set out on pages 78-107, of Christchurch International Airport Limited for the year ended 30 June 2010.

The Board of Directors of Christchurch International Airport Limited authorise these financial statements for issue on 14 September 2010.

For and on behalf of the Board

David Mackenzie
CHAIRMAN

Catherine Drayton
DIRECTOR

## Commitment

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

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

## Regulatory framework

CIAL operates in New Zealand and is governed by a range of legislation and regulation. It is subject to regulatory control under the Airport Authorities Act; however, future monitoring of Aeronautical Economic performance will revert from January 2011 to the new 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 performance. CIAL aims to make sufficient disclosure so that the reader of the Annual Report will be able to assess the effectiveness of the company's corporate governance.

## Board accountability

The Board is ultimately responsible for approving CIAL's strategic direction: oversight of the management of the company and achievement of its business strategy, with the ultimate aim being to increase shareholder value while sustaining and ensuring the obligations of the company are properly met.

The Board is accountable to shareholders for CIAL's performance. In carrying out this principal function, the Board's specific responsibilities include:

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

In the normal course of events, day-to-day management of CIAL is delegated to the CEO and General Managers of the company.

## Board structure

The composition of the Board reflects an appropriate mix of skills required to discharge the duties and responsibilities of the Board and aligns to the interests of the shareholders as a whole. It establishes the company's strategy and ensures that it is effectively implemented.

The Board consists of six directors; four appointed by the majority shareholder, Christchurch City Holdings Ltd, and two appointed by the Minister of Finance and the Minister for State Owned Enterprises (on behalf of the New Zealand Government).

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

The Board has a broad range of commercial, legal, property, and other relevant experience and expertise required to meet its objectives.

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

The Board has three formally constituted committees; the Risk, Audit and Finance Committee, the Remuneration Committee and the Property Committee. All committees have Board-approved terms of reference outlining the committee's authority, duties and responsibilities and relationship with the Board. Additional committees may be established on the basis of need. Each committee must include a representative of each class of shareholder.

## Induction of new directors

On their first appointment, directors undertake an induction programme aimed at deepening their understanding of the company business and the environment and markets in which the company operates. As part of the programme, directors receive essential Board and company information and meet key management.

Directors are expected to be familiar with changes and trends in the business and CIAL's environment and markets, and trends in the economic, political, social and legal climate generally.

## Operation of the board

The Board met ten times during the year, at approximately monthly intervals. The table on the following page sets out the Board and sub-committee meetings attended by the directors during the course of the year.

Directors unable to attend Board or Committee meetings review the relevant papers and provide comments to the Chairman or Committee Chairman as appropriate.

The Chairman, CEO and General Manager Business Services prepare the agenda for each meeting and board papers are provided to the Directors prior to the meeting.

At each monthly meeting, CIAL's interests register is updated as necessary and the Board considers:

- a report from the CEO focusing on company performance including operating performance, property development, planning, safety, environmental and financial performance, identification and management of risks and, as appropriate, progress towards the achievement of company goals and business targets
- specific proposals for capital expenditure and acquisitions
- update of management's activities including a detailed insight of operations, challenges, issues and accomplishments
- standard items and action items arising from previous meetings.

In addition, based on a predetermined schedule, the Board:

- reviews and approves the company objectives and strategies, business plan and budgets including the annual profit targets and capital investment programmes

- approves the annual and half-yearly financial statements, including the Annual Report to Shareholders and public announcements
- considers and, if appropriate, declares or recommends the payment of dividends
- reviews directors' remuneration following approval from shareholders
- reviews the CEO's performance and remuneration
- reviews remuneration policies and practices including at-risk incentive schemes for management
- reviews risk assessment policies and controls, including insurance cover and compliance with legal and regulatory requirements
- reviews CIAL's code of conduct and ethical standards
- sets the following year's Board work plan.

The Board periodically critically evaluates its own performance, its processes and procedures to ensure that they are not unduly complex and that they assist the Board in effectively fulfilling its role and performing its duties. The Board and Committees and each director have the right to seek independent professional advice at CIAL's expense to assist them to carry out their responsibilities. The Board and Committees have the authority to secure the attendance at meetings of advisers with relevant experience and expertise.

| Board and Committee Meeting attendance | Original appointment | Current Term expires | Board meetings | Risk, Audit and Finance Committee meetings | Remuneration Committee meetings | Property Committee meetings |
|---|---|---|---|---|---|---|
| Total number of meetings held | | | 10 | 4 | 2 | 4 |
| D. Mackenzie | August 2008 | October 2011 | 10 | 4 | 2 | 4 |
| P. Carter | March 2005 | October 2011 | 10 | - | 2 | 4 |
| C. Drayton | September 2009 | October 2012 | 8 | 3 | - | - |
| G. Gould | November 2009 | October 2012 | 7 | 3 | - | 2 |
| A. Harper | October 2007 | October 2010 | 10 | 4 | - | - |
| H. Johnstone | June 2005 | April 2011 | 10 | - | 2 | 3 |
| S. Sheldon | (resigned September 2009) | | 3 | 1 | - | - |

## Communication with shareholders

In accordance with the Local Government Act 2002, CIAL submits a draft Statement of Intent (SoI) in February for the coming financial year to shareholders. The SoI sets out the company's overall objectives, intentions and financial and performance targets. Shareholders make comments on the draft SoI. The Board then considers these comments and delivers a final SoI to Shareholders by the end of May.

The Board aims to ensure that shareholders are informed of all major developments affecting the company's state of affairs, while at the same time recognising that commercial sensitivity may preclude certain information from being made public. Within this constraint, information is communicated to the shareholders through quarterly reports and periodic briefings providing financial information and commentary on operational and non-financial performance measures. The company provides half yearly and annual reports to shareholders by the end of February and September respectively.

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

## Ethical and responsible decision making

The Board considers that responsible and ethical decision making is supported by the highest standards of corporate behaviour towards our stakeholders.

The Business Plan, incorporating CIAL's values and aspirations, is communicated to all staff.

All directors and employees are expected to act honestly in all of their business dealings and to act in the best interests of the company at all times.

## Risk recognition and management

CIAL has developed a comprehensive risk management framework to identify and manage all business risks. A risk is defined as any event that may inhibit the company in meeting its objectives. Risk management takes place in the context of CIAL's day-to-day activities and is used to identify:

- the potential consequence (measured in terms of the impact on people, finances, environment and reputation) and probability (measured in terms of likely occurrence) of an event of activity
- activities and systems in place to mitigate a risk
- the residual unmitigated risk.

The Board will determine its appetite for risk by considering whether the residual unmitigated risk is acceptable and if necessary, plans are put in place for additional controls or systems. The major initiatives will be reflected as activities in the Business Plan.

The Board will review CIAL's risk profile annually, and the Risk, Audit and Finance Committee reviews risk activity on a quarterly basis.

### Business Assurance

The role of Business Assurance, outsourced to an external service provider, is to develop a comprehensive continuous audit program, which supports CIAL's risk management process. Business Assurance is used to verify the company's risk profile and to confirm that risk mitigation is operating as documented.

A comprehensive register of action items arising from Business Assurance reviews is maintained; which includes a description of the action item, records target completion dates, and responsibility for completion. Progress of high and medium-rated action items is reviewed by the Executive Team.

A register, as part of the risk management framework, will also be maintained of all incidents and non-compliance events, including near-misses.

### Chief Executive Officer and General Manager Business Services Assurance

The CEO and General Manager Business Services have provided written assurance to the Risk, Audit and Finance Committee regarding the adequacy of:

- governance, ethics and compliance assurance
- financial policies and systems of internal control
- health, safety and environment.

There were no qualifications to the assurances provided by management for the year ended 30 June 2010.

### Insurance and indemnities

CIAL has a comprehensive insurance programme as part of risk mitigation. This programme is reviewed annually to ensure that appropriate cover is in place.

Deeds of Indemnity have been given to directors in relation to potential liabilities and costs they may incur for acts or omissions in their capacity as directors. In addition, Deeds of Indemnity have been provided to the executive management team in relation to potential liabilities and costs they may incur for acts or omissions in their capacity as employees of CIAL.

During the year, the directors' and officers' liability insurance was renewed to cover risks arising out of acts or omissions of directors and employees in their capacity as such. Insurance is not provided for dishonest, fraudulent, malicious or wilful acts or omissions. The insurance cover is provided by QBE Insurance (International) Ltd and Vero Liability Insurance (NZ). The cost of the cover for the year to 30 June 2010 is $38,610.

### Internal policies and procedures

Compliance with the many legal, regulatory and industry requirements is a priority for the Board. CIAL takes its obligations seriously in this regard and continually looks for ways to improve the standard of compliance. CIAL employees are responsible for ensuring the company carries out its business in a way that gives consideration to all applicable legal requirements, minimises the cost of legal risk and maximises business opportunities. Managers are responsible for making sure their staff understand what compliance means in their particular areas, by ensuring appropriate training and compliance information is available.

## Integrity in financial reporting

### Going concern

The directors have considered whether it is appropriate to prepare the 2010 financial statements on the basis that CIAL is a going concern. As part of its normal business practices, the company prepares annual budgets and longer-term financial and business plans. In reviewing this information, the directors are satisfied that the company has adequate resources to continue in business for the foreseeable future. For this reason, the directors continue to adopt the "going concern" basis in preparing the Group's financial statements.

### System of internal controls

CIAL has a comprehensive management system, which covers all aspects of its business. The management system incorporating internal financial and operational controls is designed to meet CIAL's particular needs and aims to:

- facilitate effective and efficient operations
- safeguard the company's assets
- ensure proper accounting records are maintained
- ensure that the financial information used within the business and for publication is reliable.

The system is formally documented and includes performance standards, policies, procedures, instructions and guidance.

Such a system of internal control can only be designed to manage, rather than eliminate, risk of failure to achieve business objectives and can provide reasonable, but not absolute, assurance against material misstatement and loss.

## The board's relationship with management

### Position of CEO

The CEO is the primary point of accountability and link between the Board and operational management functions.

All Board authority conferred on management is delegated through the CEO so that the authority and accountability of management is considered to be the authority and accountability of the CEO so far as the Board is concerned.

The Board and CEO agree to meet specific results directed towards the company goals. This will usually take the form of an annual performance programme directed at achieving the company goals.

The Board systematically and rigorously monitors the CEO's performance against the criteria established in the performance objectives and the company goals.

Between Board meetings the Chairman maintains a link between the Board and the CEO. He is kept informed by the CEO on all important matters and is available to the CEO to provide counsel and advice where appropriate. The Chairman, however, does not use this link to personally manage the CEO and does not impede the flow of information to the Board necessary for sound governance.

Only decisions of the Board acting as a body are binding on the CEO. Decisions or instructions of individual directors, officers or committees cannot be given to the CEO and are not binding in any event except in those instances where specific authorisation is given by the Board.

The Board instructs the CEO through written policies that prescribe the shareholder benefit to be achieved (company goals) and the organisational circumstances to be avoided, allowing the CEO any reasonable interpretation of those policies. The Board is the final arbiter of "reasonableness" based on a "reasonable person" test.

### Delegation of responsibilities

The Board delegates management of the day-to-day affairs and management responsibilities of the CEO and the executive team to deliver the strategic direction and goals determined by the Board. This delegation includes:

- operating CIAL's business within the parameters set by the Board from time to time and, where a proposed transaction, commitment or arrangement exceeds these parameters, referring the matter to the Board for its consideration and approval
- developing business plans, budgets and company strategies for the Board's consideration and, to the extent that they are approved by the Board, implementing these plans, budgets and strategies
- identifying and managing business risks, and if those risks could materially affect the company or its business, formulating strategies to manage those risks
- managing CIAL's current financial and other reporting mechanisms to ensure that they are functioning effectively to capture all relevant material information on a timely basis
- implementing CIAL's internal controls, policies and procedures and monitoring these controls, policies and procedures to ensure that they are appropriate and effective.

## Board sub-committees

### Risk, Audit and Finance Committee

The Risk, Audit and 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 Risk, Audit and Finance Committee be a "financial expert".

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

- risk management systems and the internal control system
- business policies and practices
- protection of the Company's assets
- compliance with applicable laws, regulations standards and rules
- reporting of financial information and disclosure requirements
- financial management.

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

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

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

The members of the Risk, Audit and Finance Committee as at 30 June 2010 were Catherine Drayton (Chairman), (following the retirement of Sue Sheldon in September 2009), Ann Harper, and George Gould, who superseded Hanlin Johnstone who was a member of the committee until October 2009. The Chairman, David Mackenzie, is a member *ex officio*, and also attended meetings of the committee.

Particular areas of focus for the Committee during 2010 were:

- the robustness and integrity of the public disclosure of Financial Performance to Shareholders and the information disclosures required under the Airport Authorities Act
- risk management and the progressive development of Enterprise-wide Risk Management, with particular focus on Business Continuity
- capital Investment and the required Financing Strategy and review of Treasury Policy and activity
- valuation of assets and the taxation treatment of building assets post the 2010 Budget.

## Remuneration Committee

The Remuneration Committee's role is to assist the Board in overseeing the management of CIAL's human resources activities. The responsibilities of the Committee are as follows:

- to review the remuneration and human resources strategy, structure and policy for the company and reviewing remuneration practices to ensure that they are consistent with such policies
- to oversee CIAL's recruitment, retention and termination policies and procedures for senior management, and the succession planning for senior management and the Chief Executive Officer
- to review the performance of the Chief Executive Officer, the engagement agreement and benefit structure for the Chief Executive Officer and Executive Management group, and recommend to the Board senior executive incentive remuneration plans, other employee benefits, and key performance objectives of the Chief Executive Officer and Executive Management group.

The members of Remuneration Committee as at 30 June 2010 were David Mackenzie (Chairman), Philip Carter and Hanlin Johnstone.

Particular areas of focus for the Committee during 2010 were:

- remuneration policy for the forthcoming year, taking particular cognisance of the adverse economic conditions
- review of CEO and senior executive performance
- progressive update of Remuneration Policy to meet current market practices.

### Property Committee

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

The responsibilities of the Committee are as follows:

- to review the company's property strategy (including its priorities) regularly to ensure that it remains appropriate having regard to all relevant matters. Such matters shall include the company's financial position, maintenance of a balanced property portfolio, property market conditions, regulatory planning issues, strategic focus and priorities, timetabling of investments and any other matters considered relevant by the Committee
- to review from time to time, and at least annually, the company's progress in implementing the approved property strategy, in respect of both its property investment and property management activities
- to report the outcome of reviews undertaken under this heading to the Board, with any necessary analysis, commentary, and reports, and make resulting recommendations to the Board.

The members of Property Committee as at 30 June 2010 were Philip Carter (Chairman), Hanlin Johnstone and George Gould. The Chairman, David Mackenzie, is a member *ex officio*, and also attended meetings of the committee.

Particular areas of focus for the Committee during 2010 were:

- planning and consenting to enable development of the wider property portfolio
- expansion initiatives for the Freight and Logistics Park and retail developments
- approval of investment cases for specific property development initiatives
- access requirements for traffic management to the wider campus development.

## Remuneration

### Directors

The total remuneration paid to Directors for the year ended 30 June 2010 is:

| Name | Remuneration |
|---|---|
| D Mackenzie | 73,176 |
| P Carter | 41,590 |
| H Johnstone | 38,588 |
| A Harper | 37,585 |
| C Drayton (Appointed September 2009) | 30,438 |
| G Gould (Appointed November 2009) | 29,690 |
| S Sheldon (Resigned September 2009) | 12,371 |
| **Total Fees** | **263,438** |

No other remuneration or benefits other than reimbursement of expenses has been paid or given to directors. CIAL has made no loans to any director, nor has the company guaranteed any debts incurred by a director.

## CIAL employees

### Framework for remuneration

The Remuneration Committee is responsible for reviewing remuneration policy and human resources strategy, structure, policy and practices. It seeks external expert advice on best practice remuneration structures and market trends to ensure that the remuneration strategy for CIAL contributes to effective performance and value creation. To grow and be successful, CIAL must be able to attract, retain and motivate capable individuals.

The key principles determined by the Remuneration Committee that underpin CIAL's remuneration policies are that rewards are market-competitive and that remuneration is linked to performance to attract and retain talented individuals. The overall cost of remuneration is managed and linked to the ability of the company to pay.

The Remuneration Committee reviews the Chief Executive Officer's performance evaluation of his direct reports and approves the remuneration and other variations to the terms and conditions of employment of his direct reports.

| Remuneration Ranges | Number of Employees | |
|---|---|---|
| $000 | **2010** | 2009 |
| $100 - $110 | 4 | 1 |
| $110 - $120 | 1 | 1 |
| $120 - $130 | 6 | 3 |
| $130 - $140 | - | 2 |
| $140 - $150 | 2 | 2 |
| $150 - $160 | 5 | 2 |
| $180 - $190 | 2 | 2 |
| $190 - $200 | 2 | 1 |
| $210 - $220 | - | 1 |
| $250 - $260 | - | 1 |
| $260 - $270 | 2 | - |
| $410 - $420 | - | 1 |
| $420 -$430 | 1 | - |

## Corporate responsibility and sustainability

CIAL seeks to operate the business in a sustainable manner. As such, it is committed to running the business in a way that minimizes its environmental and social impact, whilst at the same time maximizing its economic contribution to Canterbury and the South Island as a whole.

The CIAL purpose and values statements guide the behaviour of all CIAL staff and how they conduct CIAL's business. The purpose defines what CIAL does and CIAL's values state how CIAL people choose to interact with each other, customers, suppliers and communities.

The Chief Executive Officer is required to ensure that managers act in a manner that is consistent with corporate policy and direction.

The Board has established governance principles that provide a broad description of the way in which the Board expects the company to be managed for shareholders' benefit.

These principles are:

- CIAL exists to grow shareholder value, with business strategies being customer and market-focused
- Overarching strategy and policy will be decided at corporate level, with the development of strategic relationships being pursued to create a source of competitive advantage
- Accountability will be clear and measurable, and systems and processes will support strategy
- The organisational model will enable flexibility for change.

# STATEMENT OF FINANCIAL PERFORMANCE

for the year ended 30 June 2010

| | Note | **2010** | 2009 |
|---|---|---|---|
| | | **$000** | $000 |
| **REVENUE** | | | |
| Operating revenue | 1 | 93,579 | 89,882 |
| Fair value gain/(loss) on investment properties | 17 | 2,094 | (3,956) |
| Interest income | 2 | 467 | 848 |
| **Total revenue** | | **96,140** | **86,774** |
| **EXPENSES** | | | |
| Employee remuneration | | 13,533 | 13,127 |
| Other costs | 3 | 18,799 | 18,735 |
| Financing and interest costs | | 6,680 | 7,389 |
| Depreciation, amortisation and impairment | 4 | 19,326 | 22,950 |
| Terminal development project costs | 5 | 474 | 2,484 |
| **Total expenses** | | **58,812** | **64,685** |
| **Operating surplus before tax** | | **37,328** | **22,089** |
| Tax attributable to operations* | 6 | 10,552 | 7,403 |
| **Operating surplus after taxation and before deferred tax adjustment** | | **26,776** | **14,686** |
| Deferred tax adjustment* | 6 | 27,036 | - |
| **Net operating (deficit)/surplus after income tax** | | (260) | **14,686** |
| *Total taxation expense | | 37,588 | 7,403 |



The accompanying notes form part of these financial statements

# STATEMENT OF COMPREHENSIVE INCOME

for the year ended 30 June 2010

| | Note | 2010 | 2009 |
|---|---|---|---|
| | | $000 | $000 |
| **Net operating (deficit)/surplus after income tax** | | **(260)** | **14,686** |
| **Other comprehensive income** | | | |
| Fair value gain on land and buildings (net of tax) | 11 | 22,564 | 94 |
| Cash flow hedges | 11 | (1,826) | (7,286) |
| Foreign currency cash flow hedge | 11 | 5 | 2,280 |
| **Other comprehensive income for year, net of tax** | | **20,743** | **(4,912)** |
| **Total comprehensive income for year** | | **20,483** | **9,774** |

Items in the statement above are disclosed net of tax. The income tax relating to each component of other comprehensive income is disclosed in note 11.

# STATEMENT OF CHANGES IN EQUITY

for the year ended 30 June 2010

| | Note | 2010 | 2009 |
|---|---|---|---|
| | | $000 | $000 |
| **Equity at beginning of year** | | **560,117** | **563,272** |
| **Total comprehensive income for the year** | | 20,483 | 9,774 |
| **Transactions with owners** | | | |
| Dividends paid to shareholders | 9 | (10,541) | (12,929) |
| **Equity at end of year** | | **570,059** | **560,117** |

The accompanying notes form part of these financial statements

# STATEMENT OF FINANCIAL POSITION

as at 30 June 2010

| | Note | 2010 | 2009 |
|---|---|---|---|
| | | **$000** | $000 |
| **EQUITY** | | | |
| Share capital | 10 | 57,600 | 57,600 |
| Reserves | 11 | 315,288 | 294,545 |
| Retained earnings | 11 | 197,171 | 207,972 |
| **Total equity** | | **570,059** | **560,117** |
| **NON-CURRENT LIABILITIES** | | | |
| Term borrowings | 12 | 120,000 | 105,000 |
| Derivative financial instruments | 13 | 9,229 | 5,815 |
| Deferred taxation | 7 | 86,135 | 56,126 |
| Trade and other payables | 14 | 2,010 | - |
| **Total non-current liabilities** | | **217,374** | **166,941** |
| **CURRENT LIABILITIES** | | | |
| Trade and other payables | 14 | 20,503 | 12,357 |
| Current portion of borrowings | 12 | 42,000 | - |
| Taxation | | 1,546 | 2,332 |
| Derivative financial instruments | 13 | 485 | 1,274 |
| **Total current liabilities** | | **64,534** | **15,963** |
| **Total equity and liabilities** | | **851,967** | **743,021** |
| **NON-CURRENT ASSETS** | | | |
| Property, plant and equipment | 15 | 753,302 | 658,051 |
| Investment properties | 17 | 80,030 | 77,391 |
| Intangible assets | 16 | 1,028 | 1,278 |
| Trade and other receivables | 19 | 9,866 | - |
| **Total non-current assets** | | **844,226** | **736,720** |
| **CURRENT ASSETS** | | | |
| Cash and cash equivalents | 18 | 904 | 847 |
| Trade and other receivables | 19 | 6,453 | 4,974 |
| Inventories | 20 | 377 | 480 |
| Derivative financial instruments | 13 | 7 | - |
| **Total current assets** | | **7,741** | **6,301** |
| **Total assets** | | **851,967** | **743,021** |



The accompanying notes form part of these financial statements

for the year ended 30 June 2010

| | Note | 2010 $000 | 2009 $000 |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| **Cash was provided from:** | | | |
| Receipts from customers | | 96,150 | 89,640 |
| Interest received | | 467 | 869 |
| Net Goods and Services Tax received | | - | 116 |
| | | **96,617** | **90,625** |
| **Cash was applied to:** | | | |
| Payments to suppliers and employees | | 41,726 | 34,271 |
| Financing and interest costs | | 6,138 | 7,698 |
| Net income tax paid | | 6,500 | 3,000 |
| Subvention payments – (CCC Group) | | 5,056 | 3,353 |
| Net Goods and Services Tax paid | | 2,004 | - |
| | | **61,424** | **48,322** |
| **Net cash flows from operating activities** | 21 | **35,193** | **42,303** |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| **Cash was provided from:** | | | |
| Proceeds from sale of property, plant and equipment | | 444 | 634 |
| Proceeds from realisation of foreign exchange | | - | 15,316 |
| | | **444** | **15,950** |
| **Cash was applied to:** | | | |
| Purchase of property, plant and equipment | | (80,447) | (26,593) |
| Purchase of investment properties | | (1,257) | (4,623) |
| Purchase of intangible assets | | (335) | (685) |
| | | **(82,039)** | **(31,901)** |
| **Net cash flows from investing activities** | | **(81,595)** | **(15,951)** |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| **Cash was provided from:** | | | |
| Borrowings | | 114,000 | - |
| **Cash was applied to:** | | | |
| Dividends paid | | (10,541) | (12,929) |
| Borrowings | | (57,000) | (13,000) |
| | | **(67,541)** | **(25,929)** |
| **Net cash flows from financing activities** | | **46,459** | **(25,929)** |
| **Net increase in cash held** | | **57** | **423** |
| Add cash and cash equivalents at beginning of the year | | 847 | 424 |
| **Cash and equivalents at the end of the year** | 18 | **904** | **847** |

The accompanying notes form part of these financial statements

# STATEMENT OF ACCOUNTING POLICIES

## GENERAL INFORMATION

Christchurch International Airport Limited (the company) owns and operates Christchurch International Airport. The Company is owned 75% by Christchurch City Holdings Limited, a wholly owned subsidiary of Christchurch City Council, and 25% owned by the New Zealand Government.

The company is a limited liability company incorporated and domiciled in New Zealand. The address of its registered office is Level 4 Carpark Building, Christchurch International Airport, Christchurch.

These financial statements have been approved for issue by the Board of Directors on 14 September 2010.

## SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand. They comply with the New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS), the International Financial Reporting Standards and other applicable Financial Reporting Standards, as appropriate for profit oriented entities.

## a) Basis of preparation

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

### Entity reporting

The financial statements are for Christchurch International Airport Limited. The wholly owned subsidiaries are as follows :

CIAL Holdings Number 1 Limited
CIAL Holdings Number 2 Limited
CIAL Holdings Number 3 Limited
CIAL Holdings Number 4 Limited
CIAL Holdings Number 5 Limited

As the wholly owned subsidiaries were not trading and held no assets and liabilities during and at the end of the period of review, the financial statements for the group are the same as that of the parent.

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

### Statutory base

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

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

### Functional and presentation currency

These financial statements are presented in New Zealand dollars and all values are rounded to the nearest thousand dollars ($1,000). The functional currency of the company is New Zealand dollars.

### Historical cost convention

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain assets as identified in specific accounting policies.

## Critical accounting estimates and assumptions

The preparation of financial statements requires the use of certain critical accounting estimates and assumptions. It also requires the company to exercise its judgement in the process of applying the accounting policies. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are set out below.

i. Identification of property, plant and equipment to be reclassified to investment property

The company makes a decision on the assets to be included in investment properties by using a predetermined method of classification. The main factor of this classification is that the property is not used for aircraft related activities.

ii. Estimated life of the existing domestic terminal

The company has estimated the remaining life of the existing domestic terminal for valuation purposes. This period equals the estimated build time for the new terminal.

iii. Impairment assessment of ITP work in progress expenditure

The company has estimated the impairment of the ongoing value of ITP expenditure due to the continuous development of the design. This impairment has been subject to Quantity Surveyor and Project Managers' review.

iv. Deferred tax adjustment on buildings and work in progress

The company has been required to estimate a deferred tax adjustment, owing to the removal of the ability to claim depreciation on buildings for tax purposes, post the 2010 Budget pronouncement. An estimate of the items covered under the category of buildings and buildings in progress was required. This was required as the Inland Revenue department is reviewing the definition as to what is a building and also to the position that cost incurred to date on the construction of buildings required as estimated allocation of certain costs, particularly consultant fees, as these costs related to a range of activities not just buildings. It should be noted that the estimate is in present day dollars and has not been discounted to reflect the timing of the future cash flows.

## New and amended standards adopted by the company

The company has adopted the following relevant new and amended standards as of 1 July 2009:

- NZ IFRS 7 'Financial Instruments – Disclosures' (amendment) – effective for annual periods beginning on or after 1 January 2009. The amendment requires enhanced disclosures about fair value measurement and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of a fair value measurement hierarchy. As the change in accounting policy only results in additional disclosures, there is no impact on net assets.
- NZ IAS 1 (revised) 'Presentation of financial statements' – effective for annual periods beginning on or after 1 January 2009. The revised standard prohibits the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity in a statement of comprehensive income. As a result, the company presents in the statement of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in the statement of comprehensive income. Comparative information has been re-presented so that it also is in conformity with the revised standard. As the change in accounting policy only impacts presentation aspects, there is no impact on net assets.
- NZ IAS 23 'Borrowing costs' - effective for annual periods beginning on or after 1 January 2009. The standard requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs will be removed. The amendment has not resulted in any material impact as the previous accounting policy adopted by the company was consistent with the amendment.
- NZ IAS 40 (amendment) 'Investment property' – effective for annual periods beginning on or after 1 January 2009. This standard requires investment properties under development to be reclassified as investment property. Previously, investment properties under development were held at cost less any impairment and included within property, plant and equipment balance for the company. This standard requires this amendment to be applied prospectively. The effects of adoption by the company are disclosed in notes 15 and 17.

### Standards issued and not yet adopted

- NZ IFRS 9 'Financial Instruments' - effective for annual periods beginning on or after 1 January 2013. This standard will eventually replace NZ IAS 39. It requires an entity to classify its financial assets on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset, and subsequently measures the financial assets as either at amortised cost or fair value. Management are still determining the impact NZ IFRS 9 will have on the company.

## b) Foreign currency translation

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

## c) Revenue recognition

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

i. Sales of goods

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

ii. Sales of services

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

iii. Interest income

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

iv. Rental income

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

## d) Income tax

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

Current tax is the amount of income tax payable based on the taxable profit for the current year, plus any adjustments to income tax payable in respect of prior years. Current tax is calculated using the rates that have been enacted or substantively enacted by balance date.

Deferred tax is the amount of income tax payable or recoverable in future periods in respect of temporary differences and unused tax losses. Temporary differences are differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit.

Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which the deductible temporary differences or tax losses can be utilised.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, using tax rates that have been enacted or substantively enacted by balance date.

Current tax and deferred tax is charged or credited to the Statement of Financial Performance, except when it relates to items charged or credited directly to other comprehensive income, in which case the tax is dealt with in the Statement of Comprehensive Income.

## e) Goods and Services Tax (GST)

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

## f) Leases

### Operating Leases

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

## g) Impairment

### Non-financial assets

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

### Financial assets

Assets are reviewed for impairment on a regular basis and any possible loss is recognised when the carrying amount exceeds its recoverable amount.

## h) Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held on call with financial institutions, other short term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within the current liabilities on the statement of financial position.

## i) Trade receivables

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

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. A provision for doubtful receivables is established when there is objective evidence that the company will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the Statement of Financial Performance.

## j) Inventories

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

## k) Other financial assets

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

The classification into the following category depends on the purpose for which the investment was acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting date.

## l) Derivatives

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured to their fair value at balance date. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The company designates certain derivatives as either:

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

ii. hedges of highly probable forecast transactions (cash flow hedges).

The company documents, at the inception of the transaction, the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The company also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in fair values or cash flows of hedged items.

### i. Fair value hedge

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

### ii. Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the Statement of Financial Performance. Amounts accumulated in equity are recycled in the Statement of Financial Performance in the periods when the hedged item will affect profit or loss (for instance when the forecast transaction that is hedged takes place). However, when the forecast transaction that is hedged results in the recognition of a non financial asset (for example, asset purchase) or a non financial liability, the gains and losses previously deferred in other comprehensive income are transferred from other comprehensive income and included in the measurement of the initial cost or carrying amount of the asset or liability.

When a hedging instrument expires or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in other comprehensive income at that time remains in other comprehensive income and is recognised when the forecast transaction is ultimately recognised in the Statement of Financial Performance or is capitalised on the recognition of a non-financial asset. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in other comprehensive income is immediately transferred to the Statement of Financial Performance.

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

Where derivative instruments do not qualify for hedge accounting or for which hedge accounting has not been adopted, changes in the fair value of these derivative instruments will be recognised immediately in the Statement of Financial Performance.

## m) Fair value estimation

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes. The fair value of financial instruments are valued using market rates at balance date. The fair value of forward exchange contracts is determined using forward exchange market rates at the balance date.

For further information refer to note 29.

## n) Property, plant and equipment

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

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

The last valuation was performed by Seagar and Partners (buildings, investment properties and carpark assets) and Opus International Limited (airport sealed surfaces, terminal facilities and infrastructure assets) as at 30 June 2010. The land was valued by Seagar and Partners, and the terminal facilities by Opus International Ltd, as at 30 June 2007.

Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. All other property, plant and equipment is stated at historical cost less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the assets.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the company and the cost of the item can be measured reliably. All other repairs and maintenance is charged to the Statement of Financial Performance during the financial year in which they are incurred.

Increases in the carrying amounts arising on revaluation of land, buildings, airport sealed surfaces and infrastructure assets are credited to reserves in shareholders' equity. To the extent that the increase reverses a decrease previously recognised in the Statement of Financial Performance, the increase is first recognised in the Statement of Financial Performance. Decreases that reverse previous increases of the same asset are first charged against revaluation reserves directly in equity to the extent of the remaining reserve attributable to the asset; all other decreases are charged to the Statement of Financial Performance.

### Depreciation

Land is not depreciated. Depreciation of property, plant and equipment is calculated on a straight line basis so as to expense the cost of the assets over their estimated useful lives. The useful lives are as follows:

| | |
|---|---|
| • Terminal facilities | 40 years |
| • Other buildings | 10 to 40 years |
| • Sealed surfaces | 9 to 100 years |
| • Roading | 50 years |
| • Plant and equipment | 3 to 25 years |
| • Motor vehicles | 5 to 16 years |
| • Office and computer equipment | 3 to 9 years |
| • Carpark assets (excluding land) | 50 years |
| • Infrastructure | 15 years |

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.
Gains and losses on disposals are determined by comparing the proceeds with the carrying amount of the asset. These are included in the Statement of Financial Performance.

## o) Investment property

Land is held by the company for long term and strategic purposes and is not held for resale. Investment properties are land and buildings where the building is built to maximise the return on land, and buildings as an "interim use", are held for long term rental yield and are not occupied by the company. Investment property also includes property that is being constructed or developed for future use as investment property.

Properties leased to third parties under operating leases are generally classified as investment property unless:

- The occupants provide services that are integral to the operation of the company's business
- The property is being held for future delivery of services.

Properties that are held for a currently undetermined future use, or that are vacant but held to be leased out under one or more operating leases, are classified as investment properties.

The classification of properties is done at the lowest possible level. Thus, where part of a property is occupied by a party other than the company, consideration is given to whether that portion of the building could be classified as an investment property. Classification as an investment property will be indicated if the section of the building could be separately sold or leased under a finance lease. If the section of the property occupied by a party other than the company is unable to be sold or leased separately from the rest of the building, the building is assessed as a whole and will usually only be classified as investment property if the company occupies an insignificant portion of the total building.

Investment property is carried at fair value, based on discounted cash flow projections and the direct capitalisation of actual/potential rental income, is determined annually by external valuers. Gains or losses arising from a change in fair value are recorded in the Statement of Financial Performance.

Fair value measurement on property under construction is only applied if the fair value is considered to be reliably measurable.

If it is determined that the fair value of an investment property under construction is not reliably determinable but the company has an expectation that the fair value of the property will be reliably determinable when construction is complete, the investment property under construction will be measured at cost until either its fair value becomes reliably determinable or construction is completed (whichever is earlier).

## p) Intangible assets

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These have a finite useful life and are amortised on a straight line basis over the useful economic life of 2 to 5 years. Computer software licences are carried at cost less accumulated depreciation.

Costs associated with developing or maintaining computer software programmes are recognised as an expense as incurred.

## q) Trade and other payables

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method. These amounts represent liabilities for goods and services provided to the company prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

## r) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the Statement of Financial Performance over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities, unless the company has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

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

Borrowing costs that are not capitalised are expensed as incurred.

## s) Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

## t) Provisions

The company recognises a provision for future expenditure of an uncertain amount or timing when there is a legal or constructive obligation as a result of a past event; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

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

## u) Employee benefits

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

## v) Dividends

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

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

## w) Lease inducements

Lease inducements are incentives provided for the agreement of a new or renewed operating lease with a lessee. Lease inducements are recognised as an integral part of the net consideration agreed for the use of the leased asset and are recognised as a reduction of income over the lease term, on a straight line basis unless another systematic basis is representative of the time pattern over which the benefit of the leased asset is diminished.

for the year ended 30 June 2010

| | 2010 | 2009 |
|---|---|---|
| | $000 | $000 |

## 1. Operating revenue

| | 2010 $000 | 2009 $000 |
|---|---|---|
| Airport charges | 26,238 | 23,426 |
| Passenger departure charge | 16,591 | 15,975 |
| **Aeronautical revenue** | **42,829** | **39,401** |
| Lease rentals and concessions | 38,142 | 37,765 |
| Vehicle parking | 9,816 | 9,209 |
| Gain on disposal of assets | 290 | - |
| Other revenue | 2,502 | 3,507 |
| **Commercial revenue** | **50,750** | **50,481** |
| **Total operating revenue** | **93,579** | **89,882** |

## 2. Interest income

| | 2010 $000 | 2009 $000 |
|---|---|---|
| Interest income was derived from: | | |
| Short term bank deposits | 277 | 231 |
| Other | 190 | 617 |
| **Total interest income** | **467** | **848** |

## 3. Other operating costs

| | | 2010 $000 | 2009 $000 |
|---|---|---|---|
| Other operating costs include: | | | |
| Audit fees | - financial report | 89 | 86 |
| | - disclosure regulations | 13 | 10 |
| Directors' fees | | 263 | 317 |
| Doubtful debts | | 25 | - |
| Donations | | 3 | 2 |
| Electricity, fuel and oil | | 2,391 | 2,582 |
| Lease and rental payments | | 409 | 473 |
| Maintenance expense | - buildings and plant | 2,045 | 2,723 |
| | - sealed surfaces | 158 | 141 |
| Amortisation of lease inducement | | 564 | - |
| Contributions to | - defined benefit schemes | 6 | 6 |
| | - defined contribution schemes | 43 | 41 |

## 4. Depreciation, amortisation and impairment

| | 2010 $000 | 2009 $000 |
|---|---|---|
| Buildings | 952 | 939 |
| Terminal facilities | 8,381 | 8,291 |
| Sealed surfaces | 5,179 | 4,944 |
| Plant and equipment | 343 | 357 |
| Office and computer equipment | 767 | 758 |
| Carparking | 1,429 | 1,485 |
| Infrastructure | 660 | 632 |
| Motor vehicles | 479 | 417 |
| **Total depreciation** (note 15) | **18,190** | **17,823** |
| Amortisation on intangibles (note 16) | 585 | 614 |
| Impairment of work in progress | 498 | 4,505 |
| Loss on disposal of assets | 53 | 8 |
| **Total depreciation, amortisation and impairment** | **19,326** | **22,950** |

During the year the company's assets, other than work in progress, were tested for impairment by independent valuers. No impairment has been determined on these assets. An impairment test on work in progress determined an impairment of $498,000. (2009; $4,505,000).

## 5. Integrated Terminal Development project costs

These are the incremental operating costs incurred directly as a consequence of the Integrated Terminal Development project, together with additional design costs incurred to meet customer requirements.

| | 2010 | 2009 |
|---|---|---|
| | $000 | $000 |
| | 474 | 2,484 |

## 6. Income tax

### a) Components of tax expense

| | 2010 | 2009 |
|---|---|---|
| Current tax expense | 11,073 | 10,437 |
| Adjustments to current tax of prior years | 544 | 440 |
| Deferred tax expense/(income) | 26,822 | (3,474) |
| Change in tax rates | (851) | - |
| **Total tax expense/income** | **37,588** | **7,403** |

### b) Income tax expense

| | 2010 | 2009 |
|---|---|---|
| Operating surplus before income tax | 37,328 | 22,089 |
| Prima facie taxation at 30% | 11,198 | 6,627 |
| Plus/(less) taxation effect of: | | |
| Revenue not assessible for tax purposes | (146) | - |
| Expenses not deductible for tax purposes | 21 | 3,810 |
| **Income tax attributable to operating surplus** | **11,073** | **10,437** |
| (Over)/under provision in prior years | 544 | 440 |
| Current year deferred tax | (214) | (3,474) |
| Change in tax rate | (851) | - |
| **Total income tax on operations** | **10,552** | **7,403** |
| Deferred taxation adjustment on buildings | 27,036 | - |
| **Total taxation expense** | **37,588** | **7,403** |

The deferred taxation adjustment on buildings is due to the announcement in the 2010 Budget which indicated that depreciation of buildings for taxation purposes would cease from 2011.

The charge arises from:

| | |
|---|---|
| Buildings | 19,597 |
| Work in Progress | 7,439 |
| | **27,036** |

Such adjustments were one off and will largely have no impact on underlying business cash flow. This adjustment of $27 million will be progressively reversed as a credit to future tax expense over the remaining lives of the building assets.

It is noted that the IASB has formed a tentative conclusion to introduce an exception to the measurement principle in IAS 12, which currently requires an entity to measure deferred tax in a manner consistent with the expected manner of recovery of the asset that generates the deferred tax. If the exception applied an entity would measure any deferred tax liability in a manner that reflects the tax that the entity would pay if it sells the assets, or if lower the tax that it will pay if it uses the assets. This exception would apply to investment properties, property plant and equipment or intangible assets measured at fair value using the fair value model. The affect of such a change will as a minimum reverse the one-off deferred tax adjustment made in the Financial Statements for 2010.

for the year ended 30 June 2010

## 7. Deferred taxation liability

| | Opening balance | Charged to income | Charged to equity | Closing balance |
|---|---|---|---|---|
| | $000 | $000 | $000 | $000 |
| 2010 | | | | |
| Property, plant & equipment | 54,185 | 26,206 | 3,986 | 84,377 |
| Intangible assets | 348 | (177) | - | 171 |
| Investment properties | 4,050 | 543 | - | 4,593 |
| Provisions and payments | (436) | 250 | - | (186) |
| Derivatives | (2,021) | - | (799) | (2,820) |
| | **56,126** | **26,822** | **3,187** | **86,135** |
| 2009 | | | | |
| Property, plant & equipment | 59,582 | (2,289) | (3,108) | 54,185 |
| Intangible assets | 103 | 245 | - | 348 |
| Investment properties | 4,309 | (259) | - | 4,050 |
| Provisions and payments | (468) | 32 | - | (436) |
| Derivatives | 1,033 | (1,072) | (1,982) | (2,021) |
| | **64,559** | **(3,343)** | **(5,090)** | **56,126** |

| | Note | 2010 | 2009 |
|---|---|---|---|
| | | **$000** | $000 |

## 8. Imputation credit memorandum account

| | | | |
|---|---|---|---|
| Balance at beginning of the year | | 10,615 | 13,983 |
| Income tax payments made (net) | | 5,968 | 3,000 |
| Imputation credits attached to dividends paid | | (4,518) | (6,368) |
| **Balance at end of the year** | | **12,065** | **10,615** |

## 9. Dividends

| | | | |
|---|---|---|---|
| 2009 Final dividend paid ($0.06773 per share) | | 3,901 | 6,357 |
| 2010 Interim dividend paid ($0.11527 per share) | | 6,640 | 6,572 |
| | 11 | **10,541** | **12,929** |

## 10. Share capital

| | | | |
|---|---|---|---|
| 57,600,000 fully paid ordinary shares of $1 each | | **57,600** | **57,600** |

All shares have equal voting rights and share equally as to dividends and surplus on winding up.

| | 2010 | 2009 |
|---|---|---|
| | $000 | $000 |

## 11. Reserves and retained earnings

### a) Reserves

| Balances | | |
|---|---|---|
| Cashflow hedges reserve | (7,268) | (5,442) |
| Asset revaluation reserve | 322,185 | 299,621 |
| Foreign currency cash flow reserve | 5 | - |
| Capital reserve | 366 | 366 |
| **Balance at end of the year** | **315,288** | **294,545** |

| Cash flow hedges reserve | | |
|---|---|---|
| *Movements:* | | |
| Balance at the beginning of the year | (5,442) | 1,844 |
| Revaluation | (2,609) | (10,408) |
| Deferred tax | 783 | 3,122 |
| **Balance at the end of the year** | **(7,268)** | **(5,442)** |

| Asset revaluation reserve | | |
|---|---|---|
| Balance at beginning of the year | 299,621 | 299,527 |
| Revaluation | 26,536 | (3,014) |
| Deferred Taxation | (3,972) | 3,108 |
| **Balance at end of the year** | **322,185** | **299,621** |
| *Comprising:* | | |
| Revaluation on: | | |
| Land | 181,681 | 181,681 |
| Terminal facilities | 64,428 | 62,912 |
| Buildings | 5,875 | 4,441 |
| Sealed surfaces | 28,273 | 15,376 |
| Infrastructure assets | 8,889 | 5,843 |
| Carparking | 33,039 | 29,368 |
| **Balance at the end of the year** | **322,185** | **299,621** |

| Foreign currency cash flow hedge reserve | | |
|---|---|---|
| *Movements:* | | |
| Balance at the beginning of the year | - | (2,280) |
| Exchange difference | 7 | 3,420 |
| Deferred tax | (2) | (1,140) |
| **Balance at the end of the year** | **5** | **-** |

| Capital reserve | | |
|---|---|---|
| Balance at the beginning of the year | 366 | 366 |
| Movements | - | - |
| **Balance at the end of the year** | **366** | **366** |

| | Note | 2010 | 2009 |
|---|---|---|---|
| | | **$000** | $000 |

## b) Retained earnings

| | Note | 2010 | 2009 |
|---|---|---|---|
| Balance at the beginning of the year | | 207,972 | 206,215 |
| Net (deficit)/surplus for the year | | (260) | 14,686 |
| Dividends paid | 9 | (10,541) | (12,929) |
| **Balance at end of the year** | | **197,171** | **207,972** |

# 12. Borrowings

The company has a $250,000,000 funding facility with four banks and a subordinated loan of $50,000,000 from its shareholder Christchurch City Holdings Ltd to fund the ongoing business and the terminal development project. In addition, the company has an overdraft facility of $1,000,000. (2009 $250,000,000 bank funding facility and $1,000,000 overdraft facility).

All borrowings under the bank facility subordinated loan and overdraft facility are unsecured and supported by a negative pledge deed. Interest rates paid during the year on borrowings including offsetting interest rate swaps, ranged from 6.99% to 8.80% (2009 7.08% to 8.55%).

## Maturity of debt as at 30 June

| | **2010** | **2010** | 2009 | 2009 |
|---|---|---|---|---|
| | **$000** | **$000** | $000 | $000 |
| | **Actual drawn down** | **Facility available** | Actual drawn down | Facility available |
| **Maturing in** | | | | |
| 2011 | 42,000 | 100,000 | 65,000 | 100,000 |
| 2012 | 10,000 | 80,000 | - | 80,000 |
| 2013 | 60,000 | 70,000 | 40,000 | 70,000 |
| 2015 | 25,000 | 25,000 | - | - |
| 2016 | 25,000 | 25,000 | - | - |
| | **162,000** | **300,000** | **105,000** | **250,000** |

During the year the company negotiated a new subordinated loan facility with Christchurch City Holdings Limited of $50,000,000. This facility is unsecured and supported by a negative pledge deed and matures as follows $25,000,000 in 2015 and $25,000,000 in 2016.

At the time of this report being compiled, the company is in the process of refinancing the $100,000,000 maturing in November 2010 and February 2011 for periods up to 5 years.

## 13. Derivative financial instruments

| | Fair value | | Notional principal | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| | **$000** | $000 | **$000** | $000 |
| **Current assets** | | | | |
| Forward foreign currency conracts | 7 | - | 628 | - |
| **Total current financial assets** | **7** | **-** | **628** | **-** |
| **Non-current assets** | | | | |
| Interest rate swaps – cash flow hedges | - | - | - | - |
| **Total non-current financial assets** | **-** | **-** | **-** | **-** |
| **Current liabilities** | | | | |
| Interest rate swaps – cash flow hedges | 485 | 1,274 | 5,000 | 25,000 |
| **Total current financial liabilities** | **485** | **1,274** | **5,000** | **25,000** |
| **Non-current liabilities** | | | | |
| Interest rate swaps – cash flow hedges | 9,229 | 5,815 | 132,000 | 127,000 |
| **Total non-current financial liabilities** | **9,229** | **5,815** | **132,000** | **127,000** |

## 14. Trade and other payables

| | **2010** | 2009 |
|---|---|---|
| | **$000** | $000 |
| **Trade and other payables less than one year** | | |
| Trade payables | 4,703 | 2,568 |
| Provision for refund | - | 753 |
| Employee entitlements and provisions | 1,915 | 2,195 |
| Goods and Services Tax | - | 435 |
| Accrued expenses | 13,885 | 6,406 |
| **Trade and other payables less than one year** | **20,503** | **12,357** |
| **Total trade and other payables** | | |
| Accrued Expenses | 2,010 | - |
| **Trade and other payables greater than one year** | **2,010** | **-** |
| **Total trade and other payables** | **22,513** | **12,357** |

Included in employee entitlements there is a provision for organisational realignment

| | | |
|---|---|---|
| Balance at beginning of the year | 271 | 567 |
| Expensed during the year | (117) | (296) |
| Written off during the year | (100) | - |
| **Balance at end of the year** | **54** | **271** |

## 15. Property, plant and equipment as at 30 June 2010

### Gross carrying amount

| | Cost/valuation 1 July 2009 | Current year additions at cost | Transfers at cost | Disposals and impairments at cost | Revaluation adjustment | Cost/valuation 30 June 2010 |
|---|---|---|---|---|---|---|
| | **$000** | **$000** | **$000** | **$000** | **$000** | **$000** |
| Land | 297,925 | 20 | 712 | - | - | 298,657 |
| Buildings | 28,486 | 25 | - | - | (869) | 27,642 |
| Terminal facilities | 149,094 | 578 | - | - | - | 149,672 |
| Sealed surfaces | 94,940 | 5,273 | - | - | 2,673 | 102,886 |
| Plant & equipment | 9,495 | 57 | - | (210) | - | 9,342 |
| Office & computers | 6,494 | 406 | - | - | - | 6,900 |
| Infrastructure | 12,595 | 1,216 | - | - | 2,199 | 16,010 |
| Carparking | 62,048 | 391 | - | - | 1,730 | 64,169 |
| Motor vehicles | 7,289 | 347 | - | (1,076) | - | 6,560 |
| Work in progress | 34,120 | 78,585 | - | (498) | - | 112,207 |
| **Total gross carrying amount** | **702,486** | **86,898** | **712** | **(1,784)** | **5,733** | **794,045** |

### Accumulated depreciation

| | Accumulated depreciation 1 July 2009 | Current year depreciation | Depreciation on transfers | Depreciation on disposals | Revaluation adjustment | Accumulated depreciation 30 June 2010 |
|---|---|---|---|---|---|---|
| | **$000** | **$000** | **$000** | **$000** | **$000** | **$000** |
| Buildings | 1,766 | 952 | - | - | (2,718) | - |
| Terminal facilities | 16,624 | 8,381 | - | - | - | 25,005 |
| Sealed surfaces | 9,622 | 5,179 | - | - | (14,801) | - |
| Plant & equipment | 7,252 | 343 | - | (96) | - | 7,499 |
| Office & computers | 4,596 | 767 | - | - | - | 5,363 |
| Infrastructure | 1,195 | 660 | - | - | (1,855) | - |
| Carparking | - | 1,429 | - | - | (1,429) | - |
| Motor vehicles | 3,380 | 479 | - | (983) | - | 2,876 |
| **Total accumulated depreciation** | **44,435** | **18,190** | **-** | **(1,079)** | **(20,803)** | **40,743** |
| **Total book value** | **658,051** | | | | | **753,302** |

In accordance with the company's accounting policies, capital work in progress includes capitalised interest of $7,423,462 (2009 $3,445,645).

On 30 June 2010 buildings, carparking assets, sealed surfaces and infrastructure assets were revalued by independent valuers Seagar and Partners (buildings and carpark assets) and Opus International Limited (sealed surfaces and infrastructure). Land and terminal facilities were revalued on 30 June 2007 by independent valuers Seager & Associates (land), and Opus International Ltd (terminal facilities). In 2010 management reviewed the carrying value of the Terminal Project work in progress and have made an impairment adjustment of $498,000 (2009, $4,505,000).

Land and terminal facilities were reviewed for impairment as at 30 June 2010 by Seagar and Partners (land) and Opus International Ltd (terminal facilities). No adjustment for impairment was deemed necessary on these assets.

## Property, plant and equipment as at 30 June 2009

### Gross carrying amount

| | Cost/valuation 1 July 2008 | Current year additions at cost | Transfers at cost | Disposals at cost | Revaluation adjustment | Cost/valuation 30 June 2009 |
|---|---|---|---|---|---|---|
| | **$000** | **$000** | **$000** | **$000** | **$000** | **$000** |
| Land | 290,653 | 8,637 | (1,365) | - | - | 297,925 |
| Buildings | 27,907 | 579 | - | - | - | 28,486 |
| Terminal facilities | 148,412 | 689 | (7) | - | - | 149,094 |
| Sealed surfaces | 91,300 | 3,640 | - | - | - | 94,940 |
| Plant & equipment | 9,412 | 90 | - | (7) | - | 9,495 |
| Office & computers | 5,649 | 951 | (106) | - | - | 6,494 |
| Infrastructure | 11,847 | 748 | - | - | - | 12,595 |
| Carparking | 65,000 | 3,018 | - | - | (5,970) | 62,048 |
| Motor vehicles | 7,594 | 1,383 | - | (1,688) | - | 7,289 |
| Work in progress | 31,036 | 7,589 | - | (4,505) | - | 34,120 |
| **Total gross carrying amount** | **688,810** | **27,324** | **(1,478)** | **(6,200)** | **(5,970)** | **702,486** |

### Accumulated depreciation and impairment

| | Accumulated depreciation 1 July 2008 | Current year depreciation | Depreciation on transfers | Depreciation on disposals | Revaluation adjustment | Accumulated depreciation 30 June 2009 |
|---|---|---|---|---|---|---|
| | **$000** | **$000** | **$000** | **$000** | **$000** | **$000** |
| Buildings | 827 | 939 | - | - | - | 1,766 |
| Terminal facilities | 8,333 | 8,291 | - | - | - | 16,624 |
| Sealed surfaces | 4,678 | 4,944 | - | - | - | 9,622 |
| Plant & equipment | 6,898 | 357 | - | (3) | - | 7,252 |
| Office & computers | 3,860 | 758 | (22) | - | - | 4,596 |
| Infrastructure | 563 | 632 | - | - | - | 1,195 |
| Carparking | 1,473 | 1,485 | - | - | (2,958) | - |
| Motor vehicles | 4,618 | 417 | - | (1,655) | - | 3,380 |
| **Total accumulated depreciation** | **31,250** | **17,823** | **(22)** | **(1,658)** | **(2,958)** | **44,435** |
| **Total book value** | **657,560** | | | | | **658,051** |

The carrying amount at which each revalued class of property, plant and equipment would have been carried, had the assets been measured under the cost model, is as per the table below:

| | **2010** | 2009 |
|---|---|---|
| | **$000** | $000 |
| Land | 122,252 | 122,232 |
| Buildings | 20,562 | 21,451 |
| Terminal facilities | 47,079 | 49,851 |
| Sealed surfaces | 65,174 | 62,934 |
| Infrastructure | 10,960 | 10,374 |
| Carparking | 25,159 | 25,519 |
| | **291,186** | **292,361** |

for the year ended 30 June 2010

| | **2010** | 2009 |
|---|---|---|
| | **$000** | $000 |

## 16. Intangible assets

| | | |
|---|---|---|
| Acquired computer software | | |
| Opening cost | 6,053 | 5,402 |
| Accumulated amortisation | 4,775 | 4,161 |
| **Opening book value** | **1,278** | **1,241** |
| | | |
| Current year additions at cost | 335 | 651 |
| Amortisation | 585 | 614 |
| | | |
| **Closing cost** | **6,388** | **6,053** |
| Accumulated amortisation | 5,360 | 4,775 |
| **Closing book value** | **1,028** | **1,278** |

## 17. Investment properties

### At fair value

| | | |
|---|---|---|
| Balance at the beginning of the year | 77,391 | 75,359 |
| Transfer to property, plant and equipment | (712) | - |
| Additional capitalised expenditure | 1,257 | 5,988 |
| Fair value gain/(loss) from fair value adjustment | 2,094 | (3,956) |
| **Balance at the end of the year** | **80,030** | **77,391** |
| | | |
| Rental income | 6,831 | 6,837 |
| Direct operating expenses from property that generated rental income | 386 | 823 |

#### Investment property under construction

As at 30 June 2010, the carrying value of investment properties under construction amounted to $NIL (2009: $NIL).

#### Valuation of investment property

The valuation as at 30 June 2010 was completed by Seagar and Partners, registered valuers and member of the New Zealand Property Institute. The basis of valuation is fair value based on discounted cash flow projections and the direct capitalisation of (actual or potential) rental income.

## 18. Cash and cash equivalents

| | | |
|---|---|---|
| **Bank** | **904** | **847** |

| | 2010<br>$000 | 2009<br>$000 |
|---|---|---|

## 19. Trade and other receivables

### Trade and other receivables less than one year

| | | |
|---|---|---|
| Accounts receivable | 3,472 | 4,073 |
| Prepayments | 849 | 901 |
| Lease inducement | 589 | - |
| GST receivable | 1,568 | - |
| Provision for doubtful debts | (25) | - |
| **Trade and other receivables less than one year** | **6,453** | **4,974** |

### Trade and other receivables greater than one year

| | | |
|---|---|---|
| Lease inducement | 9,866 | - |
| **Trade and other receivables greater than one year** | **9,866** | **-** |
| **Total trade and other receivables** | **16,319** | **4,974** |

## 20. Inventories

| | | |
|---|---|---|
| Materials | 365 | 295 |
| Retail stock | 12 | 11 |
| Livestock | - | 174 |
| **Total inventories** | **377** | **480** |

## 21. Reconciliation of net operating surplus after income tax with net cashflow from operation activities

| | | |
|---|---|---|
| Net operating (deficit)/surplus after tax | (260) | 14,686 |
| **Non cash items** | | |
| Depreciation, amortisation and impairment | 19,326 | 22,950 |
| (Gain)/Loss on revaluation of investment properties | (2,094) | 3,956 |
| Net gain on asset disposals | (290) | (597) |
| Deferred taxation | 26,822 | (3,343) |
| **Movements in working capital** | | |
| (Increase)/Decrease in trade and other receivables | (9,779) | (852) |
| (Increase)/Decrease in inventories | 103 | 100 |
| Increase/(Decrease) in trade and other payables | 2,151 | 879 |
| Increase/(Decrease) in taxation payable | (786) | 4,524 |
| **Net cashflows from operating activities** | **35,193** | **42,303** |

## 22. Related party transactions

Christchurch City Holdings Limited, a wholly owned subsidiary of the Christchurch City Council (CCC), owns 75% and the New Zealand Government owns 25% respectively of the issued share capital of the company.

Christchurch International Airport Limited enters into a large number of transactions with government departments, Crown entities, State-owned enterprises and other entities controlled or subject to significant influence by the Crown. These transactions are not separately disclosed where they:

- are conducted on an arm's length basis;
- result from the normal dealings of the parties; and
- meet the definition of related party transactions only because of the relationship between the parties being subject to common control or significant influence by the Crown.

| | **2010** | 2009 |
|---|---|---|
| | **$000** | $000 |
| **Transactions with owners during the year** | | |
| Purchases from CCC and subsidiaries | 510 | 1,290 |
| Rates paid to CCC | 1,733 | 1,827 |
| Revenues from CCC and subsidiaries | 160 | 152 |
| Subvention payments to CCC | 5,015 | 2,323 |
| Loss offset to CCC | 11,703 | 4,718 |
| Interest paid to CCHL | 1,498 | - |
| Accounts payable to CCC and subsidiaries | 59 | 108 |
| Amounts owing from CCC and subsidiaries | - | 51 |
| Subordinated loan balance payable to CCHL | 50,000 | - |

### Non shareholder related party transactions

Some directors of the company are, or have been during the year, directors of other companies or organisations with whom Christchurch International Airport Limited may transact. Such transactions are all carried out on an arm's-length basis and are conducted on normal commercial terms. No amounts were written off or forgiven during the reporting period and outstanding balances were settled under normal trading terms.

| **Entity** | **Transaction** | **2010** | 2009 | **Relationship** |
|---|---|---|---|---|
| | | **$000** | $000 | |
| Fulton Hogan Corporation Limited | Pavement maintenance | 4,893 | 3,263 | Hanlin Johnstone, Company Director, is a director of Fulton Hogan Limited |
| | Other maintenance | 1,409 | 591 | |
| Jet Engine Facility Limited | Rental | 51 | 30 | Hanlin Johnstone, Company Director, was a director of Jet Engine Facility Limited during the year |
| | Rates | 55 | 52 | |
| V Base Limited | Subvention payment | 40 | 1,029 | Hanlin Johnstone, Company Director, was a director of V Base Limited during the year |
| | Loss offset | 95 | 2,523 | |
| | Catering | 5 | 4 | |
| Armada Marketing Limited | Contract fees | - | 176 | Jim Boult, Chief Executive, is a director of Armada Marketing Limited |
| Denali Mangement Limited | Contract fees | 389 | - | Jim Boult, Chief Executive, is a director of Denali Management Limited |
| Meta NZ Ltd | Refuse collection | 10 | 106 | David Mackenzie, Company Chairman, is a director of Meta NZ Ltd |
| Meridian Energy | Electricity | 1,712 | - | Catherine Drayton, Company Director, is a director of Meridian Energy Ltd |
| PGG Wrightson Limited | Agricultural and landscaping supplies | 60 | - | George Gould, Company Director, is a director of PGG Wrightson Limited |

### Management contract

Christchurch International Airport Ltd entered into a management contracted dated 30 June 2009 with Denali Management Limited to provide the services of Jim Boult as Chief Executive for a two year period to 30 June 2011 with an annual retainer of $424,000 from 1 July 2009; plus an annual incentive on performance based on the achievement of specific performance targets to a maximum of $125,000, the outcome of which is assessed and paid in the following financial year.

**Balance owing to non-shareholder related parties at 30 June**

| Entity | 2010 | 2009 |
|---|---|---|
| | $000 | $000 |
| Fulton Hogan Limited | 4 | 6 |
| Denali Management Limited | 35 | - |

There were no other material related party transactions for the year.

## 23. Key management personnel compensation

The key management personnel include the Chief Executive and his direct reports consisting of 8 people.

| | 2010 | 2009 |
|---|---|---|
| | $000 | $000 |
| The key management compensation is: | | |
| Remuneration and other short term employee benefits | 1,910 | 1,869 |
| | **1,910** | **1,869** |

Directors' remuneration is disclosed in note 3.

## 24. Segment information

The company operates predominantly in the business of providing airport facilities and services to airline and airport users. All operations are based at Christchurch International Airport.

## 25. Commitments

| | 2010 | 2009 |
|---|---|---|
| | $000 | $000 |
| **Capital expenditure commitments** | | |
| Total capital expenditures committed to but not recognised in the financial statements (including $86,084,000 relating to Terminal development (2009: 115,611,000)) | **93,088** | **115,611** |
| **Operating lease commitments** | | |
| Total minimum lease payments under non cancellable operating leases but not recognised in the financial statements. These commitments are for operating leases for office equipment and baggage trolleys. | | |
| Less than 1 year | 56 | 95 |
| Between 1-2 years | 40 | 47 |
| Between 2-5 years | - | 13 |
| | **96** | **155** |

## 26. Lease income

The company has a number of property leases for which it receives rental income.

The total amount receivable for these operating leases in the future is:

| | 2010 | 2009 |
|---|---|---|
| | $000 | $000 |
| Less than 1 year | 31,103 | 20,950 |
| Between 1-2 years | 28,754 | 15,858 |
| Between 2-5 years | 79,661 | 34,290 |
| Beyond 5 years | 92,154 | 40,180 |
| | **231,672** | **111,278** |

## 27. Contingent assets and liabilities

As at 30 June 2010 there were no contingent assets or liabilities (2009: NIL).

## 28. Events occurring after balance date

The earthquake that struck Canterbury in the early hours of Saturday 4th September has not had a significant effect on the company. At this time the damage is being assessed, but the company has no reason to believe that any financial losses not covered by insurance will be material (2009: NIL).

## 29. Financial instruments

The company's activities expose it to a variety of financial risks: market risk (including currency risk and interest rate risk), credit risk and liquidity risk. The company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the company's financial performance. The company enters into derivative arrangements in the ordinary course of business to manage foreign currency and interest rate risks.

Risk management is the responsibility of the Risk, Audit and Finance Committee (the Committee) and management. The company has a treasury policy approved by the Committee. The policy provides guidelines for overall risk management, as well as specific guidelines for derivative instrument utilisation including procedures for control, valuation, risk analysis, ongoing monitoring and reporting.

Part of the company's risk management strategy is to outsource the back office processing of the treasury function to a third party.

### Market risk

#### Foreign exchange risk

The company has an exposure to foreign exchange risk arising from overseas transactions to purchase capital equipment at balance date of $628,115 (30 June 2009: $NIL). The treasury policy includes guidelines on the actions required for foreign exchange purchases and exposures including requirements on the level of derivatives that are required to be put into place. These limits are reviewed as part of the annual review of the Treasury Policy by the Risk, Audit and Finance Committee.

At 30 June 2010, had the New Zealand Dollar (NZD) weakened/strengthened by 10% against each of the currencies the company is exposed to, with all other variables held constant, the impact to pre tax profit and/or equity would have been $70,210 lower/$57,445 higher.

A sensitivity of 10% has been selected as this is considered reasonable given the current level of exchange rates and the volatility observed both on an historical basis and market expectations for future exchange rate changes.

#### Interest rate risk

The company's main interest rate risk arises from term variable rate borrowings denominated in NZD, such borrowings being determined by the company's long term development requirements and the structures approved by the Board.

The treasury policy sets parameters for borrowings and the process for monthly reporting to the Board.

Borrowings issued at variable rates expose the company to cash flow interest rate risk. The company manages its cash flow interest rate risk by using floating to fixed interest rate swaps. Such interest rate swaps have the economic effect of converting borrowings from floating rates to fixed rates.

At 30 June 2010, if the interest rates had changed by +/- 1%, with all other variables held constant, the impact to equity would have been $6.440 million lower/$6.033 million higher, the impact on profit would have been $25,000 lower/higher. The valuation of interest rate swaps has been included in this calculation.

A sensitivity of 1% has been selected as this is considered reasonable given the current level of interest rates and the trend observed both on a historical basis and market expectations for future moves.

## Interest Repricing Profile

The following table details the company's exposure to interest rates

| | Note | Weighted average effective interest rate | Variable interest rate $000 | Variable interest rate $000 | Non-interest bearing $000 | Total $000 |
|---|---|---|---|---|---|---|
| **As at 30 June 2010** | | | | | | |
| **FINANCIAL ASSETS** | | | | | | |
| Cash and cash equivalents | 18 | 2.5 | 904 | - | - | 904 |
| Derivative financial instruments | 13 | - | - | - | 7 | 7 |
| Trade and other receivables | 19 | - | - | - | 3,447 | 3,447 |
| | | | **904** | | **3,454** | **4,358** |
| **FINANCIAL LIABILITIES** | | | | | | |
| Trade and other payables | 14 | - | - | - | 20,035 | 20,035 |
| Derivative financial instruments | 13 | 6.3 | 9,714 | - | - | 9,714 |
| Borrowings | 12 | 7.7 | 162,000 | - | - | 162,000 |
| Employee benefits | 14 | - | - | - | 1,915 | 1,915 |
| | | | **171,714** | **-** | **21,950** | **193,664** |
| **As at 30 June 2009** | | | | | | |
| **FINANCIAL ASSETS** | | | | | | |
| Cash and cash equivalents | 18 | 2.5 | 847 | - | - | 847 |
| Trade and other receivables | 19 | - | - | - | 4,073 | 4,073 |
| | | | **847** | **-** | **4,073** | **4,920** |
| **FINANCIAL LIABILITIES** | | | | | | |
| Trade and other payables | 14 | - | - | - | 11,056 | 11,056 |
| Derivative financial instruments | 13 | 6.4 | 7,089 | - | - | 7,089 |
| Borrowings | 12 | 7.6 | 105,000 | - | - | 105,000 |
| Employee benefits | 14 | - | - | - | 2,195 | 2,195 |
| | | | **112,089** | **-** | **13,251** | **125,340** |

## Credit risk

Credit risk principally arises from cash and short-term investments, trade receivables and interest rate swaps. The company places its cash and short-term investments with high credit quality financial institutions and sovereign bodies and limits the amount of credit exposure to any one financial institution in accordance with its treasury policy.

The company manages its exposure to credit risk arising from trade receivables by performing credit evaluations on customers requiring credit, and continuously monitoring the outstanding credit exposure to individual customers. Credit risk is concentrated on a small number of customers. At 30 June 2010: 71% (2009: 62%) of trade receivables were due from 10 customers.

Management practice is to review debtors on a regular basis and write off any amount that is not deemed to be recoverable as required. For the year ending 30 June 2010 a total of $NIL (2009:$4,517) was written off, this represents 0% (2009: 0.1%) of total trade receivables. A further $25,000 was provided for doubtful debts (2009: $NIL).

The status of trade receivables at the reporting date is as follows:

| | **2010** $000 | 2009 $000 |
|---|---|---|
| Neither past due or impaired | 3,083 | 3,030 |
| Past due but not impaired 0 – 30 days | 180 | 220 |
| Past due but not impaired 31 – 60 days | 93 | 664 |
| Past due but not impaired > 60 days | 116 | 159 |
| Impaired assets – written down to recoverable value | - | - |
| | **3,472** | **4,073** |

There are no restructured assets at 30 June 2010 (2009: NIL). No collateral has been taken as security for trade receivables.

The carrying value is the maximum exposure to credit risk for bank balances, accounts receivable and interest rate swaps.

## Liquidity risk

Liquidity risk represents the risk that the company may not have the financial ability to meet its contractual obligations. The company evaluates its liquidity requirements on an ongoing basis and reviews the Treasury Policy Headroom levels on an annual basis. In general, the company generates sufficient cash flows from its operating activities to meet its obligations arising from its financial liabilities and has funding in place to cover potential shortfalls.

The table below analyses the company's financial liabilities and derivative financial liabilities that will be settled on a net basis, into relevant maturity groupings based on the remaining period at year end to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances within 12 months equal their carrying balances.

| 30 June 2010 | On demand | < 1 year | 1-2 years | 2-5 years | > 5 years |
|---|---|---|---|---|---|
| Trade and other payables | 20,503 | 2,010 | - | - | - |
| Borrowings | - | 48,125 | 15,107 | 94,263 | 26,868 |
| Derivative financial instruments | - | 3,962 | 2,386 | 3,783 | 725 |
| | **20,503** | **54,097** | **17,493** | **98,046** | **27,593** |

| 30 June 2009 | On demand | < 1 year | 1-2 years | 2-5 years | > 5 years |
|---|---|---|---|---|---|
| Trade and other payables | 11,604 | - | - | - | - |
| Borrowings | - | 3,445 | 45,968 | 64,712 | - |
| Derivative financial instruments | - | 4,782 | 2,454 | 319 | (497) |
| | **11,604** | **8,227** | **48,422** | **65,031** | **(497)** |

## Derivative financial instrument

### Interest rate swaps

The company has long term borrowings at a variable rate of interest. In order to protect against interest rate movements, the company has entered into interest rate swap agreements to fix the interest rate. Under these agreements, the company agrees to exchange the difference between fixed and floating rate interest amounts calculated on agreed notional principal amounts. The fair value of interest rate swaps are based on market values of equivalent instruments at the reporting date and are disclosed below.

The following table also details the notional principal amounts and remaining term of interest rate swap contracts outstanding as at reporting date:

| | Contract fixed interest rate | | Notional principal amount | | Fair value | |
|---|---|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 | **2010** | 2009 |
| | **%** | % | **$000** | $000 | **$000** | $000 |
| Outstanding floating for fixed contracts | | | | | | |
| Less than 1 year | 6.5 | 7.2 | 5,000 | 25,000 | 116 | 1,274 |
| 1 to 2 years | 5.8 | 6.5 | 18,000 | 5,000 | 599 | 249 |
| 2 to 5 years | 6.3 | 6.0 | 40,000 | 38,000 | 2,619 | 1,637 |
| Beyond 5 years | 6.4 | 6.4 | 74,000 | 84,000 | 6,010 | 3,929 |
| | | | **137,000** | **152,000** | **9,344** | **7,089** |

## Movement in cash flow hedge reserve – interest rate swaps

| | **2010** | 2009 |
|---|---|---|
| | **$000** | $000 |
| Movement in fair value of existing contracts | 2,609 | 10,408 |
| **Total movement** | **2,609** | **10,408** |

### Forward exchange contracts - cash flow hedges

The company buys some items of property plant and equipment from overseas suppliers which are required to be settled in foreign currency, primarily USD and Euro. In order to protect against exchange rate movements, the company has entered into forward exchange contracts to buy both of these currencies.

These contracts are hedged as individual purchase contracts for the ensuing financial year. The contracts are timed to mature when the payments are scheduled to be made.

The portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised directly in equity. When the cash flows occur, the company adjusts the initial measurement of the component recognised in the Statement of Financial Position by the related amount deferred in equity.

At 30 June 2010, there was US$NIL (2009: NIL) and Euro NIL (2009: NIL) included within trade and other payables.

The company has designated all foreign exchange contracts in place as hedges and this is consistent with the prior year.

During the year there was a pre-tax movement in equity of $7,000. The table below shows the pre-tax movement for the company:

## Movement in cash flow hedge reserve – foreign currency

| | **2010** | 2009 |
|---|---|---|
| | **$000** | $000 |
| Movement in fair value of existing contracts | 7 | 3,552 |
| **Total movement** | **7** | **3,552** |

## Fair value of financial instruments

The directors consider that the carrying amounts of financial assets and financial liabilities recorded in the financial statements approximate their fair values.

Effective 1 July 2009, the company adopted the amendment to NZ IFRS 7 for financial instruments that are measured in the balance sheet at fair value, this requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The following table presents the company's assets and liabilities that are measured at fair value at 30 June 2010.

| | **Level 1** | **Level 2** | **Level 3** | **Total balance** |
|---|---|---|---|---|
| | $000 | $000 | $000 | $000 |
| **Assets** | | | | |
| Derivative financial instruments | - | 7 | - | 7 |
| **Total assets** | **-** | **7** | **-** | **7** |
| **Liabilities** | | | | |
| Derivative financial instruments | - | 9,714 | - | 9,714 |
| **Total liabilities** | **-** | **9,714** | **-** | **9,714** |

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observed, the instrument is included in level 2. The company has an outsourced treasury provider that provides the fair value at year end. These valuation techniques are based on observable market data and include the following:

- Interest rate swaps calculation takes into account the present value of the estimated future cash flows.
- Forward exchange contracts calculation takes into consideration the forward exchange market rates at the year end.

for the year ended 30 June 2010

## Classification of financial instruments

| | Note | Designated at fair value $000 | Loans & receivables $000 | Available for sale $000 | Other amortised cost $000 | Total carrying amount $000 |
|---|---|---|---|---|---|---|
| **As at 30 June 2010** | | | | | | |
| **CURRENT ASSETS** | | | | | | |
| Cash and cash equivalents | 18 | - | 904 | - | - | 904 |
| Trade and other receivables | 19 | - | 3,447 | - | - | 3,447 |
| Derivative financial instruments | 13 | 7 | - | - | - | 7 |
| **Total current financial assets** | | **7** | **4,351** | **-** | **-** | **4,358** |
| **NON-CURRENT ASSETS** | | | | | | |
| Trade and other receivables | 19 | - | - | - | - | - |
| **Total non-current financial assets** | | **-** | **-** | **-** | **-** | **-** |
| **Total financial assets** | | **7** | **4,351** | **-** | **-** | **4,358** |
| **CURRENT LIABILITIES** | | | | | | |
| Trade and other payables | 14 | - | - | - | 20,035 | 20,035 |
| Borrowings | 12 | - | 42,000 | - | - | 42,000 |
| Derivative financial instruments | 13 | 485 | - | - | - | 485 |
| **Total current financial liabilities** | | **485** | **42,000** | **-** | **20,035** | **62,520** |
| **NON-CURRENT LIABILITIES** | | | | | | |
| Borrowings | 12 | - | 120,000 | - | - | 120,000 |
| Derivative financial instruments | 13 | 9,229 | - | - | - | 9,229 |
| **Total non-current financial liabilities** | | **9,229** | **120,000** | **-** | **-** | **129,229** |
| **Total financial liabilities** | | **9,714** | **162,000** | **-** | **20,035** | **191,749** |
| **As at 30 June 2009** | | | | | | |
| **CURRENT ASSETS** | | | | | | |
| Cash and cash equivalents | 18 | - | 847 | - | - | 847 |
| Trade and other receivables | 19 | - | 4,073 | - | - | 4,073 |
| Derivative financial instruments | 13 | - | - | - | - | - |
| **Total financial assets** | | **-** | **4,920** | **-** | **-** | **4,920** |
| **CURRENT LIABILITIES** | | | | | | |
| Trade and other payables | 14 | - | - | - | 11,056 | 11,056 |
| Borrowings | 12 | - | - | - | - | - |
| Derivative financial instruments | 13 | 1,274 | - | - | - | 1,274 |
| **Total current financial liabilities** | | **1,274** | **-** | **-** | **11,056** | **12,330** |
| **NON-CURRENT LIABILITIES** | | | | | | |
| Borrowings | 12 | - | - | - | 105,000 | 105,000 |
| Derivative financial instruments | 13 | 5,815 | - | - | - | 5,815 |
| **Total non-current financial liabilities** | | **5,815** | **-** | **-** | **105,000** | **110,815** |
| **Total financial liabilities** | | **7,089** | **-** | **-** | **116,056** | **123,145** |

## 30. Capital management

The company's capital includes share capital, reserves and retained earnings. The company's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The company recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

The company is not subject to any externally imposed capital requirements, other than the covenants required under our borrowing agreements. These covenants cover Guaranteeing Group coverage, Gearing, Interest Cover, Joint Ventures and EBITDA to Senior Debt and are reported to lenders every six months.

There have been no material changes to the company's management of capital during the period.

## 31. Comparison of forecast to actual results

The company prepares an annual Statement of Intent which is approved by shareholders and incorporates financial and performance measures for the ensuing year.

A comparison of the company's actual results for the year ended 30 June 2010 with those targets are as follows:

| | **Achievement** | Target |
|---|---|---|
| | **$000** | $000 |
| **Financial performance** | | |
| Total revenue | 96,140 | 89,228 |
| EBITDA from operations | 60,773 | 57,619 |
| Operating surplus after tax and before deferred tax adjustment | 26,776 | 19,507 |
| Net operating (deficit)/surplus after tax | (260) | 19,507 |
| Dividend payment | 10,541 | 11,530 |
| Ratio of operating surplus after-tax before deferred tax adjustment to average equity | 4.74% | 3.04% |
| Ratio of operating (deficit)/surplus to average equity | (0.0)% | 3.04% |
| **Operational performance** | | |
| **Aircraft** | | |
| Aircraft departures excluding General Aviation | 36,458 | 38,971 |
| **Passengers** | | |
| Domestic | 4,377,773 | 4,332,107 |
| International | 1,622,641 | 1,588,252 |
| **Total passengers** | **6,000,414** | **5,920,359** |
| **Performance indicators** | **$** | **$** |
| Operating revenue per employee | $525,725 | $547,779 |
| Operating revenue per passenger | $15.59 | $15.08 |
| Operating surplus after-tax per employee* | $150.42 | $119,675 |
| Operating surplus after-tax per passenger* | $4.46 | $3.29 |
| Total assets per passenger | $141.98 | $135.47 |
| Net debt per passenger | $26.85 | $26.69 |
| Ratio of aeronautical revenue to total revenue | 44.5% | 47.2% |

*Calculated on operating surplus after tax and before deferred tax adjustment.

Note:

i. **Total revenue.** The target for total revenue included a revaluation increase of $0 for investment properties. The actual result includes a revaluation of $2,094,000.

ii. **Performance indicators.** The actual performance indicators reflect the above variances.

# AUDIT REPORT

AUDIT NEW ZEALAND
Mana Arotake Aotearoa

TO THE READERS OF
Christchurch International Airport Limited's
FINANCIAL STATEMENTS AND STATEMENT OF SERVICE PERFORMANCE
FOR THE YEAR ENDED 30 JUNE 2010

The Auditor General is the auditor of Christchurch International Airport Limited (the Company). The Auditor General has appointed me, Scott Tobin, using the staff and resources of Audit New Zealand, to carry out the audit on her behalf. The audit covers the financial statements and performance information included in the annual report of the Company for the year ended 30 June 2010.

### Unqualified opinion

In our opinion:

In our opinion:

- The financial statements of the company on pages 78 to 107:
  - comply with generally accepted accounting practice in New Zealand; and
  - give a true and fair view of:
    - the company's financial position as at 30 June 2010; and
    - the results of its operations and cash flows for the year ended on that date.
- The performance information of the Company on pages 59 and 107 gives a true and fair view of the achievements measured against the performance targets adopted for the year ended 30 June 2010.
- Based on our examination the company kept proper accounting records.

The audit was completed on 14 September 2010, and is the date at which our opinion is expressed.

The basis of our opinion is explained below. In addition, we outline the responsibilities of the Board of Directors and the Auditor, and explain our independence.

### Basis of opinion

We carried out the audit in accordance with the Auditor General's Auditing Standards, which incorporate the New Zealand Auditing Standards.

We planned and performed the audit to obtain all the information and explanations we considered necessary in order to obtain reasonable assurance that the financial statements and performance information did not have material misstatements, whether caused by fraud or error.

Material misstatements are differences or omissions of amounts and disclosures that would affect a reader's overall understanding of the financial statements and performance information. If we had found material misstatements that were not corrected, we would have referred to them in our opinion.

The audit involved performing procedures to test the information presented in the financial statements and performance information. We assessed the results of those procedures in forming our opinion.

Audit procedures generally include:

- determining whether significant financial and management controls are working and can be relied on to produce complete and accurate data;
- verifying samples of transactions and account balances;
- performing analyses to identify anomalies in the reported data;
- reviewing significant estimates and judgements made by the Board of Directors;
- confirming year-end balances;
- determining whether accounting policies are appropriate and consistently applied; and
- determining whether all required disclosures are adequate.

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements and performance information.

We evaluated the overall adequacy of the presentation of information in the financial statements and performance information. We obtained all the information and explanations we required to support our opinion above.

### Responsibilities of the Board of Directors and the Auditor

The Board of Directors is responsible for preparing the financial statements in accordance with generally accepted accounting practice in New Zealand. The financial statements must give a true and fair view of the financial position of the Company as at 30 June 2010 and the results of its operations and cash flows for the year ended on that date. The Board of Directors is also responsible for preparing performance information that gives a true and fair view of service performance achievements for the year ended 30 June 2010. The Board of Directors' responsibilities arise from the Financial Reporting Act 1993 and the Local Government Act 2002.

We are responsible for expressing an independent opinion on the financial statements and performance information and reporting that opinion to you. This responsibility arises from section 15 of the Public Audit Act 2001 and section 69 of the Local Government Act 2002.

### Independence

When carrying out the audit we followed the independence requirements of the Auditor General, which incorporate the independence requirements of the New Zealand Institute of Chartered Accountants.

In addition to the audit of the financial statements and the statement of service performance, we issued an audit opinion pursuant to the Airport Authorities (Airport Companies Information Disclosure) Regulations 1999. This engagement is compatible with those independence requirements.

Other than the audit and this engagement, we have no relationships with, or interests in, Christchurch International Airport Limited.

S M Tobin
Audit New Zealand
On behalf of the Auditor-General
Christchurch, New Zealand

# FIVE YEAR REVIEW

| | 2010 | 2009 | 2008 | 2007 | 2006 |
|---|---|---|---|---|---|
| | **$000** | $000 | $000 | $000 | $000 |
| **FINANCIAL** | | | | | |
| Total revenue | **96,140** | 86,774 | 89,433 | 83.702 | 83,786 |
| Expense | **58,812** | 64,685 | 56,532 | 52,741 | 50,822 |
| EBITDA | **60,773** | 55,536 | 52,791 | 47,333 | 42,914 |
| Operating surplus before tax | **37,328** | 22,089 | 32,901 | 30,961 | 32,964 |
| Operating surplus after tax and before deferred tax adjustment | **26,776** | 14,686 | 23,359 | 24,003 | 23,496 |
| Net operating (deficit)/surplus after income tax | **(260)** | 14,686 | 23,359 | 24,003 | 23,496 |
| Dividends paid | **10,541** | 12,929 | 11,005 | 10,052 | 9,858 |
| Adjusted return on average shareholders' equity | **4.7%** | 2.6% | 4.2% | 6.1% | 10.2% |
| Return on average shareholders equity | **(0.0)%** | 2.6% | 4.2% | 6.1% | 10.2% |
| Total equity | **570,059** | 560,117 | 563,272 | 552,796 | 238,460 |
| Total assets | **851,967** | 743,021 | 756,937 | 729,293 | 362,537 |
| Net assets per share | **$9.90** | $9.72 | $9.78 | $9.60 | $4.14 |
| Shareholders' equity ratio | **66.9%** | 75.4% | 74.5% | 75.8% | 65.8% |

# five year review

| | **2010** | 2009 | 2008 | 2007 | 2006 |
|---|---|---|---|---|---|
| | **$000** | $000 | $000 | $000 | $000 |
| **OPERATIONAL** | | | | | |
| **Passengers** | | | | | |
| Domestic passengers | **4,377,773** | 4,333,294 | 4,279,503 | 3,926,591 | 3,973,139 |
| International passengers | **1,622,641** | 1,574,783 | 1,625,708 | 1,557,979 | 1,499,023 |
| Total passengers | **6,000,414** | 5,908,077 | 5,905,211 | 5,484,570 | 5,472,162 |
| **Total aircraft movements (arrivals and departures)** | | | | | |
| Domestic aircraft | **68,441** | 70,849 | 72,701 | 70,700 | 74,672 |
| International aircraft | **10,575** | 11,224 | 11,391 | 11,434 | 11,524 |
| Total aircraft movements | **79,016** | 82,073 | 84,192 | 82,134 | 86,196 |
| **PERSONNEL** | | | | | |
| Average staff strength (full-time equivalents) | **178** | 164 | 176 | 176 | 172 |

# DIRECTORY

## Directors

David Mackenzie
Chairman

Philip Carter
Director

Catherine Drayton
Director

George Gould
Director

Ann Harper
Director

Hanlin Johnstone
Director

## Shareholders

Christchurch City Holdings Limited
43,200,000 shares (75%)

Minister of Finance
7,200,000 shares (12.5%)

Minister for State Owned Enterprises
7,200,000 shares (12.5%)

## Total Shares

57,600,000 shares

## Bankers

ANZ National Bank Ltd
Bank of New Zealand
Westpac Banking Corporation
Commonwealth Bank of Australia

## Solicitors

Buddle Findlay, Christchurch
Chapman Tripp, Christchurch

## Executive Management Team

Jim Boult
Chief Executive

Neil Cochrane
General Manager Business Services

Andy Lester
General Manager Operations & Infrastructure

Gareth Owen
General Manager Marketing & Business Development

Geoff Eban
General Manager Terminal Development

Leeanne Carson-Hughes
General Manager Human Resources

Blair Forgie
General Manager Property

Rhys Boswell
General Manager Planning & Environment

## Registered Office

Fourth Floor, Carpark Building
Christchurch International Airport
Memorial Avenue, PO Box 14-001
Christchurch, New Zealand
Telephone: +64 3 358 5029
Facsimile: +64 3 353 7730
Website: christchurchairport.co.nz

## Auditors

Audit New Zealand
On behalf of the Auditor-General

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