



ANNUAL REPORT FOR THE YEAR ENDED 30 JUNE 2020

This Annual Report covers the performance of Christchurch International Airport Limited (Christchurch Airport) from 1 July 2019 to 30 June 2020. This volume contains our audited financial statements and non-financial performance information. Further overview information and a summary of other aspects of the 2020 financial year are contained in a separate volume, our Annual Review, which may be accessed at www.christchurchairport.co.nz.

GOVERNANCE

“Christchurch Airport’s Board of Directors is accountable to shareholders for the performance of the company and success in meeting the overall goal of creating long term value for shareholders. The structure of this corporate governance section of the annual report outlines Christchurch International Airport Limited’s policies and procedures for governance and has been adopted to maximise the transparency of the company’s governance practises for the benefit of shareholders and other stakeholders.”

DIRECTORS AND MANAGEMENT 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.

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

Christchurch International Airport Limited (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.

REGULATORY FRAMEWORK

The company operates solely in New Zealand and is governed by a range of New Zealand legislation and regulation including the Civil Aviation Act 1990 and the Airport Authorities Act 1966. The Civil Aviation Act 1990 establishes the framework for civil aviation safety, security and economic regulation in New Zealand and ensures that New Zealand’s obligations under international civil aviation agreements are implemented. The Airport Authorities Act 1966 gives a range of functions and powers to airport authorities to establish and operate airports.

The Ministry of Transport is progressing work on a Civil Aviation Bill. The Bill will replace the Civil Aviation Act 1990 and the Airport Authorities Act 1966 with a single new statute that includes a number of proposals related to the safety, security and efficiency of New Zealand’s civil aviation system.

Since 2011, New Zealand’s three largest airports including Christchurch have been subject to Information Disclosure regulation under Part 4 of the Commerce Act 1986, administered by the Commerce Commission. Under this framework, the focus is on monitoring airport performance, ensuring there is transparency in pricing decisions, as well as the effectiveness of the information disclosure regime.

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 aim being to increase long term shareholder value while sustaining and ensuring the obligations of the company are properly met.

The Board’s charter recognises the respective roles of the Board and management. In carrying out its principal function, the Board’s primary governance responsibilities include:

- Working with executive leadership to ensure that the company’s strategic goals are clearly established and communicated, and that strategies are in place to achieve them;
- Monitor management performance in strategy implementation;
- Appointing the Chief Executive Officer (CEO), approving his or her contracted terms, monitoring his or her performance and, where necessary, terminating the CEO’s employment;
- Approving and monitoring the company’s financial statements and other reporting, including reporting to shareholders, and ensuring the company’s disclosure obligations are met;

- Adopting appropriate procedures to ensure compliance with all laws, governmental regulations, applicable codes and accounting standards;
- Ensuring that CIAL's internal decision making and compliance policies and procedures are implemented, to ensure that the business of the company is conducted in an open and ethical manner;
- Approving key performance criteria for CIAL and monitoring the performance of the CEO against these;
- Deciding necessary actions to protect CIAL's financial position and the ability to meet its debts and other obligations when they fall due, and ensuring that such actions are taken;
- Ensuring that the company adheres to high ethical and corporate behaviour standards;
- Establishing procedures and systems to ensure the occupational health, safety and wellbeing of people working at, or visiting the, Christchurch Airport precinct;
- Promoting a company culture and remuneration practice which facilitates the recruitment, professional development and retention of staff, whilst considering ways to achieve a high level of diversity within the business;
- Set specific limits on management's delegated authority for entry into new expenditure, contracts and acquisition of assets and approve commitments outside those limits;
- Ensuring that CIAL has appropriate risk management and regulatory compliance policies in place and monitoring the appropriateness and implementation of these policies.

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

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

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, establishing the company's strategy and ensuring that it is effectively implemented.

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

Directors' appointments are for such 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, financial, marketing, tourism and other relevant experience and expertise required to meet its objectives. Fees for the Board are reviewed by the shareholders using independent advice.

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

INDUCTION OF NEW DIRECTORS

Following 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 eleven times during the financial year. In addition, several Board workshops were also held to consider discrete subject matters. The table on the following page sets out the Board and sub-committee meetings attended by the directors during the year.

In addition to the formal meetings recorded in the table below, the Board participated in multiple online meetings and calls as part of the company's crisis management response to COVID-19.

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

The Chair, CEO, Chief Financial Officer (CFO) and General Manager Corporate Affairs (GMCA) prepare the agenda for each meeting and board papers are provided to the directors in electronic format prior to the meeting.

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

- An executive report focusing on company performance, financial position, strategic activations and, as appropriate, progress towards the achievement of company goals and business targets;
- Specific business cases for capital expenditure and strategic activation;
- Separate reports from management covering matters requiring a Board decision or for more detailed information;
- Health, safety and wellbeing reporting and any proposed preventative measures to be applied;
- 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 and Annual Review 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;
- Approves remuneration policies and practices for executive leadership on the recommendation of the People, Culture and Safety Committee;
- Approves risk management policies and controls, including insurance cover and compliance with legal and regulatory requirements, on the recommendation of the Risk, Audit and Finance Committee;
- Reviews the adherence to, and annual public disclosure required by the Information Disclosure regulatory regime;
- Reviews the strategy and proposals for the reset of aeronautical charges each five-year cycle;

- Reviews the strategy for CIAL’s funding needs and approves banking facilities and debt capital markets issuances;
- Reviews CIAL’s code of conduct and ethical standards;
- Sets the following year’s Board work plan.

The Board annually 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 & Finance Committee meetings | People, Culture and Safety Committee meetings | Property & Commercial Committee meetings | Aeronautical Committee meetings |
|---|-----------------------------|-----------------------------|-----------------------|---|--|---|--|
| Total number of meetings held | | | 11 | 4 | 4 | 3 | 4 |
| C. Drayton | Sep 09 | Oct 23 * | 11 | 4 | 4 | 3 | 4 |
| C. Paulsen | Oct 10 | Oct 22 * | 10 | - | 4 | - | 4 |
| J. Murray | Jun 11 | Apr 21 | 11 | - | - | 3 | 3 |
| S. Ottrey | 1 Mar 19 | Oct 21 | 11 | - | - | 3 | 3 |
| K. Mitchell | Oct 17 | Oct 23 * | 11 | 4 | - | - | 4 |
| P. Reid | May 18 | Apr 21 | 11 | 3 | 4 | 2 | 4 |

Note: all committees require a Crown appointed director

* The majority shareholder has resolved to support reappointment of these directors for a further term at the 2020 Annual General Meeting.

COMMUNICATION WITH SHAREHOLDERS

CIAL is committed to keeping its shareholders informed and places a high degree of importance on open communication and transparent reporting.

In achieving this outcome and 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 comment on the draft SoI. The Board then considers these comments and delivers a final SoI to shareholders by the end of June.

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 and New Zealand Stock Exchange (NZX) continuous disclosure obligations (due to our listed debt), may preclude certain information from being made public. Within this constraint, information is communicated to the shareholders through quarterly communication and periodic briefings providing financial information and commentary on operational and non-financial performance measures. In a normal financial year, the company is required to provide half yearly and annual reports to shareholders by the end of February and September respectively.

In addition, CIAL proactively develops positive and productive relationships with stakeholders, to ensure effective communication of the initiatives being undertaken.

ETHICAL AND RESPONSIBLE DECISION MAKING

The company requires the highest standards of honesty and integrity from its directors and employees. This, consequently, necessitates responsible and ethical decision making which 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 appropriate staff.

All directors and employees are always expected to act honestly in all their business dealings and to act in the best interests of the company, including:

- Responsibilities to shareholders including protection of confidential information, rules for making public statements on behalf of the company, accounting practises and co-operation with auditors;
- Responsibilities to customers and suppliers of CIAL and other persons using the airport;
- Responsibilities to the community including compliance with statutory and regulatory obligations, use of assets and resources and conflicts of interest.

RECOGNISE AND MANAGE RISK

CIAL has a comprehensive risk management framework to identify, mitigate and manage all business risks on a company-wide basis. 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 strategic outcomes, finances, operations and reputation) and probability (measured in terms of likely occurrence) of an event or activity;
- Activities and systems in place to mitigate a risk;
- The residual unmitigated risk.

The Board determines 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 risk management framework is implemented through business processes, such as business planning, investment analysis, project management and operations management. Major initiatives to manage and mitigate business risk will be reflected as activities in the Business Plan.

The Board review CIAL's risk profile periodically, and the Risk, Audit and Finance Committee reviews operational risk activity on a regular basis.

Health, Safety and Wellbeing

At the core of CIAL's Health, Safety and Wellbeing Strategy is the protection of our people. The Board and management's focus are on building a culture of safety leadership, taking a strategic approach to risk management and our safety management system, and ensuring consistency in culture across airside and aviation operations.

The People, Culture and Safety Committee is responsible for oversight of the company's health, safety and wellbeing risk management program.

Business Assurance

The role of Business Assurance, through partnering with external service providers, is to develop a comprehensive continuous assurance program, which supports CIAL's risk management framework. 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 Leadership Team and ultimately the Risk, Audit and Finance Committee.

Chief Executive Officer and Chief Financial Officer Assurance

The CEO and CFO 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.

There were no qualifications to the assurances provided by management for the year ended 30 June 2020.

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. The Board has continued its significant consideration of insurance placements as a mitigation of risk in the 2020 financial year to ensure such risk remains adequately protected through both the type and duration of insurance coverage and the level of capacity placed.

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 Leadership 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, omissions or legal defence 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 (Australia) Ltd. The cost of the cover for the year to 30 June 2020 is \$58,000 (2019 \$46,000).

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 look for ways to improve the standard of compliance. CIAL employees are responsible for ensuring the company carries out its business in a way that considers 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. Compliance with legal and regulatory risk is monitored twice annually and reported to the subsequent quarterly Risk, Audit and Finance Committee meeting.

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.

The company is committed to maintaining management systems that meet the requirements of Occupational Health and Safety and Environmental Management, with these systems embedding continuous improvement processes. During the year the company carried out periodic reviews to ensure the required standards were being met.

If any incidents occur during the year then an event specific audit review is carried out to ensure full understanding of cause and outcomes and that appropriate remedial actions are undertaken.

Reviews of these systems/controls provide management and the Board with reasonable assurance that the company's management systems are thorough, reliable and comply with the relevant recognised standards.

Such systems 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 Chief Executive Officer

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 outcomes 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 Chair maintains a link between the Board and the CEO. She is kept informed by the CEO on all important matters, and is available to the CEO to provide counsel and advice where appropriate. The Chair 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 company to the CEO and executive leadership 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

The Board has set up various committees to enhance the Board's effectiveness in key areas, while still retaining overall responsibility.

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 Risk, Audit & Finance Committee is responsible for financial risk management oversight. Its role is to act as an advisor to the Board to assist the Board of Directors to discharge its responsibility to exercise due care, diligence and skill in relation to:

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

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

- Review and approve accounting policies and practices as they apply to the company;
- Review the current risk management framework, and associated procedures for effective identification and management of the company's financial and business risks;
- Review management's approach to maintaining an effective internal control environment;
- Review the adequacy of insurance cover at each insurance renewal and recommend to the Board any significant changes to insurance cover;
- Review and approve the annual business assurance plan, and regularly monitor business assurance findings;
- Recommend to the Board the appointment of the external auditor and business assurance advisor and approve their fee;
- Provide advice on and review the company's Annual Report and Financial Statements prior to consideration and approval by the Board;
- Provide advice on and review the company's regulatory Annual Information Disclosure prior to consideration and approval by the Board;
- Review, on an on-going basis, the company's capital structure, Treasury Policy and optimal funding portfolio in the future;
- Review overall tax risk profile of CIAL with focus on adherence to tax governance policy.

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 2020 were Kathryn Mitchell (Chair), Catherine Drayton and Paul Reid.

People, Culture and Safety Committee

The People, Culture and Safety Committee's role is to oversee the relationship of company values to the People and Protection strategies and ensure that they are designed to support and deliver the Company's overall strategy and business plans. The responsibilities of the Committee are:

- Establish procedures and systems to ensure the occupational health, safety and wellbeing of the company's employees and contractors working for CIAL across the Christchurch Airport campus;
- Continue to assist with the development of our leadership, culture and capability in our safety ecosystem, involving critical risk assessment and risk management via best practice policies and mitigation procedures;
- Provide oversight and review annually the People and Culture strategy, policies and implementation plan with a focus on diversity and talent identification;
- To oversee CIAL's recruitment, retention and termination policies and procedures for senior leadership, and the succession planning for senior leadership and the CEO;
- To review the performance of the CEO, the engagement agreement and benefit structure for the CEO and Executive Leadership Team and recommend to the Board senior executive incentive remuneration plans, other employee benefits, and key performance objectives.

The members of the People, Culture and Safety Committee as at 30 June 2020 were Catherine Drayton (Chair), Chris Paulsen and Paul Reid.

Property and Commercial Committee

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

The responsibilities of the Committee are:

- To regularly review, test and recommend for approval the company's property and commercial development and management strategy (including its priorities) to ensure that it remains appropriate having regard to all relevant matters. Such matters shall include the company's financial position, maintenance of a balanced property portfolio, property market conditions, regulatory planning issues, strategic focus and priorities, timetabling of investments, and any other matters considered relevant by the Committee;
- To review and recommend for approval the principles and standards with respect to the company's property and commercial investment strategy, in respect of the type of property investment, and rates of return parameters to be achieved;
- Review and recommend to the Board approval of significant property and commercial investment and development proposals;
- Review and recommend to the Board the long-term property investment and commercial development path to be pursued;
- Planning and consenting to enable development of the wider property portfolio;
- Review and negotiation of commercial arrangements with terminal and property tenants;
- Ongoing review of overall 'Park to Plane' strategy across our customers' journey including identification and understanding of exponential technologies and how digital change will disrupt and shape CIAL's business in the future.

The members of the Property and Commercial Committee as at 30 June 2020 were Justin Murray (Chair), Sarah Ottrey, Catherine Drayton and Paul Reid.

Aeronautical Committee

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

The responsibilities of the Committee are:

- To review and recommend to the Board strategies in respect of the provision of aeronautical facilities, general aviation and aeronautical business development (including marketing and pricing issues);
- To review specific proposals, and subsequent post project reviews, relating to aeronautical charging, commercial arrangements to support route development initiatives, and airline incentives or promotions;
- To review the returns and aeronautical market position being achieved by CIAL's aeronautical business to ensure it is in line with the overall objectives of CIAL's business strategy;
- To report to the Board annually, or as required, on; the safety, effectiveness and operational benchmarking of CIAL's aeronautical operations; the market position of its aeronautical business; the returns being achieved on individual aeronautical initiatives; and, the effectiveness and the implementation of CIAL's aeronautical strategies.
- To review and support the progressive development of "South", the strategy implemented by CIAL for the stimulation and resurgence of growth of the South Island tourism sector, in conjunction with regional tourism organisations and other industry stakeholders.

All Directors were members of the Aeronautical Committee as at 30 June 2020.

REMUNERATION

The Board's People, Culture and Safety Committee is responsible for remuneration across the organisation and has a charter it operates under.

Directors

The directors' remuneration is paid in the form of directors' fees. Additional fees are paid to the Chair of the Board and the Chairs of the various Board sub-committees to reflect the additional responsibilities of these positions. CIAL also meets directors' reasonable travel and other costs associated with the company's business and their own learning and development.

The total remuneration paid to directors for the year ended 30 June 2020 was:

| NAME | REMUNERATION |
|-------------------|---------------------|
| C Drayton | \$97,600 |
| K Mitchell | \$53,700 |
| J Murray | \$53,700 |
| S Ottrey | \$48,700 |
| C Paulsen | \$53,700 |
| P Reid | \$48,700 |
| Total Fees | \$356,100 |

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 People, Culture and Safety 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 People, Culture and Safety 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 People, Culture and Safety Committee reviews the CEO'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.

In response to the impact of the COVID-19 pandemic a number of steps were taken including asking all our people to accept the same wage and salary freeze for 18 months and implemented an 18-month recruitment freeze with sinking lid on staff numbers.

| REMUNERATION RANGES \$'000 | NUMBER OF CURRENT AND FORMER EMPLOYEES | |
|----------------------------|--|------|
| | 2020 | 2019 |
| \$100 - \$110 | 30 | 29 |
| \$110 - \$120 | 14 | 14 |
| \$120 - \$130 | 6 | 8 |
| \$130 - \$140 | 10 | 8 |
| \$140 - \$150 | 3 | 2 |
| \$150 - \$160 | 4 | 6 |
| \$160 - \$170 | 4 | 5 |
| \$170 - \$180 | 3 | 1 |
| \$180 - \$190 | 4 | 5 |
| \$190 - \$200 | 4 | 2 |
| \$200 - \$210 | 2 | 1 |
| \$220 - \$230 | 1 | - |
| \$230 - \$240 | - | 1 |
| \$240 - \$250 | 2 | 1 |
| \$290 - \$300 | - | 3 |
| \$300 - \$310 | 1 | - |
| \$310 - \$320 | 1 | - |
| \$370 - \$380 | - | 1 |

| | | |
|---------------|----|----|
| \$380 - \$390 | 1 | - |
| \$420 - \$430 | - | 1 |
| \$430 - \$440 | - | 1 |
| \$440 - \$450 | 1 | - |
| \$450 - \$460 | 1 | - |
| \$890 - \$900 | 1* | 1* |

* This is the remuneration to the CEO.

Chief Executive Remuneration

For FY20, the Chief Executive's remuneration consisted of:

- a base salary of \$691,400 and Kiwisaver contributions of \$27,240;
- an incentive of a possible \$100,000 relating to the short-term commercial, health & safety and sustainability outcomes. In FY20, the Chief Executive was paid \$80,000 of this due to the impact on short-term commercial outcomes in the last four months of the year from COVID-19;
- an incentive of a possible \$100,000 relating to long-term strategy that builds long-term shareholder value, including long-term development of the Christchurch campus, strategic projects such as Central Otago, carbon emission reduction, use and experimentation of new technologies and long-term planning and preservation of talent and human capability. In FY20, the Chief Executive was paid \$100,000 of this.

This combined for total FY20 remuneration of \$898,640.

In FY19, the Chief Executive's total remuneration was \$896,100, comprising a base salary of \$670,000, Kiwisaver contributions of \$26,100 and two incentive payments of \$100,000 each.

CORPORATE RESPONSIBILITY AND SUSTAINABILITY

CIAL seeks to operate the business in a sustainable manner. As such, it is committed to run 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 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 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.

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 2020, and the financial performance, cash flows and reporting against the Statement of Intent 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 2013 and Financial Markets Conduct Act 2013.

After reviewing the current results and detailed forecasts, taking into account available credit facilities and availability of further funding and making further enquiries as considered appropriate, the Directors are satisfied that the company has adequate resources to enable it to continue in business for the foreseeable future. For this reason, the directors believe it is appropriate to adopt the going concern basis in preparing the financial statements.

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 the pleasure in presenting the consolidated financial statements of the group, set out on pages 15-72, and the performance information of the group set out on pages 73-79, of Christchurch International Airport Limited for the year ended 30 June 2020.

The Board of Directors of Christchurch International Airport Limited authorise these financial statements for issue on 25 September 2020.

For and on behalf of the Board



Catherine Drayton
CHAIR



Kathryn Mitchell
DIRECTOR

Statement of financial performance

For the year ended 30 June 2020

| | Note | 2020 \$000 | 2019 \$000 |
|---|------|----------------|----------------|
| INCOME | | | |
| Operating revenue | 2 | 165,722 | 187,373 |
| Fair value gain on investment properties | 13 | 13,481 | 13,133 |
| Interest income | | 86 | 102 |
| Total income | | <u>179,289</u> | <u>200,608</u> |
| EXPENSES | | | |
| Operating costs | 2 | 68,962 | 61,968 |
| Financing and interest costs | 2 | 23,580 | 23,119 |
| Depreciation, amortisation and impairment | 2 | 42,059 | 35,520 |
| Total expenses | | <u>134,601</u> | <u>120,607</u> |
| Surplus before tax | | <u>44,688</u> | <u>80,001</u> |
| Total taxation expense | 3b | <u>(3,138)</u> | <u>22,529</u> |
| Net operating surplus after income tax | | <u>47,826</u> | <u>57,472</u> |

The accompanying notes and policies form part of these financial statements

Statement of comprehensive income

For the year ended 30 June 2020

| | Note | 2020 \$000 | 2019 \$000 |
|--|------|---------------|---------------|
| Surplus after income tax | | 47,826 | 57,472 |
| Other comprehensive income | | | |
| <i>Items that will not be reclassified to the statement of financial performance</i> | | | |
| Fair value gain on revaluation of assets | 7a | 32,259 | 27,924 |
| Impairment to asset revaluation reserve | 7a | (1,611) | - |
| Deferred tax on revaluation of assets | 4 | - | - |
| | | 30,648 | 27,924 |
| <i>Items that may be reclassified subsequently to the statement of financial performance</i> | | | |
| Cash flow hedges: | | | |
| Fair value (losses) recognised in the cash flow hedge reserve | 7a | (17,883) | (21,362) |
| Realised losses transferred to the statement of financial performance | 7a | 4,794 | 4,939 |
| Deferred tax on revaluation on cash flow hedges | 4 | 3,665 | 4,598 |
| | | (9,424) | (11,825) |
| Other comprehensive income for year, net of tax | | 21,224 | 16,099 |
| Total comprehensive income for year | | 69,050 | 73,571 |

The income tax relating to each component of other comprehensive income is disclosed in note 7.

The accompanying notes and policies form part of these financial statements

Statement of changes in equity

For the year ended 30 June 2020

| | Note | Share Capital \$000 | Reserves \$000 | Retained Earnings \$000 | Total Equity \$000 |
|---|------|---------------------------|-------------------|-------------------------------|--------------------------|
| Balance at 1 July 2018 | | 57,600 | 604,860 | 360,820 | 1,023,280 |
| Dividends paid to shareholders | 6 | - | - | (44,831) | (44,831) |
| Total comprehensive income for the year | 7 | - | 16,099 | 57,472 | 73,571 |
| Balance at 30 June 2019 | | 57,600 | 620,959 | 373,461 | 1,052,020 |
| Dividends paid to shareholders | 6 | - | - | (41,449) | (41,449) |
| Transfer of asset revaluation reserve | 7 | - | (2,500) | 2,500 | - |
| Total comprehensive income for the year | 7 | - | 21,224 | 47,826 | 69,050 |
| Balance at 30 June 2020 | | 57,600 | 639,683 | 382,338 | 1,079,621 |

The accompanying notes and policies form part of these financial statements

Statement of financial position

As at 30 June 2020

| | Note | 2020 \$000 | 2019 \$000 |
|--------------------------------------|------|------------------|------------------|
| EQUITY | | | |
| Share capital | | 57,600 | 57,600 |
| Reserves | 7a | 639,683 | 620,959 |
| Retained earnings | 7b | 382,338 | 373,461 |
| Total equity | | <u>1,079,621</u> | <u>1,052,020</u> |
| NON-CURRENT LIABILITIES | | | |
| Term borrowings | 8 | 470,005 | 356,549 |
| Derivative financial instruments | 9 | 45,590 | 31,455 |
| Deferred taxation | 4 | 120,472 | 137,456 |
| Trade and other payables | 10 | 682 | 783 |
| Total non-current liabilities | | <u>636,749</u> | <u>526,243</u> |
| CURRENT LIABILITIES | | | |
| Trade and other payables | 10 | 28,850 | 33,693 |
| Current portion of borrowings | 8 | 120,000 | 115,501 |
| Taxation payable | 3c | 4,693 | 1,028 |
| Derivative financial instruments | 9 | 1,743 | 2,504 |
| Total current liabilities | | <u>155,286</u> | <u>152,726</u> |
| Total liabilities | | <u>792,035</u> | <u>678,969</u> |
| Total equity and liabilities | | <u>1,871,656</u> | <u>1,730,989</u> |
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | 11 | 1,263,491 | 1,208,026 |
| Investment properties | 13 | 571,658 | 491,202 |
| Intangible assets | 12 | 3,253 | 4,588 |
| Trade and other receivables | 14 | 3,984 | 4,601 |
| Derivative financial instruments | 9 | 10,295 | 6,747 |
| Total non-current assets | | <u>1,852,681</u> | <u>1,715,164</u> |
| CURRENT ASSETS | | | |
| Cash and cash equivalents | | 4,164 | 845 |
| Trade and other receivables | 14 | 14,345 | 13,875 |
| Derivative financial instruments | 9 | - | 646 |
| Inventories | | 466 | 459 |
| Total current assets | | <u>18,975</u> | <u>15,825</u> |
| Total assets | | <u>1,871,656</u> | <u>1,730,989</u> |

The accompanying notes and policies form part of these financial statements

Statement of cash flows

For the year ended 30 June 2020

| | Note | 2020 \$000 | 2019 \$000 |
|---|------|------------------|------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Cash was provided from: | | | |
| Receipts from customers | | 167,360 | 185,981 |
| Interest received | | 86 | 102 |
| Net goods and services tax received | | 1,927 | (801) |
| | | <u>169,373</u> | <u>185,282</u> |
| Cash was applied to: | | | |
| Payments to suppliers and employees | | (66,640) | (61,948) |
| Financing and interest costs | | (23,471) | (22,938) |
| Net income tax paid | | (5,600) | (17,500) |
| Subvention payments | | (916) | (2,280) |
| | | <u>(96,627)</u> | <u>(104,666)</u> |
| Net cash flows from operating activities | 15 | <u>72,746</u> | <u>80,616</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Cash was provided from: | | | |
| Proceeds from sale of property, plant and equipment | | 35 | 65 |
| Cash was applied to: | | | |
| Purchase of property, plant and equipment | | (74,228) | (42,823) |
| Purchase of investment properties | | (66,683) | (49,221) |
| Purchase of intangible assets | | (2,102) | (1,117) |
| | | <u>(143,013)</u> | <u>(93,161)</u> |
| Net cash flows from investing activities | | <u>(142,978)</u> | <u>(93,096)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Cash was provided from: | | | |
| Borrowings | | 190,000 | 78,000 |
| Cash was applied to: | | | |
| Dividends paid | 6 | (41,449) | (44,831) |
| Borrowings | | (75,000) | (22,000) |
| | | <u>(116,449)</u> | <u>(66,831)</u> |
| Net cash flows from financing activities | | <u>73,551</u> | <u>11,169</u> |
| Net increase / (decrease) in cash held | | 3,319 | (1,311) |
| Add cash and cash equivalents at beginning of the year | | 845 | 2,156 |
| Cash and cash equivalents at the end of the year | | <u>4,164</u> | <u>845</u> |

The accompanying notes and policies form part of these financial statements

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 Car Park Building, Christchurch International Airport, Christchurch.

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

These financial statements have been approved for issue by the Board of Directors on 25 September 2020.

The Board of Directors has the power to amend the financial statements after issue.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.

a) Basis of preparation

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 for-profit entities.

Entity reporting

The financial statements are for Christchurch International Airport Limited and its 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 for profit entity for financial reporting purposes.

Statutory base

Christchurch International Airport Limited is a company registered under the Companies Act 1993. The Company is an FMC reporting entity under part 7 of the Financial Markets Conduct Act 2013.

The financial statements have been prepared in accordance with the requirements of the Local Government Act 2002, the Financial Reporting Act 2013, the Companies Act 1993 and the requirements of Part 7 of the Financial Markets Conduct Act 2013 and the NZX Debt Market Listing Rules.

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 and liabilities to fair value as identified in specific accounting policies.

Significant accounting judgements, estimates and assumptions

The preparation of financial statements requires the use of certain critical accounting estimates and assumptions based on known facts at a point in time. 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 outcome. 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 based on their "interim use" as outlined in accounting policy (m). A key factor of this classification is that the "interim use" of such property is not for aircraft related activities. The classification of property between categories gives rise to different accounting treatments which can impact the Statement of Financial Performance or Statement of Other Comprehensive Income.

ii. Fair Value of Investment Property

The company uses independent registered valuers to determine the fair value of investment properties. The valuation process requires the use of assumptions and estimates which are based on market conditions at the time. Changes to market conditions or to assumptions made in the estimation of fair value may result in changes to the fair value of investment property recorded within the Statement of Financial Performance. For further information on the estimates and assumptions used in determining fair value of these assets see accounting policy (m) and note 13 to the financial statements.

iii. Carrying Value of Property, Plant and Equipment and Impairment Assessments

Judgement is required to determine whether the fair value of land, buildings, terminal facilities, sealed surfaces, infrastructure and car parking assets has changed materially from the last revaluation. The determination of fair value at the time of the revaluation requires estimates and assumptions based on market conditions at that time. Changes to estimates, assumptions or market conditions subsequent to a revaluation will result in changes to the fair value of property, plant and equipment recorded within the Statement of Comprehensive Income.

The company uses its own judgement, previous experience and advice from independent registered valuers to make the necessary determinations.

For further information on the estimates and assumptions used in determining fair value of these assets see accounting policy (l) and note 11 to the financial statements.

Impairment assessments are completed annually for appropriate cash generating units and individual assets. An impairment assessment measures the recoverable amount of an asset based on projections and estimates of future cash flows specifically related to the relevant group of assets. An impairment charge is recognised for any asset with a carrying value in excess of its recoverable amount. Changes to estimates or assumptions within each impairment assessment may result in a different assessment conclusion.

COVID 19

During March 2020 the World Health organisation declared a global pandemic in relation to COVID 19. The New Zealand government responded to COVID 19 by imposing significant restrictions around travel including quarantining of international travellers arriving into New Zealand and introducing an alert level system with restrictions on business activity and societal interaction.

COVID 19 has had a significant impact on the aviation industry and on CIAL's business in the short term. Passenger numbers have fallen as a result of the travel restrictions, impacting both the aeronautical and non-aeronautical passenger-based business activities of the company. Prior to COVID-19, only 10% of our exports normally flew by freighter aircraft directly from Christchurch Airport with the balance in the cargo hold of scheduled international passenger services. COVID-19 stripped New Zealand of the additional passenger freight capacity almost overnight.

As a result, CIAL has taken a number of actions including:

- suspension of dividends (see note 6);
- rationalised operations and related operating cost to reflect new environment;
- asking all our people to accept the same wage and salary freeze for 18 months and implemented an 18-month recruitment freeze with sinking lid on staff numbers;
- suspended or cancelled capital expenditure projects;
- following COVID-19, in April and May 2020 obtained \$105m of new available bank facilities for additional liquidity, with a further \$40m obtained subsequent to 30 June 2020 (see note 8 for total facilities);
- subsequent to 30 June 2020, obtained extensions on all bank facilities maturing before 31 December 2020 (see note 8);
- subsequent to 30 June 2020, obtained bank and bond supervisor financial covenant waivers from 31 December 2020 to 31 December 2021 inclusive (see note 8);
- worked closely with the Ministry of Transport, and in partnership with government, to secure air freight capacity that enabled 75% of last year's volumes to be exported directly from Christchurch Airport.

It should also be noted that since COVID-19, the Novotel Christchurch Airport is now being used as a Managed Isolation and Quarantine facility providing a certainty of revenue stream until the end of the current contract in December 2020.

With regards to these financial statements, the pandemic has specifically impacted certain areas of financial reporting which have required the company to make estimates and judgements, including:

| Accounting Estimate/Judgement | Summary Impact | Note to the Financial Statements |
|--|--|---|
| Carrying Value of Property, Plant & Equipment and Impairment Assessments | Based on advice from independent registered valuers it has been determined that land, buildings, terminal facilities, sealed surfaces and infrastructure assets have not changed materially from the last revaluation. The independent valuer noted a significant valuation uncertainty relating to land fair value movements. | See Note 11 and Note 12. |

| | | |
|-----------------------------------|---|--------------------------|
| | <p>Car Parking assets have been revalued based on a discounted cash flow valuation approach. The valuation process has required the use of assumptions and estimates which are based on market conditions at the time and considering the likely future impacts of COVID-19. The independent valuer noted significant valuation uncertainty due to COVID-19.</p> <p>Asset impairment assessments have been completed across all relevant cash generating units not already revalued including the Terminal & Airfield and the Hotel. Given the long-term nature of these assets, no impairment was recognised.</p> <p>The goodwill associated with the Craddocks Car Storage cash generating unit (CGU), was assessed for impairment following a review of the entire car parking operation, and an impairment of \$1,740,000 was recognised in the Statement of Financial Performance.</p> | |
| Fair Value of Investment Property | <p>The company has used independent registered valuers to determine the fair value of investment properties. The valuation process has required the use of assumptions and estimates which are based on market conditions at the time. The independent registered valuer noted a significant valuation uncertainty for investment properties due to uncertainties from COVID-19 in relation to impact on the property market.</p> <p>Changes to the fair value of investment property have been recorded within the Statement of Financial Performance.</p> | See Note 13. |
| Impact of Credit loss assessments | <p>Several of our airline partners and tenants have experienced major disruption to their businesses. Credit loss assessments have been made for each individual debtor. This has resulted in an increase in the doubtful debts provision to \$929,000 (2019: \$19,000), which reflects the uncertainty associated with the collection of certain outstanding debts at year end.</p> | See Note 14 and Note 22. |

| | | |
|--|---|--|
| <p>Liquidity Risk Management, Classification of Borrowings and Going Concern</p> | <p>Following COVID-19, obtained an additional \$145m of available banking facilities (\$40m post balance date) to provide significant liquidity to meet the company's forecast cashflows over the coming 18 months.</p> <p>All current borrowings at 30 June 2020 have been subsequently extended for periods beyond 24 months. Where extension was executed after balance date, those facilities remain classified as current liabilities.</p> <p>The company was not in breach of its banking covenants at 30 June 2020 and no change to classification between current and non-current was required.</p> <p>Covenant Waivers were agreed with our bank funding providers and bond supervisor on the 18th August 2020 for reporting periods to 31 December 2021 inclusive. Given the waivers and additional liquidity obtained, the adoption of the going concern adoption remains appropriate for the preparation of the financial statements.</p> | <p>See Note 8 and Note 22.</p> |
| <p>Lease Agreements</p> | <p>The impact of COVID 19 has resulted in the company providing relief to a number of tenants by way of rent deferral or rent abatement.</p> <p>Deferral of rents has consequently increased the debtor receivable balances and lengthened the aging profile of those debtors.</p> <p>The company has assessed that the rent abatements are not lease modifications that would be spread over the remaining terms of the leases. The company has therefore recognised the abatements as a reduction to 2020 income.</p> | <p>See Note 2, Note 14, Note 19 and Note 22.</p> |
| <p>Tax law changes</p> | <p>In March 2020, the Government re-introduced depreciation deductions on commercial buildings for tax purposes. The impact of this change increases the depreciable tax base for these assets, which results in an immediate one-off reduction in deferred tax liability and a reduction of tax expense of \$15.0m.</p> | <p>See Note 3 and Note 4.</p> |
| <p>Wage Subsidy</p> | <p>CIAL applied for and was eligible for the twelve-week Government Wage subsidy. The subsidy is included within Other Revenue.</p> | <p>See Note 2.</p> |

New and amended standards adopted by the company

The accounting policies set out in these financial statements are consistent for all periods presented except as identified below. The following accounting standards have been adopted in the preparation of these financial statements.

NZ IFRS 16 Leases is effective for annual periods beginning on or after 1 January 2019 and has been applied for the annual period beginning 1 July 2019.

Leases where the company is the lessor, including investment properties, spaces within the terminal and other properties used for aeronautical purposes have been reviewed and continue to be treated as operating leases under NZ IFRS 16.

Leases where the company is the lessee have been reviewed and no changes have been made to the treatment of these leases. The company only has 3 such leases and the recognition practical expedients specified in NZ IFRS 16 in respect of short-term and low value leases have been utilised. Lease expenses related to these leases are recognised on a straight-line basis or on a systematic basis as permitted by the standard.

The application of this standard resulted in additional disclosures relating to the disaggregation of leased vs non-leased assets (refer to note 11).

The company has applied the modified retrospective approach when adopting NZ IFRS 16 Leases and has not restated comparative amounts for the period prior to first adoption.

Those NZ IFRS Standards and Interpretations that have been issued or amended and which may have a significant impact on the company, but are not yet effective and have not been adopted by the company for year ended 30 June 2020 are:

- Amendments to NZ IAS 1 and NZ IAS 8 – the amendments to these standards clarify the requirements for the definition of material in both NZ IAS 1 Presentation of Financial Statements and NZ IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.
- NZ IFRS 17 - Insurance Contracts becomes effective for annual periods commencing on or after 1 January 2021 and has not been adopted early. It provides consistent principles for all aspects of accounting for insurance contracts. This standard is not expected to have an impact on the company's financial statements.

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 provision of services, excluding Goods and Services Tax, rebates, incentives and discounts, and is recognised when the associated performance obligations are satisfied.

Revenue captured within the scope of NZ IFRS 15 requires disclosure as revenue from contracts with customers. Revenue streams outside of the scope of NZ IFRS 15 are also contracted under agreements, including rental and lease arrangements.

Revenue is recognised as follows:

i. Provision of services

Landing and terminal services are provided to airlines on demand under the published regulatory prices, rather than through fixed quantity individual contracts. Depending on the service being provided, the transaction price is calculated based on a fixed price per landing, per passenger, or by weight. Where applicable, separate incentive agreements are signed with individual airlines. These charges are invoiced monthly and in arrears.

Rent and Lease income is recognised on a straight-line basis over the term of the lease where the airport is the lessor. Variable concession income is recognised as revenue on an accrual basis based on the turnover of the concessionaire and rental agreement.

Ground transport income is recognised over time as the car park or transport facilities are used. Billing and payment are completed on exit from the car park or monthly in arrears. The transaction price charged varies depending on the length of services provided and how the services have been booked.

Other revenue includes the recovery of operating costs associated with leases where the airport is the lessor.

ii. Interest income

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

iii. Government Grants

Government grant revenue is recognised within the Statement of Financial Performance as income, within *Other Revenue*. The revenue is recognised on a systematic basis over the periods in which the related expenditure are incurred.

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 exclusive of GST, with the exception of receivables and payables, which include GST invoiced. Commitments and contingencies are stated exclusive of GST.

f) Impairment of Non-Financial Assets

Non-financial assets are assessed for indicators of 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.

g) 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. Bank overdrafts are included as cash and cash equivalents for Statement of Cash Flows purposes, but separately disclosed in the Statement of Financial Position.

h) Trade and other receivables

Trade and other receivables are amounts due from customers for services performed in the ordinary course of business. They are generally due for settlement within 30 days and are therefore all classified as current. Trade receivables are recognised initially at the amount of consideration that is unconditional, unless they contain significant financing components, when they are recognised at fair value. The group holds the trade receivables with the objective of collecting the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method.

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

The group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade and other receivables. This method groups those financial assets which have shared credit risk characteristics and the days past due. The amount of the provision is recognised in Note 14.

Debts which are known to be uncollectible are written off.

i) 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. Any write-down is recognised in the Statement of Financial Performance.

j) Derivatives

Derivatives are only used for economic hedging purposes and not as speculative investments. However, where derivatives do not meet the hedge accounting criteria, they are classified as 'held for trading' for accounting purposes and are accounted for at fair value through profit or loss. They are presented as current assets or liabilities to the extent they are expected to be settled within 12 months after the end of the reporting period.

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 accounting for subsequent changes in fair value 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 the cashflow of highly probable forecast transactions (cash flow hedges).

At inception of the hedge relationship, the Company documents the economic relationship between hedging instruments and hedged items, including whether changes in the cash flows of the hedging instruments are expected to offset changes in the cash flows of hedged items. The Company documents its risk management objective and strategy for undertaking its hedge transactions.

Hedge effectiveness is determined at the inception of the hedge relationship, and through periodic prospective effectiveness assessments, to ensure that an economic relationship exists between the hedged item and hedging instrument.

The Company enters into interest rate swaps that have similar critical terms as the hedged item, such as reference rate, reset dates, payment dates, maturities and notional amount. The Company does not hedge 100% of its loans, therefore the hedged item is identified as a proportion of the outstanding loans up to the notional amount of the swaps.

Hedge ineffectiveness for interest rate swaps may occur due to, the credit value/debit value adjustment on the interest rate swaps which is not matched by the loan, and differences in critical terms between the interest rate swaps and loans

iii. *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. The company only applies fair value hedge accounting for hedging fixed interest risk on borrowings. The gain or loss relating to the effective portion of interest rate swaps hedging fixed rate borrowings is recognised in the Statement of Financial Performance within "Financing and Interest Costs".

Changes in the fair value of the hedged fixed rate borrowings attributable to interest rate movements are also recognised in the Statement of Financial Performance within "Financing and Interest Costs".

iv. *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.

v. *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.

k) Fair value measurement

The company measures financial instruments, such as, derivatives, and non-financial assets such as investment properties, at fair value at each balance sheet date. Also, fair values of financial instruments measured at amortised cost are disclosed in Note 22.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible to the company.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the company determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period. External valuers are involved for valuation of significant assets, such as properties and investment properties and significant liabilities.

For the purpose of fair value disclosures, the company has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

l) Property, plant and equipment

Properties held as part of airport operations are classified as property, plant and equipment. Property, plant and equipment are initially recognised at cost. Historical cost includes expenditure that is directly attributable to the acquisition of the assets.

Motor vehicles, Office & Computer equipment and Plant & Equipment are carried at cost less accumulated depreciation and impairment losses.

The following remaining asset classes are carried at fair value, as determined by an independent registered valuer, less accumulated depreciation and any impairment losses recognised after the date of any revaluation. Any assets within these classes acquired or constructed after the date of the latest revaluation are carried at cost, which approximates fair value.

Revaluations are carried out with sufficient regularity to ensure that the carrying amount does not differ materially from fair value at balance date (at minimum every five years):

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

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.

Costs subsequent to revaluation 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. Repairs and maintenance are charged to the Statement of Financial Performance during the financial year in which they are incurred.

Increases in the carrying amounts arising on revaluation 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 | 15 to 120 years (some components non-depreciable) |
| • Plant and equipment | 3 to 25 years |
| • Motor vehicles | 5 to 16 years |
| • Office and computer equipment | 3 to 9 years |
| • Car park assets (excluding land) | 7 to 30 years |
| • Infrastructure | 15 to 70 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. If disposal is made of an asset that has been revalued, any remaining revaluation reserve for that asset included in equity is transferred directly to retained earnings when the asset is derecognised.

Work in progress is measured at cost and reviewed for impairment. No depreciation is charged, or revaluation made, prior to work in progress being capitalised to the appropriate asset category.

m) 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.

Land where there are infrastructure services in place up to its boundary or there is a firm commitment to provide such infrastructure **and** the further development of that land is signalled within the next 3 years (being the current business planning cycle) is classified as investment property. Buildings 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 valuation methodologies using direct sales comparison or a direct capitalisation of rental income using market comparison of capitalisation rates, supported by a discounted cashflow approach. These values are 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).

Transfers are made to investment property when there is a change in use. This may be evidenced by ending of owner occupation, commencement of an operating lease to another party or commencement of construction or development for future use as investment property.

n) Finite life 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 6 years. Computer software licences are carried at cost less accumulated amortisation and any accumulated impairment losses. Costs associated with maintaining computer software programmes are recognised as an expense as incurred.

o) 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.

p) Borrowings

Borrowings are recognised initially at fair value, net of directly attributable transaction costs incurred. Borrowings (other than those subject to a fair value hedge relationship – see accounting policy j(i)) are subsequently carried 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, investment properties or a qualifying asset (an asset that takes a substantial period of time to get ready for intended sale or use and is of significant cost), have been capitalised as part of the cost of the asset. All other borrowing costs are expensed in the period in which they occur.

q) Share capital

Ordinary shares are fully paid and classified as equity. All 57,600,000 shares have equal voting rights and share equally as to dividends and surplus on winding up.

r) 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 can be reliably estimated.

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

s) Employee benefits

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave and other contractual payments 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.

t) Dividends

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 authorised by the directors and notified to the company's shareholders.

u) Leases

Company as a lessor

Leases for which the company is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

The company enters into lease agreements as a lessor with respect to investment properties, space within the terminal and other properties used for aeronautical purposes. The majority of leases have rental payable monthly. Lease payments for some contracts include CPI increases and sales-based concession fees. To manage credit risk exposure where considered necessary, the company may obtain bank guarantees for the term of the lease.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Variable concession income is recognised as revenue on an accrual basis based on the turnover of the concessionaire and rental agreement. Initial direct costs incurred in negotiation and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

The company does not currently have lessor finance leases.

Company as a lessee

At the inception of a contract, the company assesses whether a contract is or contains a lease. If a lease exists, a right-of-use asset is recognised and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. Lease payments related to short term and low value asset leases are recognised as an operating expense on a straight-line basis over the length of the lease term or on a systematic basis.

The company does not currently have lessee finance leases.

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.

Lease inducements are recognised against lease revenue in the Statement of Financial Performance. The company assesses lease incentive and receivables for impairment at each reporting date as outlined in accounting policy (h).

v) Financial instruments

Financial assets

Financial assets can be classified in the the following categories: financial assets at fair value through profit or loss, fair value through other comprehensive income (OCI) and amortised cost. The classification depends on financial assets contractual cashflow characteristics and the company's business model for managing them, namely how the business manages its financial assets in order to generate cash flows. Management determines the classification of its financial assets at initial recognition.

Currently the company only has financial assets classified and measured at amortised cost. To qualify for this classification, the asset needs to give rise to cashflows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding and for which the business model is to hold the asset to collect contractual cash flows.

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in profit and loss when the asset is derecognised, modified or impaired.

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.

The company's financial assets at amortised cost include trade and other receivables and cash and cash equivalents. 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

Financial liabilities can be classified in the the following categories at initial recognition, as financial liabilities at fair value through profit or loss and amortised cost.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The company's financial liabilities include trade and other payables, loans and borrowings and derivative financial instruments.

Loans and Borrowings financial liabilities is the most relevant to the Group. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the Statement of Financial Performance.

w) Goodwill

All business combinations are accounted for by the acquisition 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, by comparing the carrying value (including goodwill) with the recoverable value of the cash-generating unit. The recoverable value is determined by assessing the future cash flows directly associated with the asset.

Negative goodwill arising on acquisition is recognised directly in the Statement of Financial Performance.

x) 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. During the current year, there were no breaches of these covenants.

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

Notes to the financial statements

For the year ended 30 June 2020

1. Segment Information

Reportable segments

The company's reportable operating segments have been based on the monthly internal reporting that is received by the Chief Executive, as the chief operating decision maker. This information is used to assess performance and determine the allocation of resources.

The operating segments are based on the type of services rendered. Discrete financial information is presented to the Chief Executive to a Net Profit Before Tax level, which is used to assess segment performance. An allocation of all corporate revenues and expenses (except tax), is included within each operating segment.

Operating segments – Services provided

Planes

This area of the business offers services that facilitate the movement of aircraft, cargo and passengers on the airfield.

Passengers

The passenger operating segment provides services to the terminal retailers, provides ground transport solutions to staff and the public and includes the terminal portion of the aeronautical charge.

Property

The property operating segment earns revenues from the provision of investment properties to landside airport campus tenants.

Major customers

The company has a number of customers that it provides services to. The most significant customer in the current year accounted for 27% (2019: 28%) of total segmented income. Revenue associated with this customer was included in the Planes, Passenger and Property operating segments.

Geographical spread

All revenue generated by the company is initiated in New Zealand. All company assets are located in New Zealand.

| Operating Segments | Planes | Passengers | Property | Total |
|--|---------------|-------------------|-----------------|-----------------|
| As at 30 June 2020 | \$000 | \$000 | \$000 | \$000 |
| SEGMENT INCOME | | | | |
| <i>Revenue from contracts with customers</i> | | | | |
| Landing and Terminal Charges | 28,468 | 34,769 | - | 63,237 |
| Ground Transport and other trading activities | 7 | 16,626 | 5,714 | 22,347 |
| <i>Total Revenue from contracts with customers</i> | 28,475 | 51,395 | 5,714 | 85,584 |
| <i>Other Income</i> | | | | |
| Rent and Lease Income | - | 27,951 | 36,264 | 64,215 |
| Gain on disposal of assets | - | - | 1 | 1 |
| Other Revenue | 401 | 3,414 | 12,107 | 15,922 |
| Fair Value gain on investment properties | - | - | 13,481 | 13,481 |
| Interest | 11 | 56 | 19 | 86 |
| <i>Total Other Income</i> | 412 | 31,421 | 61,872 | 93,705 |
| <i>Total segment income</i> | 28,887 | 82,816 | 67,586 | 179,289* |
| SEGMENT EXPENSES | | | | |
| Staff | 8,562 | 11,893 | 4,482 | 24,937 |
| Asset management, maintenance and airport ops | 1,692 | 9,715 | 2,484 | 13,891 |
| Rates and Insurance | 1,366 | 4,865 | 5,617 | 11,848 |
| Marketing and Promotions | 206 | 1,956 | 491 | 2,653 |
| Professional fees and levies | 319 | 1,011 | 762 | 2,092 |
| Commercial entity running costs | - | - | 5,007 | 5,007 |
| Other | 1,082 | 3,369 | 4,083 | 8,534 |
| Financing and Interest Costs | 3,128 | 10,855 | 9,597 | 23,580 |
| Depreciation, Amortisation and Impairment | 9,859 | 26,252** | 5,948 | 42,059 |
| <i>Total segment expenses</i> | 26,214 | 69,916 | 38,471 | 134,601* |
| <i>Segment Net Profit before Tax</i> | 2,673 | 12,900 | 29,115 | 44,688* |

* agrees to total income, total expenses and surplus before tax on the Statement of Financial Performance

** included within this balance is a \$1,740,000 impairment of the goodwill associated with Craddocks Car Storage (note 12)

| Operating Segments | Planes | Passengers | Property | Total |
|--|--------------------|---------------------|--------------------|-----------------|
| As at 30 June 2019 | \$000 | \$000 | \$000 | \$000 |
| SEGMENT INCOME | | | | |
| <i>Revenue from contracts with customers</i> | | | | |
| Landing and Terminal Charges | 35,220 | 44,325 | - | 79,545 |
| Ground Transport and other trading activities | 7 | 21,713 | 1,273 | 22,993 |
| <i>Total Revenue from contracts with customers</i> | 35,227 | 66,038 | 1,273 | 102,538 |
| <i>Other Income</i> | | | | |
| Rent and Lease Income | - | 37,802 | 31,548 | 69,350 |
| Gain on disposal of assets | 1 | 17 | 8 | 26 |
| Other Revenue | 266 | 2,394 | 12,799 | 15,459 |
| Fair Value gain on investment properties | - | - | 13,133 | 13,133 |
| Interest | 13 | 67 | 22 | 102 |
| <i>Total Other Income</i> | 280 | 40,280 | 57,510 | 98,070 |
| <i>Total segment income</i> | 35,507 | 106,318 | 58,783 | 200,608* |
| SEGMENT EXPENSES | | | | |
| Staff | 8,448 | 11,985 | 4,142 | 24,575 |
| Asset management, maintenance and airport ops | 1,990 | 9,613 | 2,585 | 14,188 |
| Rates and Insurance | 1,294 | 4,524 | 4,600 | 10,418 |
| Marketing and Promotions | 181 | 3,444 | 235 | 3,860 |
| Professional fees and levies | 625 | 1,177 | 699 | 2,501 |
| Commercial entity running costs | - | - | 621 | 621 |
| Other | 1,226 | 3,585 | 994 | 5,805 |
| Financing and Interest Costs ¹ | 3,554 ¹ | 11,032 ¹ | 8,533 ¹ | 23,119 |
| Depreciation, Amortisation and Impairment | 8,836 | 24,314 | 2,370 | 35,520 |
| <i>Total segment expenses</i> | 26,154 | 69,674 | 24,779 | 120,607* |
| <i>Segment Net Profit before Tax</i> | 9,353 | 36,644 | 34,004 | 80,001* |

*Agrees to total income, total expenses and surplus before tax on the Statement of Financial Performance.

¹ the methodology used to allocate interest expense across the segments has changed in FY20. In FY19 interest was allocated based on asset values but has been changed to be allocated based on debt assigned to each segment which is considered a more appropriate allocation methodology. FY19 comparatives have been re-stated accordingly. Previous balances for FY19 were Planes \$4,162k, Passenger \$7,420k and Property \$11,537k.

2. Operating Revenue and Expenses

| | 2020 | 2019 |
|---|-----------------------|-----------------------|
| Operating Revenue | \$000 | \$000 |
| <i>Revenue from contracts with customers</i> | | |
| Landing and Terminal charges | 63,237 | 79,545 |
| Ground transport and other trading activities | 22,347 | 22,993 |
| | <u>85,584</u> | <u>102,538</u> |
| <i>Other Income</i> | | |
| Rent and Lease income | 64,215* | 69,350* |
| Gain on disposal of assets | 1 | 26 |
| Other revenue | 15,922** | 15,459 |
| | <u>80,138</u> | <u>84,835</u> |
| Total operating revenue | <u>165,722</u> | <u>187,373</u> |

* included within this balance is variable lease payments of \$2,802,000 and \$6,659,000 for the 2020 and 2019 years respectively.

** balance includes Government COVID 19 wage subsidy of \$1,651,000. All conditions attached to this grant have been fulfilled at 30 June 2020.

Expenses

Operating costs

| | | |
|---|---------------|---------------|
| Staff | 24,937 | 24,575 |
| Asset Management, maintenance and airport ops | 13,891 | 14,188 |
| Rates and insurance | 11,848 | 10,418 |
| Marketing and promotions | 2,653 | 3,860 |
| Professional services and levies | 2,092 | 2,501 |
| Commercial entity running costs | 5,007 | 621 |
| Other | 8,534 | 5,805 |
| | <u>68,962</u> | <u>61,968</u> |

Other includes:

| | | |
|--|-----|----|
| Bad debts written off | - | 35 |
| Expected Credit Losses – change in provision | 910 | - |

Professional services and levies include:

| | | |
|--|-----|-----|
| Audit of financial statements | 121 | 110 |
| Fees Paid to the Auditor for Other Assurance services: | | |
| - Audit of disclosure regulations | 43 | 43 |
| - Review of compliance with bond conditions | 4 | 4 |

Staff costs comprise:

| | | |
|---|---------------|---------------|
| Wages and Salaries | 22,722 | 22,303 |
| Payroll related expenses | 1,847 | 1,939 |
| Contributions to defined contribution schemes | 12 | 16 |
| Directors' fees | 356 | 317 |
| | 24,937 | 24,575 |

Financing and interest costs

| | | |
|----------------------------------|---------------|---------------|
| | 2020 | 2019 |
| | \$000 | \$000 |
| Interest costs | 23,565 | 23,031 |
| Fair value hedge ineffectiveness | 15 | 88 |
| Total finance costs | 23,580 | 23,119 |

Depreciation, amortisation and impairment

| | | |
|--|---------------|---------------|
| Depreciation (note 11) | 38,627 | 34,276 |
| Amortisation of intangibles (note 12) | 1,692 | 1,244 |
| Impairment of goodwill (note 12) | 1,740 | - |
| Total Depreciation, amortisation and impairment | 42,059 | 35,520 |

3. Income tax**a) Income tax expense**

| | | |
|--|----------------|---------------|
| Operating surplus before income tax | 44,688 | 80,001 |
| Prima facie taxation at 28% | 12,513 | 22,400 |
| Plus/(less) taxation effect of: | | |
| Revenue not assessable for tax purposes | (1,469) | (445) |
| Expenses not deductible for tax purposes | 964 | 370 |
| Reinstatement of depreciation on buildings | (15,034) | - |
| Income tax attributable to operating surplus | (3,026) | 22,325 |
| Under provision in prior years | (112) | (431) |
| Income tax attributable to operations | (3,138) | 21,894 |
| Deferred tax adjustments from prior periods | - | 635 |
| Total taxation expense | (3,138) | 22,529 |

b) Components of tax expense

| | | |
|---|----------------|---------------|
| Current tax expense | 10,293 | 18,529 |
| Adjustments to current tax of prior years | (112) | (431) |
| Deferred tax expense – current year | (13,319) | 3,796 |
| Deferred tax adjustments | - | 635 |
| Total tax expense | (3,138) | 22,529 |

| c) Taxation payable | 2020 | 2019 |
|---|--------------|--------------|
| | \$000 | \$000 |
| Balance at beginning of the year | 1,028 | 2,800 |
| Prior year adjustment | (112) | (521) |
| | 916 | 2,279 |
| Current tax expense | 10,293 | 18,529 |
| | 11,209 | 20,808 |
| Payments to: | | |
| Inland Revenue Department | (5,600) | (17,500) |
| Subvention payments to members of the CCC tax group | (916) | (2,280) |
| Taxation payable | 4,693 | 1,028 |

Christchurch International Airport Ltd is a member of the Christchurch City Council (CCC) Tax group. The company pays subvention payments to other members of the CCC tax group. The amount paid in 2020 was \$916,000 (2019 \$2,280,000). These payments are treated as if they were payments of income tax and are reflected as part of the taxation payable amount.

4. Deferred taxation

| 2020 | Opening Balance \$000 | Charged to Income \$000 | Charged to Equity \$000 | Closing Balance \$000 |
|-----------------------------|--------------------------------------|--|--|--------------------------------------|
| Property, plant & equipment | 107,612 | (12,087) | - | 95,525 |
| Intangible assets | 285 | (76) | - | 209 |
| Investment properties | 39,779 | (1,088) | - | 38,691 |
| Provisions and payments | (675) | (156) | - | (831) |
| Derivatives | (9,545) | 88 | (3,665) | (13,122) |
| | 137,456 | (13,319) | (3,665) | 120,472 |

| 2019 | Opening Balance \$000 | Charged to Income \$000 | Charged to Equity \$000 | Closing Balance \$000 |
|-----------------------------|--------------------------------------|--|--|--------------------------------------|
| Property, plant & equipment | 109,075 | (1,463) | - | 107,612 |
| Intangible assets | 322 | (37) | - | 285 |
| Investment properties | 34,780 | 4,999 | - | 39,779 |
| Provisions and payments | (1,695) | 1,020 | - | (675) |
| Derivatives | (4,947) | - | (4,598) | (9,545) |
| | 137,535 | 4,519 | (4,598) | 137,456 |

In March 2020, the Government re-introduced depreciation deductions on commercial buildings for tax purposes. This amendment applies from 1 April 2020 and the depreciation rates is 2% diminishing value. The impact of this change increases the depreciable tax base for these assets, which results in an immediate one-off reduction in deferred tax liability and a reduction in tax expenses of \$15.0m. While this transaction is non-cash in the year ended 30 June 2020, it represents future tax benefits that will be realised as reduced income tax payments over the remaining lives of the buildings.

| 5. Imputation credit memorandum account | 2020 | 2019 |
|---|--------------|--------------|
| | \$000 | \$000 |
| Balance available for use in subsequent reporting periods | - | 1,046 |

Imputation credits are not earned on subvention payments made to other members of the CCC tax group.

| 6. Dividends | Note | | |
|---|------|---------------|---------------|
| 2018 Final dividend paid (\$0.40 per share) | | - | 22,975 |
| 2019 Interim dividend paid (\$0.38 per share) | | - | 21,856 |
| 2019 Final dividend paid (\$0.37 per share) | | 21,449 | - |
| 2020 Interim dividend paid (\$0.35 per share) | | 20,000 | - |
| | 7b | <u>41,449</u> | <u>44,831</u> |

In response to COVID-19, CIAL agreed financial covenant waivers with our bank funding providers and bond supervisor for reporting periods to 31 December 2021 inclusive. As part of obtaining these waivers, CIAL has agreed that it will not make or pay any Distribution to shareholders until it is in compliance with all financial covenants and has delivered a certificate demonstrating that compliance.

The Board determined that no final dividend will be paid for the year ended 30 June 2020.

7. Reserves and retained earnings

a) Reserves

Balances

| | | |
|----------------------------|----------------|----------------|
| Cash flow hedges reserve | (33,739) | (24,315) |
| Asset revaluation reserve | <u>673,422</u> | <u>645,274</u> |
| Balance at end of the year | <u>639,683</u> | <u>620,959</u> |

Cash flow hedges reserve

Movements:

| | | |
|--|-----------------|-----------------|
| Balance at the beginning of the year | (24,315) | (12,490) |
| Revaluation to fair value | (17,883) | (21,362) |
| Transfer to statement of financial performance | 4,794 | 4,939 |
| Deferred tax on revaluation | <u>3,665</u> | <u>4,598</u> |
| Balance at the end of the year | <u>(33,739)</u> | <u>(24,315)</u> |

The cash flow hedge reserve is used to record gains and losses on the value of hedging instruments. The fair value is determined by reference to the market value of equivalent instruments at the reporting date and will fluctuate each period as the market variables change and the future cash flows resulting from the instrument reduce. The movement in the fair value from prior year reflects the impact of a change in market interest rates, compared to the underlying fixed hedging instruments currently held by CIAL. Amounts transferred to the statement of financial performance are included in financing and interest costs.

| | 2020 | 2019 |
|-----------------------------------|-----------------|-----------------|
| Asset revaluation reserve | \$000 | \$000 |
| Balance at beginning of the year | 645,274 | 617,350 |
| Revaluation of assets | 32,259 | 27,924 |
| Transfer to retained earnings | (2,500) | |
| Impairment to revaluation reserve | (1,611) | - |
| Balance at end of the year | <u>673,422</u> | <u>645,274</u> |
| <i>Comprising:</i> | | |
| Revaluation on: | | |
| Land | 315,255 | 315,255 |
| Terminal facilities | 131,034 | 131,034 |
| Buildings | 10,537 | 10,537 |
| Sealed surfaces | 66,871 | 66,871 |
| Infrastructure assets | 8,395 | 8,395 |
| Car parking | 141,330 | 113,182 |
| Balance at the end of the year | <u>673,422*</u> | <u>645,274*</u> |

The asset revaluation reserve records movements in the fair value of property, plant and equipment.

* balances are net of deferred tax except for land as there is no deferred tax calculated on the land revaluation.

| b) Retained earnings | Note | | |
|---|------|----------------|----------------|
| Balance at the beginning of the year | | 373,461 | 360,820 |
| Net surplus for the year | | 47,826 | 57,472 |
| Transfer from asset revaluation reserve | 7a | 2,500 | - |
| Dividends paid | 6 | (41,449) | (44,831) |
| Balance at end of the year | | <u>382,338</u> | <u>373,461</u> |

8. Borrowings

As at 30 June 2020, the Company has a committed bank funding facility for an aggregate \$485,000,000 (2019: \$220,000,000) with six banks (2019: five banks). In addition, the Company has an overdraft facility of \$1,000,000 (2019: \$1,000,000).

Prior to COVID-19, the company extended the maturity and limit of two existing facilities. Additionally, new facilities were also arranged with two existing providers and a new funding partner providing additional available facilities of \$160m. Following COVID-19, the company obtained an additional \$105m of available banking facilities before 30 June 2020 to provide significant liquidity to meet the company's forecast cashflows over the coming 18 months. Hence total increase in available bank facilities for the year of \$265m

Total bond funding is \$200,000,000 (2019: \$275,000,000) with one \$75m bond maturing during the financial year. The funds raised from these bond issues were used to refinance in part the company's maturing debt facilities. The \$100,000,000 (2019: \$100,000,000 and \$75,000,000) bond is held at amortised cost, adjusted by the fair value of the designated hedge risk. Additionally, the Company has two \$50,000,000 bonds, maturing in October 2021 and April 2027 respectively.

All borrowings under the bank facility and overdraft facility are unsecured and supported by a negative pledge deed. The negative pledge deed requires that no security interest is provided over any assets for borrowings, unless an equivalent security interest is created for the borrowing group and bond holders. Interest rates paid during the year, including offsetting interest rate swaps, ranged from 0.9% to 6.6% (2019: 2.2% to 6.7%). The bonds constitute direct, unsecured, unsubordinated obligations and will rank equally with all other unsecured, unsubordinated indebtedness.

During the current and prior years, there were no defaults or breaches on any of the borrowing facilities.

The carrying value of borrowings is considered to approximate their fair value.

Maturity of debt as at 30 June

| Maturing in Financial Year | 2020 | 2020 | 2019 | 2019 |
|----------------------------|-------------------|--------------------|-------------------|--------------------|
| | \$000 | \$000 | \$000 | \$000 |
| | Actual drawn down | Facility available | Actual drawn down | Facility available |
| 2020 | - | - | 115,501* | 115,000 |
| 2021 | 120,000 | 120,000 | 35,000 | 55,000 |
| 2022 | 221,956** | 295,000 | 164,921** | 175,000 |
| 2023 | 88,000 | 120,000 | - | - |
| 2024 | 110,049*** | 100,000 | 106,628*** | 100,000 |
| 2027 | 50,000 | 50,000 | 50,000 | 50,000 |
| | 590,005 | 685,000 | 472,050 | 495,000 |
| Current | 120,000 | 120,000 | 115,501 | 115,000 |
| Non-Current | 470,005 | 565,000 | 356,549 | 380,000 |
| | 590,005 | 685,000 | 472,050 | 495,000 |

* This balance includes \$75,000,000 of bond funding and is held at amortised cost, adjusted by the fair value of the designated hedge risk and capitalised borrowing costs. This bond is included within the reconciliation table below.

** This balance includes \$44,000 (2019: \$79,000) of capitalised borrowing costs associated with the issue of the \$50 million bond in October 2013.

*** This balance includes \$100,000,000 of bond funding and is held at amortised cost, adjusted by the fair value of the designated hedge risk. This bond is included within the reconciliation table below and matures in May 2024.

| | 2020 | 2019 |
|---|----------------|----------------|
| | \$000 | \$000 |
| Bond principal | 100,000 | 175,000 |
| Directly attributable borrowing costs | (280) | (280) |
| Amortisation of borrowing costs (cumulative) | 280 | 262 |
| Fair value hedging adjustment 2020 | 2,901 | - |
| Fair value hedging adjustment 2019 | 4,909 | 4,909 |
| Fair value hedging adjustment 2018 | 833 | 833 |
| Fair value hedging adjustment 2017 | (955) | (955) |
| Fair value hedging adjustment 2016 | 2,670 | 2,670 |
| Fair value hedging adjustment 2015 | 4,422 | 4,422 |
| Fair value hedging adjustment 2014 | (1,364) | (1,364) |
| Fair value hedging adjustment 2013 | (3,367) | (3,367) |
| Bond fair value | <u>110,049</u> | <u>182,130</u> |

Subsequent to 30 June 2020, the company undertook the following bank financing activity:

- the \$120,000,000 of current facilities (with three banks) were extended out for 2 or 3 year periods;
- an additional \$40m facility was obtained from one bank; and
- in addition to the new bank facility and extensions, CIAL also sought waivers of its financial covenants from both bank lenders and the bond supervisor. The waivers were granted in August 2020 and take the following form:
 - waive compliance with the interest cover ratio for the Financial Periods ending 31 December 2020 and 30 June 2021 (which would otherwise be required to be at least 1.75:1); and
 - waive compliance with the interest cover ratio for the Financial Period ending 31 December 2021, provided that the interest cover ratio for that Financial Period must be no less than 1.50:1.
- Borrowings maturing in October/November 2021 are expected to be refinanced through the extension of existing facilities and debt capital market issue.

Fair value hedge

At 30 June 2020, the Company had one interest rate swap agreement in place with a notional amount of \$100,000,000 (2019: two agreement \$100,000,000 and \$75,000,000) whereby the Company receives a fixed rate of interest of 4.13% (2019: 4.13% and 5.15%) and pays interest at a variable rate on the notional amounts. The swap is being used to hedge the exposure to changes in the fair value of the 4.13% \$100,000,000 bond (2019: 4.13% \$100,000,000 and 5.15% \$75,000,000).

The increase in fair value of the interest rate swaps of \$2,901,000 (2019: increase \$4,909,000) has been recognised in finance costs and offset with a decrease of \$2,886,000 (2019: decrease of \$4,821,000) on the bank borrowings. The ineffectiveness recognised in 2020 was \$15,000 (2019: \$88,000).

| | Fair Value | | Notional Principal | |
|--|------------|--------|--------------------|---------|
| | 2020 | 2019 | 2020 | 2019 |
| | \$000 | \$000 | \$000 | \$000 |
| 9. Derivative financial instruments | | | | |
| Current Assets | | | | |
| Interest rate swaps – fair value hedges | - | 646 | - | 75,000 |
| Non-current Assets | | | | |
| Interest rate swaps – fair value hedges | 10,295 | 6,747 | 100,000 | 100,000 |
| Current liabilities | | | | |
| Interest rate swaps – cash flow hedges | 1,743 | 2,504 | 51,000 | 103,000 |
| Non-current liabilities | | | | |
| Interest rate swaps – cash flow hedges | 45,590 | 31,455 | 298,000 | 349,000 |

| 10. Trade and other payables | 2020 | 2019 |
|---|---------------|---------------|
| Trade and other payables less than one year | \$000 | \$000 |
| Trade payables | 3,917 | 9,129 |
| Employee entitlements and provisions | 5,487* | 2,934 |
| Goods and Services Tax | 1,678* | - |
| Rental revenue in advance | 3,578 | 2,562 |
| Accrued interest | 2,285 | 2,515 |
| Accrued capital items | 8,009 | 11,883 |
| Accrued expenses | 3,896 | 4,670 |
| | <u>28,850</u> | <u>33,693</u> |
| Trade and other payables greater than one year | | |
| Rental revenue in advance | <u>682</u> | <u>783</u> |
| Total trade and other payables | <u>29,532</u> | <u>34,476</u> |

* increased balance due to the company utilising the IRD's COVID 19 liquidity assistance of waiving late payment penalties and interest for various tax payments, including PAYE, FBT and GST.

11. Property, plant and equipment

Revaluation of property, plant and equipment

At each reporting date the company assesses whether the carrying value of each asset class differs materially from the fair value and consequently determine if a revaluation is required. This assessment is completed by independent valuers. Management reviews the key inputs, assesses valuation movements and holds discussions with the valuer as part of the process.

Buildings, Terminal, Sealed Surfaces and Infrastructure assessment (excluding Hotel)

For the year ended 30 June 2020, WSP New Zealand Limited completed a desktop, high level review of the current carrying value of the airports building and infrastructure assets. This review was completed by adjusting the previous valuation at 30 June 2018 to reflect changes in the costs of construction and depreciation to 30 June 2020. Adjustments were also made to account for capital expenditure and disposals in the period since the full revaluation, as well as changes to valuation parameters / assumptions around asset lives, construction cost rates and residual values. Additionally, impairment due to COVID-19 and the optimisation of certain assets was also factored into this assessment.

The assessment concluded that there was not a material difference between the carrying value and the fair value of these asset classes.

Hotel

The hotel building was transferred from work in progress to property, plant and equipment and initially recognised at cost when it opened in the current financial year. Hence as at 30 June 2020 it is carried at cost less accumulated depreciation, which approximates fair value.

Land

Crighton Anderson Property and Infrastructure Ltd trading as Colliers International Ltd completed an assessment of the carrying value of land within the Property, Plant and Equipment classification. This review considered comparable industrial and rural land sales within the Christchurch area.

The assessment concluded that there had not been a material change in land values and therefore a revaluation was not required.

Car Park Assets

On 30 June 2020, car parking assets were revalued by independent valuers Crighton Anderson Property and Infrastructure Ltd trading as Colliers International Ltd.

The methods of valuation applied by independent valuers are as follows:

Land

- Specialised assets: where there is no market-based evidence of the sale of such land the value has been determined taking into account:
 - its existing zoning and use as an airport;
 - benchmark selling prices for land in the local commercial, industrial, service, residential and rural markets;
 - adjustments to reflect the unique features of the land which includes its size, location, titles, easements and services;
 - the overall land use plan for Christchurch Airport.
- Commercial portfolio: with valuations taking reference to the wider market for sales evidence of land zoned for similar permitted activities, with adjustments made for the size, location and physical characteristics of these assets.

Buildings

At market value based on the estimated amount for which a property would exchange on the date of valuation between a willing buyer and willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently, and without compulsion, but with the explicit assumption that the existing use of the asset is ignored.

Where a building is a specialised asset then it will be valued at optimised depreciated replacement cost (ODRC). ODRC measures the minimum cost of replacing or replicating the service potential embodied in the assets with modern equivalent assets in the most efficient way practicable, given the service requirements, the age and condition of the existing assets and replacement in the normal course of business.

Terminal facilities

Terminal facilities are a specialised asset and are valued using ODRC.

Car parking assets

Car parking assets are valued using a discounted cash flow valuation approach, using a forecast ten-year discount period and an allowance for an appropriate terminal value reflecting an estimate of their residual estimated life. The approach to the allocation of the car park valuation is to assess the ODRC based valuation of the car parking assets and then apportion the additional value over and above this to the underlying land value.

Sealed surfaces and infrastructure assets

The ODRC approach is utilised to value sealed surfaces and infrastructure assets. The optimisation process minimises the cost of replacing the services offered, given the age and condition of the existing assets and recognising the incremental process (brownfield) associated with airport development. Costs reflect the replacement of current assets with modern equivalents, an optimised construction sequence and adjustment to allow for the difficulties associated with a "brownfield" environment. Where appropriate, adjustments have been made to eliminate surplus assets, obsolescence and over design. The valuation methodology considers the asset inventory (description and quantity of assets), relevant optimisation, estimation of the current replacement cost and depreciation to reflect remaining life expectancy.

For details of the property, plant and equipment accounting policy, refer Summary of Significant Accounting Policies, subsection (I) Property, plant and equipment.

The result of the revaluations at 30 June were:

| | 2020 | 2019 |
|-----------------|---------------|---------------|
| | \$000 | \$000 |
| Land | - | - |
| Buildings | - | - |
| Terminal | - | - |
| Sealed surfaces | - | - |
| Infrastructure | - | - |
| Car parking | 32,259 | 27,924 |
| | <u>32,259</u> | <u>27,924</u> |

The valuation methodologies used in the revaluation as at 30 June 2020 were consistent with those used in the last valuation.

Impairment

As noted above for the year ended 30 June 2020, WSP New Zealand Limited completed a desktop, high level review of the current carrying value of the airports building and infrastructure assets. Additionally, impairment due to COVID-19 and the optimisation of certain assets was also factored into this assessment. The assessment concluded that there was not a material difference between the carrying value and the fair value of these asset classes and no indicators of impairment at this time.

Crighton Anderson Property and Infrastructure Ltd trading as Colliers International Ltd completed an assessment of the carrying value of land within the Property, Plant and Equipment classification. This review considered comparable industrial and rural land sales within the Christchurch area. The assessment concluded that there had not been a material change in land values and there were no indicators of impairment at this point in time.

The company has also considered whether there is any further indication of impairment at the cash-generating unit level for any group of assets not already subject to annual revaluation in 2020. The company assessed that it has one core cash generating unit which comprises all of its terminal and airfield assets together and three other cash generating units - the hotel, car parking assets and investment property portfolio (noting that car park assets and investment property have been revalued).

Hotel

An impairment assessment was completed on the carrying value of the Hotel, including land at 30 June 2020, using a discounted cashflow approach.

This assessment includes

- the most recent budgets provided by the hotel manager for the next three years.
- a terminal growth rate of 1.85%, which reflects the historical long-term growth rate of Christchurch based hotels of a comparable quality.
- a pre-tax discount rate of 8% which reflects our assessment of the underlying risk associated with the Hotel asset.

The discounted cashflow valuation utilising the above variables highlighted no indication of impairment of the current carrying value of the Hotel, including land.

Sensitivity of the impairment assessment to changes in growth rate or discount rate

- A change of -0.25% applied to the growth rate would result in an impairment of \$1,933k.
- A change of +0.25% applied to the pre-tax discount rate would result in an impairment of \$2,606k.

Terminal & Airfield CGU

The company has also performed an impairment assessment of its core terminal and airfield CGU using its overall enterprise wide commercial valuation as a base. This applied a discounted cashflow approach and included the following inputs:

- the most recent revenue and expenses budgets for the company taken from the FY21 Business Plan.
- a terminal growth rate of 2%, which reflects a prudent estimate of the historical long-term growth rate of CIAL's revenue and operating costs over the last 20 years.
- a discount rate of 6.79% which reflects an appropriately blended assessment of a regulatory WACC for regulated assets and related revenue streams and the risk related to the other non-regulated revenue streams from these assets.

The discounted cashflow valuation utilising the above variables highlighted no indication of impairment of this cash generating unit. With no change in any other variables a WACC in excess of 7.12% would result in an impairment being recognised.

Impact of COVID 19

The assessments of CIAL's specialist assets including terminals, sealed surfaces, infrastructure and land were performed including the impacts of COVID-19 and its related impacts on various inputs.

In respect to underlying cash flows used in the car park and other impairment models, the major inputs and assumptions were based on forecasts of passenger number recoveries with a focus on the most important areas of domestic and then trans-Tasman. These forecasts are based on detailed views of current schedules and likely recovery of additional capacity over the next 3-year period.

It should be noted that some of the reasonable assumptions made at 30 June relevant to the cash flow forecasts for the 2021 financial year are now unlikely to eventuate as originally assumed, particularly in respect to the likely opening of the trans-Tasman and then wider international borders.

Independent valuers have carried out any valuations by applying assumptions regarding the reasonably possible impacts of COVID-19 based on information available as at 30 June 2020. Given the circumstances, the car park valuation and land impairment assessment as at 30 June 2020 have been prepared on the basis of 'significant valuation uncertainty', and therefore the independent valuers have advised that less certainty should be attached to their valuations than would normally be the case.

| Summary of movement in net book value | 2020 | 2019 |
|--|------------------|------------------|
| | \$000 | \$000 |
| Opening net book value | 1,208,026 | 1,158,952 |
| Plus Additions | 85,120 | 39,047 |
| Plus Transfers (to) / from investment properties and intangibles | (21,642) | 16,418 |
| Less Disposals (cost less depreciation) | (34) | (39) |
| Less this year's depreciation | (38,627) | (34,276) |
| Plus Revaluation gain | 30,648 | 27,924 |
| Closing net book value | 1,263,491 | 1,208,026 |

Property, plant and equipment as at 30 June 2020

Gross carrying amount

| | Cost / Valuation 1 July 2019 | Current Year Additions at Cost | Transfers at Cost | Disposals at Cost/ Impairment | Revaluation Adjustment | Cost / Valuation 30 June 2020 |
|------------------------------------|---------------------------------|---|----------------------|-------------------------------------|---------------------------|-------------------------------------|
| | \$000 | \$000 | \$000 | \$000 | \$000 | \$000 |
| Land | 380,077 | 41,989 | 1,058 | - | - | 423,124 |
| Buildings | 27,648 | - | 92,606 | - | - | 120,254 |
| Terminal facilities | 321,423 | - | 14,583 | - | - | 336,006 |
| Sealed surfaces | 186,178 | - | 7,376 | - | - | 193,554 |
| Plant & equipment | 7,472 | - | 1,430 | (9) | - | 8,893 |
| Office & computers | 12,196 | - | 822 | - | - | 13,018 |
| Infrastructure | 46,614 | - | 26,119 | - | - | 72,733 |
| Car parking | 159,500 | - | (21,306) | - | 29,306 | 167,500 |
| Motor vehicles | 6,361 | - | 172 | (75) | - | 6,458 |
| Work in progress | 108,267 | 43,131 | (144,536) | - | - | 6,862 |
| Total gross carrying amount | 1,255,736 | 85,120 | (21,676) | (84) | 29,306 | 1,348,402 |

Accumulated depreciation

| | Accumulated Depreciation 1 July 2019 | Current Year Depreciation | Depreciation on Transfers | Depreciation on Disposals | Revaluation Adjustment | Accumulated Depreciation 30 June 2020 |
|---------------------------------------|--|------------------------------|------------------------------|------------------------------|---------------------------|---|
| | \$000 | \$000 | \$000 | \$000 | \$000 | \$000 |
| Buildings | 1,129 | 3,559 | - | - | - | 4,688 |
| Terminal facilities | 20,211 | 20,642 | - | - | - | 40,853 |
| Sealed surfaces | 7,873 | 8,007 | - | - | - | 15,880 |
| Plant & equipment | 4,145 | 625 | - | (7) | - | 4,763 |
| Office & computers | 8,754 | 1,037 | - | - | - | 9,791 |
| Infrastructure | 2,066 | 2,413 | - | - | - | 4,479 |
| Car parking | - | 1,376 | (34) | - | (1,342) | - |
| Motor vehicles | 3,532 | 968 | - | (43) | - | 4,457 |
| Total accumulated depreciation | 47,710 | 38,627 | (34) | (50) | (1,342) | 84,911 |

| Summary | 1 July 2019 | Current year movement | Transfers | Disposals | Revaluation | 30 June 2020 |
|--------------------------|------------------------|----------------------------------|------------------|------------------|--------------------|---------------------|
| Cost | 1,255,736 | 85,120 | (21,676) | (84) | 29,306 | 1,348,402 |
| Accumulated depreciation | 47,710 | 38,627 | (34) | (50) | (1,342) | 84,911 |
| Book value | 1,208,026 | 46,493 | (21,642) | (34) | 30,648 | 1,263,491 |

The following categories of property, plant and equipment are subject to operating leases:

- Land associated with aeronautical activities, retail facilities within the terminal and other commercial activities carried at \$91,227,000 (2019: \$84,003,000);
- Terminal facilities, being 33.8% of total floor area or \$99,910,000 (2019: 33.8% of total floor area or \$101,960,000).
- Buildings associated with aeronautical activities \$18,114,000 (2019: \$18,423,000).

Fair value hierarchy

| Asset classification and description | Valuation approach | Key valuation assumptions | Fair value hierarchy Level | Valuation sensitivity |
|--|--|---|-----------------------------------|---|
| Land Includes land used for airport activities and specialised aeronautical assets and for non-aeronautical purposes e.g. industrial, service, retail and land associated with the vehicle business. | Market value highest and best use approach, with an allowance being deducted to allow for services valued as infrastructure assets. Land included in car parking and Investment property categories are not included in this category. Last valuation 30 June 2018. | Adopted rate per hectare of \$600,000. | 3 | +/- \$19 million (of a 5% change in adopted rate). |
| Infrastructure and Sealed Surfaces Infrastructure and sealed surfaces including site services. | Optimised depreciated replacement cost - the cost of constructing equivalent asset at current market-based input cost rates, adjusted for the remaining useful life of the assets (depreciation) and the sub optimal usage of the assets in their current application (optimisation). These inputs are deemed unobservable. Last valuation 30 June 2018. | Sealed Surfaces Unit costs of combined concrete and asphalt pavement construction sqm: Range of \$133 – \$271 with weighted average of \$155 Infrastructure Unit costs of road and footpaths construction sqm: Range of \$7 – \$88 with weighted average of \$39 | 3 | +/- \$11.5 million (of a 5% change of cost estimate). |

Unit costs of water and drainage construction m:
Range of \$195 – \$1,196 with weighted average of \$516

Buildings

| | | | | |
|---|--|--|---|---|
| Buildings for identified airport activities, including offices spaces and storage that exist because of the airport activities. | Specialised buildings are valued by Optimised depreciated replacement cost derived from modern equivalent asset rate, as described for Infrastructure and Sealed Surfaces above. Buildings that are owned by CIAL that could be leased by a third party are valued on an income valuation approach similar to that used for Investment Properties. (see note 13) Last valuation 30 June 2018. | Unit costs of construction sqm: Range of \$483 – \$3,037 with weighted average of \$912 | 3 | +/- \$1.35 million (of a 5% change of cost estimate). |
|---|--|--|---|---|

Terminal

| | | | |
|---|--|---|--|
| Optimised depreciated replacement cost derived from modern equivalent asset rate, as described for Infrastructure and Sealed Surfaces above. Last valuation 30 June 2018. | Unit costs of construction sqm: Range of \$2,906 – \$5,412 with weighted average of \$4,111 | 3 | +/- \$15.96 million (of a 5% change of cost estimate). |
|---|--|---|--|

Carparking

| | | | | |
|--|--|---|---|---|
| Assets associated with car parking, taxi, shuttle and bus services (Including land). | Discounted cash flow valuation performed by independent valuers based on: Internal management information such as forecast future revenues, costs and capital expenditure. - Assumptions such as the discount rate. These are based on management's judgement and arrived at in consultation with external experts. Both the internal management information and the discount rate are deemed to be unobservable inputs. | Revenue Growth per annum 0.5% and 0.5% for the 10-year cashflow period from year 11. Cost growth per annum 2% for the 10-year cashflow period and 2% from year 11. Discount rate 7% post tax, 10-year cash flow period and 7% from year 11. | 3 | +/- \$9.0 million (of a 5% change in discount rate) +/- \$0.5 million (of a change in growth rate to either 0% or 1.0% for year 11 onwards). |
|--|--|---|---|---|

Plant & equipment, Office & computers, Motor Vehicles and Work in progress

Plant and equipment, Office & computers Motor Vehicles and Work in progress are measured at cost and comprises a mixture of specialised and non-specialised assets.

Not applicable - measured at cost less depreciation.

Level 3 Asset Classification**Sensitivity of significant unobservable inputs**

Land

The critical elements in establishing the 'market value existing use' of land is the market rate prevailing for similar land.

- An increase in demand for land will increase the fair value
- A decrease in demand will decrease the fair value

Infrastructure and Sealed Surfaces

The critical elements in establishing the fair value of civil assets is the movement in the average cost rates for concrete, asphalt, base course and foundations, as well as the estimated remaining useful life of the assets.

- An increase to any of the average cost rates listed above will increase the fair value
- A reduction in the estimated remaining useful life of the assets will reduce the fair value

Buildings

An increase in modern equivalent asset replacement cost will increase the fair value

A decrease in modern equivalent asset replacement will decrease the fair value

An increase in the cashflow from an asset will increase the fair value

A decrease in the cashflow from an asset will decrease the fair value of the asset

Car Parking

An increase in the vehicle numbers will increase the fair value

A decrease in vehicle numbers will decrease the fair value

An increase in the discount rate used would decrease the fair value

An increase in costs would decrease the fair value

Property, plant and equipment as at 30 June 2019

Gross carrying amount

| | Cost/Valuation 1 July 2018 | Current Year Additions at Cost | Transfers at Cost | Disposals at Cost/ Impairment | Revaluation Adjustment | Cost/Valuation 30 June 2019 |
|------------------------------------|-------------------------------|---|----------------------|-------------------------------------|---------------------------|--------------------------------|
| | \$000 | \$000 | \$000 | \$000 | \$000 | \$000 |
| Land | 380,077 | - | - | - | - | 380,077 |
| Buildings | 27,059 | - | 589 | - | - | 27,648 |
| Terminal facilities | 319,223 | - | 2,200 | - | - | 321,423 |
| Sealed surfaces | 178,701 | - | 7,477 | - | - | 186,178 |
| Plant & equipment | 7,002 | - | 470 | - | - | 7,472 |
| Office & computers | 11,483 | - | 713 | - | - | 12,196 |
| Infrastructure | 44,165 | - | 2,449 | - | - | 46,614 |
| Car parking | 131,000 | - | 1,867 | (4) | 26,637 | 159,500 |
| Motor vehicles | 5,900 | - | 653 | (192) | - | 6,361 |
| Work in progress | 69,220 | 39,047 | - | - | - | 108,267 |
| Total gross carrying amount | 1,173,830 | 39,047 | 16,418 | (196) | 26,637 | 1,255,736 |

Accumulated depreciation

| | Accumulated Depreciation 1 July 2018 | Current Year Depreciation | Depreciation on Transfers | Depreciation on Disposals | Revaluation Adjustment | Accumulated Depreciation 30 June 2019 |
|---------------------------------------|--|------------------------------|------------------------------|------------------------------|---------------------------|---|
| | \$000 | \$000 | \$000 | \$000 | \$000 | \$000 |
| Buildings | - | 1,129 | - | - | - | 1,129 |
| Terminal facilities | - | 20,211 | - | - | - | 20,211 |
| Sealed surfaces | - | 7,873 | - | - | - | 7,873 |
| Plant & equipment | 3,589 | 556 | - | - | - | 4,145 |
| Office & computers | 7,949 | 805 | - | - | - | 8,754 |
| Infrastructure | - | 2,066 | - | - | - | 2,066 |
| Car parking | - | 1,287 | - | - | (1,287) | - |
| Motor vehicles | 3,340 | 349 | - | (157) | - | 3,532 |
| Total accumulated depreciation | 14,878 | 34,276 | - | (157) | (1,287) | 47,710 |

| Summary | 1 July 2018 | Current year movement | Transfers | Disposals | Revaluation | 30 June 2019 |
|--------------------------|------------------------|----------------------------------|------------------|------------------|--------------------|---------------------|
| Cost | 1,173,830 | 39,047 | 16,418 | (196) | 26,637 | 1,255,736 |
| Accumulated depreciation | 14,878 | 34,276 | - | (157) | (1,287) | 47,710 |
| Book value | 1,158,952 | 4,771 | 16,418 | (39) | 27,924 | 1,208,026 |

The carrying amount at which each revalued class of property, plant & equipment if measured at historical cost less accumulated depreciation and any accumulated impairment losses is as per the table below:

| | 2020 \$000 | 2019 \$000 |
|-----------------|-----------------------|-----------------------|
| Land | 166,008 | 124,294 |
| Buildings | 106,179 | 18,302 |
| Terminal | 156,041 | 155,270 |
| Sealed surfaces | 96,289 | 94,716 |
| Infrastructure | 60,671 | 37,573 |
| Car parking | 34,910 | 36,241 |
| | <u>620,098</u> | <u>466,396</u> |

12. Intangible assets as at 30 June 2020

Gross carrying amount

| | Cost/Valuation 1 July 2019 \$000 | Current Year Additions at Cost \$000 | Transfers from WIP \$000 | Current Year Disposals/ Impairment \$000 | Cost/Valuation 30 June 2020 \$000 |
|------------------------------|---|---|---|---|--|
| Software | 10,832 | 10 | 2,087 | - | 12,929 |
| Goodwill | 1,740 | - | - | (1,740) | - |
| Gross carrying amount | 12,572 | 10 | 2,087 | (1,740) | 12,929 |

Accumulated amortisation

| | Accumulated Amortisation 1 July 2019 \$000 | Current Year Amortisation \$000 | Transfers from WIP \$000 | Amortisation on Disposal \$000 | Accumulated Amortisation 30 June 2020 \$000 |
|---------------------------------------|---|--|---|---|--|
| Software | 7,984 | 1,692 | - | - | 9,676 |
| Total accumulated amortisation | 7,984 | 1,692 | - | - | 9,676 |
| Total book value 30 June 2020 | 4,588 | (1,682) | 2,087 | (1,740) | 3,253 |

Goodwill was generated through the acquisition of Craddocks car storage in the 2011 financial year.

For the purposes of impairment testing, goodwill is allocated to cash generating units (CGU's); these represent the lowest level at which goodwill is monitored.

The COVID 19 pandemic has had a significant impact on the car parking operations of the Airport in the short term, of which Craddocks is a distinct standalone service offering.

Car Parking demand is most closely correlated to domestic and Tasman passenger numbers. The large reduction in passenger demand due to health risk management and closed international borders has resulted in a review of the Airport's entire car parking operation.

This review identified a short-term excess capacity within our car parking infrastructure, and therefore a decision was made to close the physical Craddocks site and look to migrate the Craddocks customers to CIAL's other car park areas. The Craddocks building will be leased to a new tenant. This decision to close the site has resulted in the disestablishment of the majority of Craddocks staff.

Given this decision, management consider this to be an indicator of a potential impairment of the Craddocks goodwill and has hence considered the impact on future cashflows that have previously been associated with the Craddocks operation.

Whilst identification and specific servicing of Craddocks customers will continue in the short-term, it has been assessed that this is unlikely to be separately identifiable from the overall parking cash inflows moving forward and hence there will be nothing to justify the carrying value of the Craddocks goodwill.

Intangible assets as at 30 June 2019

Gross carrying amount

| | Cost/Valuation 1 July 2018 | Current Year Additions at Cost | Transfers from WIP | Current Year Disposals/ Impairment | Cost/Valuation 30 June 2019 |
|------------------------------|-------------------------------|--------------------------------------|-----------------------|--|--------------------------------|
| | \$000 | \$000 | \$000 | \$000 | \$000 |
| Software | 9,715 | | 1,117 | - | 10,832 |
| Goodwill | 1,740 | - | - | - | 1,740 |
| Gross carrying amount | 11,455 | - | 1,117 | - | 12,572 |

Accumulated amortisation

| | Accumulated Amortisation 1 July 2018 | Current Year Amortisation | Transfers from WIP | Amortisation on Disposal | Accumulated Amortisation 30 June 2019 |
|---------------------------------------|--|------------------------------|-----------------------|-----------------------------|---|
| | \$000 | \$000 | \$000 | \$000 | \$000 |
| Software | 6,740 | 1,244 | - | - | 7,984 |
| Total accumulated amortisation | 6,740 | 1,244 | - | - | 7,984 |
| Total book value 30 June 2019 | 4,715 | (1,244) | 1,117 | - | 4,588 |

| | 2020 | 2019 |
|--|----------------|----------------|
| | \$000 | \$000 |
| 13. Investment properties | | |
| At fair value | | |
| Fair value at the beginning of the year | 491,202 | 428,848 |
| Transfer from property, plant and equipment | 19,555 | - |
| Additional capitalised expenditure | 21,645 | 16,185 |
| Fair value gain from fair value adjustment | 13,481 | 13,133 |
| Fair value at 30 June | 545,883 | 458,166 |
| Investment properties under construction at cost | 25,775 | 33,036 |
| Total investment properties | 571,658 | 491,202 |
| Rental income | 35,237 | 29,022 |
| Direct operating expenses from property that generated rental income | 4,955 | 4,275 |

The above values include the land associated with these properties.

Valuation of investment property

The valuation as at 30 June 2020 and 30 June 2019 was completed by Crighton Anderson Property and Infrastructure Ltd, trading as Colliers International Ltd, registered valuers and member of the New Zealand Property Institute. The basis of valuation is fair value, being the estimated amount for which an asset should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

The valuation methodologies used were a direct sales comparison or a direct capitalisation of rental income using market comparison of capitalisation rates, supported by a discounted cash flow approach. The valuation methodologies are consistent with the prior year.

Principal assumptions used in establishing the valuations were:

- Average rental yield rate 6.26% (2019: 6.61%)
- Average market capitalisation rate 6.94% (2019: 7.13%)
- Weighted average lease term 6.56 years (2019: 6.00 years).

Rental ranges in aggregate across the different investment property asset types were as follows:

| Asset Type | Rental Range |
|-------------------|---------------------|
| Office | \$180-\$260/sqm |
| Warehouse | \$90-\$140/sqm |

For details of the investment property accounting policy, refer Summary of Significant Accounting Policies, subsection (m) Investment property.

Fair value hierarchy

| Asset classification and description | Valuation approach | Key valuation assumptions | Fair value hierarchy Level | Valuation Sensitivity |
|---|--|--|----------------------------|---|
| Investment Properties Investment Properties are land and buildings which are owned to earn rental income, for capital appreciation or both. | The income-based valuation approach is used. | Land is included when infrastructure services are available and future development is expected within the next 3 years | 3 | +/- + \$25.5 million / - \$22.9 million (of a 5% change of capitalisation rate) |

| Level 3 Asset Classification | Sensitivity of significant unobservable inputs |
|------------------------------|--|
| Investment Properties | An increase in the cashflow from an asset will increase the fair value A decrease in the cashflow from an asset will decrease the fair value of the asset |

Impact of COVID 19

The group's overall existing investment property portfolio has remained stable despite COVID-19. Retail and tourism service-based properties have been the most affected due to a reduction in foot traffic during lockdown and the continued impacts of further lockdowns and border restrictions on passenger throughput. Industrial properties have been supported by high quality tenants with long leases. CIAL offered its tenants directly impacted by COVID-19 a mixture of rental abatements and deferrals. Rent abatements were generally limited to retail terminal tenants whose businesses have been most impacted, while deferrals were given to tenants who faced disruption, largely as a result of the Level 4 lockdown.

Independent valuers have carried out any valuations by applying assumptions regarding the reasonably possible impacts of COVID-19 based on information available as at 30 June 2020. Given the circumstances, the property valuations as at 30 June 2020 have been prepared on the basis of 'material valuation uncertainty', and therefore the independent valuers have advised that less certainty should be attached to the property valuations than would normally be the case.

All valuations have been subject to peer review and have been reviewed by the company's property management team who, notwithstanding the uncertainty due to COVID-19, have determined the valuations to be appropriate as at 30 June 2020.

| | 2020 | 2019 |
|--|---------------|---------------|
| | \$000 | \$000 |
| 14. Trade and other receivables | | |
| Trade and other receivables less than one year | | |
| Contracted accounts receivable | 5,237 | 7,690 |
| Accounts receivable | 5,669 | 1,576 |
| Other receivables | 220 | 1,077 |
| Prepayments | 3,559 | 2,026 |
| Lease inducement | 589 | 613 |
| Goods and services tax | - | 912 |
| Less: Expected credit losses | (929) | (19) |
| | <u>14,345</u> | <u>13,875</u> |
| Trade and other receivables greater than one year | | |
| Prepayments | 8 | 35 |
| Lease inducement | 3,976 | 4,566 |
| | <u>3,984</u> | <u>4,601</u> |
| | <u>18,329</u> | <u>18,475</u> |
| Total trade and other receivables | | |
| Provision for expected credit losses movement | | |
| Opening provision for expected credit losses 1 July | (19) | (54) |
| Bad debts written off | - | 35 |
| Additional expected credit losses provision | (910) | - |
| Closing provision for expected credit losses | <u>(929)</u> | <u>(19)</u> |

Trade receivables have general payment terms of the 1st or the 20th of the month following invoice. Because of a lack of useful historical data on which to base the FY20 COVID-19 related receivable impairment analysis, CIAL has assessed its expected credit losses for each individual debtor applying judgement using management experience and customer knowledge and interactions since the emergence of COVID-19. This has resulted in an increase in the expected credit losses provision to \$929,000 (2019: \$19,000), which reflects the uncertainty associated with the collection of certain outstanding debts at year end.

| 15. Reconciliation of adjusted surplus after income tax with net cash flow from operating activities | 2020 | 2019 |
|---|---------------|---------------|
| | \$000 | \$000 |
| Net operating surplus after tax | 47,826 | 57,472 |
| Non-cash items | | |
| Depreciation, amortisation and impairment | 42,059 | 35,520 |
| Amortisation of lease surrender | 613 | 646 |
| Gain on revaluation of investment properties | (13,481) | (13,133) |
| Amortisation of capitalised borrowing costs | 43 | 78 |
| Accrued interest within derivatives | 280 | (76) |
| Fair value hedge ineffectiveness | 15 | 88 |
| Items not classified as operating activities | | |
| Net gain on asset disposals | (1) | (26) |
| Capital items included in trade payables and accruals | 9,416 | (12,642) |
| Deposit on property, plant and equipment | 1,050 | - |
| Deferred taxation | (13,319) | 4,519 |
| Movements in working capital | | |
| (Increase)/decrease in trade and other receivables | (1,384) | 961 |
| (Increase)/decrease in inventories | (6) | - |
| Increase/(decrease) in trade and other payables | (4,030) | 8,981 |
| Increase/(decrease) in taxation payable | 3,665 | (1,772) |
| Net cash flows from operating activities | 72,746 | 80,616 |

16. Related party transactions

Christchurch City Holdings Limited (CCHL), 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. All transactions with related entities:

- are conducted on an arm's length basis;
- result from the normal dealings of the parties;
- 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.

The New Zealand Government is the majority owner of Air New Zealand, a major customer of CIAL from both an aeronautical and rental and lease perspective. Pricing agreements are renegotiated for aeronautical charges with all airline customers of CIAL, including Air New Zealand, every five years. Air New Zealand also leases several properties within the terminal and the wider CIAL campus.

| Transactions with related entities during the year | 2020 | 2019 |
|---|--------------|--------------|
| Christchurch City Council (CCC) | \$000 | \$000 |
| Purchases | 956 | 1,411 |
| Rates paid | 5,896 | 5,351 |
| Revenues | 173 | 4 |
| Subvention payments | - | 2,280 |
| Group loss offset | - | 5,863 |
| Accounts payable | 1,704 | 74 |

Other CCC group companies

| | | |
|---------------------|-------|--------|
| Purchases | 8,923 | 18,280 |
| Revenues | 909 | 136 |
| Accounts payable | 917 | 1,598 |
| Amounts owing | - | 55 |
| Subvention payments | 916 | - |
| Group loss offset | 2,354 | - |

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 | 2020 | 2019 | Relationship |
|--|------------------------------------|--------------|--------------|---|
| | | \$000 | \$000 | |
| BECA Group Limited | Structural Engineering services | 353 | 519 | Catherine Drayton, company director is a director of BECA Group Limited |
| University of Canterbury | Research | 37 | 58 | Catherine Drayton was appointed as a Councillor by the Minister in 2009 and completed her term in September 2019. |
| Orbit Travel & House of Travel Holdings Limited | Travel, accommodation, | 424 | 620 | Chris Paulsen, company director is a director of Orbit Travel & House of Travel Holdings Limited |
| Skyline Enterprises Ltd | Rental income | 89 | 101 | Sarah Ottrey*, company director is a director of Skyline Enterprises |
| EBOS Group | Rental income | 502 | 551 | Sarah Ottrey*, company director is a director of EBOS Group |

*Sarah Ottrey was appointed director on 1 March 2019 and these are full year transactions.

Balance owing to non-shareholder related parties as at 30 June 2020

| Entity | 2020 | 2019 |
|---|--------------|--------------|
| | \$000 | \$000 |
| BECA Group Limited | - | 68 |
| University of Canterbury | - | 11 |
| Orbit Travel & House of Travel Holdings Limited | 5 | 76 |

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

17. Key management personnel compensation

The key management personnel include the six Board members (2019: 6), the CEO and his five direct reports (2019: 6).

The key management compensation is:

| | | |
|---|--------------|--------------|
| Director fees | 356 | 317 |
| Salaries and other short-term employee benefits | 2,801 | 2,946 |
| Post-employment benefits | 93 | 96 |
| Termination benefits | 196 | - |
| | <u>3,446</u> | <u>3,359</u> |

18. Commitments

Capital expenditure commitments

| | | |
|-------------------------------|---------------|---------------|
| Property, plant and equipment | 7,809 | 37,647 |
| Intangibles | 123 | 374 |
| Investment properties | 13,285 | 27,064 |
| Total | <u>21,217</u> | <u>65,085</u> |

19. Lease income

The company has several property and technology leases for which it receives rental. These include investment properties, spaces within the terminal and other properties used for aeronautical purposes. The total amount receivable for these operating leases in the future is:

| | | |
|-------------------|----------------|----------------|
| Less than 1 year | 38,738 | 60,195 |
| Between 1-2 years | 35,417 | 61,304 |
| Between 2-3 years | 32,574 | 50,730 |
| Between 3-4 years | 28,920 | 44,644 |
| Between 4-5 years | 27,056 | 39,186 |
| Beyond 5 years | 152,393 | 132,171 |
| | <u>315,098</u> | <u>388,230</u> |

The total future receivable for current operating leases has reduced from the prior year due to the change in leasing arrangements associated with some tenants due to the COVID 19 outbreak and the associated reductions in passenger numbers.

The leases are for terms between 1 month and 25 years, and the majority of the lease agreements are renewable at the end of the lease period at market rates. The lessee does not have an option to purchase the property at the end of the expiry period.

Although the company is exposed to changes in the unguaranteed residual value at the end of the current leases, this risk is not presently considered significant due to the company typically entering new operating leases prior to the end of the existing leases and therefore will not immediately realise any reduction in residual value. Additionally, the investment properties are located in a location that has had constant increases in value over the last few years, and the company has not identified any indications that this situation will change. Expectations about the future residual values are reflected in the fair value of the properties.

The credit risk exposure associated with operating leases is managed by obtaining bank guarantees for the term of the lease, when considered necessary.

20. Contingent assets and liabilities

As at 30 June 2020 there were no contingent assets (2019: NIL) and there were no contingent liabilities (2019: NIL).

21. Events occurring after balance date

On 1 July 2020, CIAL applied for the extended wage subsidy and received \$980,000.

On 12 August 2020, the New Zealand Government reinstated COVID-19 Alert level 3 for the Auckland region, which includes restrictions on non-essential travel into and out of Auckland. The rest of New Zealand moved into Alert level 2. These restrictions remained in place until 31 August when Auckland region was reduced to Alert level 2 with some continued social distancing and gatherings restrictions. Following the COVID-19 outbreak, CIAL is well placed to withstand a long recovery period and this temporary setback has not materially impacted previous forecasts.

As noted in Note 8, subsequent to balance date the company undertook the following bank financing activity:

- the \$120,000,000 of current facilities (with three banks) were extended out for 2- or 3-year periods;
- an additional \$40m facility was obtained from one bank; and
- in addition to the new bank facility and extensions, CIAL was also granted waivers of its financial covenants from both bank lenders and the bond supervisor.

On 25 September 2020, the directors resolved that no final dividend will be declared for the year ended 30 June 2020.

22. 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 Board. The Risk, Audit and Finance Committee (the Committee) monitors all risk management activities and provides regular reports on such activities to the Board. 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, on-going 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 no material exposure to foreign exchange risk at 30 June 2020 (2019: NIL).

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.

Changes in the value of the \$100,000,000 (2019: \$100,000,000 and \$75,000,000) fixed rate retail bond has been hedged by a fixed to floating interest rate swap with terms that match those of the underlying bond.

At 30 June 2020, if the interest rates had changed by +/- 1%, with all other variables held constant, the impact to equity would have been \$92,000 lower/\$93,000 higher, the impact on profit would have been \$22,000 lower/\$22,000 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 | Fixed Interest Rate \$000 | Non-Interest Bearing \$000 | Total \$000 |
|-------------------------------------|------|--|---------------------------------------|------------------------------------|----------------------------------|----------------|
| As at 30 June 2020 | | | | | | |
| FINANCIAL ASSETS | | | | | | |
| Cash and cash equivalents | | 0.5 | 4,164 | - | - | 4,164 |
| Trade and other receivables | 14 | | - | - | 18,329 | 18,329 |
| | | | 4,164 | - | 18,329 | 22,493 |
| FINANCIAL LIABILITIES | | | | | | |
| Trade and other payables | 10 | | - | - | 19,785 | 19,785 |
| Derivative financial instruments | 9 | 4.0 | 47,333 | - | - | 47,333 |
| Borrowings | 8 | 4.5 | 380,000 | 210,005 | - | 590,005 |
| Employee benefits | 10 | | - | - | 5,487 | 5,487 |
| | | | 427,333 | 210,005 | 25,272 | 662,610 |

| | Note | Weighted Average Effective Interest rate | Variable Interest Rate | Fixed Interest Rate | Non-Interest Bearing | Total |
|-------------------------------------|------|---|------------------------------|---------------------------|-------------------------|---------|
| | | % | \$000 | \$000 | \$000 | \$000 |
| As at 30 June 2019 | | | | | | |
| FINANCIAL ASSETS | | | | | | |
| Cash and cash equivalents | | 1.5 | 845 | - | - | 845 |
| Trade and other receivables | 14 | | - | - | 18,476 | 18,476 |
| | | | 845 | - | 18,476 | 19,321 |
| FINANCIAL LIABILITIES | | | | | | |
| Trade and other payables | 10 | | - | - | 28,197 | 28,197 |
| Derivative financial instruments | 9 | 4.2 | 33,959 | - | - | 33,959 |
| Borrowings | 8 | 5.3 | 190,000 | 282,050 | - | 472,050 |
| Employee benefits | 10 | | - | - | 2,934 | 2,934 |
| | | | 223,959 | 282,050 | 31,131 | 537,140 |

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.

The company also continuously monitors the outstanding credit exposure to individual customers. Credit risk is concentrated on a small number of customers. At 30 June 2020 59% (2019: 83%) 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 ended 30 June 2020 no debtor balances (2019: \$35,000) were written off.

As at the 30 June 2020 the total balance for expected credit losses is \$929,000 (2019: \$19,000), increasing \$910,000 from the prior year. Given the limited number of bad debts written off historically, a doubtful debt assessment has been completed by individual debtor. These assessments took into account ownership structure, parent company or shareholder support, industry outlook and payment of agreed balances since rent relief was granted.

The company has a policy that assists to manage exposure to credit risk by way of requiring a bank guarantee for customers whose credit rating or history indicates that this would be prudent.

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

| | 2020 | 2019 |
|---|--------------|--------------|
| | \$000 | \$000 |
| Neither past due nor impaired | 1,368 | 8,078 |
| Past due but not impaired 0 – 30 days | 3,388 | 729 |
| Past due but not impaired 31 – 60 days | 2,231 | 332 |
| Past due but not impaired > 60 days | 2,596 | 127 |
| Impaired assets – written down to recoverable value | 394 | - |
| | 9,977 | 9,266 |

There are no restructured assets at 30 June 2020 (2019: 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 on-going 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.

Subsequent to 30 June 2020, the company undertook the following bank financing activity:

- the \$120,000,000 of current facilities (with three banks) were extended out for 2- or 3-year periods;
- an additional \$40m facility was obtained from one bank; and
- in addition to the new bank facility and extensions, CIAL also sought waivers of its financial covenants from both bank lenders and the bond supervisor. The waivers were granted in August 2020 and take the following form:
 - waive compliance with the interest cover ratio for the Financial Periods ending 31 December 2020 and 30 June 2021 (which would otherwise be required to be at least 1.75:1); and
 - waive compliance with the interest cover ratio for the Financial Period ending 31 December 2021, provided that the interest cover ratio for that Financial Period must be no less than 1.50:1.

| 30 June 2020 | Carrying Amount | Total Cashflow | On Demand | < 1 year | 1-2 year | 3>5 years | > 5 years |
|-----------------------------------|----------------------------|---------------------------|----------------------|------------------------|-----------------|-------------------------|---------------------|
| Trade and other payables | 25,272 | 25,272 | 25,272 | - | - | - | - |
| Borrowings | 590,005 | 627,027 | - | 134,980 | 326,857 | 109,660 | 55,530 |
| Derivative financial instruments* | 37,038 | 37,703 | - | 4,797 | 9,750 | 9,409 | 13,747 |
| | 652,315 | 690,002 | 25,272 | 139,777 | 336,607 | 119,069 | 69,277 |

| 30 June 2019 | Carrying Amount | Total Cashflow | On Demand | < 1 year | 1-2 year | 3>5 years | > 5 years |
|-----------------------------------|----------------------------|---------------------------|----------------------|------------------------|-----------------|-------------------------|---------------------|
| Trade and other payables | 31,131 | 31,131 | 31,131 | - | - | - | - |
| Borrowings | 472,050 | 526,629 | - | 131,333 | 223,211 | 113,790 | 58,295 |
| Derivative financial instruments* | 26,566 | 28,317 | - | 3,423 | 7,632 | 6,705 | 10,557 |
| | 529,747 | 586,077 | 31,131 | 134,756 | 230,843 | 120,495 | 68,852 |

* The derivative financial instrument cash flows are paid quarterly

Derivative financial instrument

Interest rate swaps

The company has long term borrowings at a variable rate of interest. 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 | |
|--|------------------------------|------|---------------------------|----------------|-----------------|-----------------|
| | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 |
| | % | % | \$000 | \$000 | \$000 | \$000 |
| Outstanding floating for fixed contracts | | | | | | |
| Less than 1 year | 4.2 | 4.3 | 51,000 | 103,000 | (1,743) | (2,504) |
| 1 to 2 years | 4.1 | 4.2 | 60,000 | 96,000 | (4,187) | (4,917) |
| 3 to 5 years | 4.3 | 4.4 | 118,000 | 98,000 | (17,676) | (10,863) |
| Beyond 5 years | 3.6 | 3.7 | 120,000 | 155,000 | (23,727) | (15,675) |
| | | | <u>349,000</u> | <u>452,000</u> | <u>(47,333)</u> | <u>(33,959)</u> |
| Outstanding fixed to floating contracts | | | | | | |
| Less than 1 year | | 5.2 | - | 75,000 | - | 646 |
| 1 to 2 years | | | - | - | - | - |
| 3 to 5 years | 4.1 | 4.1 | 100,000 | 100,000 | 10,295 | 6,747 |
| Beyond 5 years | | | - | - | - | - |
| | | | <u>100,000</u> | <u>175,000</u> | <u>10,295</u> | <u>7,393</u> |

Movement in cash flow hedge reserve – interest rate swaps

| | 2020 | 2019 |
|--|---------------|---------------|
| | \$000 | \$000 |
| Movement in fair value of existing contracts | <u>13,089</u> | <u>16,393</u> |

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, except for the two \$50,000,000 fixed rate bonds which have a fair value of \$52,845,000 (maturing 2021) and \$57,132,000 (maturing 2027).

Financial instruments that are measured in the balance sheet at fair value use 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 financial assets and liabilities that are measured at fair value at 30 June 2020.

| | Level 1 | Level 2 | Level 3 | Total balance |
|----------------------------------|----------------|----------------|----------------|----------------------|
| <i>Assets 30 June 2020</i> | | | | |
| Derivative financial instruments | - | 10,295 | - | 10,295 |
| Total assets | - | 10,295 | - | 10,295 |
| <i>Liabilities 30 June 2020</i> | | | | |
| Derivative financial instruments | - | 47,333 | - | 47,333 |
| Total liabilities | - | 47,333 | - | 47,333 |
| | Level 1 | Level 2 | Level 3 | Total balance |
| <i>Assets 30 June 2019</i> | | | | |
| Derivative financial instruments | - | 7,393 | - | 7,393 |
| Total assets | - | 7,393 | - | 7,393 |
| <i>Liabilities 30 June 2019</i> | | | | |
| Derivative financial instruments | - | 33,959 | - | 33,959 |
| Total liabilities | - | 33,959 | - | 33,959 |

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. The interest rate swaps calculation takes into account the present value of the estimated future cash flows.

| | Note | Hedge accounted derivatives at Fair value \$000 | Amortised cost \$000 | Total Carrying Amount \$000 |
|--|------|---|----------------------------|-----------------------------------|
| Classification of financial instruments | | | | |
| As at 30 June 2020 | | | | |
| CURRENT ASSETS | | | | |
| Cash and cash equivalents | | - | 4,164 | 4,164 |
| Trade and other receivables* | 14 | - | 10,786 | 10,786 |
| Derivative financial instruments | 9 | - | - | - |
| Total current financial assets | | - | 14,950 | 14,950 |
| NON-CURRENT ASSETS | | | | |
| Trade and other receivables | 14 | - | 3,976 | 3,976 |
| Derivative financial instruments | 9 | 10,295 | - | 10,295 |
| Total non-current financial assets | | 10,295 | 3,976 | 14,271 |
| Total financial assets | | 10,295 | 18,926 | 29,221 |
| CURRENT LIABILITIES | | | | |
| Trade and other payables** | 10 | - | 25,272 | 25,272 |
| Borrowings | 8 | - | 120,000 | 120,000 |
| Derivative financial instruments | 9 | 1,743 | - | 1,743 |
| Total current financial liabilities | | 1,743 | 145,272 | 147,015 |
| NON-CURRENT LIABILITIES | | | | |
| Borrowings | 8 | - | 470,005 | 470,005 |
| Derivative financial instruments | 9 | 45,590 | - | 45,590 |
| Total non-current financial liabilities | | 45,590 | 470,005 | 515,595 |
| Total financial liabilities | | 47,333 | 615,277 | 662,610 |

* excludes prepayments when comparing to Note 14.

** excludes revenue in advance when comparing to Note 10

| | Note | Hedge accounted derivatives at Fair value \$000 | Amortised cost \$000 | Total Carrying Amount \$000 |
|--|------|---|----------------------------|-----------------------------------|
| Classification of financial instruments | | | | |
| As at 30 June 2019 | | | | |
| CURRENT ASSETS | | | | |
| Cash and cash equivalents | | - | 845 | 845 |
| Trade and other receivables* | 14 | - | 10,936 | 10,936 |
| Derivative financial instruments | 9 | 646 | - | 646 |
| Total current financial assets | | 646 | 11,781 | 12,427 |
| NON-CURRENT ASSETS | | | | |
| Trade and other receivables | 14 | - | 4,565 | 4,565 |
| Derivative financial instruments | 9 | 6,747 | - | 6,747 |
| Total non-current financial assets | | 6,747 | 4,565 | 11,312 |
| Total financial assets | | 7,393 | 16,347 | 23,740 |
| CURRENT LIABILITIES | | | | |
| Trade and other payables** | 10 | - | 31,131 | 31,131 |
| Borrowings | 8 | - | 115,501 | 115,501 |
| Derivative financial instruments | 9 | 2,504 | - | 2,504 |
| Total current financial liabilities | | 2,504 | 146,632 | 149,136 |
| NON-CURRENT LIABILITIES | | | | |
| Borrowings | 8 | - | 356,549 | 356,549 |
| Derivative financial instruments | 9 | 31,455 | - | 31,455 |
| Total non-current financial liabilities | | 31,455 | 356,549 | 388,004 |
| Total financial liabilities | | 33,959 | 503,181 | 537,140 |

* excludes prepayments when comparing to Note 14.

** excludes revenue in advance when comparing to Note 10

Changes in liabilities arising from financing activities

| | Opening Value 1 July 2019 | Cash flows | Fair Value changes | Other | Closing Value 30 June 2020 |
|--|------------------------------|----------------|-----------------------|-----------|-------------------------------|
| | \$000 | \$000 | \$000 | \$000 | \$000 |
| Current Borrowings | 115,501 | 5,000 | (519) | 18 | 120,000 |
| Non-Current Borrowings | 356,548 | 110,001 | 3,421 | 35 | 470,005 |
| Derivatives* | 26,566 | - | 10,472 | | 37,038 |
| Total liabilities from financing activities | 498,615 | 115,001 | 13,374 | 53 | 627,043 |

| | Opening Value 1 July 2018 | Cash flows | Fair Value changes | Other | Closing Value 30 June 2019 |
|--|------------------------------|---------------|-----------------------|-----------|-------------------------------|
| | \$000 | \$000 | \$000 | \$000 | \$000 |
| Current Borrowings | - | 116,104 | (646) | 43 | 115,501 |
| Non-Current Borrowings | 411,062 | (60,104) | 5,555 | 35 | 356,548 |
| Derivatives* | 15,040 | - | 11,526 | | 26,566 |
| Total liabilities from financing activities | 426,102 | 56,000 | 16,435 | 78 | 498,615 |

*includes derivative financial assets offset with derivative financial liabilities

23. 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 2020 with those targets are as follows:

| Targets | 2020 Achievement \$000 | 2020 Target \$000 |
|---|---------------------------------------|----------------------------------|
| Financial | | |
| Total Revenue* | 165,808* | 193,349* |
| EBITDAF** | 96,760** | 127,071** |
| Net Profit after tax | 47,826 | 53,743 |
| EBITDAF as a % Revenue | 58.4% | 65.7% |
| Return on Invested Capital (EBIT/(Equity+Debt)) | 4.1% | 6.7% |

* Total revenue excludes unrealised gains on investment property

** EBITDAF excludes unrealised gains on investment property

Passenger numbers

| | | |
|------------------|------------------|------------------|
| Domestic | 3,886,462 | 5,038,593 |
| International | 1,308,520 | 1,836,859 |
| Total passengers | <u>5,194,982</u> | <u>6,875,452</u> |

Ratio of shareholders' funds to total assets

| | | |
|------------------------------------|-------|-------|
| Shareholder Funds/Total Assets % | 57.7% | 60.8% |
| Gearing (debt / (debt + equity)) % | 35.3% | 32.3% |
| EBITDAF Interest Cover X | 4.1 | 5.0 |
| Free Funds Interest Cover X | 4.3 | 4.3 |
| Free Funds / Debt % | 13.2% | 16.5% |

| Performance target | Performance Measures | |
|--|---|--|
| | 2020 | Achievements |
| Health & Safety | | |
| 1. Culture and People - through leadership, engagement, trust and strong safety values continue to build our safety culture across both people and aviation safety | <ul style="list-style-type: none"> ▪ Incremental improvements in our annual culture and engagement survey for health, safety and wellbeing. ▪ Continue to activate Safety-II principles and strategy activation initiatives | <ul style="list-style-type: none"> ▪ Improvement of 6 % to 86% for the health, safety and wellbeing factor in the annual CIAL Culture Survey. One of the highest rated questions in the survey at 91% was <i>CIAL has a culture of continuous improvement in health, safety and wellbeing.</i> ▪ Safety II principles have continued to be included within existing processes especially in respect to employee involvement in reviews, audits and improvements. |
| 2. Assurance – through robust Systems, Risk and Monitoring | <ul style="list-style-type: none"> ▪ CIAL people and aviation safety assurance program delivered. ▪ Incorporate Safety-II principles into Assurance Program | <ul style="list-style-type: none"> ▪ FY20 People and Aviation Safety Workplan which includes all activities formerly included in the separate assurance program delivered. ▪ Safety II principles have continued to be included within existing processes with positive outcomes. |
| 3. Improvement – Collective and Continuous | <ul style="list-style-type: none"> ▪ Bi-annual review of SMS and HSMS to identify and action continuous improvement opportunities. ▪ Develop operational delivery framework based on high performance high engagement principles | <ul style="list-style-type: none"> ▪ Bi-annual Audit of SMS scheduled for Dec 2019 postponed by CAA. Still awaiting date for rescheduled audit from CAA. External audit of HSMS annual completed June 2020 with positive results. ▪ High performance high engagement principles in health & safety are consistent with Safety-II so while no specific framework has been developed principles have been applied within existing programs. |
| 4. Wellness – giving our people the best chance to stay and succeed in their roles | <ul style="list-style-type: none"> ▪ Incremental improvements in our annual culture and engagement survey for health, safety and wellbeing and work/life blend. ▪ Continued activation of our Whare Tapa Wha wellness strategy ▪ Mental Health and Resilience Program implementation | <ul style="list-style-type: none"> ▪ In the annual CIAL Culture Survey the wellbeing factor score improved 9% to 91% and the work & life blend factor improved 3% to 89%. ▪ The improvements in the culture survey results support the continued relevance of the Whare Tapa Wha activation initiatives. ▪ Mental Health and Resilience workshops completed with all staff. |

Sustainability

| | | |
|--|--|--|
| <p>Carbon</p> <p>5. As a company, we accept the role carbon dioxide and other greenhouse gases play in climate change. We also believe in the science behind climate change and have committed to eliminating all non-emergency related Scope 1 emissions, reducing our scope 2 emissions from electricity and managing our Scope 3 emissions</p> | <ul style="list-style-type: none"> ▪ 20% reduction on CIAL carbon emissions benchmarked against FY16 ▪ ACI ACA Level 3 certified ▪ 80% of CIAL's road vehicle fleet made up of EV and hybrid vehicles | <ul style="list-style-type: none"> ▪ Scope 1, 2, and 3 emissions for FY20 were 2281.12TCO2-e. This is a 51% reduction from FY16 baseline year. ▪ ACI ACA Level 2 certification has been extended for FY21. ACI is currently reviewing its higher levels, and based on where expectations for each land, we expect to make a recommendation on applying for either Level 3 or 4 in FY22. ▪ Currently 52% of CIAL's road vehicle fleet is EV and hybrid vehicles. Purchasing new vehicles will be placed on hold for a couple of years, by which time more electric alternatives should be available. Intention to carry on with programme. |
| <p>Waste</p> <p>6. Waste is a by-product of operating a diverse and large organisation, but we can work with all our stakeholders to reduce, reuse and recycle so we minimise the impact on our environment</p> | <ul style="list-style-type: none"> ▪ Work with airlines to achieve greater recycling of waste off aircraft ▪ Implement food court waste upgrades ▪ Complete feasibility analysis for onsite processing of organic waste | <ul style="list-style-type: none"> ▪ Quarantine waste investigation underway aiming to decrease quarantine waste to landfill, through a transitional waste sortation facility. ▪ Food court upgrades have been deferred for consideration in FY22. ▪ An RFI to determine the feasibility of Anaerobic Digestion (AD) was undertaken and was determined to be viable from a waste management point of view but unviable economically. These learnings will be used as part of a broader decarbonisation study to determine if AD tech can help with broader goals. |
| <p>Energy</p> <p>7. By minimising our energy use, we reduce our carbon footprint, reduce costs to our businesses and reduce demand on the national grid. We strive for growth without impact, and for our business to protect our city, region and island.</p> | <ul style="list-style-type: none"> ▪ Domestic jet ground power stands commissioned ▪ Passenger terminal energy consumption at least 10% further reduced on FY18 levels | <ul style="list-style-type: none"> ▪ Jet ground power installed at all international stands except Gate 16 & 17 which is still to be completed. Overall 80% completed with 20% deferred. Ground power infrastructure sufficient to meet short to medium term needs. Final stands to be upgraded when funding (\$250-\$300k) becomes available. ▪ Following the removal of the diesel boilers in favour of clean tech ground source heating energy consumption has increased slightly - by 2.7% when comparing FY20 to date vs FY18. Our commitment to look for energy consumption reductions remains, though projects that would support this goal, such as LED light replacements have been deferred for consideration in FY22. |

| | | |
|---|--|--|
| | <ul style="list-style-type: none"> ▪ 90% reduction of Scope 1 emissions (baseline year FY15) achieved ▪ ITB energy centre commissioned and operational | <ul style="list-style-type: none"> ▪ Our scope 1 emissions have been reduced by 65% when comparing FY20 vs FY15. Noting this time frame includes four months when the diesel boilers were still operational. The first full year in which ground source heating will have been used will be FY21, so further scope 1 reductions will be reflected then. Likewise, the next significant comparison point will occur when passenger numbers return to pre Covid19 levels. ▪ ITB energy centre commissioned and operational |
| <p>Water</p> <p>8. Christchurch is unique in using 100% naturally filtered water. Our passion is to maintain its integrity, avoid accidental contamination and minimise use of this precious resource as it passes under the airport. By doing so, we ensure water supply safety and security, protect the aquifer, reduce costs and our business protects the city, region and island</p> | <ul style="list-style-type: none"> ▪ Install accurate water metering devices to better understand passenger terminal water use ▪ Ensure on-going compliance with NZ Drinking Water Standards through regular monitoring of potable drinking groundwater supply ▪ Continue Environmental Compliance and Monitoring Program with existing airport operators and new operators on airport land | <ul style="list-style-type: none"> ▪ Telemetry devices installed across CIAL campus. These are currently being tuned with the end goal of being able to provide live water usage information. ▪ Ongoing – compliance with all regulatory requirements under drinking water standard and health act has been maintained this year. CIAL has also built and commissioned a UV treatment water plant on well 8. Design and construction of the 2nd and final water treatment plant is currently being completed. ▪ This program is ongoing |
| <p>Noise</p> <p>9. Noise is the environmental issue of greatest focus at airports around the world. Our responsibility and bias are to engage and collaborate with all stakeholders, especially residents and businesses close to the airport and its flight paths</p> | <ul style="list-style-type: none"> ▪ Continued commitment to an Airport Noise Liaison Committee to improve communications with our community ▪ Successful implementation of world leading engine testing noise management software ▪ Noise complaints are limited to 10 per 10,000 aircraft movements per annum ▪ Successful delivery of the updated noise compliance contours to Environment Canterbury ▪ Successful implementation of the CIAL Noise Management Plan ▪ Offers of acoustic mitigation to noise impacted properties currently eligible | <ul style="list-style-type: none"> ▪ Held two successful Airport Noise Liaison Committee Meetings. ▪ On-going successful implementation of the Engine testing noise management software. ▪ Noise complaints in relation CIAL managed operations were limited to 10 per 10,000 aircraft movements with the exception of March, May and June, due to the significant drop in aircraft movements in this period but consistent number of noise complaints. ▪ Delivery of the updated noise contours to ECan has been delayed as a result of COVID ▪ On-going implementation of the noise management plan, with submission of noise monitoring reports and implementation of the noise complaints process ▪ On-going delivery of the acoustic treatment program. |

| | | |
|---|--|---|
| <p>Land</p> <p>10. Our Place is an area of unique natural beauty. We have a responsibility to maintain it, improve it and remediate contaminated land. We also have a responsibility to ensure the safety of travellers and our airline partners, and so understanding the hazards and addressing the risks of bird strike is a critical and on-going activity</p> | <ul style="list-style-type: none"> ▪ Ongoing commitment to the Avanex grass program such that it covers our entire airfield ▪ Completion of the Canada Goose Tracking Masters project ▪ Development of estate wide sustainable development guidelines for use in our property development portfolio | <ul style="list-style-type: none"> ▪ Current coverage of Avanex grass program at 90% of entire airfield. ▪ Canada Goose tracking Masters thesis successfully completed. ▪ Construction Design Guidelines for new builds on campus have been completed, including sustainability best practice. Research underway on whether NZGBC 'Communities Rating' would be an appropriate framework for wider campus application. |
|---|--|---|

Community Engagement

| | | |
|--|--|--|
| <p>11. To make a positive contribution to the social and community outcomes of our City and the South Island</p> | <ul style="list-style-type: none"> ▪ To continue to demonstrate support for events which attract visitors, enhance the City's image and that residents can enjoy ▪ Support community initiatives and organisations through the CIAL Community Fund, charity fundraisers and other donations through the year ▪ To engage and communicate openly with stakeholders through the Chief Executive and GMs initiating and accepting invitations to meetings, speeches, addresses and workshops ▪ To actively involve our staff in Corporate Social Responsibility initiatives to enhance engagement | <ul style="list-style-type: none"> ▪ We have supported various events across the city and island, both financially and in kind, as well as our people taking active roles in events. Those events include NZ Chinese Language Week, The Court Theatre, Maori Language Week, Westpac Champion Business Awards, the Special Children's Christmas Party and the Combat Challenge for South Island firefighters. ▪ We have made donations to a wide range of charities and community projects, notably through two rounds of our Community Fund grants. Organisations and projects which received grants include Ashburton Indian Multicultural Charitable Trust, Rolleston Scout Group, Stepping Stone Trust, Waimak Open Door, Rachel's House Trust, NZ Antarctic Society, The Firewood Mission. ▪ Senior members of staff have given numerous addresses at local, national and international events, conferences, meetings, workshops and public events. Our Chief Executive joined a fundraiser for the Christchurch City Mission and was one of the executives to join advisory groups to inform tourism and aviation discussions during the Covid-19 pandemic. ▪ Staff continue in-house events to gather collections for, and donations to, charities. As well as supporting such things as Dress For Success, Pink Ribbon Day and Movember, staff have cooked meals at Ronald McDonald House, and donate their knowledge and skills to various causes. |
|--|--|--|

Our People

12. To build a Champion Team who has the capability and passion to achieve our purpose to champion the South Island and our mission – to be a Champion Airport

- Purpose driven leadership and people excellence, clear performance accountabilities and outcome focused expectations are part of the way we do business.
- Incremental improvements for purpose and values, leadership and company confidence in annual culture and engagement survey
- People Strategy Activation Projects delivered
- COVID-19 provided a number of unprecedented workforce challenges as well as opportunities. Our depth of leadership capability and operational resilience ensured our team maintained critical connection, were kept well informed/protected about any risks to their health and wellbeing and had clarity of purpose and responsibility despite their physical location. New remote ways of working were quickly and successfully adopted and demonstrated our ability to embrace a more mutually beneficial flexible way of working, something which we will continue to explore and support.
- Our annual culture and engagement and pulse surveys through our COVID-19 experience reveal a positive and sustained uplift in engagement levels. Company and leadership confidence is at an above average level in comparison to previous year's results and is well above the NZ industry benchmark.
- People strategy projects (although temporarily disrupted by COVID-19) continue to be activated with positive feedback being achieved via our Culture and Engagement Working Party.
- Delivery of Cultural Intelligence, diversity and unconscious bias training for all frontline team members has started a valuable conversation in our business about inclusivity, equality and equity and will be continued by our new Diversity and Inclusion Committee.
- A revised approach to Strategic Talent Management has enabled us to be more prepared to anticipate and respond to industry related challenges when it comes to attracting, retaining and retraining our talent. The identification of critical roles, succession planning and the launch of a online platform which matches CIAL talent with external opportunities within the CCHL group provides increased scope for individual capability development and strategic talent sharing.

| | | |
|--|--|--|
| <p>13. To be a fair employer that celebrates equality and diversity that is renowned for going beyond compliance and creating value and opportunity for our people</p> | <ul style="list-style-type: none"> ▪ Activate Wawata Iwi fair employer charter ▪ Incremental improvements for leadership, enablement and work/life blend in annual culture and engagement survey ▪ Create new Wawata Iwi specific engagement measures in annual culture and engagement survey | <ul style="list-style-type: none"> ▪ A new set of Diversity and Inclusion questions (which align with our Fair Employer Charter) were included in our last annual culture and engagement survey. Over 80% of our team agreed or strongly agreed with the questions asked which provides a solid foundation to work from when developing our Diversity, Inclusion and Belonging framework later in 2020. ▪ New focus areas under our Wawata Iwi charter have started to emerge with a focus on fair and consistent pay and reward, leadership development based upon our belief, belonging and trust framework and workforce optimisation in a post COVID landscape that ensures our people feel inspired and enabled to fulfil their potential. ▪ In our latest engagement survey (mainly related to COVID) our team voiced how they highly valued the wide-ranging support CIAL had afforded them, rating our coordinated organisational response at an above average level. |
|--|--|--|

Further Notes

Nature of Business

CIAL owns and operates Christchurch International Airport. The company operates predominantly in the business of providing airport facilities and services to airline and airport users. The nature of the company's business has not changed during the year.

For the current and previous reporting period, the results are for Christchurch International Airport Limited and its five wholly owned subsidiaries. As the wholly owned subsidiaries do not trade and hold no assets or liabilities, the results and financial position for the CIAL group are the same as that for the CIAL parent company.

Stock Exchange Listings

The company has one series of bonds ("CHC010") which were quoted on the NZDX on 25 May 2018. Total issue was for \$100 million of unsecured, unsubordinated, fixed rate bonds maturing on 24 May 2024.

Credit Rating Status

On June 16, 2020, S&P Global Ratings ('S&P') lowered to 'BBB+' from 'A-', the issuer credit rating on Christchurch International Airport Ltd ('CIAL') and issue credit rating on the airport's debt. Outlook is 'Stable'.

Bondholder Distribution

In line with clause 10.4.5 of the NZX listing rules, the following table details the spread of bondholders as at 31 July 2020:

| Holding Range | Holder Counter | Holding Quantity | Holding Quantity % |
|------------------------------|----------------|------------------|--------------------|
| 5,000 to 9,999 | 40 | \$229,000 | 0.23% |
| 10,000 to 49,999 | 210 | \$4,213,000 | 4.21% |
| 50,000 to 99,999 | 36 | \$2,145,000 | 2.15% |
| 100,000 to 499,999 | 26 | \$5,132,000 | 5.13% |
| 500,000 to 999,999 | 5 | \$3,639,000 | 3.64% |
| 1,000,000 to 999,999,999,999 | 11 | \$84,642,000 | 84.64% |
| Total | 328 | \$100,000,000 | 100.00% |

The 20 largest bond holders at 31 July 2020 were:

| Bondholder | Units Held | Holding Quantity % |
|---|------------|--------------------|
| FORSYTH BARR CUSTODIANS LIMITED <1-CUSTODY> | 12,501,000 | 12.5% |
| FNZ CUSTODIANS LIMITED | 9,935,000 | 9.94% |
| HSBC NOMINEES (NEW ZEALAND) LIMITED A/C STATE STREET -NZCSD <HKBN45> | 7,600,000 | 7.60% |
| JBWERE (NZ) NOMINEES LIMITED <NZ RESIDENT A/C> | 5,984,000 | 5.98% |
| BNP PARIBAS NOMINEES (NZ) LIMITED - NZCSD <BPSS40> | 5,908,000 | 5.91% |
| CUSTODIAL SERVICES LIMITED <A/C 4> | 4,884,000 | 4.88% |
| TEA CUSTODIANS LIMITED CLIENT PROPERTY TRUST ACCOUNT - NZCSD <TEAC40> | 4,691,000 | 4.69% |
| HSBC NOMINEES (NEW ZEALAND) LIMITED - NZCSD <HKBN90> | 4,535,000 | 4.54% |
| INVESTMENT CUSTODIAL SERVICES LIMITED <A/C C> | 3,950,000 | 3.95% |
| ANZ BANK NEW ZEALAND LIMITED - NZCSD <NBNZ40> | 2,978,000 | 2.98% |
| NATIONAL NOMINEES LIMITED - NZCSD <NNLZ90> | 2,800,000 | 2.80% |
| CUSTODIAL SERVICES LIMITED <A/C 3> | 2,767,000 | 2.77% |
| MINT NOMINEES LIMITED - NZCSD <NZP440> | 2,600,000 | 2.60% |
| CUSTODIAL SERVICES LIMITED <A/C 1> | 2,485,000 | 2.49% |
| BNP PARIBAS NOMINEES (NZ) LIMITED - NZCSD <COGN40> | 2,450,000 | 2.45% |
| CUSTODIAL SERVICES LIMITED <A/C 2> | 2,032,000 | 2.03% |
| NZPT CUSTODIANS (GROSVENOR) LIMITED - NZCSD <NZPG40> | 1,800,000 | 1.80% |
| CUSTODIAL SERVICES LIMITED <A/C 18> | 1,363,000 | 1.36% |
| FORSYTH BARR CUSTODIANS LIMITED <ACCOUNT 1 E> | 1,013,000 | 1.01% |
| CITIBANK NOMINEES (NEW ZEALAND) LIMITED - NZCSD <CNOM90> | 1,000,000 | 1.00% |
| Total | 83,276,000 | 83.28% |

Computershare Investor Services Limited is the registrar with responsibility for administering and maintaining the Bond Register.

To view and update your bondholder details please visit www.investorcentre.com/nz.

Summary of Waivers

On 3 April 2020, NZX issued a class waiver from Listing Rules 3.5.1 and 3.6.1 which provides issuers with additional time to prepare and release their full year results announcement and Annual Report, in recognition that Covid-19 has impacted issuers' abilities to meet the usual reporting time frames.

The company relied upon the class waiver in respect of these Listing Rules in respect to the timing of when it provided its full year results announcement and Annual Report for the year ended 30 June 2020.

NZX has provided CIAL with a waiver in relation to Listing Rule 5.2.3 to enable CIAL to apply for quotation on the NZX Debt Market even though the Bonds may not have been initially held by at least 100 members of the public holding at least 25% of the Bonds issued. The waiver was granted for a period of 6 months from the quotation date of the Bonds (being 25 May 2018).

The effect of the waiver from Listing Rule 5.2.3 was that initially the Bonds may not have been widely held and there may have been reduced liquidity in the Bonds.

NZX has also provided CIAL with approval under Listing Rule 11.1.5 to enable CIAL to decline to accept or register a transfer of the Bonds if the transfer would result in the transferor or the transferee holding or continuing to hold Bonds with a Principal Amount of less than \$5,000 (if not zero) or if the transfer is not in multiples of \$1,000.

Regulatory Environment

The company is regulated by, amongst other legislation, the Airport Authorities Act 1966 and the Civil Aviation Act 1990. The company is an 'airport company' for the purposes of the Airport Authorities Act 1966. The company has consultation obligations under the Airport Authorities Act 1966.

The company is required to comply with the Commerce Act (Specified Airport Services Information Disclosure) Determination 2010, with disclosure financial statements required to be published in November each year.

Directors' Indemnity Insurance

The company has arranged policies of Directors' and Officers' liability insurance for all directors, and indemnified all directors, the Chief Executive and all General Managers reporting to the Chief Executive, through a Deed of Indemnity.

Directors' Interests

The company maintains an interests' register in which the following entries of disclosure of interest involving the directors were recorded during the year ended 30 June 2020. These are requirements under the Companies Act 1993.

| <i>Catherine Drayton</i> | <i>Sarah Ottrey</i> |
|--|--|
| Director – Beca Group Limited | Director - EBOS Group Ltd |
| Director – Southern Cross Hospitals Limited | Director- Skyline Enterprises Ltd |
| Director – Southern Cross Medical Care Society | Chair - Whitestone Cheese Co Ltd |
| Trustee – Southern Cross Health Trust | Director - Mount Cook Alpine Salmon Ltd |
| Director – Fronde Systems Group Limited | Director - Sarah Ottrey Marketing Ltd |
| Director - Southern Cross Benefits Limited | Member - New Zealand Institute of Directors – Otago Southland Branch Committee |
| Board Member – Guardians of New Zealand Superannuation | |
| Director – Genesis Energy Limited | |
| Director – Harbour View Properties Limited | |
| Director – CMD Associates Limited | |
| Director – CMD Commercial Limited | |

| | |
|---|---|
| Chris Paulsen | Justin Murray |
| Director – House of Travel Holdings Limited Director – Other House of Travel Companies Director – Paulsen Holdings Limited | Director/Shareholder – FDJ Murray & Company Holdings Limited and its subsidiaries Director/Partner – Rakaia Fund Director/Shareholder – Murray & Company Limited Chair – Christ Church Cathedral Reinstatement Limited |
| Kathryn Mitchell | Paul Reid |
| Director – The New Zealand Merino Company Limited Director – Heartland Bank Limited Director – FarmRight Limited Director – Link Engine Management Director/Shareholder – Morrison Horgan Limited Director/Shareholder - Chambers at 151 Limited Director/Shareholder – Helping Hands Job Solutions Limited Director/Shareholder – FirstTrax Limited | Chair – Figured Limited Chair – Pukeko Pictures GP Chair – Volpara Health Technology (ASX:VHT) Director – Comvita (NZX:CVT) Director – The Equanut Company Limited |

Transactions between CIAL and entities with whom certain directors are associated are described in Note 16 to the financial statements. No loans were made to directors.

Use of Company Information

During the year, the Board received no notices from Directors of the company requesting to use company information received in their capacity as Directors which would not otherwise have been available to them.

Independent Auditor's Report

To the readers of Christchurch International Airport Limited's consolidated financial statements and performance information for the year ended 30 June 2020

The Auditor-General is the auditor of Christchurch International Airport Limited and subsidiaries (the group). The Auditor-General has appointed me, Scott Tobin, using the staff and resources of Audit New Zealand, to carry out the audit of the consolidated financial statements and the performance information of the group, on his behalf.

Opinion

We have audited:

- the consolidated financial statements of the group on pages 15 to 72, that comprise the statement of financial position as at 30 June 2020, the statement of financial performance, statement of comprehensive income, statement of changes in equity, statement of cash flows and statement of accounting policies for the year ended on that date and the notes to the financial statements that include other explanatory information; and
- the performance information of the group on pages 73 to 79.

In our opinion:

- the consolidated financial statements present fairly, in all material respects, the financial position of the group as at 30 June 2020, and its financial performance and cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards; and
- the performance information presents fairly, in all material respects, the group's actual performance compared against the performance targets and other measures by which performance was judged in relation to the group's objectives for the year ended 30 June 2020.

Basis for opinion

We conducted our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the Professional and Ethical Standards and the International Standards on Auditing (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

We are independent of the group in accordance with the Auditor-General’s Auditing Standards, which incorporate Professional and Ethical Standard 1: *International Code of Ethics for Assurance Practitioners* issued by the New Zealand Auditing and Assurance Standards Board, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

In addition to the audit, we have carried out assignments to audit disclosures pursuant to the Commerce Act (Specified Airport Services Information Disclosure) Determination 2010, and provide a report to the bond trustee, which are compatible with those independence requirements. Other than the audit and these assignments, we have no relationship with or interests in the group.

Key audit matters

Key audit matters are those that, in our professional judgement, were of most significance in our audit of the consolidated financial statements and performance information for the current period. In applying our professional judgement to determine key audit matters, we considered those matters that are complex, have a high degree of estimation uncertainty, or are important to the public because of their size or nature. During the period, the COVID-19 pandemic significantly impacted the group. The effect of the COVID-19 pandemic has been disclosed by the group in the annual report and we make reference to those disclosures where they are relevant to our key audit matters.

These key audit matters were addressed in the context of our audit of the financial statements and performance information as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

| Key audit matter | How did the audit address this matter |
|---|---|
| Fair value assessment of property, plant and equipment subject to periodic revaluation | |
| <p>The group holds a diverse range of property, plant and equipment with a carrying value of \$1,263.5 million as at 30 June 2020.</p> <p>The following asset classes are accounted for at fair value and were not revalued in the year ended 30 June 2020:</p> <p>Land.</p> <p>Buildings.</p> <p>Terminal facilities.</p> <p>Sealed surfaces.</p> <p>Infrastructure assets.</p> <p>These asset classes were last valued as at 30 June 2018 by independent valuers.</p> | <p>Our audit procedures included the following:</p> <ul style="list-style-type: none"> • Enquiring with management as to how they assessed whether the carrying value for each asset class was materially different from its fair value. • Assessing the valuer’s expertise for the work and their objectivity, including reading their terms of engagement and considering the existence of other engagements or relationships with the group. • Reading the valuer’s assessment of the changes in fair value from the date of the last revaluation, meeting with the valuer to discuss the assessment and obtaining representations from the valuer. |

| Key audit matter | How did the audit address this matter |
|--|--|
| <p>Due to the varied nature of these asset classes, some are valued at optimised depreciated replacement cost, with others valued based on market based approaches.</p> <p>Note 11 to the consolidated financial statements provides information on the most recent revaluation of these asset classes. The group did not carry out revaluations of these assets classes in 2020, as it assessed that there had been no material change in fair values. The group's assessment utilised expert advice from independent valuers on fair value movements since the last revaluation.</p> <p>In assessing the land value movements, the independent valuers noted a material valuation uncertainty, in the current environment due to the COVID-19 pandemic.</p> <p>We consider this a key audit matter due to the significance of the carrying values to the financial statements and the judgements involved.</p> | <p>We reviewed each assessment of the carrying values of these asset classes. This included:</p> <ul style="list-style-type: none"> • Considering whether the assessment methods are consistent with the requirements of New Zealand Equivalents to International Financial Reporting Standards. • Considering whether the assessment methods applied to each asset class are appropriate. • Reviewing the underlying data on which the assessments are based and assumptions applied, testing a sample of calculations and considering the sensitivity to changes in key assumptions. • Where price indices were used, confirming that the indices used are appropriate, and confirming movements to published indices. • Where market information was used, assessing the appropriateness of that market information. <p>We found the group's assessment that the carrying values of these asset classes was not materially different to fair value reasonable and supportable, and considered disclosure of the valuation uncertainty appropriate.</p> |
| Impairment assessment of Property, Plant and Equipment | |
| <p>The group identified the economic impact of the COVID-19 pandemic as an indicator of impairment. Where indicators of impairment are identified NZ IAS 36, <i>Impairment of Assets</i> requires the completion of a formal impairment test.</p> <p>The group completed impairment tests for the terminal and airfield cash generating unit and hotel cash generating unit to determine whether the recoverable amount of each cash generating unit exceeded its carrying amount.</p> <p>The group determined that no impairment of these cash generating units was required. However, the impairment tests were sensitive to changes in key assumptions, with small changes in</p> | <p>Our audit procedures for assessing both impairment tests included:</p> <ul style="list-style-type: none"> • Understanding of the source data used for the assessments. We assessed the reliability of the source data and the risk of errors or omissions in that data. This included confirming appropriate adjustments were considered by the group relating to the COVID-19 pandemic. • Confirming the methodology used for the impairment assessments complied with the requirements of the applicable financial reporting standards (NZ IAS 36 <i>Impairment of Assets</i>). |

| Key audit matter | How did the audit address this matter |
|--|--|
| <p>those assumptions resulting in significant changes to the impairment tests and therefore to asset carrying values.</p> <p>Note 11 to the financial statements provides information on the impairment tests.</p> <p>We consider this a key audit matter due to the significance of the carrying values to the financial statements, their sensitivity to assumptions, and the judgements involved.</p> | <ul style="list-style-type: none"> • Reviewing key assumptions applied and evaluating their reasonableness based on our experience and knowledge of other impairment assessments for commercial entities, and applying alternative assumptions to the assessments. • Assessing the sensitivity of the valuations to changes in assumptions and confirming that the significant assumptions and sensitivities were appropriately disclosed. • In addition, for the hotel impairment test, we engaged a hotel valuation specialist to provide assurance over key assumptions compared to established industry benchmarks. <p>We found that the impairment assessments prepared by the group were reasonable and supportable, and that no impairment was required in the financial statements.</p> |
| Valuation of Investment Property | |
| <p>The group's investment property portfolio comprises industrial, commercial and retail investments in the area surrounding Christchurch International Airport. Investment properties are revalued annually by independent valuers. The value of the portfolio is \$571.7 million as at 30 June 2020.</p> <p>The value of the portfolio continues to grow as available land is developed for further investment properties. Changes in use, as a result of development or changes in the business, can result in transfers of properties between investment property and property, plant and equipment.</p> <p>Note 13 to the consolidated financial statements provides information on the valuation and the movements in the investment property balance since the previous year.</p> <p>The valuation of investment property applies assumptions that include adjustments for the impact of the COVID-19 pandemic on the group's investment property. The adjustments include amendments to reflect such matters as rental abatements, or concessions. There is also a lower</p> | <p>Our audit procedures included:</p> <ul style="list-style-type: none"> • Reviewing any changes in use of properties and considered whether they were correctly classified as either investment property or property, plant and equipment. • Reading the valuation report and meeting with the valuer to discuss the valuation. We assessed the valuer's expertise for the work and their objectivity, including reading their terms of engagement and considering the existence of other engagements or relationships. • Obtaining representations from the valuer that the valuation was in accordance with accepted professional valuation standards. • Confirming our understanding of the valuation methodology and key assumptions. We assessed them for compliance with the requirements of the applicable financial reporting standards (NZ IAS 40 Investment Property and NZ IFRS 13 Fair Value Measurement) and evaluated their reasonableness based on our |

| Key audit matter | How did the audit address this matter |
|---|--|
| <p>volume of sales transactions to consider when establishing fair values, resulting in higher estimation uncertainty. As such the valuer has concluded a material valuation uncertainty exists with regard to the valuation. Further information regarding these uncertainties is contained in note 13.</p> <p>We consider this a key audit matter due to the significance of the carrying value and fair value gains, the material uncertainty disclosed by the valuer, and because of the judgements involved in determining fair value.</p> | <p>experience and knowledge of other valuations.</p> <ul style="list-style-type: none"> • Engaging a property valuation specialist to assist with the assessment of the methodologies applied and critique and challenge the key assumptions used by the valuers, including the appropriateness of the assumptions made for COVID-19 impacts. • Obtaining an understanding of the market data sources used by the valuer and the reliability of this data. Specifically we considered the impacts of the material valuation uncertainty disclosed by the valuer. • Confirming a sample of lease term information (such as current rental rates) back to the lease documents and sample testing valuation calculations. • Assessing the sensitivity of the valuations to changes in assumptions and confirming that the significant assumptions and sensitivities were appropriately disclosed. • Reviewing the overall valuation changes and obtaining explanations from the valuers for any significant or unusual changes in value. <p>We considered the adequacy of the disclosures made in note 13 to the financial statements, particularly in relation to the key assumptions and significant uncertainties in value as a result of COVID-19.</p> <p>We found that the valuations adopted by the group were reasonable and supportable, and the disclosures about valuation uncertainty were appropriate.</p> |

Other information

The directors are responsible on behalf of the group for the other information. The other information obtained at the date of this auditor's report comprises the information included on pages 2 to 14, and 80 to 83 but does not include the consolidated financial statements and the performance information and our auditor's report thereon. The other information also includes the Annual Review 2020.

Our opinion on the consolidated financial statements and the performance information does not cover the other information and we do not express any form of audit opinion or assurance conclusion thereon.

In connection with our audit of the consolidated financial statements and the performance information, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements and the performance information or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Directors' responsibilities for the consolidated financial statements

The directors are responsible on behalf of the group for the preparation and fair presentation of the consolidated financial statements in accordance with New Zealand equivalents to International Financial Reporting Standards and International Financial Reporting Standards, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error. The directors are also responsible for preparing the performance information.

In preparing the consolidated financial statements and the performance information, the directors are responsible on behalf of the group for assessing the group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or to cease operations, or have no realistic alternative but to do so.

The directors' responsibilities arise from the Financial Markets Conduct Act 2013 and the Local Government Act 2002.

Auditor's responsibilities for the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements and the performance information as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Auditor-General's Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of readers taken on the basis of these consolidated financial statements and the performance information.

As part of an audit in accordance with the Auditor-General's Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements and the performance information, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- Evaluate the appropriateness of the reported performance information within the group's framework for reporting its performance.
- Conclude on the appropriateness of the use of the going concern basis of accounting by the Board of Directors and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements and the performance information or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements and the performance information, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the consolidated financial statements and the performance information of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Our responsibilities arise from the Public Audit Act 2001.

A handwritten signature in black ink, appearing to read 'S Tobin', with a long horizontal line extending from the top of the 'S'.

Scott Tobin
Audit New Zealand
On behalf of the Auditor-General
Christchurch, New Zealand
25 September 2020