



WHAKATANE AIRPORT

PRELIMINARY PASSENGER FORECAST RESULTS

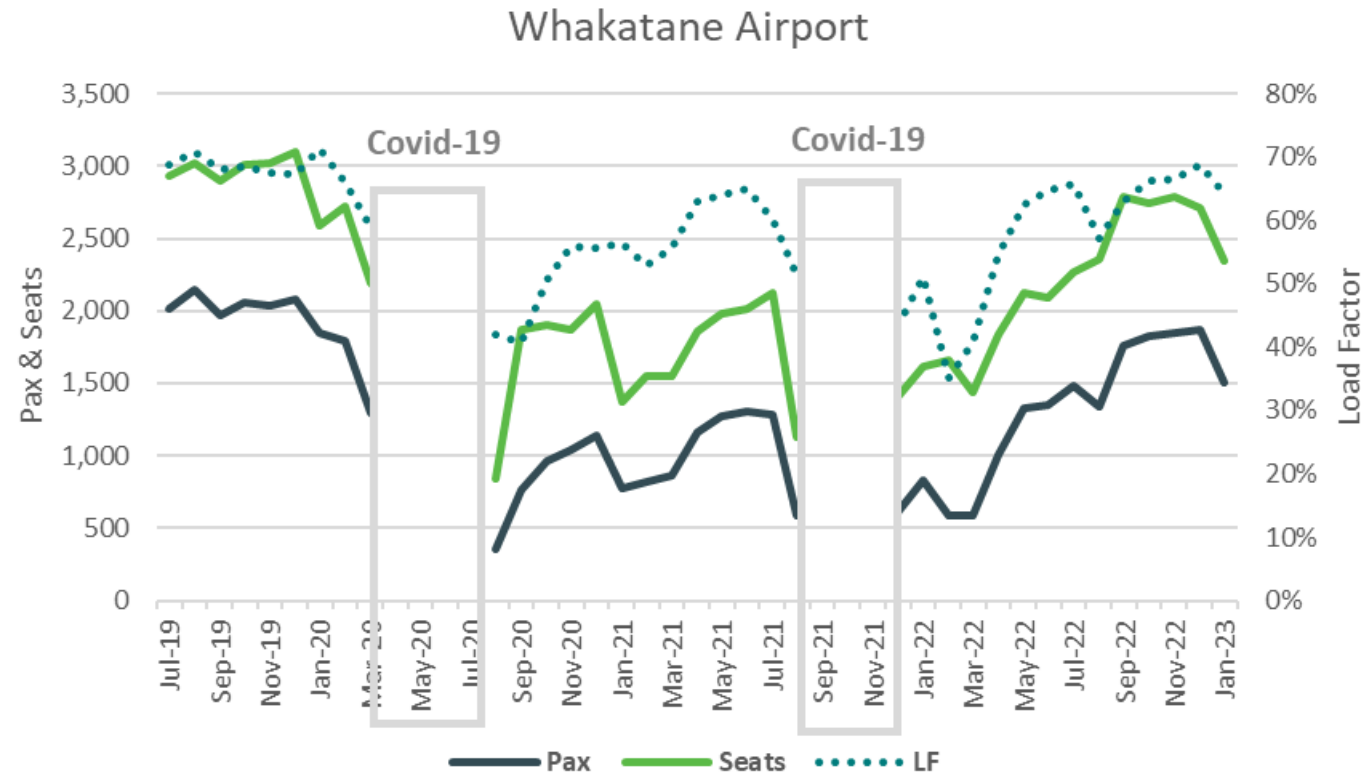
APRIL 2023

EXECUTIVE SUMMARY

- Whakatane Airport has recovered well from Covid-19, achieving 89% pre-Covid capacity levels by December 2022. However, its airline seat capacity share within the region (vs Tauranga and Rotorua Airports) has dropped from 10% to 8%.
- Current performance of the Air Chathams service is on par with other similar-sized routes operating at Christchurch Airport.
- It is noted that Whakatane's population and general economic growth (GDP, annual earnings, home price) lags its neighbouring districts, and is ageing. These are drivers of a region's propensity to fly.
- A fare structure analysis of Air Chathams' Whakatane-Auckland route indicates that this is a price-sensitive VFR route. It is also likely some Whakatane air traffic is leaking to services from Tauranga and Rotorua Airports, although this information is difficult to obtain.
- The potential of a Whakatane-Wellington route by Sounds Air was evaluated, and considered not unviable with the current market size.
- In the base case scenario, the forecast takes Whakatane's passenger movements from 15,800 (2022) to 31,300 (2033).
- A High Forecast, reaching 40,000 passenger movements a year in 2033 is possible if one of the scenarios are met, which is dependent upon Air Chathams' ability to code share with Air New Zealand. Alternatively a higher air traffic growth trend due to lifestyle change would also produce this high rate of passenger growth.
- There is potential for Whakatane Airport to be chosen by Air New Zealand as a route for electric plane, however the chance of this happening is moderate, base on current speculation.

WHAKATANE PASSENGER NUMBERS

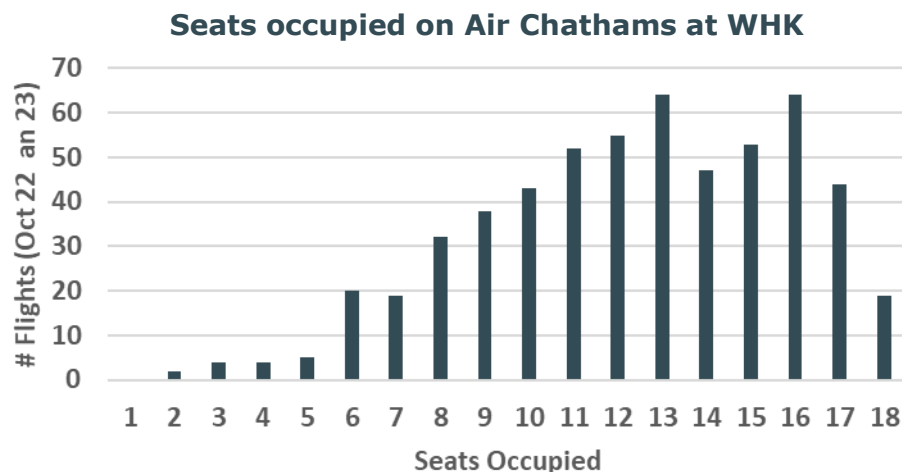
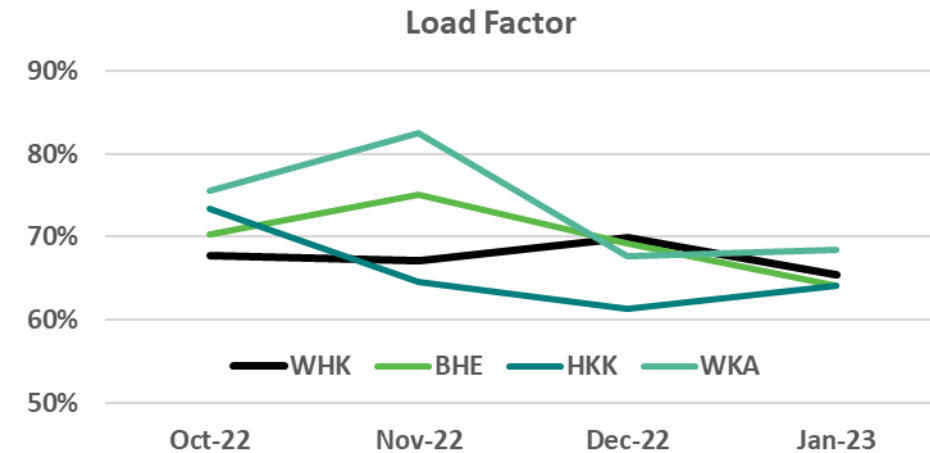
RECOVERY WELL UNDER WAY AFTER COVID-19



- Historical monthly passenger and aircraft movement numbers from Jul 2019 were provided by Whakatane Airport
- Capacity available on the WHK-AKL route was severely impacted during Covid-19
- However, the route recovered well in 2022, reaching 89% in Dec vs Dec 2019

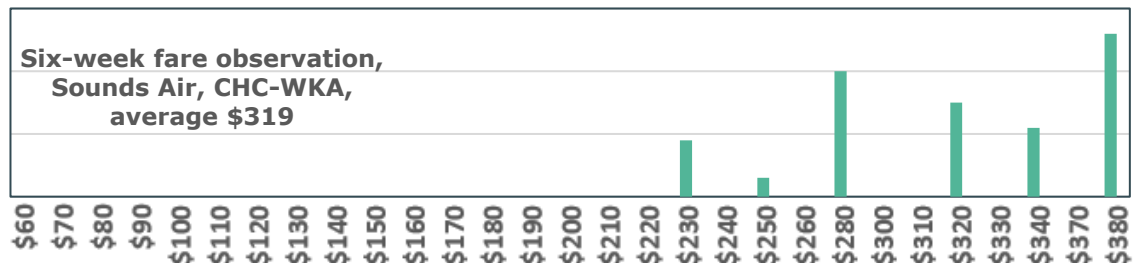
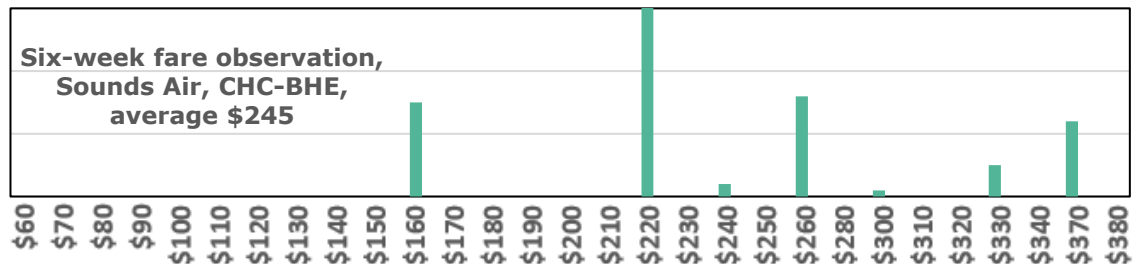
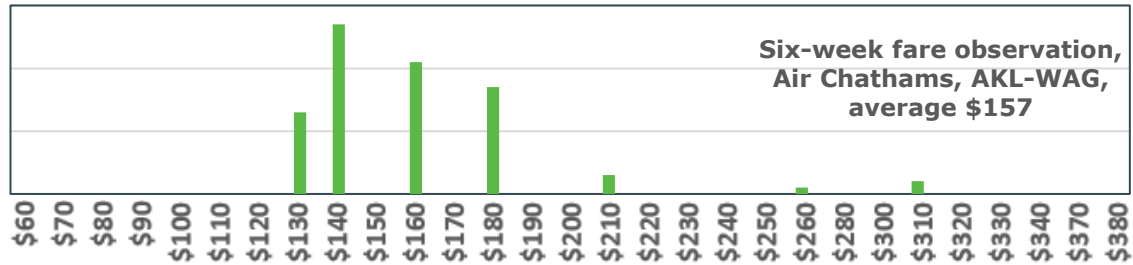
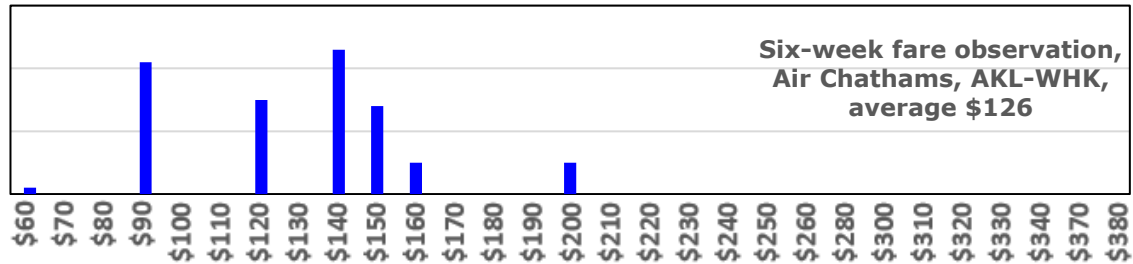
WHAKATANE FLIGHT PERFORMANCE

LOADS ON WHK-AKL



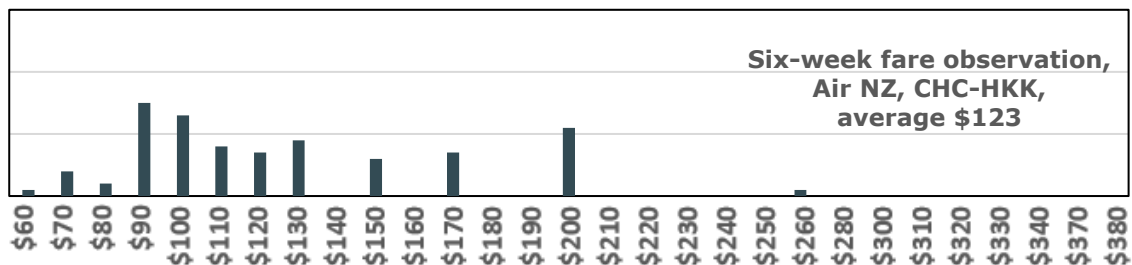
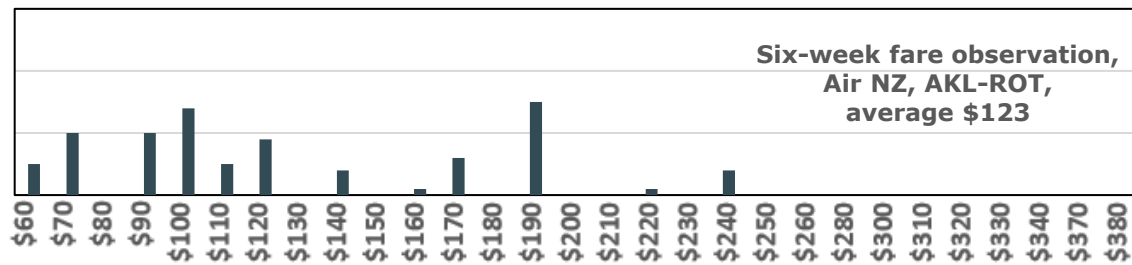
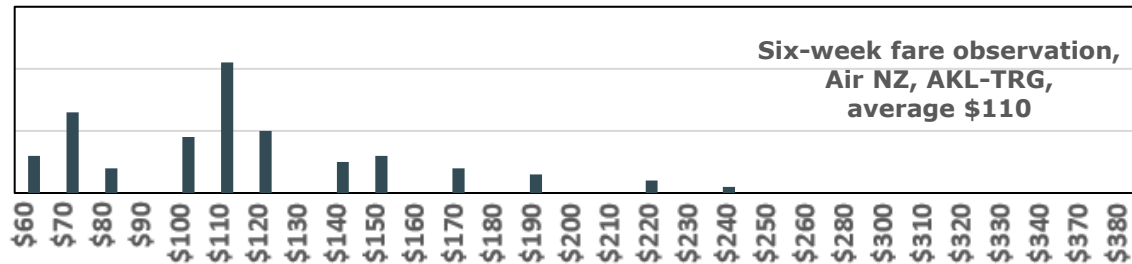
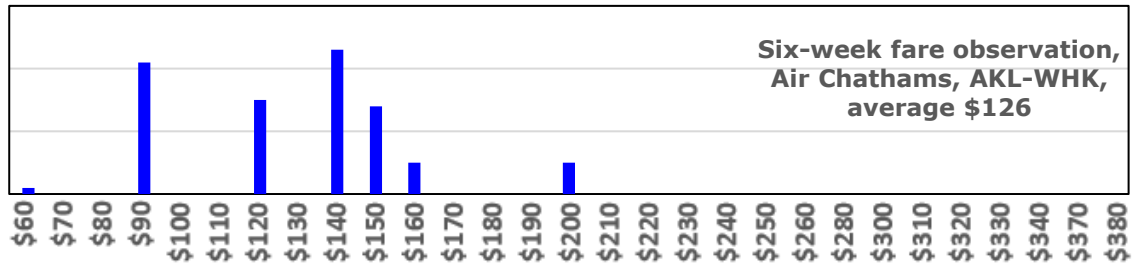
- Examining the performance of the Air Chathams (3C) services shows how demographics translates to air market characteristics.
- Load factor data on file since Covid-19 travel restrictions relaxed (top right) shows an average of 68% on WHK-AKL services, similar to other comparable routes at CHC such as HKK (66%), BHE (70%), & WKA (73%).
- This means that the average 3C flight at WHK has 4 or 5 empty seats. The distribution of pax loads (bottom left) shows a typical right-skew normal distribution, suggesting a relatively mature market with capacity relatively well matched to demand. There doesn't seem to be any noteworthy patterns around directionality or day-of-week.

WHK-AKL FARE COMPARISON



- Fares were captured across six weeks to departure, for travel during 29 March to 9 May 2023. The carrier, route, and average price are displayed on the graphs on the left.
- 87% of all fares offered by 3C on WHK are within a \$60 range across just four price points between \$89 and \$148. WAG-AKL is priced even tighter, with 93% of fares within a \$50 range between \$130 and \$180. Meanwhile, Sounds Air (S8) fares are very high to target passengers with a high willingness to pay.
- This suggests the WHK market by comparison largely comprises price-sensitive VFR demand that cannot be stimulated and therefore 3C's revenue management system will not upsell on peak flights. As a result, it may be difficult for 3C to grow the WHK route rapidly in a profitable manner.

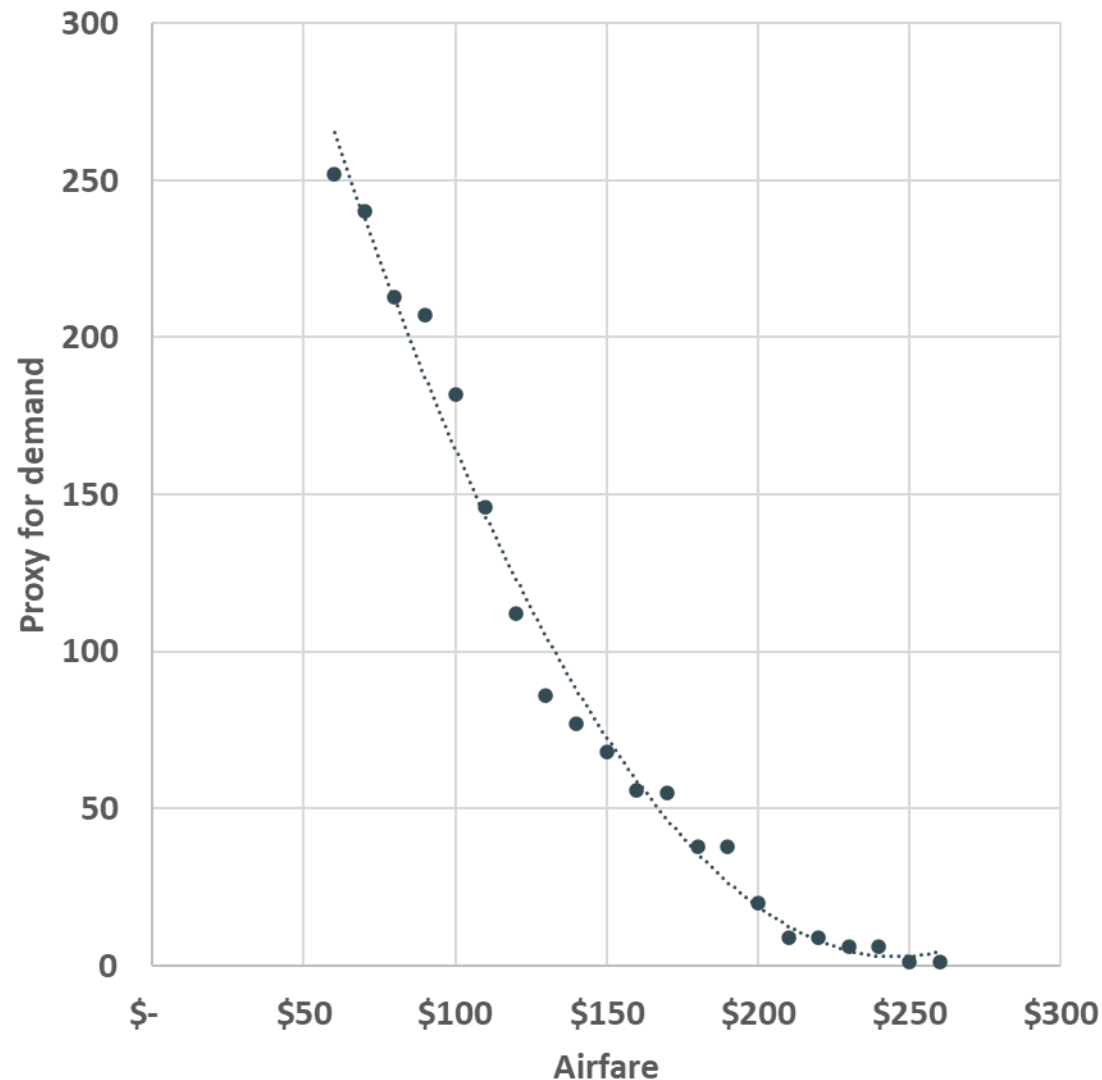
WHK-AKL FARE COMPARISON



- Fares were captured across six weeks to departure, for travel during 29 March to 9 May 2023. The carrier, route, and average price are displayed on the graphs on the left.
- By comparison, Air New Zealand (NZ) typically provide more granularity, by spreading out prices to stimulate demand and target weaker flights around \$70, and upselling stronger flights to maximise revenue.
- When considering northbound passengers from WHK, any potential savings by flying Air NZ out of TRG/ROT need to be balanced against driving and parking costs. Southbound passengers especially time-sensitive corporates requiring a rental car may be more likely to use TRG/ROT as access points to WHK.

WHK-AKL PRICING PROXY

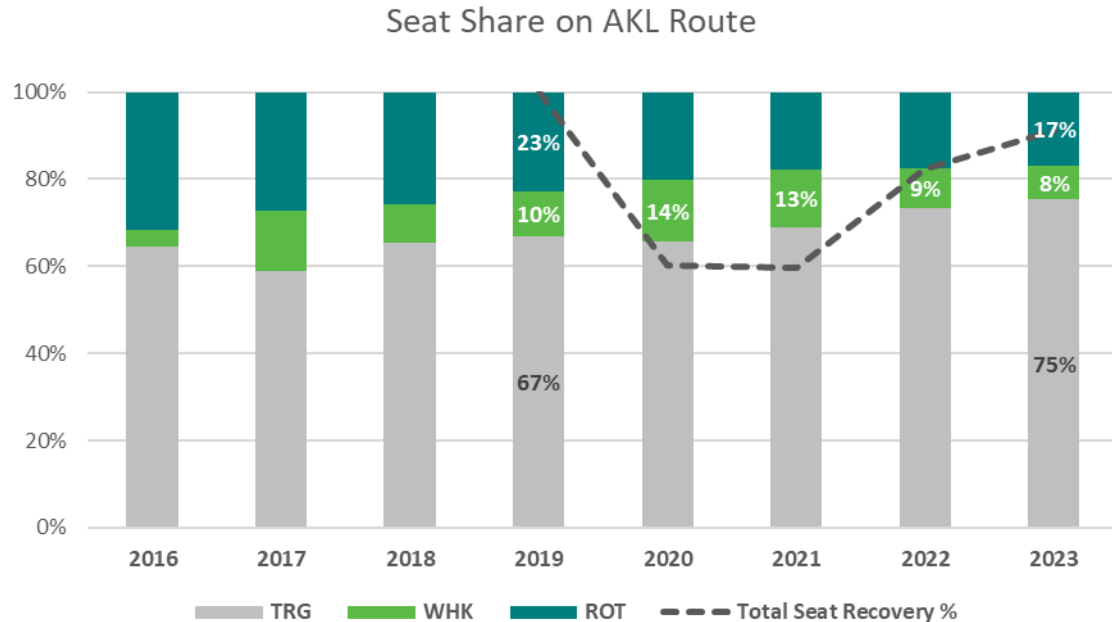
ECONOMETRIC ANALYSIS



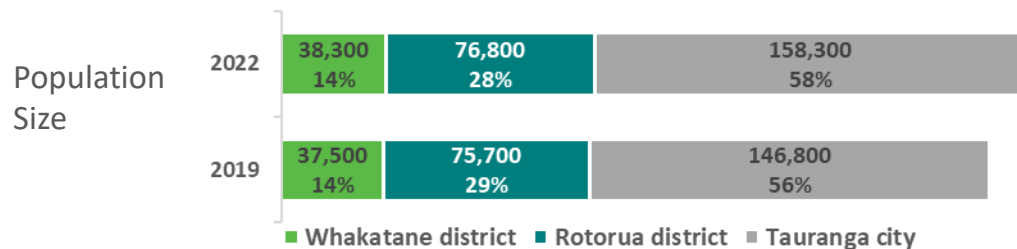
- Given the similar performance but increased pricing granularity of NZ services, we can group TRG/ROT/HKK and treat them as a proxy for 3C's WHK-AKL. Note that this analysis remains an approximation without more precise airline-level revenue management statistics.
- Fitting a polynomial curve to the demand profile shows slope inflection at exactly \$180. Below \$180, demand is price elastic and grows faster as fares drop, increasing revenue and loads. Above \$180, demand is price inelastic and drops slower as fares rise, increasing revenue and decreasing loads. However, there is little demand at/above \$180.
- This serves to reinforce the idea that WHK-AKL is a price-sensitive VFR route with limited latent demand.
- By contrast, the S8 routes shown on the previous page would expect to see considerable growth if fares were lowered since they consistently price above \$180.

BAY OF PLENTY CAPACITY SHARE

WHAKATANE'S CAPACITY SHARE DROPPED FROM 10% TO 8%



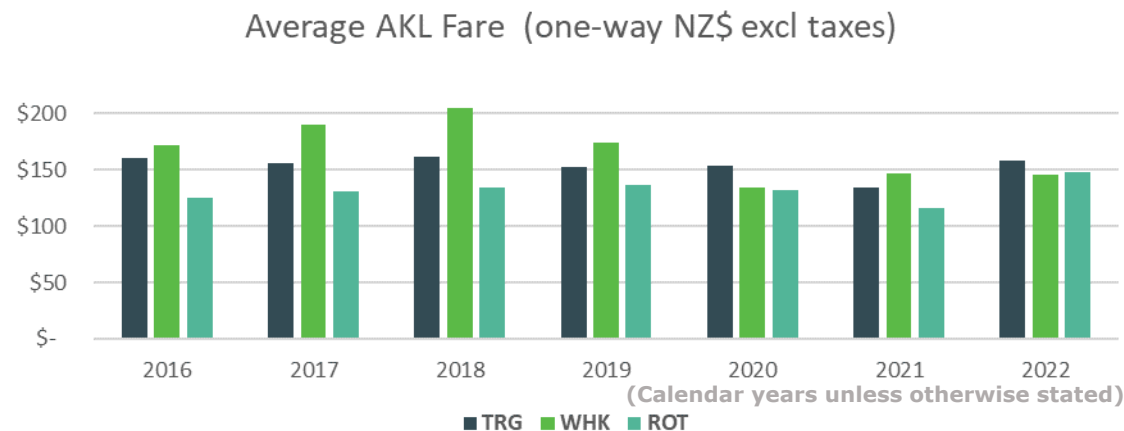
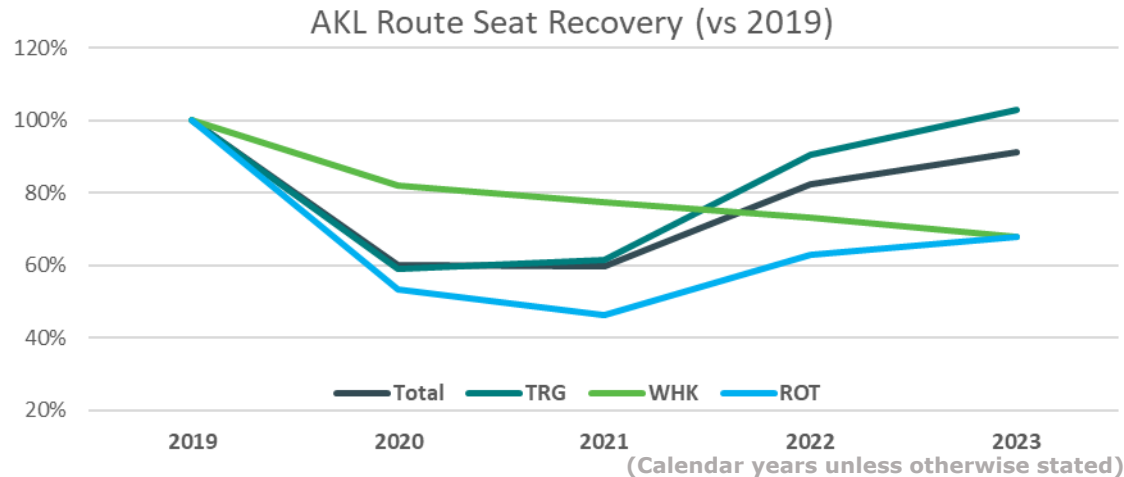
Note: 2023 data is from IATA PaxIS schedule information, subject to change by the carrier



- Whakatane gets its share of capacity to Auckland based upon it having a lower share of business and tourism traffic compared to Tauranga and Rotorua. Seat figures were obtained from airline schedule reporting service *OAG* via *IATA Airport IS*.
- Tauranga and Rotorua airports are both an hour's drive from Whakatane airport, so WHK traffic can leak to TRG and ROT when fares are cheaper, and schedules are more comprehensive.
- This is especially so for traffic that is transiting in AKL to elsewhere domestic or international especially on the NZ network.
- Examining capacity at these two neighboring airports provides a view to capacity in the Bay of Plenty region.

WHAKATANE CAPACITY RECOVERY

LAGS TAURANGA BUT AT THE SAME LEVEL AS ROTORUA

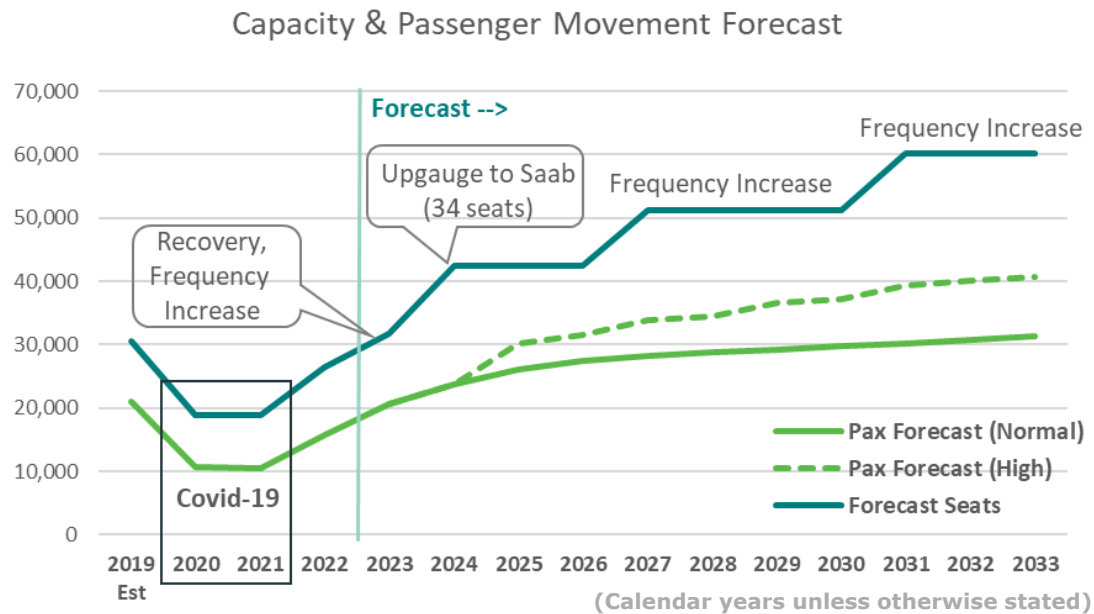


- Recovery performance for the entire year of 2023 can be calculated based on the public schedules that airlines have filed for sale for the remainder of the year.
- Based on this WHK would be at 68% of its pre-Covid capacity. Recovery currently sits at 89% in Dec 2022.
- ROT is in similar situation as its recovery depends on tourism recovery
- WHK fares to AKL were above TRG and ROT pre-Covid. However, its fares have now been brought in line with its neighbouring airports. The Air Chathams' offering is now more attractive.

PAX FORECAST

PAX FORECAST TO GROW FROM 15,800 (2022) TO 31,300 (2033)

(Calendar years unless otherwise stated)



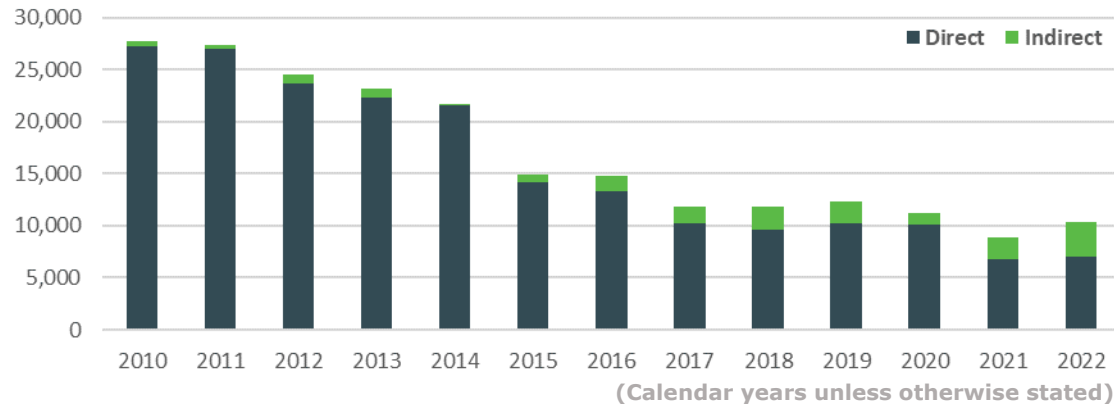
- Air Chathams indicated it has plans to up-gauge the current Metroliner to Saab (34 seats) at the end of 2023. This increases capacity per flight by 88%. Because of the larger gauge (increased aircraft seat count), it is assumed that frequency (number of flights) is initially reduced on low-traffic days to ensure that the additional capacity can be digested by the market, and then slowly increased back as demand grows.
- The initial stimulation of the aircraft up gauge will create a one-off increase in demand, assumed to be 15% pa, as more seats are made available at lower price points to satisfy latent demand (indicated by Air Chathams), and then revert to growing at a lower long-term growth rate.
- Without major structural change in population and industry mix, WHK's long-term traffic growth is assumed to be at 1.7% pa (New Zealand 2.5%, Tauranga 2.0%).
- In the High forecast, greater passenger numbers are based on either of the following assumptions:
 - The low probability that Air Chathams' schedule being able to connect to NZ's schedule and have a code share with NZ, or more likely;
 - Long-term air traffic grow at higher rates due to lifestyle changes, given in the Ministry of Transport's Transport Outlook: Future State* scenarios

* <https://www.transport.govt.nz/assets/Uploads/Report/TransportOutlookFutureState.pdf>

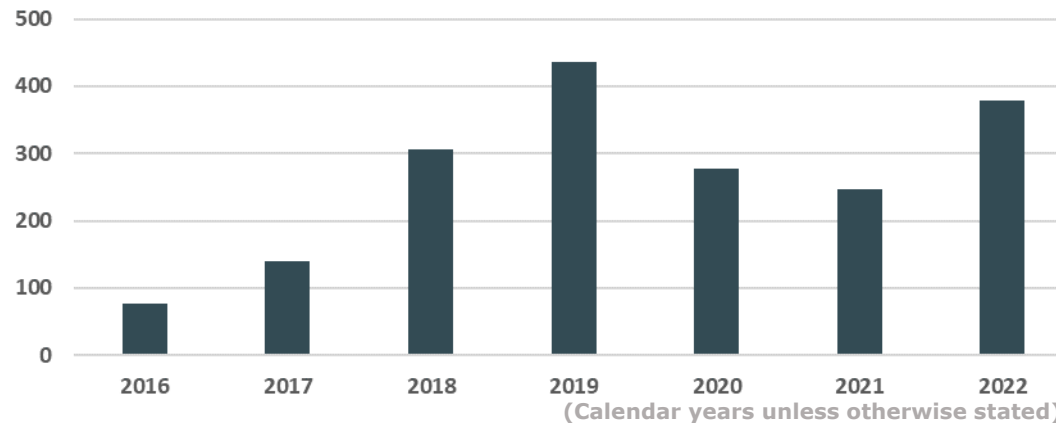
EVALUATION OF A POTENTIAL WELLINGTON ROUTE

SOUNDS AIR'S TAUPO – WELLINGTON ROUTE AS REFERENCE

TUO-WLG OD Traffic (two-way)



WHK - WLG OD Traffic (two-way)



- Taupo is used as reference as it has a similar population size as Whakatane (TUO 41.4k, WHK 38.3k in 2022)
- TUO-WLG was served by NZ prior to 2015. After 2015 when NZ retired its Beech fleet, Sounds Air served the route with a 9-seater PC12 aircraft. Total capacity of the route has also reduced.
- Without a direct route, it is reasonable to believe WHK's WLG traffic is being leaked to TRG and ROT, and thus is not quantifiable.
- Data captured by aviation industry booking aggregator service *IATA Airport IS* shows that the existing WHK-WLG traffic via AKL is small, ie. about 400 annually, though 3C cannot offer WLG tickets on its services
- At the current quantifiable traffic level to WLG, WHK could not yet sustain a direct route, even from Sounds Air's 9-seat aircraft. In addition, being Blenheim-based would represent operational challenges for the relatively small carrier, and similar constraints would apply for Originair and their Nelson base.

THE POTENTIAL FOR AN ELECTRIC PLANE

- While Air New Zealand has plan to deploy electric planes on suitable routes in the foreseeable future, and plane technology development suggests that it might start to do so with smaller routes, which the Whakatane–Auckland route is a good candidate. The following are factors affecting how quickly and whether Whakatane Airport could be a route operated by electric plane by NZ, based upon discussions and feedback.
 - How quickly the technology of an electric plane can evolve for production, and how quickly Air New Zealand gets its electric planes delivered.
 - How quickly New Zealand approves an electric plane model for civil aviation use and establish the corresponding requirements for crew as well as all other relating air traffic services.
 - Charging infrastructure at the other end of the route – whether Auckland airport could provide this in the near future as it is heavily tied up in resources for its terminal expansion.
 - Anti-competitiveness - Air New Zealand cannot be seen as predatory in launching routes that challenge the survival of another smaller airline.

RISKS

CIAL'S VIEW ON RISKS AFFECTING COMMERCIAL OPERATIONS AT WHK

- WHK is exposed to one customer; Air Chathams. And one aircraft type from October; the Saab 340.
- There is a very high likelihood that 3C will complete their purchase of a newer airframe to almost exclusively resource the WHK-AKL route.
- We can fulfil our projections according to the performance of one route operated by one airline with one aircraft type
- Demand needs to build up on the existing AKL service first before we can consider trying to diversify our network
- We need to actively stimulate our market to fill the new capacity; something 3C would like our participation with
- Fortunately the operating costs of the larger aircraft are not much more than the Metro, but can generate considerably more revenues for Air Chathams.
- Ideally, 3C would strike an interline deal with NZ to open up more network to our feeder flight (ie. corresponds to the High forecast scenario). However, the probability of this is seen as low.
- This lack of interline depresses the potential for more network opportunities from WHK.
- For 3C to expand, they need more network opportunities within NZ – there is a ceiling on their potential growth trajectory beyond the ten year horizon.

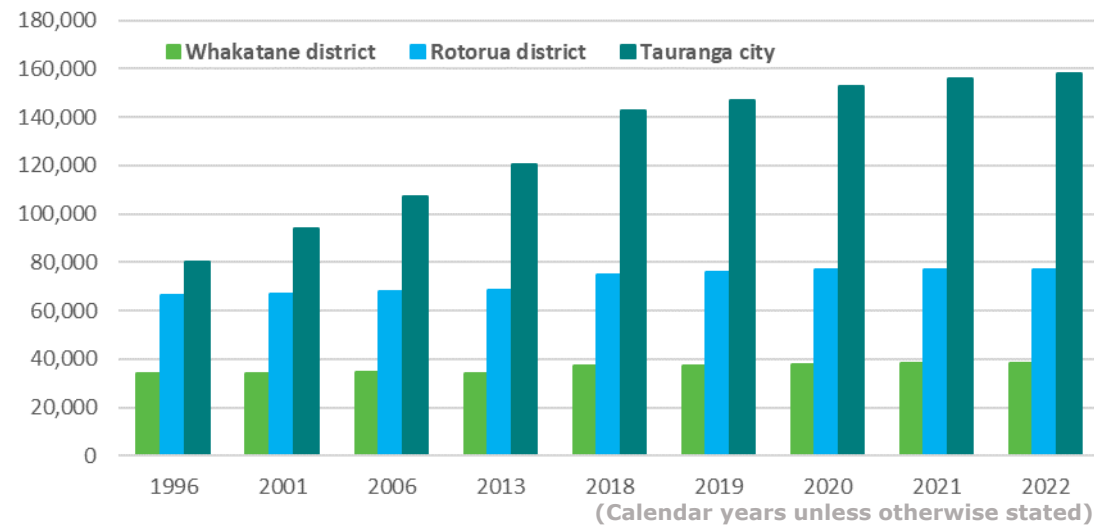
APPENDIX



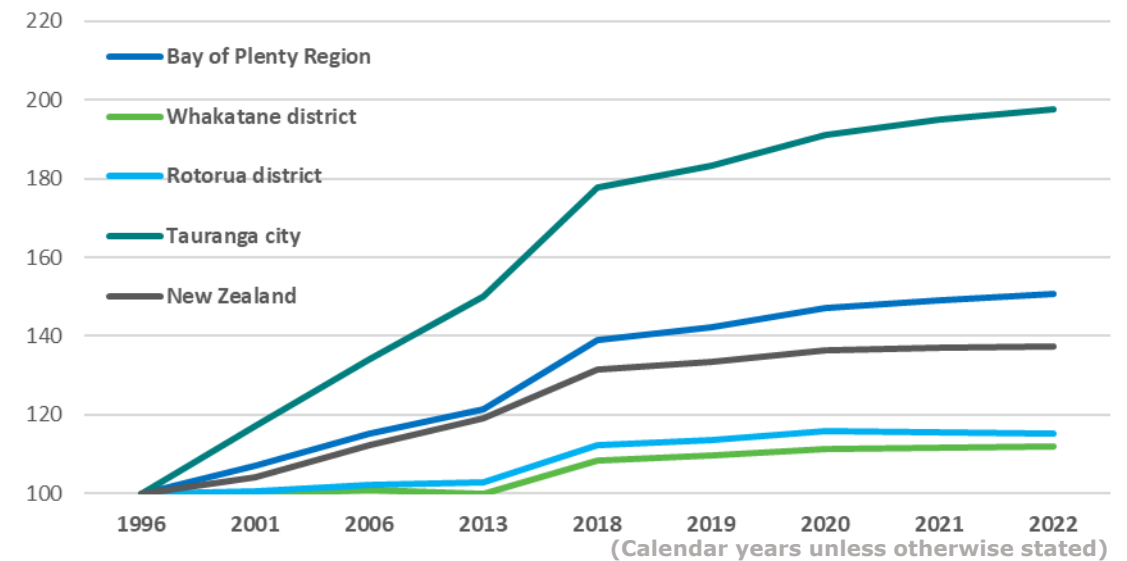
WHAKATANE ECONOMIC AND POPULATION PROFILE

POPULATION

Total Population



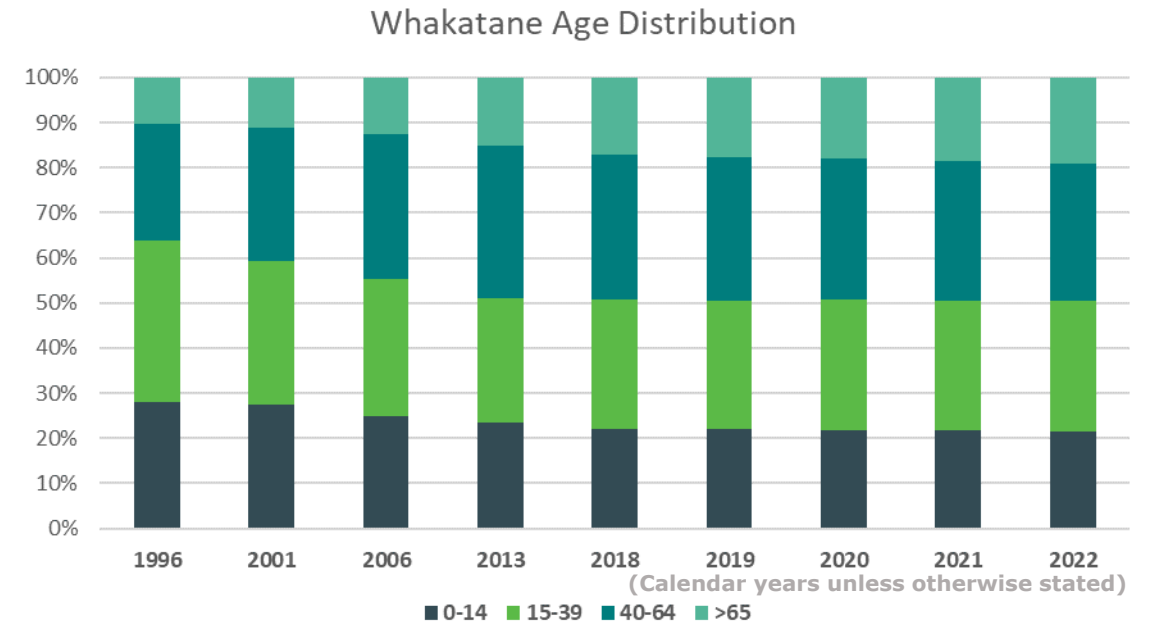
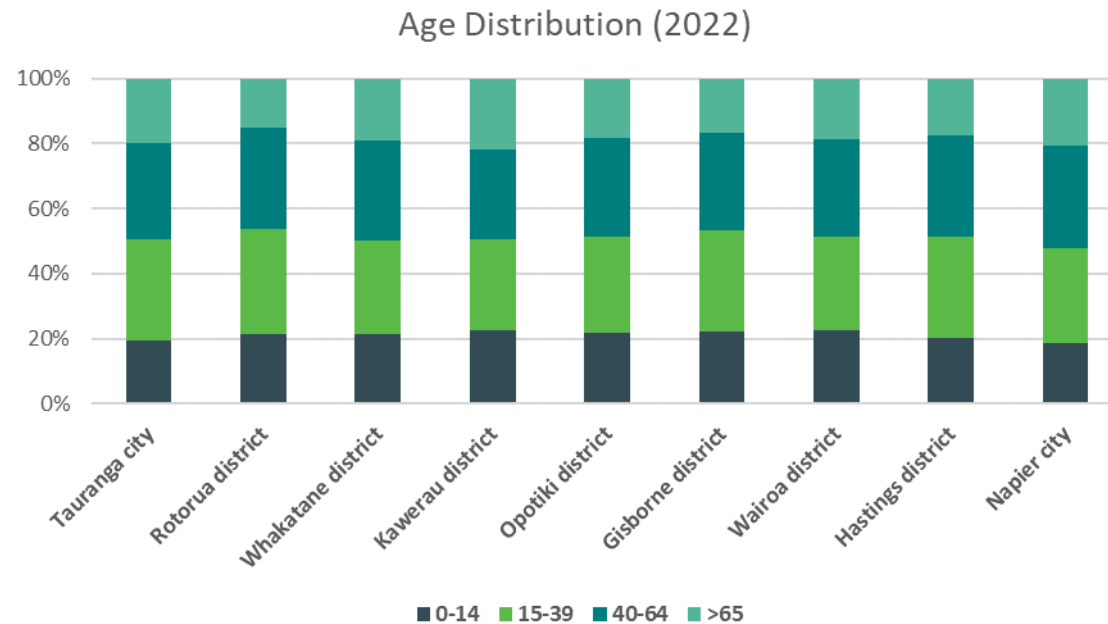
Indexed Population



- Whakatane population growth lags behind those in the region

WHAKATANE ECONOMIC AND POPULATION PROFILE

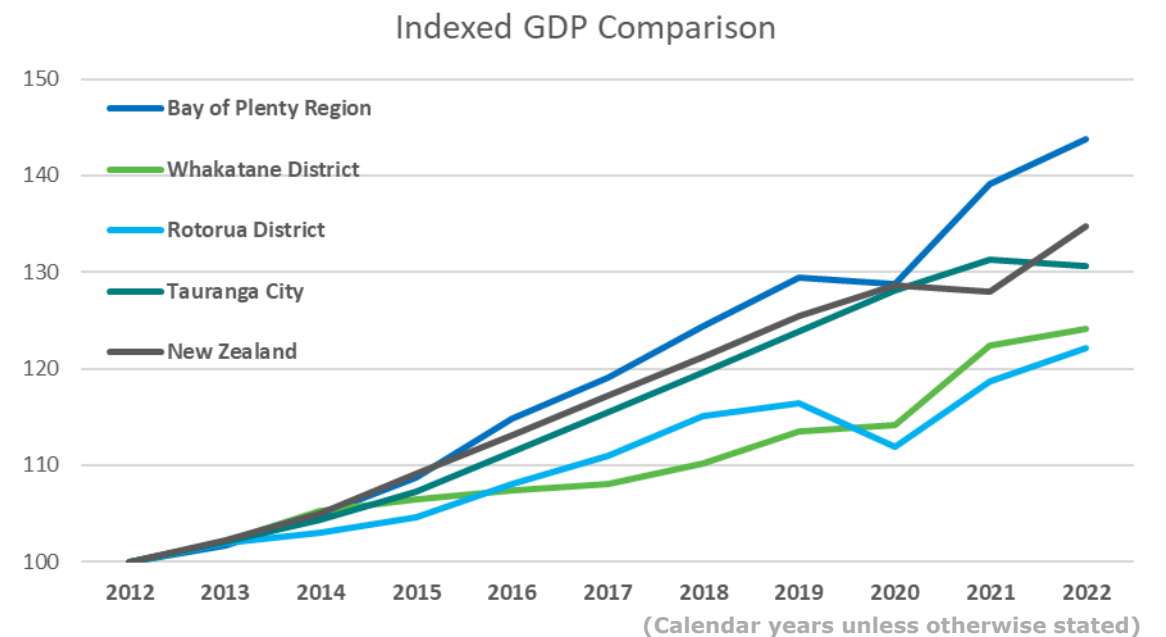
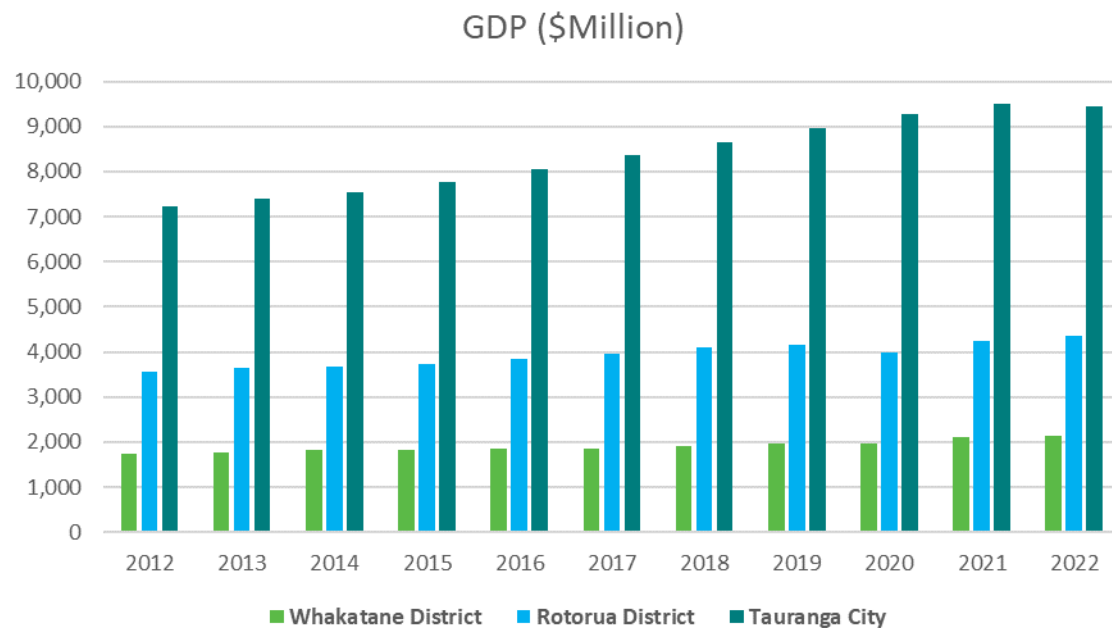
POPULATION



- The proportion of people above 65 years old in Whakatane has increased significantly
- However, the age distribution at Whakatane is similar to those in its neighboring regions

WHAKATANE ECONOMIC AND POPULATION PROFILE

GROSS DOMESTIC PRODUCT

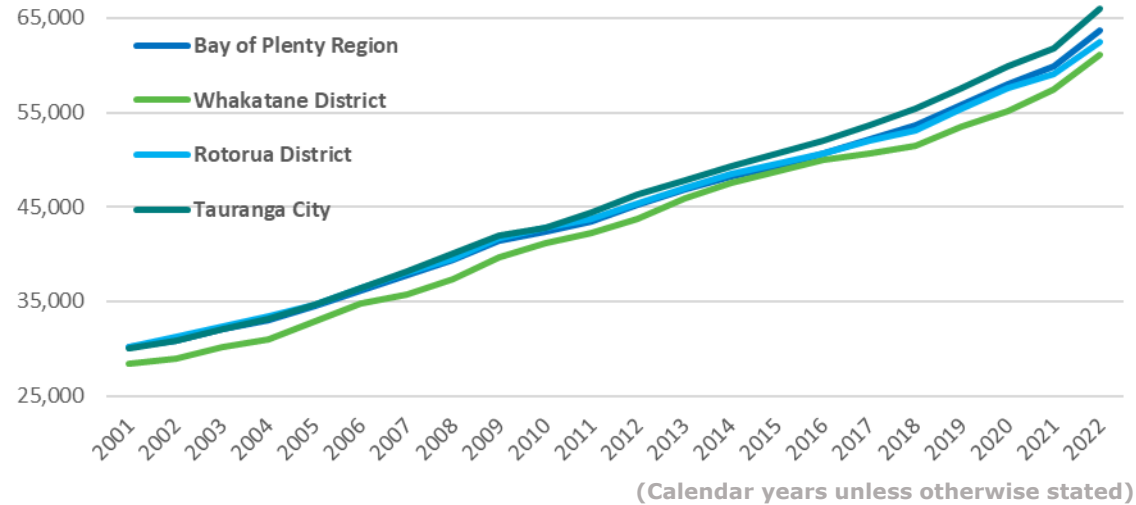


- Whakatane's GDP growth lags behind New Zealand average growth, and those of Tauranga, but is slightly above those in Rotorua.

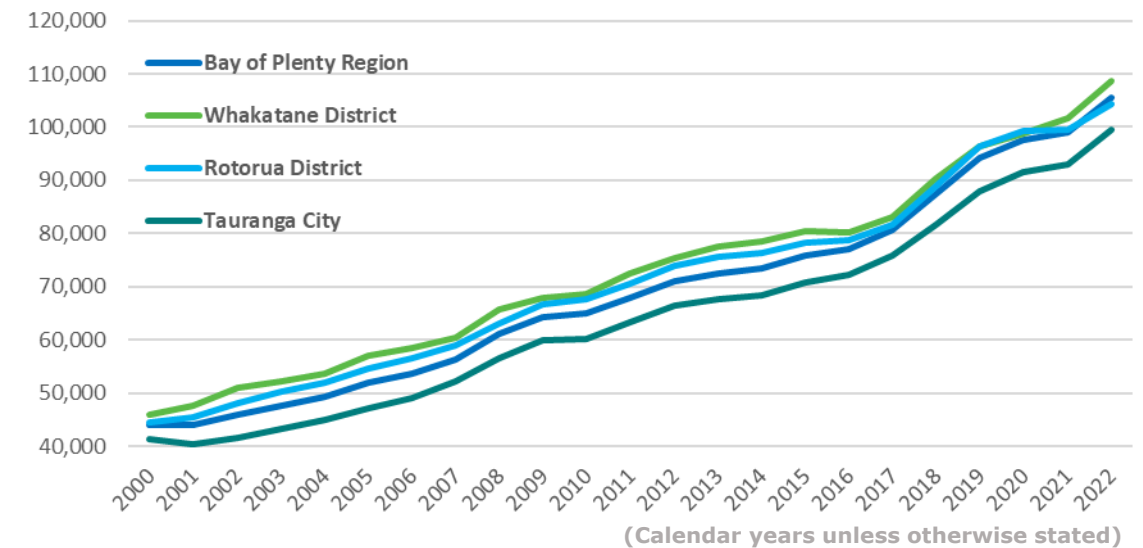
WHAKATANE ECONOMIC AND POPULATION PROFILE

EARNINGS AND INCOME

Mean Annual Earnings (\$)



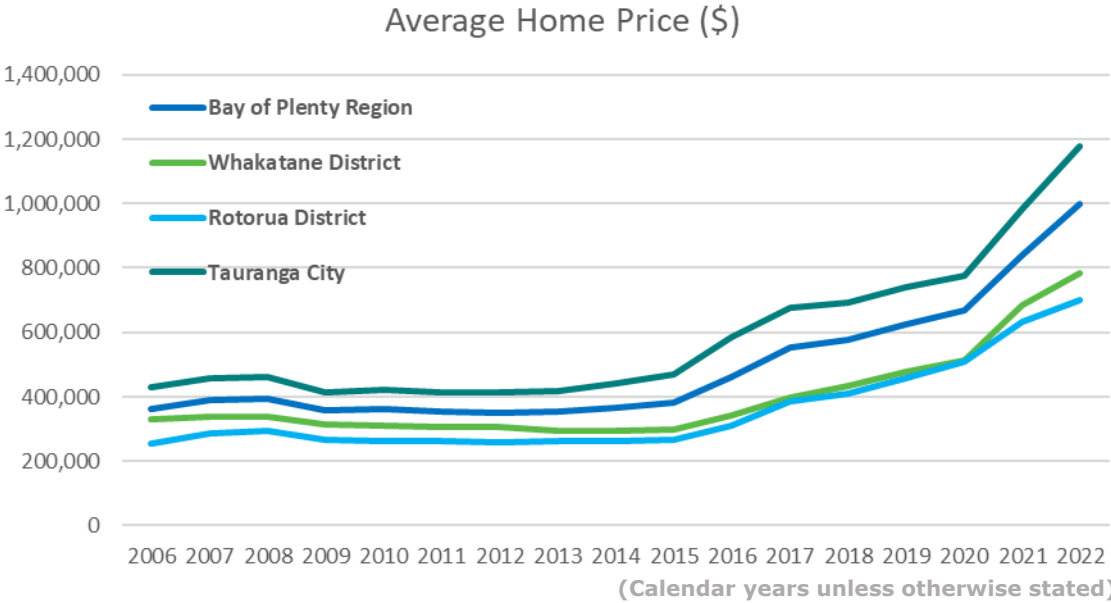
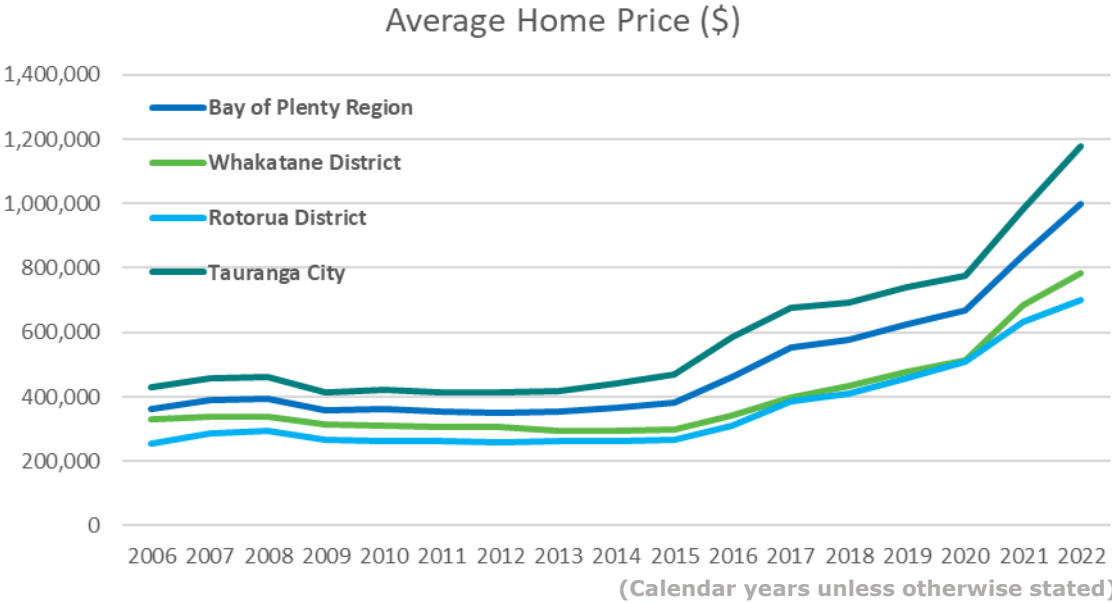
Mean Household Income (\$)



- Whakatane has the slowest growth in earnings, but the highest growth in household income
- The difference might be due to income types other than earnings that retirees receive

WHAKATANE ECONOMIC AND POPULATION PROFILE

AVERAGE HOUSE PRICE



GLOSSARY OF TERMS

Air Chathams	3C
Air New Zealand	NZ
Auckland Airport	AKL
Blenheim Airport	BHE
Christchurch Airport	CHC
Gross Domestic Product	GDP
Hokitika Airport	HKK
Rotorua Airport	ROT
Sounds Air	S8
Taupo Airport	TUO
Tauranga Airport	TRG
Visiting Friends & Relatives	VFR
Wanaka Airport	WKA
Wellington Airport	WLG
Whakatane Airport	WHK
Whanganui Airport	WAG

AIRPORT/ROUTE COMPARISONS

Route	Rationale	Scheduled seats				
		2018	2019	2020	2021	2022
TRG-AKL	TRG and ROT are both a one hour drive from WHK. These two routes are operated by Air NZ and are relevant because they are very similar to WHK-AKL, from flight distance to location within the Bay of Plenty. TRG is much larger while ROT has a higher leisure component. When the two are combined, the data can act as a proxy for WHK. The increased number of price points offered by Air NZ compared to Air Chathams on these routes allows for more detailed econometric analysis.	291,632	329,332	194,844	202,292	298,044
ROT-AKL		114,336	112,672	59,936	52,092	71,000
HKK-CHC	Accurate load factors are difficult to source; this is the closest comparison route operated by Air NZ with data available for benchmarking purposes. The additional price points also help to create a more robust econometric analysis proxy for WHK.	66,000	65,800	43,900	62,400	67,100
WKA-CHC	Since Air NZ operations have a much higher seat count than Air Chathams, it's important to look at routes operated by smaller gauges too, such as Sounds Air's PC-12 aircraft. These are the only two such routes with accurate load factor data available for benchmarking purposes.	-	-	1,548	11,142	10,512
BHE-CHC		14,076	16,092	16,146	17,712	18,522
TUO-WLG	With none of the above routes operated from WLG, TUO provides the best comparison to evaluate a potential WLG service at WHK. Population sizes and locations are similar, and the route has an appropriate seat count, being operated by Sounds Air.	12,294	14,076	14,922	12,114	9,270
WAG-AKL	This is the most similar route to WHK-AKL on Air Chathams' network in terms of distance and demand, and provides a sense check to see if performance on WHK is an outlier or not.	68,814	74,774	83,685	66,096	68,668

Covid-19