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Statement of Intent

YEAR ENDING 30 JUNE 2013

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INTRODUCTION

This Statement of Intent ("SoI") is prepared in accordance with Section 64(1) of the Local Government Act 2002.

It sets out

- the nature and scope of activities to be undertaken,
- the Board's overall intentions and objectives, and
- the performance targets and other measures for the year ending 30 June 2012 and succeeding two financial years,

by which the performance of the CIAL Group (comprising Christchurch International Airport Ltd and its non-trading subsidiaries CIAL Holdings No. 1-5), may be judged.

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

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

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

OBJECTIVES

Christchurch International Airport Ltd's principal objective is to operate as a successful business,

and to that end its vision is:

"To be the BEST Airport"

This means that:

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

To realise this vision and deliver sustainable growth in long-term value to our shareholders, CIAL will focus on 5 strategic objectives:

- Maintain an engaged workforce which performs strongly
- Deliver outstanding airport and airport-related services and aeronautical growth
- Maximise economic value through commercial opportunities
- Maximise economic value through property development and management
- Deliver robust business enablers to ensure success

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

This will require a focus on improving aeronautical returns and maximising business performance as an airport, which includes the

- diversification of revenue through expanded commercial activities and new revenue opportunities, while containing operating cost growth;
- drive to improve the overall performance of the company, delivering improvements in service delivery and business efficiency;
- enhancement of South Island Tourism through a targeted initiative - "South"; and
- continued focus on the engagement of our people.

In particular, performance improvement will be achieved through:

- incremental growth through existing, emerging and new aeronautical markets, aiming to minimise market constraint in the short term and grow new air services over the medium to long term;
- working collaboratively with promotional organisations whose strategic objectives support regional development, and with organisations seeking to establish or enhance tourist attractions in Christchurch, Canterbury and the South Island;
- the development of infrastructure that is fit-for-purpose, timely, meets customer needs and achieves the required returns, specifically including the completion of the Integrated Terminal development by late 2012 with final airside works by early 2013;
- improving service delivery to all our customers, ensuring that by doing so we are operating a safe and secure operating environment, are spending efficiently and have a workforce aligned and engaged to achieve the desired objectives and outcomes;
- the diversification of business activity, both directly and indirectly, through commercial arrangements and property developments to protect against volatility in the core aviation markets;
- optimising and pursuing opportunities for the development of airport land (including the interim use of land not immediately required for airport operations) and facilities to enable the company to expand and enhance value through its core capability as an Airport Operator, and to that end have regard to local authority planning rules and objectives applicable in the active pursuit of the planning requirements to enable the development and expansion of the Airport Commercial horizon;
- pursuing the sustainable management and development of all aspects of the company's operations, and being socially responsible through having regard to the interests and concerns of the community in which we operate;
- proactively facilitating Christchurch as the gateway base of choice to the both the South Island Tourism market and to the Antarctic;
- a continuing focus on control of costs; and
- taking such other strategic and operational measures as CIAL considers appropriate to best protect and grow the value of the shareholders' investment in CIAL.

NATURE AND SCOPE OF ACTIVITIES

Christchurch International Airport's core business is being an efficient airport operator. This encompasses providing appropriate landside and airside facilities for the Airport and airport users, including both commercial and non-commercial aviation users, and pursuing commercial opportunities with wider complementary products, services and business solutions.

Consistent with these principal activities, Christchurch International Airport will:

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

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

- *Economic Performance* – The prevailing economic environment continues to have a marked impact on tourism activity and airline financial performance globally. CIAL is actively pursuing initiatives to minimise market contractions, and to expand trans-Tasman markets presently under/un-served by Christchurch. It will also pursue opportunities to expand new long-haul routes to the wider Asia and North American markets destinations.

This is necessary not only to grow overall passenger and aircraft movements in total, but also to counterbalance the combined effects of the September 2010 and February 2011 earthquakes which have resulted in Christchurch not experiencing the level of international passenger growth experienced by other major New Zealand tourist destinations.

CIAL will commence consultation with the airlines for the reset of airline charges post the commissioning of ITP and will strive to achieve the maximum level allowed by the

market. Commercial initiatives not directly related to aeronautical activity will also be actively pursued to provide the best possible economic offset to the constrained aviation market conditions and to provide improved cash flow to finance necessary capital investment. Capital investment will be carefully scrutinised to ensure that investment is necessary having taken consideration of the constrained economic environment.

Initiatives will be further progressed with the Canterbury Development Corporation and other partners to identify opportunities where CIAL can contribute to the economic growth of Canterbury, including through a cargo freight strategy that will increase the direct handling of freight through Christchurch and diminish the leakage of cargo volume to northern ports.

- *Integrated Terminal Project (ITP)* – The completion of the integrated terminal is planned for late 2012 with final airside works by early 2013. The construction programme is being actively managed to ensure delivery by the due date. The completion of Stage 1 of this development has led to a significant improvement in Customer service performance and the continuing improvements in such service standards is critical and will be further enhanced through a coordinated service performance ethos across the total campus titled “one team best airport”.

Enhancement of the retail experience remains an imperative to the achievement of commercial revenue growth; accordingly, a focus on both the range of offerings available and the quality of service remains a priority.

- *Ability to operate 24/7* - The ability to operate under a 24/7 operating environment is essential to the financial and economic well-being of both CIAL and the regional economy. Planning for future growth, within the recently reviewed noise contours, will be actively communicated and pursued with all planning, regulatory and community bodies to ensure this capability is maintained. CIAL is committed to work with key stakeholders and partners on matters impacting its operations and future commercial development strategies, including actions that will meet the needs of Regional Policy Statement and Urban Development Strategy.
- *Property/Commercial Strategy* - The continuing advancement of our Strategic Property Plan to improve return on airport landholdings, with a continuing focus on creating the planning environment to expedite and implement value-enhancing investment initiatives.

The delivery of CIAL’s Commercial Strategy requires the development of land currently not used for aeronautical purposes. CIAL will further the discussions already held with CCC Planning staff to seek compatibility with CCC’s planning strategy and vision for the city and with the overall Urban Development Strategy.

Earthquake Response – The impact of the February 22nd earthquake and the continuing aftershocks has had a significant and continuing impact on CIAL and its future commercial outlook. The focus of activity over the coming year will address both the Aeronautical and the Commercial property issues, with particular reference to:

- *Aeronautical* – This will involve significant interaction with the airlines to maintain Christchurch as an aviation hub for the South Island and to ensure through appropriate commercial arrangements that, as a minimum, actions are taken to maintain the existing levels of services and progress initiatives to grow services to additional trans-Tasman destinations and grow new services to the rapidly expanding Asian and Indian long haul tourism markets.

In addition to this activity, CIAL will progress through a focussed tourism development programme (“South”) to partner with the major tourism entities, including Christchurch and Canterbury Tourism and the other South Island regional tourism organisations, to ensure that tourism remains and grows as a significant and vibrant contributor to the overall economic growth of Christchurch, Canterbury and the South Island. This will include positioning Christchurch as the gateway hub to the South Island and lead the development of a coordinated partnership approach with the Regional Tourism organisations and accommodation providers to progress solutions to the severe depletion of accommodation arising from the February earthquake and to stimulate new tourism opportunities as catalysts to total tourism activity growth.

The earthquakes have also had a significant influence on our staff and our ability to recruit new personnel for positions. A targeted programme to ensure staff engagement continues its positive trend has been developed to ensure CIAL continues to be regarded as an employer of choice and is seen as a “great place to work”.

- *Property Development* – The continuing aftershocks have led CIAL to carry out an independent in depth structural review of all building infrastructure. The conclusions will provide solid information on which to base judgement on the need for any future remediation activity.

In addition 22nd February 2011 changed the outlook for property development, both in terms of the type of development and the location. The earthquake created new opportunities to provide short-term accommodation needs for those companies displaced from the centre of the city, thereby improving medium term property rental returns. In addition CIAL will pursue opportunities for future freight and logistics opportunities in Dakota Park and Commercial development of the Spitfire Square precinct. Access enhancement to the western part of the city by NZTA through their Road of National Significance development should also provide medium to longer term property development opportunities for the western side of the airport campus.

- *Financial Performance* – The impact of the earthquake is having significant effects on aircraft and passenger movements, with a noticeable reduction in aircraft movement being experienced over the current period. However it is envisaged that this reduction is likely to continue over the near term as delays to the reinstatement of Christchurch accommodation capacity occur though the impacts of the extended aftershocks and their effects on the new city plan. CIAL will make maximum effort through development initiatives with the airlines to ensure that this trend is returned to the norm.

The company is also carrying out work to identify possible actions to further enhance revenue and reduce costs to partially offset the downturn in financial performance arising as a consequence of the earthquakes, with diversification opportunities such as the acquisition of the International Antarctic Attraction being such an example of value growing initiatives.

CIAL will continue seek to grow the scale and scope of the business, actively pursuing commercial opportunities to diversify non-aeronautical revenue, and having regard to its core functions, services and activities which are complementary, and, where appropriate, CIAL’s location.

GOVERNANCE

COMMITMENT

Directors and management are committed to effective governance. As with safety and quality, governance includes a set of systems and processes, supported by people with the appropriate competencies and principles. This provides shareholders and other stakeholders with the assurance that CIAL has the ability to deliver its programmes and performance, and in a satisfactory manner.

Governance by its very nature is on-going; it does not have a finite end. It continually evolves to meet changing commercial circumstances; new techniques are developed, learning's are gained from past experiences and other organisations and, if deemed necessary, incorporated into our systems.

REGULATORY FRAMEWORK

CIAL operates in New Zealand and is governed by a range of legislation and regulations. It is subject to regulatory control under the Airport Authorities Act with future monitoring of aeronautical economic performance reverting to the Commerce Commission from 1 January 2011 following the passing of the Commerce Amendment Act 2008. In addition, it is regulated as an Airport under the Civil Aviation Act, Part 139, in terms of operational performance. CIAL aims to make sufficient disclosure so that the reader of the Annual Report will be able to assess the effectiveness of the company's corporate governance.

Governance objectives

The Board has adopted the following governance objectives:

- Approve Corporate Strategy and direction, laying down solid foundations for management and oversight
- Structure itself to utilize the expertise of Directors to add value at a governance level
- Promote ethical and responsible decision-making
- Safeguard the integrity of its financial reporting and make timely and balanced disclosure
- Recognise and manage risk and encourage enhanced performance
- Remunerate fairly and responsibly
- Respect the rights, and recognise the legitimate interests, of stakeholders.

These objectives are reflected in the Board's management of Board and Committee activities, CIAL's policies and governance practices.

Role of the Board of Directors

The Board is ultimately responsible for

- approving CIAL's strategic direction
- oversight of the management of the company
- achievement of its business strategy, and

- increasing 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 its principal function, the Board's specific responsibilities include:

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

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

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

Responsibility to Shareholders

Statement of Intent

In accordance with the Local Government Act 2002, the company submits a draft SoI for the coming financial year to Shareholders. The SoI sets out the company's overall objectives, intentions and financial and performance targets. After due consultation and discussion, the SoI is accepted by the Shareholders.

Information Flows

The Board aims to ensure that Shareholders are informed of all major developments affecting the company's state of affairs, while at the same time recognising that commercial sensitivity may preclude certain information from being made public. Within this constraint, information is communicated to the Shareholders through periodic reports, occasional briefings, and both the annual report and the half-yearly report, and a "no surprises" update on issues of importance as they may arise.

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

Consistency with wider objectives of Shareholder(s)

The Majority shareholder, Christchurch City Holdings Ltd, seeks to support its ultimate Shareholder's (Christchurch City Council) objective of developing the greater Christchurch and the Canterbury region through pursuing an integrated Urban Development Strategy (UDS). Christchurch International Airport will seek to support the wider initiatives of the UDS where it relates to its business, including any amendments that arise as a consequence of the February 2011 earthquake and the CERA Recovery Strategy and the Central City Development Plan developed in response to the earthquake consequences. In considering these items we note the following points;

The revision by CERA in 2011 to make the revised airport noise contours operative and strengthened the objectives, policies and rules that govern development opportunities in areas that can be expected to be exposed to increased aircraft noise as traffic numbers recover and grow was a positive move to assure the continuation of the very essential 24/7 airport operating status.

CIAL is supportive of the proposed objectives and the manner in which these objectives are expected to be delivered, but in considering the need to stimulate the tourism economic recovery in Canterbury CIAL has proposed several amendments to achieve this outcome including;

- "Priorities and opportunities for early wins", to which CIAL requested that Christchurch Airport be considered a strategic facility alongside Lyttleton Port
- The need for the tourism industry to be reinvigorated as part of 'early wins' particularly the Convention Centre and visitor accommodation facilities.
- The critical need for the recovery Strategy to enable growth and development of and investment in the Airport that does not adversely affect or impede the Airport's future.
- Not undermine the Airport's ability to support Christchurch and the Region by reinvesting in infrastructure and by attracting more business and tourism industries to Christchurch Airport.

CIAL is committed to the region's recovery. There are a number of work streams being established by CERA and the Christchurch City Council to drafting the Economic Recovery Plan and the Building and Infrastructure Recovery Plan. CIAL will seek to ensure that the Airport is included in these deliberations to ensure the interests of the airport as a critical component of the regions recovery are included.

Roading and highway development is essential to the Airport Campus development and an accord has been developed with New Zealand Transit Authority for their Roads of National Significance initiative in Christchurch to support two outcomes:

- 1) improved access and passenger flow to the airport
- 2) greater commercial density at the airport through land use that cannot be supported in a central business district environment.

Board Composition and Fees

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

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

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

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

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

Risk Audit and Finance Committee

The Risk, Audit & Finance Committee consists of three board members who have appropriate financial experience and understanding of the company's industry. The Board requires that at least one member of the Audit Committee be a "financial expert".

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

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

The Board authorises and empowers the Audit Committee to:

- Review and approve accounting policies and practices as they apply to the company
- Approve the annual business assurance plan, and regularly monitor business assurance findings
- Approve the external auditor's fee
- Appoint and remove internal and external auditors

- Recommend approval of the Annual Report
- Seek any information it may require from any employee or external party that it requires to fulfil its objectives
- Seek any outside external advice it may require.

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

Remuneration Committee

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

- To review the remuneration and human resources strategy, structure and policy for the company and review 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 to recommend to the Board senior executive incentive remuneration plans, other employee benefits, and key performance objectives of the Chief Executive Officer and Executive Management group.

Property Committee

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

The responsibilities of the Committee are as follows:

- To review the company's property strategy and 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 to make resulting recommendations to the Board.

Aeronautical Committee

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

The responsibilities of the Committee are as follows:

- Review strategies regarding the provision of aeronautical facilities and wider aeronautical business development, including specific proposals relating to marketing, pricing and commercial arrangements to support route development initiatives
- Make recommendations to the board on aeronautical strategies, proposals and initiatives, including the outcome of post-project reviews of specific aeronautical business cases
- Periodic review of the returns being achieved by CIAL's aeronautical business to ensure it is in line with the overall objectives of CIAL's business strategy
- Periodic review of CIAL's aeronautical market position, and consideration of proposals or initiatives, where that may assist CIAL's market position
- Reporting to the board annually, or as required, on:
 - the safety, effectiveness and operational bench-marking of CIAL's aeronautical operations;
 - the market position (NZ stand-alone as well as Australasian position) of its aeronautical business;
 - the returns being achieved on individual aeronautical initiatives; and
 - the effectiveness and the implementation of CIAL's aeronautical strategies.

Ratio of shareholders' funds to total assets

The forecast Capital Structure, ratio of shareholders' funds to total assets, and gearing ratios for the next three years are:

Period	Total Liabilities	Equity	Total Assets	Equity Ratio	EBITDA Interest Cover	FFO Interest Cover
30 June 2012 f	417,152	592,001	1,009,153	58.7%	3.13	2.90
30 June 2013 f	431,164	599,650	1,030,814	58.2%	2.96	2.75
30 June 2014 f	441,288	609,239	1,050,527	58.0%	3.18	2.96
30 June 2015 f	441,970	628,742	1,070,712	58.7%	3.92	3.50

Period	Equity	Debt	Total Debt +Equity	Gearing (debt : debt+equity)	Net Asset Backing
30 June 2012 f	592,001	296,903	888,904	33%	10.28
30 June 2013 f	599,650	318,968	918,618	35%	10.41
30 June 2014 f	609,239	325,952	935,191	35%	10.58
30 June 2015 f	628,742	327,425	956,167	34%	10.92

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

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

Accounting Policies

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

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

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

Capitalisation of Interest

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

Performance Targets

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

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

It is recognised an uplift is required to achieve acceptable rates of return. The forecast performance below identifies the improvement to be made over the ensuing three years, but in light of the prevailing economic conditions and also the fact that the company is commissioning

significant infrastructure, it must be accepted that it will take some time to achieve the required returns due to two factors:

- the land bank can only be developed at a rate that planning requirements and market demand allow; and
- returns on new infrastructure development, such as the new terminal project which will be determined by the market conditions of the aviation sector and the company's ability to negotiate price increases to achieve the required economic return. Reduced airline yields significantly influence the timing and period over which the substantially increased return on capital requirement arising from new infrastructure can be recovered from increased airline charges.

a) Financial performance targets

\$m	2012 Forecast	2013 Forecast	2014 Forecast	2015 Forecast
Operating Revenue	112,139	122,357	139,276	166,457
EBITDA	62,404	66,779	77,053	98,856
Net Surplus After Tax	15,880	15,233	17,345	31,810
EBITDA as % Revenue	55.6%	54.6%	55.3%	59.4%
Net Surplus After Tax* to Average Equity	2.7%	2.6%	2.9%	5.1%
Return on Assets (NPAT* as % average total assets)	1.6%	1.5%	1.7%	3.0%
Note: NPAT earnings from 2012 onward are reduced by the increased cost of interest which up to 30 June 2012 had been capitalised to the ITP Project				

Note: The above estimates exclude any provision for building remediation that may arise out of the independent Structural Review.

b) Operational Movement targets

	2012 Forecast	2013 Forecast	2014 Forecast	2015 Forecast
a. Aircraft				
Commercial Aircraft Movements	65,881	66,787	67,307	68,009
b. Passengers				
Domestic	4,073,743	4,135,663	4,217,637	4,323,078
International	1,412,001	1,381,763	1,543,440	1,683,220
Total Passengers	5,485,744	5,517,426	5,761,077	6,006,298

c) Operational Performance targets

	2012 Forecast	2013 Forecast	2014 Forecast	2015 Forecast
Total Operating Revenue per Passenger	\$ 20.44	\$ 22.18	\$ 24.18	\$ 27.71
<i>Aeronautical Revenue per pax</i>	\$7.28	\$7.70	\$8.22	\$10.45
<i>Commercial Revenue per paX</i>	\$13.16	\$14.47	\$15.96	\$17.26
NPAT per Passenger \$m	\$ 2.89	\$ 2.76	\$ 3.01	\$ 5.30
Total Assets per Passenger	\$ 179.89	\$ 184.87	\$ 180.64	\$ 176.58
Net Debt per Passenger	\$ 49.48	\$ 55.77	\$ 55.89	\$ 54.31
Ratio of Aeronautical Revenue to Commercial Revenue	35.6%	34.7%	34.0%	37.7%

d) Corporate Social Responsibility Performance targets

Performance target	Performance Measures		
	2013	2014	2015
1. To minimise the impact of airport activities on groundwater quality through cost-effective measures to avoid or mitigate the risks of contamination	<ul style="list-style-type: none"> ▪ Completion of the Public Risk and Management Plan for Managing Potable Water and regular monitoring of potable drinking groundwater supply. ▪ Continue Environmental Compliance and Monitoring Programme with existing airport operators and new operators on airport land. ▪ Label storm water drainage systems in all new developments ▪ Provide environmental training to all airport operators 	<ul style="list-style-type: none"> ▪ Ensure on-going compliance with NZ Drinking Water Standards through implementation of the Public Risk and Management Plan for Managing Potable Water and regular monitoring of potable drinking groundwater supply ▪ Continue Environmental Compliance and Monitoring Programme with existing airport operators and new operators on airport land. ▪ Ensure that all new operators are provided with Environmental Training. Label storm water drainage systems in all new developments 	<ul style="list-style-type: none"> ▪ Ensure on-going compliance with NZ Drinking Water Standards through implementation of Public Risk and Management Plan for Managing Potable Water and regular monitoring of potable drinking groundwater supply. ▪ Continue Environmental Compliance and Monitoring Programme with existing airport operators and new operators on airport land. ▪ Ensure that all new operators are provided with Environmental Training ▪ Label storm water drainage systems in all new developments
2. To investigate and implement cost-effective ways in which to progressively reduce the amount of solid waste arising from airport activities being disposed of to landfill through the development of waste minimisation and recovery measures	<ul style="list-style-type: none"> ▪ Progressively increase amount of material being diverted from landfill from 32% to 40% of total waste produced by CIAL by 2013. 	<ul style="list-style-type: none"> ▪ Continue to investigate and implement waste minimisation initiatives that ensure landfill diversion rates are sustained or increased. 	<ul style="list-style-type: none"> ▪ Continue to investigate and implement waste-minimisation initiatives that ensure landfills diversion rates are sustained or increased.
3. To minimise the	<ul style="list-style-type: none"> ▪ Maintain carbon-neutral status 	<ul style="list-style-type: none"> ▪ Maintain carbon-neutral 	<ul style="list-style-type: none"> ▪ Maintain carbon-neutral

<p>energy consumption by airport activities through the pursuit of efficient energy practices</p>	<p>for CIAL's operational activities</p> <ul style="list-style-type: none"> ▪ Achieve a further 5% (Kwh/m2) energy consumption reduction over 2010 levels, by 2013 	<p>status for CIAL's operational activities.</p> <ul style="list-style-type: none"> ▪ Continue to investigate and implement energy saving initiatives that ensure energy consumption is reduced. 	<p>status for CIAL's operational activities</p> <ul style="list-style-type: none"> ▪ Continue to investigate and implement energy-saving initiatives that ensure energy consumption is reduced.
<p>4. To deliver on our corporate social responsibility and community interest obligations</p>	<ul style="list-style-type: none"> ▪ Be a key sponsor of a major city event (such as the Christchurch Airport Marathon) and one other cultural event in the city ▪ Support various community organisations through the CIAL Xmas Fund and other donations through the year ▪ Continue an information and engagement program for stakeholders and the community, involving sharing information on airport issues, regular speaking engagements and Q&A sessions for the CEO and GMs, offering members of the public opportunities to carry out volunteers tasks at the airport 	<ul style="list-style-type: none"> ▪ To sponsor key events which bring visitors to Christchurch (including the Christchurch Airport Marathon) and other cultural events important to the city. ▪ Support community initiatives and organisations through the CIAL Xmas Fund and other donations through the year ▪ Take opportunities to engage with stakeholders and the community through public speaking by the CEO and GM's, offering members of the public opportunities to carry out volunteer tasks at the airport. 	<ul style="list-style-type: none"> ▪ Continue to be a key sponsor of meaningful events which attract visitors to Christchurch and the city's residents to attend and/or take part and contribute to the growing city ▪ Support community initiatives and organisations through the CIAL Xmas Fund, and other donations through the year ▪ Take opportunities to engage with stakeholders and the community through public speaking by the CEO and GM's, offering members of the public opportunities to carry out volunteer tasks at the airport.
<p>5. To manage Operational Risk</p>	<ul style="list-style-type: none"> ▪ Achieve a Bird Strike incidence rate of 3<5/10,000 aircraft movements on a 12 month rolling average basis, in line with levels set for airports of a similar scale. ▪ Work with territorial authorities and other stakeholders to implement management strategies for pest birds which pose bird strike hazard risks ▪ Work with statutory authorities and the community to achieve general acceptance of noise contours and associated policies and rules in regional and district plans to protect the 24/7 airport operating status 	<ul style="list-style-type: none"> ▪ Achieve a Bird Strike incidence rate of 3<4/10,000 aircraft movements on a 12 month rolling average basis in line with level set for airports of a similar scale. ▪ Work with territorial authorities and other stakeholders to implement management strategies for pest birds which pose bird strike hazard risks ▪ Work with statutory authorities and the community to achieve general acceptance of noise contours and associated policies and rules in regional and district plans to protect the 24/7 airport operating status 	<ul style="list-style-type: none"> ▪ Achieve a Bird Strike incidence rate of 3<4/10,000 aircraft movements, on a 12 month rolling average basis, in line with the level set for airports of a similar scale. ▪ Work with territorial authorities and other stakeholders to implement management strategies for pest birds which pose bird strike hazard risks ▪ General acceptance of noise contours and associated policies and rules in regional and district plans to protect the 24/7 airport operating status
<p>6. To minimise the effects of noise and vibration associated with aircraft and airport operations and to comply with relevant noise rules</p>	<ul style="list-style-type: none"> ▪ Develop Noise Management Plans with respect to overnight aircraft maintenance ▪ Work with airlines and air traffic control authorities to implement agreed policies on Required Navigation Procedures (RNP) approach and departure flight paths 	<ul style="list-style-type: none"> ▪ Adhere to new noise contours in the Regional Policy Statement 	<ul style="list-style-type: none"> ▪ Refresh Environmental Policy and Strategy with respect to noise management
<p>7. To deliver an environment for staff that is supportive, stimulating and engaging</p>	<ul style="list-style-type: none"> ▪ Support staff during and post earthquakes 	<ul style="list-style-type: none"> ▪ Support staff and proactively seek to consolidate staff after organisational change 	<ul style="list-style-type: none"> ▪ Refresh strategies aligned with employee attraction, engagement and talent development

Distributions

CIAL will distribute funds surplus to its investment and operating requirements, subject to meeting the solvency requirements of the Companies Act 1993. The actual dividends payable are subject to an annual review by the Directors of CIAL, taking into account the prevailing financial and economic circumstances in which Christchurch International Airport is operating.

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

- Working capital requirements, the investment required for the Integrated Terminal Project, the medium-term asset investment requirements and the property development programme
- A sustainable financial structure having regard to the risks from predicted short-term and medium-term economic conditions and predicted financial performance
- The requirement to make any prudential provision as a consequence of the detrimental impact on revenues, or any increased costs, from any major/natural disaster event, and
- The CIAL-targeted credit rating.

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

To assist shareholders with budgeting, the following ordinary dividend payments to shareholders based on a projection of 60% of Net Operating Profit after tax (after excluding:

- revaluation gains/losses on investment properties
- The deferred tax impact arising from the removal, or reinstatement post-June 2010 for the terminal, of the ability to claim depreciation on Buildings for tax purposes, including both the one-off deferred tax adjustment at 30 June 2010 and any annual write-back that may occur post 2010 for the building assets in question).

The payout amounts are forecast to be as follows:

	Forecast	Plan Forecast		
	2011/12	2012/13	2013/14	2014/15
		\$'000		
Forecast Net Profit After Tax	15,880	15,233	17,345	31,810
<i>Less</i>				
Revaluation gains/(losses) (net of tax)	1,008	2,180	2,663	3,191
Deferred tax adjustment	1,216	800	800	800
Net Profit after tax base for dividend	13,656	12,253	13,882	27,819
Dividend forecast (@ 60%)	8,194	7,352	8,330	16,692
Periods Paid				
Interim Dividend	4,097	3,676	4,165	8,346
Final Dividend	<i>Note 1</i> 12,853	4,097	3,676	4,165
Forecast Dividends to be paid	17,175	7,773	7,841	12,511
<i>Note 1 - Final dividend for 2010/11</i>				

If the company is successful in implementing actions to improve the forecast financial performance, as noted on page 7 - "Financial Performance", these dividends may be increased.

Information to be provided to shareholders

An annual report will be submitted to the shareholders. The annual report will include audited financial statements and other details which permit an informed assessment of the company's performance and financial position during the reporting period provided to the shareholders.

Half-yearly reports will also be provided to the shareholders. These reports will contain unaudited information and comply with NZ IAS 34.

Annual reports will be produced, consistent with the company's objective to be a long-term sustainable and responsible business. The reports will outline the company's objectives and performance in terms of its economic, environmental and social outcomes.

The Statement of Intent will be submitted to the shareholders for consultation annually, as required by the Local Government Act 2002. The directors will include any other information they consider appropriate. Where appropriate, revised forecasts will be submitted to shareholders.

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

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

Acquisition/divestment procedures

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

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

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

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

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

Compensation sought from Shareholders

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

Currently, CIAL provides dedicated facilities and infrastructure to the New Zealand Antarctic operations at lower rates than those charged to commercial airlines and tenants. This service provides an economic benefit to the Christchurch region but at an annual concession cost to CIAL estimated at approximately \$1 million per annum. CIAL has communicated with shareholders on this issue, who have confirmed their acceptance of the lower commercial return resulting as a consequence of this concession.

Estimate of commercial value

The Board's current estimate of the commercial value of Christchurch International Airport is \$764 million (2011 \$696 million).

Key factors taken into consideration in determining this valuation were;

- The valuation was calculated at 30 June 2012, and was prepared by CIAL management and independently peer reviewed by Northington Partners Limited.
- In determining this valuation the most appropriate basis of preparation was considered to be the sum of the parts of the business, with the total valuation being comprised of the sum of;
 - *Specified Airport Activities*- as determined by the Commerce Commission under the Information Disclosure Determination, effective 1 January 2011, building from the prescribed opening Regulated Asset base at 30 June 2009,
 - *Development Land* – being land held for future airport and commercial development, and
 - *Contestable Activities* – comprising all commercial and property investment activities.
- Given the different characteristics of these individual components, the valuations were assessed using a range of valuation methodologies;
 - The primary valuation approach for assets used for Specified Airport Activities reflected the asset-based valuation methodology adopted as part of the Commerce Commission regulatory regime;
 - Development Land is included at the values assessed by independent registered valuations;
 - Contestable Activities were valued using a discounted cash flow model based on a 20 year earnings projection. Future earnings were discounted at a mid-point required return of 9.30% (expressed on a post-tax nominal basis), with an assumed terminal growth rate of 2.5%;
 - All assessed values were benchmarked against the implied earnings multiples for comparative New Zealand Airports and as derived from other relevant market data;

- The current commercial value of the Shareholders investment of \$764 million (often referred to as the equity value) was calculated by taking the midpoint range of the enterprise value of \$1,061 million and deducting net debt of \$297 million.

The key reasons for the change in commercial value from 2011 (\$696 million) to the \$764 million at 30 June 2012 were;

- On-going investment in the new integrated terminal buildings and the increase in debt to fund the development
- A reset of Specified Airport Activities land to reflect valuations in line with the Commerce Commission Market Value Alternate Use Valuation methodology, and
- The continuing value growth of the commercial elements of the business as CIAL further develops and diversifies its revenue streams.

The directors note that the commercial value a shareholder may realise on any sale of its investment in CIAL may differ from this value, depending on the particular circumstances of sale, the identity of the buyer, and market conditions applicable or forecast at the time. This value is reassessed annually.

Role in the Christchurch City Council group and regional economy

a) Commercial relationships within the CCC group

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

These include;

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

b) Role in the growth of the regional economy

Christchurch International Airport is the tourism gateway to the South Island and provides a significant contribution to both the Canterbury region and the South Island as a whole, with the total airport operation employing over 4,500 employees across a diverse range of companies. An Economic Impact Assessment review in 2008 identified that Christchurch Airport contributed to the generation of \$1.5 billion in regional GDP, with its indirect contribution representing 7.2% of annual GDP in the Canterbury region and 8.8% of employment.

CIAL is seeking to grow the economic development of both the region and the South Island through pursuing growth in airlines visiting Christchurch and international passengers holidaying in the South Island and through being a catalyst to growing the wider South Island Tourism market. Such growth will provide a flow-on effect through

increasing tourism revenue and activities. In addition, the on-going development of our property portfolio will create value through construction and the provision of a greater range of commercial services to all users of the airport campus.

Appendix 1: Statement of Accounting Policies

The accounting policies as set out below form the basis of preparation of CIAL's NZ IFRS financial statements and forecasts.

a) Basis of preparation

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated. The Company has introduced a policy on goodwill, following the acquisition of a business – see (y).

Entity reporting

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

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

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 estimates whether there has been any impairment of the on-going value of ITP expenditure due to the continuous development of the design. This impairment is subject to Quantity Surveyor and Project Managers' review.

New and amended standards adopted by the company

The following standards, interpretations and amendments have become effective during the annual period:

- IFRIC 19 'Extinguishing liabilities with equity instruments'
- IAS 36 (amendment) 'Impairment of assets'
- IFRS 2 (amendment) 'Group cash-settled share-based payment transactions'
- IAS 32 (amendment) 'Classification of rights issues'

These pronouncements are not considered to have a material effect on the Company.

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.
- NZ IAS 1 'Presentation of financial statements' - effective for annual periods beginning on or after 1 January 2011. The revised standard clarifies that an entity may present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes to the financial statements. As the change in accounting policy only impacts presentation aspects, there is no impact on net assets.
- NZ IAS 24 'Related parties' - effective for annual periods beginning on or after 1 January 2011. The revised standard clarifies and simplifies the definition of a related party and removes the requirement for government related entities to disclose details of all transactions with the government and other government-related entities. As the change in accounting policy only impacts presentation aspects, there is no impact on net assets.
- NZ IAS 12 'Deferred tax' - effective for annual periods beginning on or after 1 January 2012. The revised standard applies to all entities holding investment properties, measured at fair value in territories where the capital gains tax rate is different from the income tax rate. It introduces a rebuttable presumption that investment properties measured at fair value are recovered entirely by sale. Management are still determining the impact NZ IAS 12 will have on the company.
- NZ IFRS 13 'Fair value measurement' - effective for annual periods beginning on or after 1 January 2013. The new standard outlines a single, unified definition of fair value and requires significant additional disclosures where fair values are used. Management are still determining the impact NZ IFRS 13 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.

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

iii. Interest income

Interest 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 on-going 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.

I) 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 on-going 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 other comprehensive income 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 is 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 27.

n) Property, plant and equipment

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

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

The last valuation was performed by Seagar and Partners (Land, Buildings, Investment properties and carpark assets) and Opus International Limited (International terminal facilities) as at 30 June 2011. Sealed surfaces and infrastructural assets were valued by Opus International Ltd, as at 30 June 2010.

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 through the Statement of Comprehensive Income. 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 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 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 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 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.

x) Financial instruments*Financial assets*

The company classifies its financial assets in the following categories: financial assets at fair value through profit or loss and loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition and re-evaluates this designation at every reporting date.

Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the company has transferred substantially all risks and rewards of ownership.

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value.

Financial assets at fair value through profit or loss

This category comprises financial assets held for trading which have been acquired principally for the purpose of selling in the short term. Derivatives also fall within this category unless they are designated as hedges and the hedge is effective for accounting purposes.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and with no intention of trading. They are included in current assets, except for maturities greater than 12 months after the Balance Sheet date, which are classified as non-current assets.

Financial liabilities

The company classifies its financial liabilities in the following categories: financial liabilities at fair value through the profit and loss and other financial liabilities at amortised cost. The classification depends on the purpose for which the financial liabilities were incurred. Management determines the classification of its financial liabilities at initial recognition and re-evaluates this designation at every reporting date.

y) Goodwill

All business combinations are accounted for by the purchase method. Goodwill represents the difference between the cost of the acquisition and the fair value of the net identifiable assets acquired.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment.

Negative goodwill arising on acquisition is recognised directly in the income statement.

Goodwill is disclosed as part of Intangible assets and is stated at cost.