Auckland Airport

**Media Statement** | 19 August 2021

# FY21 Annual Results: Future focused and resilient despite market conditions

**Highlights**

- **First full-year underlying loss in the history of Auckland Airport**
- **Restructured funding and covenants support recovery and future development plans**
- **Reset infrastructure programme and new precinct retail development to be aligned with international aviation recovery**
- **New domestic hub to be merged into the international terminal**
- **New retail outlet centre featuring more than 100 stores and food outlets planned**
- **New sustainability strategy and goals - a pathway to Net Zero Carbon emissions by 2030**
- **Auckland Airport to give permanent employees $1,500 in airport shares to thank them for their efforts over the past year**

Auckland Airport today announced its financial results for the 12 months ended 30 June 2021.

Auckland Airport Chair Patrick Strange said: “It has been a year of disruption, resilience and adaptation for Auckland Airport as we worked through the pandemic to keep New Zealand safely connected to the world. Our results continue to reflect the serious impact that COVID-19 has had on our business and the wider aviation sector. This week’s national lockdown is a reminder that while there is still a great deal of uncertainty, the accelerating vaccination programme allows us to plan beyond the current phase of the pandemic with increasing confidence.

"I want to thank our people for the way they have responded to the COVID-19 crisis. They have put health and safety and the community first, working hard to always meet public-health requirements even as the apparent risks of the virus and the protocols for managing it were constantly shifting. In this difficult environment our team has remained committed to our recovery, planning ahead to strengthen the business and position us to succeed as demand returns."

Key performance data for the full year includes:

- Total number of passengers decreased to 6.4 million, down 58.5% on the previous financial year. International passenger numbers (including transits) were 0.6 million while domestic passenger numbers were 5.8 million
- Operating EBITDAFI was down by 34.1% to $171.5 million[1]
- Reported profit after tax was up 139.4% to $464.2 million
- Underlying profit fell by $230.3 million to a loss of $41.8 million[1]
- Earnings per share was up 107.2% to 31.5 cents per share (principally as a result of investment property revaluations)
- Underlying profit per share fell to a loss of 2.8 cents per share[1]
- Revenue was down 50.4% to $281.1 million
- No final dividend will be paid

Chief Executive Adrian Littlewood said the 2021 financial year had been a year like no other for Auckland Airport, with the lowest number of international arrivals and departures since 1972.

"COVID-19 changed our business overnight bringing constant upheaval to almost every part of our operation. But throughout all the uncertainty of the past 18 months, our team's determination to get the job done and go the extra mile for New Zealand has never faltered.

"I'm really proud of our team and their work to keep Kiwis connected to each other and the world and in recognition of their efforts we are giving $1500 in shares to each of our permanent employees – both as an acknowledgement of their hard work but also the critical role they will play as aviation recovers."

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[1] We recognise that EBITDAFI and underlying profit and loss are non-GAAP measures. Please refer to the table at the end of the media release for the reconciliation of reported profit after tax to underlying loss after tax

Mr Littlewood said the recovery of domestic travel had continued in the 2021 financial year, with domestic passenger numbers reaching 5.8 million, 17% down on the previous year.

Overall, total domestic and international travel was down 58% in the 2021 financial year on the previous period, with 6.4 million passengers. International traffic remained low with 0.6 million international passengers including transits at Auckland Airport in the 12 months to 30 June 2021, down 93% year on year.

Auckland Airport's investment property division continued to perform strongly in the 12 months to 30 June, with occupancy remaining at 99% at the end of the 2021 financial year despite the impact of COVID-19. Investment property annual rent roll increased 12.5% to $117 million and the portfolio value grew 29% to $2.6 billion.

**Auckland Airport's recovery strategy**

In 2020 Auckland Airport outlined a three-stage plan through and beyond the pandemic: Respond, Recover, Accelerate.

Mr Littlewood said Auckland Airport had gone further to control costs and reset the business in the 2021 financial year to ensure it reflected the new operating environment, including:

- Scaling back operating activity resulting in a significant reduction in operating expenses
- Repaying the remaining $425 million US Private Placement (USPP) borrowings. This, in addition to closing out a number of interest rate and currency hedges, is expected to reduce Auckland Airport's 2022 financial year interest expense by more than $10 million
- This month banks supported Auckland Airport's request to renew nearly $700 million of debt facilities due to mature between January and April 2022. From January 2022, Auckland Airport has agreed that the interest cover covenant currently waived by lenders will convert from an EBIT-based measure to a new EBITDA-based measure.

Mr Littlewood said taking these steps had renewed Auckland Airport's confidence in its ability to fund the planned infrastructure programme for the 2022 financial year and beyond.

"In the 2021 financial year we continued to support our business partners who are critical to the long-term success of our precinct, working with organisations to provide relief on a case-by-case basis, depending on the impact and type of business," Mr Littlewood said.

For example, Auckland Airport provided $9.0 million in aircraft parking support and $3.9 million in rent reductions to off-terminal property tenants in the 12 months to 30 June, including precinct retailers whose businesses have been impacted by lower foot traffic. Much larger abatements were provided to our in-terminal retailers, and despite facing a tough operating environment, occupancy remains at 96% across both terminals. Investment property occupancy remains at 99%.

Mr Littlewood said another area of focus for the 2021 financial year was the development of a new sustainability strategy and goals. He said Auckland Airport had set a pathway to achieve Net Zero Carbon emissions by 2030, including transitioning away from natural gas in the terminal. It had also completed its first report in line with the recommendations of the Taskforce for Climate-related Financial Disclosures (TCFD).

"Auckland Airport was one of New Zealand's early adopters of sustainability principles and we have made considerable progress in the areas of emissions reductions, energy savings, and waste management. Having largely met our previous objectives, we are lifting our sights with new sustainability targets, setting out how we will create value for our people and communities; contribute to the economy; and help tackle global challenges such as climate change."

**Infrastructure**

Prior to the outbreak of COVID-19, Auckland Airport had begun delivering on over $2.0 billion of core aeronautical infrastructure projects with eight anchor projects in either construction or feasibility and design.

Mr Littlewood said despite the impact of the pandemic on the aviation sector, Auckland Airport's capital investment in the 2021 financial year had continued, focusing on the upgrade and renewal of core infrastructure and to take advantage of the low traffic environment on the airfield and roads to minimise disruption. This included:

- $26 million invested in runway and wider airfield pavement replacements and upgrades
- $69 million in roading upgrades and construction of a mass transit system, including a $21 million contribution towards improvements along State Highway 20B which added high-occupancy vehicle lanes, cycling and walking paths, as well as road safety improvements to the important Auckland Airport-Puhunui-Britomart public transport connection.

Mr Littlewood said Auckland Airport had also carried out significant work to reset and reprioritise its infrastructure development plan.

"We have used this time to create a refreshed infrastructure development pathway that is realistic, prioritises the right projects, and is in line with aviation's recovery.

"Our priority development is construction of a new domestic hub to be merged into the international terminal at the eastern end of the building, providing a much-improved customer experience for travellers connecting between major New Zealand destinations and our global air connections. For Auckland-based travellers, a new transport hub with upgraded pedestrian, transport links, and car parking will offer a smooth connection into the terminal building.

The first $30 million stage of the $1 billion-plus domestic hub is expected to get underway in early 2022, focusing on demolition works to clear the footprint of building. Mr Littlewood said the next major phase of development would be determined by a range of factors including the speed of aviation's recovery.

"Kiwis have told us they want an improved domestic experience and we are getting on with it with an infrastructure development pathway that will be strongly matched to aviation's recovery and is supported by Air New Zealand and the Board of Airline Representatives of New Zealand (BARNZ).

"Along with the domestic hub we are continuing to progress three more of our anchor projects: our $160 million-plus programme of transport upgrades; a $200 million-plus transport hub; and upgrades to the existing domestic terminal. Anchor projects that remain on hold are the international airfield and taxiway expansion; new cargo precinct; new international arrivals area and the second runway."

**Retail business**

Today Auckland Airport announced plans to strengthen the precinct shopping experience further with the development of a 23,000m$^2$-plus outlet centre, generating more than 500 new jobs across more than 100 stores and food outlets. (see accompanying media release) Key highlights include:

- Outlet centre to be located on the north-eastern edge of the precinct offering sought-after premium and lifestyle brands to consumers at often heavily discounted prices
- Sustainable design principles to underpin development with Auckland Airport targeting Green Star design and build
- Careful precinct-wide planning and ongoing investment in transport will continue to prioritise terminal-bound traffic and enable public transport
- Major phases of development to be influenced by the strength of the retail market and the recovery of aviation

**Looking ahead**

Auckland Airport continues to adopt more conservative planning assumptions than those of the International Air Travel Association (IATA), which is forecasting global travel to fully recover and exceed pre-pandemic levels in 2023. Mr Littlewood said a full recovery may take longer.

"Our financial performance is strongly linked to passenger volumes, so our recovery will be greatly influenced by the return of domestic and international travel and changes in border settings. There are encouraging signs with vaccination programmes now ramping up here and around the world but we expect to see further volatility in domestic and international travel in the short term, with the global aviation market gradually rebuilding in 2022."

Due to uncertainty in the market, Mr Littlewood said Auckland Airport was currently unable to provide underlying earnings guidance for the 2022 financial year.

Capital works will continue to advance existing transport infrastructure projects and the delivery of core maintenance upgrades, with capital investment expected to be between $250 million and $300 million in the 2022 financial year.

Mr Littlewood said Auckland Airport would remain focused on the recovery of the tourism sector by supporting the Government in safely reopening the border, taking a leading role in a public/private sector work programme to develop options for future border settings.

"With New Zealand's path to recovery ahead of us it is important that Auckland Airport keeps delivering for our country. From safety protocols in the terminals to upgrading our infrastructure, this is the work that will ensure we deliver the strongest long-term prospects for New Zealand while helping to return our business to profitable and sustainable growth."

**ENDS**

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## *Note 1. Underlying profit / (loss) reconciliation*

The table below shows the reconciliation between reported profit after tax and underlying profit after tax for the years ended 30 June 2021 and 30 June 2020.

| | 2021 | | | 2020 | | |
|---|---|---|---|---|---|---|
| | Reported profit $M | Adjustments $M | Underlying profit $M | Reported profit $M | Adjustments $M | Underlying profit $M |
| **EBITDAFI per income statement[1]** | **171.5** | **-** | **171.5** | **260.4** | **-** | **260.4** |
| Investment property fair value increase | 527.3 | (527.3) | - | 168.6 | (168.6) | - |
| Property, plant and equipment revaluation | (7.5) | 7.5 | - | (45.9) | 45.9 | - |
| Fixed asset write-offs, impairments and termination costs[1] | - | 2.5 | 2.5 | - | 117.5 | 117.5 |
| Reversal of fixed asset impairments and termination costs[1] | - | (19.4) | (19.4) | - | - | - |
| Derivative fair value movement | (0.5) | 0.5 | - | (1.9) | 1.9 | - |
| Share of profit of associates and joint ventures | 21.1 | (15.7) | 5.4 | 8.4 | 0.8 | 9.2 |
| Impairment of investment in joint venture | - | - | - | (7.7) | - | (7.7) |
| Depreciation | (124.7) | - | (124.7) | (112.7) | - | (112.7) |
| Interest expense and other finance costs | (94.0) | - | (94.0) | (71.8) | - | (71.8) |
| Taxation (expense)/credit | (29.0) | 45.9 | 16.9 | (3.5) | (2.9) | (6.4) |
| **Profit/(loss) after tax** | **464.2** | **(506.0)** | **(41.8)** | **193.9** | **(5.4)** | **188.5** |

*Notes*

1. 2021 EBITDAFI includes a reversal of $19.4 million of previously expensed fixed asset write-offs, impairments and termination costs, partially reversing the full $117.5 million of costs that were booked in 2020. 2021 EBITDAFI also includes $2.5 million of new fixed asset write-offs, impairments and termination costs.

As set out in the table above, we have made the following adjustments to show underlying profit after tax for the years ended 30 June 2021 and 2020:

- We have reversed out the impact of revaluations of investment property in 2021 and 2020. An investor should monitor changes in investment property over time as a measure of growing value. However, a change in one particular year is too short to measure long-term performance. Changes between years can be volatile and, consequently, will impact comparisons. Finally, the revaluation is unrealised and, therefore, is not considered when determining dividends in accordance with the dividend policy
- Consistent with the approach to revaluations of investment property, we have also reversed out the revaluations of the land class of assets within property, plant and equipment in the 2021 and the land, infrastructure, and runways, taxiways and aprons classes of assets within property, plant and equipment in 2020. The fair value changes in property, plant and equipment are less frequent than are investment property revaluations, which also makes comparisons between years difficult
- We have reversed out the impact of capital expenditure write-offs, impairments and termination cost expenses and reversals for both the 2021 and 2020 financial years. In response to the COVID-19 outbreak, some capital expenditure projects were abandoned and fully written off and others were suspended and impaired. During the 2020 financial

year, some of these abandoned or suspended projects incurred contractor termination costs which were provisioned for in 2020 with the actual amounts finalised during the 2021 financial year resulting in some reversals of 2020 expenses. The abandonment or suspension of live capital expenditure projects is extremely rare and is the direct consequence of COVID-19. These fixed asset write-off costs, impairments and termination costs are not considered to be an element of the group's normal business activities and on this basis have been excluded from underlying profit

- We have also reversed out the impact of derivative fair value movements. These are unrealised and relate to basis swaps that do not qualify for hedge accounting on foreign exchange hedges, as well as any ineffective valuation movements in other financial derivatives. The group intends to hold its derivatives to maturity, so any fair value movements are expected to reverse out over their remaining lives. Further information is included in note 18(b) of the financial statements.
- In addition, we have adjusted the share of profit of associates and joint ventures in both 2021 and 2020 to reverse out the impacts on those profits from revaluations of investment property and financial derivatives.
- We have also reversed out the taxation impacts of the above movements in both the 2021 and 2020 financial years.