Auckland Airport

Interim Results 2017

Adrian Littlewood
Chief Executive

Philip Neutze
Chief Financial Officer

Highlights

FY17 interim results

Adrian Littlewood, chief executive

Results at a glance

Revenue

↑10.8% $310.9m

Passenger movements

↑12.4% 9.4m

Operating EBITDAFI

↑10.5 % $235.9m

Aircraft movements

↑8.9% 84,593

Underlying profit

↑18.6% $123.5m

Interim dividend per share

↑17.6% 10 cents

Highlights

Growing and supporting tourism

- Rapidly changing market structure – the number of international airlines servicing Auckland has increased 50% in only 18 months
- International passengers up 11.9%[1], domestic passengers up 11.7%
- Sustainably growing travel markets to increase connectivity
- Supporting the New Zealand tourism industry and recognising infrastructure requirements

Upgrading our airport infrastructure

- Currently spending more than $1m per working day on airport improvements
- International terminal upgrade well underway
- Upgraded two remote stands to accommodate two A380 or four smaller aircraft
- Planning and design for second runway

Providing a high-quality customer experience

- 45 new mobile self-service check-in kiosks and 13 more check-in counters
- 16% increase in current security processing area
- 1,400 new Park&Ride car parking spaces
- Developing a 5 star hotel with 250 rooms by the international terminal

1) Excluding transits, growth in H1 FY17 compared to H1 FY16

Financial performance

FY17 interim results

Philip Neutze, chief financial officer

Strong half year result

For the 6 months to 31 December	2016 $m	2015 $m	Change
Revenue	310.9	280.6	10.8%
Expenses	75.0	67.1	11.8%
Earnings before interest, taxation, depreciation, fair value adjustments and investments in associates (EBITDAFI)	**235.9**	**213.5**	**10.5%**
Share of profit from associates	10.0	4.1	143.9%
Derivative fair value (decrease)/increase	1.5	(0.7)	n/a
Investment property revaluation	17.4	16.0	8.8%
Depreciation expense	37.4	36.6	2.2%
Interest expense	36.8	40.9	(10.0)%
Taxation expense	48.8	39.6	23.2%
Reported net profit after tax	**141.8**	**115.8**	**22.5%**
Underlying profit after tax	**123.5**	**104.1**	**18.6%**

A reconciliation between reported net profit after tax and underlying profit after tax is included in the Appendix

Strong revenue growth across the business

For the 6 months to 31 December	2016 $m	2015 $m	Change
Airfield income	59.2	50.2	17.9%
Passenger services charge	85.9	75.5	13.8%
Retail income	80.7	78.6	2.7%[1]
Car park income	28.9	26.0	11.2%
Investment property rental income	32.5	27.9	16.5%
Other rental income	8.2	7.7	6.5%
Other income	15.5	14.7	5.4%
Total revenue	**310.9**	**280.6**	**10.8%**

- Aeronautical revenue growth driven by double digit passenger growth, growing runway movements and aeronautical price increase
- Strong passenger growth, food & beverage and passenger products performance contributed to retail income growth of 6.4%[1] despite ongoing expansion work in the international terminal
- Parking revenue tracking in line with passenger growth
- Investment property rental income increase was driven by the development of new properties and strong growth in the existing asset base

1) Growth was 6.4% excluding a one-off accrual release in the prior year

Exceptional passenger growth

For the 6 months to 31 December	2016	2015	Change
International arrivals	2,462,690	2,209,510	11.5%
International departures	2,328,575	2,070,923	12.4%
International passengers excluding transits	**4,791,265**	**4,280,433**	**11.9%**
Transit passengers	353,978	275,344	28.6%
Total international passengers	**5,145,243**	**4,555,777**	**12.9%**
Domestic passengers	4,299,244	3,849,883	11.7%
Total passengers	**9,444,487**	**8,405,660**	**12.4%**

- The growth in passengers occurred across a range of markets[1]: North America up 37%, Korea 23%, Japan 12%, Europe 13% and Australia 6%
- Double digit international growth driven by a 17.1% increase in airline capacity
- Domestic continued to benefit from new capacity on main trunk and regional services
- Total passenger growth of 12.4% ahead of aircraft movements up 8.9%
- Some minor capacity rebalancing occurring as carriers bed in new routes, but double digit growth in capacity expected in H2 FY17 despite some announced reductions

Auckland Airport refined its passenger and movements data from August 2016, resulting in a very minor restatement of prior year comparatives. The numbers above are consistent with published monthly traffic data.

1) Visitor arrivals growth in H1 FY17 compared to H1 FY16

Continuing growth in runway movements

For the 6 months to 31 December	2016	2015	Change
Aircraft movements			
International aircraft movements	27,476	24,343	12.9%
Domestic aircraft movements	57,117	53,357	7.0%
Total aircraft movements	**84,593**	**77,700**	**8.9%**
MCTOW (tonnes)			
International MCTOW	2,756,353	2,363,811	16.6%
Domestic MCTOW	1,121,401	1,016,146	10.4%
Total MCTOW	**3,877,755**	**3,379,956**	**14.7%**

- Increased connectivity to new and existing destinations continued the FY16 increase in total aircraft movements into the first half of FY17
- Air New Zealand continues to increase their A320 domestic jet and ATR72 turboprop fleet size. Jetstar introduced five Q300 turboprop aircraft on the new regional routes

Auckland Airport refined its passenger and movements data from August 2016, resulting in a very minor restatement of prior year comparatives. The numbers above are consistent with published monthly traffic data.

Expenses driven by business growth

For the 6 months to 31 December	2016 $m	2015 $m	Change
Staff	24.9	22.4	11.2%
Asset management, maintenance and airport operations	26.1	23.5	11.1%
Rates and insurance	6.1	5.7	7.0%
Marketing and promotions	7.9	6.3	25.4%
Professional services and levies	4.9	4.4	11.4%
Other	5.1	4.8	6.3%
Total operating expenses	**75.0**	**67.1**	**11.8%**
Depreciation	37.4	36.6	2.2%
Interest expense	36.8	40.9	(10.0)%

- Staff costs increase largely driven by increased headcount to cater for the growth in the business, particularly passenger facing terminal staff, and lapping a negative LTI accrual in FY16
- Increased asset management, maintenance and airport operations reflecting variable costs to drive revenue growth, increased airside bus operations, and investment in technology
- Marketing and promotions spend driven by support for new airlines and routes

Associates' performance

For the 6 months to 31 December	2016 $m	2015 $m	Change
Queenstown Airport (24.99% ownership)			
Total Revenue	19.6	15.7	24.8%
EBITDAFI	13.1	11.7	12.0%
Domestic Passengers	660,231	565,595	16.7%
International Passengers	299,088	264,965	12.9%
Underlying Earnings (Auckland Airport share)	1.5	1.5	0.0%
North Queensland Airports (24.55% ownership)	**AU$m**	**AU$m**	
Total Revenue (AU$)	72.8	69.2	5.2%
EBITDAFI (AU$)	46.3	44.0	5.2%
Domestic Passengers (Cairns + Mackay)	2,742,384	2,698,748	1.6%
International Passengers (Including transits) (Cairns)	431,615	372,374	15.9%
Underlying Earnings (Auckland Airport share) (NZ$)	NZ$5.1	NZ$4.5	13.3%
Novotel Tainui Holdings (20.00% ownership)			
Total Revenue	13.9	12.6	10.3%
EBITDAFI	4.6	4.0	15.0%
Average occupancy	91.7%	89.0%	
Average room rate increase	10.9%	11.4%	
Underlying Earnings (Auckland Airport share)	1.0	0.8	25.0%

Our continuing journey

FY17 interim results

Adrian Littlewood, chief executive

Strategic priority:
Growing Travel Markets

New routes and capacity underpin passenger growth

- International airline capacity up 17% in the six months to 31 December with increases in service frequency, aircraft upgauging, 4 new airlines and 5 new services
- Domestic continued to benefit from new capacity up 11% on main trunk and regional services e.g. Queenstown
- 15 new international services[1] over the last 18 months
- Continue to focus on sustainably growing travel markets to increase Auckland and New Zealand's air connectivity

27 international airlines[1]

44 international destinations[1]

19 domestic destinations

1) Excluding Qatar's Doha service from February 2017
2) Placed on hold in April 2017 before recommencing in October 2017 as a seasonal service

Strategic priority:
Growing Travel Markets

Sustainably growing travel markets

Europe / Middle East

- European visitors up 13%[1]
- Significantly enhanced connectivity with new Emirates (Mar-16) and Qatar services (Feb-17)

China

- Chinese visitors up 5%[1]
- New direct flights to tier two cities commenced at the end of H1 FY17 and will capture growth in new markets
- Slowing growth in tier one cities offset by increasingly high value passengers

USA

- USA visitors up 37%[1]
- Entry of USA carriers and access to their extensive distribution network and marketing reach

Korea

- Korean visitors up 23%[1]
- Strong visitor arrivals growth supported increase in Korean Air direct capacity
- Visitor spend in New Zealand up almost 3 times the rate of pax growth (Sep-16 IVS)

Australia

- Australian visitors up 6%[1]
- Marketing campaigns to support off peak travel by Australians to Auckland and the North Island for short breaks winter holidays

- Continued support for tourism through marketing activities in new and emerging markets
- Recognising the increasing number of travellers and New Zealand's infrastructure requirements:
  – working with partners to support off peak travel to NZ and spread demand throughout the year
  – provided the Government with research on how best to fund tourism infrastructure

1) Visitor arrivals growth in H1 FY17 compared to H1 FY16. Recently added Hong Kong Airlines, Tianjin Airlines and Hainan Airlines will contribute to H2 FY17 growth.

Strategic priority:

Strengthen our consumer business

Strong performance despite significant disruption

- International terminal PSR up 0.9% on prior year despite ongoing construction work to upgrade the international departure area
- Duty Free performing well reflecting retailers' global expertise
- Focus on core Duty Free products resulted in PSR growth of 22% in Cosmetics and Skincare, 60% in Electronics. This was partially offset by modest PSR declines in Liquor and Tobacco
- Specialty and Destination impacted by planned store closures as part of the international terminal upgrade, continuing until late 2017
- Food and Beverage sales up 18% as customer experience continues to be improved through greater choice such as Urban Market Café and 1985 bar on Pier A
- Retail income up 6.4% excluding prior year one-off accrual release. Duty free income growth stronger, but partly offset by disruption impact on Speciality and Destination categories and CBD construction impacting Off Airport

Strengthen our consumer business

Major upgrade of our international departure retail hub

- ~45 units up for tender in the new international terminal expansion
- Excellent interest from retailers in securing space
- Confident in selecting retailers with compelling store concepts that sell products representing the best of New Zealand and the world
- Transformation of our duty free and tax free shopping experience will start to be visible from mid 2017

Strategic priority:

Strengthen our consumer business

Parking revenue growth in line with passenger growth

- Parking revenue up 11.2% driven by double digit passenger growth
- ARPS up 2.6% due to increased car parking space utilisation
- Continuing growth in Valet with revenue up 29% on prior period. 500 new Valet spaces added in the first half of FY17
- 1,400 new Park&Ride car parking spaces added in the first half of FY17 with 800 available for public parking and 600 to be taken by relocated staff
- New value focused Valet parking service launched at Park&Ride
- Introduced free parking Wait Zone in the domestic terminal following the very successful launch of the international terminal Wait Zone
- Planning underway for a multi-storey car park, including providing additional capacity to offset any reduction during construction
- New Drop and Ride zone created within Park&Ride where travellers can be dropped off to catch the bus to the terminal

Strategic priority:
Be fast, efficient and effective

Investing in our customer experience

- 13 new check-in counters and 45 new mobile check-in kiosks in the international terminal
- Upgraded back-of-house baggage handling system
- Opened new female toilet facilities in international arrivals area. Over 80% all of Auckland Airport's customer toilets have now been upgraded to current design standard
- Recruited more than 60 Passenger Experience Assistants to help passengers at the airport during the peak season
- 12 new Customer Service Agents, proactively assisting passengers in the current international departures area
- MPI Green Lane established for low risk Australia and New Zealand passengers to reduce processing times
- Installed a seventh security screen machine in the international departures area; increasing security processing capacity by around 16%
- Effectively managing the processing of 20% more passengers than two years ago

45 New mobile international self-service check-in kiosks

13 Additional check-in service counters

60+ Passenger Experience Assistants recruited

15 Languages spoken by new Customer Service Agents

Strategic priority:

Invest for future growth

42 capital expenditure projects currently underway each valued at over $1m

- Completed new taxiway and fully serviced airfield stand
- Completed critical water, waste water, electricity and fuel projects to ensure robust ongoing supply to the airport
- Upgraded two remote airfield stands to accommodate an A380 or two smaller aircraft, increasing our airfield pavement by the equivalent of five rugby fields
- Progressed second runway planning:
  - received planning approvals
  - initiated concept design
  - updated detailed requirement modelling, now forecast towards the end of the 2020's

- Significant progress on the complex international departure area upgrade and Pier B extension. Project included assembling the largest mobile crane in the country to lift 32 tonne steel trusses for the roof. We are on track to deliver:

Mid 2017

- New security processing zone
- First half of two new duty free shops

Late 2017

- Expansion of the two new duty free shops
- First half of the new passenger lounge and retail hub
- Adding Gate 17 on Pier B

Mid 2018

- Second half of the new passenger lounge and retail hub
- Adding Gate 18 on Pier B

Invest for future growth

Improving our transport network

- Established a taskforce with the NZ Transport Agency and Auckland Transport focused on improving access to the airport precinct
- Transport initiatives to improve travel times include:
  - upgraded Puhinui Road roundabout
  - improved traffic light phasing at George Bolt Memorial Drive and Tom Pearce Drive intersection
  - improved lane configurations at George Bolt Memorial Drive and Laurence Stevens roundabout to improve traffic flows
- Continued to advocate with NZ Transport Agency and Auckland Transport to improve state highway access and public transport services to the airport
- Opening of $1.4bn Waterview motorway tunnel and completion of Kirkbride Road and State Highway 20 widening at Onehunga will assist travel to the airport

Strategic priority:
Invest for future growth

16.5% growth in property revenue

- Rent roll up 12% on the prior year
- $141m of projects under construction
- 10,000 sqm of pre-commitments secured including Röhlig Logistics and a building expansion for GVI
- Agreed terms for large distribution centre in the Landing with construction to start in Q2 2017
- Major roading projects to complete mid 2017 to enhance connectivity

New 5 star hotel

- Strong 92% occupancy at Novotel and the ibis budget
- Restructured JV with Tainui Group Holdings. Once the transaction has completed it will result in 50:50 ownership of Novotel and new Pullman hotel
- 250 room Pullman to open mid 2019
- Enhanced guest experience from new hotel plaza adjacent to international terminal

$64.6 million Investment property rent roll

281 hectares Land available for development

99% Occupancy in the portfolio

Strategic priority:
Invest for future growth

Investing in our community

- Ara, the Auckland Airport jobs and skills hub, is gaining momentum. In the past six months Ara organised 746 training opportunities and placed 61 people into employment – 35 came off government benefit
- Helped 15 South Auckland secondary schools prepare their students for work through customised engagement plans
- 8 graduate scholarships for local students
- Improved organic waste recycling facilities in the international terminal drove an increase in organic waste recycling to 47%

Being a good employer

- New staff Professional Development Framework will increase employees' ability to drive their own career development
- Introduced updated flexible working arrangements policy in December 2016 which play an important part in increasing employee diversity
- Increased health and safety headcount. Health and safety culture survey improved 5% to 67% reflecting increasingly proactive culture

Regulatory update

Economic regulation

- The Commerce Commission completed its input methodologies review in December 2016
- The final decision reaffirmed that the Commission does not set prices for airport services and that its focus is on ensuring there is transparency in relation to the pricing decisions made by airports
- Key points from the final decision include:
  - a new forward-looking profitability measure using an IRR over a five year period reflecting each airport's bespoke pricing approaches
  - the Commission's approach to assessing airport profitability indicates that it will take into account different contextual factors when assessing airport performance, including airport specific required returns, investment volumes and risk profile
  - flexibility in approach to disclosing revenue on future use assets

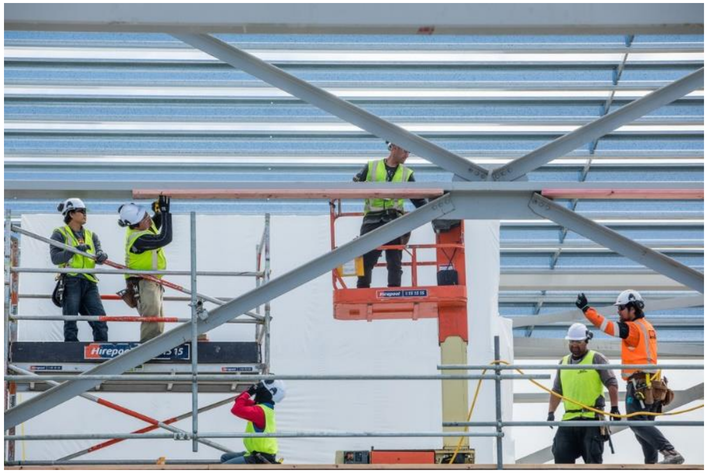
Pricing decisions

- Auckland Airport's FY18-22 aeronautical price path consultation with major airlines and representatives began in early FY17. The final pricing decision expected in May 2017
- Growth in travel and the remaining lifetime of the existing domestic terminal are driving a significant capital programme, which is being consulted on with customers
- Charges will seek to provide a reasonable return on existing infrastructure and to support ongoing investment in airport facilities and services for the long-term benefit of all airport users

Outlook

Guidance

- Ongoing strong performance to date has been in line with expectations
- We are now tightening underlying net profit after tax (excluding any fair value changes and other one-off items) guidance to between $235 million and $243 million in FY17
- Reflecting the acceleration in infrastructure investment this year, we are lifting our capital expenditure guidance for FY17 to between $370 million and $400 million in FY17, including approximately $240 million of aeronautical spend
- 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



Questions

Appendix

Underlying profit reconciliation

For the 6 months to 31 December	2016 Reported earnings $m	2016 Adjustments $m	2016 Underlying earnings $m	2015 Reported earnings $m	2015 Adjustments $m	2015 Underlying earnings $m
EBITDAFI	235.9	-	235.9	213.5	-	213.5
Share of profit from associates	10.0	(2.4)	7.6	4.1	2.7	6.8
Derivative fair value increases	1.5	(1.5)	-	(0.7)	0.7	-
Investment property revaluation	17.4	(17.4)	-	16.0	(16.0)	-
Depreciation	(37.4)	-	(37.4)	(36.6)	-	(36.6)
Interest expense and other finance costs	(36.8)	-	(36.8)	(40.9)	-	(40.9)
Taxation expense	(48.8)	3.0	(45.8)	(39.6)	0.9	(38.7)
Profit after tax	**141.8**	**(18.3)**	**123.5**	**115.8**	**(11.7)**	**104.1**

- We have made the following adjustments to show underlying profit after tax for the six-month periods ended 31 December 2016 and 31 December 2015:
  - reversed out the impact of revaluations of investment property. An investor should monitor changes in investment property over time as a measure of growing value as a change in one particular year can be too short a period for measuring performance. Changes between years can be volatile and will consequently impact comparisons. 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 and interest rate derivative movements are expected to reverse out over the lives of the derivatives;
  - reversed the revaluations of investment property and financial derivatives contained within the share of profit of associates; and
  - reversed the taxation impacts of the above adjustments

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All currency amounts are in New Zealand dollars unless otherwise stated.

Glossary

ARPS	Average revenue per parking space
CBD	Central business district
EBITDAFI	Earnings before interest, taxation, depreciation, fair value adjustments and investments in associates
MCTOW	Maximum certified take off weight
NPAT	Net profit after tax
PAX	Passenger
PSR	Passenger spend rate