

## **APPENDIX 2**

# **REVIEW OF AIRLINE PAPER ON WIAL HISTORICAL RETURNS**

## Review of Historical Returns

### 1. BARNZ Commerce Commission Submission

The BARNZ Commerce Commission submission incorporated a paper prepared by Roger N Taylor titled “Airports Historical Over Recovery Analysis”.

The analysis used data extracted from WIAL’s annual reports and is therefore an analysis of the results of all business activities conducted by WIAL. WIAL’s cumulative (under)/over recoveries for the period 1991-2000, for the total results of the company, based on the target returns specified, and as reported in the paper are shown in column one of the following table. Column two provides an update of these figures following the correction of several errors. Further explanation is provided below.

	Over/(Under) Recovery per Taylor Analysis	Comparable Over/(Under) Recovery after Corrections to Model  (see 2 and 3 below)
	\$000	\$000
WIAL target return of 10.74%	(21,703)	(29,935)
Airline return for WIAL of 7.96%	10,118	(1,111)

### 2. Review of Taylor Model

WIAL reviewed the data attached to the Commerce Commission submission paper and identified several errors contained in the data utilised to calculate the above results.

Following permission from the airlines and BARNZ, WIAL met with R Taylor and discussed WIAL’s uncertainty over the base data. Agreement has been reached over what the information in the model should be and an updated set of the data has been forwarded to R Taylor.

### 3. Update of the Model

WIAL has reproduced the model and updated the base data as per the discussion with R Taylor (see attached).

The WIAL update of the model continues to use R Taylor’s assumptions for WIAL’s WACC, from the airlines and WIAL’s perspective, in order to preserve the comparability of the results with the BARNZ presentation. The appropriateness of these assumptions will not be disputed in the context of this analysis.

The WIAL update includes two enhancements to the model prepared by R Taylor:

- Data has been added for the 2001 and 2002 years. The 2001 data reflects the actual financial result for the year whereas the 2002 financial result is a forecast for illustrative purposes.

- The model has been duplicated to show the result for the aeronautical business only.

**4. The Outcomes**

The outcomes of the model to and including the year ended 31 March 2002 include amounts for 2001 and 2002 as follows:

- Audited 2001 results for the total company result.
- Unaudited 2001 results for the aeronautical returns.
- Forecast result for 2002. Note that the 2002 aeronautical forecast has been assumed to be equal to 2001, excluding the change in revaluation.

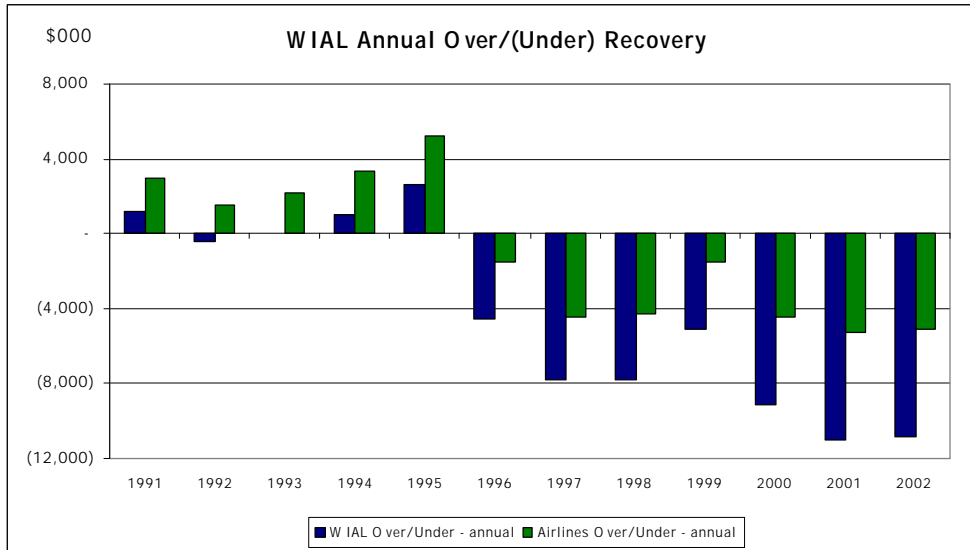
The cumulative results are:

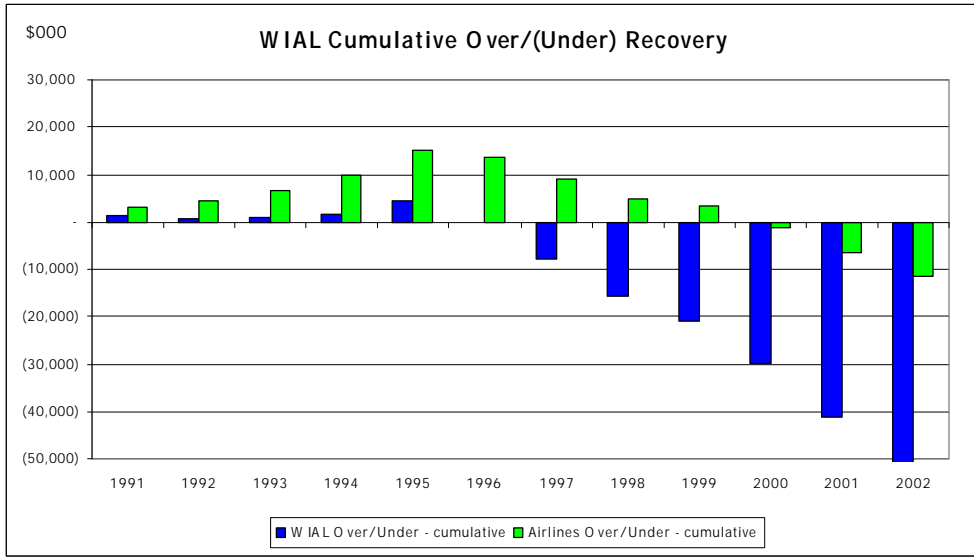
**WIAL Cumulative Over/(Under) Return 1991-2002**

	Since Corporatisation		Period of Deed	
	WIAL Target WACC	Airline Target WACC	WIAL Target WACC	Airline Target WACC
	\$'000	\$'000	\$'000	\$'000
Total WIAL result	(51,779)	(11,448)	(43,848)	(20,545)
Aeronautical business only	(36,166)	(5,384)	(42,613)	(25,468)

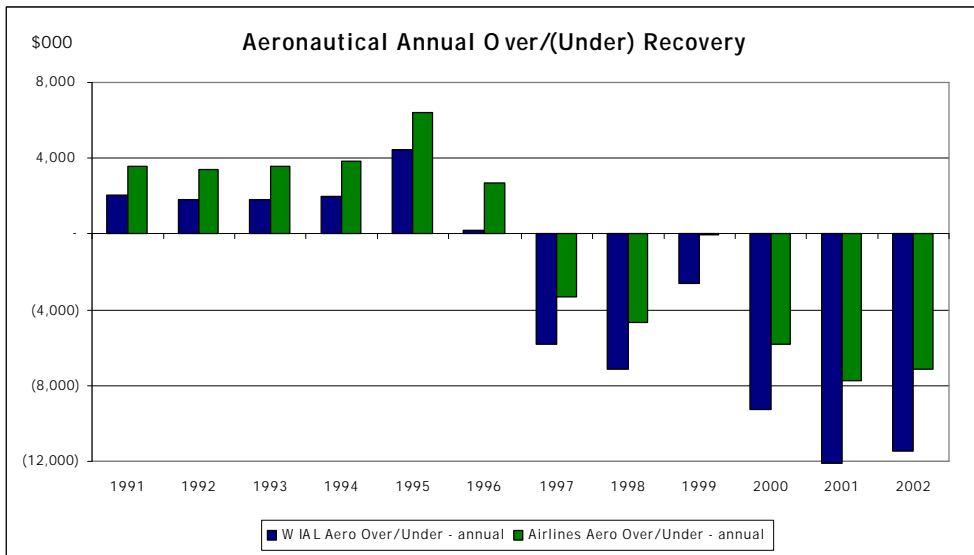
The aggregation of these results can be seen in the following graphs:

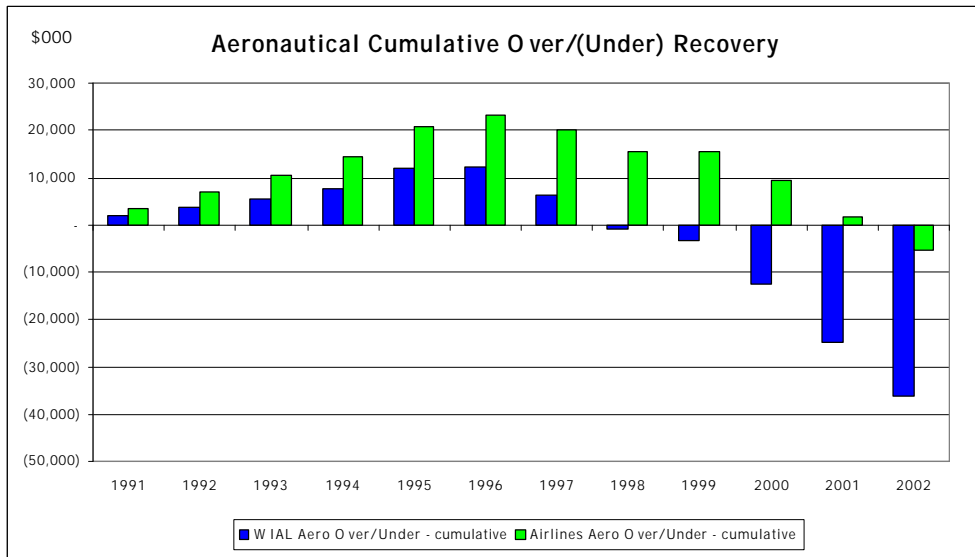
**FOR WIAL**





## AERONAUTICAL ONLY





## 5. Conclusion

WIAL is making significant under recoveries during the period of the existing Deed based on any assessment of a reasonable WACC scenario.