

Regulatory Performance under Commerce Act Part 4

Wellington International Airport Limited

Year Ended 31 March 2016



Significant investment in infrastructure and efficiencies with \$250m forecast to 2019

Includes \$125m of aeronautical infrastructure to facilitate growth, enhance customer experience, more efficient use of airport space and resources, improve on-time performance and enhance traffic capacity.

Exceptional passenger growth whilst maintaining service quality

Consistently strong airport service quality scores and year-on-year service levels; rated among best airports in Australasia for service quality; high levels of reliability for key infrastructure; enhanced facilities to further lift passenger capacity and service levels.

Delivering value for consumers

Lowest operating costs and charges of the main New Zealand airports on a per passenger basis, making Wellington Airport one of the lowest cost and charging international airports in Australasia.

Returns of 4.2% - 9.7% over six-year period

Year-on-year variability of returns, reflecting risks inherent in the airport industry. Cash returns/excluding revaluations of 5.1% - 6.9% over six year period.



Chairman and CEO Report Regulatory Performance Summary

Year Ended 31 March 2016



Wellington Airport's sixth annual Information Disclosure has been prepared under the Commerce Act information disclosure (ID) regime.

This year we have also taken the step to prepare a regulatory performance summary. This assesses the Airport's performance since the ID considers all four limbs of Part 4 of the Commerce Act, being:

- Innovation and investment
- Efficiency and customer service quality
- Sharing of efficiency gains
- Profitability

This summary is separate from and does not form part of the Annual Disclosure.

Any assessment of airport performance, in particular, promoting the long-term benefit of consumers, is best achieved by a contextual review, which considers service quality, efficiency, pricing, innovation and investment, rather than a narrow focus on profitability. We also believe airports are long-term cyclical assets, best evaluated over time.

Airports have a significant role in improving a region's connectivity and growth. That's why Wellington Airport invests significantly in route development. Four new international services, from Jetstar, Fiji Airways and Qantas, have launched successfully recently, and a new Singapore Airlines service to Canberra and Singapore will start in September 2016. We have experienced exceptional passenger growth during the 2016 year with domestic passengers increasing by 4.7% and international

passengers by almost 16%. This growth benefits both the airport and the wider Wellington regional economy.

We are also investing in appropriate infrastructure that provides quality facilities at prices that represent value for money. The \$65 million, 6,000m², extension of the main terminal building is nearing completion. This will cater for further growth of up to 1,500 passengers per hour during the peak periods. We are enhancing the international arrivals hall to enhance service levels and cater for the significant growth in international passengers. Consultation on an extension of the northern or international terminal will begin later in 2016 and we are progressing an extension to the runway.

We have maintained high levels of service in spite of significant construction activity and this is illustrated in our Airport Service Quality (ASQ) scores and our number 4 ranking in Australasia. We have also effectively managed our operating costs and continue to be one of the lowest cost airports in Australasia.

Our regulated return for 2016 was 9.67%, reflecting the impact of our cyclical asset revaluations, undertaken for financial reporting purposes and which flow into the regulatory disclosures. Excluding revaluations, our return for 2016 was 6.86%. The Commission's benchmark for the airport sector adopts a WACC of 6.71% at the 50th percentile and 7.69% at the 75th percentile.

Our cumulative returns since the start of the ID regime are \$35.8 million below the Commerce Commission's 50th percentile

WACC benchmark for the airport sector and \$77.6 million below its 75th percentile WACC. The shortfalls have been driven by a number of factors and forecast eventualities, including a period of flat property prices in Wellington and resultant lower than forecast revaluations.

We consider these returns to be below the level expected of an airport of our size and risk, with almost \$400 million in aeronautical assets. Wellington Airport's current airline prices expire on 31 March 2019 and we expect to seek to achieve a fair return at that time in keeping with the company's actual cost of capital. Our cost of debt can be measured, with our average post tax cost of debt at 4.56% for the 2016 year. Our cost of equity is better estimated through the method used to set expectations for the company. This is a commercial judgment taking into account factors such as: the market; regulatory and environmental risks; potential volatility of cash flows; the pipeline of expected and alternative projects and investments; and project and execution risk.

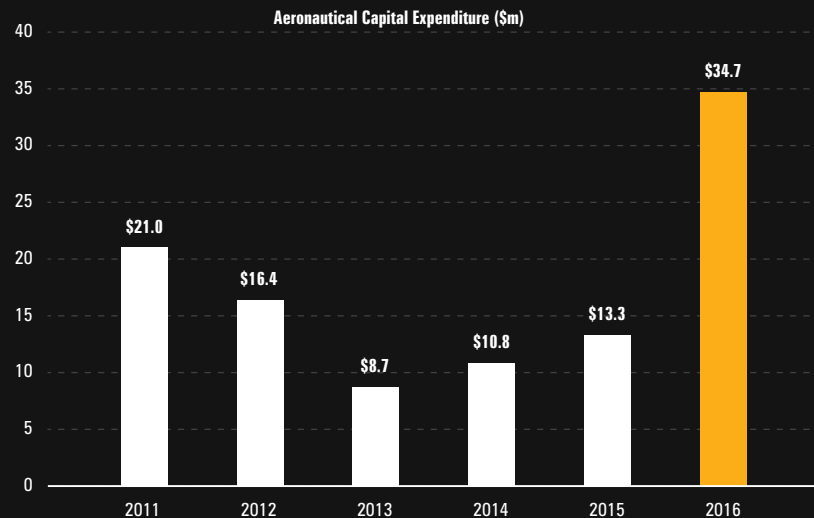
Wellington Airport has invested significantly in infrastructure and promoting the growth of airline services and we are committed to continuing this. Together with high quality airport services and low operating costs, we consider these provide excellent long term benefits to consumers.

Tim Brown
Chairman

Steve Sanderson
Chief Executive

Significant Infrastructure Investment & Innovation

\$125m aeronautical investment forecast 2015–2019



- **Southern Extension of the Main Terminal Building** – additional 6,000m² with centralised screening will cater for up to 1,500 passengers during the busy hour, increased seating and more baggage trolleys
- **International Arrivals Enhancement** – to address congestion, improve levels of service and cater for growth in international passengers
- **Ongoing operating capital expenditure** for renewal of runway, taxiways, other airfield works, operational and IT investment

Investments in technology improving efficiency – reducing costs

- **Airport Collaborative Decision Making** – portal for real time information, coordinate operations to improve on-time performance and traffic capacity
- **Common User Terminal Equipment** – enabling airlines to use the same check-in counters and ticketing systems
- **Free WiFi** now available across the full terminal, fibre roll out across the airport campus, enhanced CCTV and starting new beacon technology
- Airfield innovations including **Nose in Guidance System** for Jet stands and a mobile application to track wildlife, FOD and pavement issues with GIS heat mapping

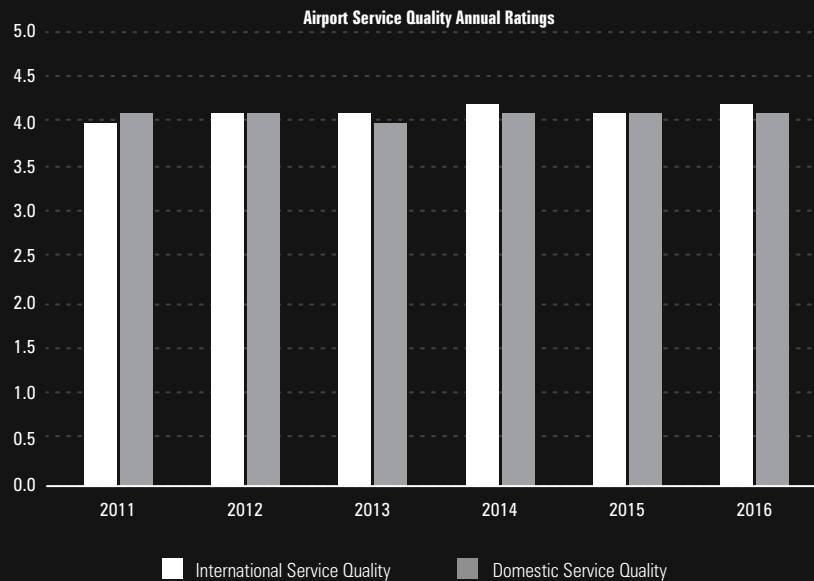
CDM PORTAL Ground Handler

Flight	QID	Day	Stand	Take-Off	Landing	In-Blocks	Boarding	Off-Blocks	FIDS	Push	Take-Off
NZ2148	NZB	26	7	08:47	09:14	09:17	10:01	10:15	10:15	10:11	10:20
NZ2109	NZB	26	7	08:47	09:14	09:17	10:01	10:15	10:15	10:11	10:20
NZ2141	TRQ	26	73-00	07:06	08:14	08:17	10:02	10:15	10:10	10:11	10:17
NZ2931	CHC	26	73-15	07:06	08:14	08:17	10:02	10:15	10:10	10:11	10:17
NZ1068	CHC	26	15-20	07:01	07:57	08:01	10:16	10:25	10:25	10:32	10:32
NZ3338	CHC	26	15	07:01	07:57	08:01	10:16	10:25	10:25	10:32	10:32
NZ4113	AKL	26	13	08:59	09:42	09:45	10:15	10:25	10:15	10:24	10:24
NZ4118	AKL	26	13	08:59	09:42	09:45	10:15	10:25	10:15	10:24	10:24
NZ2028	BHE	26	8	10:15	10:32	10:35	10:43	11:00	11:00	11:05	11:05
NZ4423	TUJ	26	8	10:15	10:32	10:35	10:43	11:00	11:00	11:05	11:05



Consistent High Quality Customer Service & Efficiency

Passenger Satisfaction Indicators



- Rated among the best airports in Australasia for service quality with consistently strong ASQ scores
- Internationally recognised and awarded airport
- Terminal investment addresses areas for improvement e.g. number of toilets, availability of baggage trolleys, terminal space

Reliability Measures

- High levels of reliability for key infrastructure
- Ongoing investment to maintain and improve customer service levels
- On time departure delays addressed at Team WLG meetings

Capacity Utilisation

Domestic Terminal

- Southern terminal extension catering for passenger growth and new centralised security screening
- North Pier centralised security screening working well following gate lounge and waiting area upgrade in 2015

International Terminal

- International growth putting pressure on current capacity on busy days
- International arrivals enhancement already underway to address peak period capacity in the short term
- Consultation on terminal extension to begin in 2016 to meet appropriate service levels and cater for growth in the medium term

Airfield

- 31 aircraft runway movements during busy hour and not constrained in visual conditions
- Runway length restricts the types of aircraft and routes that can take off with commercial payloads



Quieter Homes programme

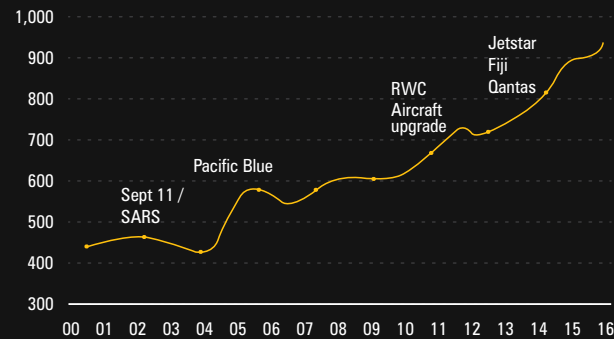
Roll out of subsidised noise insulation to 700 homeowners surrounding the airport, to protect against current and future aircraft noise

Sharing the Benefits of Efficiency Gains

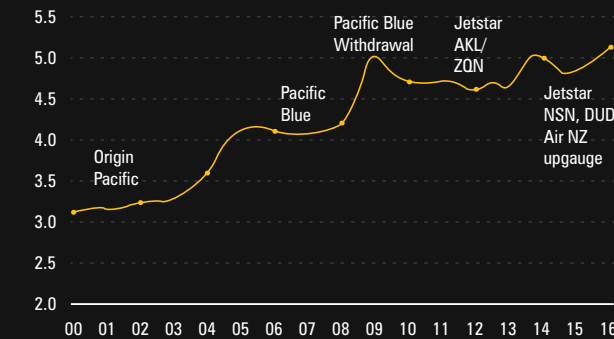
Low airport charges and operating costs deliver value for consumers

- New aeronautical pricing from 1 June 2014 reduced in airport charges per passenger
- Passenger growth is reducing charges per passenger together with a published incentive scheme for new airlines and growth in traffic
- Increased competition is resulting in reduction in airfares – e.g. airfares to Nelson
- Investing in route development with four new routes and capacity increases with existing carriers
- One of the most cost efficient major airports in Australasia resulting in the sharing of efficiency gains with consumers

International Pax Growth +15.8% in 2016



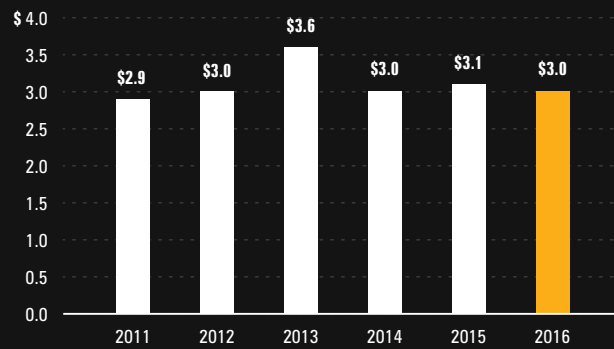
Domestic Pax Growth +4.7% in 2016



Airport Charges per Pax



Operating Costs per Pax

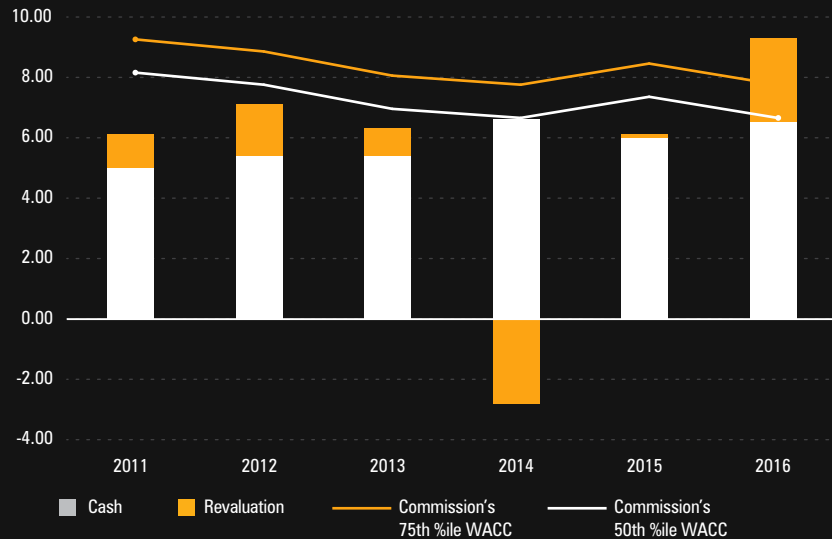


Growing the travel market – multiple new routes announced in past 2 years

Passenger growth driving efficiency gains for consumers with reduced airport charges and airfares

Cumulative Returns Below Commission's WACC Since Start of ID

Annual Returns Compared to Commission's Benchmarks (%)



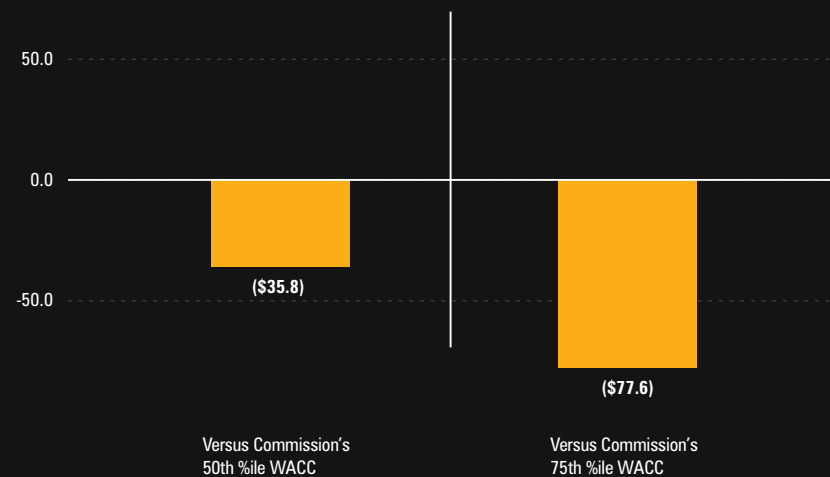
Returns Compared to the Commission's Benchmark

- Actual returns have been between 4.2% - 9.7% (5.1% - 6.9% excluding revaluations) over the six year period
- Asset revaluations (shown in orange) impact the reported return, particularly reduction in 2014 and uplift in 2016
- Year-on-year variability of returns reflects the wide range of risks inherent in the airport business

Cumulative Returns Since Start of Information Disclosure

- Wellington Airport's cumulative return since 2011 (start of ID regime) is below the Commission's WACC benchmarks
- The shortfalls have been driven by a number of factors and forecast eventualities, including a period of flat property prices in Wellington and lower than forecast revaluations
- Airports are long-term cyclical assets – best evaluated over a period of time

Cumulative Returns Since Start of ID Regime (\$m)



Balance of Risk versus Returns

- Airports are capital intensive
- Wellington Airport's average post tax cost of debt was 4.56% for 2016 year – the Commission's 75th percentile WACC of 7.69% results in thin margins after allowing for the cost of equity, project risk and impact of inflation
- Returns need to be in keeping with relevant factors such as market, regulatory and environmental risks, as well as potential volatility of cash flows, the pipeline of expected and alternative projects and investments, and project and execution risk

