

**Media release | 20 February 2020**

## **Auckland International Airport FY20 Interim Results**

**Historic period of transformation: \$1.2 billion of infrastructure projects now under construction as Auckland Airport announces a new international arrivals area and advances plans for the Domestic Jet Hub**

Auckland Airport today announced its financial results for the six months to 31 December 2019. Board Chair Patrick Strange said: “Auckland Airport is well underway with the biggest transformation in our history to modernise and expand the precinct to become an airport of the future. There is strong momentum in our infrastructure development programme with construction in progress on four of our eight key anchor infrastructure projects. Our focus is on delivering for customers and for New Zealand and it’s been a solid start to the financial year as we continue our work on significant new aeronautical infrastructure and advance plans for a new Domestic Jet Hub.”

### **Highlights**

<b>Six months ended</b>	<b>31 December 2019</b>	<b>31 December 2018</b>	<b>Variance</b>
<b>Total passengers</b>	<b>10.6 million</b>	<b>10.6 million</b>	<b>Down 0.5%</b>
<b>Revenue</b>	<b>\$374.7 million</b>	<b>\$370.6 million</b>	<b>Up 1.1%</b>
<b>Operating EBITDAFI</b>	<b>\$279.2 million</b>	<b>\$277.1 million</b>	<b>Up 0.8%</b>
<b>Profit after tax</b>	<b>\$147.2 million</b>	<b>\$147.2 million</b>	<b>-</b>
<b>Earnings per share</b>	<b>12.1 cents</b>	<b>12.2 cents</b>	<b>Down 0.7%</b>
<b>Underlying profit after tax*</b>	<b>\$139.9 million</b>	<b>\$136.9 million</b>	<b>Up 2.2%</b>
<b>Underlying earnings per share*</b>	<b>11.5 cents</b>	<b>11.4 cents</b>	<b>Up 0.9%</b>
<b>Interim dividend</b>	<b>11.0 cents</b>	<b>11.0 cents</b>	<b>-</b>

\* Refer to slide 33 of the 2020 interim results presentation for a definition of underlying profit after tax and a reconciliation between this non-GAAP profit measure and reported profit after tax.

- Solid performance delivering earnings before interest expense, taxation, depreciation, fair value adjustments and investments in associates (EBITDAFI) of \$279.2 million in the first half of the 2020 financial year, a rise of 0.8% on the previous half-year period. Results reflect several factors, including moderating passenger growth and the impact of the discounts announced in February last year to the airport's previously published aeronautical prices.
- Total investment in infrastructure projects now under construction has reached \$1.2 billion as part of a broader \$1.5 billion development programme underway across the precinct.
- Announced the construction of a new \$350 million-plus 30,000m<sup>2</sup> arrivals area at the international terminal, with site enabling works underway and vertical construction to begin mid-2020. It's the fourth of eight key anchor infrastructure projects to get underway over the past year, alongside an expansion and redevelopment of the airfield and transport improvements across the precinct.
- Interim construction alliance negotiated and now formed to accelerate the delivery of the new Domestic Jet Hub, a \$1 billion-plus terminal to be connected to the international terminal. The alliance is between Auckland Airport, Hawkins (a Downer company), Fletcher Construction and designers Mott MacDonald.
- Continued strength in Auckland Airport's property business with \$300 million of investment assets under construction in the first half of the 2020 financial year, including a new hotel and an 85,000m<sup>2</sup> warehouse and office facility for Foodstuffs NZ. Additional investment in the new Te Arikunui Pullman Hotel under a joint venture partnership.
- Strong pipeline of new investment opportunities ahead. New pre-committed investment property developments of over \$60 million for DHL Supply Chain, Hellman Logistics, and Interwaste – all within The Landing Business Park.

## **Solid performance in first half of the 2020 financial year**

Auckland Airport reported revenue growth of 1.1% on the first half of the 2019 financial year to \$374.7 million, while total reported profit after tax was flat on the prior period at \$147.2 million. Underlying net profit, which excludes unrealised gains and losses arising from revaluation of property or treasury instruments, increased 2.2% to \$139.9 million.

Overall passenger numbers were 10.6 million, down 0.5% on the first half of the 2019 financial year, reflecting changes in international visitor source markets and reductions in airline seat capacity as airlines consolidated their networks. International passenger numbers including transits were up 0.2% to 5.8 million during the period, while domestic passenger numbers were down 1.2% to 4.7 million due to Jetstar's exit from regional services and other reductions in airline seat capacity impacting passenger demand.

“Global tourism has experienced rapid expansion in recent years and it's clear that the market has cycled into a consolidated phase and this is naturally reflected in our interim results. We are also working closely with our airline and tourism partners to understand the impact of the Covid-19 outbreak. But we remain confident about our prospects over the medium to longer term and continue to lay the groundwork for future growth,” said Mr Strange.

Auckland Airport welcomed new services to the network in the first half of the 2020 financial year, with new international routes to Vancouver and Seoul commencing along with the announcement of new services to New York and Dallas/Fort Worth. The Chinese market continued to evolve during the period and while passenger numbers softened overall, the trend of high-value independent traveller Chinese nationals flying direct to New Zealand and staying for longer continued in the first half of the 2020 financial year with these direct passengers up 5.3% on the prior period.

“Routes between Auckland and mainland China make up 5.9% of total overall seat capacity and while we are anticipating that the Covid-19 outbreak will continue to impact the Chinese market and possibly other markets for the remainder of the current financial year, it's still too early to judge the final impact.

“With more than 21 million people passing through Auckland Airport every year, our focus has been on providing a great experience for our customers. We have worked hard to deliver important terminal improvements and to streamline processes for travellers and it's great to see these gains reflected in our customer satisfaction scores,” Mr Strange said.

In the first half of the 2020 financial year, Auckland Airport's combined customer satisfaction rating (Airport Service Quality) for the domestic and international terminals climbed to its highest annual score in six years: 4.16 out of 5.

The uplift in customer satisfaction reflected improvements delivered as part of the multi-million-dollar 36,000m<sup>2</sup> transformation of Auckland Airport's international terminal departure area, along with works to upgrade the existing domestic terminal building, such as expansion of the security screening area and the food precinct.

### **Building an airport of the future – International arrivals and Domestic Jet Hub**

The arrival point for more than five million Kiwis returning home and visitors to New Zealand is set for a \$350 million-plus expansion as Auckland Airport begins work on a new international arrivals area.

"The investment will add more than 30,000m<sup>2</sup> of floor space or roughly three rugby fields to the current footprint of the international terminal, bringing a significant increase in space for border processing, biosecurity screening, retail, public dwell and back of house areas," said Auckland Airport Chief Executive Adrian Littlewood.

"We want everyone stepping off a long flight to feel the warmth of manaakitanga, a generous and warm welcome that is uniquely Aotearoa New Zealand, when they arrive into Auckland Airport. The expanded area will also help to strengthen New Zealand's border to prevent pests and diseases from entering the country and allow for the automation of many biosecurity processes. Scheduled for completion in late 2023, the expanded area will also deliver a 50% capacity increase in Biosecurity New Zealand and New Zealand Customs processing space, helping to improve peak time capacity."

The arrivals expansion is the fourth of eight key anchor infrastructure projects to get underway over the past year: large-scale roading; airfield and terminal infrastructure developments which will deliver greater capacity and resilience. A highlight will be a more efficient roading system to enable public transport, to prioritise traffic heading to the terminals and to ensure safer and reliable journeys.

Roading improvements will also support infrastructure development and integrate with the improvements Waka Kotahi NZ Transport Agency and Auckland Transport are making to the airport's southern access point – SH20B.

“Auckland Airport is becoming an increasingly important business hub, with more than 900 businesses and 20,000 workers based at or near the airport,” said Mr Littlewood.

“Despite growth leveling off recently, traveller numbers are estimated to more than double to 40 million-plus per year by 2044. We know that we need to work fast to progress our transformation plans and our core focus is on delivering the essential aeronautical infrastructure New Zealand needs to succeed for the future.

“We are investing heavily in our airfield with \$720 million to be spent over the next four years in renewing, maintaining and expanding the airfield and associated airfield utilities. We are making good progress with our airfield expansion: building new taxiways and remote stands, and creating headroom for the parking and servicing of aircraft as we make way for further infrastructure development.

“Our team is accelerating progress of the Domestic Jet Hub – a \$1 billion-plus development to be connected to the current international terminal and one of our most important anchor projects.

“It's no secret that the complexity of delivering such a large-scale vertical development in both a constrained construction market and a 24/7 operating environment has created some challenges for us. However, we have made significant strides in advancing the design and delivery model for the project over the period, with enabling works for Domestic Jet Hub now underway in and around the future building footprint. We have worked closely with our airline partners to understand their requirements and we are now moving from preliminary to developed design,” Mr Littlewood said.

A project alliance is being formed to build and deliver the Domestic Jet Hub, with an interim alliance agreement now in place between Auckland Airport, Hawkins (a Downer company), Fletcher Construction and Mott MacDonald.

Common in horizontal infrastructure developments such as roading or rail, the vertical construction alliance will be made up of a 150-strong project team, with an estimated 1,600 contractors at the peak of development to deliver a new domestic jet-only pier, a retail area, and a new food and beverage precinct.

“For a build as complex as the Domestic Jet Hub, we need to tackle the project differently, shifting away from traditional procurement practices to a delivery model based on shared responsibility and collaboration, in line with the new Construction Industry Accord. The alliance will also provide the capacity we need in a constrained construction market to successfully deliver such a large-scale development,” said Mr Littlewood.

Construction for the project is expected to begin in late-2020 with the first stage of the project due for completion in 2023.

### **Developing the airport precinct**

The scale and pace of development continues to provide new opportunities for growth and job creation at Auckland Airport, one of the fastest-growing parts of Auckland city.

Construction is well underway on two new quality hotels, each providing a complementary offering to appeal to a range of travellers. Built in partnership between Auckland Airport and Tainui Group Holdings, the luxury Te Arikini Pullman Hotel is a 311-room, five-star hotel that is now emerging on the doorstep of the arrivals area at the international terminal. Generating 200 new jobs once the hotel is open, construction is expected to be complete in 2022.

Further north across the precinct, construction on the airport’s fourth hotel is also progressing well – a 146-room, four-star property to be operated by Accor Group under the Mercure Hotel brand. Located near the existing airport retail centre, the project is generating an estimated 100 jobs during its construction and will employ around 82 full-time workers on its completion in 2021.

“The performance of our property investment business has been a highlight for the first half of the 2020 financial year with annualised rent roll of \$104.7 million, growth of 11.4%

against the first half of the 2019 financial year and our portfolio achieving 99.4% occupancy for the period. Momentum is accelerating, with \$300 million of investment properties under construction in the first half of the 2020 financial year.

“In quarter three, the property team will begin the development of almost 40,000m<sup>2</sup> of new, pre-leased premium facilities. This includes a new state-of-the-art 4,000m<sup>2</sup> purpose-built facility for Interwaste. This facility will service waste from Auckland Airport, Ports of Auckland, Port of Tauranga and the majority of the District Health Boards in the North Island.

“We’re also progressing a number of transport-related projects, including a new 3,200-bay Park & Ride facility south of the airport and enabling works at the international terminal to allow for the development of a new multi-storey car park to meet growing customer demand.

“The pipeline of investment property work for the remainder of the 2020 financial year is very positive with more than 65,000m<sup>2</sup> and over \$100 million of development under discussion,” said Mr Littlewood.

### **Growing the precinct safely and sustainably with a community focus**

As construction ramps up, Auckland Airport is working to connect local people with local jobs through Ara – Auckland Airport’s Jobs and Skills Hub. In November 2019, hundreds of job seekers and employers took part in Auckland Airport’s first-ever job expo, held in partnership between the Ministry of Social Development (MSD), Auckland Business Chamber and Ara.

“Thousands of jobs will be created at the airport precinct over the next 30 years, and we are working with our partners to ensure local people can make the most of the career opportunities that are on their doorstep, while helping local employers to fill any vacancies they have,” said Mr Littlewood.

While pressing ahead with new initiatives to boost local employment, Auckland Airport continues to seek opportunities to lighten our impact on the environment.

Auckland Airport is focused on progressing designs that reduce energy, carbon and waste, drawing on best practice in sustainable design to guide decision-making through the planning, design and construction phases. This includes consulting with the New Zealand Green Building Council (NZGB) and the Infrastructure Sustainability Council of Australia (ISCA), as well as preparing a sustainable design and construction manual to guide the activities of Auckland Airport and our suppliers, supporting the delivery of sustainable outcomes through the design and construction process. An example of this is the construction of a new 75,000m<sup>2</sup> distribution centre for Foodstuffs NZ with a Green Star rating of 6 stars and a roof to support the 6,000m<sup>2</sup> of solar panels now being installed.

“Auckland Airport has a proud history of being a business focused on the long term and we want to ensure that we are minimising any impact of our development programme.

“This also extends to workplace safety. With so much development going on at the airport, we are committed to ensuring the safety and security of everyone working at and travelling through the precinct. Our strong safety culture includes a health and safety forum where we collaborate with our construction partners to ensure we share information, manage safety standards and improve outcomes for our people and contractors.

“The scale and pace of change at Auckland Airport also means we need to work hard to keep travellers and local businesses informed about construction work here, particularly on how it could impact their journey.”

Auckland Airport has launched a new campaign called Stay in the Know, combining a marketing strategy with a series of other communication tools – including a new website, fortnightly development update newsletters, videos and the quarterly AKL Update publication – to keep the public and stakeholders up to date with progress on our construction programme.

“Like many parts of Auckland, there is a significant amount of infrastructure change happening at Auckland Airport. It’s exciting, but we also want to make sure that we are upfront about the disruption all this construction might cause on a day-to-day basis, to make sure they can plan ahead and keep safe on the road,” said Mr Littlewood.



## Outlook

As we look to the remainder of the financial year we expect underlying profit after tax (excluding any fair value changes and other one-off items) for the full year to be between \$260 million and \$270 million. This is a slight reduction on the original guidance for the year, reflecting Auckland Airport's current estimates of the impact of the Covid-19 outbreak. We will continue to monitor developments and update guidance if actual outcomes differ materially from current assumptions.

We expect total capital expenditure for the current financial year of between \$450 million and \$550 million, and total aeronautical capital expenditure during PSE3 is still forecast to be broadly consistent with the original PSE3 pricing forecasts.

As always, this 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 unforeseen circumstances.

**\$2 billion PSE3 infrastructure development programme to provide capacity for an increase in passenger numbers, forecast to more than double to 40 million-plus by 2044.**

## **Eight key anchor projects**

### **Four underway**

- New international arrivals area
- Airfield expansion – stands and taxiways
- Roading upgrade – northern network
- Domestic terminal works

### **Four in early to advanced stages of planning**

- Domestic Jet Hub
- Pick-up and drop-off and multi-storey car park 1
- Northern runway
- Cargo precinct

### **\$1 billion-plus Domestic Jet Hub**

- Enabling works now underway
- Moving from preliminary to concept design
- Interim construction alliance now formed for the Domestic Jet Hub
  - Auckland Airport
  - Hawkins (a Downer company)
  - Fletcher Construction
  - Mott MacDonald

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### **Developing the precinct**

- \$300 million of investment properties under construction in the first half of the 2020 financial year including the 146-room Mercure Hotel
- Additional investment in the 311-room Te Arikini Pullman Hotel as part of a joint venture partnership with Tainui Group Holdings
- Park & Ride South development, providing 3,200 car-parking spaces
- 85,000m<sup>2</sup> facility for Foodstuffs NZ
- Auckland Airport continues to investigate commercial on-precinct retail property opportunities to complement existing retail developments

**ENDS**

To download or view a video about our arrivals project, click here:

<https://vimeo.com/392128348>

For further information, please contact:

**Media:**

Head of Communications and External Relations

Libby Middlebrook

+64 21 989 908

[libby.middlebrook@aucklandairport.co.nz](mailto:libby.middlebrook@aucklandairport.co.nz)

**Investors:**

Investor Relations and Reporting

Suzannah Steele

+64 9 257 7042

[suzannah.steele@aucklandairport.co.nz](mailto:suzannah.steele@aucklandairport.co.nz)