Media Release | 24 October 2012

Auckland Airport annual meeting Chair's address

Chair's Address

In addressing the annual meeting, I would like to cover the following topics:

- The highlights of the 2012 financial year,
- An update since 30 June 2012,
- Outlook for the next 12 months,

In reflecting on the 2012 financial year, I can confidently say, on behalf of my fellow directors, that Auckland Airport is, at this time, a high-performing and successful kiwi business that is increasingly ambitious about its future and about the economic future of New Zealand.

It was very pleasing to have built on last year's breakout profit result and deliver an even better financial and operational performance for the financial year ended 30 June. This was in spite of difficult global economic conditions and weaknesses in traditional long-haul markets such as Europe. Those conditions continue to challenge most businesses, including those in tourism, trade and aviation sectors.

Our underlying profit after taxation was up 15.0% to $139.025 million, whilst our "headline" total profit after tax was up 41.2% to $142.284 million. The improved result in underlying profit was largely fuelled by growth in passenger numbers across our airport interests. At Auckland Airport, total international passenger movements, including transits, were up 5.1%, and total domestic passenger movements were up 3.3%.

Passenger numbers also continued to grow at our other airport interests, with Queenstown's international passenger movements up an excellent 21.2% and domestic passenger movements up 11.6%. At Cairns Airport, international passenger movements grew by 3.5% while domestic passenger movements were up 3.2%. Mackay Airport, which is part of our North Queensland Airports investment, also continued its good growth on the back of the resource sector, with passenger movements up 7.7%. This growth in passenger numbers was reflected in the financial performance of our airport investments with NQA and Queenstown delivering double digit growth in operating EBITDAF.

While there are clearly more people travelling to and from New Zealand than ever before, a closer look at the statistics reveals a fundamental shift in global travel demographics. Strong growth is occurring out of Australia, China, and many other South-East Asian nations, with declining travel numbers out of the United Kingdom, Europe, Japan and the United States.

Although some of this decline is related to air service capacity much of it is due to underlying global economic factors that show little sign of reversing in the near term. This reinforces the need for the Company and the country to adapt. Our proactive route development strategy has delivered real benefits in the financial year under review, showcased by the growth achieved through the direct air-links into Asia. I will speak more on this topic shortly.

Our focus on, and pride in, 'making journeys better' was again recognised in the World Skytrax Airport Awards, with Auckland Airport awarded the best airport in Australia Pacific for the 4th year in a row, and named 2nd best in the world for airports with between 10 to 20 million passengers annually.

The 2012 financial result offers further evidence of the merits of the long-term growth strategy and market focus that has driven our approach over the last few years. Looking back, we believe that our 2009 'Flight Path for Growth' strategy set the right foundation. At that time, with the global financial crisis in full swing, we were faced with a stark choice; to either ‘hunker down’ or go for growth. We decided then we had to strive for growth, and not be constrained by a sole focus on protection against downside risk. Since then, while our strategy has continued to evolve, that underlying principle of ambition for growth, even in turbulent times, has continued to fuel our success.

While airline customers, passengers and New Zealand economic interests have benefited, shareholders have also been rewarded by these efforts, with outstanding FY10, FY11 and FY12 total shareholder returns, and an increase in dividends for the past two financial years.

After careful consideration of the capital structure of the business, and as a signal of our confidence in our long-term prospects, our cash generation and our ability to fund growth aspirations, the Board has changed its dividend policy from paying 90% of net profit after tax to paying 100% of net profit after tax (excluding unrealised gains and losses arising from property revaluations, or treasury instruments and other one-off items).

As a result of the lift in financial performance and the change in dividend policy, the total dividends paid to shareholders for the year increased by 20.7% to 10.5 cents per share, with a final dividend of 6.1 cents per share. I also note that subsequent to the dividend policy change Standard & Poor’s revised its outlook on Auckland Airport to positive from stable.

Now - to what has been happening since balance date, 30 June 2012. For the first three months of this, the new financial year, international passenger movements at Auckland (excluding transits and transfers) were relatively flat, down 0.1% on the prior period to 1.732 million. Domestic passenger movements at Auckland were up 3.2% to 1.593 million, while total aircraft movements were flat for the three-month period.

At Cairns & Mackay Airport, where we hold a 24.55% shareholding international passengers through Cairns were down 9.2% to 170,000, while domestic growth was strong, up 8.0% to 970,000. Domestic growth at Mackay was up 1.9% to 290,000. At Queenstown Airport where we hold a 24.99% interest, strong growth continued with international up 9.8% to 93,000, and domestic up an outstanding 26.4% to 247,000 passengers.

If anything, the global market shifts that we noted in FY12 have actually accelerated in the first quarter this financial year. Visitor trends indicate that 'traditional' tourism markets such as Europe and United Kingdom remain firmly in decline, with only China, Australia and latterly India, currently growing. And with the strong growth 12 months ago out of European rugby playing nations now being lapped, the picture becomes even starker.

Global markets are now increasingly Asia-centric and likely to become more so. A global race is now on to capture value from the massive rise in the Asian middle-class that is projected. However, New Zealand's visitor industry, because of its remote location and small scale, is actually disadvantaged in global terms, despite its powerful brand appeal.

At Auckland Airport, we are determined to play our part in growing travel, trade and tourism for the markets we serve. We are now acknowledged as leaders in the tourism industry and we believe New Zealand Inc. is well served by the collaborative approach the industry is taking on maximising New Zealand's opportunities as we shift our focus to the Asian market. That focus has seen our arrivals from China increasing 31% over the last 12 months. I would again acknowledge the support we receive in this regard from the Prime Minister as Minister of Tourism, other government Ministers, the tourism agencies and our airline partners.

These sorts of dynamics have led Auckland Airport to carefully assess the tourism and trade challenges and opportunities that we collectively face as a nation, and to consider the significant potential for both the Company and New Zealand's economy should we be able to fulfil our aspirations.

At this point, Auckland Airport remains broadly on track to achieve all of its main forecasted value drivers for the 2013 financial year.

I also wanted to update you on one of our key responsibilities as a Board, and that is the appointment of a new chief executive to replace Simon Moutter. The recruitment process is rigorous and comprehensive and we are confident that that process will ensure we find a worthy replacement for Simon Moutter. And I should formally thank Simon for his four years exemplary service as CEO of the Company. Simon repositioned the business for the future, created enormous value and he has left a very positive legacy, including a fantastic team of direct reports who are ensuring the business doesn't miss a beat in this interregnum period. I particularly want to thank Simon Robertson for his leadership of the business during this time.

Looking ahead, as I said we intend to shortly finalise the appointment of a new chief executive and then assist their transition into that role. We also intend to confirm, alongside our airline partners, a clear pathway for finalising our master plan for airfield and terminal development in order to uncap long-term visitor growth potential. This will involve confirming the timing of the delivery of an eventual new terminal facility, particularly for domestic travel. We are also implementing some short-term fixes at the existing domestic terminal to improve some of its constraints while we work on delivering the best long-term solution.

Our master-planning activity must work closely with Auckland City planning. Auckland Airport is a key infrastructure asset for the country and it is absolutely critical that collectively we get it right. Examples such as London and Sydney illustrate the consequences where planners over time have allowed their city to enclose their airports and constrain their capacity for future growth. This is forcing cities to contemplate spending ratepayer or taxpayer money - in the tens of billions - on new airports to cope with the inevitable rise in travel and trade demand. For example, recent estimates suggest a proposed new Thames Estuary airport in London could cost the equivalent of NZ$100 billion. The economic and opportunity cost to Auckland and New Zealand would be massive if aviation capacity was constrained in a similar way.

I mentioned our role in the tourism industry earlier. We want to maintain our strong leadership role and push for an even bigger slice for New Zealand of the new global tourism growth action in order to maintain long-term momentum. From that perspective, it makes a lot of sense to focus more of our efforts where the future growth is much more likely to come from, which we believe is Asia, Australia and the Americas. And it's not just about the raw numbers - what we know for example is that Australia does a far better job of creating value per capita from visitors from China than New Zealand does.

Auckland Airport's goal is to enhance our economic contribution as much as possible and to unlock the constraints on our ability to do that. We will keep looking for ways to tap into new opportunities as a means of increasing New Zealand’s share of growth from these expanding markets.

In terms of our financial performance for the current year, the board remains optimistic about FY13 and as previously indicated expects net profit after tax (excluding any fair value changes and other one-off items) to be between $143.0 million and $150.0 million.

We note with some caution any potential long-term implications from the prevailing volatility in global economies. As always therefore, this guidance is subject to any other material adverse events, significant one-off expenses, non-cash fair value changes to property and further deterioration due to the global market conditions or other unforeseeable circumstances.

On behalf of the Board I’d like to again acknowledge the outstanding work of Simon and the rest of the executive team. They have worked relentlessly to create value for shareholders and for the New Zealand economy and their efforts are bearing fruit across the business. I would also like to acknowledge all of our wider team at Auckland Airport. They do a superb job 24/7, week in week out and it is a privilege as a board to support them in their roles. I'd also like to thank my fellow directors for their dedication to their roles, and their support for me as Chair.

During the year we sadly lost Lloyd Morrison and I would like to take the opportunity to acknowledge him. A Director since 2007, Lloyd challenged our thinking and inspired debate on many important issues. He was passionate and aspirational about Auckland Airport and its role in New Zealand, and in many ways he was an extraordinary New Zealander. Lloyd was relentless in his pursuit of excellence in everything he did, and we are committed to honouring that philosophy.

We were also deeply saddened on Monday to learn of the death of another of our former colleagues Sir Wilson Whineray. Sir Wilson retired from our board in October 2005 but I remember well his counsel and support and his unfailing commitment to make sure Auckland Airport remained future focused, growth orientated and always able to accommodate the next generation of aircraft. What you see today at Auckland Airport is part of his legacy.

I would also like to take this opportunity to signal to shareholders my intention to retire from the Board at the next Annual Meeting in October 2013. I have served on this board since 1997 and I am very confident that we have robust succession options around our Board table to fill the Chair position. My focus on the intervening 12 months will be appointing and assisting the new CEO into their role, and ensuring that we maintain the organisational momentum that this great New Zealand business is delivering.

ENDS

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