

Media Release | 8 July 2010

Auckland Airport and Queenstown Airport form strategic alliance to boost tourism growth

Partnership cemented by Auckland Airport investing capital and becoming a minority shareholder in Queenstown Airport

Auckland International Airport Limited (Auckland Airport) and Queenstown Airport Corporation Limited (Queenstown Airport) announced today they have formed a strategic alliance to boost tourism growth into the Queenstown Lakes District.

The strategic alliance commits both airport companies to work together to drive more tourist traffic into New Zealand and through the two airports. The airport companies will also pursue operational synergies and benefits in other areas such as aeronautical operations, retailing activities and property development.

Through the strategic alliance, Queenstown Airport expects to achieve an additional 176,000 annual passenger movements within five years, over and above existing strong growth forecasts. Based on average spend rates, these additional visitors would be worth well in excess of \$150 million annually to the local Queenstown economy.

As part of the strategic alliance, Auckland Airport is investing in a 24.99% shareholding in Queenstown Airport by subscribing for new shares at a total consideration of \$27.7 million, funded from existing cash resources. Queenstown Airport, following approval from Queenstown Lakes Council, may exercise an option for Auckland Airport to increase its shareholding to 30-35% at any time up to 30 June 2011.

Auckland Airport's chairman, Tony Frankham, said, "Through this strategic alliance, the country's number one travel gateway and our premier tourist destination will work closer together to grow New Zealand tourism.

"Our shared goal is to grow passenger volumes at both Auckland and Queenstown airports through strengthened air services development and dual-destination tourism promotions.

The alliance will leverage Auckland Airport's resources in a co-ordinated effort working with airlines and the travel industry. The aim is to create value for the Queenstown community and at the same time add value to Auckland Airport.

"This marks a further significant step in Auckland Airport's plans to grow travel, trade and tourism flows between New Zealand and the rest of the world – with the aim of accelerating our earnings growth and enhancing shareholder value."

Queenstown Airport's chairman, Mark Taylor, said the strategic alliance made perfect sense as 70% of New Zealand's international tourists enter the country through Auckland International Airport.

He said the new share capital from Auckland Airport would allow Queenstown Airport to fund growth of the airport's operating capacity without increasing financial risk through borrowing more extensively. A stronger capital structure would also allow, for the first time, the company to pay regular dividends back to the community via the Queenstown Lakes District Council shareholding.

Mr Taylor said Queenstown Airport has development plans to accommodate the predicted growth within the current operational hours (6am – 10pm). In addition to these development plans, Queenstown Airport is actively seeking to extend operational hours for future growth and enhanced airport flexibility.

Queenstown Lakes District Mayor, Clive Geddes, welcomed the partnership which he said would help secure the economic prosperity of the local economy which is strongly reliant on tourism. It would ensure Queenstown Airport kept on a strong, sustainable growth path while ensuring control of the airport remained in local hands through the Council's majority shareholding.

"As shareholder, the Council has always supported the growth of Queenstown Airport, recognising its vital economic importance as a key gateway to the Queenstown Lakes District and surrounding areas."

Queenstown Airport is New Zealand's fastest growing airport. Over the past five years, international passenger volumes have quadrupled and domestic passenger volumes have increased 22%. In the 12 months ended June 2010, the airport had approximately 811,000 passenger movements, with 704,000 domestic and 107,000 international.

Over the five years 2010 to 2015, Queenstown Airport has been projecting total passenger movements to increase by approximately 260,000. The strategic alliance is targeted at generating an additional 176,000 passenger movements on top of this - boosting the five-year increase to 54%. Overseas visitors are expected to represent about two-thirds of the incremental traffic resulting from the focused efforts of the alliance, with the remainder being domestic travellers.

Auckland Airport's chief executive, Simon Moutter, said the strategic alliance was consistent with Auckland Airport's strategy to add to shareholder value by shifting some resources into areas that will drive earnings faster than the company's organic growth rate.

“We can accelerate growth in international passenger volumes – which represent our biggest value driver – by forming deeper partnerships with selected and like-minded airports that share our growth focus on particular airlines and travel markets (especially out of Asia).

“Like many others in the tourism sector, we see the Queenstown Lakes District as one of the jewels in New Zealand tourism’s crown. It is a highly attractive and complementary destination that strengthens our itinerary mix when marketing air services into New Zealand internationally.

“Over the past year or so, we have already been co-operating informally with Queenstown Airport in our marketing to airlines and the travel trade to create a stronger North/South Island itinerary proposition. We’ve had a very positive response which has been a key contributor to an estimated 36% uplift in Queenstown/Auckland traffic over the past 12 months. This experience gives us confidence we can achieve even faster growth through a formal strategic alliance.

“This alliance will enable us to present more attractive multi-destination business cases in our ongoing route development discussions with airlines. This ability to strengthen our offer could represent a potential ‘deal-closer’.

“We will increase the prominence of the Queenstown Lakes District in our domestic and offshore marketing promotions and itinerary management with the travel trade. We will also promote Auckland and the Queenstown Lakes District as dual-destination holiday opportunities and develop the route capacity to support this. In the domestic market, a key strategy will be to grow demand among Aucklanders for short break holidays in Queenstown.”

Mr Moutter said Auckland Airport’s growth strategy was similarly behind the move in January this year to invest in a minority stake in North Queensland Airports (NQA), the operator of Cairns and Mackay airports in Queensland, Australia. Extensive collaboration at a working level was now underway between Auckland Airport and NQA and the two airport companies were in active discussions about formalising the operating partnership now that the Technical Services Agreement between NQA and Queensland Airports Limited has been terminated.

“Our focus is now on maximising and demonstrating the value from our two airport investments and from the core Auckland Airport business. While we are open to other partnerships if we believe they will drive the growth of our business, we are not talking to any other airports, and we will not be considering any equity positions in other airports until the benefits of these current investments have been proven”, he said.

“There were compelling reasons why it made strategic and financial sense for us to maximise these two partnerships by having skin in the game and more influence through equity participation. It also provides us with a financial incentive to contribute fully to the success of the strategic alliance. This is particularly relevant with Queenstown Airport – as the smaller airport, it stands to benefit proportionately more than Auckland Airport from the increased passenger volumes resulting from our partnership,” Mr Moutter commented.

Auckland Airport strategic alliance with Queenstown Airport

The details of the legal arrangements are summarised as follows:

- Auckland and Queenstown Airports have committed to working together for at least five years as part of the new strategic alliance.
- Effective 8 July 2010, Auckland Airport acquired an initial 24.99% shareholding of the increased capital in Queenstown Airport by subscribing for approximately 4.0 million new shares at a price of \$6.91 per share, for a total consideration of \$27.7 million.
- Queenstown Airport may exercise an option for Auckland Airport to increase its shareholding to 30-35% at any time up to 30 June 2011. The price for the additional shares will be \$7.47 per share, plus a lump sum consideration of \$2.2 million, reflecting the additional value of a shareholding over 25%.
- Auckland Airport is funding the share subscription from its current cash holdings.
- Before deciding whether to exercise the second tranche option, Queenstown Airport will seek approval from the majority shareholder, Queenstown Lakes District Council, which will decide whether community consultation is required.
- If the option is exercised, Auckland Airport would enter into a binding shareholders' agreement with Queenstown Lakes District Council that would formalise arrangements between the shareholders.
- Auckland Airport has already received the necessary regulatory approvals to acquire a minority shareholding in Queenstown Airport.

Transaction Value

- Queenstown Airport's profitability has been increasing from \$7.0 million EBITDA in 2009 to an estimated \$9.1 million in the 30 June 2010 year just ended and a forecast of \$10.6 million in 2011.
- The price Auckland Airport has agreed to pay for its initial 24.99% shareholding represents an implied multiple (enterprise value to EBITDA) of 13.1 times FY2010 estimated earnings, and 11.2 times FY2011 forecast earnings.
- If Auckland Airport increases its shareholding to 30-35%, the respective implied multiples are 13.8 times for FY2010 estimated earnings and 11.9 times for FY2011 forecast earnings.

Quick facts about Auckland Airport

- Auckland Airport has been voted the 9th best in the world and the best airport in the Australia Pacific region in the 2010 independent Skytrax World Airport awards. The World Airport Survey is conducted by UK-based aviation research organisation, Skytrax. The survey is completed by approximately 9.8 million travellers from more than 190 airports around the world.
- The largest airport in New Zealand, Auckland Airport generates billions of dollars for the economy, creating thousands of jobs, and making a vital contribution to New Zealand trade and tourism by strengthening connections with the world.

- Over 70 per cent of visitors enter or leave New Zealand via Auckland Airport, which handles over 13 million international and domestic passengers a year.
- More than 20 international airlines serve Auckland Airport, Australasia's second busiest international airport, after Sydney.
- Auckland Airport was recently voted by airlines in the Asia Pacific region as the region's best airport marketer for 2010 and is now a finalist in the global marketing awards.
- As New Zealand's major transport hub, Auckland Airport is investing in an airport and traveller experience that all New Zealanders can be proud of.
- Auckland Airport is continually developing the capacity and services to ensure it will sustainably cope with an anticipated 24 million passengers a year by 2025, reflecting New Zealand's growing popularity as one of the world's leading tourism destinations.

Quick facts about Queenstown Airport

- Queenstown Airport is a key driver of economic prosperity in the Lakes District and an outstanding international gateway for the region.
- Queenstown Airport has the fourth largest number of international visitors, and has a significant domestic visitor market.
- Queenstown Airport is the fastest growing airport in New Zealand and is pivotal to the tourism growth aspirations and future of the region.
- Over the past five years, international passenger volumes have quadrupled and domestic passenger volumes have increased 22%. In the 12 months ended 30 June 2010, the airport had 811,464 passenger movements (international 107,572 and domestic 703,892).
- Queenstown Airport has a runway length of 1,911m.

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For further information, please contact:

Richard Llewellyn
 Senior communications manager
 +64 9 255 9089
 +64 27 477 6120