Annual Results 2014

Auckland International Airport Limited

26 August 2014

For our future

Auckland Airport

This annual results presentation dated 26 August 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

FY14 annual results

Adrian Littlewood, chief executive

Delivering performance today

Auckland Airport

Passenger movements

UP 3.8%

15.1m

international 7.7m 5.1% | international transits 0.5m 5.5%
domestic 6.9m 2.2%

Total profit

UP 21.3%

$215.9m

Revenue

UP 6.1%

$475.8m

Underlying profit

UP 10.5%

$169.9m

Operating EBITDAFI

UP 7.4%

$355.2m

Final dividend per share

UP 12%

7 cents

Positioning for our future

Grow travel markets

- A very good year for the addition of new services, charters and capacity: Air New Zealand, Emirates, Jetstar, LAN, China Southern, Malaysia, Qantas (Perth), China Airlines and China Eastern.
- These far outweighed areas of reduced capacity in FY14: Korean Air and Thai Airways.
- Solid domestic growth flowing from international growth, Air New Zealand's up gauge of aircraft and Jetstar's leading on-time performance results.

- Continue our role to lead industry ambition to grow travel, trade and tourism:
  - Asia Summit to share knowledge of key Asian markets.
  - Ambition 2025 to share our market insights, trends and opportunities on how New Zealand could target over 5 million potential visitors by 2025.
  - TripGuide proven as an effective promotional asset (www.tripguide.co.nz).

Positioning for our future

Strengthen our consumer business

- FY14 sales on core trans-Tasman routes affected by AUD/NZD movement and tail end of tobacco display changes. Total passenger spend rates declined 2.4%. Spend rates in Asian growth markets strong at +10%.
- Inbound tobacco allowances will reduce to 50 sticks in FY15. No change to outbound allowances.
- Significant work in year on portfolio review and planning for new concessions from FY15.
- Provided more choice for consumers with new and “pop-up” international retail stores: Comvita, The Whisky Trail, Shaky Isles café, Beats by Dr Dre, Samsung, Marc Jacobs and Mr Vintage.
- High quality duty free tender process underway. Early level of interest has been strong.
- Auckland Airport website launch of online duty free channel in June 2014.
- Investment in wider consumer business by adding 50% capacity at the ibis budget hotel and 1,000 additional parking spaces at Park&Ride.

Positioning for our future

Be fast, efficient and effective

- Focus on cost efficiency led to a 1.1% drop in operating costs per passenger.
- Progress made on goal of stronger airport collaborative decision making with building of platform for new airport operating system.
- Joint aviation stakeholder programme identified airfield capacity enhancements – delivery in FY15.
- Launched new sustainability initiatives plus targets across 11 key areas to drive energy and fuel efficiency.
- NZ Customs expanded SmartGate to UK/US citizens driving further improvements in processing efficiency.
- SMART Approaches flight path trial concluded and community feedback sought.
- Completed $454 million capital return to shareholders including the associated long-term debt financing.

Positioning for our future

Auckland Airport

Invest for future growth

Aeronautical

- Announced 30-year vision for the 'airport of the future'. A culmination of two years of strategic planning.
- Completed $29 million upgrade of the existing domestic terminal. Passenger feedback is positive.

Investment property

- Quad 5 tenancies: Harrison Grierson, Specsavers, BASF and Meridian Energy.
- DHL, Panalpina and Hobbs added to the property portfolio as well as an expanded shopping centre.
- Transformation projects completed to enhance tenant amenity: Outdoor Gallery, Footy Field and Runway Mountain Bike Park.

Airport investments

- Queenstown Airport international passenger growth outstanding and outlook strong with safety case for after dark flights established. Flights anticipated from mid-2016.
- NQA financial growth continued in FY14. Positive outlook with MacKay Airport hotel underway and proposed AQUIS development, just north of Cairns, adding significant passenger growth potential.

Financial performance

FY14 annual results

Simon Robertson, chief financial officer

Auckland Airport

Great financial outcome

Full year financial results

	12 months to 30 June 2014 $m	12 months to 30 June 2013 $m	Change %
Revenue	475.814	448.458	6.1
Expenses	(120.646)	(117.624)	2.6
Earnings before interest, taxation, depreciation, fair value adjustments and investments in associates (EBITDAFI)	**355.168**	**330.834**	**7.4**
Share of profit from associates	11.632	9.921	17.2
Derivative fair value increase	0.636	1.473	(56.8)
Investment property revaluation	41.974	23.091	81.8
Property, plant and equipment revaluation	4.060	-	-
Depreciation expense	(63.541)	(62.053)	2.4
Interest expense	(68.171)	(66.689)	2.2
Taxation expense	(65.877)	(58.610)	12.4
Reported net profit after tax	**215.881**	**177.967**	**21.3**
Underlying profit after tax[1]	**169.877**	**153.781**	**10.5**

[1] A reconciliation showing the difference between reported net profit after tax and underlying profit after tax is included on the following slide.

Healthy underlying trend

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Underlying profit

	Reported earnings $000	Adjustments $000	2014 Underlying earnings $000	Reported earnings $000	Adjustments $000	2013 Underlying earnings $000
EBITDAFI	355,168	-	355,168	330,834	-	330,834
Share of profit from associates	11,632	(2,938)	8,694	9,921	(1,899)	8,022
Derivative fair value increases	636	(636)	-	1,473	(1,473)	-
Investment property revaluation	41,974	(41,974)	-	23,091	(23,091)	-
Property, plant and equipment revaluation	4,060	(4,060)	-	-	-	-
Depreciation	(63,541)	-	(63,541)	(62.053)	-	(62,053)
Interest expense and other finance costs	(68,171)	-	(68,171)	(66,689)	-	(66,689)
Taxation expense	(65,877)	3,604	(62,273)	(58,610)	2,277	(56,333)
Profit after tax	**215,881**	**(46,004)**	**169,877**	**177,967**	**(24,186)**	**153,781**

- We have made the following adjustments to show underlying profit after tax for the 12-month periods ended 30 June 2014 and 30 June 2013: We have reversed out the impact of revaluations of investment property in 2014 and 2013. An investor should monitor changes in investment property over time as a measure of growing value. However, a change in one particular year can be too short for measuring performance. Changes between years can be volatile and will consequently 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 adjusted the revaluation of the land class of assets within property, plant and equipment. The fair value changes in property, plant and equipment are less frequent than investment property revaluations also making comparisons between years difficult. The group recognises gains or losses in the income statement arising from valuation movements in interest rate derivatives which are not hedge accounted or where the counterparty credit risk on derivatives impact accounting hedging relationships. These gains or losses, like investment property, are unrealised and are expected to reverse out over the lives of the derivatives. To be consistent we have adjusted the revaluations of investment property and financial derivatives that are contained within the share of profit of associates in 2014 and 2013. We also allow for the taxation impacts of the above adjustments in both the 2014 and 2013 financial years.

Broad international passenger growth

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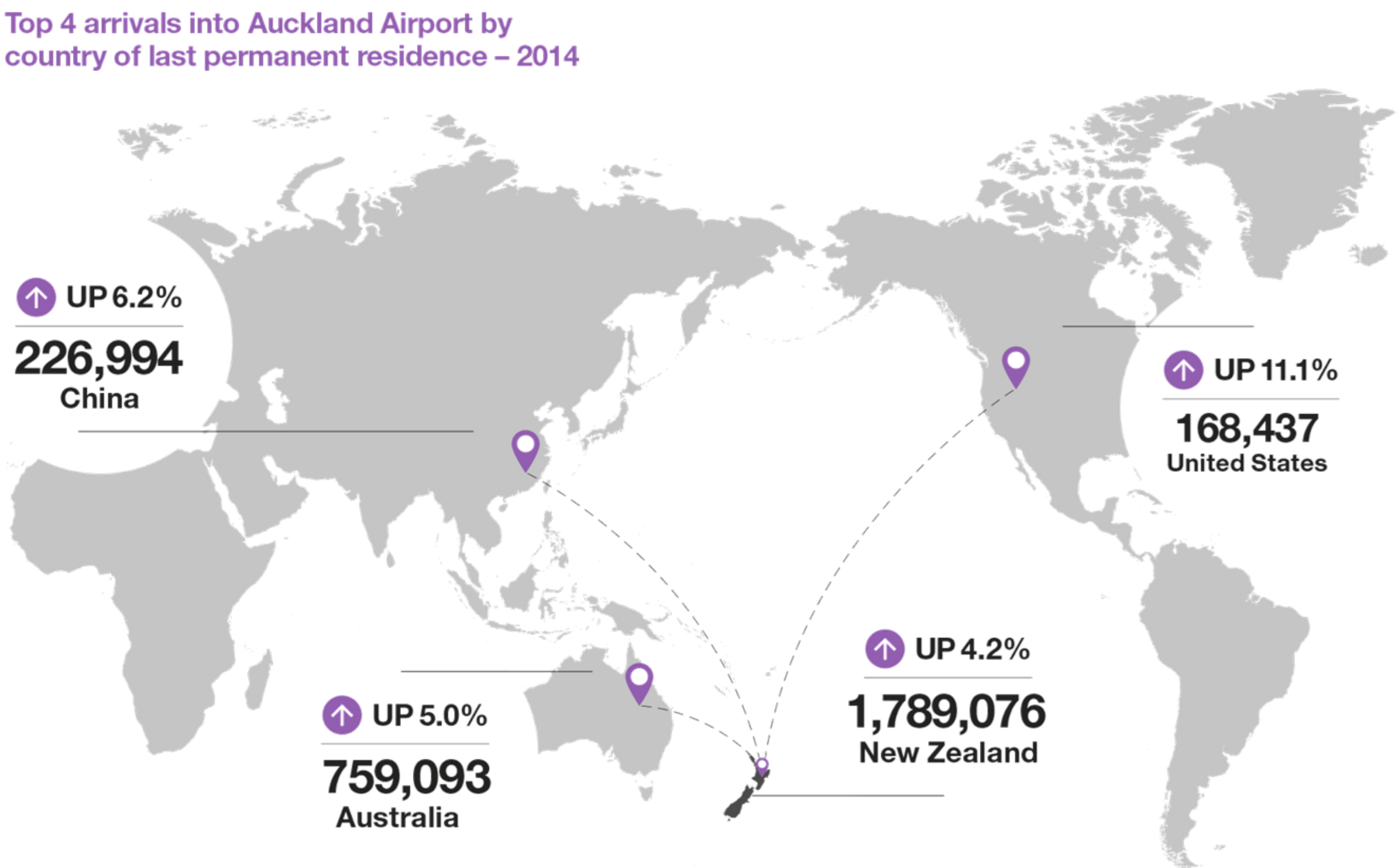
Auckland Airport passenger movements

	12 months to 30 June 2014	12 months to 30 June 2013	Change %
International arrivals	3,847,132	3,664,376	5.0
International departures	3,840,704	3,652,948	5.1
International passengers excluding transits	**7,687,836**	**7,317,324**	**5.1**
Transit passengers	462,560	437,354	5.5
Total international passenger movements	**8,150,396**	**7,755,678**	**5.1**
Domestic passengers	**6,911,689**	**6,760,537**	**2.2**
Total passenger movements	**15,062,085**	**14,516,215**	**3.8**

- Momentum has eased so far in the new financial year. International passenger growth (excluding transits) has been 1.1% up to 17 August 2014.
- Schedule for the summer period is promising with plans for further capacity to be added.

Broad international passenger growth



Larger domestic aircraft + more international frequency

Aircraft movements and MCTOW

	12 months to 30 June 2014	12 months to 30 June 2013	Change %
Aircraft movements			
International departures	45,809	44,315	3.4
Domestic aircraft movements	107,454	110,832	(3.0)
Total aircraft movements	**153,263**	**155,146**	**(1.2)**
MCTOW (tonnes)			
International MCTOW	4,339,266	4,104,679	5.7
Domestic MCTOW	1,879,199	1,824,689	3.0
Total MCTOW	**6,218,465**	**5,929,368**	**4.9**

- International MCTOW growth is a combination of more frequency (eg: Air New Zealand increase in services to North America and Shanghai) and larger aircraft (eg: Emirates using an A380 on Brisbane replacing a 777).
- Domestic MCTOW growth is predominantly Air New Zealand using larger aircraft on jet routes (A320s replacing 737s) and on regional routes (Q300s and ATRs replacing Dash 8s and Beech 1900s).

International passenger growth leads to revenue growth

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Revenue

	12 months to 30 June 2014 $m	12 months to 30 June 2013 $m	Change %
Airfield income	87.607	81.573	7.4
Passenger services charges (PSC)	131.552	120.242	9.4
Retail income	127.073	124.308	2.2
Car park income	42.815	40.370	6.1
Rental income	59.260	55.407	7.0
Rates recoveries	4.626	4.180	10.7
Interest income	2.002	2.823	(29.1)
Other income	20.879	19.555	6.8
Total revenue	**475.814**	**448.458**	**6.1**

- Strong passenger and MCTOW growth and the completion of the graduated introduction of the PSC for passengers between 2 and 12 years of age delivered excellent growth in aeronautical revenue.
- The property division lifted rental income 10.0% and was the biggest contributor to the total company rental income growth of 7.0%.

Cost base maintained

Expenses

	12 months to 30 June 2014 $m	12 months to 30 June 2013 $m	Change %
Staff	42.502	39.953	6.4
Asset management, maintenance and airport operations	40.310	39.607	1.8
Rates and insurance	10.081	9.707	3.9
Marketing and promotions	13.750	14.138	(2.7)
Professional services and levies	6.806	7.491	(9.1)
Other	7.197	6.728	7.0
Total operating expenses	**120.646**	**117.624**	**2.6**
Depreciation	63.541	62.053	2.4
Interest expense	68.171	66.689	2.2

- Operating expenses have been flat since the second half of FY13 resulting in operating expenses per passenger falling 1.1%.
- Interest costs have modestly risen despite the $454 million capital return in April 2014. The increase in the average debt balance has been offset by average interest rates declining from 6.21% in FY13 to 5.95% in FY14.

Capital return executed

- Capital return of $454 million paid to shareholders in April 2014.
- Financing of capital return subsequently executed:

April 2014 $150 million 3 year floating rate notes at 60bps over bank bills

May 2014 $150 million 7 year fixed rate bond at 5.52%

July 2014 US$250 million USPP, swapped back to $295 million at 125.5bps over bank bills

Credit metrics

	June 2011	June 2012	June 2013	June 2014
Debt/Enterprise value (%)	27.2	25.8	22.8	24.7
Funds from operations/interest cover ratio (x)	3.6	3.9	4.2	4.5
Funds from operations/debt (%)	17.1	17.9	18.4	15.8
Weighted average interest cost (%)	6.57	6.52	6.21	5.95

Our future

FY14 annual results

Adrian Littlewood, chief executive

Our future – 30-year vision launched

- Bold 30-year vision developed with international experts (www.airportofthefuture.co.nz). Very positive stakeholder feedback.
- Vision is based on a combined domestic and international terminal as well as an efficient, affordable and staged development path.
- Work has commenced on the first three phases of the vision:
  - Increasing capacity in the arrivals baggage hall to eventually deliver two more baggage belts and 2,500 m^2 of additional space.
  - Increasing space in arrivals, customs and bio-security screening.
  - Feasibility work completed on departure processing and passenger waiting areas. Concept design for this phase is now underway. Initial high level costs are approximately $125 million.[1]

[1] This is subject to the successful completion of concept design, detailed design and the final business case.

Concept design for international passenger area

Our future – growing travel markets

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- Continue to focus on sustainable growth in FY15 via mix of seasonal, up gauging and frequency increases – plus new routes.
- Scheduled capacity additions include: Air New Zealand and Singapore Airlines alliance (~100k seats); China Southern moving to double daily from October 2014 to March 2015; LAN to daily services from June.
- Seasonal capacity additions include: China Airlines +15k seats on Taipei-Brisbane-Auckland and Singapore Airlines up gauging to A380 over summer and Qantas seasonal service to Perth.

- Air New Zealand growth ambitions are lifting underpinned by series of new fleet additions. Increases to Bali, Sunshine Coast and San Francisco announced so far.
- Our *Four Seasons – Five Senses* marketing and product development campaign, as part of Government's Tourism Growth Partnership, focusing on driving growth from China with emphasis on shoulder season.

Responding to challenges in retail

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- Strong programme to lift future retail performance:
  - Continue temporary/pop-up retail programme to test new brands and categories.
  - Launch new speciality and F&B concessions/refurbishments: e.g. 3WiseMen, Shaky Isles at domestic; Juicy Details, DB signature bar, KiwiYo, OPI Nail Bar and lolaandgrace at international. Early sales results very strong.

  - Leverage new online channel to extend categories, range, reach and target segment elasticity. Online trading lifting off – recently trading at least 7x prior year.
  - New international arrivals collection point on ground floor addresses physical issue of carrying shopping through terminal. Will open up new promotional options pre-Xmas.
  - New outbound international expansion creates opportunity for increase in NLA up to 80% and new categories/brands where we are currently underserved e.g. fashion/accessories.
  - Duty free tender underway with strong interest - 10 registered bidders.

Car park & hotel business expanding

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Car parking

- Car park revenue growth of 6.1% in the financial year.
- Overall average revenue per parking space increased 0.4% even with the full year of extra space added.
- Valet product launched at domestic terminal to extend the premium car parking offer. Plans underway to expand valet to international.
- 600 spaces at the international terminal released from staff to passenger parks in September 2015.

Hotels

- Occupancy rate remains strong at 92.4% for Ibis Budget and 86.5% for Novotel.
- Construction of an additional 73 rooms at the ibis budget hotel has commenced.
- Market analysis of potential for further ‘at terminal’ hotel rooms underway.

To shop, eat, work and play

- Several pre-committed projects are under construction e.g. ibis budget hotel and Hellman.
- Two speculative industrial properties (Duplex and Flex 2) are also underway to fill gap in the market. Half of the Duplex has a lease commitment.
- Appetite to add further office space with plans for Quad 7 (9,000 m^2 of office space in the Quad precinct) progressing.
- Industrial property opportunity at the Landing further enabled with completion of 15 ha of high quality serviced sites.
- Projects to increase amenity completed and awareness of the property opportunity is growing.
- Vacancy in the portfolio is negligible.

Regulation remains core to our focus

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- Our approach to regulation has not changed. We remain committed to:
    - Making information disclosure work;
    - Searching for innovation and productivity;
    - Building customer choice; and
    - Investing capital efficiently.

- Next price setting will occur in FY17. We will consider all relevant inputs and regulatory precedent at that time. The Commerce Commission's view on appropriate WACC percentile for airports will be one element of the factors we will need to consider.
- We are fully engaged in the process of the review of WACC percentile for electricity sector as set out by the Commerce Commission and will continue discussions when the process for the review of WACC percentile for airports is determined.
- There are a range of views on the outcome of the process and it is too early to estimate the final conclusion.

Guidance

- We are confident in Auckland Airport's ability to grow revenues and EBITDAFI in the 2015 financial year.
- Allowing for the increased interest costs from the $454 million capital return we expect underlying net profit after tax (excluding any fair value changes and other one off items) to be between $160 million and $170 million.
- Due to the 10% reduction in the number of shares on issue following the capital return, this guidance would be a lift in earnings per share of between 2% and 9%.
- This guidance is subject to any material adverse events, significant one-off expenses, non-cash fair value changes to property and deterioration due to global market conditions or other unforeseeable circumstances.