THE UNIVERSITY OF AUCKLAND
Te Whare Wānanga o Tāmaki Makaurau
NEW ZEALAND

BUSINESS SCHOOL

CHAMPIONS TROPHY
Case Competition

Auckland Airport

Case Study: Auckland Airport

Friday 2 February

Case prepared by Jenny Liu under the supervision of Ed Barker. This case has been prepared solely for the Champions Trophy Case Competition. All data in this case has been obtained from publically available sources and Auckland Airport. This case is not intended to serve as an endorsement, a source of primary data, or an illustration of effective or ineffective management.

From: Bill Billions
Sent: Friday 2nd February 2018
To: Auckland International Airport Project Team
Subject: AIA Strategy Presentation

Dear all,

Our next client is Auckland International Airport (AIA), the largest and busiest airport in New Zealand, acting as a key gateway. In 1966 when AIA opened its doors, they serviced over 700,000 passengers for the entire year compared with November 2017, which saw over 848,000 passengers pass through the airport in just one month.

Over the past five years, AIA has delivered strong growth driven by both external macro trends, increasing tourism in NZ, and a successful five-year strategy spanning 2013-2018. This year was no exception, with another great year of growth across the business with the company continuing to focus on upgrading its airport infrastructure, growing and supporting tourism and providing the best possible customer experience during a time of significant change. As the company moves into a new period of growth, many decisions will need to be made, such as:

- balancing regulated and unregulated opportunities;
- managing significant capex on regulated (aeronautical) infrastructure and its impact on the company's credit ratings, flexibility, and its ability to invest into unregulated opportunities;
- driving new un-regulated opportunities, which includes trade and cargo;
- and ensuring that the company retains its "Social License to Operate" and public image.

AIA's CFO Phil Neutze is interested in your team's thoughts on its current strategy, which is likely to roll over to the next period. He would also like to hear your thoughts on other initiatives that can be put in place to aid AIA's future growth. You will have ten minutes to give a presentation to Mr Neutze and his team, which will be followed by a ten-minute question and answer session. Please find the information prepared by our research team attached.

Regards,

Bill Billions

The Company

Faster, Higher, Stronger

In the 2013 financial year, Auckland International Airport announced its strategic plan to grow faster, aim higher and become stronger. It had four distinctive strategy arms which centred around making journeys better for all customers and partners of Auckland International Airport and responding to challenges ahead.

Auckland Airport's key focuses were:

- to grow travel and trade markets, helping New Zealand sustainably unlock growth opportunities in travel, trade and tourism;
- to strengthen its consumer business and respond to evolving needs;
- to become faster, and more efficient through increasing the productivity of its assets, processes and operations;
- and to invest in future growth by investing in infrastructure required to meet long-term customer needs.

In 2013, the strategy set several new aspirations to drive the company's performance. In the 2017 financial year, it continues to deliver these aspirations:

Aspirations:	How we tracked in FY17:
400,000 Double Chinese arrivals to 400,000 by FY17, up from 213,781 in FY13	**356,315** A slight decrease of 2,955 in FY17
$60m Build property rent roll to $60 million by FY17, up from $44 million in FY13	**$72.9m** An increase of $9.9 million in FY17
10m Achieve 10 million international passengers by FY18, up from 7.3 million in FY13	**9.7m** An increase of 1 million in FY17
20m Reach 20 million total passengers by FY20, up from 14.5 million in FY13	**19m** An increase of 1.8 million in FY17

AIA's 'Faster, Higher, Stronger' has produced excellent results. **As the strategy rolls over to a new period, how can AIA continue to improve on these results?**

Company Analysis

Auckland International Airport Overview

Auckland Airport is the third busiest international airport in Australasia. More than three-quarters of all international visitors to New Zealand arrive here, with 19 million passengers travelling through its domestic and international terminals in the past 12 months. The airport provides a range of both aeronautical and non-aeronautical (commercial) services to commercial and non-commercial airlines, private aircraft owners, commuter and cargo airlines and domestic and international aircraft passengers.

Passengers

Domestic	8.6m	8.9%
International	9.7m	11%
International transits	0.7m	16.8%

Regulated Income (Aeronautical)

The aeronautical side of the business includes the provision of runways, taxiways, and other airfield assets, terminal assets and movement of passengers. It is around 50% of the business and is subjected to light-handed regulation.

Sources of revenue

1. Airfield income

One of the key sources of revenue for airports are the charges levied on aircraft landing on its runways. In general, landing charges are based on the Maximum Certified Take Off Weight (MCTOW) of the aircraft arriving at the airport. At some airports in Australia and New Zealand (other than at Auckland Airport), landing charges are charged on a per passenger basis only. This charging method has the effect of transferring some of the airline risks to the airport in that the airlines are only charged for the passengers they are carrying rather than the alternative approach of charging airlines based on aircraft weight, irrespective of passenger load.

Total MCTOW across international and domestic landings grew by 12.5% in the 2017 financial year. MCTOW growth, together with the 2.5% price increase in landing charges, delivered an airfield income increase of $16.2 million.

2. Passenger income

Passenger services charge (PSC) income increased by $19.4 million or 12.5% in the 2017 financial year, in line with passenger growth.

	2017 $	2016 $	2017 price change %	2018 $	2018 price change %
International PSC (≥ 2 years)	16.09	15.85	1.5	15.65	(2.7)
Domestic PSC (≥ 2 years)	2.18	2.13	2.3	2.28	4.6
Regional PSC (≥ 2 years)	2.18	2.13	2.3	2.13	(2.3)
Transits PSC (≥ 2 years)	4.03	3.93	2.5	4.27	6.0

The 2018 financial year is the first year of the new FY18 – FY22 published aeronautical pricing schedule.

Pricing Setting Structure

Airport landing and passenger services charges are always under scrutiny from the airlines and regulators to prevent airports from deriving monopoly profits. When setting the prices, AIA tries to derive a return on assets that is both profitable for the company and palatable for the travelling public, the airlines and the commerce commission.

Late in the 2017 financial year, AIA announced its new aeronautical prices for the next five financial years – the result of a year-long consultation process with airlines on investment plans, operations and pricing. AIA's WACC has declined significantly as global interest rates have never been lower. In the new pricing period, the outcome, in real terms sees average annual international passenger charges reduce by 1.7% per annum and domestic passenger charges increasing by just 0.8% per annum. Paired with growth in CAPEX investment (which means high operational leverage, high fixed costs), lower future profit growth is a concern for the company.

Infrastructure investments

While the growth in traffic over the past five years has facilitated AIA's development, it has brought the crucial need of upgrading its infrastructure.

To accommodate the ongoing increase in passengers and aircrafts, AIA continues to spend more than $1 million every working day on the core aeronautical infrastructure. There are now 44 aeronautical projects underway across the airport, each more than $1 million. AIA plans to invest around $2 billion in aeronautical capital expenditure over FY18-22.

AIA is also at an interesting time where they are required to replace two important pieces of infrastructure that only expect to be done once in a generation; a domestic jet terminal and a new second runway. These will be happening simultaneously over the next five years.

During the 2017 financial year, the Board elected to reinstate AIA's dividend reinvestment plan to provide funding flexibility to support their investment in new infrastructure and growth opportunities. It is currently envisaged the dividend reinvestment plan will again be in place for the 2018 financial year enabling shareholders to elect to purchase AIA shares at a discount to the market price, instead of receiving the dividend as cash.

Un-regulated income (Commercial)

The commercial side of the business includes the retail, parking, hotels and investment properties. It is usually dependent on traffic through the airport and the value that can be extracted from these passengers. While the commercial business is very profitable, its success is driven by having the right products and services available to respond to customers' demands.

Retail

Auckland Airport earns concession revenue from retailers within the domestic and international terminals, including duty-free and specialty stores, food and beverage outlets, foreign exchange and advertising as well as some off-airport retailers. Furthermore, income is generated through the VIP lounge offering in international departures. The redevelopment of the departure and dwell area of the international terminal began this year, which will result in an upgraded security processing zone and a 65% increase in area for retail activities. The enlarged floor space will enhance customers' departure experience, further grow the company's retail business, and drive the use of the new loyalty programme, 'Strata Club'.

The Strata Club was launched in April 2017, which rewards travellers for shopping, booking Auckland Airport parking and Strata Lounge visits online, with benefits and points. It is free to join, and members receive extended complimentary Wi-Fi when they are at the airport, as well as special deals throughout the airport. The programme aims to tie AIA's retail, lounge and parking offerings together to seamlessly drive cross-purchasing across all products and services. Members collect 1 Strata Point for every New Zealand dollar spent. Strata points can be converted into eVouchers, which can be used as part or full payment, when you shop with Strata Club Partners, book airport parking or Strata Lounge visits online. See appendix section for the membership structure, tiers and benefits.

As the retail landscape changes due to online retailers such as Amazon, Omnichannel experiences, and changes in customer preferences, ***how can AIA come out on top and maximise their profits per customer while providing the customers with an enjoyable retail experience? What does the future of retail and Strata Club look like for AIA?***

Parking

Car park income in the 2017 financial year was $56.3 million, an increase of $4.2 million. During the year Auckland Airport continued to invest in adding parking capacity, building 1461 parks across Domestic, Valet and Park & Ride. While parking generates significant revenue for the company, Auckland Airport has mainly focused on optimizing the usage of land for parking and providing additional higher value capacity for the travelling public and moving lower value parking with Park & Ride close to the terminal.

Investment properties

Auckland Airport earns rental income from space leased in facilities, such as terminals and cargo buildings, and from stand-alone investment properties. Total rental income was $84.9 million in the 2017 financial year, Property rental income (excluding aeronautical and retail rental income) was $68.1 million in the 2017 financial year, an increase of $9.0 million from the previous year.

Income growth in the year was due to new assets such as 23 Timberly Road, Agility and the full-year impact of developments completed during the previous financial year, such as Coca-Cola Amatil, 11 Maurice Wilson Avenue and Fuji Xerox. Some of the projects that have been recently completed or are expected to be completed in the next six to eight months (such as the new Fonterra warehouse and the new MPI office building) that will positively impact rental income in the 2018 financial year.

Auckland Airport owns 1500 hectares of land, all of which is prime real estate around the Airport location. Auckland Airport land holding is considered very valuable given the proximity to Auckland CBD.

How can Auckland Airport continue to promote itself and promote its properties as a prime location for offices for other companies?

Cargo and trade

Currently, there is scattered understanding on the supply chain of cargo and the end to end movement of goods. With access to data on the movement of goods, timing etc. could AIA develop a service that:

1. Is not integrally linked to the movement of cargo by aircraft (capped returns, regulated, for example regional “land-land” logistics) and
2. Create more efficiencies for other players in the cargo industry.

Awards and recognitions

Around 2008, the airport was rated in the top 3 worldwide for airports handling 5–15 million passengers annually. It was also voted the 12th best airport in the world in 2013 at the Skytrax World Airport Awards, as well as being the best airport in the Australia/Pacific region.

Subsidiaries

Queenstown Airport

On 8 July 2010, Auckland Airport invested $27.7 million in 4.0 million new shares in Queenstown Airport Corporation Limited and formed a strategic alliance. The strategic alliance commits both airports to work together to drive more tourist traffic into New Zealand and through the two airports. The airport companies also pursue operational synergies and benefits in other areas such as aeronautical operations, retailing activities and property development. The group does not earn fees for the services provided by Auckland Airport's management staff under the strategic alliance agreement. While there are synergies, Auckland Airport is unlikely to purchase anymore share of the company in the near future because of resistance from Queenstown residents to Auckland ownership of this strategic asset.

Key Industry Trends

Today, digital transformation is a priority for most airports. Airports must embrace its potential to change how they do things to modernise, attract traffic, improve operational efficiency and enhance the passenger experience.

Airports are now facing greater competition from other airports and transport hubs, which makes it inefficient to incentivise solely on costs, and critical to create more comprehensive value propositions underpinned by new technology. Data analytics allow airports and airline to better understand how to improve the efficiencies across their business.

AIA Airport Operations

Technology has completely changed/will change the operations of an Airport. During 2017, to support safe and enjoyable travelling through Auckland Airport, AIA has delivered several improvements across their terminals. This includes:

- installing 45 mobile international self-service check-in kiosks
- reconfiguring the international check-in area to provide 13 more serviced counters
- upgrading the back-of-house international baggage handling system
- adding new technology to monitor real-time traffic movements across the airport precinct so AIA can improve the journey time information they provide through their mobile and digital channels
- expanding AIA's popular concierge service for international passengers who prefer a personalised and dedicated arrival facilitation service.

Tourism in New Zealand

Key Tourism Statistics

November 22, 2017

International visitor arrivals[1] (year ending October 2017)

	% of arrivals	Visits	Growth (pa)
Annual international arrivals:		3,688,000	8%
Australia (incl. Norfolk Island)	40%	1,464,000	5%
China	11%	411,000	1%
USA	9%	320,000	17%
UK	7%	246,000	13%
Germany	3%	105,000	12%
Japan	3%	102,000	4%

Combined, these markets provided 72.1 % of international visits to New Zealand for the year ended October 2017.

Purpose of visit	Visits	Growth (pa)
Holiday/Vacation	1,923,000	9%
Visit Friends/Relatives	1,062,000	6%
Business	301,000	5%
Other	389,000	9%

	Days	Growth (pa)
Average intended length of stay:	19	-3%

What is driving growth?

The 12 months to 30 June 2017 saw the following broad-based growth in AIA's international passenger markets:

- Australia grew by 6.2%
- Europe grew by 15.6%
- North America grew by 29.1%
- Asia grew by 7.4%

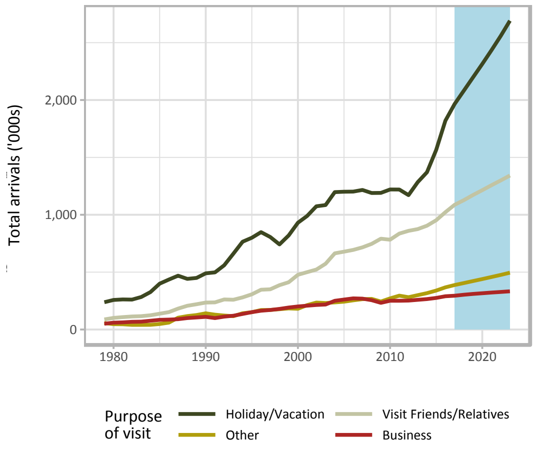
Since the early 2010's, New Zealand has seen a significant increase in visitors for tourism reasons. The emerging economies of China, South-east Asia, India and South America are changing the dynamics of global air travel. There has been an increase in the number of people with disposable income in these economies, and it is estimated that 55% of the populations of China and India will take one international trip each year by 2032.

Airlines and airports have been able to accommodate the increase in passenger numbers through the introduction of larger aircraft. Auckland Airport continues to adapt its infrastructure to cater for large modern aircraft, such as the A380, B787 and A350. The strong growth in MCTOW reflects the trend of larger aircraft, particularly international, using Auckland Airport.

This has allowed seat capacity to increase 14.5% in the last 12 months. On top of that, the 2017 financial year saw seven new international airlines and eight new international routes.

Source: http://www.mbie.govt.nz/info-services/sectors-industries/tourism/documents-image-library/key-tourism-statistics.pdf

Total arrivals by purpose of visit for the year ending December (blue shaded area is forecast)



Source: Statistics New Zealand - International Travel and Migration, MBIE - New Zealand Tourism Forecasts 2017 to 2023

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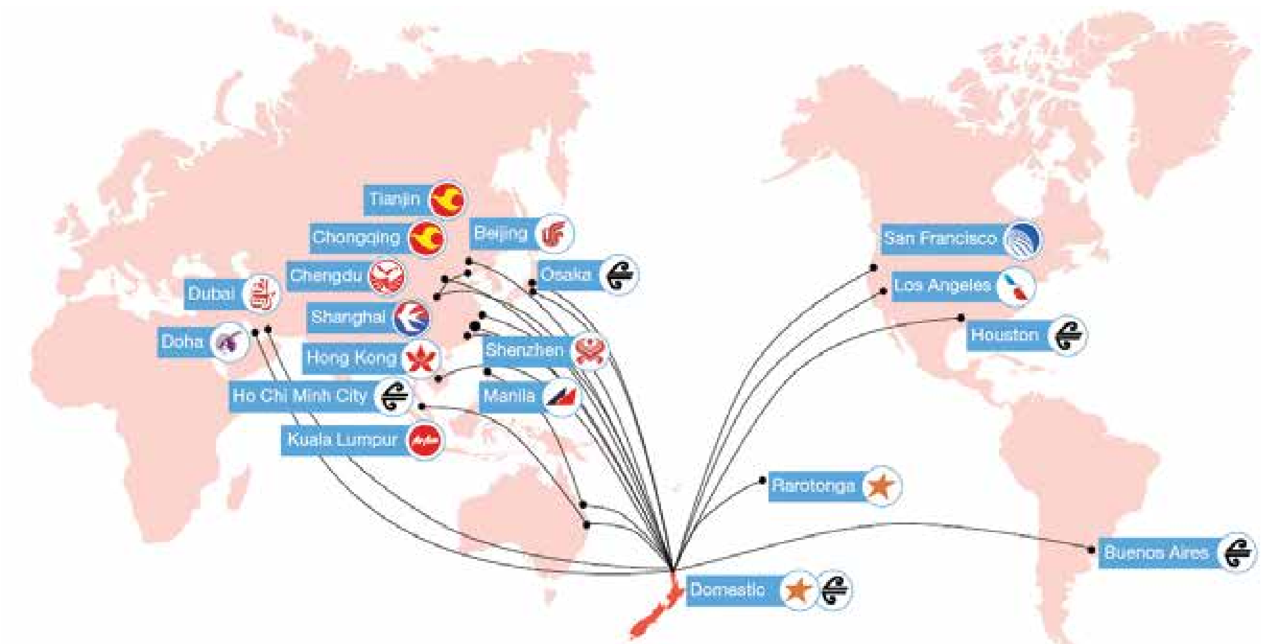
AIA's role in tourism

Auckland International Airport plays an important tourism sector leadership role, ensuring there is sufficient capacity and connectivity to allow tourism, travel and trade markets to continue to grow. It continues to develop strategic off-shore markets especially during the off-peak season and supporting New Zealand tourism operators. AIA provides two grants of $50,000 to support operators who offer outstanding seasonal and regional tourism products for visitors from China, Australia, United States or India. Every year, Auckland Airport also brings together travel and tourism industry leaders from throughout the country to participate an international travel summit.

In 2017, AIA also worked with Air New Zealand, Christchurch Airport and Tourism Holdings Limited to commission research on how best to fund New Zealand's public tourism-related infrastructure. The project proposed that a new national tourism entity be created, focused on developing local and mixed-use infrastructure and funded by a targeted tourism infrastructure levy and new government funding. The project report was provided to the Government to assist it with policy development. Following the report's launch, the Government announced that it will invest $102 million over four years in a new Tourism Infrastructure Fund to develop mixed public and tourist infrastructure. The Government also announced it will invest $76 million over four years to improve the Department of Conservation's tourism-related infrastructure.

What's next?

Auckland Airport is ideally positioned to develop not only as a global hub for air travel in Australia and the Pacific Rim, but also for travel between Asia and South America due to its unique position on the globe. The airport will continue to develop as a destination for activities complementing air travel. These range from business centres, hotel accommodation and hospitality, to shopping and recreational opportunities.



What more can Auckland Airport do to successfully establish itself as the hub of air travel in these targeted areas? How can AIA differentiate itself from the other Australasia airports?

Corporate Social Responsibility

Like all New Zealand businesses, AIA has an obligation to operate responsibly: to be a good neighbour to the communities within which they operate and to play their part in protecting and enhancing the natural environment. This is especially important for Auckland Airport due to the regulatory nature of the industry. Auckland Airport has chosen to do this in three main ways: by offering educational opportunities to people in its South Auckland community, creating sustainable employment for local people, and minimising its impact on the environment.

1. Empowering people through education

In 2017, AIA approached 14 local secondary schools and developed a customised engagement plan with each school. Eight year 13 students from local secondary schools were awarded Auckland Airport Education Scholarships, receiving paid work experience as Passenger Experience Assistants (a customer service role) in our terminals over the busy summer months, a grant towards their tertiary tuition fees, a laptop and mentoring from a member of our Auckland Airport team.

Ara, Auckland airport's jobs and skills hub, connected 68 students from Aorere College, Mangere College, Manurewa High School, Southern Cross Campus and Onehunga High School with work experience at the airport to support their NCEA trades studies. Auckland Airport has also sponsored several organisations and events such as the ASB Polyfest, the Auckland Arts Festival's school's programme and the Second Nature Charitable trust.

2. Helping people into sustainable employment

In June AIA hosted the official launch of Ara, their airport jobs and skills hub, with an event attended by the Minister of Tertiary Education, Skills and Employment and around 100 community members, people connected to jobs through Ara, local schools, representatives from central and local government, and training providers. Ara is now a charitable trust, fully owned by Auckland Airport.

In the 2017 financial year, Ara connected 190 people with job and training opportunities as part of the airport's infrastructure development programme. One hundred and fifty-six of these people live in South Auckland, and 74 came off central government benefits. Hundreds of people completed 1,355 training courses through Ara, including employees building their skills through apprenticeships. Courses included working-at-heights training, driving instruction and supervisory skills.

3. Protecting the natural environment

While AIA acknowledges that the aviation industry contributes to climate change, they are working with their aviation partners to reduce the carbon that the collective operations emit.

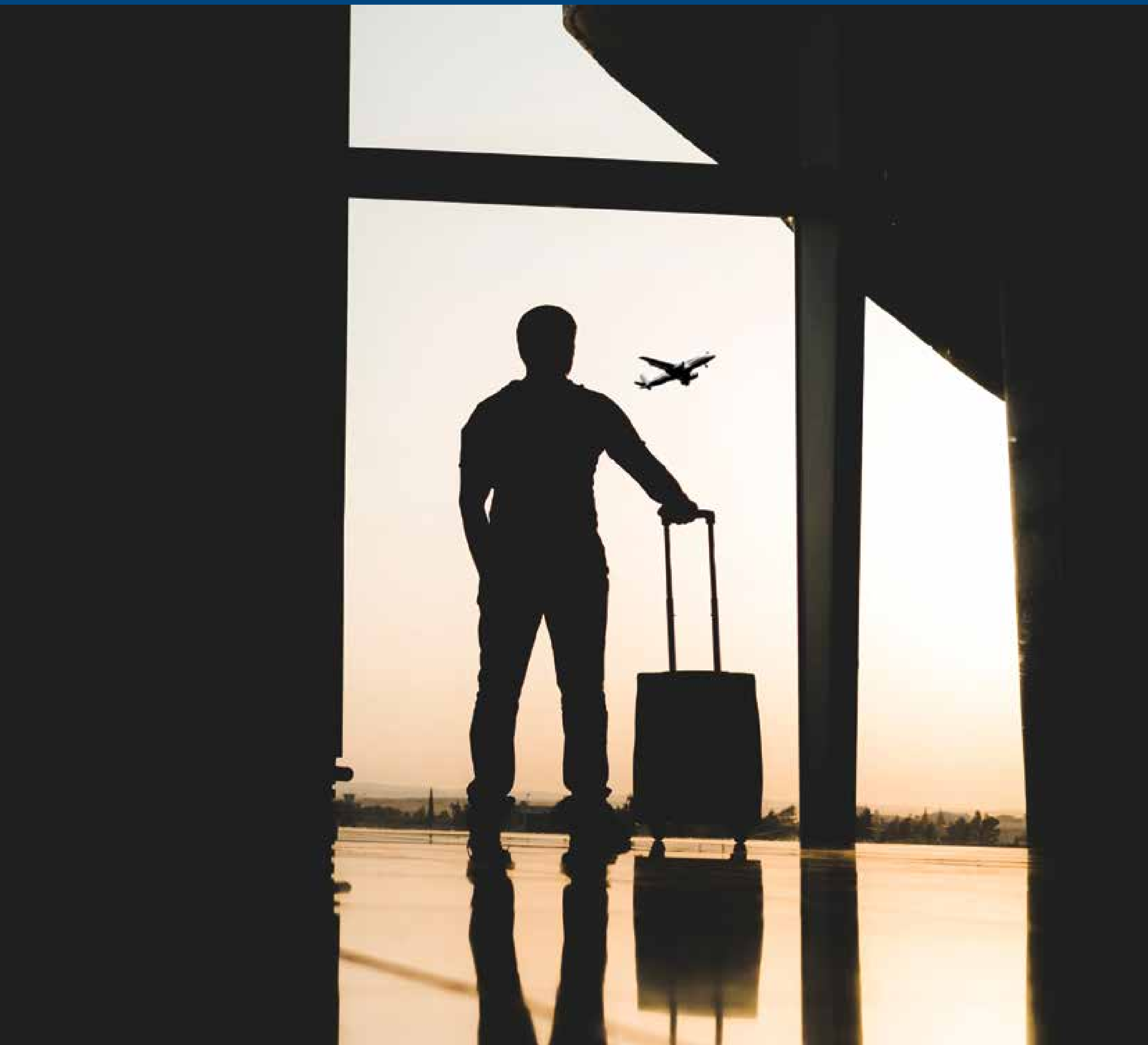
Auckland Airport:

- Are continuing to trial smart flight approaches which enable aircraft to burn less fuel and emit less carbon dioxide, as well as fly more quietly.
- Have installed ground power units (GPUs) on all its international aircraft gates. GPUs enable aircraft to switch off their on-board auxiliary power unit and plug into electricity while they prepare for their next flight, reducing the fuel they burn and creating fewer emissions. Over 80% of international aircraft use these GPUs at the airport.
- Have reviewed the efficiency of its taxiways and aprons to minimise aircraft taxi times and fuel burn.
- Are working with ground handlers to investigate installing infrastructure that supports electric ground servicing equipment, including vehicles.

See appendix section for AIA's CRS journey.

AIA has taken initiative and stride in its CSR initiatives. However, are these projects what AIA should be focusing on? Are there other areas it should consider?

Appendices



Appendix 1:
Key Financial Performance Measures

Key financial performance measures

Auckland Airport monitors a wide range of financial and non-financial performance measures. This year we have again considered the most relevant measures of financial performance against our four strategic themes:

→ GROW TRAVEL AND TRADE MARKETS	Adopt an ambitious and innovative approach to help New Zealand sustainably unlock growth opportunities in travel, trade and tourism.
→ STRENGTHEN OUR CONSUMER BUSINESS	Strengthen and extend our retail, transport and accommodation businesses to ensure we can respond to evolving customer needs.
→ BE FAST, EFFICIENT AND EFFECTIVE	Improve our performance by increasing the productivity of our assets, processes and operations.
→ INVEST FOR FUTURE GROWTH	Build on our strong foundations for long-term sustainable growth by continuously investing in infrastructure that supports our long-term requirements.

STRATEGY	MEASURE	2017	2016	2015	% change 2016–2017	% change 2015–2016
→ GROW TRAVEL AND TRADE MARKETS	**Total aircraft seat capacity**					
	International aircraft seat capacity	13,319,080	11,630,058	10,816,313	14.5	7.5
	Domestic aircraft seat capacity	10,520,325	9,937,754	9,065,388	5.9	9.6
	Passenger movements					
	International passenger movements	9,742,980	8,779,566	8,124,435	11.0	8.1
	International transit passenger movements	675,752	578,706	493,756	16.8	17.2
	Domestic passenger movements	8,601,841	7,902,059	7,198,595	8.9	9.8
	Maximum certified take-off weight (MCTOW)					
	International MCTOW (tonnes)	5,609,244	4,910,014	4,556,051	14.2	7.8
	Domestic MCTOW (tonnes)	2,238,853	2,068,545	1,890,764	8.2	9.4
→ STRENGTHEN OUR CONSUMER BUSINESS	**Passenger spend rate (PSR)**					
	Change in international terminal PSR	(2.4%)	(1.3%)	(1.0%)		
	Average revenue per parking space (ARPS)					
	Change in ARPS	(4.2%)	11.6%	(5.4%)		
→ BE FAST, EFFICIENT AND EFFECTIVE	**Return on investment**					
	Return on capital employed	7.9%	6.7%*	7.4%		
	Passenger satisfaction/ Airport service quality (ASQ)					
	International	4.19	4.21	4.16	(0.5)	1.2
	Domestic	4.01	3.99	4.03	0.5	(1.0)
→ INVEST FOR FUTURE GROWTH	**Rent roll**					
	Annual rent roll $m (property division)	72.9	63.0	56.1	15.7	12.3
→ ALL	**EBITDAFI**					
	EBITDAFI per passenger	$24.87	$24.93	$24.03	(0.2)	3.7

* The decrease in return on capital employed in 2016 resulted from the large increase in shareholders' equity which was dominated by the $784 million increase in the property, plant and equipment, land and infrastructure valuation. Return on capital employed is calculated as EBIT divided by total assets less current liabilities (excluding short-term borrowings).

Appendix 2:
Passenger information and purpose of visit

The table below shows the top 20 volumes of arrivals by country of last permanent residence in the 2017 financial year.

Country of last permanent residence	2017 Auckland Airport arrivals	2016 Auckland Airport arrivals	% change	% of total 2017 arrivals	% of total 2016 arrivals
New Zealand	2,183,028	1,982,580	10.1	44.7	44.9
Australia	869,027	817,454	6.3	17.8	18.5
People's Republic of China	356,315	359,270	(0.8)	7.3	8.1
United States of America	267,037	203,573	31.2	5.5	4.6
United Kingdom and Ireland	200,703	171,651	16.9	4.1	3.9
Japan	93,630	87,235	7.3	1.9	2.0
Germany	79,580	68,001	17.0	1.6	1.5
Korea, Republic of	64,845	57,972	11.9	1.3	1.3
Canada	57,486	48,866	17.6	1.2	1.1
India	52,301	49,284	6.1	1.1	1.1
Malaysia	48,578	30,058	61.6	1.0	0.7
Hong Kong	42,740	33,929	26.0	0.9	0.8
France	36,659	31,987	14.6	0.8	0.7
Singapore	33,669	32,408	3.9	0.7	0.7
Fiji	26,960	25,632	5.2	0.6	0.6
Samoa	26,037	23,984	8.6	0.5	0.5
Taiwan	25,994	23,062	12.7	0.5	0.5
Netherlands	21,974	18,412	19.3	0.4	0.4
Tonga	21,448	19,758	8.6	0.4	0.4
French Polynesia	21,360	17,187	24.3	0.4	0.4

SOURCE: STATISTICS NEW ZEALAND

Visitor arrivals by purpose of visit

The most common purposes of visit for international arrivals continue to be holidays (26.3%) and visiting friends and relatives (16.1%). The strong growth in these categories reflects the success New Zealand has had in growing international tourism numbers. The other segments have also shown good growth, helping to maintain the broad mix of purposes of visits through the airport. The combination of a strong origin traffic base (New Zealand outbound), New Zealand's attractiveness as a destination and the mix of source markets of inbound passengers supports Auckland Airport's resilient passenger growth.

Purpose of visit		2017	2016	% change	% of total
	Holiday/vacation	1,289,248	1,135,936	13.5	26.3
	Visit friends/relatives	788,304	726,416	8.5	16.1
Foreign residents	Business/conference	275,360	258,848	6.4	5.6
	Education/medical	55,712	54,080	3.0	1.1
	Other (incl. not stated/not captured)	314,731	262,799	19.8	6.4
New Zealand residents		2,183,028	1,982,580	10.1	44.5

SOURCE: STATISTICS NEW ZEALAND

Appendix 3:
AIA's CSR Journey

Timeline: our CSR journey

2003
- Auckland Airport Community Trust established

2004

2005
- Strategic review highlights climate change risks and opportunities

2006
- Te Manukanuka o Hoturoa Marae opens
- Voluntary carbon disclosure reporting starts

2007

2008
- First sustainability policy and five-year plan
- Inclusion in FTSE4Good

2009

2010
- Annual coastal clean-up starts
- First sustainable building certification

2011
- Waste minimisation programme starts

2012
- 2020 environmental targets set
- LED lights installed in terminals
- Dow Jones accreditation

2013
- Current CSR policy and 10 materiality issues
- 25 years as sponsor of Counties Manukau Life Education Trust
- Our Auckland Youth Art Programme launched
- CEMARS accreditation

2014

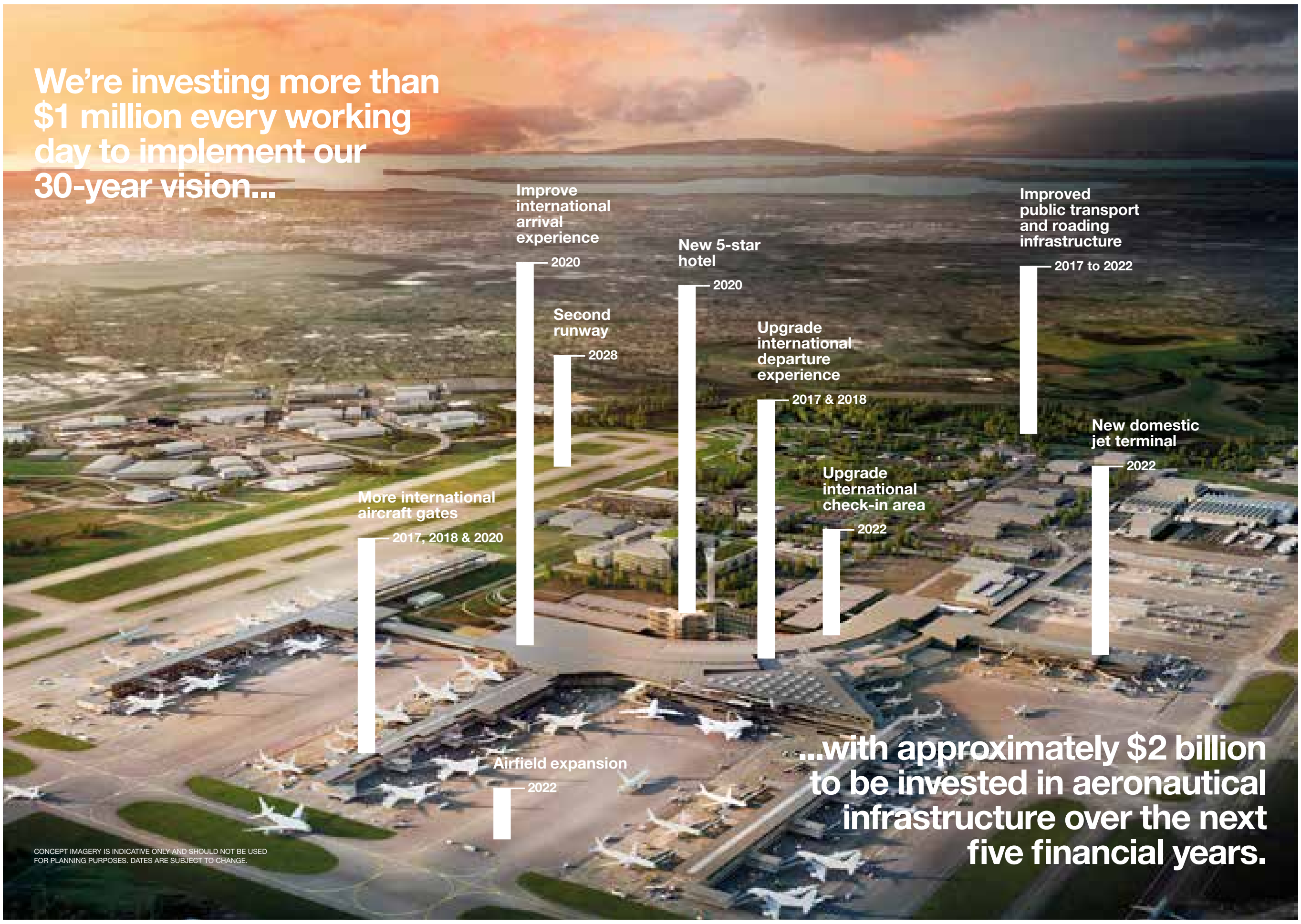
2015
- SMART flight paths established
- First electric car bought
- 2020 targets for energy and waste reached
- Airport firefighters raise over $250k for Leukaemia and Blood Cancer Foundation
- Ara, our airport jobs and skills hub, established

2016
- New CSR strategy
- 90 South Auckland people employed through Ara
- Youth Employer Pledge signed
- Two Youth Employer Awards

2017
- GRESB certification
- Science-based carbon targets
- ASB Polyfest sponsorship
- Two new grants programmes introduced
- 190 South Auckland people employed through Ara
- 68 students on work experience with Ara

Policy/strategy
Environment
Community
Recognition

Appendix 4: Capital Expenditure Projects on Regulated (Aeronautical) Infrastructure



Appendix 5: Membership tiers and benefits

Reached when $250 spent within a year	**Reached when $800 spent within a year**	**Reached when $2000 spent within a year**
Exclusive offers and discounts	Exclusive offers and discounts	
3 hours/up to 2.0GB, faster than standard	4 hours/up to 2.5GB, up to four times faster than standard	Unlimited time /up to 3.0GB, Premium speed up to five times faster than standard
$10 off a Strata Lounge entry	$10 off a Strata Lounge entry	$10 off a Strata Lounge entry
International parking upgrade from car park E to A for a booking of between 3 & 10 days	International parking upgrade from car park E to A for a booking of between 3 & 10 days	International parking upgrade from car park E to A for a booking of between 3 & 10 days
Domestic parking upgrade from car park K to M for a booking of up to 5 days	Domestic parking upgrade from car park K to M for a booking of up to 5 days	Domestic parking upgrade from car park K to M for a booking of up to 5 days
Free drink with daily special food purchase	Free drink with daily special food purchase	Free drink with daily special food purchase
	$20 off a Strata Lounge entry	$20 off a Strata Lounge entry
	Upgrade to Valet Parking from car parks R, D and A	Upgrade to Valet Parking from car parks R, D and A
	$20 off Wash & Wax when you book Valet Parking	$20 off Wash & Wax when you book Valet Parking
	$10 off a $50 food & beverage purchase	$10 off a $50 food & beverage purchase
		Discounted weekend Valet Parking of $59 for 3 days (or $69 for 4 days).
		2 for domestic Valet Parking and 2 for international Valet Parking
		Complimentary TripIt Pro for 1 year
		Two for One Strata Lounge Entry (standard stay)
		One Strata Lounge Entry (standard stay)
		Complimentary bottle of wine, or up to 5 drinks, with $200 food purchase

Appendix 6: 5-year performance review

Five-year summary

FOR THE YEAR ENDED 30 JUNE 2017

Group income statement	2017 $M	2016 $M	2015 $M	2014 $M	2013 $M
Income					
Airfield income	119.6	103.4	93.3	87.6	81.6
Passenger services charge	174.3	154.9	140.9	131.5	120.2
Retail income	162.8	157.5	132.0	127.1	124.3
Rental income	84.9	74.7	64.6	59.3	55.4
Rates recoveries	5.6	5.4	5.1	4.6	4.2
Car park income	56.3	52.1	46.6	42.8	40.4
Interest income	2.3	1.7	3.3	2.0	2.8
Other income	23.5	24.2	22.7	20.9	19.6
Total income	629.3	573.9	508.5	475.8	448.5
Expenses					
Staff	50.5	46.8	46.3	42.5	40.0
Asset management, maintenance and airport operations	55.6	49.1	44.2	40.3	39.6
Rates and insurance	12.2	11.5	10.7	10.1	9.7
Marketing and promotions	16.7	16.3	13.2	13.7	14.1
Other expenses	21.2	19.9	14.1	14.0	14.2
Total expenses	156.2	143.6	128.5	120.6	117.6
Earnings before interest, taxation, depreciation, fair value adjustments and investments in associates (EBITDAFI)	473.1	430.3	380.0	355.2	330.9
Share of (loss)/profit of associates	19.4	(8.4)	12.5	11.6	9.9
Derivative fair value (decrease)/increase	2.5	(2.6)	(0.7)	0.6	1.5
Property, plant and equipment fair value revaluation	–	(16.5)	(11.9)	4.1	–
Investment property fair value increase	91.9	87.1	57.2	42.0	23.1
Earnings before interest, taxation and depreciation (EBITDA)	586.9	489.9	437.1	413.5	365.4
Depreciation	77.9	73.0	64.8	63.5	62.1
Earnings before interest and taxation (EBIT)	509.0	416.9	372.3	350.0	303.3
Interest expense and other finance costs	72.8	79.1	86.0	68.2	66.7
Profit before taxation	436.2	337.8	286.3	281.8	236.6
Taxation expense	103.3	75.4	62.8	65.9	58.6
Profit after taxation	332.9	262.4	223.5	215.9	178.0

Group statement of comprehensive Income	2017 $M	2016 $M	2015 $M	2014 $M	2013 $M
Profit for the period	332.9	262.4	223.5	215.9	178.0
Other comprehensive income					
Items that will not be reclassified to income statement					
Property, plant and equipment net revaluation movements	–	784.0	109.3	734.8	–
Tax on the property, plant and equipment revaluation reserve	–	(7.1)	(30.1)	–	(0.5)
Movement in share of reserves of associates	7.5	8.9	–	–	–
Items that will not be reclassified to income statement	7.5	785.8	79.2	734.8	(0.5)
Items that may be reclassified subsequently to income statement					
Cash flow hedges					
Fair value gains/(losses) recognised in the cash flow hedge reserve	15.2	(36.5)	(25.5)	(3.1)	3.2
Realised (gains)/losses transferred to the income statement	6.7	6.0	9.2	8.7	8.8
Tax effect of movements in the cash flow hedge reserve	(6.1)	8.5	4.6	(1.6)	(3.3)
Total cash flow hedge movement	15.8	(22.0)	(11.7)	4.0	8.7
Movement in share of reserves of associates	2.5	1.9	1.7	8.4	0.8
Movement in foreign currency translation reserve	0.2	(2.7)	1.7	(7.0)	(3.5)
Items that may be reclassified subsequently to income statement	18.5	(22.8)	(8.3)	5.4	6.0
Total other comprehensive income/(loss)	26.0	763.0	70.9	740.2	5.5
Total comprehensive income for the period, net of tax attributable to the owners of the parent	358.9	1,025.4	294.4	956.1	183.5

Group statement of changes in equity	2017 $M	2016 $M	2015 $M	2014 $M	2013 $M
At 1 July	3,880.7	3,042.9	2,918.7	2,499.4	2,472.7
Profit for the period	332.9	262.4	223.5	215.9	178.0
Other comprehensive income/(loss)	26.0	763.0	70.9	740.2	5.5
Total comprehensive income	358.9	1,025.4	294.4	956.1	183.5
Shares issued	15.6	0.4	–	–	–
Share buy-back	–	0.1	–	–	–
Capital return and share cancellation	–	–	–	(454.1)	–
Long-term incentive plan	0.1	–	–	–	–
Dividend paid	(226.3)	(188.1)	(170.2)	(82.7)[1]	(156.8)
At 30 June	4,029.0	3,880.7	3,042.9	2,918.7	2,499.4

1. During the 2014 financial year, the company made a $454 million capital return to shareholders ($0.343 per share). Only a final dividend of $82.7 million was declared for the financial year.

Group balance sheet	2017 $M	2016 $M	2015 $M	2014 $M	2013 $M
Non-current assets					
Property, plant and equipment					
Freehold land	3,437.2	3,418.0	2,657.7	2,649.7	1,912.1
Buildings and services	754.2	612.4	583.0	499.0	504.7
Infrastructure	332.9	293.9	278.8	281.5	273.2
Runways, taxiways and aprons	354.3	333.3	320.2	298.2	308.7
Vehicles, plant and equipment	69.2	50.5	44.4	33.1	21.5
	4,947.8	4,708.1	3,884.1	3,761.5	3,020.2
Investment properties	1,198.0	1,048.9	848.1	733.4	635.9
Investment in associates	171.6	142.8	163.6	158.4	165.7
Derivative financial instruments	82.1	138.8	118.3	6.9	17.1
	6,399.5	6,038.6	5,014.1	4,660.2	3,838.9
Current assets					
Cash	45.1	52.6	38.5	41.4	69.2
Inventories	0.1	0.1	–	–	–
Trade and other receivables	55.5	42.3	36.6	29.0	26.8
Dividend receivable	2.7	3.3	2.8	2.7	3.6
Taxation receivable	–	3.9	9.5	–	–
Derivative financial instruments	0.6	0.7	–	0.5	–
	104.0	102.9	87.4	73.6	99.6
Total assets	6,503.5	6,141.5	5,101.5	4,733.8	3,938.5

Shareholders' equity	2017 $M	2016 $M	2015 $M	2014 $M	2013 $M
Issued and paid-up capital	348.3	332.7	332.3	332.3	348.8
Cancelled share reserve	(609.2)	(609.2)	(609.2)	(609.2)	(171.6)
Property, plant and equipment revaluation reserve	3,729.1	3,730.6	2,958.5	2,880.6	2,147.7
Share-based payments reserve	1.1	1.0	0.9	0.9	0.9
Cash flow hedge reserve	(32.0)	(47.7)	(25.7)	(14.0)	(18.0)
Share of reserves of associates	20.4	10.4	(0.4)	(2.1)	(10.5)
Foreign currency translation reserve	(9.3)	(9.5)	(6.8)	(8.5)	(1.5)
Retained earnings	580.6	472.4	393.3	338.7	203.6
	4,029.0	3,880.7	3,042.9	2,918.7	2,499.4
Non-current liabilities					
Term borrowings	1,635.6	1,490.0	1,504.9	1,126.8	1,010.3
Derivative financial instruments	36.1	56.9	22.2	33.1	21.7
Deferred tax liability	237.8	220.4	220.3	200.2	200.2
Other term liabilities	1.5	1.3	1.3	0.7	0.7
	1,911.0	1,768.6	1,748.7	1,360.8	1,232.9
Current liabilities					
Accounts payable	132.3	94.3	88.8	69.5	62.2
Taxation payable	6.4	–	–	2.8	10.4
Derivative financial instruments	2.8	0.1	1.7	–	–
Short-term borrowings	421.1	396.9	217.6	380.1	131.7
Provisions	0.9	0.9	1.8	1.9	1.9
	563.5	492.2	309.9	454.3	206.2
Total equity and liabilities	6,503.5	6,141.5	5,101.5	4,733.8	3,938.5

Group statement of cash flows	2017 $M	2016 $M	2015 $M	2014 $M	2013 $M
Cash flow from operating activities					
Cash was provided from:					
Receipts from customers	615.5	569.5	500.6	471.6	441.9
Interest received	2.3	1.7	3.3	2.1	2.8
	617.8	571.2	503.9	473.7	444.7
Cash was applied to:					
Payments to suppliers and employees	(156.3)	(151.2)	(116.0)	(116.4)	(112.1)
Income tax paid	(81.7)	(69.9)	(79.5)	(79.1)	(57.3)
Interest paid	(72.7)	(79.6)	(86.2)	(66.6)	(67.5)
	(310.7)	(300.7)	(281.7)	(262.0)	(236.9)
Net cash flow from operating activities	307.1	270.5	222.2	211.7	207.8
Cash flow from investing activities					
Cash was provided from:					
Proceeds from sale of assets	0.1	0.1	0.3	–	–
Proceeds from sale of investment property	–	–	0.5	–	–
Dividends from associates	20.2	15.8	13.1	16.8	14.3
	20.3	15.9	13.9	16.8	14.3
Cash was applied to:					
Purchase of property, plant and equipment	(247.9)	(124.4)	(79.0)	(60.7)	(55.0)
Interest paid – capitalised	(9.9)	(5.5)	(4.3)	(3.2)	(2.2)
Expenditure on investment properties	(81.2)	(103.7)	(61.2)	(55.6)	(32.2)
Other investing activities	(18.6)	–	–	–	–
	(357.6)	(233.6)	(144.5)	(119.5)	(89.5)
Net cash applied to investing activities	(337.3)	(217.7)	(130.6)	(102.7)	(75.2)
Cash flow from financing activities					
Cash was provided from:					
Increase in share capital	0.1	0.4	–	–	–
Increase in borrowings	538.4	275.0	565.8	450.0	175.4
	538.5	275.4	565.8	450.0	175.4
Cash was applied to:					
Share buy-back	–	–	–	(454.1)	–
Decrease in borrowings	(305.0)	(126.0)	(490.1)	(50.0)	(125.0)
Dividends paid	(210.8)	(188.1)	(170.2)	(82.7)	(156.7)
	(515.8)	(314.1)	(660.3)	(586.8)	(281.7)
Net cash flow applied to financing activities	22.7	(38.7)	(94.5)	(136.8)	(106.3)
Net (decrease)/increase in cash held	(7.5)	14.1	(2.9)	(27.8)	26.3
Opening cash brought forward	52.6	38.5	41.4	69.2	42.8
Ending cash carried forward	45.1	52.6	38.5	41.4	69.2

Capital expenditure	2017 $M	2016 $M	2015 $M	2014 $M	2013 $M
Aeronautical	255.4	119.7	68.3	33.3	51.2
Infrastructure and other	12.4	8.0	4.2	22.5	3.1
Retail	7.2	4.6	3.1	6.1	0.9
Property development	85.7	106.4	67.0	54.1	37.1
Car parking	14.0	4.5	5.0	5.5	1.1
Total	374.7	243.2	147.6	121.5	93.5

Passenger, aircraft and MCTOW	2017	2016	2015	2014	2013
Passenger movements					
International*	10,418,732	9,358,272	8,618,191	8,150,396	7,755,678
Domestic	8,601,841	7,902,059	7,198,595	6,911,689	6,760,537
Aircraft movements					
International*	54,879	49,828	46,692	45,809	44,314
Domestic*	114,366	107,944	104,264	107,454	110,832
MCTOW (tonnes)					
International*	5,609,244	4,910,014	4,556,051	4,339,266	4,104,679
Domestic*	2,238,853	2,068,545	1,890,764	1,879,199	1,824,689

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