Auckland Airport's airline pricing

July 2012 – June 2017

Rewarding growth

Investor presentation - 7 June 2012

Airport Pricing – Background

- 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
- Airports set prices following consultation with substantial airline customers
- 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 2012 to 30 June 2017, unless reviewed earlier
- Constructive consultation on new five-year schedule commenced mid-2011
- Pricing consultation covers airfield and passenger terminal related services (charged primarily on a MCTOW and per passenger basis) 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)

Information Disclosure Regime

- 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:
    1. Having an appropriate incentive to invest and innovate
    2. Providing services of the quality and range required by consumers
    3. Generating efficiencies and sharing the benefits of those efficiency gains with consumers
    4. Earning a fair and reasonable return on the investments made

Our Pricing Vision – Rewarding growth

Prudent, timely and staged capital expenditure

Operating efficiencies

Volume growth (pax & aircraft traffic)

Containing Costs

Increasing Revenue

Rewarding Growth

For consumers: sharing efficiencies and delivering quality services

For investors: fair return on investment

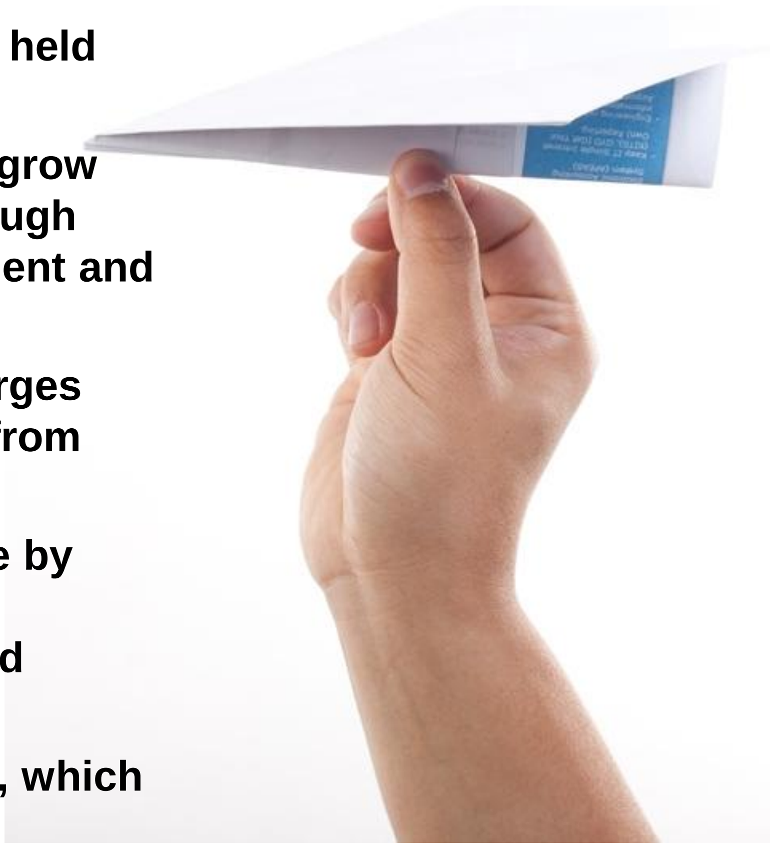
For airlines: modest price path

For NZ Inc: growing tourism and trade value

New Pricing – Executive Summary

The new pricing structure means:

- **Overall charges on a per-passenger basis held flat in real terms over the pricing period**
- **Supports long term strategic objective to grow aeronautical revenues predominately through volume, not price - providing more alignment and sharing of risk and reward with airlines**
- **Pricing moves more to volume based charges (landings + passenger growth) and away from fixed cost recovery (TSC removed)**
- **Delivers a path to fund capital expenditure by providing an appropriate return on capital expenditure and return of capital employed**
- **Outcome of a robust and constructive consultation process with airline partners, which commenced in August 2011**



New Pricing – Key Features

Key features of new pricing structure:

- **Initial decrease in total international aeronautical revenue per pax ($0.58)**
- **Initial increase in total domestic aeronautical revenue per pax ($1.32)**
- **Landing charges (MCTOW based) for international and domestic jets set to same rates**
- **Removal of separate international terminal service charge – now included in passenger charges collected from airlines**
- **Passenger charges collected from airlines phased in to apply to 2-11 year olds to be consistent with most Australian airport pricing practices**
- **Removal of domestic terminal lease charges relating to passenger processing areas**
- **Implementation of a transit international passenger charge**
- **Estimated after tax return in aeronautical investment of 8.48% p.a. on organic growth**
- **Asset values for pricing purposes maintains moratorium on revaluations**
- **Passenger volume growth assumptions exclude potential new route development activity**
- **New Terminal Facility (NTF) excluded as consultation on that will continue with airlines in a separate process from this five year pricing consultation**
- **Northern runway land excluded from asset base used for pricing – development will be outside this pricing period**

Note: MCTOW – Maximum certificated take-off weight

New Pricing - Key Changes

Pricing element	Key changes
Landing Charges	✈ Maintains MCTOW as basis for landing charges ✈ Maintains weight breaks as per 2012 pricing ✈ Resets domestic and international MCTOW jet charges to the same rate for the same weight
International Passenger Charge (IPC)	✈ Incorporates charges previously included in terminal services charge (abolished from 1 July 2012) ✈ 2-11 year olds exemption to be phased out, applies to 2-11 year olds at 50% in FY2013 and at full rate in FY2014
Domestic Passenger Charge (DPC)	✈ New domestic passenger charge (except 0-2 year olds) largely to fund terminal capacity increases ✈ Incorporates lease revenue in terminal processing areas (abolished from 1 July 2012)
Terminal Services Charge (TSC)	✈ Abolished from 1 July 2012
Transit charge (TPC)	✈ Introduced to cover transit and transfer services previously incorporated in TSC.

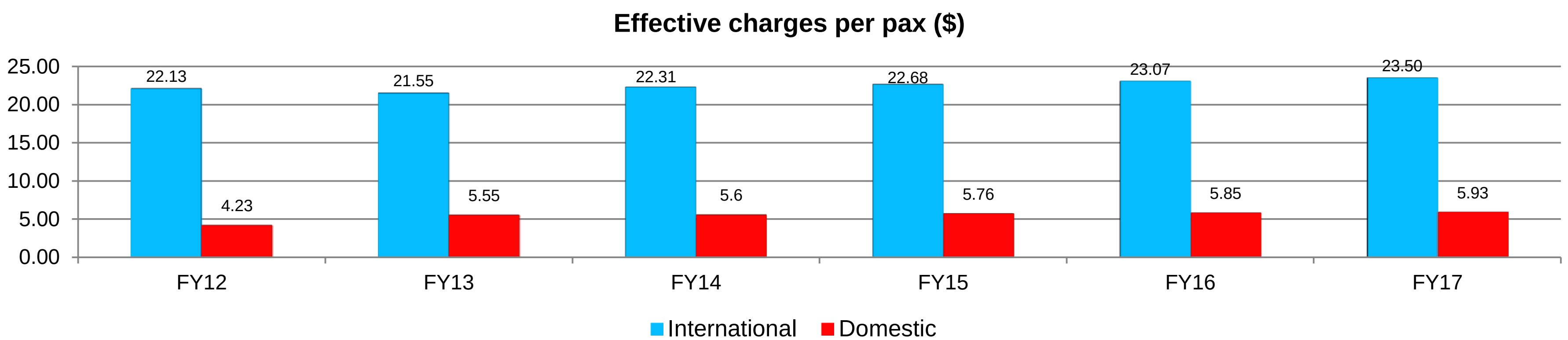
New Pricing Schedule

Prices in NZD	Charge	Current	Final pricing decision – new pricing period				
Financial year ending 30 June		2012	2013	2014	2015	2016	2017
Landing Charges – MCTOW							
Aircraft less than 6 tonnes	Per landing	50.00	52.00	53.30	54.63	56.00	57.40
Aircraft greater than 6 tonnes but less than 40 tonnes	$ per tonne	8.30	8.75	8.97	9.19	9.42	9.66
Aircraft 40 tonnes and higher:							
International	$ per tonne	13.41	14.20	14.56	14.92	15.29	15.67
Domestic	$ per tonne	13.80	14.20	14.56	14.92	15.29	15.67
Terminal services charge (TSC)*		3.58	Nil	Nil	Nil	Nil	Nil
Passenger charges							
International (IPC)	Per pax aged 12+	12.44	15.16	15.39	15.62	15.85	16.09
International (IPC)	Per pax aged 2-11	Nil	7.58	15.39	15.62	15.85	16.09
Transit charge (TPC)	Per pax aged 2+	Nil	3.65	3.74	3.83	3.93	4.03
Domestic (DPC)	Per pax aged 2+	Nil	1.98	2.03	2.08	2.13	2.18
* Effective Terminal Services Charge							

Five year pricing path – flat in real terms

Aeronautical pricing revenues per passenger

Average Revenue on Per PAX Basis	Current FY12	FY13	FY14	FY15	FY16	FY17	FY12-FY13	CAGR FY13 - FY17	CAGR FY12 - FY17
Total International Passenger	$22.13	$21.55	$22.31	$22.68	$23.07	$23.50	(2.6%)	2.2%	1.2%
Total Domestic Passenger	$4.23	$5.55	$5.60	$5.76	$5.85	$5.93	31.1%	1.7%	7.0%
Total Revenue Per Passenger	$14.26	$14.43	$14.88	$15.14	$15.40	$15.68	1.2%	2.1%	1.9%



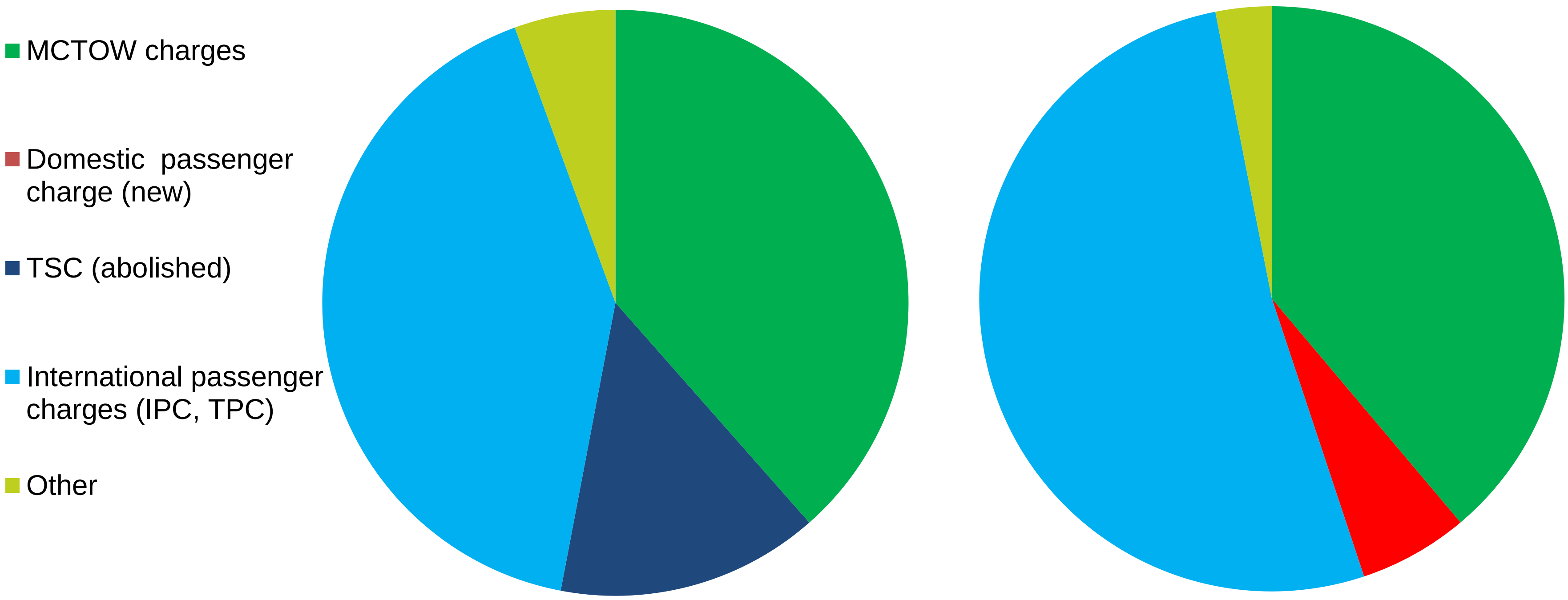
Notes:

- International revenues include IPC, TPC, international landing charges and other attributed income from shared network services and leases for assets included in the pricing asset base
- Domestic revenues include DPC, domestic landing charges and other attributed income from shared network services and leases for assets included in the pricing asset base
- Aggregate revenues are based on forecast passenger volumes, aircraft landings and aircraft load factors

Changes to price structure helps rebalance domestic and international

FY12 Sources of Aeronautical Revenue

FY 13 Sources of Aeronautical Revenue



Note: International passenger charges include IPC and Transit Passenger Revenues

Other income: Attributed income from shared network services, the assets for which are partially included in the asset base

Pricing assumptions – Volumes

		Final pricing decision – new pricing period				
Financial year ending 30 June	Metric	2013	2014	2015	2016	2017
Aircraft Volumes						
Aircraft less than 6 tonnes	Landings	1,786	1,786	1,786	1,846	1,846
Aircraft greater than 6 tonnes but less than 40 tonnes	Tonnes (000's)	487	496	505	515	524
Aircraft 40 tonnes and higher	Tonnes (000's)	5,332	5,454	5,650	5,798	5,936
Passenger Volumes						
International passengers	Passenger (000's)	7,323	7,587	7,832	8,086	8,342
Transits	Passenger (000's)	514	532	549	567	578
Total international passengers	Passenger (000's)	7,837	8,118	8,381	8,654	8,920
Domestic Passengers	Passenger (000's)	6,443	6,660	6,900	7,120	7,311

- **Econometric-based volume forecasts sourced from independent experts (TFI and Airbiz)**
- **Volume assumptions are based on organic growth and exclude potential new routes resulting from Auckland Airport's route development efforts**
- **This incentivises Auckland Airport to invest in route development to grow volumes faster than the organic rate**

Pricing assumptions – Asset Base

- Moratorium on asset revaluations is maintained until 2017 as per previous price consultation commitment to airlines
- Continuation of moratorium strongly advocated for by airlines
- Creates inconsistency between Commerce Commission information disclosure monitoring and Auckland Airport pricing
- Excludes land held for future Northern Runway. Land values for future Northern Runway to increase for holding costs until it is incorporated in standard charges
- Utilises asset values determined from 2006 valuations (MVAU for land)

Pricing assumptions – Capital Expenditure

Prices in 2011 NZD millions (real $)	Final pricing decision – new pricing period					
Financial year ending 30 June	2013	2014	2015	2016	2017	Total
Major Projects						
Runway concrete slab replacement programme	5.0	6.0	3.0	5.0	5.0	24.0
New aircraft stands	-	9.0	10.0	-	-	19.0
Taxiway Lima	20.2	-	-	-	-	20.2
Taxilane	-	10.0	-	-	-	10.0
DTB Rehabilitation*	10.0	17.0	-	-	-	27.0
Baggage Reclaim – Stage 1	0.2	9.8	-	-	-	10.0
Baggage feed expansion	-	-	5.0	5.0	-	10.0
Check in efficiency	0.5	2.8	2.8	-	-	6.0
ITB Forecourt	-	-	-	5.0	10.0	15.0
Pier B terminal works	-	-	13.0	-	-	13.0
Landside ground floor	-	-	-	3.0	16.0	19.0
Major projects >$5m	35.9	54.5	33.8	18.0	31.0	173.1

* Further $1m expenditure in FY12

Pricing assumptions – Capital Expenditure

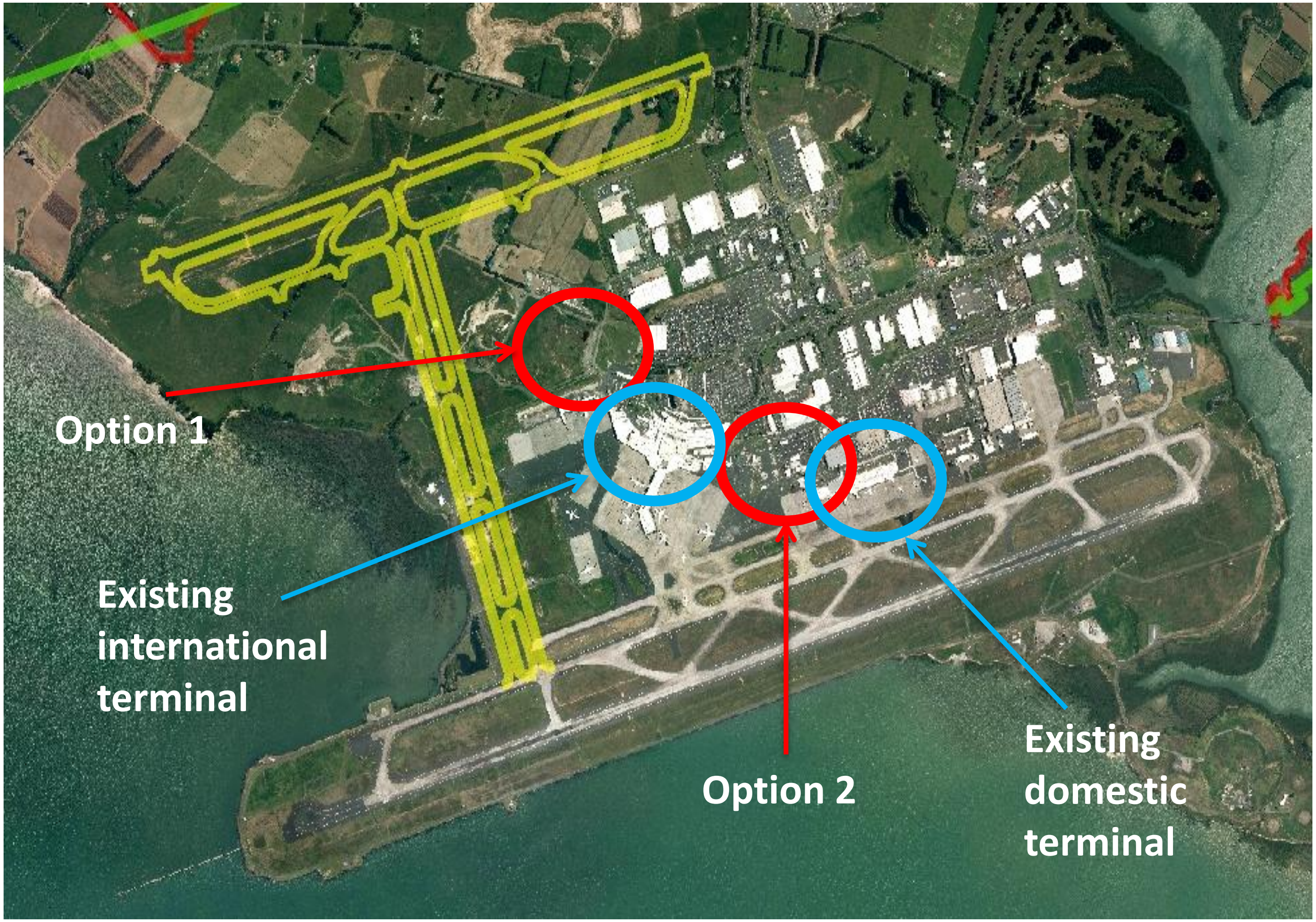
Prices in 2011 NZD millions (real $)	**Final pricing decision – new pricing period**					
Financial year ending 30 June	2013	2014	2015	2016	2017	Total
Major projects >$5m	35.9	54.5	33.8	18.0	31.0	173.1
Other projects < $5 million	25.6	21.1	15.8	14.8	14.8	91.9
Capital expenditure considered in pricing	61.5	75.6	49.5	32.8	45.8	265.0
Less allocation of non-aeronautical portion of capital expenditure	(1.5)	(4.1)	(2.2)	(3.4)	(9.0)	(20.2)
Total Capital Expenditure for pricing	**60.0**	**71.5**	**47.3**	**29.4**	**36.8**	**244.9**

- **Excludes northern runway investment as this is expected to be delivered beyond the planning envelope, subject to no new third party entrant in domestic operations**
- **Excludes investment in a New Terminal Facility (NTF) as consultation on the NTF will continue with airlines in a separate process from this five year pricing consultation**

DTB short-term modification

- Existing domestic terminal building (DTB) 45+ years old
- Facilities under pressure due to increased aircraft size and faster passenger processing capabilities delivering higher passenger movements in peak periods
- Advent of larger aircraft due into service over next few years will exacerbate this
- Have consulted with airlines on a short-term DTB solution (in parallel to NTF consultation on a longer-term solution) to provide capacity relief on existing domestic terminal
- This will mean approximately $28m in modifications primarily to relieve congestion – completion by early 2014 calendar year
- The improvements will aim to relieve pressure on baggage processing, boarding and disembarking, forecourt, traffic flows, terminal space, centralised security screening and toilet facilities
- These improvements will patch-up the existing terminal for a few more years while longer-term plans for the NTF are finalised

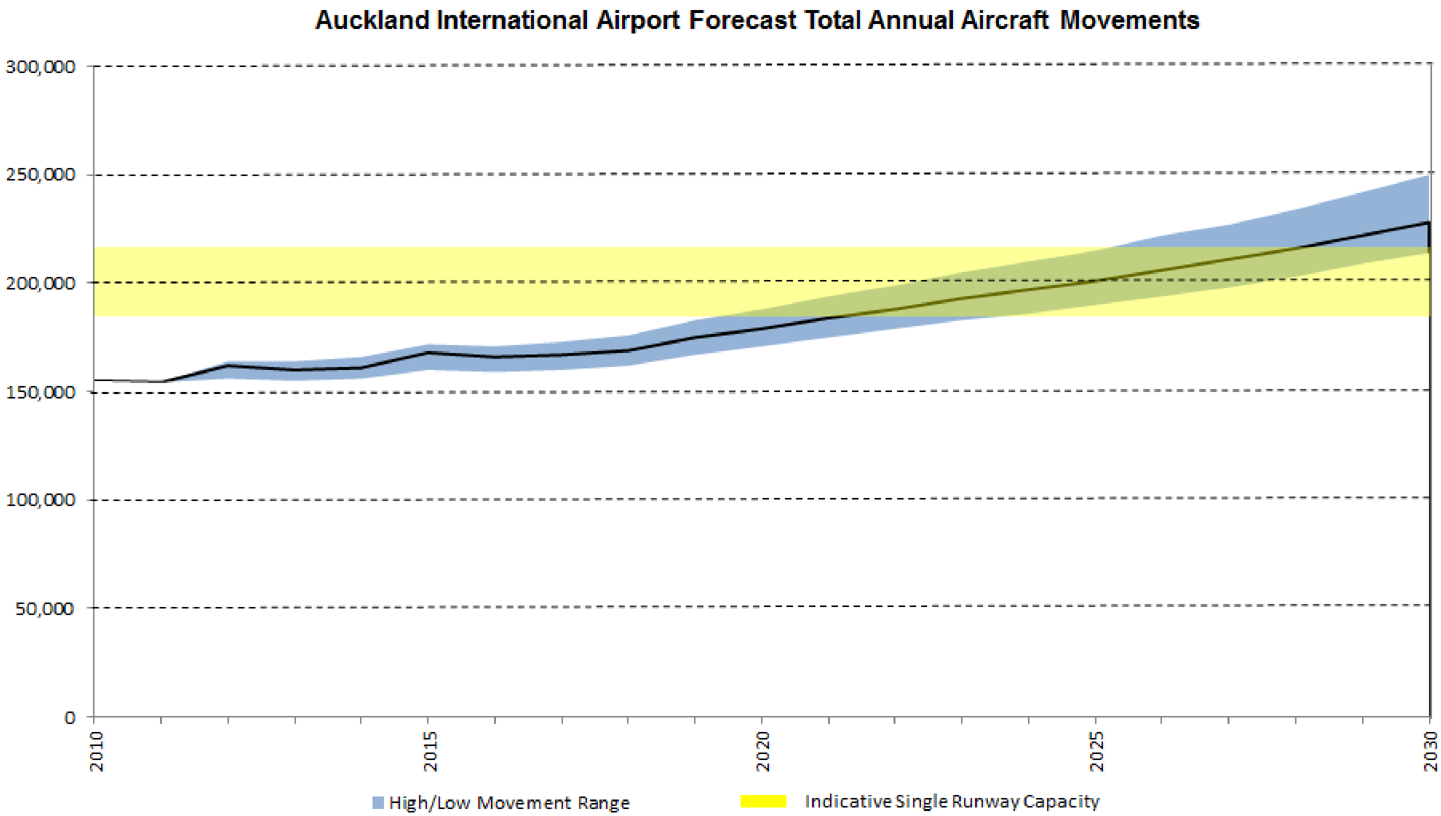
New Terminal Facility – Options



Overview of NTF Options

	Features	Considerations
Option 1 – North of ITB	✈ Centrally located between the future position of two parallel runways. ✈ Greenfield site avoids construction complications within busy airport precinct.	✈ Taxiing times for domestic flights ✈ An initial 'step change' construction of midfield apron and terminal stage 1.
Option 2 – Southeast of ITB	✈ Near existing domestic terminal ✈ Shorter taxiing times to/from southern runway (quicker aircraft turnarounds). ✈ Potential for a more incremental approach to construction.	✈ Complexity and cost of brownfield site construction. ✈ Surface access/car parking solution complexity. ✈ Risks of apron congestion alongside southern runway.

Northern runway



- Current demand growth track, combined with initiatives to improve efficiency of existing runway operations, means no immediate need to resume construction
- Information being gathered for terminal planning on forecast demand growth will help inform timing for northern runway
- Current demand forecasts for aircraft movements suggest construction is some time away, but will be subject to changes in actual aircraft movements. Key indicative trigger point for investors will be 200,000 aircraft movements.

Pricing assumptions – Operational Expenditure

- **Aeronautical operating expenditure targets efficiencies and operating costs per passenger decrease in real terms**
- **Consistent with the exclusion of any new volumes generated on new routes or services, any marketing associated with Auckland Airport's new route development initiatives is excluded from pricing**

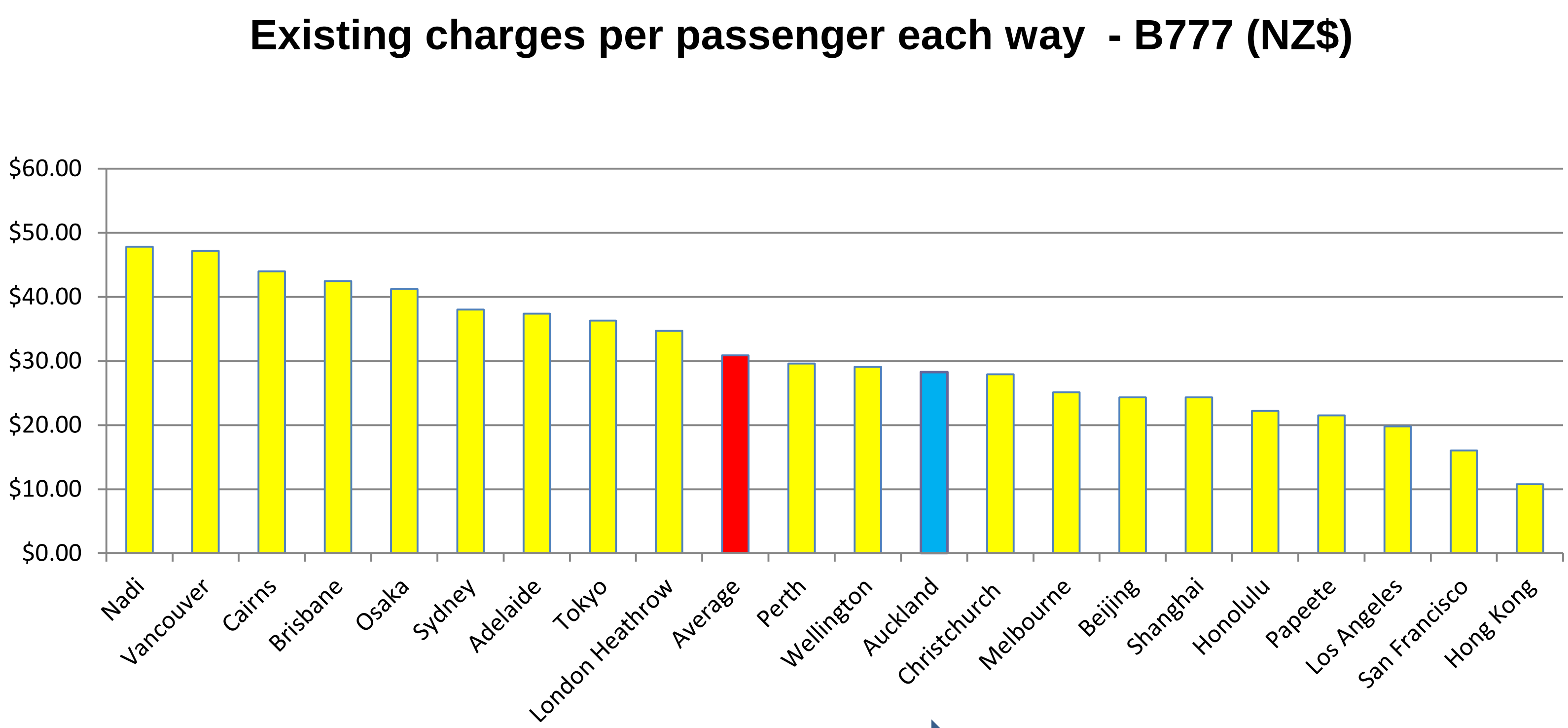
Pricing assumptions – WACC

	Auckland Airport
Risk Free Rate	3.48%
Asset Beta	0.65
Leverage	30%
Tax adjusted market risk premium (TAMRP)	7.5%
Tax rate	28%
Debt premium	1.72%
Debt issuance costs	0.35%
Cost of debt pre-tax	5.55%
Cost of equity	9.47%
WACC range (75th to 85th percentile)	8.88% - 9.45%
WACC midpoint	9.16%
Return on investment (ROI)	8.48%

Pricing outcomes deliver a return on aeronautical investment of 8.48% over the five year pricing period (for the given assumptions). ROI needed to fund aeronautical investment, in an environment reflecting the competition for capital. ROI is broadly consistent with the most recent point estimate of WACC by the Commerce Commission of 8.04%.

*** Source: Cost of capital determination for information disclosure year 2013 for specified airport services (March year-end), 27 April 2012, based on WACC estimate at the 75th percentile.**

Our international charges will remain competitive / below average

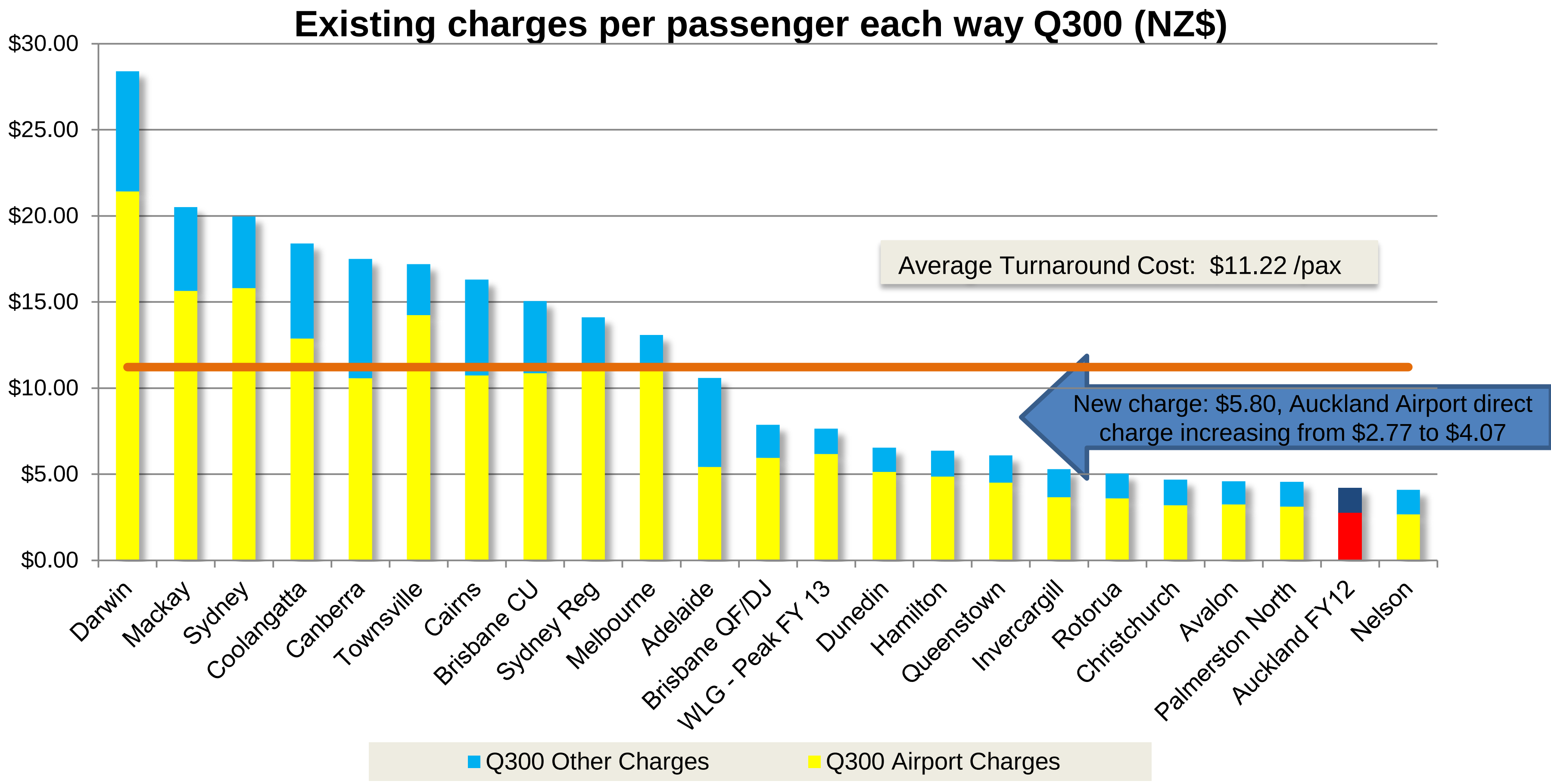


New charges will be 58c lower on average

Source: LeighFisher, Comparison of published airport charges at principal airports served by Air New Zealand

Auckland Airport

Domestic charges are among the lowest in Aust/NZ and will remain below average



Source: Airbiz, Published domestic charges benchmarking Australasia – June 2012

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