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2019 Annual Meeting: Chair and Chief Executive's addresses

Patrick Strange, Chair

Overview

Tēnā koutou, tēnā koutou, tēnā tatou katoa.

Welcome to Auckland Airport's annual meeting.

During the past year we have made real progress on our 30-year vision to build an airport of the future. Our investments in services and infrastructure helped deliver several significant milestones in the 2019 financial year.

The completion of the redevelopment of the departure area at the International Terminal was a particular highlight, making it a place where travellers can shop, eat and relax. Work is now well underway on two more of our eight key anchor infrastructure projects – and Adrian will share more on these and other performance milestones shortly.

Our infrastructure programme is complex and far-reaching. It is a major transformation of our airport to position us for the coming decades. Ultimately it will mean a smoother, more unique experience for our travellers and a fitting northern gateway for Aotearoa, New Zealand.

It will also ensure that we remain a competitive, efficient airport for years to come, and that we strengthen New Zealand's connections to the world. And it will enable the sustainable growth ambitions of our country's trade and tourism sectors.

Today I will update you on our investment and development plans, before providing guidance for the year ahead. First though, a summary of our performance highlights.

Performance highlights

Our financial results tell the story of a company achieving consistent returns during a period of significant transformation.

2019 was a solid year for Auckland Airport, with revenue up 8.7 per cent to \$743.4 million.

The total number of travellers passing through Auckland Airport increased to 21.1 million, up 2.8 per cent on the previous year.

One of our key measures of financial performance - operating earnings before interest, taxation, depreciation, fair value adjustments and investments in associates - went up by 9.6 per cent to \$554.8 million. Our total profit after tax declined 19.5 per cent to \$523.5 million, as the prior year's result was bolstered by profit on the sale of our 24.6 per cent shareholding in North Queensland Airports.

For several years, we have also reported underlying profit after tax to help investors more easily compare profits between years when revaluation changes or one-off transactions can occur. You can find a reconciliation between reported and underlying profits on page 33 of our financial statements.

In the 2019 financial year underlying profit after tax was up more than four per cent to \$274.7 million.

Underlying earnings per share rose 3.6 per cent to 22.8 cents – and the Board has confirmed a final dividend of 11.25 cents per share, up 2.3 per cent on the prior year.

We are pleased with this financial performance in a year in which aviation growth moderated, as inevitably happens after a period of major expansion.

Planning for the future

Travellers using Auckland Airport generally have three priorities. They want to get to and from the airport on time. They want a stress-free experience before boarding or after arrival. And they expect their flight to take off or land on schedule.

We alone can't control all of these needs – but we can contribute to a better, faster, easier travelling experience for every traveller who passes through our doors. We are doing this by delivering a multi-billion-dollar investment programme in one of New Zealand's busiest development precincts, and by working very closely with all of our partners – everyone from ground handlers to border agencies to airlines.

We have more than 200 inter-connected infrastructure projects either planned or underway at the airport, spanning the airfield terminal and transport developments.

The Board provides critical oversight to support management to deliver these projects on time, within budget and to the satisfaction of all our customers, travellers and visitors to the airport - in a New Zealand market that is a very challenging one to procure construction and infrastructure.

Building for the future

We expect the number of travellers passing through Auckland Airport to double by 2044, and Auckland Airport has long-anticipated the need for a second runway to accommodate this growth.

We have been through the formal process required to gain planning approval for our new Northern Runway, and I want to update you on progress.

In December 2018 Auckland Council released its recommendations on the notices of requirement to enable construction and operation of the new runway. We largely accepted these recommendations.

However, a number of appeals were lodged with the Environment Court. We anticipate that the last of these appeals will be resolved shortly. In consultation with airlines, we have advanced detailed planning and design to understand more fully the runway project scope, programme, timing and cost. We do not yet have an update on when the second runway will be needed, but we want to be firmly in a position to deliver it when it's required and on time.

Delivering for NZ

We cannot consider Auckland Airport's future in isolation from the trends and market developments influencing our tourism sector. Tourism is one of New Zealand's most important industries. It employs eight per cent of the New Zealand workforce, and contributes \$15.9 billion to GDP.

This year, the Government released its strategy to ensure New Zealand benefits from sustainable tourism growth which is spread across the country, rather than being concentrated on a few of our more beautiful spots.

Growth for the sake of growth will not serve our nation well. Auckland Airport believes the tourism industry needs to better understand and manage its impact, to ensure it does continue to grow successfully and sustainably.

We are playing our part to support tourism's sustainable growth, by partnering with the tourism industry and airlines to attract high-value visitors from a diverse range of markets and by encouraging people to travel around New Zealand.

Over the past four years we have worked with airlines and tourism partners to unlock new routes and boost capacity, increasing from 19 airlines in 2015 to 29 international airlines today.

Outlook

Turning to the year ahead, the current financial year is the first in which our discounted aeronautical prices apply.

Following a review of the aeronautical prices we set in 2017, the Commerce Commission formed its view that our target return was not fully justified. Auckland Airport carefully considered the Commission's feedback earlier this year. We believe the earlier prices we set for airlines were fair, competitive and in line with international standards.

But we acknowledged the Commission had a different view and decided to reduce charges to airlines by \$33 million over the final three years of the current five-year pricing period – taking us out to the 2022 financial year. This amounts to an average annual reduction of \$11 million in present value terms. To provide some context, this represents approximately a 1.8% reduction when compared to total revenue for 2019.

We expect underlying profit after tax (excluding any fair value changes and other one-off items) in the current, 2020 financial year to again be between \$265 million and \$275 million.

As a number of our key infrastructure projects enter the building phase, we expect total capital expenditure of between \$450 million and \$550 million.

As always, our guidance is subject to any material adverse events, significant one-off expenses, non-cash fair value changes to property and deterioration as a result of global market conditions, or other unforeseeable circumstances.

Governance

Before I conclude, on behalf of the Board I would like to thank Brett Godfrey for his eight years of service as a director. As I mentioned earlier, Brett will formally retire from the Board at the end of this meeting. His experience combined with a 20-year career in airlines, and his international connections to the industry, have been invaluable. We will miss Brett's contribution.

Later in the meeting, you will have the opportunity to consider a resolution to elect Elizabeth Savage as an independent director, replacing Brett. You will also be asked to consider the re-election of Christine Spring as an independent director.

The Board unanimously recommends voting in favour of their election.

Conclusion

We will continue working hard in the year ahead to build an airport of the future that adds value to you as investors, to our travellers, to the community, and to New Zealand.

I want to offer my sincere thanks to my fellow directors.

I would also like to thank management, the airport team and our service partners. This is a business that never sleeps. Your tireless effort and commitment have delivered results in which you can all take pride.

I have found it satisfying to see what has been achieved in the last financial year – and look ahead with confidence to delivering on our infrastructure development programme.

Finally, on behalf of the Board and everyone at Auckland Airport, I would like to thank our community and customers for their support, patience and the wisdom of their insights and feedback as we continue to transform Auckland Airport for the future. Thank you.

Adrian Littlewood, Chief Executive

Overview

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

Patrick has mentioned some of the year's highlights – and today I'd like to share some more detail on how we are transforming Auckland Airport. During the 2019 financial year, we took some decent strides towards building the airport of the future that Auckland and New Zealand will need to remain globally connected and competitive.

We are well advanced in the planning, delivery and building of our eight key anchor projects that form the core of our once-in-a-generation upgrade of the airport.

At the same time, we need to continue to drive sustainable shareholder returns for investors by pursuing new commercial opportunities and ensuring we remain a company with a strong focus on growth.

I will start by updating you on some factors influencing traveller numbers, and the positive impact of the construction and transport projects we delivered during the 2019 financial year. Then I will talk about the next phase of investment and expansion and refining how we design and implement our projects.

I will finally wrap up with an update on our growing contribution to our community.

Short and long-term trends

The long-term trend is for travellers using Auckland Airport to double by 2044 – but changing market dynamics means we will see fluctuations in growth rates between years.

2019 was another record year for traveller numbers, but our numbers grew at a slower pace compared to recent years, and there were several reasons for this.

In a year of constant headlines about trade wars, Brexit, and civic activism, we saw different growth patterns emerge. Globally, passenger demand for travel has slowed, including in some of our key visitor source markets - Australia, China and Japan.

New routes to Asia and North America have been added – but the recent trend of rapid capacity growth is slowing due to airlines adjusting their business strategies to focus on yield over capacity.

This month was another example with Jetstar announcing it was pulling out of five New Zealand regional routes, reducing some important connections into the regions.

Looking ahead, however, future growth projections remain strong.

Urbanisation and the growth of the middle class in India, China and South East Asia will continue to represent a significant opportunity for our tourism sector over the long term.

Diversity of visitor markets remains an important part of our ongoing strategy, to ensure we are focusing on new growth opportunities when other markets mature.

For example, we have recently established a team in India to work with airlines and travel trade to build that emerging inbound market, and we recently led a tourism delegation to India to meet with government, travel agencies and airlines. This approach builds on what we have learned from our China market development work.

Delivering

As Patrick mentioned, we have transformed and expanded the departures area in the International Terminal. This challenging project has generated a really positive response from our customers. We achieved an Airport Service Quality score of 4.15 out of 5 for both terminals - effectively achieving an 83 per cent customer satisfaction rating - and a 12-year high for Auckland Airport.

This new International Terminal departure area provides quality facilities to support travellers at the start of their journey with upgraded bathrooms, generous public seating areas, more device charging stations, and improved internet connectivity for every traveller.

The food choices are excellent. Fourteen new food and beverage outlets were added in the financial year 2019, with some of New Zealand's award-winning chefs behind them.

The quality of what's been achieved has already been recognised with a major global award – the 2019 'Airport Food & Beverage Offer of the Year'.

We are also working hard to provide consumer choice and great deals for our customers online with our innovative shopping platform The Mall – enabling international travellers to shop at multiple retailers via a single online check out.

Auckland Airport is the guardian of one of New Zealand's most important transport hubs, and we're delivering for the future by tackling some significant infrastructure projects.

In June this year we started construction work on two of our eight key anchor projects.

We began our largest airfield expansion since the 1970s, to accommodate the growing number of aircraft expected in coming decades. This project will increase the airfield by 250,000m² or the equivalent of 30 rugby fields and will deliver new taxiways and six new remote stands to park and service aircraft.

We also awarded the contract for our largest roading project in decades – the Northern Network. This will transform the main entrance way into the airport, improve traffic flows, enable more public transport, and upgrade and strengthen public utilities. But importantly, this project will act as a foundation for future growth, creating a resilient, future-proofed transport network able to support the wider terminal and runway developments.

East of the airport, we are also about to commence a new transport project in partnership with the New Zealand Transport Authority and Auckland Transport as part of the Southwest gateway programme. Once complete, the programme will deliver improved rail and bus connections at Puhinui Station, along with a rapid transit link to Auckland Airport.

We made excellent progress in other areas of our development business.

Construction has kicked off on the new luxury Te Arikinui Pullman Auckland Airport Hotel – our joint venture with Tainui Group Holdings.

This is just one of the many successful projects being managed by our property investment business, which again had another outstanding year of growth in 2019. Auckland Airport now owns and manages one of the country's largest investment-grade

property portfolios, with an annual rent roll of \$100 million and a portfolio value now exceeding \$1.7 billion. We remain committed to supporting the ongoing growth of our investment property business.

This year we will continue to upgrade the existing Domestic Terminal, while advancing our plans for a new Domestic Jet Facility to be integrated with the International Terminal. We'll also continue with our other anchor projects and we expect to soon begin construction works on a major upgrade and expansion of a new International arrivals and biosecurity screening area.

Planning for the future

During the year we took a fresh look at the key projects within our infrastructure plan working closely with our airline partners. Our infrastructure projects will add significant aeronautical capacity to cater for future growth – and we need to get them right.

This review work continues across our portfolio and we are continuing to retest our assumptions and demand triggers with airline partners. We previously planned to update investors next month on our refreshed infrastructure plan at an investor day, however in light of continuing reviews with airline partners and recent changes in aviation demand and market structure, for example Jetstar's decision this month to withdraw regional NZ services, we have decided to defer investor day until we have completed that work. We will confirm a new date in due course.

Our ongoing focus on design and planning has meant that spend on physical works has been later than expected and therefore our capital expenditure during the 2019 financial year was at the lower end of our forecast, coming in at \$284.1 million against guidance of \$280 - \$330 million.

We still expect to finish the five-year pricing period through to 2022 strongly, with total commissioned assets over the period broadly in line with the forecast released to the market in mid-2017.

As an indication of the current momentum in our build programme, we now have both infrastructure and commercial projects with a combined value of over \$1.1 billion underway.

Our people, our community, our environment

The extensive growth and change underway at Auckland Airport have far-reaching impacts and, more than ever, we need to look after our people, our community and our environment.

We are focused on taking care of our travellers with a new approach to customer service and training, aimed at ensuring everyone has a relaxing and enjoyable experience at Auckland Airport.

We have also launched a multi-channel communications campaign called 'Stay In The Know' to keep local businesses, precinct workers and the public up to date with what's happening at the airport and how it might impact their journey.

In terms of the transformation ahead, we know we can only successfully deliver change of this order if our people and contracting partners are engaged and on board.

Our workforce has increased by more than 40 per cent over the last three years as the infrastructure programme has grown and our people are working in an environment of continual change. This presents opportunities, but also requires a special effort to preserve the things that make the airport a place where people enjoy working and are safe.

In the past year our recordable injury rate dropped 2.2 per cent. In the same period, we saw a 6.8 per cent increase in the number of safety observations and hazards reported. That's a good sign our employees and contractors are proactive and engaged.

In 2015, we set up Ara – our airport jobs and skills hub. It's our joint initiative with the South Auckland community, government agencies, training providers and employers, to improve outcomes for job seekers.

In the last financial year Ara facilitated 210 job placements, with 175 of these involving people from South Auckland. A further 785 people have completed training offered through Ara, and there are nearly 700 others still in training. We were pleased to see Ara's work recognised by the Government earlier this year, as it launched two new jobs and skills hubs which were modelled on Ara.

At a broader level, Auckland Airport again granted more than \$345,000 to community projects in the 2019 financial year through the Auckland Airport Community Trust to support learning, literacy and life skills in South Auckland.

Our airport cannot grow and develop without acting to protect our natural environment.

We measure our progress against targets for energy, carbon, water and minimising waste across our operations and in the 2019 financial year we reduced energy use per passenger at the airport by 18 percent. Waste to landfill per passenger has nearly halved, and carbon emissions are down 33 per cent against 2012 benchmarks.

We are delighted to be a finalist in Enviro-Mark Solution's 2019 Excellence in Climate Action Awards for our energy efficiency and low-carbon initiatives, and I'm sure this also contributed to Auckland Airport being recognised as one of New Zealand's top ten most trusted companies by Colmar Brunton for the third year in a row.

Conclusion

Our five-year business strategy is very clear about what we need to do to deliver on our ambitions. We are a growth company, investing for the future. We are working hard to support and enable New Zealand to be a successful exporting nation and a great tourism destination.

In the past year, we worked hard to execute on our strategy and in doing so, we have strived to make life better for travellers, our customers, our local community, New Zealand and our investors, but we know we have a lot more to do.

I want to thank our people at Auckland Airport and our partners for helping to make it all happen. Our achievements are only possible thanks to the dedication of our staff and the thousands of others that work on our projects.

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

Finally, thank you to our investors for your ongoing support as we focus on the future and our continued growth and transformation.

Nga mihi. Thank you.

ENDS