

## Media Release | 29.10.09

# Auckland Airport's annual meeting Chairman's address

Despite the challenging and extraordinary business conditions which have had a significant adverse effect on the aeronautical industry in New Zealand and abroad, we achieved a sound financial and operational performance over the 12 months to June 2009.

Our underlying net profit after tax of \$105.9 million was an increase of 2.1 percent over the previous year, and our revenue grew 5.2 percent to \$369.2 million. Operating earnings before interest, tax and depreciation increased 1.6 percent to \$280.4 million, and our capital expenditure was down 38.7 percent to \$87.6 million. This all reflected our efforts to target key markets, drive greater yield and tightly manage ongoing costs. The mandatory recognition of the unrealised \$64.5 million decline in value of investment properties reduced the reported profit to \$41.7 million.

Operationally, we are tremendously proud to have been recognised by more than 8.2 million travellers in the 2009 Skytrax World Airport Awards as one of the 10 best airports in the world. We believe this is an enormous achievement for an airport of the scale and location of Auckland.

Our increased investment and focus on aeronautical business development to grow the air-services that are so critical to New Zealand are bearing fruit. During the year, we added Pacific Blue and Jetstar to our international airline stable and this is helping drive demand for trans-Tasman travel.

The strength of the trans-Tasman route compared to other markets has been a significant factor in our overall passenger volumes holding up relatively well despite the tough conditions. Australian visitors travelling through Auckland Airport increased 7.1% over the previous year.

While we have been very focused on activities to stimulate passenger volumes, we have also looked at ways to drive our yield per passenger. In particular, we have focused on providing customers and passengers with a greater range of products and services to meet their different needs, from premium to budget. These efforts have seen a pleasing growth in retail revenue over the financial year.

We have also applied the proven efficiency process method of Lean Six Sigma, made famous by the likes of General Electric and Toyota, to our business. It's helping us optimise our operations and improve our collaborative efforts with business partners such as the border agencies, resulting in improved, more efficient, and happier travel experiences for passengers. This work has helped to pave the way for the streamlined border processes for trans-Tasman travel announced by Prime Minister John Key and his Australian counter-part Kevin Rudd in August this year.

We strengthened our balance sheet and debt maturity profile during the year. Notable initiatives included two retail bond issues that raised a total of \$180 million.

Shareholders will be aware that Simon Moutter joined the airport as chief executive in August last year. Since then he has built a new leadership team combining experienced airport managers with executives from outside the industry who offer fresh insights and perspective. The leadership team has a clear vision and strategy in place for your business that will drive the future growth and success of Auckland Airport, and in turn help drive the future success of New Zealand.

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

1. The completion of the \$50 million international terminal Pier B project, which opened in October 2008 and now welcomes daily Emirates A380 flights into Auckland. The pier is the first building in the country to be awarded LEED accreditation. LEED stands for Leadership in Energy and Environmental Design.

The pier has ensured that New Zealand has additional capacity in place for travel growth and to cater for new generation aircraft.

2. Auckland Airport has temporarily deferred the effect of its scheduled July 2009 increase in its aeronautical charges. Given the challenging economic conditions we did not believe it was appropriate for the scheduled increases, albeit modest, to proceed on the scheduled date. While this will have some bottom-line impact on us in the short-term, we believe the decision will help achieve better commercial relationships with our airline customers over the longer term.
3. Air services are of critical importance to the New Zealand economy, especially in the areas of trade and tourism. Auckland Airport is playing a significant role in strengthening New Zealand's air services connections with the world at large. We have made our aspirations very clear in this area by building a dedicated and experienced business development team, the members of which are working hard, in both emerging and established markets, to encourage new airlines to fly to New Zealand.
4. Since 30 June 2009, JR Duty Free has commenced trading as the second duty-free operator at Auckland Airport, bringing a fresh retail offer to our passengers.
5. In October 2008, a pilot of new SmartGate technology commenced for some trans-Tasman travel. The smart solution uses biometric face recognition technology, to allow automated border processing. The pilot has been considered a great success and SmartGates are now expected to be operational in Auckland arrivals from December 2009 and in departures from late 2010.
6. In July 2009 Air New Zealand announced it would withdraw its application for a judicial review of Auckland Airport's aeronautical charges, which was initially lodged in 2007. This decision leaves the way clear for Auckland Airport to concentrate on building closer commercial relationships with Air New Zealand and our other airline customers.

Despite the immediate economic turbulence of the last year, the Board has kept its view fixed firmly on the long-term horizon. This has been a year of long-term stewardship on

behalf of the shareholders, managing the downsides well and preparing to take advantage of the upsides when they return. The board has been cohesive, and committed to setting goals and aspirations for Auckland Airport as a proactive driver of New Zealand tourism, trade and economic growth.

The Board's membership did not change over the financial year. We have however been working positively on the recruitment of new directors to ensure strong succession planning and a broad range of complementary skills are in place. This has culminated in the announcement in September of Sir Henry van der Heyden and James Miller as new directors. All directors enthusiastically support their appointment and consider they will both make a valuable contribution to the Auckland Airport board. They are both passionate New Zealanders and passionate for Auckland Airport to be successful. Their appointments will be put to shareholders for confirmation by way of election later in today's proceedings.

In January 2009 Lloyd Morrison was granted a leave of absence from the Board due to health reasons. We are looking forward to welcoming Lloyd back to the Board of Auckland Airport as soon as he can return. The Board of Directors of Auckland Airport has approved the appointment, by Lloyd, of Marko Bogoeievski as an Alternate Director during Lloyd's medical leave of absence. The Directors do not consider Mr Bogoeievski to be an independent director. The Board welcomes Marko and looks forward to his involvement in its deliberations.

I believe that the prudent investment and governance decisions made by the Board over the last few years have ensured stability and have, to date, allowed Auckland Airport to ride out the economic storm well.

It has also but put us into a strong position to take advantage of a return to growth when it comes. The current downturn will not last forever and, if history is any guide, the industry should, in time, return to growth. We must continue to lay the groundwork now for this upturn, whenever it comes, by actively developing new air services markets through our relationships with airlines and travel industry partners. We are well placed to reap the benefits from an upturn because we have quality infrastructure and capacity in place and can cater for a significant increase in passenger volumes with a relatively low level of associated costs.

Your board will continue to apply responsible and responsive governance to the evolving business conditions in which we operate. We will continue to oversee the work of the management team and the growth strategy to take Auckland Airport into the future, in turn benefiting you the shareholders, and the New Zealand economy.

And, in reflecting on the achievements of the last year, the board is particularly pleased with the appointment in August 2008 of Simon Moutter as chief executive. With Simon's appointment the board made a positive decision to invest in strong leadership and the directors have not been disappointed. In Simon's first year he has amongst other things:

- Looked at the Auckland Airport business model with new eyes and has challenged the status quo - but not capriciously;
- Demonstrated he has a clear understanding of the essential value drivers of the business;
- Established a significantly new and impressive leadership team who clearly have faith in him, and he in them;
- Gained the respect and support of the board;
- Ensured the company has engaged significantly on the emerging regulatory issues;
- Engaged with "Wellington" at both the political and official level to further develop valuable and important relationships;
- Engaged with our largest customer, Air New Zealand, to commence the establishment of a better and more appropriate relationship;
- Obtained board approval and support for a new strategic plan, sign-posting new directions for Auckland Airport.

For the first three months of this, the new financial year, international passenger movements (excluding transits and transfers) were up 1.2 per cent to 1.6 million. Domestic passenger movements were up by 5.1 per cent to 1.5 million. Total aircraft movements were down 2.9 per cent for the three-month period.

While it is too soon to say with confidence that market conditions are rebounding, there are certainly some positive signs emerging in some markets, for example the United States, that indicate that passenger volume declines may be slowing. Total passenger

volume growth for the first quarter of 1.0 percent against the same period last year supports this view.

For many years, a second runway has been part of Auckland Airport's long-term master plan and this remains the case. Inevitably a future second runway will be required to serve New Zealand's future tourism and trade needs. While the work has commenced, with passenger volumes and other industry dynamics still unstable and the growth recovery timeframe still uncertain, we have taken the decision to defer ongoing construction of the runway for a period of 12 months to allow demand to 'catch up'.

We also continue to remain fully engaged with the Commerce Commission consultation process that is working towards a new information disclosure regime for New Zealand's three largest airports. The new regime comes into force from 1 July 2010. The regime relates to information disclosure, with the process for the setting of aeronautical charges remaining under the Airport Authorities Act as it has been in the past.

While we will remain engaged in this process, we also believe it is crucial that the Commission focuses on ensuring that the regulatory regime provides Auckland Airport with appropriate incentives to continue to invest in the delivery of world-class services for the benefit of the national economy. New Zealand's tourism industry depends on Auckland Airport having the capacity to accommodate growth in carriers and passengers.

We estimate that each additional 1 million arriving international passengers delivers around \$2.5 billion of value to the New Zealand economy, and we believe this should be our greatest priority. We do not wish to become mired in debates amongst economists and lawyers, and risk losing sight of the bigger prize; that is, our potential to contribute to a recovery from recession by stimulating trade and tourism.

Looking ahead, I am pleased to announce that Auckland Airport intends to establish a Dividend Reinvestment Plan. This will offer shareholders the opportunity to directly increase their investment in the company by applying dividends received on some or all of their existing shares in the acquisition of additional shares. Details of the plan will be made available in due course.

We remain optimistic that as a business, we have prepared and invested sensibly to position ourselves well for the future. The long-term outlook for the company is sound. We anticipate passenger volumes eventually stabilising and returning to long-term growth trends and the proactive investment being made now into air services development and passenger experience will begin to bear even more fruit in terms of increased growth in volume and yield.

The last six months of the financial year has seen the new leadership team growing in strength, and together, with the guidance and support of the board, committing to grow Auckland Airport during these economically constrained times.

The focus of the board and leadership team for next year will be on stimulating passenger volume, managing yield, assessing options for growth investment, continued efficient management of costs and capital expenditure, continued assistance on forging a clear and sensible regulatory pathway, and putting further effort into our commercial relationships with airlines.

Forecasting is difficult when global travel demand conditions are unstable and passenger volume growth remains uncertain. For the 2010 financial year we still expect net profit after tax (excluding any fair value changes and other one-off items) to be in the range of \$93 million to \$100 million, and capital expenditure to be in the range of \$60 million to \$65 million, excluding yet to be committed property development. As always, this guidance is also subject to any material unforeseen adverse events, such as significant one-off expenses, and further deterioration due to the global market conditions.

Auckland Airport remains a vital and active part of the NZ economic engine, making a critical contribution to tourism and trade by strengthening New Zealand's connections with the world and by providing access to some of the world's best tourism experiences. We intend to keep it that way, with our growth strategy aiming to ensure that Auckland Airport remains the single most important point of connectivity between New Zealand trade and tourism and the rest of the world.

**Ends**

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