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2020 Annual Meeting: Chair and Chief Executive's addresses

Patrick Strange, Chair

Overview

Tēnā koutou, tēnā koutou, tēnā tatou katoa.

Good morning and welcome everyone to Auckland Airport's annual meeting. Thank you for making the effort to join us today via video link, and I'm sorry we can't meet with you in person. With the uncertainty around COVID alert levels we decided holding a virtual annual meeting was the most practical way of ensuring everyone who wanted to could attend the meeting safely.

I'm Patrick Strange and I'm Auckland Airport's Chair. Here with me today is Chief Executive Adrian Littlewood who will speak shortly and Director Julia Hoare, who will address you briefly on her re-election.

My fellow directors are also joining via video link: Mark Binns, Dean Hamilton, Liz Savage, Justine Smyth, Tania Simpson and Christine Spring. Our Chief Financial Officer Phil Neutze is also with us by video. And finally, we also have our General Counsel Mary-Liz Tuck here with us today, other executives, and our auditors Deloitte.

We began the 2020 financial year in a strong position, achieving solid passenger volumes in the first two financial quarters. Our major infrastructure redevelopment

programme was underway and on track with four key projects entering the execution phase.

Then the pandemic arrived. The emergence of COVID-19 is the biggest challenge we've faced in our 54-year history, significantly impacting our organisation, the aviation and tourism sectors and the wider economy.

At the outset of the pandemic, we knew it was important to respond swiftly, not only to safeguard our organisation's future but also to protect the safety and wellbeing of our people, travellers and the thousands who work in the airport environment.

Knowing our business is resilient and its long-term fundamentals remain strong, we set about immediately to chart a response that would enable Auckland Airport to recover and emerge from the crisis in a strong position.

We moved quickly to reduce both operating and capital costs and to preserve cash. This included reducing the size of our workforce; lowering the hours and salaries of most non-frontline staff to 80% for five months; reducing directors' remuneration by 20%; and suspending or cancelling all but critical capital projects.

We carried out a successful equity raise of \$1.2 billion in April, together with a major restructure of our near-term bank debt to protect our balance sheet. We also secured two-year covenant waivers with our banks and USPP lenders.

We're very grateful to you, our shareholders, for your show of confidence and support. You understand, as we do, that Auckland Airport has a key role to play in New Zealand's economic recovery. We are a trading nation, vitally dependent on access to world markets, and once conditions allow for tourism to recover, our country remains an extremely attractive place for high value tourists to visit.

However, before we update you on our investment and development plans, a summary of the key aspects of our performance for the 2020 financial year.

Results

It will come as no surprise to anyone that our results were in line with the severe downturn in global aviation.

Virtually overnight, we went from 30,000 travellers per day at our international terminal to a few hundred – some days, none.

In the year to 30 June 2020, revenue was down 24% to \$567 million, with earnings before interest expense, taxation, depreciation, fair-value adjustments and investments in associates decreasing 53% to \$260.4 million.

Reported profit after tax was down 63% to \$193.9 million and underlying net profit was down 31% to \$188.5 million. Underlying earnings per share was down nearly 35% to 14.7 cents for the 2020 financial year.

The total number of travellers passing through Auckland Airport declined to 15.5 million, down 26.5% on the previous year, the first decline in passenger numbers since the Global Financial Crisis in 2009.

In contrast, property has performed strongly even since the outbreak of COVID-19. As a result, annual rent roll increased 4% to \$104 million and the portfolio value has risen 17% to \$2 billion.

To manage cashflow, we are not in a position to pay dividends to shareholders for the 2020 financial year, the first time Auckland Airport has not paid a dividend since listing on the NZX 22 years ago.

Looking ahead to the 2021 financial year, aviation continues to face challenging times, which naturally brings uncertainty to the timing of our recovery.

Our financial performance is strongly linked to international arrivals and departures, and while there is no doubt that international travel will recover, it's not clear how quickly.

It's that high degree of uncertainty that prompted us to suspend underlying earnings guidance for the 2021 financial year. We will reassess this decision at our interim results in February.

While both IATA (International Air Travel Association) and Standard & Poor's have forecast a full recovery of international travel in approximately three years, at this stage we continue to think it prudent to take a more conservative approach.

We believe a full recovery could well take longer than three years. But we're hopeful that domestic travel will return to normal within two years. And we believe that we will see quarantine-free travel both ways across the Tasman and to the Pacific Islands earlier.

We believe one of the keys to this is development of a greatly enhanced risk and technology-based border system, and we are doing our part in supporting this.

Infrastructure Investment

In terms of construction work on site, the start of the 2020 financial year could not have been more different to how we ended it.

We began with more than 200 inter-connected infrastructure projects either planned or underway to build an airport for the future. These included major transport developments, terminal upgrades and airfield works – projects we were proud to be delivering for New Zealand.

But in March construction came to a standstill as New Zealand entered level 4 lockdown, and we made the difficult decision to cancel or defer more than \$2 billion of infrastructure projects. Only projects essential for safety or resilience were untouched.

Since then, we've been conducting an in-depth review of our development priorities. We remain confident in and committed to our long-term infrastructure plan but the timing of parts of it are clearly uncertain.

In the near term, we will be prioritising projects focused on safety, asset replacement, maintenance and resiliency. We are also very conscious that domestic volumes will return more quickly, and may challenge the capacity of our domestic terminal. We'll continue to assess our planned projects against future market conditions and our ability to support the investment required to complete them. Adrian will talk more about this shortly.

In the 2021 financial year, capital investment will be focused on existing roading projects; delivering core airfield renewals such as slab replacement on the runway and apron works along with upgrades to the baggage system.

As I mentioned earlier, our property business remains strong. We continue to be approached with inquiries for new property developments – solid growth here can play a key role in our organisation’s wider recovery.

Capital expenditure for the 2021 financial year is still expected to be between \$250 million and \$300 million.

In terms of governance, our board continues to evolve and refresh. At our 2019 annual meeting, we were joined by Liz Savage, who has 20 years’ experience in senior airline leadership roles in Australia and Europe. Liz has already proven herself a valuable addition.

We are pleased to have Julia Hoare standing for re-election as an independent director after three years with the board, in line with NZX listing rules. Julia is Chair of our audit committee and a very valuable contributor. The board unanimously supports her re-election.

Finally, I want to offer my thanks to my fellow directors for their hard work over the year. But I particularly want to highlight and acknowledge the unfailing commitment of the Auckland Airport team – everyone from front-line staff to those in the executive team. It’s been a tough year. We’ve seen projects put on hold and significant job losses, impacting us, but also our commercial partners and contractors who support the airport. Meanwhile, the team has continued to support international repatriation and freight operations 24 hours a day under difficult conditions, which they have done superbly.

So again, on behalf of the board and our shareholders, thank you to all those people.

While the path ahead is still uncertain, we remain confident about our future and are well placed for recovery. Ultimately, we know we will return to adding value for investors, and growing New Zealand’s success in travel, trade and tourism.

Finally, thank you once again to our investors for showing such strong support through these uncertain times. It is very much appreciated.

I’ll now hand over to Adrian.

Adrian Littlewood, Chief Executive

Thank you Patrick.

Morena - good morning and welcome everyone to Auckland Airport's annual meeting.

As Patrick has noted, Auckland Airport has never faced a year like this one.

Patrick spoke about some of the broader issues and how we handled those challenges – and today I'd like to share some more detail on what the team at Auckland Airport did to respond to the arrival of this pandemic and how we're charting our course of recovery.

Firstly, I want to say how proud I am of our team here at Auckland Airport.

Through demanding and uncertain times, particularly during the early days of the crisis, our people were on hand to ensure travellers could get to where they needed to be. Airlinks remained open for crucial exports and the airfield continued to run in a safe and reliable manner.

Everywhere I go within our business I'm proud to be surrounded by the committed people who have ensured that Auckland Airport gets its vital job done. It's thanks to these people that the day-to-day operation runs smoothly and the company is in the best position to make a strong long-term recovery.

I also need to acknowledge the 260 people who have left our organisation, representing about 37% of our workforce.

As international passenger numbers fell, and our infrastructure development programme was scaled back, we had to make the difficult decision to reduce the size of our organisation. The staff who left were valued members of our team and we were really sorry to see them go.

When the pandemic first hit, we put into action a new three-tier plan: Respond, Recover, Accelerate.

In the first phase, Auckland Airport took immediate steps to take care of the health and safety of travellers, our people and the community. Throughout the pandemic, we have worked side-by-side with public health officials to make sure border protocols were

being followed to help protect our country from the spread of the virus, and we have stepped up sanitisation measures across our terminals.

During those hectic first months, our people played a vital role in facilitating repatriation services – often helping airlines that had no recent history in New Zealand to get tens of thousands of people home.

We also had to be mindful of the company's financial health, and we moved quickly to address financial challenges.

We took steps to strengthen our balance sheet, securing significant support from our lenders including extending the maturity dates of our bank loans and agreeing covenant waivers with our banks and USPP investors. We went to shareholders in April for an equity raise of \$1.2 billion, and I join Patrick in thanking you all for your support in this.

We also implemented a range of measures to manage cash flow including the tough call to cancel or defer the majority of our infrastructure development programme.

However, the drop in air travel did create some opportunities for us. It meant we were able to bring forward planned works to replace pavement at the eastern end of the runway, completing this important airfield maintenance work with minimal disruption to airlines and the travelling public.

We're also pushing on to deliver key transport infrastructure.

Anyone who's driven into the airport from the north along George Bolt Memorial Drive will have seen the team hard at work. This road is a vital connection linking the airport to the city and by completing these works now, with less traffic on the roads, we'll be better positioned for growth as the recovery continues. Equally our joint project with NZTA Waka Kotahi on adding mass-transit lanes to State Highway 20B means that both the southern and northern entrances to the airport precinct will shortly benefit from significant upgrades.

We are now into the early stages of our recovery - working hard to build and maintain public confidence in air travel, rebuilding our domestic business, and playing our part in efforts to re-establish regular, reliable airlinks with Australia and the Pacific Islands.

It's been great to see domestic travel returning strongly with Auckland's recent shift back to level 1, with passenger numbers in the October school holidays reaching about 65% of the same period last year. The encouraging increase in domestic travel has allowed us to reopen all of our domestic parking products, including valet, with strong customer demand. As a result, Auckland Airport's financial performance in the first quarter of the 2021 financial year has been stronger than we anticipated when we undertook the equity raise. While the shape of recovery has and will continue to be uncertain, operating earnings (EBITDAFI) averaged across July to September have been approximately \$10 million per month, versus the small monthly losses we allowed for when sizing the equity raise.

Since the earliest days of the pandemic, Auckland Airport has played a leading role in developing comprehensive plans to support government decision-making about when and how to reopen the border to other low-risk countries. Earlier this year we helped bring together and support a team of 40 experts in the development of a blueprint for a Trans-Tasman safe zone and this was shared with Australian and New Zealand Prime Ministers.

The reopening of the Australian states of New South Wales, South Australia and Northern Territory to quarantine-free travel for New Zealanders is a step in the right direction and we continue to see new examples around the world of countries establishing new processes and protections to allow borders to safely re-open.

We believe the Government and the private sector need to work together with urgency in order to chart a path for New Zealand in a post-pandemic world - in a way that keeps our communities safe, but also allows families to reconnect and jobs, tourism and our economy to recover.

We think New Zealand needs to develop a truly capable domestic health security system that will allow us to live with the ongoing risk of COVID-19, while ensuring our country can stay safe, and stay connected to the world.

We will continue to work alongside and support the New Zealand Government as it considers future arrangements for quarantine free-travel across the Tasman and to other low risk countries as conditions permit.

To enable safe travel zones, Auckland Airport has developed a comprehensive plan to ensure we can provide a safe, separated pathway through the international terminal whenever the Government decides it is safe to allow quarantine-free arrivals. We've worked hard with our border agency and airline partners and the physical works are now complete to allow for the separation of different categories of travellers under a range of different scenarios.

As we look to the future, Auckland Airport will continue to build on earlier work to maintain and bolster airlinks and drive inbound tourism.

Prior to the arrival of COVID-19, Auckland Airport was connected to 43 international destinations and 29 different airlines. Our team worked hard to develop those links over many years and we're confident that as economies and airlines return to strength, those vital airlinks will be restored. New Zealand continues to be an attractive destination and this may be more so in a post-pandemic world.

As mentioned previously, the outbreak of COVID-19 and the reduction in flight and passenger numbers meant we had to re-evaluate our entire infrastructure programme. Our aim was to act swiftly and prudently to avoid unnecessary spending while preserving what we had already achieved.

Major developments, including four key anchor infrastructure projects, were well underway:

- A 250,000m² expansion of airfield taxiways and remote stands
- Preparation work for two key terminal expansion projects – the \$1 billion-plus Domestic Jet Hub and a new \$350 million-plus international arrivals area
- A circa \$100 million upgrade to our core roading network and construction of an additional Park & Ride facility
- We had also secured Environment Court approval for design changes to the second runway, including extending the planned length

Until we have more certainty about the outlook for aviation, the decision was made to defer many of these projects. These include terminal projects such as the expanded international arrivals area; airfield projects including the extension of taxiways Mike and Lima; and transport projects such as the new Park & Ride South facility.

We know our people and partners were excited to be part of these key projects, so deferral decisions were not taken lightly. However, we will preserve and build on our earlier project work and we will review the timing of project re-starts as demand triggers are met.

We are also mindful that while we must carefully monitor our balance sheet, we also have a window of opportunity for development while the airport is quieter. We are actively considering opportunities in this regard including the shape of our future investment in new domestic capacity.

Community

COVID-19 has changed many aspects of our business, but our commitment to be a good neighbour and good employer remains the same.

Because COVID-19 has placed such unprecedented challenges upon our people, we've made sure lines of communication with staff have been solid throughout the pandemic, keeping our people connected with the organisation and with each other.

We've worked with contractors to push for better health and safety outcomes – our commitment to zero harm means we continually seek improvement in our processes and performance.

The result of this work was clear – with an 89% increase in the number of safety observations and hazards reported through our Safety Management System, a 72% decline in employee injury and a 6% decrease in passenger incident rates in 2020 financial year.

Through the Auckland Airport Community Trust, we shared over \$350,000 among community projects supporting learning, literacy and life skills in South Auckland

During the year our Auckland Airport Jobs and Skills hub Ara continued to connect local people with training and employment opportunities, as part of joint initiatives with government agencies, training providers and employers.

Despite the challenges our organisation is currently facing, Auckland Airport's long-term commitment to Ara remains. However, we have changed the model to partner more

closely with the Ministry of Social Development and the Auckland Business Chamber. We continue to support Ara with development opportunities and by providing building facilities for its headquarters.

In the 2020 financial year we also made good progress on achieving our sustainability targets but the outbreak of COVID-19 has prompted a review of our approach to sustainability. We are looking forward to providing an update on our new strategy and targets when we release our interim results for the 2021 financial year.

Conclusion

Back in 2014, Auckland Airport created a new master plan. It was a vision for the future with an ambitious programme of infrastructure development at the centre of it.

Following our formal infrastructure consultation and aeronautical price setting process in 2017, we confirmed the development path and much of this programme was coming to life. When COVID-19 hit we were on the approach to a new domestic jet hub, a second runway and a range of transport projects.

COVID-19 might have changed the outlook and it has certainly reset the timelines for tourism growth – but our commitment to our masterplan and vision for the future remains. Auckland Airport will continue be the airport to serve New Zealand’s future needs.

I want to thank our people at Auckland Airport, and our partners in the aviation sector, for doing such a remarkable job in such uniquely testing circumstances.

I also want to thank our valued customers and our Board for its guidance.

Finally, thank you to our investors for your ongoing support.

Nga mihi. Thank you.

ENDS

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