# VANCOUVER AIRPORT AUTHORITY 2012 ECONOMIC REPORT



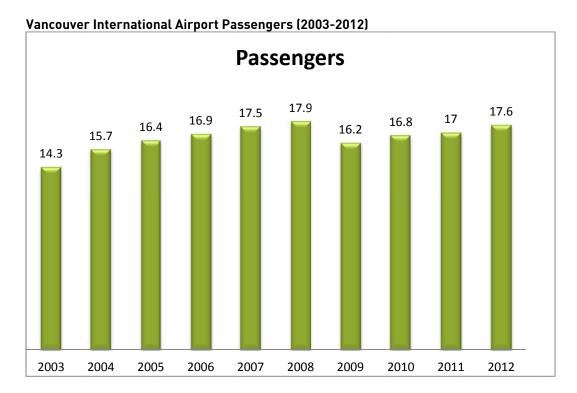
## Our Business

## Financial and Operating Highlights (2003-2012)

Year	Revenue (millions)	Operating Expenses (millions)	Ground Lease (millions)	Excess of Revenue over Expenses (millions)	Net Assets (millions)	Capital Expenditures for the Year (millions)	Passengers (millions)	Aircraft Runway Take-offs and Landings (thousands)	Cargo Handled (thousands of tonnes)
2012	403.6	280.2	39.1	84.9	1,162.8	106.0	17.6	261	227.2
2011	369.3	275.9	34.8	59.1	1,087.9	59.9	17.0	258	223.9
2010	368.7	280.8	33.2	56.0	1,028.8	71.2	16.8	255	228.4
2009	359.1	256.7	65.6	38.8	972.8	226.6	16.2	258	197.5
2008	373.8	236.3	65.6	81.8	934.0	233.1	17.9	279	211.7
2007	368.3	212.2	65.6	89.5	852.2	289.7	17.5	275	226.2
2006	363.8	190.2	65.7	107.8	762.3	315.9	16.9	271	222.7
2005	329.8	176.7	78.7	74.4	654.6	137.6	16.4	275	223.7
2004	276.9	158.5	73.9	44.5	580.2	123.0	15.7	270	229.9
2003	246.0	154.1	66.3	25.6	535.6	55.0	14.3	250	214.9

## Our Customers

YVR welcomed 17.6 million passengers in 2012, representing a 3.5 per cent increase over the previous year. Visit the <u>Facts & Stats</u> page on our website for detailed passenger, cargo and aircraft take-off and landing numbers.

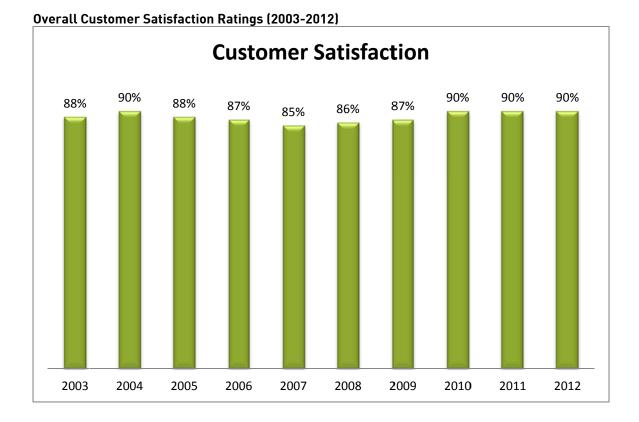


#### **CUSTOMER CARE**

Caring for every customer is central to our business and essential to our success. More than 120 Customer Care employees provide information and assistance at nine information desks located throughout YVR's terminal facilities. In 2012, staff responded to more than 778,000 customer enquiries.

Recruitment to the Airport Authority's award-winning Green Coat volunteer program continued in 2012. More than 100 new volunteers joined the program, bringing the total number of volunteers to 480. Green Coats logged a total of 69,119 service hours in 2012, assisting passengers in 26 different collectively-spoken languages.

The Airport Authority uses quarterly customer satisfaction surveys conducted by an independent consulting firm to track our performance. For the third consecutive year, customers gave YVR a 90 per cent satisfaction rating in 2012, based on 2,634 separate surveys.



# Key Initiatives in 2012

#### **BUILDING A BETTER AIRPORT**

The Airport Authority announced in 2012 a 10-year strategy outlining \$1.8 billion in improvements designed to keep YVR competitive and an economic generator for British Columbia. With increasing competition for the growing Asian market from other airports, both travellers and airlines have choices. In order to capture that market, we must continue to invest in projects that make it easier and faster for passengers to move through the airport. To help fund these improvements, the Airport Authority increased the Airport Improvement Fee (AIF) from \$15 to \$20 for passengers travelling to destinations outside of B.C.; this increase went into effect on May 1, 2012. Passengers travelling within B.C. and to the Yukon continue to pay \$5. Since it was introduced in 1993, the AIF has helped build a new international terminal, a new runway, roads and bridges, airfield safety improvements and the Sea Island portion of the Canada Line. Every penny of the AIF will continue to go toward building a better airport for B.C. Several key capital improvement projects got underway in 2012, including:

#### Domestic Terminal Upgrades

Construction began in the Domestic Terminal's A and B Piers in 2012, one of the oldest remaining sections of YVR's original 1968 terminal building. Slated for completion in early 2016, the expanded facility will feature upgraded gates, new shops and restaurants and an original art installation with a design theme reflecting B.C.'s Interior.

#### Passenger Corridors & High-Speed Baggage Systems

To remain a gateway airport of choice, the Airport Authority is investing in facilities that will make it faster and easier for connecting passengers and their bags to move through YVR. In 2012, design and early construction work began on a new high-speed baggage system and more than 700 metres of moving walkways and secure corridors to reduce connection times for passengers.

#### Airside Operations Building

Project design and preliminary site work for YVR's new Airside Operations Building began in 2012. Once complete in Fall 2014, this building will be home to the Airside and Emergency Service's team fire hall and a large storage and parking bay for the Airport Authority's dozens of airside maintenance, snow removal and emergency vehicles.

#### Designer Outlet Centre

An important component of the Airport Authority's 20-Year Master Plan is non-aeronautical development on Sea Island. Plans for a Designer Outlet Centre located on airport land were announced in 2012. In collaboration with development partner McArthurGlen and following community consultation, the Airport Authority selected a preferred location for the centre, at a site near the Canada Line Templeton Station. Scheduled to open in Fall 2014, the centre will increase the region's destination appeal and generate an estimated 1,000 new jobs.

#### Infrastructure Upgrades

More than \$23-million of general improvements were made to YVR in 2012, including pavement repairs and upgrades to the dyke system. This marked the second year of a five-year plan to improve YVR infrastructure on Sea Island.

#### **GATEWAY COMPETITIVENESS**

To be successful in an increasingly competitive market, the Airport Authority continued to focus on delivering a cost-effective, high-value airport in 2012, encouraging air carriers to enhance services to YVR. Introduced in 2011, the Gateway Incentive Program makes YVR more attractive to airlines by freezing landing and terminal fees at 2010 levels for five years. In 2012, 21 airlines participated in the program, together increasing capacity by 5.4 per cent.

#### **NEW ROUTES AND SERVICES**

Several important air service announcements in 2012 offered more travel options to YVR, particularly for passengers looking to connect to Asia and Europe for business and leisure. Sichuan Airlines joined the YVR roster, offering service to Chengdu, China, marking North America's first and only direct flight to China's interior. Together with the six other carriers serving destinations in China, YVR can continue to meet increasing demand for access to one of the fastest-growing markets in the world.

Additionally, Virgin Atlantic Airways began seasonal service between YVR and London Heathrow Airport beginning in May 2012, and longtime airline partner Lufthansa announced in November the addition of a new YVR-Munich route, to begin operations in Summer 2013.

#### YVR'S ECONOMIC IMPACT

The most recent economic impact assessment of YVR, completed in 2011, found that the airport employs approximately 23,600 people working for 400 businesses and organizations on Sea Island. Together, YVR's operations contributed approximately \$1.9 billion to Canada's Gross Domestic Product (GDP), or about one per cent of B.C.'s total economy. YVR connects the people and businesses of B.C. to approximately 47 per cent of the global economy through daily, non-stop scheduled service. Previous economic impact assessments of YVR have found that one daily international flight creates between 150 and 200 jobs at the airport, and another 400 jobs in the related tourism, hospitality and retail sectors.

#### SIMPLIFIED PASSENGER TRAVEL

The Airport Authority has long been a pioneer of technologies that help customers travel through the airport quickly and easily. Automated Border Clearance (ABC), NEXUS and self-service kiosk technology are just some of the innovations developed here at YVR.

Thousands of Chinese citizens travelled through YVR's gateway airport to U.S. destinations in 2012 thanks to the China Transit Program. Now a permanent program, China Transit allows passengers to connect through YVR and other Canadian airports without requiring a transit Visa, helping secure YVR's position as a gateway of choice between Asia and North America.

The Airport Authority and Canada Border Services Agency (CBSA) continued to expand its Automated Border Clearance program in 2012, which allows returning Canadian citizens and permanent residents to clear the border using self-service kiosks. Approximately 1.3 million eligible passengers used Automated Border Clearance at YVR in 2012. The total number of available kiosks increased from 12 to 20, resulting in reduced congestion in the Customs Hall. This homegrown innovation was also implemented at the Montreal-Trudeau Airport in 2012; similarly, the Greater Toronto Transportation Authority placed an order for more than 40 kiosks, for installation at Pearson International Airport in early 2013, yielding a valuable additional source of non-aeronautical revenue for the Airport Authority.

#### **COMMERCIAL SERVICES**

YVR's commercial services program continued to expand in 2012 with the addition of 11 new shops, services and restaurants. Contemporary wine bar concept Vino Volo chose YVR for its first two international locations, opening in the International Arrivals and U.S. Departures areas in December 2012. The Airport Authority also introduced a new curb-to-cabin passenger assistance program designed to elevate the airport experience with concierge-style services. From valet to value-priced, the Airport Authority also offered customers a broad range of parking options in 2012 - including the lowest-priced parking on Sea Island.

September 2012 saw the grand opening of a new duty free program provided by internationally-acclaimed operator World Duty Free. An expanded range of luxury goods available in newly designed stores in the International Departures area helped increase overall duty free sales by 17 per cent.

Take Off Fridays, the Airport Authority's popular in-terminal promotional campaign, continued in July and August 2012. Passengers and members of the general public enjoyed live entertainment, product sampling and special concession offers throughout the terminal.

#### Our Destinations

#### B.C.

# CANADA

Calgary

#### **MEXICO**

Abbotsford Anahim Lake Bella Bella Bella Coola Campbell River Castlegar Comox Cranbrook Dawson Creek Fort Nelson<sup>1</sup> Fort St. John Ganges Harbour

Edmonton Fort McMurray Montreal Ottawa Regina Saskatoon Toronto Whitehorse Winnipeg

Cancun Huatulco <sup>C</sup> Ixtapa/Zihuatanejo Manzanillo <sup>C</sup> Mazatlan<sup>C</sup> Mexico City Puerto Vallarta San José del Cabo

Kamloops

U.S.A.

ASIA

China

Kelowna Lyall Harbour Maple Bay Masset Miner's Bay Montague Harbour

Anchorage Atlanta Chicago Dallas Denver Detroit

Beijing Chengdu\* Guangzhou Hong Kong S.A.R. Shanghai Shenyang\*

Nanaimo

Honolulu Japan Tokyo

Nanaimo Harbour Penticton Port Hardy Port Washington Powell River Prince George Prince Rupert

Qualicum Beach

Houston Kahului (Maui) Kona (Hawaii) Las Vegas Lihue (Kauai) Los Angeles Minneapolis

South Korea Seoul

Quesnel Sandspit Sechelt Silva Bay Smithers

Newark Orange County Palm Springs Phoenix

Salt Lake City

San Francisco

Portland

San Diego

New York (JFK)

Taiwan Taipei

Manila

**Philippines** 

Telegraph Harbour

Terrace Tofino

Seattle

Victoria Victoria Harbour

Trail

Washington D.C.\*

Williams Lake

#### EUROPE

#### OCEANIA

#### France Paris <sup>C</sup>

### Australia Sydney

# Germany

# New Zealand

Dusseldorf <sup>c</sup> Frankfurt

Auckland

Munich <sup>C</sup> \*Planned for Summer 2013

<sup>1</sup> One stop en route

<sup>c</sup> Charter service only; may have a stop en route

# Netherlands

Amsterdam

# Switzerland

Zurich <sup>C</sup>

#### United Kingdom

Glasgow, Scotland <sup>C</sup> London, England (Gatwick) <sup>C</sup> London, England (Heathrow) Manchester, England <sup>C</sup>

#### LATIN AMERICA

#### Costa Rica

San José

## Cuba

Santa Clara <sup>C</sup> Varadero

## Dominican Republic

Puerto Plata <sup>C</sup> Punta Cana <sup>C</sup>

#### Jamaica

Montego Bay

#### Panama

Panama City<sup>C</sup>

## Financial Planning

The Airport Authority's sound financial planning is reflected in our consistently high credit ratings, which are among the best in the world. Both Standard & Poor's and Dominion Bond Rating Service confirmed the Airport Authority's ratings at AA and AA (Low), respectively, in 2012.

Other than the Hong Kong International Airport which is rated AAA, the Airport Authority has the second highest AA rating. Los Angeles International Airport and Oklahoma City's Will Rogers World Airport are the only other airports that have an AA rating.

#### Financial Review

The Airport Authority earns revenue from three main sources:

- Aeronautical revenue: The Airport Authority collects landing and terminal fees to recover the operating and capital costs related to airline operations. This revenue amounted to \$120.3 million in 2012, a decrease of \$1.3 million from \$121.6 million in 2011. In 2011, the Airport Authority introduced the Gateway Incentive Program (GIP), a five-year program that freezes total aeronautical charges at 2010 levels for individual airlines, regardless of actual landed weight and aircraft capacity. This reduces the marginal cost of an additional flight to zero for an airline participating in the GIP and provides an incentive to expand capacity at YVR. Despite a three per cent tariff rate increase in 2012 for airlines not participating in the GIP, decreases in capacity by those carriers led to the decrease in aeronautical revenue.
- Non-aeronautical revenue: This includes revenue from concessions, such as duty free and car rentals, as well as car parking and terminal and land rents. Revenue from these sources amounted to \$176.2 million in 2012, an increase of \$18.2 million from \$158 million in 2011, due mainly to increased concession and land lease revenue and the sale of Automated Border Clearance kiosks (ABC) to other airports.
- Airport Improvement Fee (AIF): The revenue earned from aeronautical and non-aeronautical sources is not sufficient to cover both the costs of operating the airport and the required capital projects. To fund capital projects, the Airport Authority collects an AIF. Total revenue earned from the fee in 2012 was \$107.1 million, an increase of \$17.4 million from \$89.7 million in 2011, due mainly to the \$5 AIF rate increase for travel outside of B.C. and the Yukon that was implemented on May 1, 2012.

Non-AIF revenue goes towards covering the costs of operating the airport, which include salaries, wages and benefits, materials, supplies and services, payments in lieu of taxes and insurance. In 2012 these costs increased to \$140.8 million, an increase of \$4.9 million, from \$135.9 million in 2011. These increases were mainly due to the costs related to the sale of ABC kiosks to other airports, salary increases per the collective bargaining agreement, increases in pension plan and benefit expenses and an allowance for inventory obsolescence.

The Airport Authority also uses a portion of its revenue to pay rent to the federal government, which amounted to \$39.1 million in 2012, an increase of \$4.3 million, from \$34.8 million in 2011. The increase in rent was the result of the increase of the Airport Authority's revenue upon which the rent payment is based.

The total cash needed to pay for capital projects can exceed the amount available after payment of operating costs, ground lease and interest costs. In these situations, debt financing is required. The Airport Authority takes a conservative approach to debt levels and strives to achieve a reasonable balance between debt and sources of revenue. Debt carries an annual interest payment, which in 2012 amounted to \$31.5 million, a decrease of \$0.1 million, from \$31.6 million in 2011.

As required under generally accepted accounting principles and in the statement of operations, the costs of capital projects are spread over the useful life of the projects, as opposed to being recognized as total cash paid for the projects in the current year. This spreading of cost over the useful life is reflected as amortization on the statement of operations, which is a non-cash charge. Total amortization in 2012 amounted to \$108 million, a decrease of \$0.1 million, from \$108.1 million in 2011.

The Airport Authority realized \$1.7 million in dividend revenue as a result of a distribution of cash from Vantage and interest on cash held within Vancouver Airport Enterprises Limited.

The Airport Authority recorded a \$1.0 million write off of capital assets as a result of the demolition of structural facilities necessary for the redevelopment of the Domestic Terminal's A and B Piers.

Total excess of revenue over expenses, which includes amortization, was \$84.9 million in 2012, an increase of \$25.5 million from \$59.4 million in 2011. When amortization, a non-cash item, is removed, the Airport Authority generated \$181.6 million of net cash flow, prior to its investment in capital projects and repayment of debt as described below.

During 2012, the Airport Authority invested \$106 million in capital projects. The capital projects included redevelopment of the Domestic Terminal's A and B piers, apron slab replacement and overlay, corporate systems project, baggage system upgrades, taxiway F upgrade, duty free store expansion, airfield fence upgrade, relocation of loading bridges and the Ground Run-up Enclosure (GRE).

In order to pay for these capital projects, the following amounts were used:

- Net cash flow (excluding AIF) of \$78.7 million.
- Net AIF in the amount of \$102.9 million.

These amounts in total were more than sufficient to pay for the 2012 capital project costs, leaving \$142.2 million in cash available to pay for capital projects in 2013 and future years.

# <u>Unaudited Non-Consolidated Financial Statements of</u> Vancouver Airport Authority

Financial statements for Vancouver Airport Authority's operations at Vancouver International Airport (YVR) are provided in the Unaudited Non-Consolidated Statements.

# <u>Audited Consolidated Financial Statements of Vancouver</u> <u>Airport Authority</u>

Financial statements for all operations of Vancouver Airport Authority, including subsidiaries Vantage Airport Group (formerly YVR Airport Services Ltd.) and YVR Project Management Ltd., are provided in the Audited Consolidated Statements.