



AIRPORT INSIGHTS

QIC GLOBAL INFRASTRUCTURE

APRIL 2019



QIC



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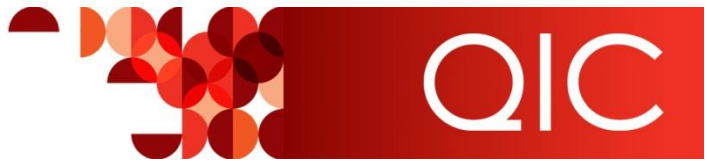
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SUMMARY

The strong growth fundamentals and diversified business models of quality airports can provide attractive, robust and uncorrelated returns for infrastructure portfolios.

In Europe, a number of key trends have made the aviation market highly attractive, particularly for strategic airports with unutilised capacity:

- Over 1 billion people currently travel by air in the European market each year.
- Significant growth in low cost carriers (9.5% CAGR since 2004) continues to add additional capacity in the European market, making air travel more affordable.
- Long-term demand growth is supported by burgeoning African demand and continued growth in Asian and Middle Eastern markets. For Africa, both permanent migration and tourist travel to Europe will be supported by a near doubling of the African population by 2040.
- Robust volume growth is coming face to face with significant capacity constraints across the European market. Eurocontrol forecasts a capacity gap of 1.5m flights (8% of total demand) p.a. in Europe by 2040. This provides strong opportunity for strategic airports with unutilised capacity.

Non-aeronautical revenue streams continue to be valuable. Management supported by long-term experienced investors are focussing greater efforts on how best to optimise an airport's footprint. Where possible, airports of the future are likely to include the development of an aerotropolis, which focuses on servicing transport-focussed or transport dependent businesses, hotels and office buildings.

When considering an airport investment, it is important to remember that no two airports are the same. Understanding an airport's specific value drivers and exposures to various regional, macroeconomic and regulatory factors is critical. So too is identifying the various business plan levers available to drive long-term value creation and outperformance. Due to the broad range of value levers, airports can benefit substantially from active management by experienced asset managers working with an aligned and experienced management team.

QIC's recent investment in Brussels Airport provides our clients with a highly strategic asset which has displayed resilience through market cycles, while providing important geographic and sector diversification. With its significant airfield capacity (less than 50% utilised), strong demographic outlook and 1,245ha of freehold land within 10km of the Brussels CBD, Brussels Airport is well positioned to benefit from the key trends in European aviation.

UPDATE (OCTOBER 2019): HOBART AIRPORT

In October 2019, QIC on behalf of the QIC Global Infrastructure Fund ("QGIF") in a 50/50 consortium with Royal Schiphol Group, agreed to acquire a 70% equity interest in Hobart International Airport ("HIA"). This investment represents a rare acquisition of a majority interest in a high quality, core infrastructure asset with significant opportunity to drive value and growth through more active asset management. HIA is Australia's fastest growing airport, with historic 5-year passenger growth of 5.1%, more than triple the average Australian domestic traffic growth rate of 1.6% over this period.

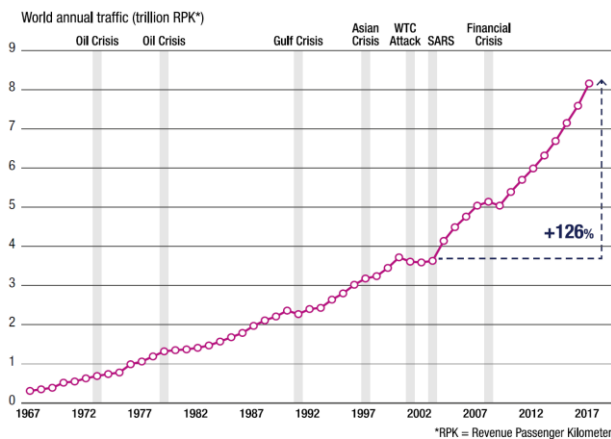
QIC and Royal Schiphol Group look forward to working closely with remaining shareholder Tasplan Super and other key stakeholders to grow and develop HIA, most significantly through the immediate priorities of terminal expansion, non-aeronautical service optimisation and pursuit of direct international services.

Please refer to the addendum at the end of this report for a more detailed case study on HIA.

LONG TERM GROWTH TAILWINDS

The resilience of demand growth in aviation is rare by any standards. In the face of oil crises, terrorism, disease and financial crises, growth in world air traffic has grown persistently over decades (Figure 1), reverting to its original trajectory after any temporary setbacks.

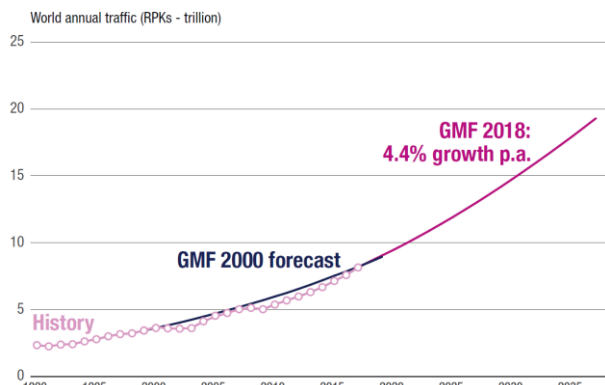
Figure 1: World annual aviation traffic (trillion RPK)



Source: ICAO, Airbus GMF 2018

This growth is expected to continue, increasing by a forecast CAGR of 4.4% to 2035 (Figure 2).

Figure 2: World annual traffic growth forecast (trillion RPK)



Source: ICAO, Airbus GMF 2018

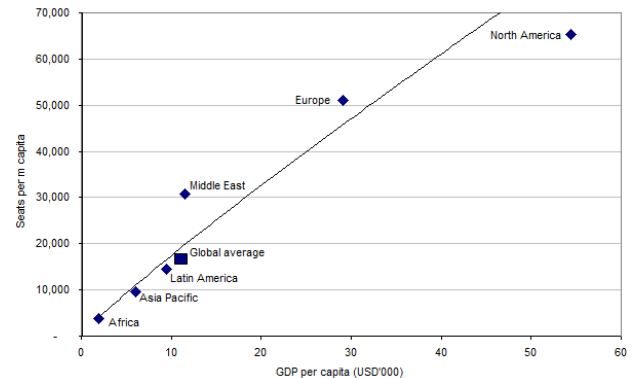
This increase in volumes is driven by a combination of both demand and supply-side factors.

Airline competition and capacity have both grown over time, which has seen airfares decrease in real terms, supported by technological innovation and airline operating efficiencies. This means air travel continues to become more accessible.

This trend shows no sign of abating due to improved airline capacity utilisation, new aircraft orders and continued advances in technology.

On the demand side, aviation has strong linkages to the real economy. Factors such as increasing incomes (Figure 3) and growing populations directly support demand for air travel.

Figure 3: Airline seats per million vs income (GDP per capita)



Source: CAPA Centre for Aviation; OAG

The emergence of Low-Cost Carriers ("LCCs") has also driven significant growth, particularly across Europe and Asia. This trend and other European market themes are discussed in detail below.

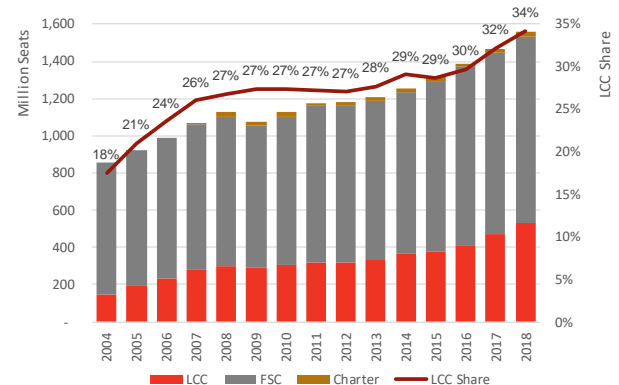
EUROPEAN MARKET THEMES

Low Cost Carriers Driving Growth

LCCs have been the fastest growing segment of the European aviation market, with the LCC market share across Europe reaching 34% in 2018.

As demonstrated in the chart below, the growth in LCCs has significantly outstripped Full Service Carriers ("FSCs"), with LCCs growing at a CAGR of 9.5% vs 2.5% for FSCs over the past 14 year period.

Figure 4: European Airports: Airline Market Share (2004-18)



Source: Mott Macdonald

LCCs have demonstrated a superior business model that drives higher growth and profitability. In the coming years, LCCs are expected to continue adding more capacity in the European market than FSCs. This is making air travel more affordable and has increased competition.

Ryanair and easyJet currently lead the short-haul market in Europe. Traditional carriers such as Air France, KLM and Lufthansa are also creating their own low-cost brands to compete in this market segment generating additional demand for short haul European flights.

LCCs have also recently entered the long-haul market, providing new hub connectivity to long-haul carriers. The recent expansion of low-cost airlines (Norwegian, WOW Air and LEVEL) into long-haul routes has been focused on the North and Mid Atlantic and Asia.

There are large variations between the level of LCC activity at primary airports relative to secondary airports. Historically, LCCs tended to target secondary airports due to their significantly lower aeronautical charges, excess capacity and willingness to offer incentives/discounts for growth.

However, there is a growing trend toward LCCs seeking to enter primary airports. LCCs are favoring primary airports for routes servicing larger capital cities, business centres and high-volume tourist destinations. This is because primary airports tend to have better transport connectivity and are located closer to business centres and key tourism locations. Some primary airports may also have superior amenities and retail offering.

By providing customers with a more convenient and comfortable travel experience, this allows LCCs to charge a premium fare relative to secondary airports, which can outweigh the additional aeronautical charges at the primary airports.

Furthermore, airports are increasingly working in a highly collaborative fashion with LCCs to win and retain air services as they seek to diversify away from their home carrier and capture the higher growth profile and capacity enhancements of LCCs.

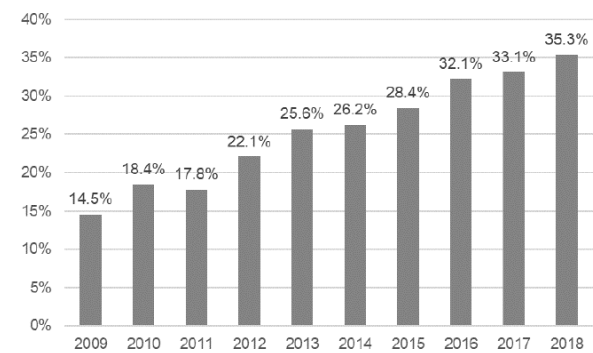
Case Study: Copenhagen Airport

Copenhagen Airport, the major airport in Denmark, has grown its LCC traffic considerably in recent years from c.15% in 2009 to c.35% in 2018.

In 2018, it initially started as a key base for Norwegian airlines before expanding its LCC presence across Ryanair, easyJet and Wizz Air. LCC growth has also not negatively impacted the home flag carrier SAS, with departing seats increasing from 6 million in 2008 to 7 million in 2018.

This highlights the potential for primary airports to actively pursue LCC development without fear of undue consequences for their home flag carriers, and the attractiveness of major airports to LCCs.

Figure 5: Copenhagen LCC % of departing seats (2009-18)



Source: SRS Innovata

Capacity Constraints

Another defining aspect of the European aviation market is that capacity at many of Europe's major hub airports is currently constrained either by lack of availability of runway/apron or terminal space to meet demand, particularly at peak times.

Looking forward, this issue is only expected to be exacerbated. Eurocontrol, in its 2018 report titled "European Aviation in 2040 – challenges of growth" forecasts a capacity gap of 1.5m flights (8% of total demand) by 2040 across Europe.

Table 1: Examples of European airport capacity constraints

Airports	Notes on airfield capacity
London Heathrow	Capacity constrained – Runway 3 expansion proposed
London Gatwick	Limited capacity throughout the day
Dusseldorf	Limited capacity throughout the day. Night curfew between 10pm (departures)/11pm (arrivals) and 6am.

Airports	Notes on airfield capacity
Amsterdam	Very limited capacity throughout the day. Movement cap of 500,000 per annum in place until 2020 – 497,000 served in 2017. Discussions regarding post 2020 cap ongoing.
Frankfurt	Limited capacity throughout the day – moderate availability throughout the afternoon. Night curfew between 11pm and 5am.
Zurich	Very limited capacity at peak times and full curfew.

Source: QIC Global Infrastructure

Eurocontrols forecasts that a typical Summer day in 2040 will have 16 airports as congested as Heathrow is today. This is expected to increase total network delays by 60% relative to today. It will be a challenge to provide an adequate quality of service in these circumstances.

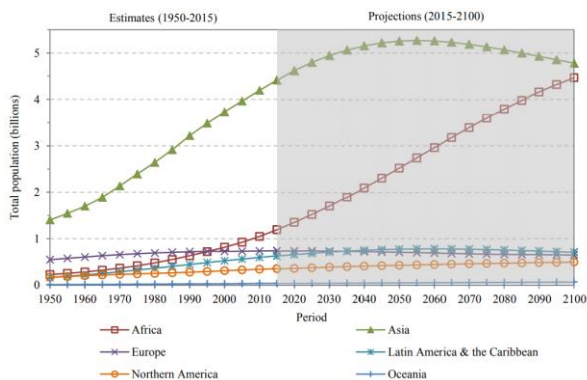
Key regions expected to be impacted will be UK, Germany and France. Given its close proximity to these countries, Brussels Airport, with its significant airfield capacity, will be well placed to capitalise on the incremental passenger demand at France and Germany in particular.

Future growth in African demand

Looking forward, we expect growth in middle-class populations in Africa and, to a lesser extent, Asia to be influential sources of additional demand growth for European airports.

Based on United Nations population forecasts, Africa is expected to be the dominant driver of world population growth over the coming century. Africa's population is expected to approximately double over the next two decades to 2040.

Figure 6: UN population forecasts by region to 2100

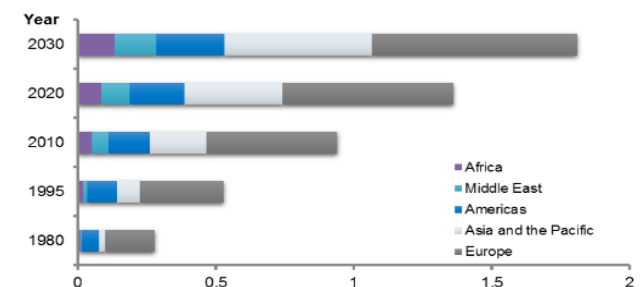


Source: United Nations, 2017

Due to proximity and the continuation of historical relationships, permanent migration into Europe from Africa is forecast to approximately track African population growth. Within Europe, the recipients of migrants are influenced by policy settings and by an income-arbitrage relationship, whereby the countries with the highest income per capita are generally more in demand and have historically received a higher share of total immigration into Europe.

The strong growth in Africa's population is also expected to influence global tourism demand, particularly as Africa's middle-class demographic grows. Popular tourism destinations such as Europe and the Asia Pacific are most likely to benefit from this trend (Figure 7).

Figure 7: International tourists by destination region (bn)



Source: UNWTO, 2016

Belgium has strong historical colonial ties to Africa, which has driven a well-established African route network. Brussels Airport is second largest hub to Africa in Europe behind Paris Charles-De-Gaulle.

AIRPORTS OF THE FUTURE

Traditionally, airports have been built on urban fringes, surrounded by empty land or sparsely populated areas. This can result in poor access and long travel times to the city. It also fails to fully harness the value airports can provide to businesses which value connectivity.

This approach is changing with the recent trend toward developing an 'aerotropolis' in the immediate vicinity of an airport. The aerotropolis concept typically focuses on serving transport-focused or transport-dependent businesses, hotels and office buildings and will increasingly become an important diversified income source for airport owners.

Key criteria for the development of a successful Aerotropolis include:

- a strategically located airport with connectivity to key markets and access to a large catchment area
- proximity to population centres and the prevalence of a skilled labour force
- access and connectivity (both road and rail) to key business hubs and population centres
- a significant unencumbered greenfield land bank for development – preferably under sole ownership and overseen by a planning authority which allows a strategic approach to planning and development.

Modern examples of aerotropolis style developments include:

- **Amsterdam Zuidas:** Amsterdam's financial hub and central business district, strategically placed between the Amsterdam city centre (15 minutes by train) and Schiphol Airport (6 minutes by train). The district hosts over 700 companies including Google, AkzoNobel and ABN AMRO. Approximately 2,300 residents are living in the neighbourhood today, with plans to increase this to 7,000 by 2030.
- **Songdo International Business District:** A 'Smart City' developed from scratch on reclaimed land along Incheon's waterfront, 30kms southwest of Seoul and connected to Incheon International Airport by a 12.3km highway bridge. Completed in 2015, it is designated as a Free Economic Zone and includes international schools, universities and hospitals. Residents currently exceed 100,000 people. A high-speed rail connection to Seoul is also under development to improve access.

This trend toward aerotropolis developments is expected to continue in the future.

In Australia, the Federal and NSW State Government are seeking to develop the Western Sydney Aerotropolis to drive economic growth in Western Sydney, capitalising on the planned greenfield development of Western Sydney Airport. The intention is for the Aerotropolis to contribute to the creation of 200,000 new jobs for

Western Sydney by establishing a new highly skilled jobs hub across aerospace and defence, manufacturing, healthcare, freight and logistics, agribusiness, education and research industries.

At Brisbane Airport ("BAC"), the focus has also been on developing the non-aeronautical revenue streams comprising parking, retail and property development. As Australia's largest capital city airport by area (with 2,700ha including 521ha available for development), BAC's goal is to develop the BAC precinct as a self-sustaining commercial centre that supports the economic and cultural growth of Brisbane and Queensland. The property portfolio consists of a mix of industrial, commercial and retail properties, including a shopping centre precinct which includes Queensland's only 24 hour, 7 day a week grocery store. Over 425 businesses are located within the BAC precinct, providing Queenslanders with close to 24,000 jobs.

At Brussels Airport, a multi-staged development of the airport's established business district is a central feature of the long-term strategic vision released for public stakeholder consultation.

Figure 8: Brussel's Airport Business District (future concept)



Source: Brussels Airport Corporation

Today, leading companies such as Deloitte, KPMG and Microsoft occupy premises at Brussels Airport, attracted by the mobility and connectivity benefits.

Due to the significant freehold land bank and strong connectivity to key European metro areas (connected via rail to Paris, London and Amsterdam) and Brussel's city centre, Brussels Airport is well positioned to deliver on their vision to further develop a successful Aerotropolis at the heart of the airport.

PORTFOLIO IMPACTS

Due to their scarcity and unique investment characteristics, airports provide particularly strong diversification benefits within both infrastructure and multi-asset class portfolios.

Airports can provide a unique combination of downside protection via partly regulated revenues and diversified revenue streams (see Appendix A), as well as upside potential for active managers. This is particularly true for gateway airports, due to the stability of volumes in their passenger catchments relative to tourism-only destinations.

From a macroeconomic perspective, airports provide investors with strong GDP and inflation exposure. Depending on the regulatory framework, airports may also provide a natural hedge for interest rate movements. For example, airports are likely to be resilient in rising interest rate environments due to the regulatory protection and correlation between interest rates, GDP and inflation. Even in a period of weak global growth, gateway airports and those with

diversified non-aeronautical revenue streams are expected to be resilient.

Airports with an appropriate balance between local and foreign passengers can also provide natural hedges against economic cycles, due to the influence of foreign exchange rates. When local economies and their currencies are strong, local residents are incentivised to travel overseas. When currencies are weaker, the country becomes a more attractive destination for foreign travellers. This partially hedges airports against the impacts of local economic cycles.

Understanding the differences between airports

Digging beneath the strong macroeconomic characteristics exhibited by most airports, the investment characteristics of airports can vary greatly depending on their unique features.

Table 2 below highlights key differences between some of the main hub airports across Europe.

When considering the potential value of an airport investment, it is critical to assess the airport's individual value drivers and exposures to various

Table 2: Comparison of recent and upcoming airport investment opportunities

Metric	Gatwick	ADP		Brussels
		Paris Charles de Gaulle	Paris Orly	
Historical growth 10 year traffic CAGR	2.8%	1.7%	2.4%	3.6%
Capacity constraints (approximate airfield capacity vs current pax)	45m capacity vs 45m 2017 pax (capacity constrained)	79m capacity vs 72m 2018 pax (80% utilisation post 8m capacity upgrade by 2020)	33m capacity vs 33m 2018 pax (capacity constrained)	60m capacity vs 26m 2018 pax (unconstrained)
Origin and destination volumes (% of total traffic)	92%	69%	93%	82%
Travel purpose	Business: 14% Leisure: 86%	Primarily leisure		Business: 30% Leisure: 70%
Regulatory regime	Single Till	Adjusted Dual Till (regulatory regime also covers certain non-aeronautical revenue streams)		Dual Till
LCC share (% of total traffic)	c. 80%	13%	38%	19%
EBITDA margin	54%	43% (ADP)		58%
Destinations	236	325	156	211
Airline concentration (% largest carrier and % top 3 carriers)	EasyJet: 40% Top 3 carriers: 64%	Air France: 53% Top 3 carriers: 62%	Air France: 33% Top 3 carriers: 58%	Brussels Airlines: 37% Top 3 carriers: 55%

Source: QIC analysis of public information. Current as of March 2019.

regional, macroeconomic and regulatory factors, as is identifying the various business plan levers available to drive long-term value creation.

For example, an airport with a dual-till regulatory regime provides opportunity for development and outperformance via non-aeronautical services, which may otherwise be restricted under a single-till regime. Further, factors influencing an airport's growth outlook such as airfield capacity constraints and the available scope to increase LCC share can vary materially between airports.

ACTIVE MANAGEMENT POTENTIAL

QIC is an active asset manager, driving outperformance across our assets through business optimisation and proactive engagement with management teams, partners, and other relevant stakeholders (Figure 9). Airports are an asset class that benefit substantially from this approach due to their broad range of value levers.

QIC has delivered this approach at Brisbane Airport, where it has been the single largest investor since 2007. During this time, the airport has experienced significant growth in both passenger volumes (over 30%) and revenue per passenger (over 40%). It is also the first airport in Australia to privately finance a new runway, which will double the airport's capacity.

Figure 9: QIC Global Infrastructure's active asset management experience adds value to airport investments






<p>Airline / commercial negotiations</p>  <p>Deep experience negotiating complex commercial contracts with major customers</p> <ul style="list-style-type: none"> • Brisbane Airport: securing an unprecedented agreement with airlines to facilitate the development of the first privately financed new runway in an Australian airport. • Port of Brisbane: managing post privatisation arrangements with key tenants • Lochard Energy and Epic Energy: driving complex negotiations with key customers to secure long term agreements 	<p>Regulatory & Stakeholder Engagement</p>  <p>QIC has direct relevant regulatory experience across an array of asset classes to guide assets through times of heightened regulatory and political sensitivity</p> <ul style="list-style-type: none"> • Significant experience in prescriptive (Thames, PowerCo) and light-handed (Brisbane Airport, Port of Brisbane) regulatory regimes • QIC has provided submissions to regulators such as the Productivity Commission (Brisbane Airport), and engaged with relevant stakeholders including State and Federal ministers, to provide an investor's view on regulatory matters which supports our clients' investment interests • As a government corporation, QIC has strong heritage and understanding of hierarchies within the public sector 	<p>Major capex delivery</p>  <p>Significant track record in assessing and actively managing large scale complex capital projects</p> <ul style="list-style-type: none"> • Brisbane Airport: As it implements its A\$3.8 billion investment program, including the complex A\$1.4bn New Parallel Runway • NorthConnex: In the management of the construction of the A\$2.65bn NorthConnex Tunnel, the longest road tunnel project in Australia • Also, QIC has driven market led proposals to improve asset function: Gateway Upgrade Project at Queensland Motorways, Taxi charging solutions at Brisbane Airport, Cruise Terminal development at Port of Brisbane 	<p>Driving non-aero growth</p>  <p>Direct investments in retail development, car parks, and property make QIC well placed to capitalise on non-aero opportunities</p> <ul style="list-style-type: none"> • Retail: Extensive experience with best-in-class retail design and tenant mix optimisation. At Brisbane Airport, implementing digital strategies and customer focussed initiatives to drive revenue • Property development: Growth in property income at Port of Brisbane and Brisbane Airport, including developing optimised solutions for land such as the BNE Auto Mall. • Car parking: our investment in CampusParc and MasParc, as well as developing new parking facilities at Brisbane Airport, gives us unique insight on international best practice for parking and mobility solutions 	<p>Master Planning</p>  <p>QIC has played an instrumental role in crafting and delivering on Airport and Port Master Plans</p> <ul style="list-style-type: none"> • Brisbane Airport: In their 2014 Master Plan which included key projects such as NPR, road access and property development • Port of Brisbane: master planning is currently underway with QIC proactively and critically assessing the plan to improve its commerciality • Port of Melbourne: For its Port Development Implementation Plan post-privatisation
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Figure 10: Brisbane Airport and its 2,700ha of land



Source: QIC Global Infrastructure

Figure 11: Brisbane Airport new runway construction (2018)



Source: Brisbane Airport Corporation, 2018

CASE STUDY: BRUSSELS AIRPORT

In March 2019, a consortium comprising of QIC, APG and SwissLife was the successful bidder for a 36% interest in Brussels Airport.

Brussels Airport is a freehold perpetual airport located in the political capital of Europe, host to European Union and NATO headquarters.

As a gateway airport, Brussels Airport has displayed resilience through market cycles and is supported by a diversified airline and traffic mix, together with a stable regulatory regime.

Table 3: Brussels Airport key metrics

Footprint	<ul style="list-style-type: none"> 1,245ha of land, approx. same size as London Heathrow Freehold asset, providing a level of control and strategic flexibility c. 210 passenger and 60 cargo destinations worldwide
Key Metrics (2018)	<ul style="list-style-type: none"> PAX: 25.7m (5-year CAGR: 6.1%) Cargo: 543k tonnes (5-year CAGR: 4.8%)
Financial metrics (2017)	<ul style="list-style-type: none"> Revenue: €531m (5-year CAGR: 5.9%) EBITDA: €311m (4-year CAGR: 5.1%) EBITDA margin: 58.6%
Capacity	<ul style="list-style-type: none"> Significant runway capacity with 3 runways and significant available land for terminal expansion
Airlines	<ul style="list-style-type: none"> 80 airlines, of which c.52% are members of the Star Alliance Top 4 airlines comprise c.57% of passengers
Catchment	<ul style="list-style-type: none"> 15m people live within 90 minutes' drive of the airport (see Figure 13 and Figure 14) Catchment area extends beyond Belgium into the north of France and the south of the Netherlands (see Figure 13).

Source: QIC Global Infrastructure. Current as of 20 March 2019

The dual-till regulatory regime utilises a building block approach providing a fair return on capital, recovery of costs and inflation protection for the airport's aeronautical business.

Figure 12: Brussels Airport



Source: Stock images

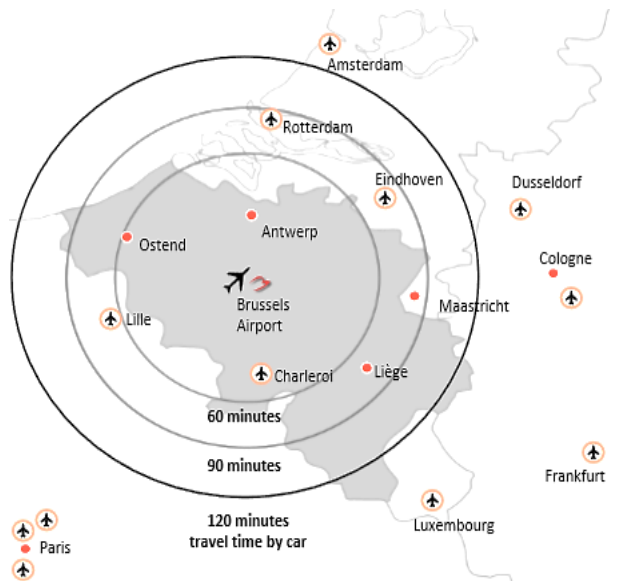
The airport's dual-till regime also provides it with the opportunity to benefit from non-aeronautical yield increases through active asset management.

The current traffic composition at Brussels Airport is diversified, underpinned by a high proportion of origin and destination ("O&D") traffic (c. 82%) and supported by Belgium's status as a business, political and tourist destination:

- **Business:** Brussels has a vibrant economic community (ranked 18th globally by GDP per capita) and is the most popular conference destination in Europe.
- **Political:** Brussels is a political and administrative centre, hosting European Parliament, European Council, European Commission and is home to the NATO headquarters.
- **Leisure:** Belgium hosted over 16 million tourists in 2017 and is home to over 13 UNESCO heritage sites.
- **Visiting friends and relatives:** 35% of the Brussels' population are foreigners, driving strong visitation. Belgium also has strong historical ties to Africa, which has resulted in a well-established African route network.

Looking forward, the airport has strong demand growth fundamentals, driven by its excess capacity and large catchment area (Figure 13). The catchment area of c.15m people is one of the largest in Europe, crossing multiple countries.

Figure 13: Brussels Airport catchment area



Source: QIC Global Infrastructure

Traffic demand is also reinforced by the airport's strategic location within one of the most densely populated regions in Europe (Figure 14), supported by convenient ground connections.

Figure 14: Europe at night (NASA satellite image)



Source: NASA

Incremental growth potential also exists via further route development to under-served markets, such as low-cost carriers and certain African regions.

This addition to our portfolio provides our clients with important geographic and sector diversification and given its strategic nature, resilience through market cycles.

The investment also directly aligns with our strategy to use active management to build long-term value for our clients.

QIC looks forward to investing and growing the business into the future. In particular, the business plan involves leveraging the airport's position to capitalise on the European market themes highlighted earlier, namely the growth of LCCs and African demand.

Brussels Airport is also well positioned to further develop a successful Aerotropolis within the heart of the airport precinct.

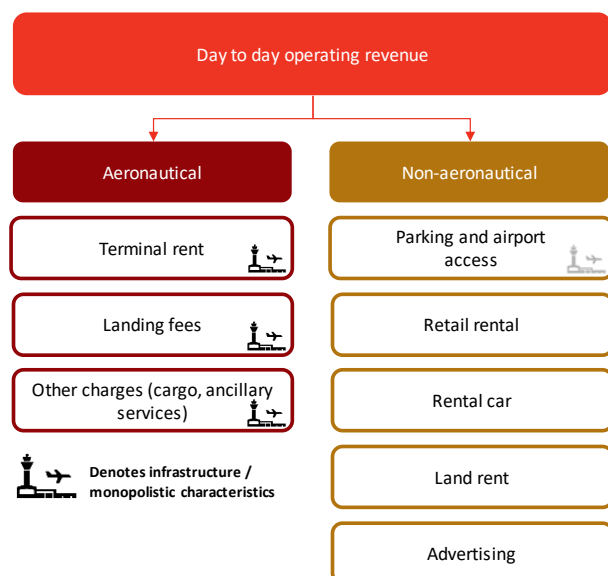
APPENDIX A: AIRPORTS' DIVERSIFIED BUSINESS MODELS

What sets particular quality airports apart from most businesses, is the diversity of their revenue streams – which results in resilient cashflows across market cycles – and the scope for active asset management.

Airports derive revenue from multiple streams on both the aeronautical side (typically regulated to some extent) and non-aeronautical side.

If you own a one-dimensional business and demand falls, there may not be much you can do. However, airports provide active asset managers with many potential levers to pull in this situation, to effectively manage business cycles or to drive upside returns.

Figure 15: Airport revenue streams



Source: QIC Global Infrastructure

Aeronautical Revenue

Airline rents, landing fees and other charges are the primary source of the aeronautical, or airside revenue. Each airline pays the airport for the use and maintenance of its facilities.

Most airports create a contract with airlines wishing to use its facilities. This contract frames the relationship between the airport and the airline. One of the most important elements of any agreement is the definition of the compensation

the airline pays to the airport for use and maintenance of its facilities, including:

- Terminal rents – Based on the amount of space an airline uses inside the terminal.
- Landing fees – A per plane charge, usually based on the weight of the aircraft.
- Other charges – Specific fees for extra airport services (e.g. use of a jet bridge).

At some airports, these contracts may also give the airlines other commercial benefits and may represent part of a broader partnership for the long-term planning of the airport.

Given the essential nature of aeronautical facilities and services, these assets and the associated revenue streams are monopolistic in nature (within the airport catchment) and are typically regulated or price monitored. A common approach to price regulation is to employ a 'building block approach' to calculate allowable revenue (Figure 16).

Figure 16: Building block approach for aeronautical pricing



Source: QIC Global Infrastructure

Airport pricing regulation can be applied to both aeronautical and non-aeronautical revenues ("single till") or more commonly, applied to aeronautical revenue only ("dual till") allowing non-aeronautical activities to earn a differentiated rate of return.

Non-Aeronautical Revenue

Non-aeronautical services, such as car parking, hotels and retail leases, can be important sources of revenue for airports, depending on their footprints. Given the different risk profile, there is potential for revenues associated with the non-aeronautical parts of the business to exceed the revenues generated by aeronautical services.

Figure 17: Retail space at Brisbane Airport



Source: QIC Global Infrastructure

Potential sources of non-aeronautical revenue include:

- Retail concessions – Rents paid by shops and restaurants, and if agreed to in the concession contract, a percentage of the profits.
- Parking and airport access – Fees for all airport-owned parking lots and in some cases, off-airport concessions bringing travellers to and from the airport. Despite the proliferation of technology driven mobility solutions¹, many airports have experienced continuous growth in parking activity.
- Land rent – If the airport has a significant landbank, this can also provide additional revenue through the development of logistics or other commercial facilities. Excess land may also be rented for uses unrelated to the airport but supported by strong demand given the airport's strategic location (e.g. golf courses, office buildings, hotels, farming or other uses).
- Rental car operations – Revenue from rental car operations within or outside a terminal.
- Advertising – Ads placed on airport walls, billboards and buses can also derive income.

Compared with aeronautical services, non-aeronautical revenue streams are more easily substituted, limiting the market power of tenants within the airport catchment.

¹ Refer to our Red Paper on Mobility as a Service:
<https://www.qic.com.au/knowledge-centre/mobility-as-a-service-20180621>

ADDENDUM (OCTOBER 2019): HOBART AIRPORT CASE STUDY

On the 1st of October 2019, QIC on behalf of the QIC Global Infrastructure Fund (“QGIF”) in a 50/50 consortium with Royal Schiphol Group, agreed to acquire a 70% interest in Hobart International Airport (“HIA”). This investment represents a rare opportunity to acquire a majority interest in a high quality, core infrastructure asset with significant opportunity to drive value and growth through more active asset management.

As a gateway capital city airport with its island location (Figure 18), HIA serves a market handling over 65% of all Tasmanian visitors arriving by air. It is also supported by a long-term lease to 2097 (78 years remaining).

Figure 18: Current HIA domestic routes by airline



Source: Hobart International Airport website

HIA is Australia’s fastest growing airport, with historic 5-year passenger growth of 5.1%, more than triple the average Australian domestic traffic growth rate of 1.6% over the same period.

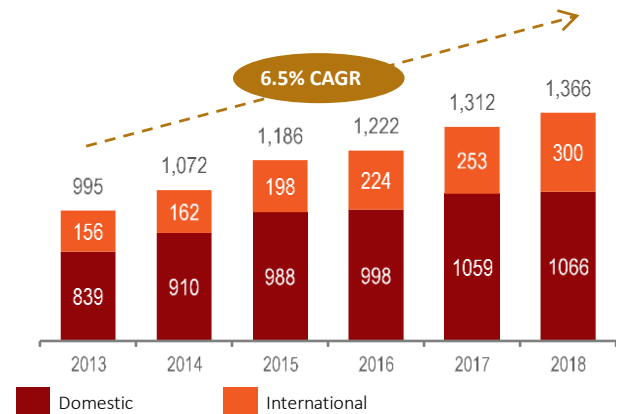
Figure 19: Historical traffic growth (domestic pax)

	5-year (FY13-18)	10-year (FY08-18)
Hobart	5.1%	4.0%
Cairns	3.4%	3.2%
Melbourne	2.6%	2.8%
Adelaide	2.4%	1.7%
Darwin	2.3%	2.5%
Launceston	2.2%	2.1%
Gold Coast	2.1%	3.0%
Sydney	2.0%	2.2%
Brisbane	0.8%	1.9%
Canberra	0.5%	0.8%
Perth	(2.3%)	2.2%
Avg. (ex. HIA)	1.6%	2.2%

Source: BITRE

This strong growth is forecast to continue due to Tasmania’s increasing popularity as a premium tourist destination by both domestic and international travellers. Tasmania has achieved a 5-year visitor growth CAGR of 6.5%, including over 10% p.a. growth from international visitors.

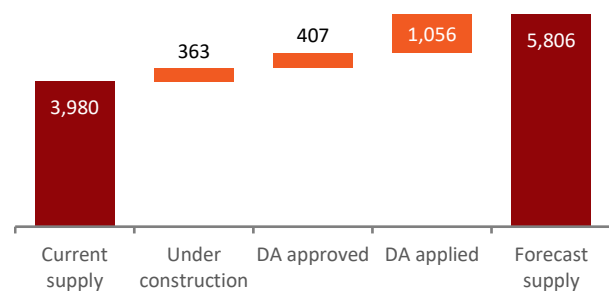
Figure 20: Domestic and international visitors to TAS (‘000s)



The outlook for Tasmanian tourism is supported by significant recent investments in capacity from both airlines and the local tourism industry.

Hotel capacity in Hobart is forecast to increase by 19% in the short term (under construction or approved) with further development (up to 46% growth) pending approvals (Figure 21).

Figure 21: Hobart hotel room outlook (number of rooms)



In addition to the strong growth fundamentals underpinning long-term demand at HIA, QIC and Royal Schiphol Group have developed a detailed business plan, leveraging our global asset management expertise.

The business plan aims to capture significant growth opportunities through more active asset management, including:

- **International routes and freight:** With HIA's runway extension completed in 2018, there is significant opportunity for direct international route development. This will be focussed on connectivity to Asia and New Zealand and transforming HIA into a gateway to Antarctica. This route development will open further opportunities for freight and logistics services, supporting international export of Tasmania's premium fresh produce (e.g. seafood and beef) and equipment freight to Antarctica.
- **Terminal expansion:** Plans have been developed to increase the terminal footprint, expanding significantly the food, beverage and retail offering to a level which is more in line with global peers.
- **Non-aeronautical revenue:** With HIA's non-aeronautical revenue per passenger 54% below the average of all other Australian capital city airports², the potential for value creation through increasing non-aeronautical revenue is significant. Key opportunities include active management of car parking operations and developing the airport's significant land bank, which has seen only 1% of the 342ha developed since 2008.

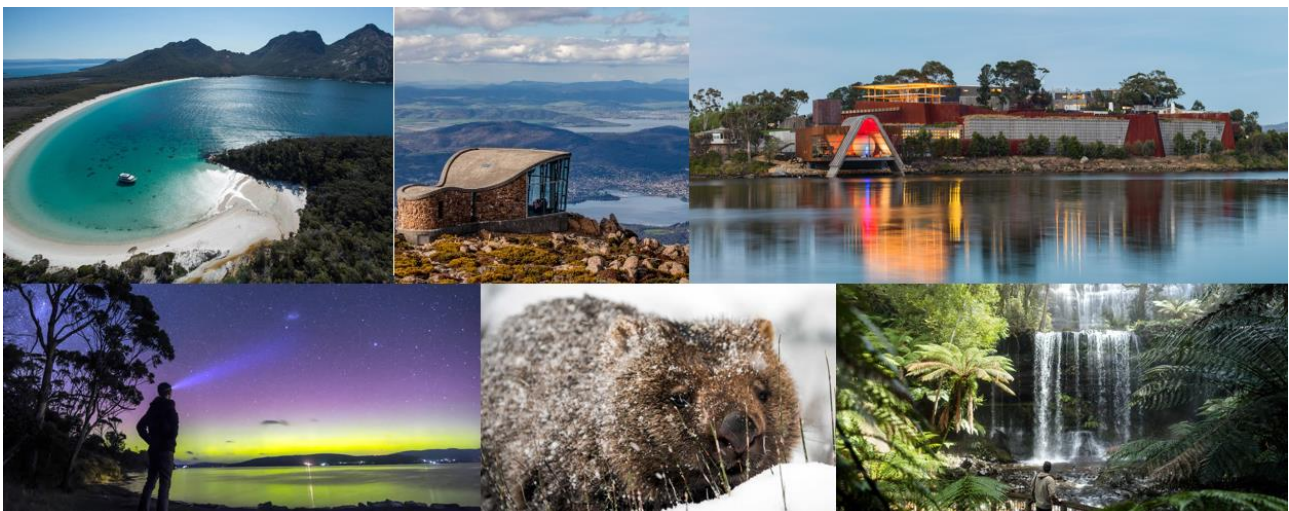
While many airports offer opportunities for active asset management, HIA's combination of tangible value creation opportunities is rare for a gateway capital city airport.

Considered alongside demand growth rates which are significantly higher than what is typically available in developed economies, HIA presents a compelling opportunity for long term value creation.

The addition of HIA to the QGIF portfolio provides further core infrastructure exposure for our investors, supported by a robust risk return profile. HIA also delivers further diversification across geography and sector within QGIF's Australian asset exposure.

QIC and Royal Schiphol Group look forward to working closely with Tasplan Super and key stakeholders connected with HIA - including government, tourism bodies, airlines and local community members - to grow, maintain and develop HIA. Closing of the transaction is expected to take place in Q4 2019.

Figure 22: Snapshot of attractions driving strong Tasmanian tourism growth



² QIC Global Infrastructure analysis, current as at September 2019