

Media Release | 23 October 2014

Chairman and Chief Executive's addresses to 2014 annual meeting

Sir Henry van der Heyden, Chairman

Shareholders.

It is my pleasure to be here today – as this is my first annual meeting as your new Chairman.

Much has happened in the Company since last October.

Financially, it has been a great 12 months.

We have had yet another year of strong performance.

And we have delivered excellent returns to our investors.

Revenue was up 6.1% to \$475.8 million.

And operating EBITDAFI increased by 7.4% to \$355.2 million.

Total profit after tax was up 21.3% to \$215.9 million.

And underlying profit after tax increased by 10.5% to \$169.9 million.

These excellent results enabled the Company to provide shareholders with a final dividend per share of seven cents.

A 12% increase on the previous final dividend.

I note that final dividend was in addition to the approximately \$454 million of capital returned to shareholders last April.

So - all in all - a great 12 months and a total shareholder return for the period of 33.7%.

I want to congratulate Adrian and his team on this achievement.

Obviously, such strong performance does not just happen.

Rather, it is the result of much hard work, planning and strategy execution.

Adrian will talk shortly about how the implementation of the business strategy – Faster, Higher Stronger – is going.

But, can I just say, that when it was presented to the Board for the very first time - we were inspired.

It was motivating and made great business sense.

We felt it targeted exactly what was needed to allow the Company to take full advantage of the growth opportunities before us.

Much is expected of Auckland Airport and much is delivered.

We have continued to work closely with airlines to grow their business.

As a result, we have seen additional capacity and services.

Yes, there were some reductions in the past 12 months, but they were minimal.

We have also seen significant improvements for passengers, retailers and property tenants this financial year.

And the focus on driving efficiency and effectiveness throughout the business has been maintained.

Perhaps the key highlight of the year has been the announcement of our 30-year vision for the airport of the future.

How the airport manages the considerable growth in passengers and planes over the next three decades will, in large part, determine how we are perceived as an aviation transport hub in the longterm.

We can all think of airports we wish to emulate.

And we can all also think of those we would rather forget.

I have every confidence that our 30-year vision will deliver something which we can all be proud of.

I'm based in Rotorua and travel to Auckland for business most weeks.

The \$26 million upgrade of the domestic terminal was worth every cent.

It allows us to continue to provide an improved passenger experience for domestic travellers.

And it will continue to do so until the first phase of the new combined domestic and international terminal is constructed at the end of this decade.

I am sure those of you who regularly use the domestic security screening will agree with me that it is now a breeze.

The new retail shops in that terminal are providing the traveller with even greater choice.

And the regional gate lounge has been transformed.

Can I also just point out – the toilets at the regional end of the domestic terminal are a thousand times better than they were this time last year.

It was very much based on the philosophy of making journeys better and improving the passenger experience – which are at the very heart of what Auckland Airport does.

On many of my trips to Auckland, I stay at the airport's Novotel Hotel.

Perched high above the international terminal it provides excellent views across our 1,500 hectares.

In my mind it is one of the best locations to see the Company in action.

Treat yourself sometime and book a room – but book early as its occupancy rate is going through the roof.

Whenever I stay at that hotel, I wake up early and go for a wander around the airport.

Checking out the estate you might say.

I finish each and every walk thinking one thing: It's a great airport and a great asset.

I know this sentiment is replicated in the hearts and minds of the 12,000 people who work there.

From my discussions with our own employees I know they feel the same way.

This in part stems from the fact that we are no longer just a transport hub.

We play a significant role in the New Zealand economy, in the Auckland region, and in the local South Auckland community.

We are proud of the fact that we drive growth in travel, trade and tourism – not bad for a company with around 300 employees!

Can I say that the Board of directors is in no doubt about the value of our staff.

And I thank them, again today, for their efforts on your behalf.

They are at the heart of our ongoing focus on safety and operational risk.

We simply cannot afford to take our eye off the ball on this matter, our staff – and our passengers for that matter – mean far too much for anything to happen to them.

Yes, despite best efforts, accidents do sometimes occur, but we must do everything we possibly can to prevent them.

I was therefore delighted to see the Company's survey indicating that we have an internal culture that is proactive and focused on safety.

Similarly, the Board recognises the inherent value in supporting diversity and the importance of the Company reflecting the diverse range of individuals and groups within our society.

The establishment this year of an employee diversity committee is the first step of what I hope will be many.

We must ensure our Company's leadership, management and employees reflect the diverse range of individuals and groups who are our customers.

The Board also remains focused on the development of New Zealand's governance talent.

In Shelley Cave, we have selected yet another excellent candidate to participate in the Future Director Programme.

Shelley is a consultant at law firm Simpson Grierson, a board member of the Financial Markets Authority and she recently was appointed to the Government Superannuation Fund Authority.

Shelley will participate in all Board and Committee meetings during the 2015 financial year, but she does not take part in the actual decision-making.

She has already proven herself to be an outstanding choice, and I want to acknowledge Shelley who is here with us today.

I would also like to acknowledge the ongoing hard work and commitment of my fellow directors.

Each and every one of you has made a strong contribution to the success of this Company over the past 12 months and I would like to publicly record my thanks and appreciation for that.

Can I conclude by thanking all of you - the shareholders - for your continuing support for Auckland Airport.

The Board looks forward to rewarding that support again this financial year.

We remain confident that Auckland Airport is able to unlock further opportunities this financial year, and deliver an underlying net profit after tax of between 160 and 170 million dollars.

Thank you for your attention.

Ends

Adrian Littlewood, Chief Executive

Thank you Henry and good afternoon shareholders.

As we have just heard, it has been yet another excellent year for Auckland Airport right across the business.

We have continued to respond to the challenges we identified from changing aviation markets and changing customer expectations.

Our business strategy set in 2013 – Faster Higher Stronger – is a response to those challenges.

You may recall the strategy has four themes:

- Grow travel markets
- Strengthen our consumer business
- Be fast, efficient and effective; and
- Invest for future growth.

While the 2013 financial year was focused on the development of the strategy and building our team to deliver it, the 2014 financial year was all about the implementation of that strategy.

I would like to quickly touch on each of those four themes and highlight our progress in 2014.

Growing sustainable air connectivity is critical to the future of New Zealand and the tourism industry and it is vital to sustain our continued growth.

As you know we work closely with airlines and other stakeholders to grow

travel markets.

During the 2014 financial year, our international passengers grew a healthy 5.1%, a very strong performance.

Growth was broad based but it was pleasing to see our new markets growing strongly - China up 6%, India up 14% and Malaysia up 17%.

This was helped by new scheduled services and aircraft, such as China Southern's 787 to Guangzhou – the first Dreamliner to commercially operate in New Zealand - the Emirates' A380 on the Brisbane-Dubai route, Air New Zealand to the United States and Malaysia Airlines' daily flights to Kuala Lumpur.

It was also helped by new seasonal services from the likes of Air New Zealand's winter flights to Bali and the Sunshine Coast.

However, we did see some reductions in capacity from Korean Air and Thai Airways in the year, and saw the early signs of changes in Qantas' schedules as the full effect of its alliance with Emirates and the ongoing review of its operations started to take effect.

Pleasingly, our domestic market continued to grow 2.2%, despite coming off a strong 2013 year of 8.4% growth.

This growth was underpinned by new capacity from Air New Zealand as well as the strong growth in international passengers who use Auckland Airport to connect to other New Zealand cities and regions.

To ensure the New Zealand tourism industry is well positioned for those international travellers, we have continued to play a leading role in developing industry commitments and knowledge of our fastest-growing passenger markets.

As one of New Zealand's largest companies in an industry dominated by small businesses, this is a role we take seriously.

In the 2014 financial year we hosted another Asia Summit to enable industry experts to share information on our key Asian markets, including China, India and Indonesia.

We also used that opportunity to reset new and detailed aspirations for New Zealand tourism growth across each of our country's 18 major tourism markets.

In the past year we also played a lead role in working with the industry in developing a new strategic tourism framework known as *Tourism 2025*.

This framework set a shared industry aspiration of 6% annual growth for tourism – targeting an increase in sector earnings from \$24 billion today to

\$41 billion by 2025.

Setting a shared aspiration for the whole tourism industry is a significant step forward and is strong evidence of the growing confidence in the industry.

In 2014 we were also selected to partner with the Government in its Tourism Growth Partnership initiative - through our *Four Seasons – Five Senses* tourism development project.

This project aims to help develop new tourism product anchored in New Zealand food and wine with itineraries developed to drive growth in all four seasons of the year – which will lift industry productivity, one of the key themes outlined in the industry *Tourism 2025* strategy.

We continue to work hard with airlines and the tourism industry in the 2015 financial year to search for new growth and, despite a slower start to passenger growth this year compared with last year, industry feedback suggests this upcoming summer will be one of New Zealand's busiest ever.

Last year we talked about our belief that we had established a genuine consumer business made up of our retail, transport and hotel businesses.

In the 2014 financial year, we continued to focus on and strengthen that business and while it was an outwardly quiet 12 months in this regard, internally it was busy as we built a new team and reset our plans for the year ahead.

As a result, the financial year finished with real momentum, which has carried through into this new year.

We continued reviewing our retail mix to ensure we maintain a range of excellent New Zealand and international products, and in this year introduced new stores and brands, including popular Auckland coffee brand Shaky Isles and Beats Audio among others.

Already, since 30 June, we have opened additional retail and food and beverage stores, including a new DB bar in the international terminal and a 3 Wise Men clothing store at domestic.

Not content to rest on our laurels, in coming weeks you will see several more new retail outlets open for business – confirming our position as one of New Zealand's busiest and most dynamic shopping destinations.

Our retail team also spent considerable time in the past 12 months preparing for the upcoming duty free concession tender.

I can confirm today that the tenders are now in and it is clear that the bidders have invested significant time and effort in preparing their bids and sharing their vision for the future of duty free retailing at Auckland Airport.

We will continue to evaluate those bids over the next few months with a decision early next calendar year.

You may recall me talking at the last annual meeting about how we must confront and embrace the impact of changing technology for our consumer business.

As promised, we have taken the first steps with the launch of a new online retail store with a significantly expanded range of products and special deals to enable passengers to make their duty free purchases in advance of their travel.

It ensures we can better promote the increasing number of retailers at Auckland Airport and the full range of their products – it marks the start of our ongoing expansion in online retail.

Early results in the first few months have been encouraging with online duty free sales eight times what they were in the previous year.

In the other parts of our consumer business we have also expanded.

We added almost 900 car parks to our Park&Ride facility and continued to relocate staff away from terminals to open up car parks for the public.

We also more than doubled the capacity of our award-winning Emperor Lounge to further cater for travellers who are not otherwise eligible to use airline lounges.

And we commenced the 50% expansion of the ibis hotel to cater for the excellent growth in our hotel business over the past few years and also announced our intention to plan for a third hotel.

So it was a busy year, but the year ahead will be just as busy with significant projects underway to continue the growth of our consumer business.

Long-term corporate success requires a focus on growing your top line revenue, but also on ensuring there is a constant focus on underlying efficiency and productivity.

At Auckland Airport we recognise this and have maintained our focus on being fast, efficient and effective.

This focus has helped us to contain costs, with a 1.1% drop in operating costs per passenger in 2014.

We have worked hard internally to continue to search for opportunities to reduce waste or inefficiency and to search for new ways to operate our business to lift operating performance.

Our operations team continues to transform its core tools and technologies to shift to a more integrated and dynamic approach to operational management.

This involves some significant upgrades to operating technologies and new ways of working with the wide range of agencies and companies that operate at the airport.

Last financial year this involved undertaking several new technology projects – collectively described as our ‘Airport Operating System’ – which give us new and sophisticated tools to carefully manage and drive more productivity out of our airport operations.

So far we have updated our aircraft movement tools and also significantly upgraded our flight information services for customers which now supports nine languages – all in a way that means these systems are becoming connected together for the first time.

There is much more to come over the next few years as we transition from our current mode of operation to this future mode.

We have also continued to work with all airport stakeholders on operational and aviation productivity.

SmartGate is a great example – one we have highlighted before - of the Company and New Zealand’s border agencies working together, applying new technology and process to preserve security, reduce queues and save travel time for passengers.

SmartGate continues to be popular with Australian and New Zealand travellers and in the 2014 financial year it was expanded to include both UK and US passport holders.

We also supported Customs in trials of further enhancements to the SmartGate technology – ensuring New Zealand remains one of the leaders in efficient border management.

Technology was also at the heart of the SMART Approaches flight path trial we completed to help improve airspace safety and efficiency, while at the same time managing the impact of aviation on the environment and communities.

The trial was undertaken in partnership with Airways New Zealand and the Board of Airline Representatives, and was part of the Government’s National Airspace Policy to improve safety and efficiency.

The draft report on the trial was published in May 2014, with feedback and submissions on its recommendations received from the community and stakeholders in June and July.

A final report on the trial will soon be published.

Our focus on efficiency and productivity saw us realise energy efficiency gains, with the upgrade of the heating and cooling of our international

terminal's check-in area offering electrical-energy savings of 84% and gas savings of 56%.

This focus continues into this year.

We have recently signed an agreement with EECA - the Government's energy efficiency authority - committing us to saving two gigawatts per annum over the next three years through a range of initiatives across the airport.

As Henry mentioned, safety has remained a key focus for everyone at the airport – and the reasons why are obvious.

In the 2014 financial year we continued our extensive work plan to improve safety performance and culture right across our business.

Amongst many other initiatives, we ran 16 contingency planning scenarios involving a wide range of emergency services and companies at the airport.

And, we developed a partnership with Changi Airport in Singapore to share our respective experience in rescue management.

To continue to improve our capacity to respond in emergency situations we purchased four state of the art Rosenbauer Panther firefighting vehicles and commissioned an upgrade to our marine rescue fleet with a new working boat, a command and firefighting boat and a new hovercraft.

Lastly, in keeping with the theme of efficiency, in April the Company returned \$454 million of capital to shareholders in April, rewarding shareholders for the company's consistently strong performance in recent years and, at the same time, improving our funding balance of equity and debt.

This has come on top of this year's strong shareholder returns of over 33%.

Lastly, I turn to our final strategic theme – investing for future growth.

In the past year we have continued to invest significant effort into planning and developing our core asset at Auckland Airport.

Earlier this year we launched our 30-year vision for our airport of the future.

The vision is required because of the growth we are forecasting for our airport.

We estimate that the number of passengers using Auckland Airport every year could almost treble to 40 million people in 2044 and the number of flights every year almost double to 260,000.

Obviously, we need to significantly upgrade our infrastructure to accommodate these passengers and planes, and I am confident we have the vision right.

It was developed following significant input from expert advisers and our customers and is grounded in strong development principles.

At the core of it is building a combined domestic and international terminal – delivered in many steps over 30 years.

The first phase of construction of the new terminal is expected to be completed around 2020.

Around 2025, a second runway will be built entirely on airport-owned land to the north of the terminal and run parallel with the existing southern runway.

The second runway may also need to be extended in 30 to 50 years to improve its efficiency and meet the requirements of the larger aircraft forecast to fly into Auckland in the future.

We will also be improving transport access to the airport – both roading and public transport.

Insight Economics has forecast that our 30-year vision will boost regional GDP by \$2 billion, create more than 27,000 full-time construction jobs and help lift Auckland's household incomes by \$1.4 billion.

With all that in mind, our plan received very positive and public support when it was announced in March.

We are proud of where we have got to with the 30-year vision and at the end of my speech I will play a video which gives you an idea of what we have in mind when we talk about the airport of the future.

While we have much work to do to continue converting the vision into reality, we have already begun to deliver it.

The 2,500 square metre expansion of our international baggage hall is due for completion by the end of next month and will be the first step of many towards our new combined domestic and international terminal.

We have also started on the concept design to significantly expand our international terminal's departure area.

This project will significantly increase our emigration capacity and our ability to accommodate new passenger growth and new border processes and will result in a much-improved passenger departure experience.

At the same time, we will reform and expand the international departure retail zone, increasing net lettable area for retail stores by up to 80%.

It will transform our international departure experience.

Henry has already mentioned some of the benefits of our

\$26 million upgrade of the existing domestic terminal building, completed in the 2014 financial year, and how that will give us time to define in detail the new domestic terminal facility.

The development of this facility will be complex and needs to be carefully managed to delivery.

Almost seven million passengers and many more people pass through that terminal every year, so it is important that we invest the time to do this important job properly.

Turning now to our growing commercial property business. We have continued our programme to transform the land around the airport into a place to work, shop and play.

We began two speculative industrial properties, known as Duplex and Flex2, in the 2014 financial year to fill gaps in the market and while not yet completed they have already been partially leased.

We continued to attract well known international and domestic tenants to our Quad office precinct, including BASF, Specsavers and Meridian Energy, and planning commenced on adding office space with the 9,000 square metre Quad7 building.

Several amenities were also finished in the 2014 financial year to enhance the environment in which people work, including the Footy Field and Runway Mountain Bike Park – and these are already proving very popular.

As you can imagine, we are determined to be a significant part of the current growth cycle emerging in Auckland.

One example of our commitment is The Landing – the world-class warehouse and logistics location on land that will eventually be on the northern side of our second runway.

This site is about 140 hectares and when combined with our neighbouring subdivision at Timberly Road - which we will complete this month - creates what we believe to be Auckland's largest industrial business park.

When the Waterview motorway connection is completed in 2017, travel times to and from the airport will significantly improve.

This will make us even more appealing for target clients by being directly connected by motorway to West Auckland, the North Shore and importantly the CBD for the first time.

This is an exciting prospect and one that leaves us in a strong position to take full advantage of Auckland's future growth.

In the 2014 financial year we also continued to lend our knowledge and experience to support the growth of our investments in Queenstown Airport and North Queensland Airports.

Queenstown Airport experienced outstanding international passenger growth of 27.6%, however domestic passenger numbers retreated 1.7% after growing 12.4% in the previous year.

We were delighted when New Zealand and Australian aviation authorities approved the foundation safety case for after-dark flights into Queenstown Airport in May.

This is an outstanding development and has the potential to significantly grow tourism to the Queenstown region.

At North Queensland Airports, passenger numbers were flat this financial year, increasing by just 0.3% as the Australian economy softened in 2013.

Despite this, domestic passengers grew 1.5% as more international passengers visited Cairns via other Australian airports - however, this was in turn partially offset by an 8.8% decrease in direct international passengers.

Our experience in hotel construction and property development was particularly valuable to North Queensland Airports for its development of a new 152-room ibis hotel at Mackay Airport.

Similarly, Cairns Airport benefitted from our experience as it revised its commercial property development plan to maximise the potential of its land holding.

North Queensland Airports remains focused on the many growth opportunities ahead, especially those arising from its key Asian market and we continue to support them in their longer term aspirations.

Ladies and gentlemen, the variety of what goes on at an airport is what makes Auckland Airport, as a company, a very rewarding place to work.

There will no doubt be many new opportunities in the year ahead and I can assure you that the Company will take full advantage of them, and I look forward to briefing you on them this time next year.

Before I conclude I want to pay tribute to Glenn Wedlock, who stepped down as our general manager aeronautical commercial in May this year.

Glenn had been unwell for some 18 months and earlier this year he decided it was time to step down and focus on his family and his treatment.

During his time at Auckland Airport he made an outstanding contribution, lending his deep tourism and aviation experience to grow vital routes into New Zealand and open up new markets.

Our team miss his input and we wish him well in his ongoing battle.

Can I also thank the directors for their ongoing support of our leadership team.

To Keith – I wish you all the very best for the future.

I have thoroughly enjoyed working with you and thank you for your expertise and astute advice over the years.

In particular my thanks to Henry for his guidance and wise words as Chair.

I also want thank the team that works for Auckland Airport – it has been great leading and working beside you these past 12 months.

And finally, to you the shareholders, I extend my thanks for your support as we continue to grow as a Company and deliver for both New Zealand and our investors.

Thank you and I'll now play the 30-year vision video.

Ends

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