



WaveStone

C A P I T A L

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Dear Stewart,

We are writing to you as a VERY concerned investor in Auckland Airport ("AIA").

WaveStone Capital is an Australian Fund Manager with over A\$9.0B in Funds under Management, investing on behalf of retail as well as institutional clients. We look to invest in businesses which exhibit a Sustainable Competitive Advantage (SCA) in the markets or sectors in which they operate and an important part of this process is to assess the support and stability of Government policy settings relating to the industry. Our clients have over NZ\$130M invested currently in AIA shares.

As an experienced investor in regulated infrastructure businesses, we accept the uncertainty that comes with scheduled and legislated regulatory and pricing reviews and these are taken into consideration in the decision to allocate capital. Unplanned open-ended regulatory reviews without a clear purpose statement, such as the current MBIE review on NZ Airport regulation, however, creates an unnecessary level of uncertainty. This is highlighted with AIA having lost over NZ\$800m of market value between the 28th and 30th of May as the market became aware of the MBIE review.

Subjecting an existing regulatory framework to an unscheduled and apparently random review meaningfully impacts investor confidence in New Zealand and the NZ Government's notionally pro-business structure. This uncertainty raises the cost of capital for all NZ businesses, risking adverse and unintended consequences for the economy, such as being short of funding to drive the economy forward.

It is our strong view that New Zealand, being a relatively small country, requires a stable investment framework to attract and retain capital. We also observe that this MBIE 'check in' follows a prolonged period of regulatory uncertainty impacting a number of industries across New Zealand and causes us concern around the risk profile for investing in the country.

AIA is currently embarking on the largest expansion in its history as a listed company, necessitating substantial capital investment. It is also wholly reliant on access to debt and equity capital markets to fund that capital expenditure with no support from central or local government.

AIA has just completed an extensive pricing review process with the NZ Commerce Commission that appears to endorse the effectiveness of the Information Disclosure regime with the Airport adjusting its aeronautical pricing schedule in acknowledgment of the Commerce Commission determination that it was targeting an excess return. Despite this outcome, AIA is once again facing renewed regulatory risks. This persistent regulatory uncertainty is concerning for investors and impacts the overall investment climate.

Infrastructure assets such as AIA sit within our portfolio with the view that the returns will be slightly lower but with less volatility. However, with the regulatory risk continuing to overhang the company, the equity is not exhibiting the attributes that make it appealing for a long-term investor.

We urge the NZ Government to adopt a more holistic approach to the regulated investment environment. As an Australian based investor, we have the option to allocate our capital elsewhere. The current heightened regulatory situation poses a real risk of increasing the cost of capital for New Zealand corporates, which is not in the national interest.

In addition, the absence of a clear, published purpose statement for the latest MBIE review leaves the NZ Government (as a 50% shareholder in Air NZ) open to criticism of self-interest. The concern is that efforts to extract further support for Air NZ could be at the expense of AIA shareholders, undermining our investment thesis for AIA. If this is the case, it could have far reaching impacts for overseas investment into New Zealand.

In summary, we call on AIA to appeal to the NZ Government to consider these issues seriously and take steps to create a more stable and attractive investment environment. This will not only benefit investors but also support the long-term economic growth of New Zealand.

Thank you for your consideration of these matters. We look forwards to your response.

Kind Regards,

Raaz Bhuyan

Director & Portfolio Manager, WaveStone Capital

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