Auckland Airport

2008 Annual Meeting

Chairman's Address

Thursday, 30 October 2008
10.30 am at TelstraClear Pacific Events Centre
Manukau City, New Zealand

Chairman's Address

In speaking to the 2008 annual report, I would like to cover the following topics:

- Highlights of the 2008 financial year.
- Results for the three months to 30 September 2008.
- Ownership interest and takeover activity.
- Outlook for the next 12 months.

Highlights of the 2008 financial year

We achieved a solid financial performance over the 12 months to June 2008 with continued growth in revenue and earnings.

Total revenue for the year was $351.0 million, an increase of 9.0 per cent over the previous year.

Operating earnings before interest, tax and depreciation (Operating EBITDA) increased 13.7 per cent to $275.8 million (or an increase of 7.3 per cent after adjusting for one-off items).

This result supports a positive forward view for Auckland Airport, despite the obvious challenges in the current economic environment and industry conditions.

It was also very pleasing to see that our recent public offer of $80 million of retail bonds for cash was fully subscribed less than a week after opening, and we expect the exchange offer of $50 million to close fully subscribed on 3 November, taking the total offer to $130 million. This is a clear expression of the market's confidence in the airport at a time of very uncertain investment conditions.

The company has achieved these good results despite a slight softening in the growth of international passenger numbers, increased interest and depreciation costs resulting from the company's investment programme, and the significant one-off costs and business disruption associated with responding to the ownership interest and takeover activity over the last 12 months.

The relative strength of the result can be attributed in part to strong growth in domestic passenger numbers due to a more competitive local airline environment.

In addition, our enhanced retail offering, strong growth in rental and car parking income all contributed to an improved company performance.

Net profit after tax was $113.0 million, an increase of 3.3 per cent over the previous year after adjusting for one-off items and changes in the fair value of the company's investment property portfolio.

Key milestones:

We reached a number of key milestones in the past 12 months which include:

1. Commencing construction of the $32 million northern runway in October 2007 which will be developed in stages – with stage 1 due to be operational in 2011 in time for the Rugby World Cup.

2. The completion in December 2007 of the $41 million extreme makeover of the domestic terminal, a joint venture with Air New Zealand.

3. The official opening of the $98.9 million international terminal arrivals area – a key element of our expansion plan which will give us the capacity to handle 25 million passengers per annum by 2025.

4. The completion of the $49.5 million international terminal Pier B project. The official opening by the Prime Minister, the Rt Hon Helen Clark, took place on 21 October. It will provide two further gates and aerobridges – taking the number of aerobridges at the international terminal to 14. This enables the airport to welcome A380 flights into Auckland – with Emirates planning daily flights from Dubai to Auckland via Sydney from February 2009. A number of other airlines servicing Auckland, including Qantas, Singapore Airlines, Thai and Korean Airlines, have A380s on order, and we can now be confident that we have the facilities to welcome them at our airport.

5. Since 30 June a secondary Ministry of Agriculture & Fisheries screening area has been opened in the arrivals area, the old departure fee process has ceased, Pier B has been completed and opened, the first A380 flight has

come into the airport, Pacific Blue has commenced new trans-Tasman services, and Jetstar flights have been announced for next year.

6. The completion of these significant projects, and the commencement of Auckland's second runway, provides Auckland Airport with the capacity to support New Zealand tourism, travel and trade, both now and into the future. These are facilities that New Zealanders can be proud of as the country's gateway.

Results for the three months to 30 September 2008

For the first three months of this financial year, international passenger movements (excluding transits and transfers) were down 1.8 per cent to 1.537 million. September was a particularly tough month, down 2.8 per cent. The impact of the financial crisis on the world economic outlook has affected international passenger volume growth.

Domestic passenger movements increased strongly, up by 8.7 per cent to 1.428 million.

Total aircraft movements were up 3.9 per cent for the three month period. The growth in aircraft movements has occurred in both the international and domestic markets.

Reflecting the overall increase in passenger volumes and aircraft movements, along with recent aeronautical and commercial pricing resets, revenue for the three month period increased 5.5 per cent on the corresponding period last year to $87.2 million. This revenue growth has flowed to operating earnings before interest, tax and depreciation (Operating EBITDA) which for the three months was $66.6 million, also an increase of 5.8 per cent over the previous year.

Surplus after tax for the three months to September 2008 was $24.2 million, compared with $23.8 million for the previous year. This small increase reflects the increase in revenues offset by the ongoing depreciation and interest costs being incurred by the company in connection with the recently completed growth aeronautical investment programme.

Ownership interest and takeover activity

For the greater part of the financial year, ownership issues dominated the headlines and intense debate raged amongst shareholders, media, politicians and the public on the merits of each option. Auckland Airport directors were engaged in frequent, thorough and searching discussion throughout. In reviewing the options, each of us applied our expertise in deciding what we believed was in the best interests of shareholders.

We did not always agree on what was a finely balanced decision. The ownership question was finally answered by the Government. Its rejection of the Canada Pension Plan Investment Board application to own 40 per cent of the airport closed the door on that offer.

Whether this door remains bolted to other suitors going forward remains to be seen. Your directors are not actively engaged in any ownership discussions at present.

Our present focus is on getting the best from your business as it stands, while we put the new management team in place to develop and execute business strategies for the next phase of the company's growth. As a board, we are committed to increasing the clarity of our strategic communications with shareholders in order to confirm your continued commitment to the company.

Outlook for the next 12 months

The board considers that the medium-term macro economic conditions in NZ and internationally will remain challenging. This will clearly dampen the growth of international passenger volumes – particularly from some of the traditional long-haul markets such as the United States and the United Kingdom. Our airline customers will inevitably act to deal with the effects of the economic conditions that flow through to the travel and tourism sectors.

However, closer to home we are seeing greater competition on the trans-Tasman sector with the introduction of more discount services from Virgin Holdings' Pacific Blue. In addition, we welcomed the announcement, made earlier this month, that Qantas Airways' Jetstar plans to operate daily return services between Auckland and Sydney, and between Auckland and the Gold Coast starting 28 April 2009. These flights are subject to regulatory approval.

These moves further underpin our confidence in this sector of the market, and reaffirm our decision to make significant investment over the past five years in order to meet increasing passenger demand.

In the short-term, the company will continue to be exposed to higher costs reflecting an increasingly complex operating and regulatory environment, capital costs associated with the recently completed infrastructure programme and long-term business expansion strategies aimed particularly at improved service standards, air service development, tourism industry participation and property marketing. Tight management of discretionary costs will continue to be a key priority.

While the company will face a number of new economic, market and regulatory issues in the years ahead, the board will continue to work closely with management in monitoring and addressing these issues to deliver constant improvements in service experience to our airline customers and their passengers as well as good returns to our shareholders.

The global credit crisis has seen unprecedented volatility in financial markets. While Auckland Airport has a strong balance sheet and solid fundamentals in its revenue streams, we are not immune to the heightened effects of a global recession.

As I have said, we believe this may well see a reduction, in the near-term, in international passenger volumes. However, the commencement of services by Pacific Blue and the announcement of new flights by Jetstar will provide some support and aircraft movements in passenger volumes in the international short-haul market.

We have reviewed our forecasts in light of these changes and, based on the latest information available to us, we forecast earnings, consistent with the previous guidance of $100-110 million surplus after tax (excluding fair value changes for property) for the full year.

This represents maintenance of our earlier guidance, albeit at the lower end of the range. This outcome is driven by softer revenues and some cost increases, partially offset by interest rate reductions. This view is subject to any further deterioration in global markets or regional economies as well as material adverse events, significant one-off expenses, or other unforeseeable events.

We are now coming to the end of our four year capital investment programme that has touched almost every aspect of our operations. In the 2008 financial year, we invested $143 million in expanding and upgrading the facilities at Auckland Airport. Capital expenditure will reduce significantly in the 2009 year to around $70 - $80 million. This includes the completion of Pier B, the ongoing construction of the second runway and property development projects.

The board and management will remain focused on tightly managing the core business, with the management of discretionary costs continuing to be a key priority. This focus includes positively addressing the current market and regulatory issues, and taking a prudent approach to protect and promote shareholder value in less certain times.

The board is confident that it has the strategies and management capability in place to meet the immediate challenges that lie ahead. We are committed to maintaining a high level of strategic communication with our shareholders and working in partnership with you to take the company through the next chapter in its development.

We are confident that the company will emerge from this period of economic uncertainty well positioned to reap the benefits of the far-sighted investment we have made in the company's – and New Zealand's – future.

Tributes

I'd like to pay tribute to recently retired chief executive officer, Don Huse, and acknowledge the significant contribution he has made to Auckland Airport over the last five years. Don leaves the Airport in a strong position and departs with the board's best wishes and gratitude.

The board welcomes the arrival of Simon Moutter as the incoming chief executive. officer. Simon has joined Auckland Airport at a time of great organisational opportunity as we look to the future. We are confident that he is ideally placed to guide the airport through the demanding environment currently faced by the aviation, transport and travel industries.

Simon's attributes include proven leadership abilities, infrastructural management experience and shareholder value creation. His achievements make him an ideal person to lead the next stage in Auckland Airport's masterplan as we progressively expand our facilities to handle the projected growth in passengers. Simon took up his position on 4 August 2008.

The board and new management team are actively engaged in reviewing and refining the company's growth strategy, and look forward to presenting the plan early next year.

I will now ask our chief executive officer, Simon Moutter, to address you. Following that there will be the three resolutions set out in the notice of meeting, and then there will be an opportunity for questions.

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