

Market Release | 24 October 2013

Auckland Airport annual meeting Chair and Chief Executive's addresses

Chair Joan Withers

Ladies and gentlemen.

In addressing today's annual meeting, I would like to make a few comments on the year's results, before reflecting on the history of our airport, its future and, if I may, my time as your Chair.

Firstly, our financial results.

As we noted in the annual report, the 2013 financial year again saw strong performance by your company, which has translated into solid returns to our investors.

I am very pleased that we have been able to build on last year's profit, despite the continuing and various challenges the market throws at us.

Our underlying profit after taxation was up 10.6% to \$153.781 million, whilst our "headline" total profit after tax was up 25.1% to \$177.967 million.

This financial performance has resulted in total dividends paid to shareholders increasing by 14.3% to 12 cents per share, imputed at our tax rate of 28% - and seen a total shareholder return in the 2013 financial year of 26.6%, an outstanding result.

We have managed to achieve this in part due to our demonstrated commitment to and very strong leadership of the development of new routes into Auckland - and by researching and then promoting greater understanding of the viability and sustainability of new travel markets, initially to airlines best able to serve them.

Our investment and ongoing work with airline partners resulted in a number of international and domestic airlines announcing additional capacity and new flights.

Whilst inevitably there was some rationalisation in certain routes, the route development momentum continues unabated.

As a company we celebrate these successes, which have helped us to drive the travel, trade and tourism ambitions of our country.

New Zealand's aspirations in these areas have the support of Auckland Airport and we have demonstrated over the last few years we are committed to playing our part to ensure they can be achieved.

It is worth mentioning at this time the very close working relationships we have with other tourism partners.

By partnering with the Tourism Industry Association, Tourism New Zealand, the government and its agencies, we can maximise our potential and deliver long-term growth for the industry.

At this, my final meeting as a director of Auckland Airport I want to pay special tribute to the Prime Minister as Minister of Tourism who in that role has provided real support and insight into the work that needed to be done to redirect New Zealand's focus to the emerging travel market in Asia, particularly China.

The importance of that national leadership is starkly potent when you look at passenger trends in the last three years.

While our friends across the Tasman have continued to visit us in greater numbers (up around 16% in that period) other traditional visitor markets have declined - the UK by 17% - or flattened, as has been the case with the US.

In the same three year period arrivals from China into Auckland Airport are up by 104%.

Moving onto another important area of focus - the regulatory front.

I am very pleased to report to shareholders that the Commerce Commission has now reported to the Government.

The report stated that our pricing provides an acceptable return on the significant investment we make in the long-term infrastructure that is essential for us as a company and for our country.

I want to thank everyone in the company involved in the Commerce Commission process, it was certainly a long and involved one - and we participated fully and openly.

We started that process with a Board commitment that we would take a fair and reasonable approach to price setting and would engage constructively in the consultation process with our airline partners.

We have made a number of constructive changes to our historical approach to price setting during the short time New Zealand's information disclosure regime for airports has been in place.

Significantly, the Commerce Commission process confirmed that such a regime is working.

I am also pleased to note that the Commission's report has provided us with the certainty that our company can move forward with confidence in our future investment decisions.

Planning for the future must be at the very heart of every successful company and the 2013 financial year saw the successful transition to a new chief executive.

As a Board we were delighted to appoint Adrian Littlewood, an internal candidate, after what was an extensive domestic and international search.

In his previous role, Adrian had demonstrated his ability to drive value through the outstanding results he achieved as GM Retail and Commercial.

I acknowledge with gratitude Adrian's predecessor Simon Moutter who brought Adrian into the company and who in his own right as CEO, put the company on a new trajectory.

While Adrian will soon speak about his first year in the role, I will say, and this is something of an understatement, that he has more than lived up to the Board's expectations.

His restructure of the company's general management team is complete, he has delivered a new five-year business strategy and he has significantly progressed the company's long-term planning as we now start to move forward on the imperative of designing an airport that will service Auckland, and the country's needs for the next 30 years and beyond.

I would like to say that the strong and experienced leadership and governance provided by the Board will also ensure that there is a successful transition in Board chairmanship following this meeting.

As shareholders you can have strong confidence in the abilities and skills of your Board.

As one of New Zealand's largest listed companies, we have an important role to play in improving corporate governance - just one example of our leadership in this area is demonstrated by the Board's commitment to the Future Director scheme.

The scheme is focused on improving the number, quality and diversity of 'board-ready' candidates able to populate director positions and thus start to overcome the traditionally cited impediment to getting fresh faces around New Zealand board tables.

New Zealand's inaugural Future Director, Sheridan Broadbent, was appointed by Auckland Airport early this calendar year.

Sheridan has almost completed her 12-month appointment with us.

The Future Director concept involves the Future Director participating in and contributing to board and board committee discussion, with the important caveat that the Future Director is not involved in decision making - and in Auckland Airport's case we have determined that Future Directors would not be offered a role on the board, but if they have performed well they would clearly be assisted in attaining directorships at the end of their Future Director term.

I have no doubt that her governance apprenticeship at Auckland Airport will stand both Sheridan and New Zealand business in good stead for the future.

Shareholders, can I now provide some reflections on the wonderful asset that we have at Mangere.

Some of you may be aware that commercial aviation services began at what was then the Mangere Aerodrome in 1937.

I wasn't around back then but, I do recall my grandfather taking us, his mokopuna, down there as small children in 1960 to look at the beginnings of the fledgling airport.

The once quiet rural location was being transformed into Auckland's new international airport.

The task was an enormous one – to create a jet-age airport out of what was essentially a large paddock.

The earthworks and airport construction took more than five years of physical work and £10 million - it was one of the great stories of Auckland in the early 1960s.

Finally, a Grand Air Pageant was held over three days in 1966 to commemorate the official opening.

What an event it was and an unprecedented crowd was attracted to what then Prime Minister Keith Holyoake said signified “Auckland’s growing importance as a commercial centre and as a gateway to New Zealand.”

In the subsequent 47 years, our airport has witnessed much – both joyful and sad.

The good and the great passed through our doors on their way to New Zealand and the world.

Presidents and Prime Ministers, citizens and celebrities - the roll of our passengers and customers tells the tales of our city and country.

In 1988 we were corporatised and our first 31 shareholders were established.

50% of our shares were retained by the Minister of Finance and the Minister of Civil Aviation and the remaining 50% allocated to Auckland’s 29 local bodies.

However, within 10 short years the Government had sold its share and Auckland International Airport Limited was listed on the New Zealand Stock Exchange.

I had been appointed a Director in October 1997 in the lead up to the July 1998 NZX listing.

I well recall those early Board meetings and the tasks before us.

I was encouraged to accept a position on the board by the Managing Director, now Sir John Goulter, and the then Chair Wayne Boyd.

"This is a good Board" they said.

They were right.

Another great leader who sat around the Board table at that time was Sir Wilson Whineray.

An exemplar of honesty, integrity, empathy and acumen.

Wilson really could see the big picture.

He provided strong leadership on issues such as widening the runway to accommodate A380s, when that aircraft type was little more than a twinkle in the engineers' eyes.

Wilson's great concern was that unless we could accept all aircraft types, we would become "a branch office of Australia".

The focus of the company has certainly evolved since then – no longer are we just about running New Zealand’s largest gateway.

Today we are equally committed to our many other roles, including as a driver of growth in travel, tourism and trade.

We have evolved our focus from just infrastructure to a strong focus on passengers – that is an ongoing and never-ending journey.

I also have no doubt with the property transformation projects already underway, we will soon become Auckland's best business location.

We have evolved from an essential part of central and local government, into a good corporate citizen - one that advocates for what we think is in the very best interests of our passengers and customers, and of course New Zealand.

Yes we have changed, however some things remain the same.

The company continues to be committed to achieving long-term growth in value for you the shareholders.

Many shareholders have been with us since the Initial Public Offering.

I want to thank you for the loyalty to the company and I am very pleased that loyalty has been rewarded with good returns.

I encourage you to retain your confidence as the company continues to deliver you solid returns on your investments.

Our most recent business strategy, Flight Path to Growth, certainly changed our corporate philosophy and improved our performance.

It delivered higher shareholder returns, and it delivered higher expectations for the future.

Adrian will soon share with you the details of our new five-year business strategy - Faster, Higher Stronger.

The Board believes it will deliver even greater returns to you the shareholders.

Therefore, our guide to earnings remains an underlying net profit after tax of between \$160 million to \$170 million.

This is of course subject to the caveats outlined in the annual report.

However, the Board is encouraged by the growth in passenger volume over the past few months.

On behalf of the Board I'd like to acknowledge the excellent work of Adrian and the rest of the Leadership Team.

They not only work hard, they work with passion to create value for you as shareholders and for New Zealand.

I would also like to acknowledge everyone who works for Auckland Airport.

They do a superb job, day and night, week after week, and it is truly a privilege as a Board to support them in their roles.

I want to also sincerely thank and acknowledge my fellow directors for their commitment and effort, and for the support they have shown me as Chair.

I particularly want to thank Keith Turner who as Deputy Chair has supported both me and my predecessor Tony Frankham.

Keith's considerable skills will be put to good use as the Board and senior management team now embark on the critically important masterplanning process.

I want to also pay tribute to Tony Frankham.

I thanked him for his leadership when I came into the Chair's role three years ago, and the longer I practice governance the more I realise how important it is to have strong, courageous intelligent people with unshakeable professionalism and integrity populating New Zealand boards.

In terms of reflecting on my time as Chair, I can't let this moment go by without remembering Lloyd Morrison, who passed away in February 2012.

Lloyd joined our board in 2007 and changed the DNA and the Board dynamic for the better.

He was passionate and aspirational about Auckland Airport and frequently we still ask the question on the big issues - what would Lloyd have thought about this?

To Michelle Guthrie, I am delighted that our recruitment process found someone of your calibre and skills.

Thank you for offering yourself for election and I am sure that, if elected, you will make a valuable contribution to, and immensely enjoy your time with, Auckland Airport.

Finally, I want to wish Sir Henry all the very best if he is both re-elected and confirmed later today as my successor.

Ladies and gentlemen, it has been an honour and a privilege to be a Director of this company for 16 years and its Chair for the past three.

I offer my heartfelt thanks to the many employees, Chief Executives and Directors with whom I have worked.

My best wishes for the exciting adventures that await you.

I leave the company knowing it is in good shape – that it has the passion and drive to continue to grow, and the skills and experience to continue to play its part for our investors, and for our customers, our city and our country.

Thank you and kia ora, tēnā koutou katoa.

Chief Executive Adrian Littlewood

Good afternoon ladies and gentlemen.

It is a pleasure to be here today to deliver my inaugural address as your Chief Executive.

I'm frequently asked how I'm settling into the job and how things have gone so far.

I say that I feel very privileged to lead this company.

And I also say that I am greatly enjoying the role and I am very motivated by both the challenges and the opportunities ahead.

Auckland Airport is a fantastic company that can genuinely make a difference for our city and our country.

But it has certainly been a very busy year.

My focus as an incoming CEO has been to ensure your company continues to grow and we set the right path for the future.

In doing so I have focused on four key areas:

- Delivering a new five-year business strategy
- Ensuring we have the right people to lead the business
- Developing the relationships required to support our business goals; and
- Maintaining the growth and delivering the key results

Today I would like to use this address to touch on some of those priorities in more detail.

In forming a plan or a strategy it is always prudent to stand back and consider your core strengths and history.

As Joan highlighted earlier, Auckland Airport has a proud history, one anchored in the role of providing the vital infrastructure that connects our country to the world.

And historically our business has correctly focused on providing that strong infrastructure foundation.

However – as Joan has said – in 2009 our new business strategy Flight Path for Growth changed all that, broadening our horizons as we took more direct control of our own destiny.

And as we changed gears and delivered the results over the past 5 years people realised the potential of the company and its place in this country

Expectations of what was possible also lifted.

So while considering our strong foundations and past performance, we also looked forward to face up to some of the challenges and opportunities for the future.

Firstly, we recognised that carefully managed infrastructure and operations in Auckland remains core to our business – it earns us the right to do everything else that we do.

However we can see challenges ahead as our travel markets continue to grow faster and airlines bring on next generation planes and additional capacity.

Managing that growth carefully, with robust infrastructure development plans and responsive operations, is vitally important.

And those plans must recognise the characteristics of our site and location in the region – both the constraints and opportunities – and be anchored in the principles of efficiency, flexibility and resilience.

I am very confident we can deliver on this.

The next challenge we identified is that New Zealand is in a global race to capture tourism growth.

By 2030 roughly 80% of the world's middle class, or 4 billion people, will be on our back-door step and within one flight of Auckland Airport.

These are the international travellers and tourism markets that will deliver New Zealand's future economic well-being.

However, it is a competitive race with high stakes, and every country has their eyes on that prize.

New Zealand needs to recognise that competitive challenge, be more ambitious and work better together as an industry so we can capture the growth.

Next, we turned to our retail business – obviously an area which is very dear to me.

Like all other retail businesses, our business is evolving as technology changes, tastes change and the regulations affecting our products change.

Our customers are also changing – they are in control, they know what they want and have limitless information at their fingertips.

Their expectations of retail are therefore changing and we must meet those expectations to stay relevant.

Our current retail business is also limited by its physical boundaries.

Whereas a shopping mall may simply push back a wall and extend its floor space, we have an airport to run and always need to strike a careful balance between such activities.

New digital channels and partnerships present exciting opportunities for our business to tap into new markets and segments in a way that would have been difficult for us in the past.

We have learned much in the past few years in our tourism market development and parking business about the power of these channels to drive performance.

So we are still at the start of the retail evolution and have plenty of opportunities ahead of us.

Moving on to our property development business - I believe we have performed very well over the past few years, despite the tough market conditions.

We have been outstanding at winning deals.

We have been experts in crafting compelling proposals and convincing the CEOs and CFOs of our clients as to why they should base their business at the airport.

However we somewhat overlooked winning the hearts and minds of their employees.

Simply put, the CEO faces a challenge if staff are unsure about the value of moving to the airport.

So our property challenge is that we must keep winning deals but move on from just constructing great buildings and to inspiring employees about why they want to be at the airport.

Our unique land holding gives us the opportunity to do things differently, to add amenity and build a quality work environment that other developers will find hard to match.

Reflecting on these challenges and opportunities we worked with the Board to develop our new strategy.

Our aspiration has remained strong and we committed early on to maintaining the growth of recent years.

We also quickly came to the conclusion that rather than throwing away the past for the sake of change we should focus on the areas where we have the most influence.

We wanted to build on what we know works.

Importantly, we also kept our core customer promise of making journeys better as it is as relevant today as when we first developed it.

And so our strategic focus has become about evolution rather than revolution.

It builds on our aspirations to grow faster, aim higher and become stronger.

And that has become our plan: Faster, Higher, Stronger.

Some of you may recognise that phrase as we have unashamedly borrowed the Olympic Games motto as the Olympic ideal captures our aspiration to keep lifting performance.

Where competitors can grow from being local champions, to being world champions.

Within Faster Higher Stronger we have developed four simple themes that describe our future focus.

Those themes are:

- Grow travel markets
- Strengthen our consumer business
- Be fast, efficient and effective; and
- Invest for future growth

In support of these themes we have released three aspirations to the market:

- Double Chinese arrivals to 400,000 by financial year 2017;

- Achieve 10 million international passengers by financial year 2018; and
- Reach 20 million total passengers by financial year 2020.

These are not forecasts, but aspirations. We may not always reach the exact goal, but if we get close we would have delivered outstanding growth.

I now want to briefly touch on each of the themes and highlight some results from the past year as we have started to implement our plan.

The theme 'grow travel markets' means we want to adopt an ambitious and innovative approach to help New Zealand unlock growth in travel, trade and tourism.

It means using our scale, capabilities and assets both in New Zealand and overseas to shape markets and influence policies that can improve tourism and travel outcomes.

The past year has seen significant progress against this objective.

While we have been strongly advocating for more ambition in the tourism industry for many years, this year the government recognised that opportunity and marked its commitment with a \$158 million funding increase over four years to drive tourism growth.

The significance of this commitment cannot be underestimated and we applaud the government's decision.

On top of that we have played a leading role helping the Tourism Industry Association develop a new national tourism framework that describes how the private sector and government can work together to drive stronger tourism growth through to 2025.

This joint industry approach is new but positive territory for the tourism sector as no single company or agency can drive the change required on its own.

Supporting this is our new and innovative marketing partnership with Chinese social media giant Sina Weibo to launch a new travel app.

This app helps users find and share travel itineraries with their friends and then purchase that trip online.

Sina Weibo has 500m users in China and is incredibly influential in that market. The fact that they selected us, an airport company in New Zealand, as their global launch partner is a testament to our innovative marketing and partnership approach.

We also developed our outbound travel marketing platform called TripGuide that combines TV and online campaigns to support international airlines' marketing efforts in New Zealand and further developed our online marketing assets in China and Indonesia.

In terms of passenger volumes while we lost some routes early last year we also saw new routes and additional capacity, including:

- additional China Airlines flights between Taipei and Auckland
- Air New Zealand services to Bali and more capacity to North America; and
- an increase in Hawaiian Airline flights.

We also witnessed strong domestic passenger growth of 8.4% due to capacity expansion by both Jetstar and Air New Zealand.

As a result our total passenger volumes grew by 3.6% in the financial year to 14.5 million.

It wouldn't be that long ago when the concept of an airport company having a consumer business might have seemed a stretch.

We were builders and managers of infrastructure.

But today we are in no doubt.

Our significant transport and parking business, our retail business, our hotel portfolio, and the experience in operating these businesses means we can legitimately claim a consumer business as our own.

So the theme of 'strengthen our consumer business' means we need to strengthen and extend these lines of business to ensure we can respond to evolving customer needs.

This means new space for retail, new car parks, new hotel rooms, new tools and ways of engaging with customers.

It also means more effectively joining our marketing across those businesses to make the most of what we have.

This past year we are well underway with new online tools such as our new iPhone app, new retail brands such as Benefit Cosmetics and further growth in our public carpark spaces and products for customers

Being fast, efficient and effective is all about improving our performance by increasing the productivity of our assets, processes and operations.

This requires us to know our business inside out and track performance much closer to real time so we can identify and weed out inefficiency or under performance.

In the past year we have established a new collaborative operations group at Auckland Airport with border agencies, airlines and other service providers working closely together to drive operational improvements.

We have also committed to an investment in a new airport operating system platform that will greatly improve our ability to collaborate with all companies and agencies at the airport in real time once it is introduced in mid-2014.

The desire to be more efficient was also at the heart of our decision to support a trial of new flight paths over Auckland this past year – known as the Northern SMART approaches.

For those not aware of them, SMART approaches are part of a worldwide drive by the aviation industry to improve flight paths.

They use the accuracy of satellite-based navigation to create a more continuous descent.

This means the aircraft travel fewer miles, burn less fuel and generate lower carbon emissions.

As the engines' power settings can be close to idle there is also better noise management for local communities.

The Auckland trial is being conducted by Airways, airlines and Auckland Airport and it concludes in a few days on 31 October.

The trial will be followed by a formal review that considers data from the airlines and Airways, along with community feedback and information gathered from noise monitors.

A draft report on the trial will then be made available for feedback in late March 2014 with a final report later in the year.

While we consulted on the trial with the Aircraft Noise Community Consultative Group – a process originally established by the Manukau City Council – we have received feedback that we could have better informed the directly affected communities.

We have also received valuable feedback on our noise complaints process and based on this feedback have made several improvements including the introduction of a dedicated 24/7 hotline, and greater information online

All types of noise, whether it be from motorways, helicopters or trains is part of city life, but Auckland Airport remains committed to responsibly managing the impact of noise on the community.

The final theme is 'invest for future growth' and it is simply that – making careful investments to build on our strong foundations to enable sustainable long term growth.

In our property business it means building New Zealand's best business location and attracting the best businesses to the airport.

It means maximising the value of our airport investments in Queenstown and North Queensland.

And lastly it means completing our 30 year masterplan for Auckland Airport and delivering the critical airport infrastructure for the future.

Again we have made strong progress in the past year.

Our property business continues its transformation winning new high profile clients such as global logistics company Panalpina Group in the industrial segment and BASF in the commercial office sector.

We also started the upgrade of our off-airport retail centre adding new food and beverage tenants and refreshing the whole facility.

Attractive new amenity has also been added in the past year with a new art trail, a 5km mountain bike track and a new football field – giving staff who work at the airport better work stories.

Our wider airport investments continue to grow with Queenstown Airport again achieving strong passenger growth with domestic volumes up 23.8% and international up 12.4%.

And North Queensland Airports also continues its strong performance with earnings before interest, tax, depreciation and fair value changes up 7% to AUD\$75m in the past year. A 67% increase since 2010 when we bought our stake in that company.

As many of you will be aware we have been hard at work on our masterplan for the long term development of the airport.

We have been properly investing our time and resources into a strong plan that enables New Zealand to take advantage of the unprecedented growth opportunities around the Pacific Rim.

In parallel we have been investing in growing aeronautical capacity.

This year we successfully completed our \$15m investment in Taxiway Lima to improve the efficient movement of aircraft at the International Terminal.

And we started our \$30m upgrade of the existing domestic terminal to improve its capacity to accommodate further growth in the near term.

As part of that project we have focused on improving transport access to the terminal, security processing, toilets and public circulation space and that work will be completed in mid-2014.

However we know the current domestic terminal is not perfect and has a finite life, as over the next 30 years we believe it is likely that flights at our airport could almost double and that passenger numbers could treble to 40 million a year.

This means we will need to build world-class terminal infrastructure and deliver our planned second runway.

While we have a responsibility to grow our airport to cater for the needs of Kiwis, we also need to protect the safety and the interests of our local communities and the environment.

Therefore we are, and want to continue to be a good neighbour as we grow

We will do all this because we are focused on becoming a thriving Australasian hub for travel, trade and tourism and because we are focused on growing a great NZ business that runs world class airports.

The team at Auckland Airport is excited about what lies ahead for your company.

Now, before I conclude this address, I would like to take the opportunity to thank our Chair, Joan Withers.

Joan - as a new chief executive I have been incredibly lucky to have you as my first Chair.

I have greatly appreciated your experience, your wisdom, and your guidance in the past year.

I also wanted to publicly thank you on behalf of all our staff for your contribution to the company over so many years.

We wish you all the very best for the future and we know you will keep a close eye on the airport.

I would also like to say to Sir Henry, that I very much look forward to working with you if you are re-elected by shareholders and confirmed as the new Chair. I know you share management's aspiration for the future.

Thank you ladies and gentlemen for your attention this afternoon and thank you also for being shareholders of Auckland Airport.

I look forward to any questions you may have later in the meeting.

ENDS

Appendix

	2013			2012		
	Reported profit \$000	Adjustments \$000	Underlying profit \$000	Reported profit \$000	Adjustments \$000	Underlying profit \$000
Profit after tax						
EBITDAFI per Income Statement	330,834	-	330,834	319,289	-	319,289
Share of profit of associates ¹	9,921	(1,899)	8,022	9,240	(3,075)	6,165
Derivative fair value increases /(decreases) ²	1,473	(1,473)	-	(2,148)	2,148	-
Investment property fair value increases ³	23,091	(23,091)	-	1,350	(1,350)	-
Depreciation	(62,053)	-	(62,053)	(64,483)	-	(64,483)
Interest expense and other finance costs	(66,689)	-	(66,689)	(68,958)	-	(68,958)
Other taxation expense ⁴	(58,610)	2,276	(56,334)	(52,006)	(982)	(52,988)
Profit after tax	177,967	(24,186)	153,781	142,284	(3,259)	139,025

¹ Auckland Airport's share of the gain on revaluation of investment property held by NQA for the year ended 30 June 2013 was \$1.307 million (2012: \$1.827 million). Auckland Airport's share of the gain on revaluation of investment property held by Novotel Hotel for the year ended 30 June 2013 was \$0.450 million (2012: \$1.566 million). Auckland Airport's share of the fair value decrease on the derivative financial instruments held by Novotel Hotel for the year ended 30 June 2013 was \$0.142 million (2012: \$0.318 million).

² The fair valuation movement of the derivative financial instruments that do not qualify for hedge accounting put in place in conjunction with the US Private Placement (USPP) debt issuance in November 2010.

³ The fair value increase of Auckland Airport's investment property portfolio as a result of the revaluation performed as at 30 June 2013 and 30 June 2012.

⁴ Taxation adjustments as a result of adjustments 1 to 3 above.

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