

# Aeronautical pricing

July 2017 – June 2022



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# New pricing summary

2017 Aeronautical pricing

## Reasonable price path and strong infrastructure investment

- 30-year Master Plan launched in 2014. Auckland Airport has experienced much stronger growth than expected in 2014 with the number of airlines using Auckland Airport up 61% in the past 22 months and total passengers up 26% since early 2014
- Currently investing \$1m every working day in aeronautical infrastructure
- Now announcing \$1.8b capital expenditure (\$1.1b commissioned) in 2017 dollars on aeronautical infrastructure over the next five years to provide a material improvement in the customer experience and to cater for forecast growth
- Projects include the new domestic jet terminal which is forecast to be commissioned at the end of PSE3 and the second runway which is forecast to be commissioned in 2028
- The capital program is supported by airlines representing 80% of our total customers
- Affordable price path with average international revenues per passenger reducing by 1.7% p.a. and domestic increasing by 0.8% p.a. in real terms over the next five years
- Forecast after tax returns of 6.99% p.a. on a growing aeronautical asset base
- Forecast capex is above market consensus but should not impact discounted cash flow valuation as it delivers target return

# Auckland Airport development history

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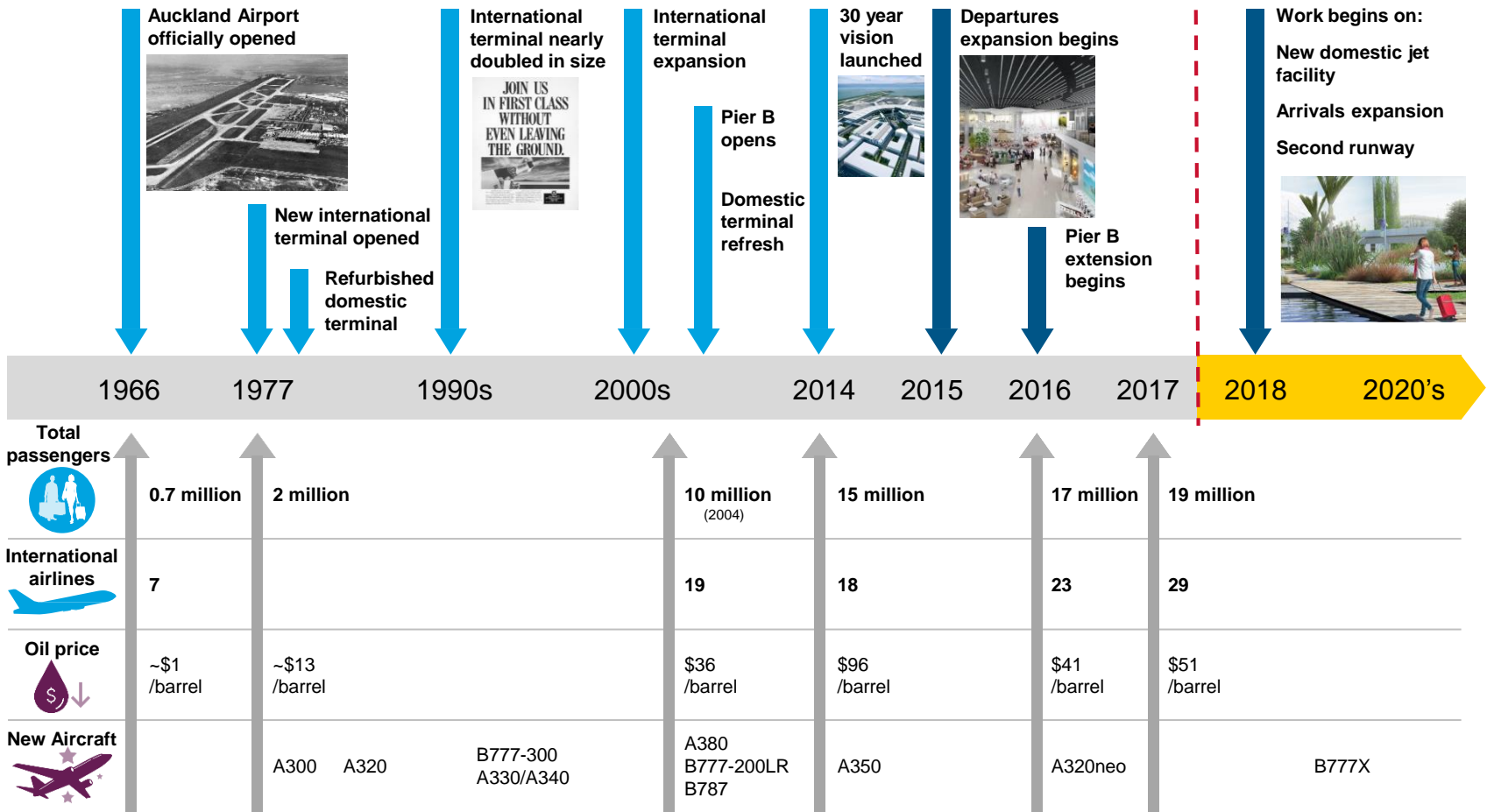
New Pricing

Assumptions

Peer Comparison

Next Steps

## Development timeline



# Strong passenger growth

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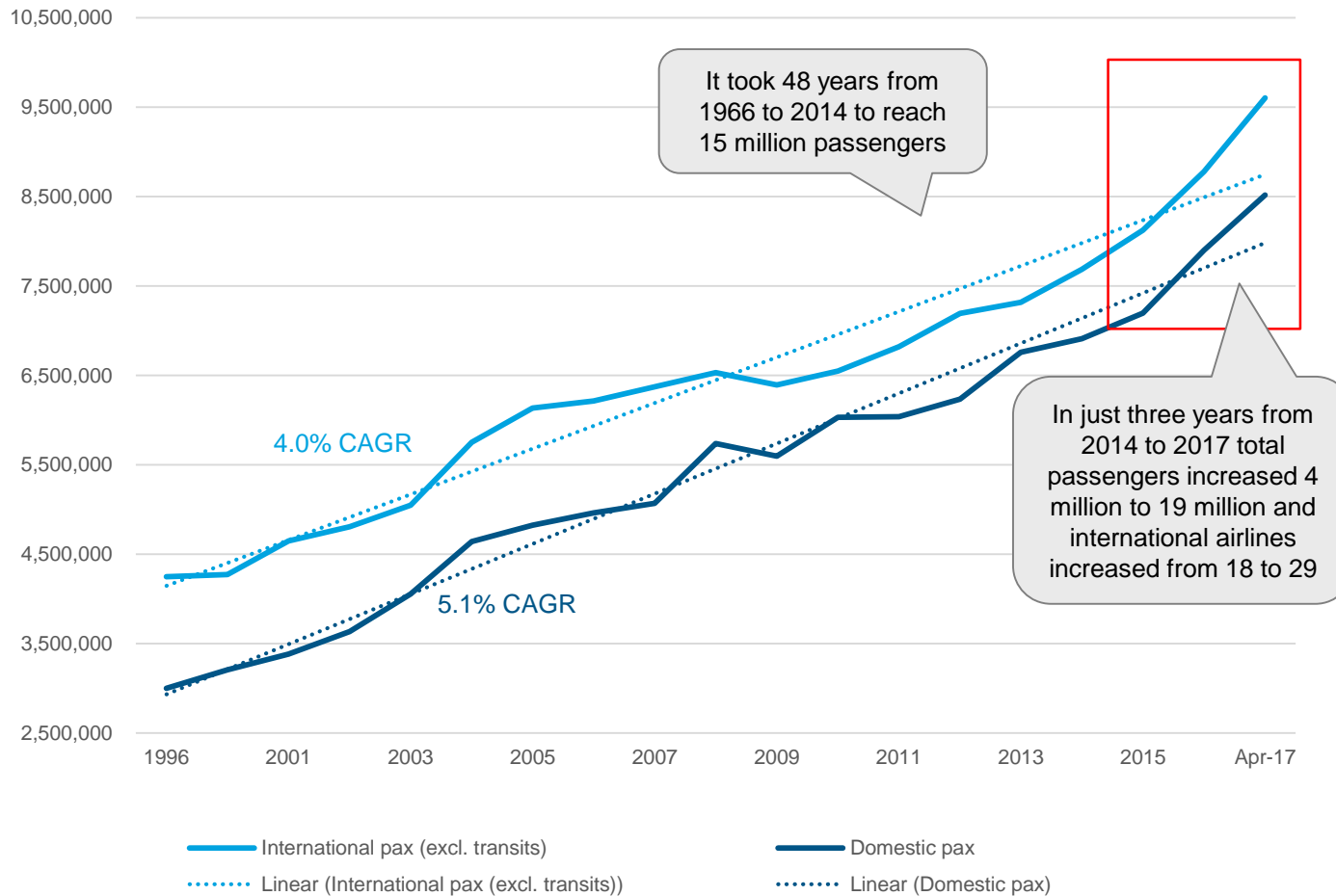
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## 20 year passenger growth trend



# Key tariff structure changes

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Degree of change:

Key changes:



Landing Charges

- No major change
- MCTOW charges cover all direct airfield costs



Runway Land Charge (RLC)

- RLC introduced once construction based triggers are met, no earlier than FY21
- Recovers holding costs on 68% of all aeronautical land held for future use



International Passenger Charge (IPC)

- IPC makes no contribution to airfield costs



Domestic Passenger Charge (DPC) and Regional Passenger Charge (RPC)

- Differential charges for passengers travelling on trunk (DPC) and regional (RPC) routes



Transit Passenger Charge (TPC)

- Discount to the IPC has been slightly reduced over the period



Parking charges

- Targeting improved stand and apron efficiency with the introduction of parking charges for time on the ground above six hours with specified exemptions



International check-in and bag drop charge

- A range of options are available for airlines to provide check-in and bag drop services to passengers
- Move to differentiated charges for the services supported by a check-in and bag drop policy

# Pricing volume assumptions\*

2017

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New Pricing

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Financial year ending 30 June	Metric	FY18	FY19	FY20	FY21	FY22
<b>Aircraft Volumes</b>						
Aircraft less than 6 tonnes	Landings	4,024	4,085	4,134	4,177	4,218
Aircraft greater than 6 tonnes but less than 40 tonnes	Tonnes (000's)	603	623	639	654	670
Aircraft 40 tonnes and higher	Tonnes (000's)	7,540	7,787	7,977	8,167	8,369
<b>Passenger Volumes</b>						
International excl. transits	Pax (000's)	10,301	10,760	11,139	11,523	11,934
Transits	Pax (000's)	688	715	737	759	782
Domestic Trunk	Pax (000's)	6,309	6,528	6,694	6,858	7,034
Domestic Regional	Pax (000's)	2,498	2,597	2,676	2,755	2,840
<b>Total passengers</b>	<b>Pax (000's)</b>	<b>19,796</b>	<b>20,601</b>	<b>21,246</b>	<b>21,895</b>	<b>22,590</b>

- Econometric-based volume forecasts sourced from independent experts (DKMA and informed by airline feedback)
- FY18 baseline represents best estimate informed by internal budget and forecast FY17 outturn
- DKMA forecast used for pricing, capital planning and to inform estimated second runway timing



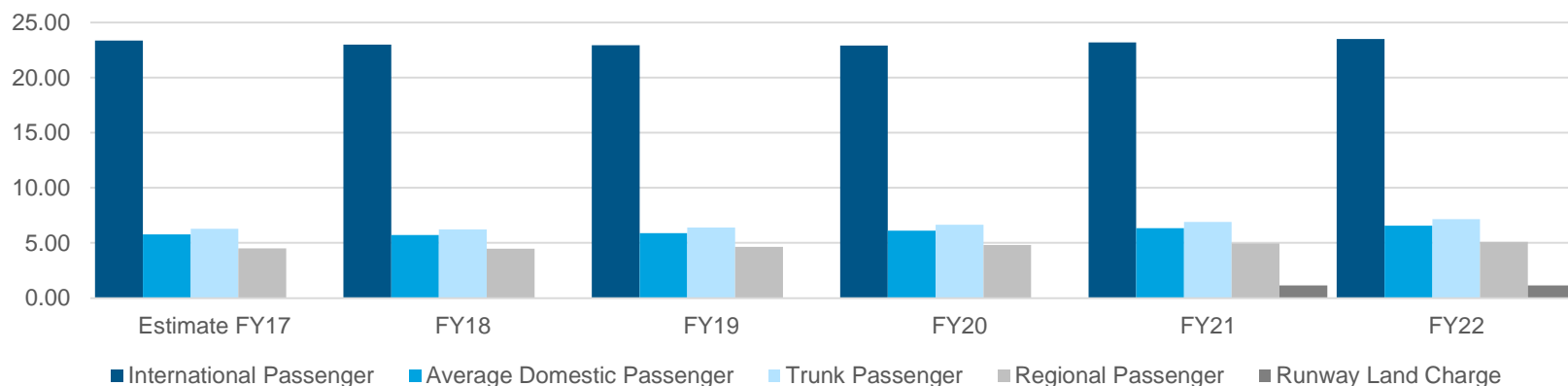
# Five year pricing path flat in real terms

2017

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## Aeronautical pricing effective revenues per passenger

Average revenue on per passenger basis* (Nominal)	Estimate FY17	FY18	FY19	FY20	FY21	FY22	FY17-18 (Nominal)	CAGR FY17-22 (Nominal)	CAGR FY17-22 (Real)
International Passenger	23.34	22.98	22.93	22.91	23.18	23.50	(1.6%)	0.1%	(1.7%)
Average Domestic Passenger	5.77	5.73	5.90	6.12	6.34	6.57	(0.8%)	2.6%	0.8%
Trunk Passenger	6.28	6.23	6.39	6.65	6.90	7.16	(0.8%)	2.7%	0.8%
Regional Passenger	4.49	4.46	4.65	4.81	4.95	5.10	(0.6%)	2.6%	0.7%
Runway Land Charge	-	-	-	-	1.15	1.15	n/a	n/a	n/a
<b>Total revenue per passenger (Nominal)</b>	<b>15.44</b>	<b>15.30</b>	<b>15.38</b>	<b>15.51</b>	<b>16.94</b>	<b>17.25</b>	<b>(0.9%)</b>	<b>2.2%</b>	<b>0.4%</b>



\* Effective revenue across all passengers including exemptions (infants and departing transits) e.g. RLC effective revenue per passenger is \$1.15 but the price per passenger is \$1.19.

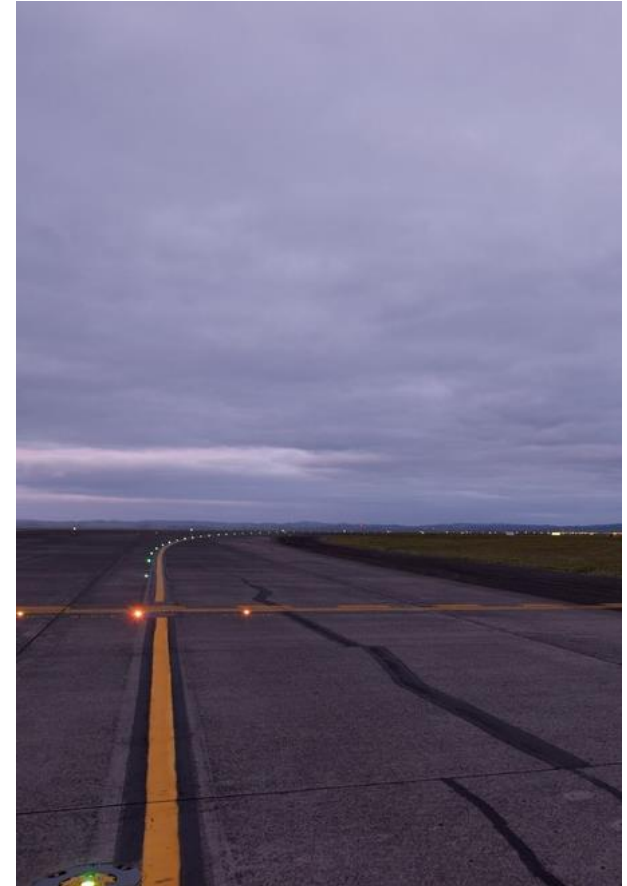


# Runway land charge

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## RLC structure and rationale

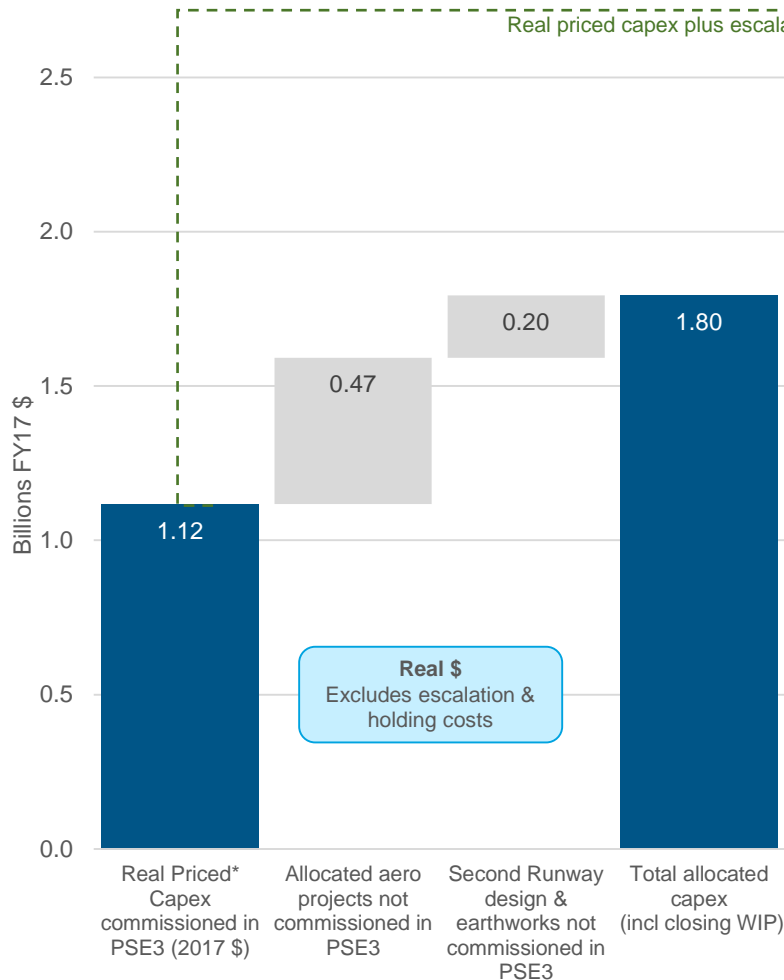
- RLC implemented to recover a portion of land holding costs and help reduce second runway landing charges when it is commissioned
- RLC of \$1.19 per passenger introduced once the trigger is met, but no earlier than FY21
- Trigger is that Auckland Airport:
  - 1) Has spent at least \$50m on pre-construction activities, mainly planning permissions and design; and
  - 2) Board has decided to proceed with construction
- Recovers holding costs on 68% of all aeronautical land held of future use, i.e. the first stage of the second runway



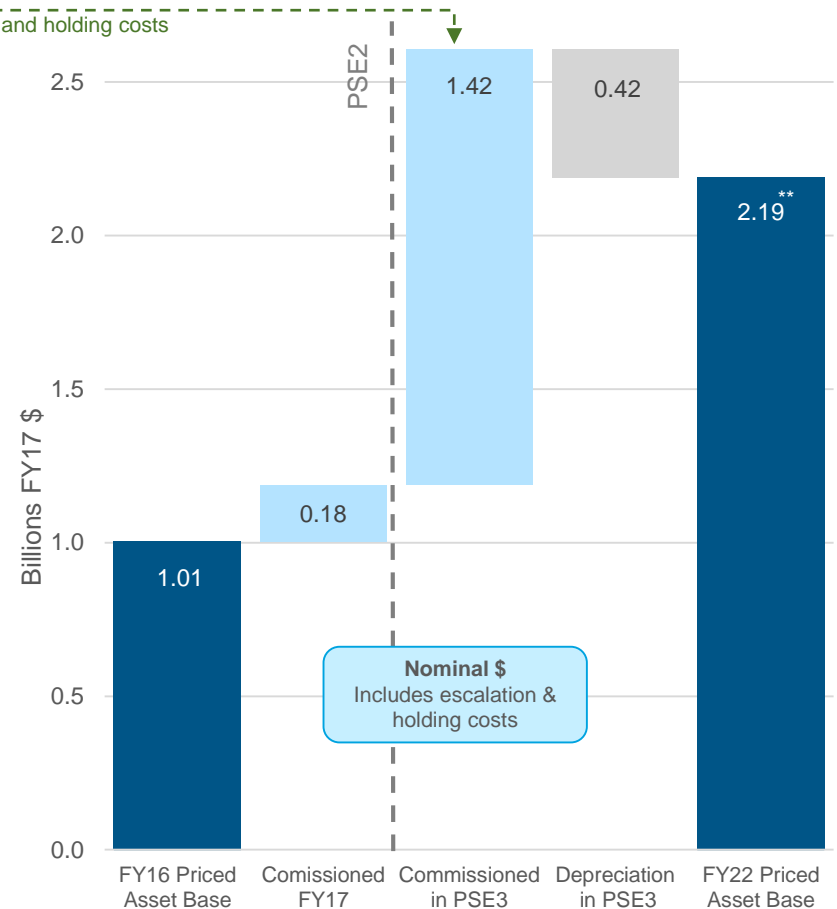


# Capital expenditure and aero asset base

## PSE3 Priced capex waterfall (2017 \$)



## Forecast priced aero asset base (Nominal \$)



PSE3 capex includes \$113.2m for completion of projects that are already announced and underway (Phase 3, 4 and stand 75)

\*Recovered by way of standard charges

FY16 Priced Asset Base restated to reflect moratorium on revaluations

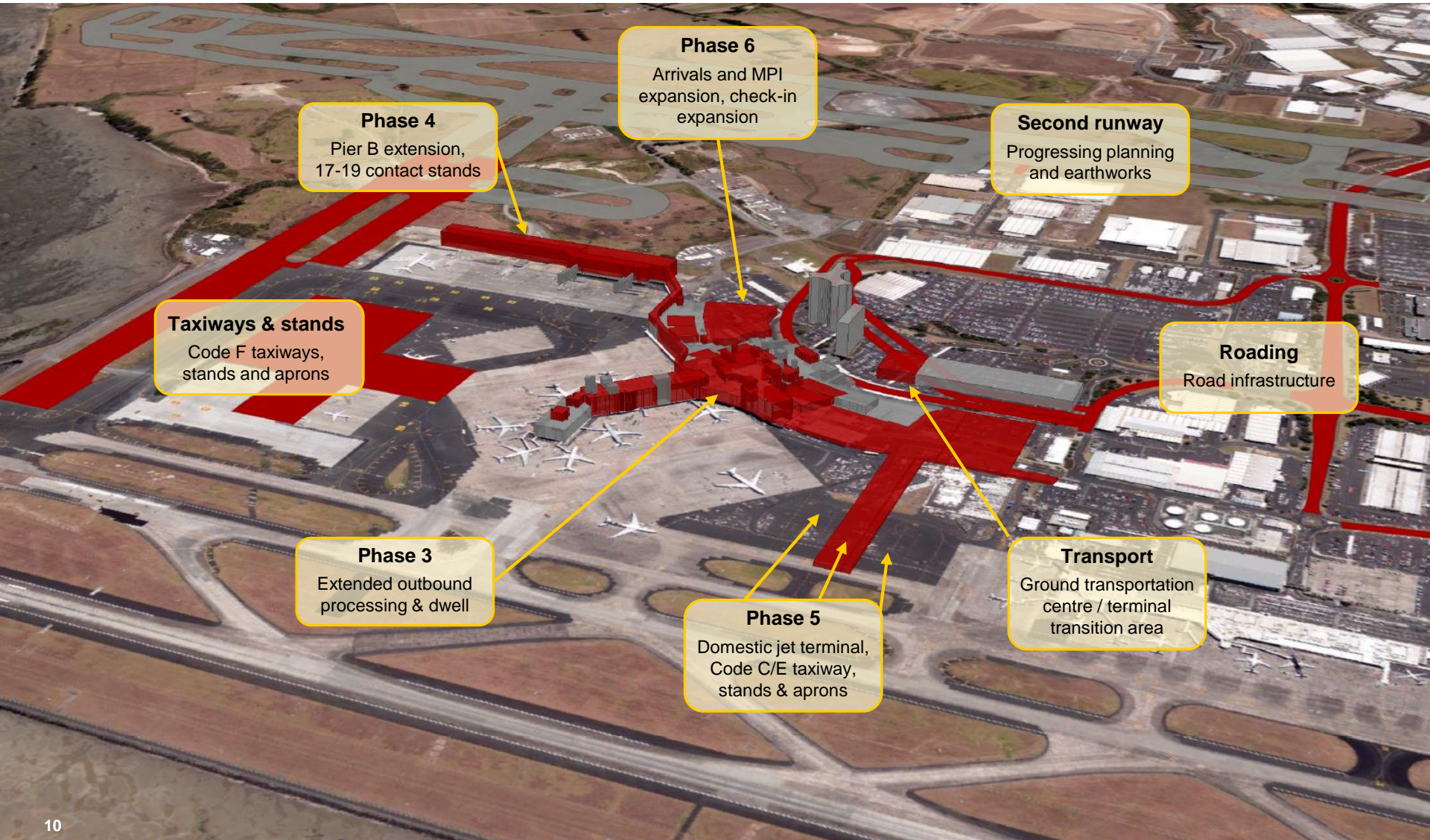
\*\*Forecast WIP ~\$900m, \$466m associated with domestic jet terminal due to be commissioned at the end of PSE3



# Significant projects

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# 5 year capital expenditure material elements

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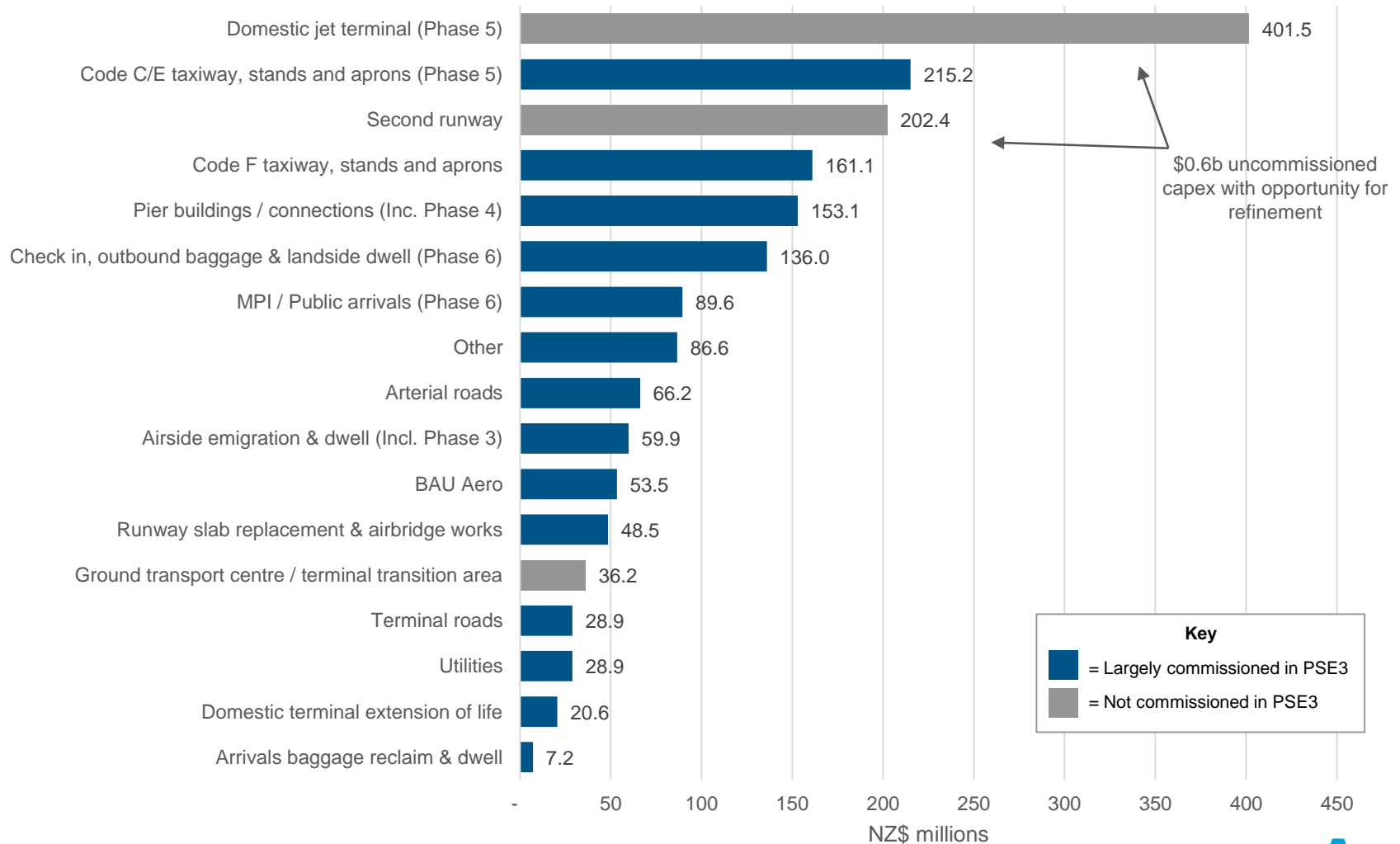
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## Allocated capex (2017 \$)



# Capital expenditure by year

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Cost in 2017 NZD (millions)	FY18	FY19	FY20	FY21	FY22	Total
<b>Airfield</b>						
Code C/E taxiway, stands and aprons (Phase 5)	5.1	58.4	72.6	79.1	-	215.2
Code F taxiway, stands and aprons	10.2	5.0	2.1	50.2	93.6	161.1
<b>Terminal</b>						
Airside emigration & dwell (Incl. Phase 3)	43.0	16.4	0.5	-	-	59.9
Arrivals baggage reclaim & dwell	-	-	-	-	7.2	7.2
Check in, outbound baggage & landside dwell (Phase 6)	11.3	1.0	5.4	30.2	88.1	136.0
Domestic jet terminal (Phase 5)	31.5	101.8	90.9	106.3	70.9	401.5
Domestic terminal extension of life	-	10.3	10.3	-	-	20.6
MPI / Public arrivals (Phase 6)	19.1	35.3	35.3	-	-	89.6
Pier buildings / connections (Inc. Phase 4)	66.7	44.8	36.5	0.1	5.0	153.1
<b>Ground transportation centre / terminal transition area</b>						
Ground transportation centre / terminal transition area	1.0	0.4	0.4	12.7	21.7	36.2
<b>Transport</b>						
Terminal roads	6.9	6.6	7.9	5.9	1.5	28.9
Arterial roads	10.4	16.2	9.5	9.8	20.2	66.2

# Capital expenditure by year (cont'd)

2017

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Cost in 2017 NZD (millions)	FY18	FY19	FY20	FY21	FY22	Total
<b>Other</b>						
Utilities	3.4	9.4	8.6	5.5	2.0	28.9
BAU Aero	13.5	10.1	10.5	10.0	9.4	53.5
Runway slab replacement & airbridge works	9.7	9.7	9.7	9.7	9.7	48.5
Other	21.7	23.8	12.3	12.9	15.9	86.6
<b>Total capital expenditure excl. second runway</b>	<b>253.6</b>	<b>349.2</b>	<b>312.4</b>	<b>332.4</b>	<b>345.2</b>	<b>1,592.8</b>
Second runway	10.3	15.5	46.6	64.7	65.2	202.4
<b>Total capital expenditure for pricing (Real \$m)</b>	<b>263.9</b>	<b>364.7</b>	<b>359.1</b>	<b>397.1</b>	<b>410.4</b>	<b>1,795.2</b>
Construction inflation forecast	13.4	34.8	52.4	78.1	102.0	
Less WIP growth plus holding costs	(88.1)	(6.5)	(80.2)	(236.3)	(246.7)	
<b>Priced assets commissioned (Nominal \$m)</b>	<b>189.1</b>	<b>393.0</b>	<b>331.3</b>	<b>238.8</b>	<b>265.8</b>	<b>1,418.1</b>

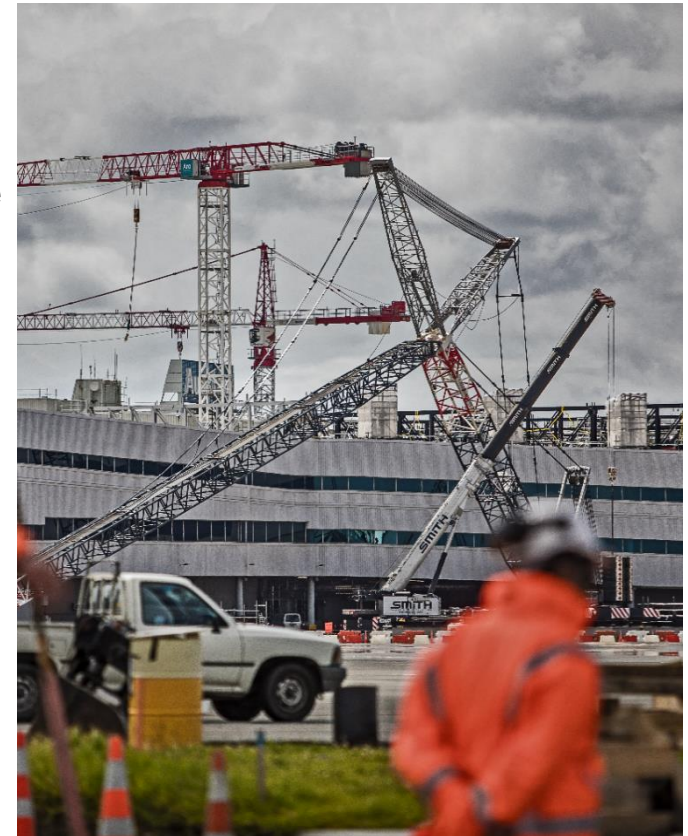
Figures are rounded for presentation purposes

# Domestic jet terminal

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## New domestic jet terminal joined onto the international terminal

- First phase of the new combined domestic and international terminal commissioned at the end of PSE3, but only impacts prices from PSE4
- Existing facilities will be relocated and Code C/E capable apron, taxiways and stands built
- New facility for domestic jet services co-joined to the existing international terminal, enhancing passenger experience and reducing connection times
- Sized to accommodate expected demand growth
- Phasing and scale reflects airline feedback
- Domestic jet facilities will be at the eastern side of the current international terminal building and facilities for international flights toward the north western end of the combined terminal
- Regional facilities remain in the existing domestic terminal. Second phase will involve integration of the regional fleet in PSE4



# Core international terminal

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## Improving the international arrival and departures experience

- Completion of international terminal level one emigration, dwell and retail expansion (Phase 3)
- Expansion of border processing (MPI) area to provide extra capacity and reduce passenger queuing time
- Expansion of international check-in into previous border processing area, creating additional check in facilities
- Further redevelopment and expansion of public dwell and retail
- Staged delivery through to 2022:
  - Phase 3 completion in 2018
  - Expansion of MPI area in 2020
  - Check-in expansion in 2022

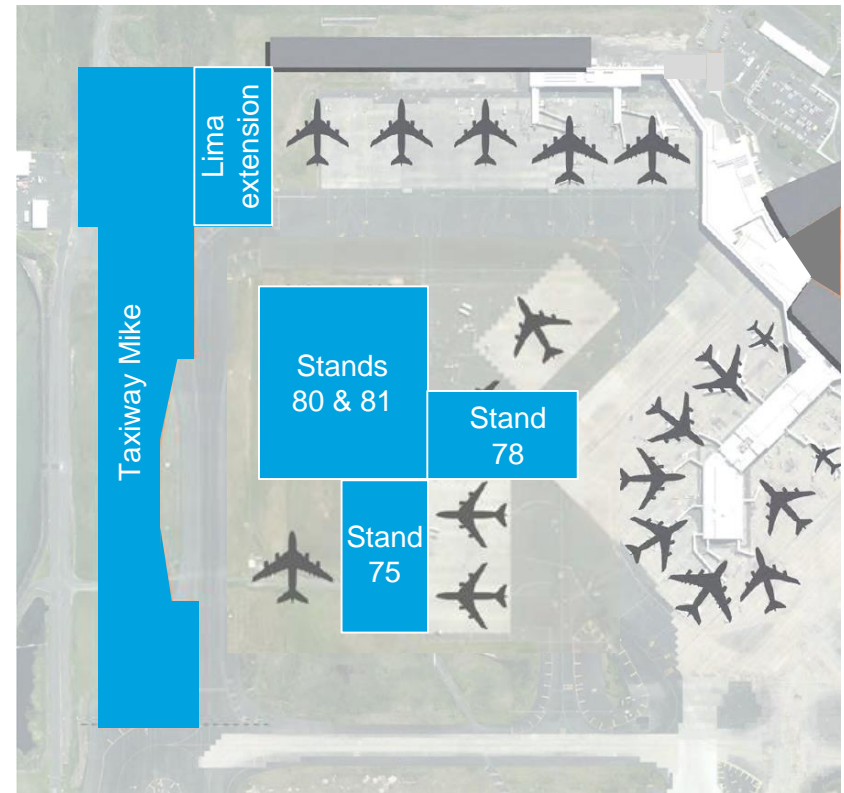


# Code F taxiway, stands and aprons

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- Construction of new remote and contact stands, modifications and extensions to taxiway and taxilanes infrastructure, and the construction of apron and associated infrastructure
- New capacity to cater for stand demand, provide headroom to enable expansion of international terminal and to enable domestic integration
- New remote stand 75 by 2018
- Delivery in 2022:
  - Construction of cross field Taxiway with Code F capability (Taxiway Mike)
  - Extend Taxiway Lima
  - Construction of 2 new fully serviced remote stands 80/81 south of current positions
  - Relocate remote stand 78



Indicative location for illustration purposes only.



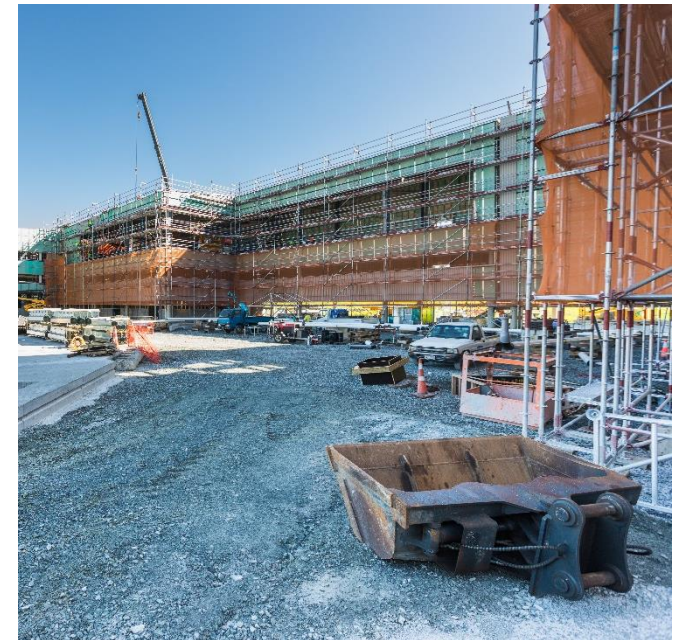
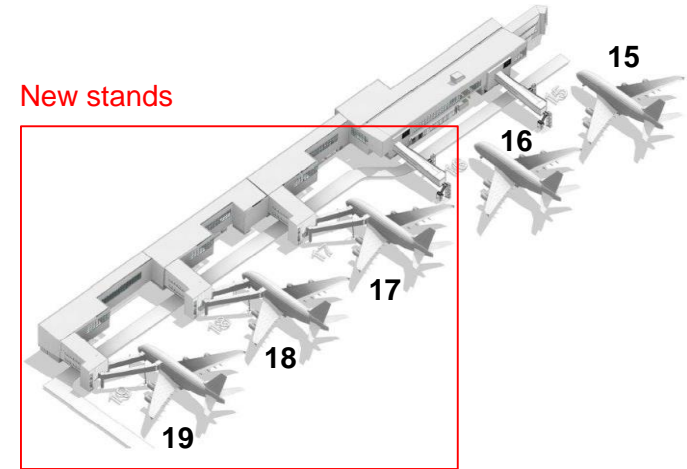
# Pier B extension and stands

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## Significantly increase international gate capacity

- Pier B extension will add Code F capacity to the international terminal, supporting expected growth in passenger numbers and accommodating the latest generation of aircraft
- Three new MARS (Multiple Access Ramp System) contact stands:
  - Capable of servicing one large Code F aircraft or two smaller Code C aircraft
  - Separated arrivals and departure levels
  - Enhanced circulation space
  - Provision for additional security screening and retail space
- Delivery of contact stands 17-19 in late 2017, early 2018 and 2020 respectively



# Second runway

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## Planning for 2028

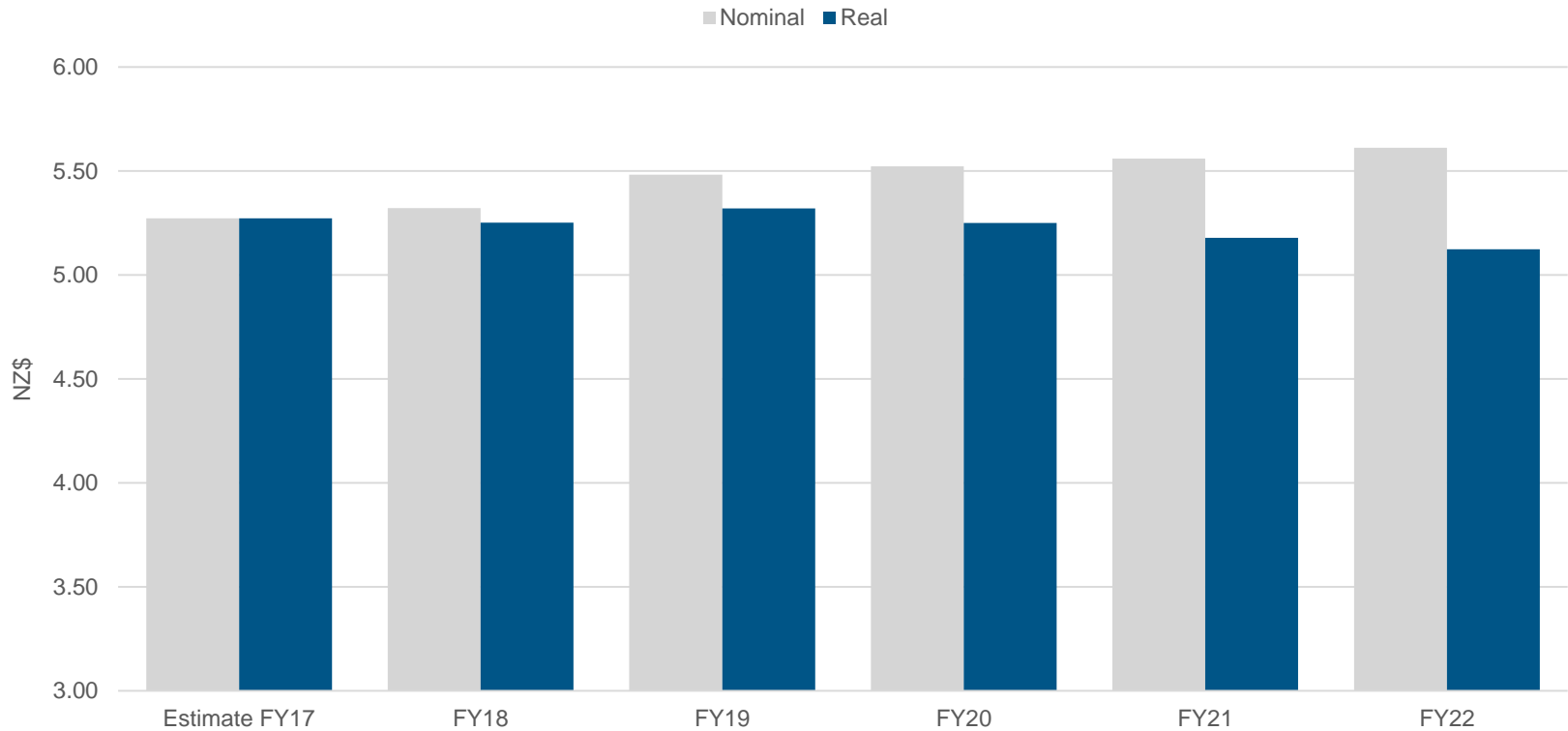
- Management has sought expert advice on forecast second runway timing. Based on demand forecasts, it is planned to be operational in 2028
- Runway timing will be subject to ongoing work with Airways and airlines to improve productivity. In the event of material innovation or change to market conditions, the timing may change
- Experience in Australia suggests that planning and construction have a ten year lead time. For these reasons over the next two to three years Auckland Airport will be:
  - Seeking initiatives to increase the capacity and productivity of the existing runway
  - Determining the optimal design for the second runway
  - Securing necessary planning permissions
- Earthworks are estimated to start between FY20 and FY21, as soon as practical after the Notice of Requirement and council consents are confirmed
- Length and staging of the second runway are yet to be determined, potentially an initial stage runway of 2,265m, and a final stage runway of 2,983m. Building a full-length runway in one stage remains a possible option
- Auckland Airport will continue to consult with airlines before deciding to commence construction

# Operational expenditure

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## Operating costs per passenger decrease in real terms



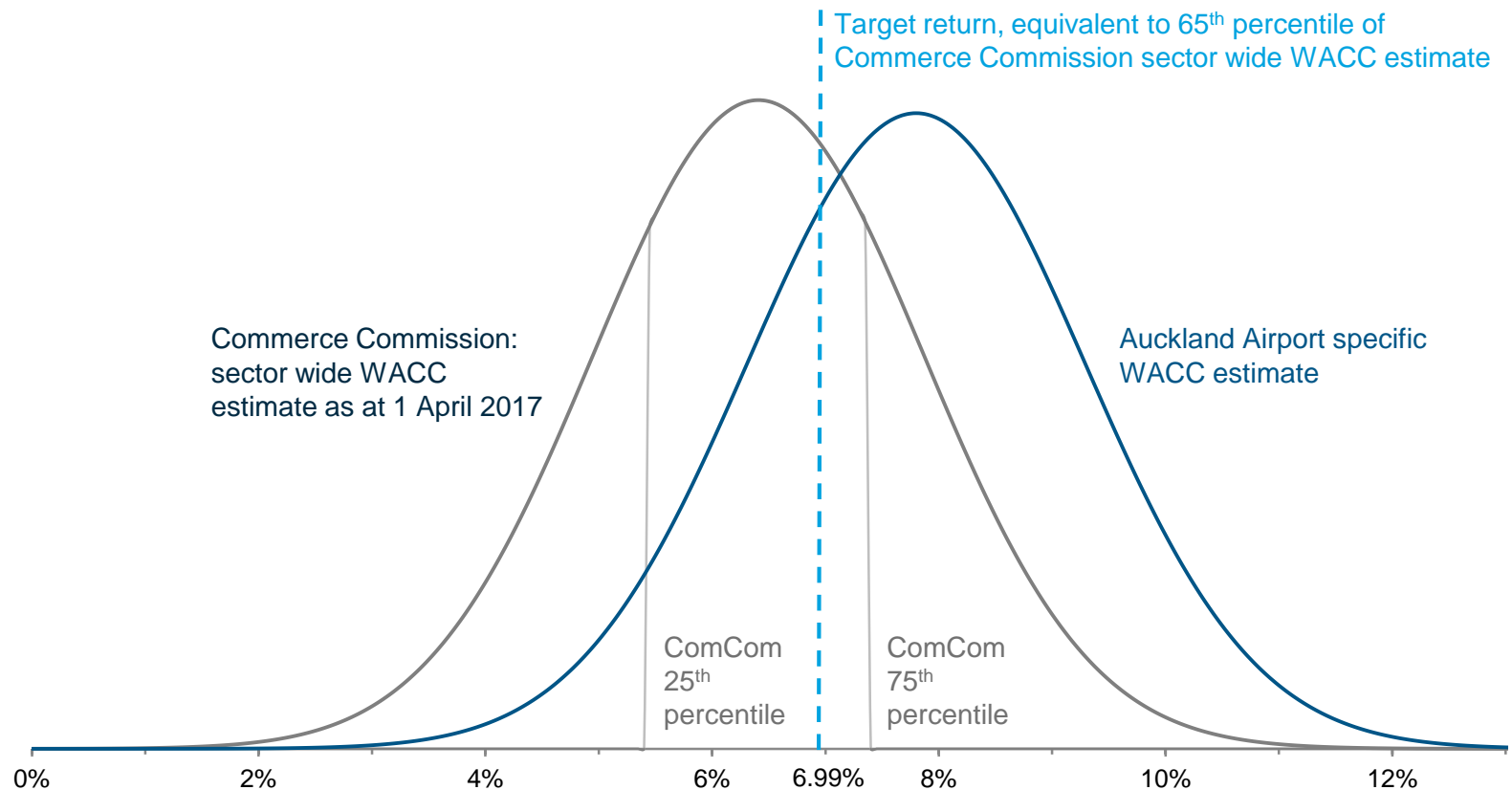
- Operating cost per passenger forecast to decrease 0.6% p.a. over PSE3 in real terms

# Target return

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- After balancing all of the relevant factors (incorporating NERA's advice on an Auckland Airport-specific WACC estimate and undertaking cross-checks against the Commission's methodology), Auckland Airport's target return for PSE3 is 6.99% after tax



# International charges remain competitive

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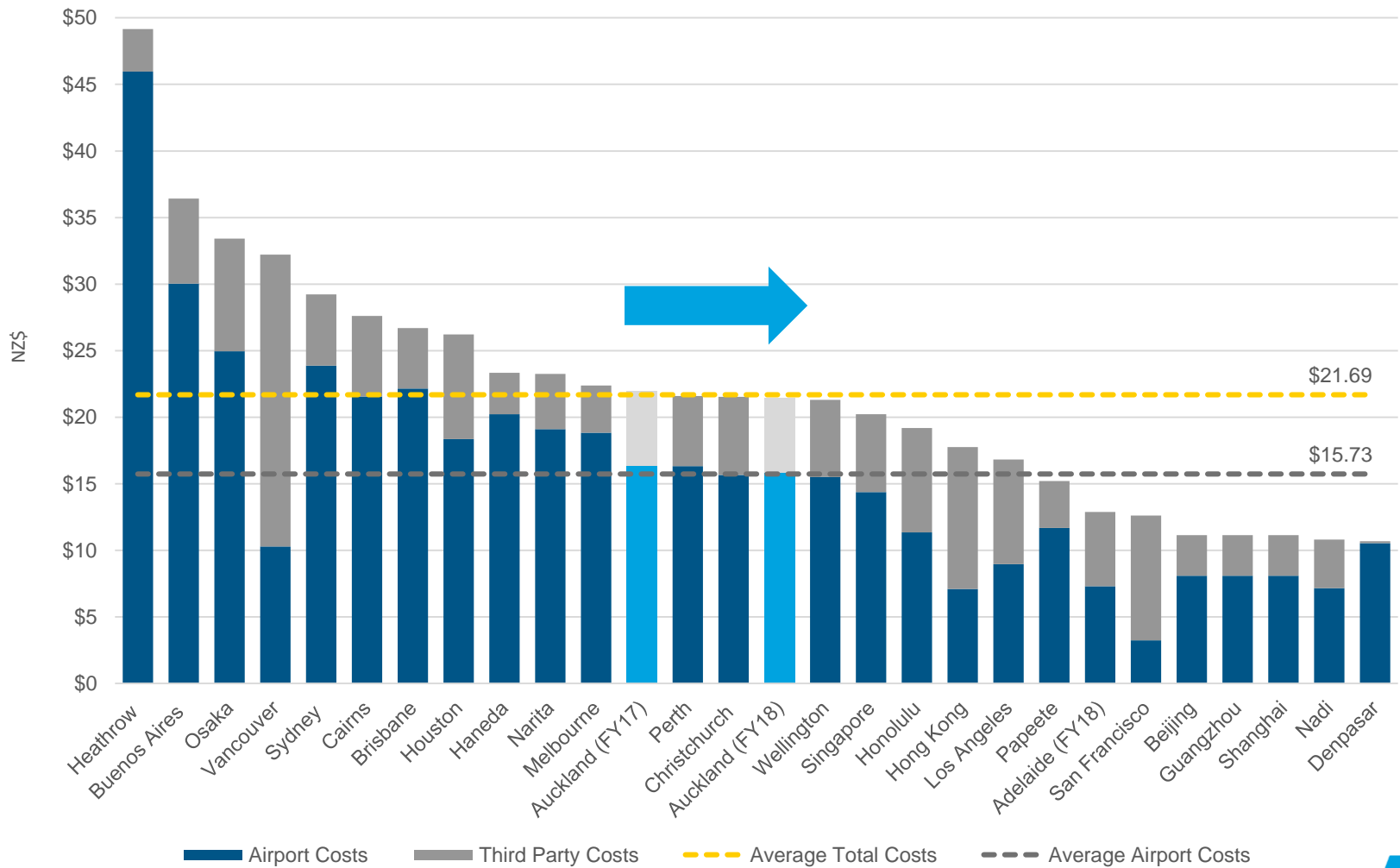
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## A320 turnaround costs per seat



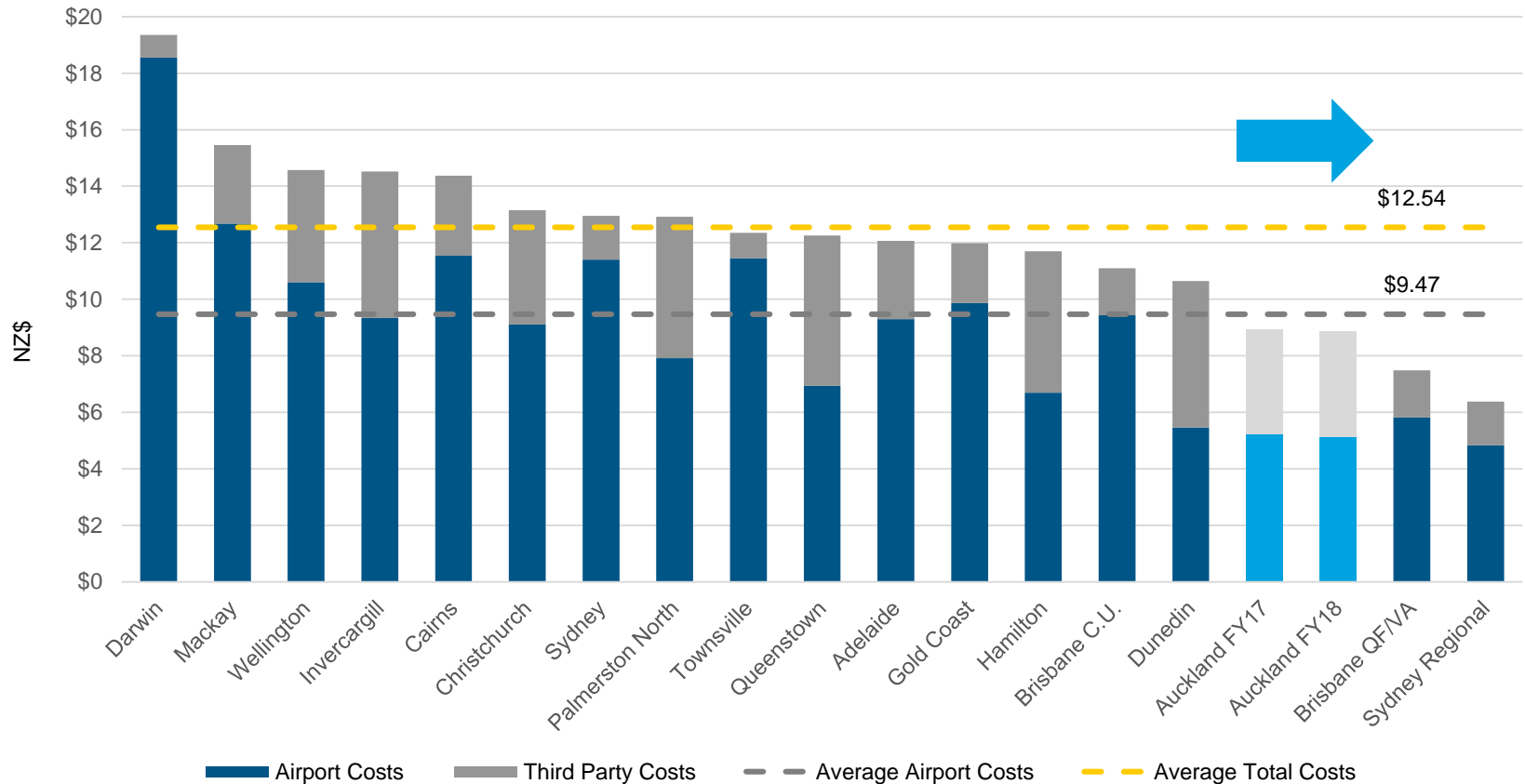
# Domestic charges remain well below average

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## A320 turnaround costs per seat



- Domestic charge will step up materially in FY23 following commission of the new domestic jet terminal

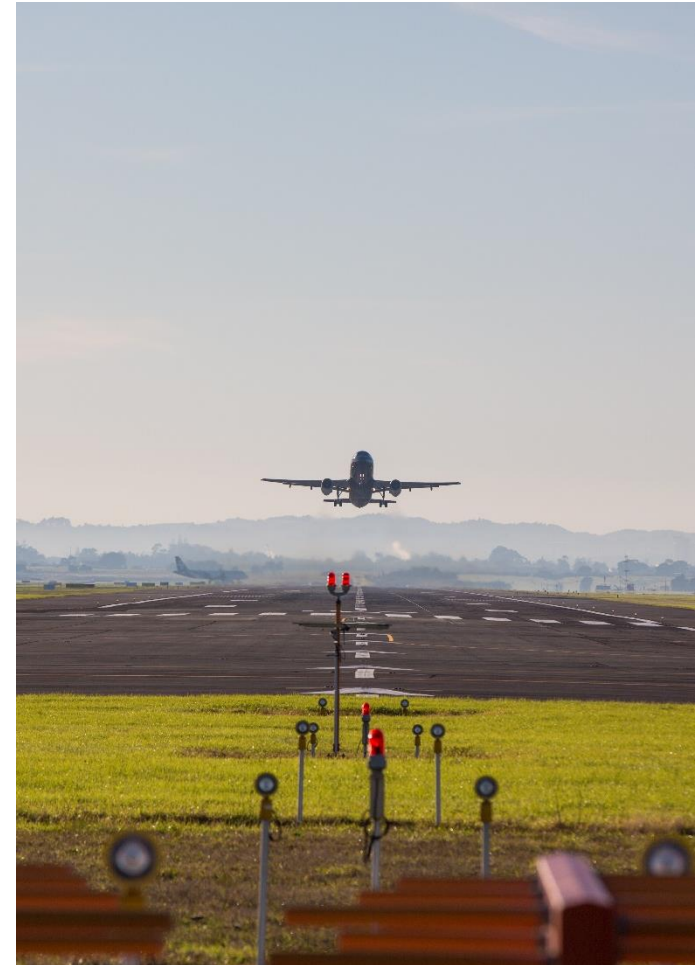


# Annual disclosures

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- The Commerce Commission completed its input methodologies review in December 2016
- The final decision reaffirmed that the Commission does not set prices for airport services and that its focus is on ensuring there is transparency in relation to the pricing decisions made by airports
- Key changes for Auckland Airport:
  - Pricing disclosure will include a new forward-looking profitability measure showing IRR over PSE3
  - Asset values for price setting and annual disclosures will reflect the moratorium on asset revaluations for pricing
  - RLC will be disclosed separately to RAB revenue



# Next steps

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1 July 2017	<ul style="list-style-type: none"><li>• New prices become effective, except for delayed implementation of check-in, aircraft parking and RLC</li></ul>
Early August 2017	<ul style="list-style-type: none"><li>• Auckland Airport's full 10 year pricing disclosure will be released. This will include:<ul style="list-style-type: none"><li>- 10 year capex forecasts</li><li>- 10 year demand forecasts</li><li>- Commentary on pricing decision rationale</li></ul></li><li>• Auckland Airport will provide more information on long term funding and capital management</li></ul>
Late 2017 / Early 2018	<ul style="list-style-type: none"><li>• Commerce Commission review of pricing decision</li></ul>





# Questions



# Important Notice and Glossary

2017

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All currency amounts are in New Zealand dollars unless otherwise stated.

## Glossary

Code C	Aircraft with wingspan >24m but <36m e.g. B737, A320
Code F	Aircraft with wingspan >65m but <80m e.g. A380, A350 XWB & B787-900
CAGR	Compound Annual Growth Rate
DPC	Domestic Passenger Charge
DTB	Domestic Terminal Building
IPC	International Passenger Charge
MARS	Multiple Access Ramp System contact stand
MCTOW	Maximum Certified Take-Off Weight
MPI	Ministry for Primary Industries
RAB	Regulated Asset Base
PAX	Passenger
PSE2	FY13-FY17
PSE3	FY18-FY22
PSE4	FY23-FY27
RLC	Runway Land Charge
RPC	Regional Passenger Charge
TPC	Transit Passenger Charge

# Appendix



# Background

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- Airport charges are designed to achieve a reasonable return on significant investments in essential long-term national infrastructure
- All international and domestic airport charges are collected from airlines and form part of their cost of operations
- Pricing considerations include Auckland Airport's specific factors, historic pricing decisions, the Commerce Commission's input methodologies, benchmarking of comparable airport charges and economically efficient price paths
- Prices are set for up to five years with annual increments. This new pricing applies to the period from 1 July 2017 to 30 June 2022 ("PSE3"), unless reviewed earlier
- Outcome of a robust and constructive consultation process with airline partners over the last 12 months. Auckland Airport has actively engaged with the airlines and final prices have been informed by their feedback
- Pricing consultation covers airfield and passenger terminal related services but excludes other revenues for aircraft and freight and airline leased areas in the terminals. Also excludes other non-aeronautical areas of the business (retail, car parking and property)
- In 2014 a 30-year Master Plan was launched to enable Auckland Airport to process 40 million passengers by 2044. Through FY12-17 ("PSE2") Auckland Airport has experienced much faster growth than could have been foreseen at the time prices were set in 2012, including the number of airlines up 61% in the past 22 months

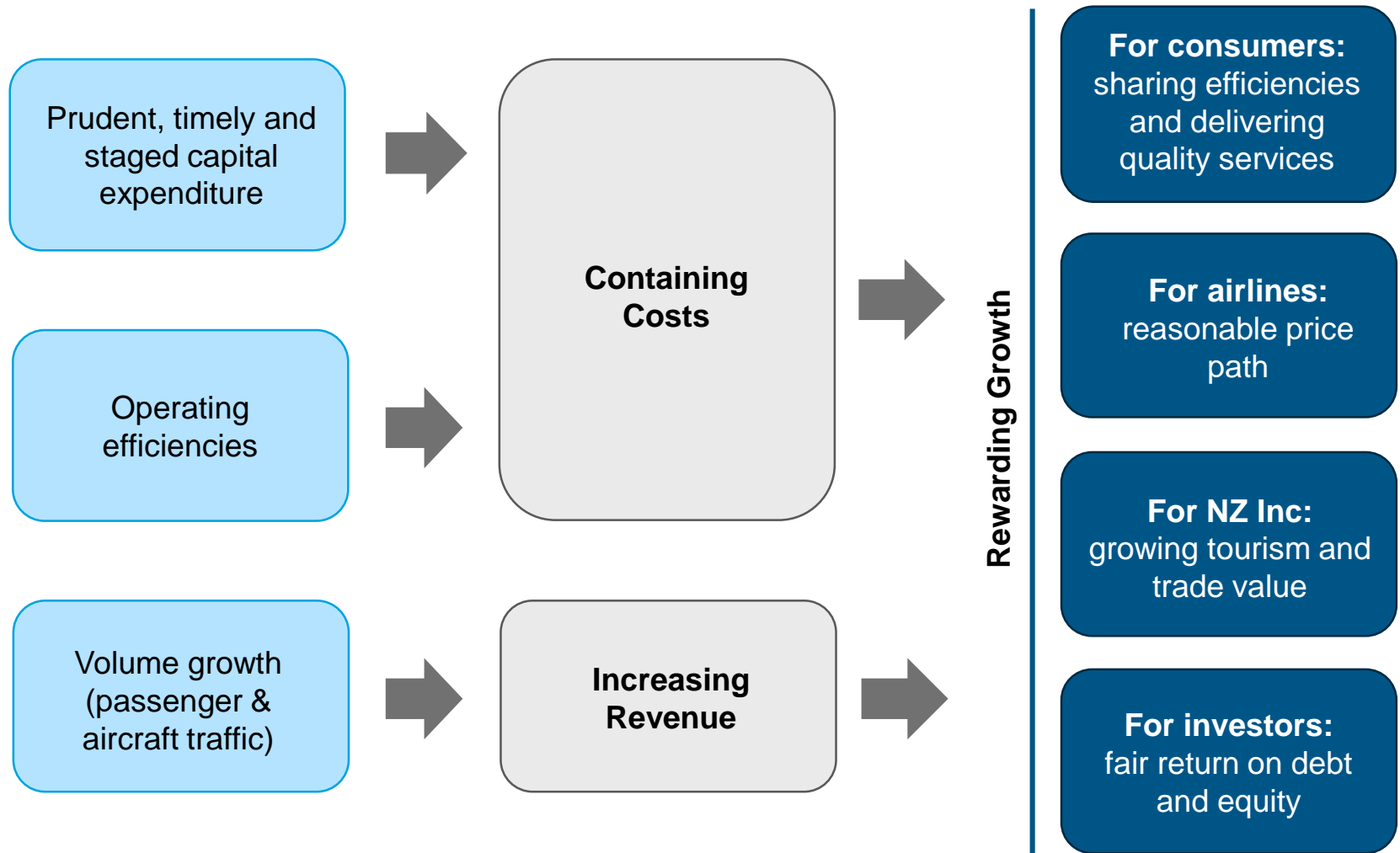
# Information Disclosure Regime

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- Since 2011, NZ's three largest airports including Auckland have been subject to Information Disclosure requirements under Part 4 of the Commerce Act
- Airports disclose certain performance related information (financial, non-financial, historical and forward-looking)
- Commerce Commission has determined a set of Input Methodologies to ensure information is disclosed in a consistent manner, e.g. asset valuation, cost allocation, cost of capital
- Information Disclosure and Input Methodologies do not prescribe how prices are to be set
- Aim of regulation is to enable Commerce Commission and other interested parties to assess whether the purpose of Part 4 is being met
- Auckland Airport has increasingly aligned its business with the objectives of Part 4 of the Commerce Act, namely:
  - Having an appropriate incentive to invest and innovate
  - Providing services of the quality and range required by consumers
  - Generating efficiencies and sharing the benefits of those efficiency gains with consumers
  - Earning a fair and reasonable return on the investments made

# Our long term pricing vision – rewarding growth



- Our long term vision remains unchanged, albeit prices will need to take proper account of once in a generation investments in the domestic jet terminal and second runway

# New pricing schedule

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Prices in NZD	Metric	Current	Final pricing decision – new pricing period				
		FY17	FY18	FY19	FY20	FY21	FY22
<b>Landing charges</b>							
Aircraft less than 6 tonnes	\$ / landing	57.40	57.00	58.35	59.78	61.28	62.79
Aircraft greater than 6 tonnes but less than 40 tonnes	\$ / tonne per landing	9.66	9.11	8.96	9.02	9.05	9.10
Aircraft 40 tonnes and higher	\$ / tonne per landing	15.67	14.78	14.54	14.61	14.69	14.80
<b>Parking charges</b>							
ICAO aircraft code A or B	\$ / hour > 6 hrs	n/a	10.00 from 1 Nov	12.50	15.00	17.50	20.00
ICAO aircraft code C or D	\$ / hour > 6 hrs	n/a	120.00 from 1 Nov	122.40	124.85	127.34	129.89
ICAO aircraft code E or F	\$ / hour > 6 hrs	n/a	240.00 from 1 Nov	244.80	249.70	254.69	259.78
<b>Runway Land Charge</b>							
Runway Land Charge	\$ / pax age 2+	Nil	Nil	Nil	Nil	1.19	1.19
<b>Passenger charges</b>							
International (IPC)	\$ / pax age 2+	16.09	15.65	15.44	15.54	15.85	16.15
Transit (TPC)	\$ / pax age 2+	4.03	4.27	4.82	5.33	5.90	6.50
Domestic (DPC)	\$ / pax age 2+	2.18	2.28	2.48	2.73	2.98	3.23
Regional (RPC)	\$ / pax age 2+	2.18	2.13	2.29	2.45	2.60	2.75

# New pricing schedule (cont'd)

2017

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Prices in NZD	Metric	Current	Final pricing decision – new pricing period				
		FY17	FY18	FY19	FY20	FY21	FY22
<b>International check-in standard allocation package charges</b>							
Traditional counter	\$ / counter / hr	16.50	17.50	25.00	27.50	30.25	33.28
Dedicated kiosk and bag drop	\$ / customs departing pax	n/a	n/a	1.00	1.10	1.21	1.33
Common use kiosk and bag drop	\$ / customs departing pax	n/a	n/a	0.80	0.88	0.97	1.07
<b>Check-in charges for units above the standard allocation</b>							
Counter or bag drop counter	\$ / counter / hr	n/a	n/a	45.00	49.50	54.45	59.90
Kiosk	\$ / kiosk / hr	n/a	n/a	10.00	11.00	12.10	13.31
Mobile exception desk	\$ / desk / hr	n/a	n/a	7.50	8.25	9.08	9.98