Auckland Airport

Our plan in action

Interim Results 2014

Auckland International Airport Limited

20 February 2014

This interim results presentation dated 20 February 2014 provides additional comment on the media and financial materials released before the market opened on the same date. As such, it should be read in conjunction with, and subject to, the explanations and views provided in that release.

Summary of the first half of FY14

Adrian Littlewood

A great start to FY14

Auckland Airport

Passenger movements

7.6m up 4.8%

Revenue

$238.5m up 6.7%

Operating EBITDAFI

$177.9m up 6.9%

Total profit

$85.9m up 11.7%

Underlying profit

$86.7m up 13.9%

Proposed capital return

$453.7m anticipated April 2014

Our plan in action

Grow travel markets

- New routes and capacity underpin passenger growth in first half of year
- Key participant in development of tourism industry's Tourism 2025 strategy to deliver growth for the country
- Constantly improving passenger experience to meet changing passenger mix

Strengthen our consumer business

- Consumer business continues to perform but some market challenges affecting growth
- Expanding footprint and capacity of our consumer business: Pier A retail, Park & Ride, Ibis Budget rooms
- Introduced new brands into retail
- New promotions and campaigns to raise consumer awareness

Our plan in action

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Be fast, efficient and effective

- Capital return announced and approved by shareholders
- Continuing productivity drive in airspace and terminal areas with industry partners
- Ongoing investment in new airport operating system

Invest for future growth

- Announced 30-year vision for the ‘airport of the future’
- Domestic terminal upgrade advanced
- Taxiway Lima opened
- Increased A380 gate capacity by 50% by upgrading Gate 10

Financial performance

Simon Robertson

Profitability climbing strongly

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Half year financial results

	6 months to 31 Dec 2013 $m	6 months to 31 Dec 2012 $m	Change %
Revenue	238.506	223.552	6.7
Expenses	60.607	57.191	6.0
Earnings before interest, taxation, depreciation, fair value adjustments and investments in associates (EBITDAFI)	**177.899**	**166.361**	**6.9**
Share of profit from associates	4.869	4.368	11.5
Derivative fair value (decrease)/increase	(1.261)	1.128	(211.8)
Depreciation expense	31.389	31.430	(0.1)
Interest expense	32.317	33.705	(4.1)
Taxation expense	31.914	29.812	7.1
Reported net profit after tax	**85.887**	**76.910**	**11.7**
Underlying profit after tax [1]	**86.682**	**76.090**	**13.9**

1. A reconciliation showing the differences between reported net profit after tax and underlying profit after tax is included on slide 9.

Results of the plan in action

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Underlying profit

	6 months to 31 Dec 2013			6 months to 31 Dec 2012		
	Reported profit	Adjustments	Underlying earnings	Reported profit	Adjustments	Underlying earnings
	$000	$000	$000	$000	$000	$000
Earnings before interest, taxation, depreciation, fair value adjustments and investments in associates (EBITDAFI) per income statement	**177,899**	**-**	**177,899**	**166,361**	**-**	**166,361**
Share of profit from associates	4,869	(157)	4,712	4,368	(12)	4,356
Derivative fair value (decrease)/increase	(1,261)	1,261	-	1,128	(1,128)	-
Depreciation	(31,389)	-	(31,389)	(31,430)	-	(31,430)
Interest expense and other finance costs	(32,317)	-	(32,317)	(33,705)	-	(33,705)
Taxation expense	(31,914)	(309)	(32,223)	(29,812)	320	(29,492)
Profit after tax	**85,887**	**795**	**86,682**	**76,910**	**(820)**	**76,090**

Note: We have made the following adjustments to show underlying profit after tax for the six months ended 31 December 2013 and 31 December 2012. We have adjusted for Auckland Airport's share of the fair value movement in the derivative financial instruments of associates that do not qualify for hedge accounting. We have also adjusted for the fair value movements of derivative financial instruments in Auckland Airport that either do not qualify for hedge accounting or hedge accounting ineffectiveness that relate to the counterparty risk of the particular derivatives entered into by the company. These gains/(losses) are unrealised and are expected to reverse out over the lives of the derivatives. We also allow for the taxation impacts of the above adjustments for both the six-month periods ended 31 December 2013 and 31 December 2012.

Market growth lifts passengers

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Auckland passenger movements

	6 months to 31 Dec 2013	6 months to 31 Dec 2012	Change %
International arrivals	1,967,636	1,873,277	5.0
International departures	1,870,949	1,781,041	5.0
International passengers excluding transits	**3,838,585**	**3,654,318**	**5.0**
Transit passengers	237,496	237,838	(0.1)
Total international passenger movements	**4,076,081**	**3,892,156**	**4.7**
Domestic passengers	**3,517,795**	**3,355,718**	**4.8**
Total passenger movements	**7,593,876**	**7,247,874**	**4.8**

- The week ended 22 December 2013 was the busiest ever week for international passengers at Auckland Airport with 181,207 passengers, up 4.9% on the previous record week.
- Momentum has been maintained in the 2014 calendar year with international passenger growth of 8.7% to 16 February 2014.

Broad based growth

Route capacity and passenger growth

-0.7% capacity
+4.1% passenger

+13.1% capacity
+19% passenger

+16.1% capacity
+23.6% passenger

+4.8% capacity
+4.1% passenger

Bigger aircraft deliver capacity

Movements and MCTOW

	6 months to 31 Dec 2013	6 months to 31 Dec 2012	Change %
Aircraft movements			
International departures	23,080	22,412	3.0
Domestic aircraft movements	55,879	55,838	0.1
Total aircraft movements	**78,959**	**78,250**	**0.9**
MCTOW (tonnes)			
International MCTOW	2,170,260	2,053,821	5.7
Domestic MCTOW	961,272	912,155	5.4
Total MCTOW	**3,131,532**	**2,965,976**	**5.6**

- Domestic MCTOW growth was driven by added capacity from Air New Zealand in the form of larger jet and regional aircraft. Jetstar also contributed to the growth with increased services to Wellington and Christchurch.
- International MCTOW growth is due to a mix of new services to Auckland (Hawaiian) as well as larger aircraft and additional service frequency (Emirates Brisbane A380, China Southern 10 services weekly, Air New Zealand's increased North America frequency).

Aeronautical revenue stands out

	6 months to 31 Dec 2013 $m	6 months to 31 Dec 2012 $m	Change %
Airfield income	44.162	40.386	9.3
Passenger services charge	65.826	59.950	9.8
Retail income	63.779	62.371	2.3
Car park income	21.880	20.450	7.0
Rental income	29.038	27.013	7.5
Rates recoveries	2.176	1.903	14.3
Interest income	1.164	1.426	(18.4)
Other income	10.481	9.603	9.1
Total revenue	**238.506**	**223.552**	**6.7**

- Strong aeronautical demand, coupled with the phased introduction of price changes in some categories, delivered excellent growth in aeronautical revenue.

Costs match drivers

Expenses

	6 months to 31 Dec 2013	6 months to 31 Dec 2012	Change %
Staff	21,299	18,174	17.2
Asset management, maintenance and airport operations	20,322	19,276	5.4
Rates and insurance	5,033	4,766	5.6
Marketing and promotions	6,822	6,977	(2.2)
Professional services and levies	3,135	3,392	(7.6)
Other	3,996	4,606	(13.2)
Total operating expenses	**60,607**	**57,191**	**6.0**
Depreciation	31,389	31,430	(0.1)
Interest expense	32,317	33,705	(4.1)

- The largest expense change is due to the strong growth in share price. This has resulted in an increase in the long-term incentives expense (included within “Staff”).
- Excluding the long-term incentives and marketing and promotions the operating expenditure has tracked underlying drivers, increasing by 3.9%.

Balance sheet strengthens further

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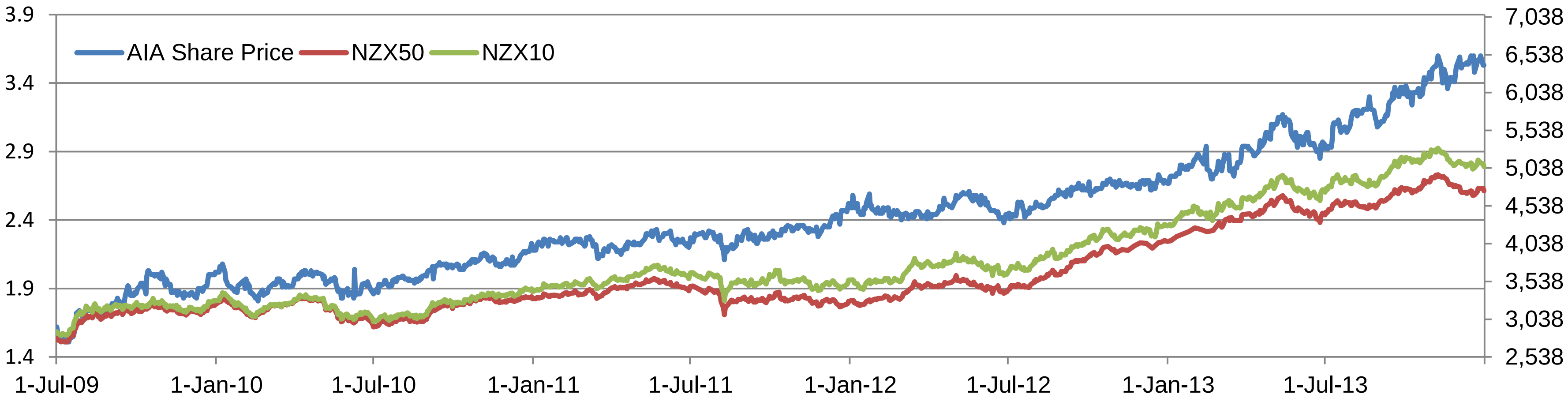
	December 2013	June 2013	December 2012
Debt / debt + equity	31.3%	31.8%	32.4%
Debt / enterprise value	19.5%	22.8%	24.9%
Debt / EBITDAFI (times)	3.19	3.45	3.55
FFO interest cover (times)	4.56	4.16	3.98
Average interest cost	6.0%	6.2%	6.3%
Average debt maturity (years)	3.5	4.2	4.7
% of fixed borrowing	63.8%	66.3%	69.4%

- Bank bridge facilities executed on 12 February 2014 of $440m to fund capital return expected in April 2014.
- Further increases in interest cover ratios and decreases in debt/enterprise value support the decision to return capital to shareholders.
- Refinancing of the bridge facilities expected in stages with the first stage likely to be a three year floating rate note.

Shareholders benefiting

Share price appreciation - local currency



	Share price opening ($)	Share price closing ($)	Dividend (cps)	Total return (cps)	Total shareholder return
1 July 2009 to 30 June 2010	1.61	1.87	8.20	34.20	21.2%
1 July 2010 to 30 June 2011	1.87	2.23	8.70	44.70	23.9%
1 July 2011 to 30 June 2012	2.23	2.44	10.50	31.50	14.1%
1 July 2012 to 30 June 2013	2.44	2.97	12.00	65.00	26.6%
30 June 2013 to 31 December 2013 (First six months of FY14)	2.97	3.53	- [1]	56.00	18.9%[2]

1. Excludes impact of return of capital to shareholders. 2. TSR calculated over a six month period.

Faster, higher, stronger

Adrian Littlewood

Market investment pays off

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GROW TRAVEL MARKETS

New capacity announcements in first six months:

- Malaysia Airlines: 6pw to 7pw Nov-Jan
- China Southern: 7pw to 10pw until Mar 2014; plus 2 Chinese New Year return flights; +5% capacity using B787
- China Airlines: +30% capacity Nov-Feb
- Qantas: A330 2pw Perth-Auckland Dec-Feb
- Emirates: 3rd A380 from Oct
- Jetstar: 3pw A320 to Adelaide from Dec
- Air NZ: USA, Bali, Sunshine Coast increases
- China Eastern: 2 Chinese New Year return charters

Positive signs for 2014 calendar year:

- Air NZ and Singapore Airlines alliance: increased frequency and A380 adds 100k seats from Dec
- China Southern: extending to 10pw until Oct
- Malaysia Airlines: extending to 7pw from Mar
- Jetstar: B787 to Melbourne in Feb and Mar
- High FY14 summer seasonal loadings

Tourism industry aspirations

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GROW TRAVEL MARKETS

Prioritise insight to drive and track progress

Focus on productivity for profit

Grow sustainable air connectivity for volume

Drive value through outstanding visitor experience

Target for value

6% ↑

PER ANNUM

TOURISM GROWTH TARGET

Seeking more retail space

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STRENGTHEN OUR CONSUMER BUSINESS

- Retail passenger spend rate decreased 3.1% in first six months, largely due to restrictions in Australian outbound tobacco sales, together with changes in Chinese travel laws and a material change in Australian currency
- Strong programme and range of initiatives in place to bolster future retail performance:
  - New space / capacity – reconfiguration of international terminal's airside food-court and eastern wing; Pier A retail expansion
  - New concepts: F&B, specialty and destination products
  - New promotional activities – online development, strong seasonal programme ie Chinese New Year

Car-parking lifting

STRENGTHEN OUR CONSUMER BUSINESS

- First six months benefitted from 400 new car-parks at the domestic terminal, with revenue increasing 8% notwithstanding an 8% decrease in average revenue per parking space (ARPS)
- Overall ARPS rose 0.9%
- Future car-parking plans include an extra 1,000 Park & Ride spaces - at grade, highly efficient and affordable - in the first quarter of FY15 allowing 600 spaces to be released at international terminal due to staff relocation to Park & Ride
- Development of commercial car-parking initiatives to improve customer choice

Hotel investment focus

STRENGTHEN OUR CONSUMER BUSINESS

- Very strong average occupancy rates: Novotel up 5.8% to 86.4%; Ibis Budget up 21% to 93.5%
- Committed $7.8m to extend Ibis Budget by 73 rooms – construction commencing in April
- Confidence to extend hotel portfolio in the future

	July	August	September	October	November	December	Average	Change on prior year
Novotel	88.9%	84.6%	87.1%	86.3%	89.7%	82.0%	86.4%	5.8%
Ibis Budget	93.9%	89.6%	94.1%	93.2%	95.4%	94.6%	93.5%	21.0%

Property transformation

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INVEST
FOR FUTURE
GROWTH

- Transformation from a collection of projects to a place to shop, eat, work and play is taking shape
- Momentum building with several projects under construction: Panalpina (3,600m^2 warehouse and office), DHL (12,000m^2 warehouse) and 9 ha of land inventory
- Future projects will add to that momentum: Hellmann (12,500m^2 warehouse/perishables facility and office), Hobbs (3,200m^2 warehouse and office) and a further 17 ha of land inventory
- Where opportunity is strong, undertaking further speculative builds: two medium warehouses (total 6,400m^2) and Flex2 multi-unit warehouse (total 7,200m^2)

Airport of the future

INVEST
FOR FUTURE
GROWTH

- In November we outlined our 30-year vision for the ‘airport of the future’ that delivers ‘southern hub’ aspiration and supports our growth from 14.5m to 40m passengers
- Since November we have been formally engaging with the broader aviation sector and other key stakeholders. Feedback has been helpful and supportive of both the direction and vision
- Have commenced next layer of project specific work to bring the vision to life
- Consolidating feedback provided and will soon share summary of the vision for wider engagement with investors, stakeholders and the public

Regulatory update

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- Commerce Commission's Christchurch 56G conclusions are that key market conditions (earthquakes) appear to have had more influence than information disclosure regulation and that while expected returns are within an acceptable range for the first five-year price period (6.8%) they are excessive for the 20 year period (8.9%). As a result Christchurch Airport has committed to consult again for the period beyond 2017 and follow the Commission's long-term returns guidance

- Merits appeal outcome has not impacted Auckland Airport's 56G report as the outcome "would likely bring the Commission's estimate of Auckland Airport's target returns further within the range of acceptable returns"[1]

- Appeal has also resulted in the Commission announcing its intention to seek views of interested parties on whether it should review or amend the 75th WACC percentile for industries subject to price control ie electricity lines companies. The current airport annual information disclosures already compare profitability to the 50th WACC percentile.

1. Source: Commerce Commission letter to Minister of Transport re Final s56G Commerce Act report – Christchurch Airport, 13 February 2014 at [8].

Outlook is strengthening

- We continue to see the aviation market solidifying recent gains and growth is extending further into the 2014 financial year
- As always our guidance is subject to any material adverse events, one-off items, non-cash fair value changes to property and deterioration due to global market conditions or other unforeseeable circumstances
- We now expect an increase in 2014 net profit after tax (excluding any fair value changes and other one-off items) to between $166 million and $172 million. This is inclusive of the impact of the $454 million capital return expected in April 2014