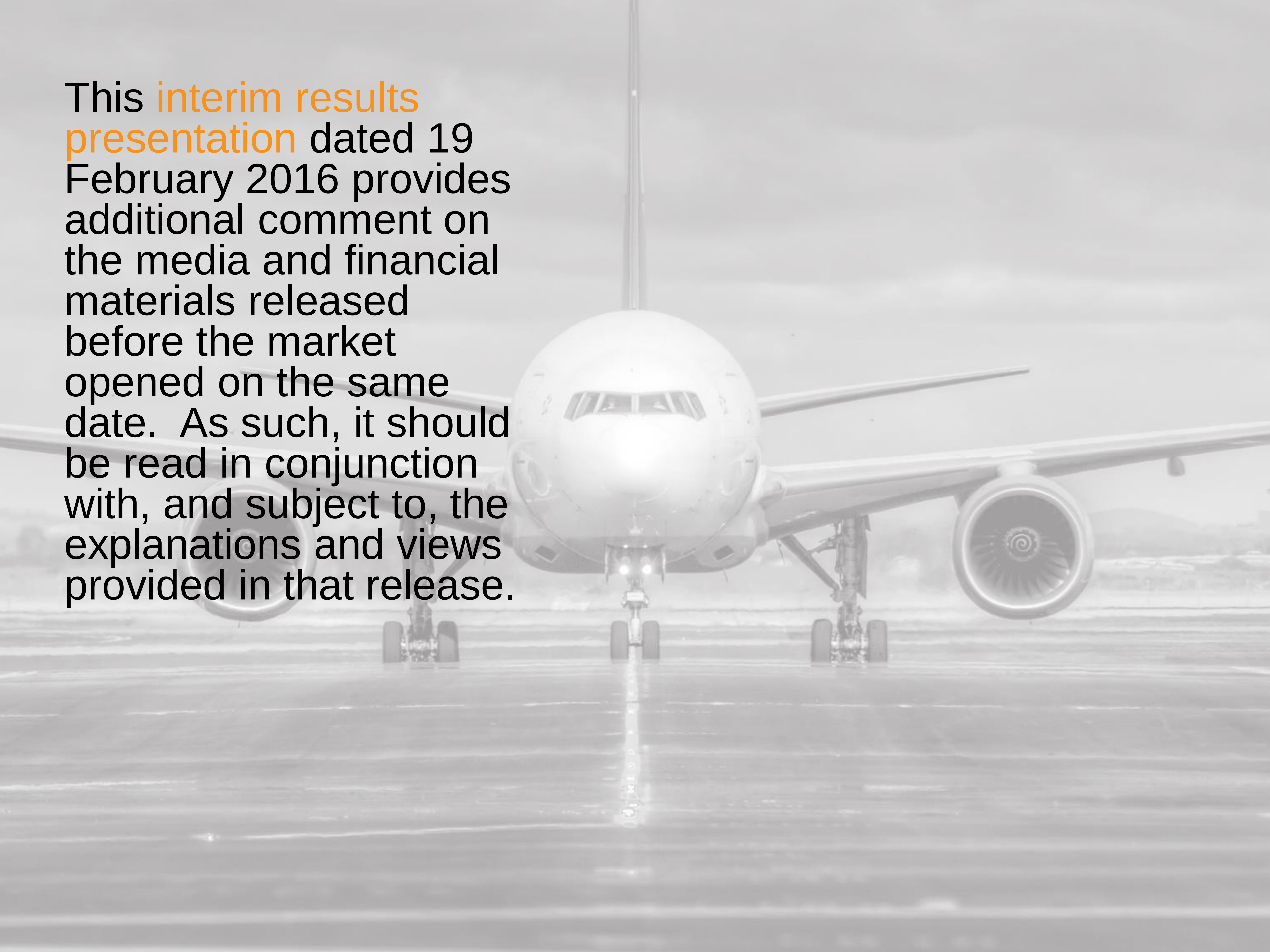
Auckland Airport

Delivering Results

Interim Report 2016



This interim results presentation dated 19 February 2016 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

FY16 interim results

Adrian Littlewood, chief executive

Auckland Airport

Delivering results

Passenger movements

6.7% 8.4m

International 4.3m Up 7.2% | International transits 0.3m Up 4.5%
Domestic 3.9m Up 6.2%

Total profit

24.8% $115.8m

Revenue

11.6% $280.6m

Underlying profit

18.6% $104.1m

Operating EBITDAFI

13.0% $213.5m

Interim dividend per share

16.4% 8.5 cents

Highlights

Auckland Airport

Grow travel markets

- Strong momentum across all markets with new carriers and improved market structure providing enhanced air capacity to both emerging and developed markets
- Tourism industry is adjusting to the new growth profile and responding to the lift in demand

Fast, efficient and effective

- Productivity is increasing through operational innovation and strong partnerships leading to higher capacity utilisation
- Tight collaboration supporting ongoing lift in passenger experience

Strengthen our consumer business

- Efforts over the last two years in retail, car parking and hotel development are beginning to deliver results. We are now investing for the next phase of growth

Invest for future growth

- Now in the flow of core airport development projects which is adding timely capacity to support passenger growth. Development is fully aligned with the longer term vision
- Property momentum is strong, leveraging our reputation for high quality developments, an expanding critical mass and our capacity for large scale industrial developments

Financial Performance

FY16 interim results

Philip Neutze, chief financial officer

Strong operating leverage

Auckland Airport

Half year financial results

	6 months to 31 Dec 2015 $m	6 months to 31 Dec 2014 $m	Change %
Revenue	280.6	251.4	11.6
Expenses	67.1	62.4	7.5
Earnings before interest, taxation, depreciation, fair value adjustments and investments in associates (EBITDAFI)	**213.5**	**189.0**	**13.0**
Share of profit from associates	4.1	5.4	(24.1)
Derivative fair value (decrease)/increase	(0.7)	(1.6)	(56.3)
Investment property revaluation	16.0	6.3	154.0
Depreciation expense	36.6	30.8	18.8
Interest expense	40.9	43.7	(6.4)
Taxation expense	39.6	31.8	24.5
Reported net profit after tax	**115.8**	**92.8**	**24.8**
Underlying profit after tax	**104.1**	**87.8**	**18.6**

- The following slide provides a reconciliation between reported net profit after tax and underlying profit after tax

Underlying profit reconciliation

Auckland Airport

	6 months to 31 Dec 2015			6 months to 31 Dec 2014		
	Reported earnings $M	Adjustments $M	Underlying earnings $M	Reported earnings $M	Adjustments $M	Underlying earnings $M
EBITDAFI	213.5	-	213.5	189.0	-	189.0
Share of profit from associates	4.1	2.7	6.8	5.4	0.1	5.5
Derivative fair value increases	(0.7)	0.7	-	(1.6)	1.6	-
Investment property revaluation	16.0	(16.0)	-	6.3	(6.3)	-
Depreciation	(36.6)	-	(36.6)	(30.8)	-	(30.8)
Interest expense and other finance costs	(40.9)	-	(40.9)	(43.7)	-	(43.7)
Taxation expense	(39.6)	0.9	(38.7)	(31.8)	(0.4)	(32.2)
Profit after tax	**115.8**	**(11.7)**	**104.1**	**92.8**	**(5.0)**	**87.8**

- We have made the following adjustments to show underlying profit after tax for the 6-month periods ended 31 December 2015 and 31 December 2014: We have reversed out the impact of revaluations of investment property in December 2015 and December 2014. 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. 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 interest rate derivative movements and are expected to reverse out over the lives of the derivatives. To be consistent we have reversed the revaluations of investment property and financial derivatives that are contained within the share of profit of associates in the periods to 31 December 2015 and 31 December 2014. We also reverse the taxation impacts of the above adjustments in the periods to 31 December 2015 and 31 December 2014.

Associates' strong underlying profit

Auckland Airport

	6 months to 31 December 2015	6 months to 31 December 2014	Change %
Queenstown Airport (24.99% ownership)	**$M**	**$M**	
Total Revenue	15.7	13.0	20.8
EBITDAFI	11.7	9.2	27.2
Domestic Passengers	565,595	498,506	13.5
International Passengers	264,965	221,286	19.7
Underlying Earnings (Auckland Airport share)	1.5	1.2	25.0
North Queensland Airports (24.55% ownership)	**AU$M**	**AU$M**	
Total Revenue	69.2	65.7	5.3
EBITDAFI	44.0	43.1	2.1
Domestic Passengers (Cairns + Mackay)	2,698,748	2,697,118	0.1
International Passengers (Including transits) (Cairns)	371,215	309,839	19.8
Underlying Earnings (Auckland Airport share)	NZ$4.5	NZ$3.7	21.6
Novotel Tainui Holdings (20.00% ownership)	**$M**	**$M**	
Total Revenue	12.6	11.4	10.5
Net Profit Before Depreciation	4.0	3.3	21.2
Average occupancy	89%	88%	1.1
Average room rate increase	11.4%	5.4%	
Underlying Earnings (Auckland Airport share)	0.8	0.6	33.3

Passenger growth underpinning performance

Auckland Airport passenger movements

	6 months to 31 December 2015	6 months to 31 December 2014	Change %
International arrivals	2,209,520	2,054,639	7.5
International departures	2,070,923	1,937,548	6.9
International passengers excluding transits	**4,280,443**	**3,992,187**	**7.2**
Transit passengers	275,242	263,470	4.5
Total international passenger movements	**4,555,685**	**4,255,657**	**7.1**
Domestic passengers	**3,850,332**	**3,624,754**	**6.2**
Total passenger movements	**8,406,017**	**7,880,411**	**6.7**

- Consistent growth across international, transit and domestic passengers
- Consistent growth across geographical markets (11.4% Asia, 9% Americas, 5.7% Trans-Tasman routes)
- More than one third domestic capacity growth in the period serves regional airports:
  - JQ - 50 seat Q300 - on Nelson & Napier Dec 15 / New Plymouth & Palmerston North Feb 16
  - Air NZ placed 68 seat ATRs on the same routes and completed upgauging from 737 to A320 on trunk routes

Runway movements growing again

Auckland Airport

Aircraft movements and MCTOW

	6 months to 31 December 2015	6 months to 31 December 2014	Change %
Aircraft movements			
International aircraft movements	24,342	23,678	2.8
Domestic aircraft movements	53,351	53,203	0.3
Total aircraft movements	**77,693**	**76,881**	**1.1**
MCTOW (tonnes)			
International MCTOW	2,366,918	2,281,692	3.7
Domestic MCTOW	1,016,149	955,556	6.3
Total MCTOW	**3,383,067**	**3,237,247**	**4.5**

- Recent trend of declining runway movements due to upgauging has reversed:
  - New carriers adding capacity via additional aircraft (strong FY16 driver)
  - Existing carriers getting closer to optimal configuration
  - We expect runway movements to keep growing, albeit slower than passenger growth

Strong revenue growth across business

Auckland Airport

	6 months to 31 December 2015 $m	6 months to 31 December 2014 $m	Change %
Airfield income	50.2	46.9	7.0
Passenger services charge	75.5	69.5	8.6
Retail income	78.6	64.8	21.3
Car park income	26.0	23.4	11.1
Investment property rental income	28.0	24.1	16.2
Other rental income	7.6	7.0	8.6
Other income	14.7	15.7	(6.4)
Total revenue	**280.6**	**251.4**	**11.7**

- A quarter of international aero revenue growth is due to FY16 price increase, the balance is volume driven
- At half year we have achieved nearly 80% of entire FY15 domestic passenger growth
- Completed investment property developments in H1 and full year impact of FY15 additions dominate investment property rental growth, but also good rent reviews
- Carried lower cash balances over H1 versus PCP to optimise balance sheet

Controlling expense growth

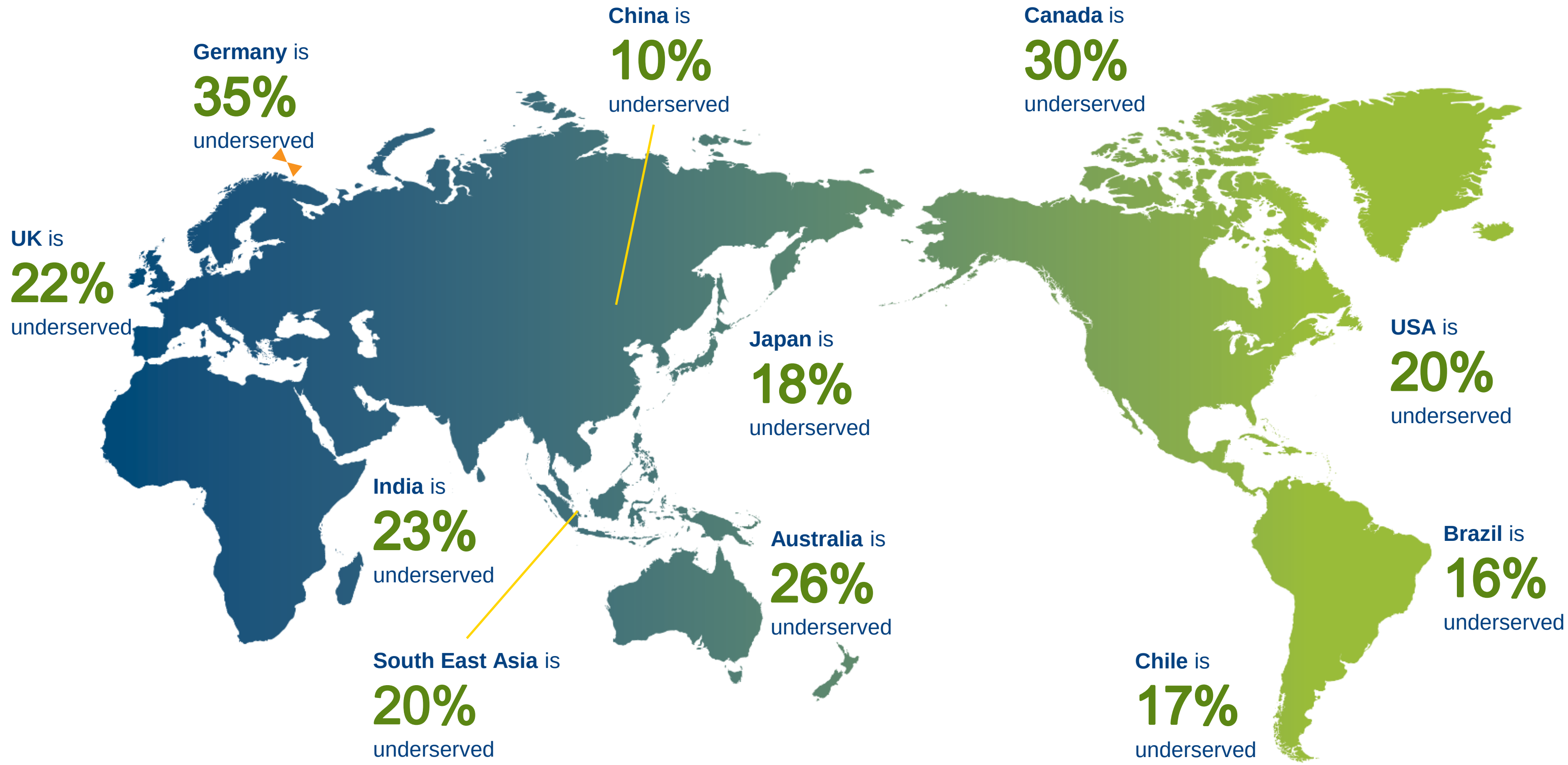
	6 months to 31 December 2015 $m	6 months to 31 December 2014 $m	Change %
Staff	22.4	22.1	1.4
Asset management, maintenance and airport operations	23.5	21.6	8.8
Rates and insurance	5.7	5.4	5.6
Marketing and promotions	6.3	6.0	5.0
Professional services and levies	4.4	3.8	15.8
Other	4.8	3.5	37.1
Total operating expenses	**67.1**	**62.4**	**7.5**
Depreciation	36.6	30.8	18.8
Interest expense	40.9	43.7	(6.4)

- Costs contained, not withstanding high passenger growth. Expense growth areas reflect:
  - Variable costs to drive revenues (e.g. Ibis hotel, Emperor Lounge, Valet and ParknRide)
  - Network utilities strategy work (e.g. electricity, gas, water and roads)
  - Increased health & safety and infrastructure planning resourcing
- Staff costs stabilised following changes to executive long term incentive plans
- Interest expense benefitted from planned floating rate exposure increases and very strong debt raising outcomes

Unprecedented access to the world

- Strong period of expansion in air services with six new airlines having commenced or announced services to Auckland in the last twelve months
- New capacity has further strengthened national hub status and is a further step on path to southern Asia-Pacific hub aspiration
- Now have better route diversity to important emerging and developed markets including:
  - **Asia** – now have direct access to all tier one Chinese cities with launch of Air China to Beijing. Entry of long haul service from Philippine Airlines and long haul LCC carrier AirAsia X from March
  - **Americas** – Entry of American Airlines and United Airlines mid 2016 and access to their extensive US distribution network. Air NZ expansion into Buenos Aires and Houston
  - **Europe and the Middle East** – new Dubai direct service from Emirates from March 2016. Longest passenger route in world at launch
- **Domestic –** Jetstar launch of new regional turbo-prop service
- New generation efficient fleet delivery (eg 787/A350) combined with substantially lower fuel prices provides strong support to long haul routes

Network analysis exposes underserved demand



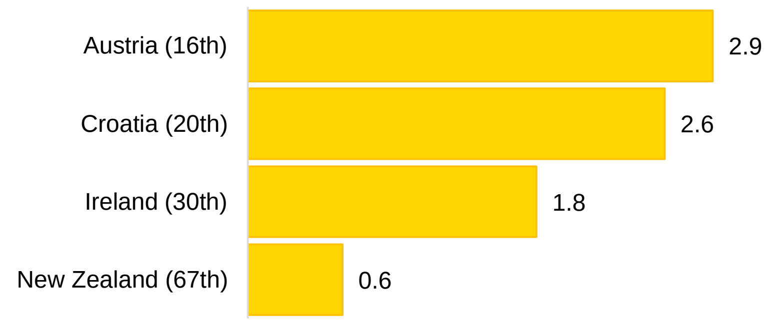
Source: Auckland Airport network model as at November 2015

Tourism sector maintains focus on growth

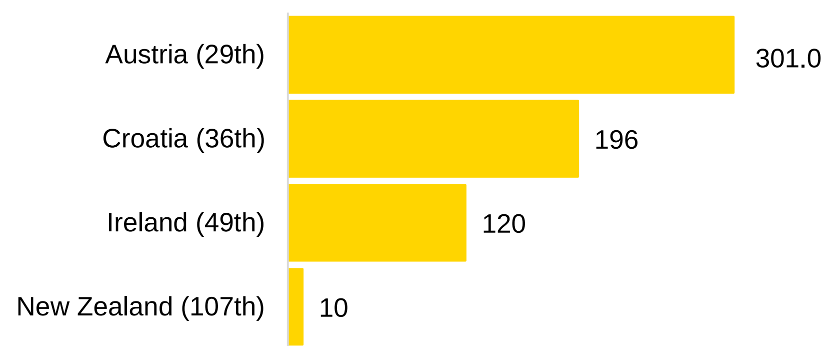
- After several years of modest increases tourism sector now in growth mode. Total international visitor arrivals to New Zealand for the last 12 months have grown by 8.3%
- Tourism sector now number one export earner for NZ, overtaking dairy
- Industry remains focused on growth opportunities and quickly adjusting to maximize opportunity. Tourism NZ consciously shifting investment to shoulder season to improve productivity across the year
- Simple comparison against peer group countries suggests that NZ still has capacity to grow
- Will require ongoing and close coordination between government and industry

NZ tourism intensity low compared with peer group countries

New Zealand #67 in world by visitation per capita



New Zealand #107 in world by visitation per square kilometre

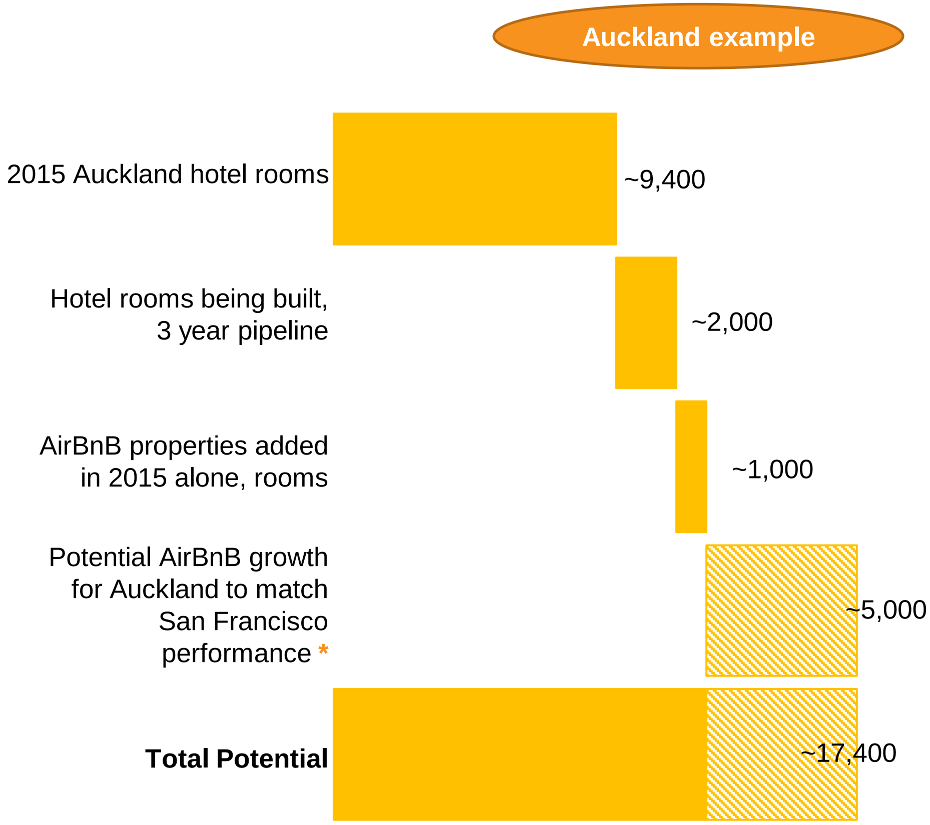


Source: World Bank; Auckland Airport analysis, Statistics New Zealand

Accommodation supply side response

- Inbound tourism growth enhancing accommodation sector occupancy and yields (e.g. December YTD average daily rate across New Zealand +12% in December 2015)
- Improved performance leading to series of new hotel commitments across country e.g. approximately 2,000 new hotel rooms committed in Auckland alone (+20% on current)
- New distribution models allowing faster addition of new supply to accommodation market. Number of AirBnB properties in Auckland in past year grew 260%
- Overseas comparisons suggest that as new distribution models build market scale, supply can more quickly respond to demand drivers

Accommodation market responding to underlying economic signals



Source: ATEED, AirDNA, Statistics NZ, Auckland Airport analysis

* Note: San Francisco example references current AirBnB accommodation supply in the primary San Francisco municipal district (resident population 825,000). Auckland resident population 1.4 million

In the flow of airport capacity development

- Following intensive period of detailed planning, strong pipeline of infrastructure development projects adding important capacity – was critical to supporting summer peak demand and new airline services
- Planned approach has also allowed us to bring forward aeronautical investment programme to support higher than expected demand
- Demonstrated the ability to deliver additional capacity under tight timeframes. Examples completed in the last six months include:
  - Added a new bus lounge on Pier B of the international terminal
  - Completed second of two additional baggage belts in the international baggage hall
  - Completed an extra 17,500 square metres of airfield space
  - Developed four new regional gates at the domestic terminal
  - New departure lounge to support Jetstar's new regional services

Future investment

- Major development projects underway focus on core terminal and aviation capacity including:

- **Phase 3** – International terminal expansion of core processing, passenger dwell space and retail footprint space will significantly improve passenger amenity. Estimated project value $160-180m. Adds approximately 65% to primary retail footprint. Delivered in three phases:
  - *December 2016*: Reconfigured landside farewell area including the first half of the two anchor duty free shops
  - *May 2017*: Remaining half of the two anchor duty free shops, and first half of the new passenger lounge and retail hub focussing on premium stores
  - *By early FY2018*: Remaining half of the new passenger lounge and retail hub providing additional specialty and F&B

- **Phase 4** – International pier expansion. Currently in detailed planning stage. Construction expected to commence later 2016

- **Phase 5** – Future integrated terminal and new domestic processor

Operational innovation delivering for partners and passengers

- Collaborative decision making (CDM) with partners across Auckland Airport crucial to managing increasing demand efficiently
- Combination of process innovation and new technology has enabled ongoing lift in processing throughput. 38% more passengers processed through international emigration versus the same period in 2009
- Despite lift in international passenger volumes during peak months of ~9%, average processing times actually decreased by ~5%
- Since the introduction of CDM in July 2015, airfield apron congestion has decreased by 4%
- Continue to search for further efficiency with all partners

Strong momentum in retail

- Strong lift in retail revenue (+21% PCP) follows two year programme of increasing footprint, re-leasing, product mix changes and duty free tender
- Strong performance by primary retail categories, in particular Specialty, with sales up 27%
- Duty Free retailers have now completed bedding in operations, immediate store refurbishment and product mix changes leading to growth in core category performance e.g. cosmetics and skincare up 18% vs. PCP
- Market leading innovation continuing to drive duty free footfall and sales e.g. 'ACE' (duty free collections robot), Johnny Walker House (one of six world-wide)
- Continue to add new brands and stores that meet objective of 'best of NZ and world' retail e.g. Kiehls, Jo Malone, Urban Decay, Victoria Secret (first in NZ), Ruby
- Careful development planning in place to manage disruption to retail during international expansion project

Transport growth continues

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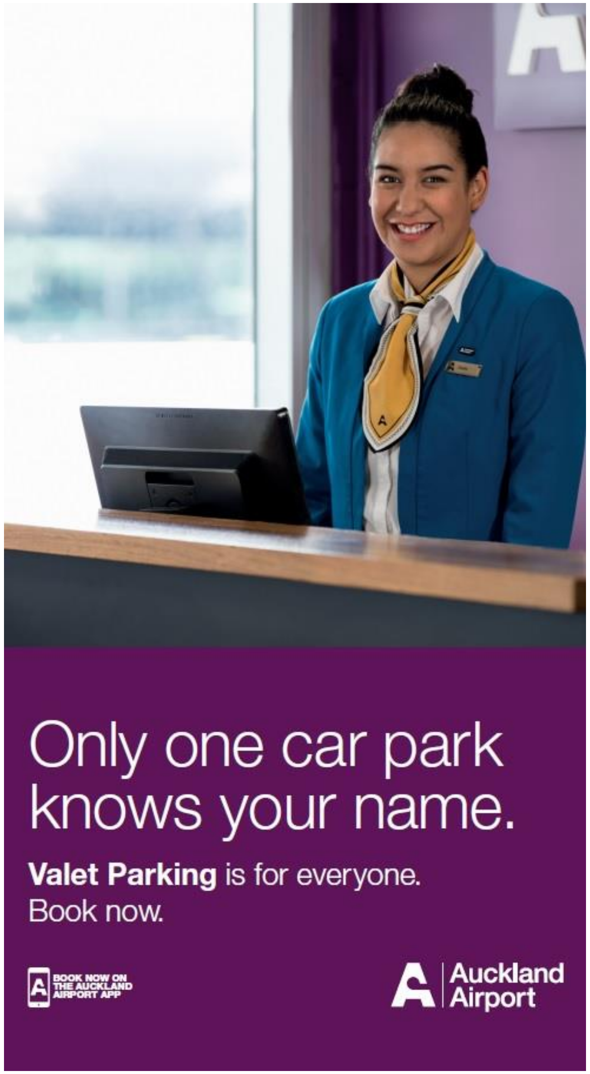
- Growth continues to be driven by broad programme of improved customer choice, extra capacity and promotions:
  - Product – Valet now well established at both international and domestic. Valet exits up 70%. New remote "Wait Zone" product introduced to offer customers free 30mins carparking when waiting to pick up passengers – also helps to minimize forecourt congestion
  - Capacity – continue to add new capacity when demand supports. Adding further 2,000 new spaces to remote ParknRide over next two years and doubling Valet spaces by May 2016
  - Utilisation – New real time guidance systems helping to lift space utilisation during peak periods
  - Promotions – Continue to use online channels to stimulate demand through targeted promotions. Online channel sales up 23.5%



Investment property and hotels

- Property continues to perform strongly reflecting the underlying demand in Auckland for close, connected and high quality sites. Continue to be optimistic on development outlook based on tenant enquiry.
- Leasing programme supporting ongoing lift in WALT to 5.26
- Successful speculative development programme continues with construction of a $13m four unit (flexi warehouse) in Timberley Road and Quad 7 office development (~9,000 sqm)
- Expanded development land with the completion of stage 3A of the Landing (8 hectares). Work has commenced on Stage 3B which will add a further 11 hectares
- Went to market to select operator for third hotel. Preferred partner now selected. Based on market feedback, have upgraded planned third hotel to premium product with ~250 rooms. Leaves opportunity open for additional mid-market hotel in future

Regulatory and other matters

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Upcoming regulatory and pricing decisions

- Commission aiming to publish its draft input methodology amendments in June 2016 in relation to the regulatory disclosure regime
- Key issues under discussion include:
  - WACC percentile
  - A new forward-looking profitability measure
  - A new backward-looking profitability measure reflecting airports' bespoke pricing approaches (e.g. our moratorium on regulatory asset revaluations for pricing)
  - Treatment of future use assets (e.g. our northern runway land holding)
- Auckland Airport's FY18-22 aeronautical price path consultation with major airlines and representatives is to begin in early FY17, with final pricing decision expected in May 2017

Employee dismissal

- Following an internal review process conducted by Auckland Airport, the company has identified several unexplained financial transactions by a non-executive employee. We have dismissed the employee concerned and referred the matter to the New Zealand Police. Civil proceedings have been commenced
- The sum of money identified to date does not impact our current financial statements or previous reported results

Commitment to our community and our people

Auckland Airport

- Continue to increase focus on health & safety performance leading to improved outcomes e.g. 250% increase in health and safety incident reporting and a 25% reduction in the lost time injury frequency rate for employees
- Using our scale and leverage to support local community and manage our environmental footprint:
  - Working closely with central government agencies and education providers to develop ‘Ara’ (Auckland Airport Jobs and Skills Hub), an initiative that helps local people develop the right skills for local employment at airport via targeted on-the-job training
  - Partnered with EECA on a multimillion dollar project to save a targeted 6 gigawatt hours energy over 3 years across our tenants (enough to power 750 homes). Work has been recognised again this year in the Dow Jones Sustainability Index’s 2016 Sustainability Yearbook and listing on the FTSE4Good Global Index
  - Continued our support for the local community - adding to the over $5 million funding contributed over the last 12 years

Ara

EECA
Energy Efficiency and Conservation Authority
Te Tari Tiaki Pūngao

FTSE4Good

Dow Jones Sustainability Indexes

Building on a foundation of success

Look back – celebrating 50 years

- Celebrated 50th anniversary on 29th January and can reflect on 50 years of continuous growth
- Passenger volumes have grown from 750k in the first year to over 16m during the last 12 months
- While our business has evolved over time, it remains anchored in the strong core business of facilitating aircraft and passenger movements

Looking ahead – updated guidance

- Updated underlying profit after tax guidance of $200 million to $206 million (previously $183 million to $191 million)
- Capital expenditure guidance is unchanged from October 2015 of between $230 million to $260 million (including approximately $135 million of aeronautical capital expenditure)
- 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

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