

# Flightpath for Growth

Auckland Airport  
Growth Strategy Overview

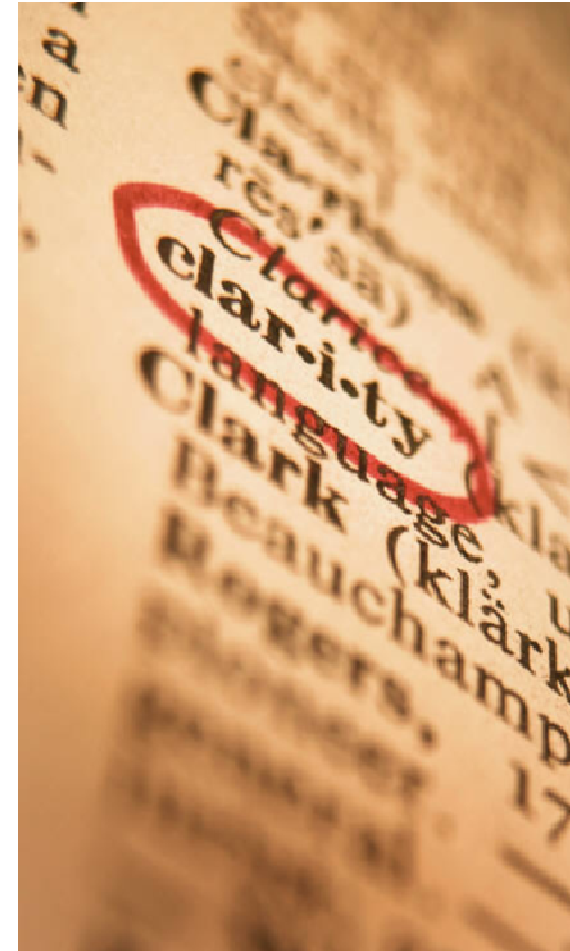
30 March 2009



# THIS JOURNEY IS ABOUT CLARITY AND FOCUS

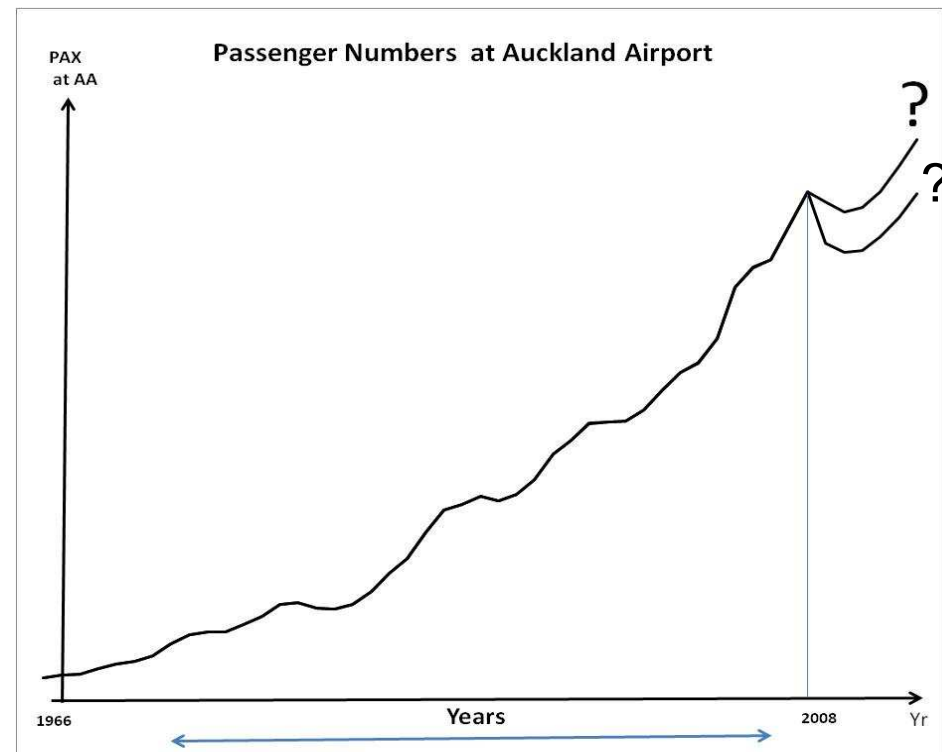
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- Transition of management personnel and operating environment
- New Leadership Team appointed
- Divisional structure clarified with greater accountability for matched revenue, expenditure and capital investment
- Focus shifted from building things to optimising utilisation (“people not planes”)
- Defined new business strategies to reflect this shift in focus
- Redistributing resources to align with strategies



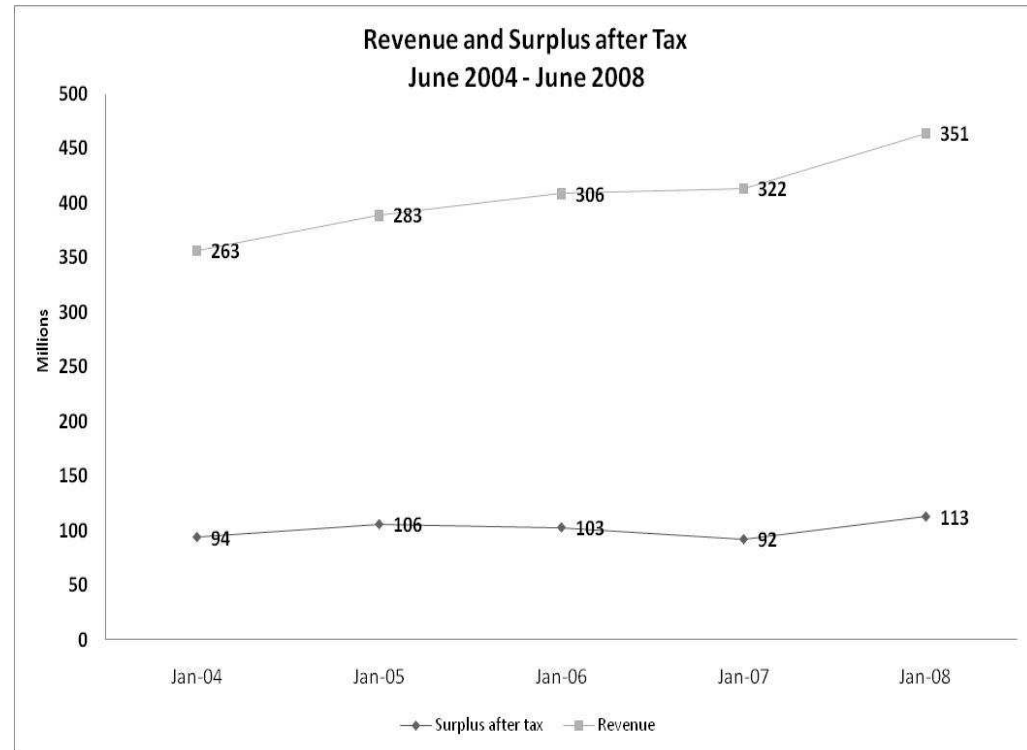
# OUR OPERATING ENVIRONMENT HAS GOT TOUGHER

- Global economic conditions reducing demand for air travel
- Airlines under severe financial pressure
- Relentless growth in pax volume cannot be relied upon near term
- Customer discretionary spending power is reducing
- Time to market recovery is highly uncertain
- Competitive intensity has increased
- Regulatory scrutiny and uncertainty has increased



# WE KNOW WE NEED TO LIFT OUR GAME

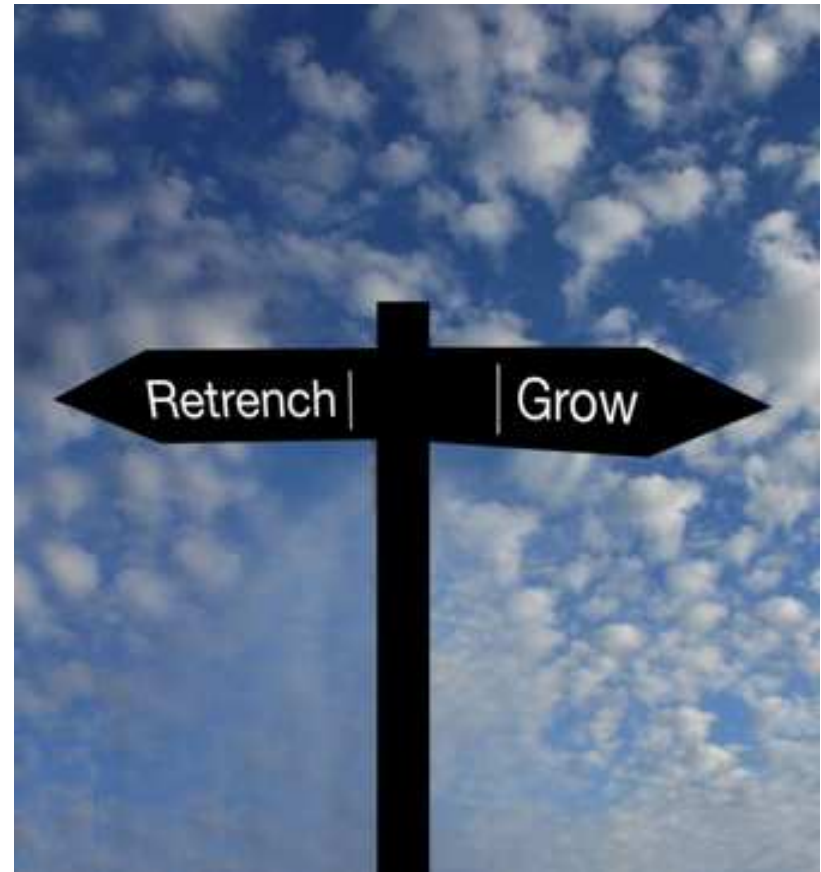
- Profitability has been fairly flat due to the cost drag of high capital spending in the Aero Division
- Passenger volume growth has lagged global trends
- Retail offering is off the pace internationally
- Property development activity has been slow
- Commercial relationships with airlines and business partners could be stronger



# WE'VE BUILT STRATEGIES TO GROW, NOT RETRENCH

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- New Zealand needs us to stay growth focused
- Pax volumes will return to growth trend, it's just a matter of when
- Route development sales cycles are long – need to stay focused and engaged
- Still plenty of opportunity to grow retail yield (per pax spend)
- Competitive advantage in property development has strengthened
- Counter-cyclic opportunities to invest are evident
- It's important to stay positive and be prepared for when investment signals turn positive



# A TWO PHASE APPROACH

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## Phase 1

- Get fighting fit to ride out the downturn by making every dollar count and being ready to take opportunities which arise
- Reduce capacity related capex in Aero Division to bare minimum
- Invest carefully in Retail and Property Division growth opportunities
- Apply resource to route retention, route development, tourism promotion and cargo propositions
- Focus on short haul markets

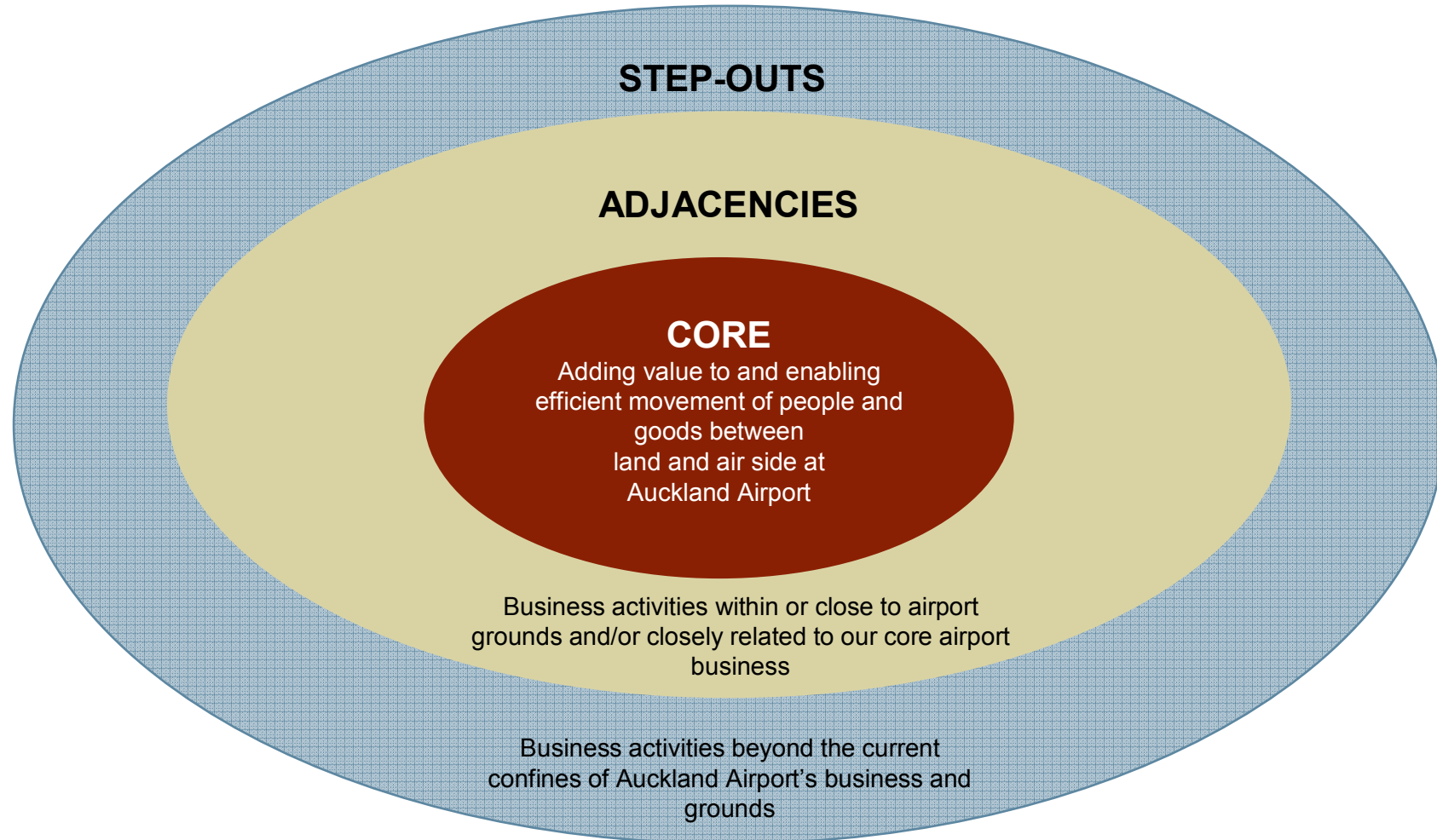
## Phase 2

- Invest carefully in Aero Division capacity and service offerings when growth signals return
- Focus on all major markets
- Invest strongly in Retail and Property Division opportunities
- Expand the scope of the business



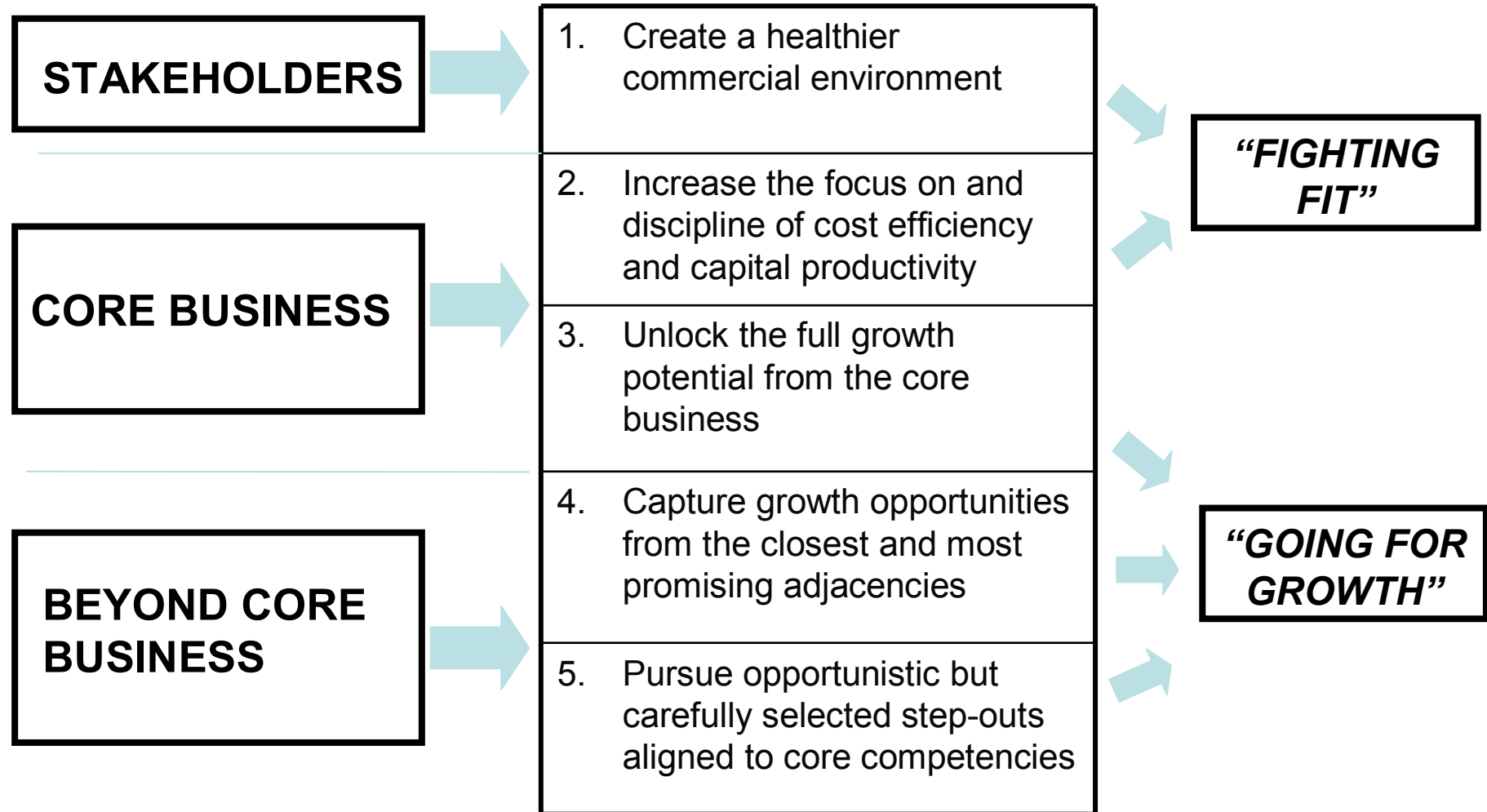
# LOOKING AT THE BUSINESS IN THREE LAYERS

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# GROWTH STRATEGY – SUMMARY

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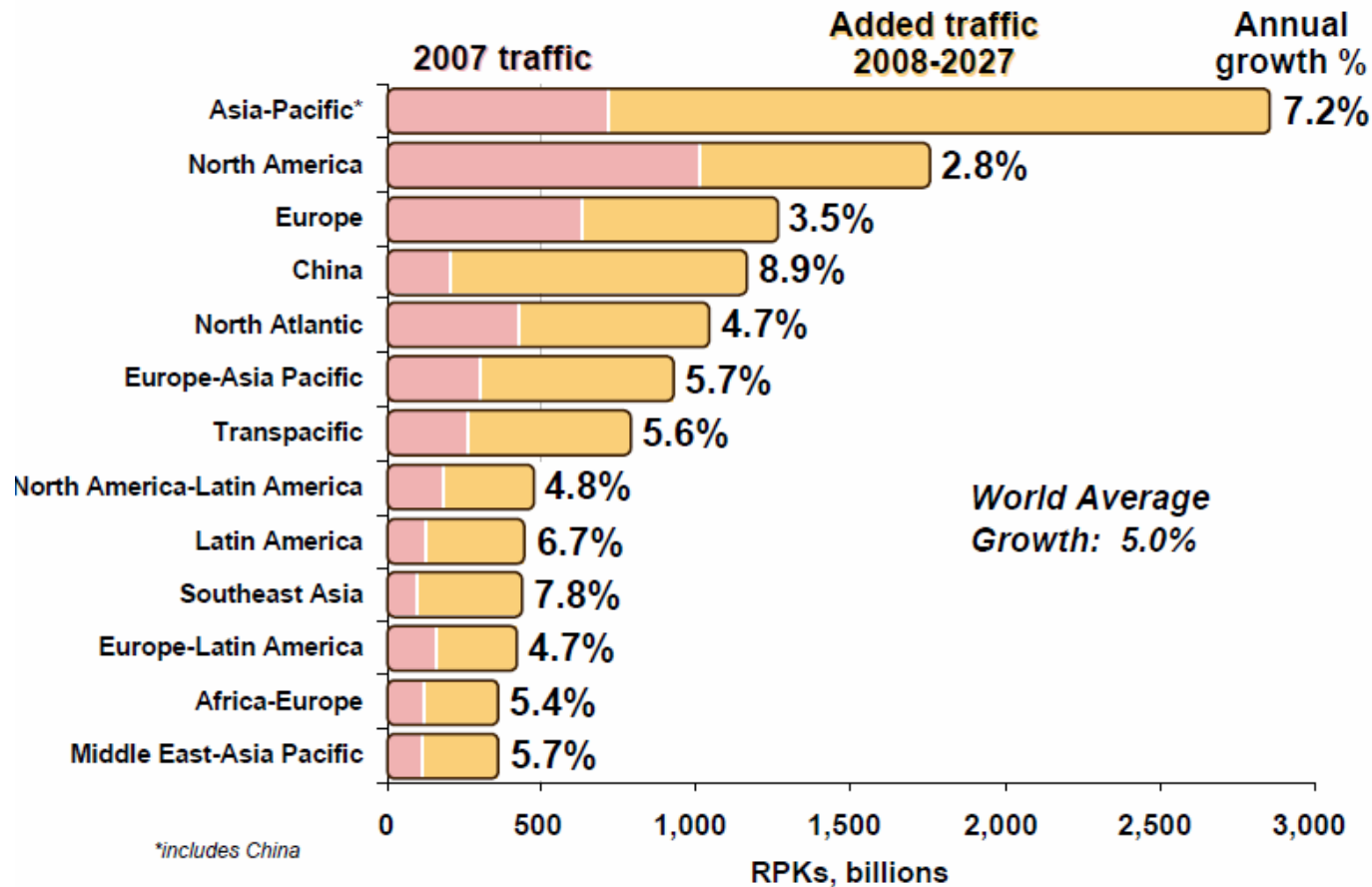
# STRATEGIC THEMES

Themes	What it is	
<b>Create a healthier commercial environment</b>	<ul style="list-style-type: none"><li>• Develop a more customer-centric approach that improves alignment of business operations with airlines</li><li>• Facilitate a balanced and sustainable stable of airlines</li><li>• Ensure stakeholders and regulators recognise the value Auckland Airport provides</li><li>• Support alignment of ownership with strategy</li></ul>	1
<b>Increase the focus on and discipline of cost efficiency and capital productivity</b>	<ul style="list-style-type: none"><li>• Get the operations fighting fit for the downturn</li><li>• Facilitate a continuous improvement culture</li><li>• Apply greater scrutiny and discipline to capital management</li></ul>	2
<b>Unlock the full growth potential from the core business</b>	<ul style="list-style-type: none"><li>• Optimise the customer experience to drive pricing for services</li><li>• Challenge commercial models to facilitate airport services differentiation</li><li>• Pursue new route/airline/tourism development</li><li>• Adopt a “proactive landlord” approach in retail</li><li>• Reinvigorate and grow property development</li><li>• Improve performance of cargo business</li></ul>	3
<b>Capture growth opportunities from the closest and most promising adjacencies</b>	<ul style="list-style-type: none"><li>• Pursue property development opportunities outside of aeronautical-related property</li><li>• Pursue new opportunities in cargo business</li></ul>	4
<b>Pursue opportunistic but carefully selected step-outs aligned to core competencies</b>	<ul style="list-style-type: none"><li>• Invest beyond the current business and grounds where investment criteria are met</li><li>• Establish a funding envelope for step out and investment activity</li></ul>	5

# Aeronautical Business Development Presentation



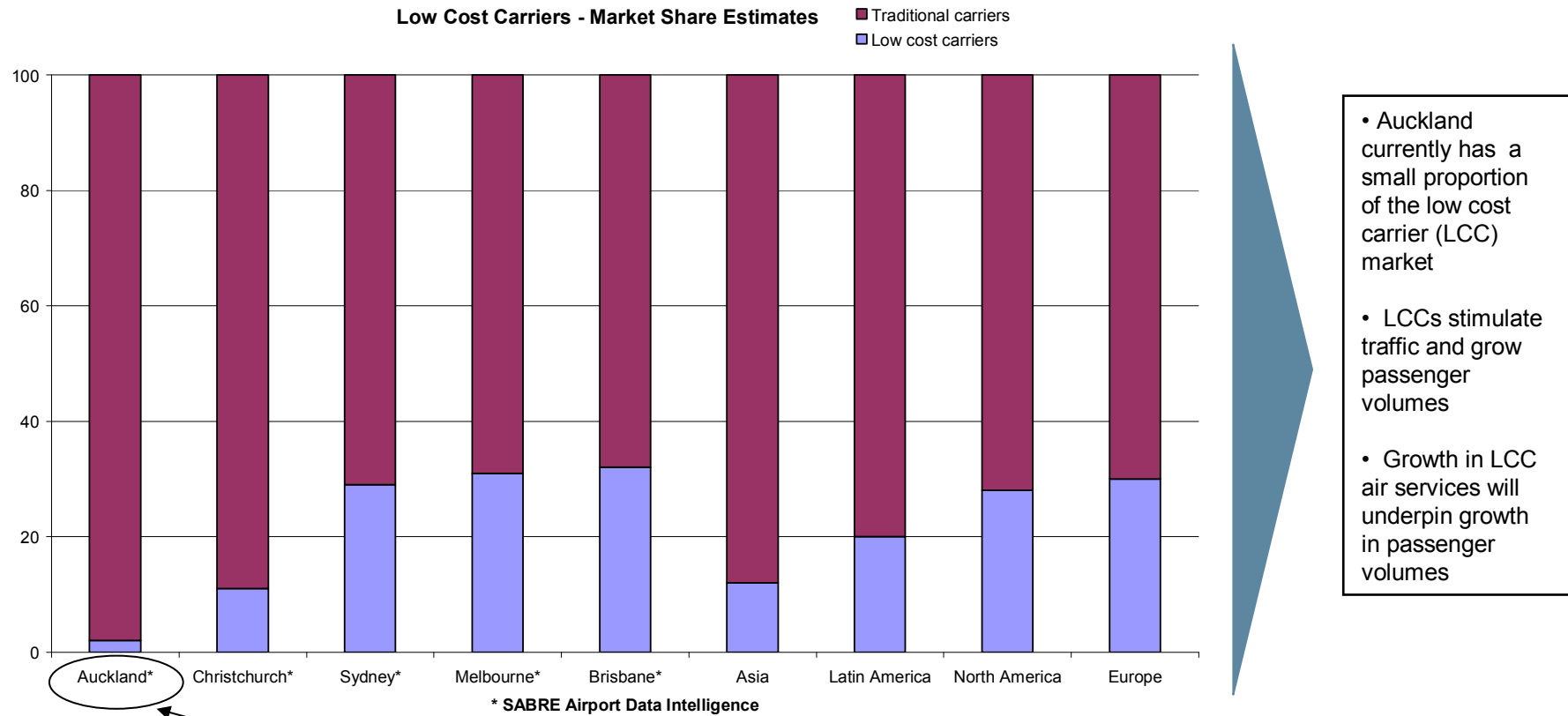
# AUCKLAND AIRPORT NEEDS TO CAPTURE ITS SHARE OF GLOBAL PASSENGER GROWTH



- Asia-Pacific is forecast to grow the fastest over the next 19 years
- We need to be proactive in capturing a share of that growth and leveraging changing geographical dynamics in airline industry
- New aircraft types (B777, B787, A380, A350) open up new direct route opportunities, but we must compete effectively for available aircraft
- Direct routes increase trade and tourism potential and stimulate demand

Source: Boeing 2008 Traffic Forecast

# AUCKLAND AIRPORT NEEDS TO INCREASE ITS LCC MARKET SHARE

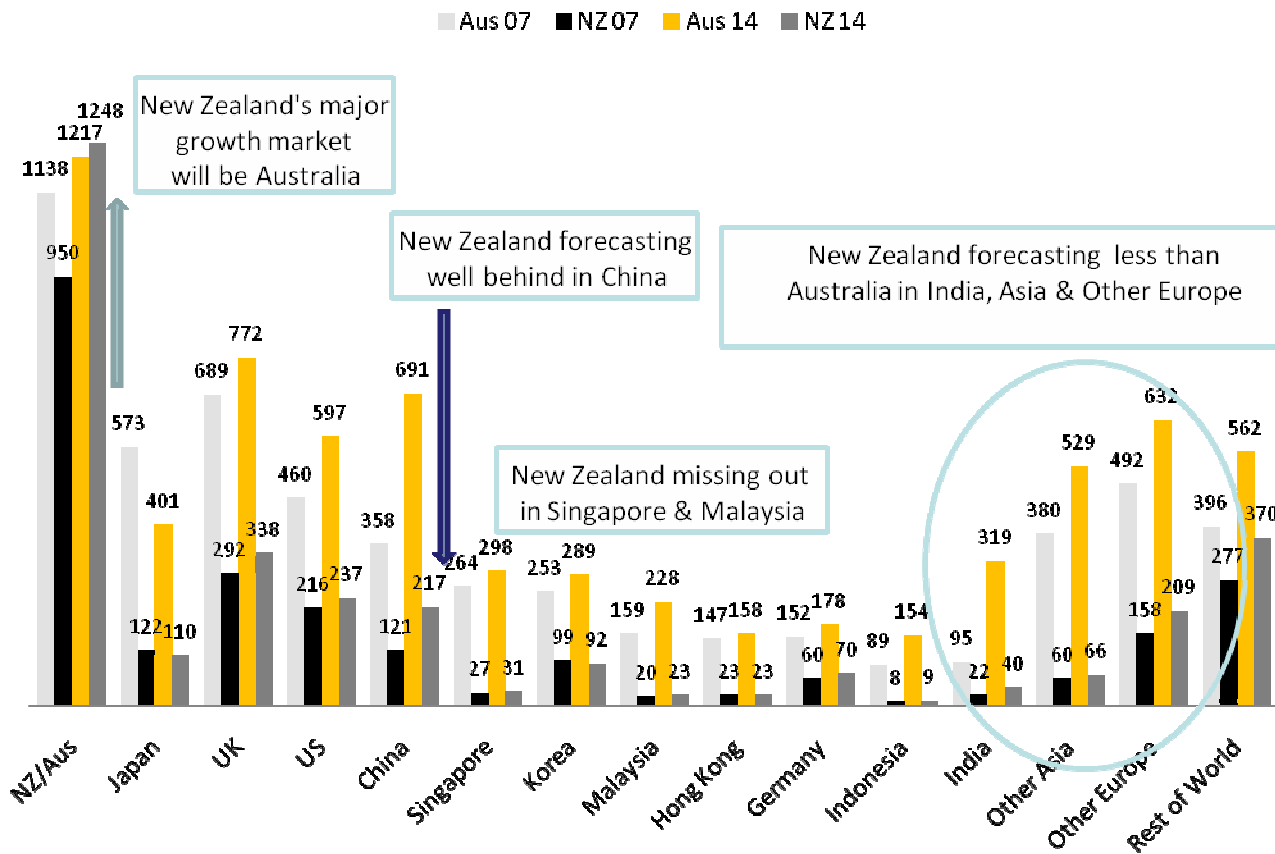


Auckland's ratio of LCC to Non-LCC is the lowest in this sample

Source: Sabre 2007

# AUSTRALIAN TOURISM FORECAST IS STRONGER THAN NEW ZEALAND'S

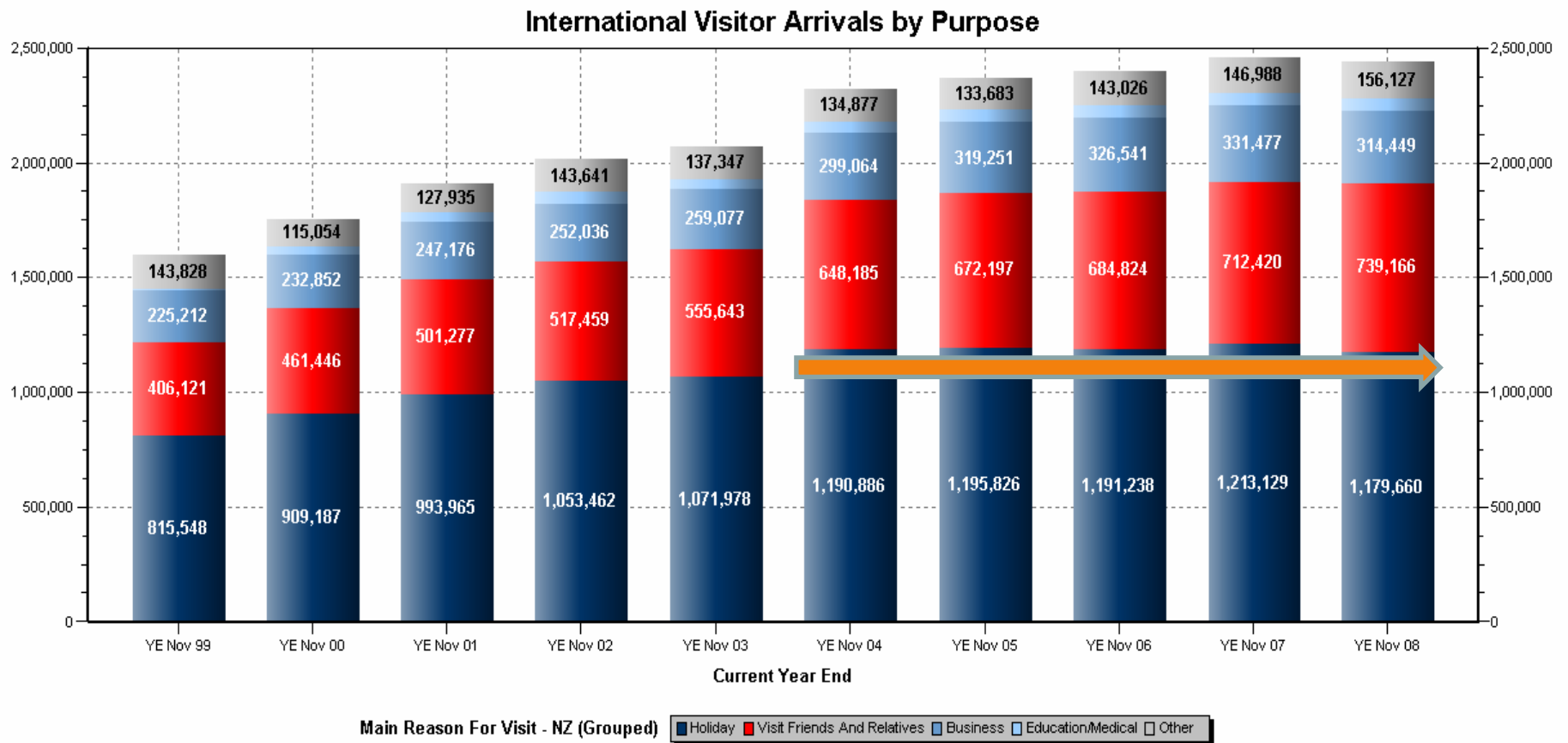
NZ v Aus Tourism Forecast



- We need to compete more with Australia (esp. BNE, MEL, PER) which are targeting Asian markets
- If we build traffic, the business case for direct services is easier (e.g. China across Australia)
- Long haul traffic will feed domestic and short haul Tasman/Pacific Islands
- Seek to influence offshore tourism spending to support Auckland Airport

Source: Tourism Research Council Forecasts 2008; Australian Bureau of Research 2008

# FLAT GROWTH IN HOLIDAY ARRIVALS TO NZ LAST FOUR YEARS

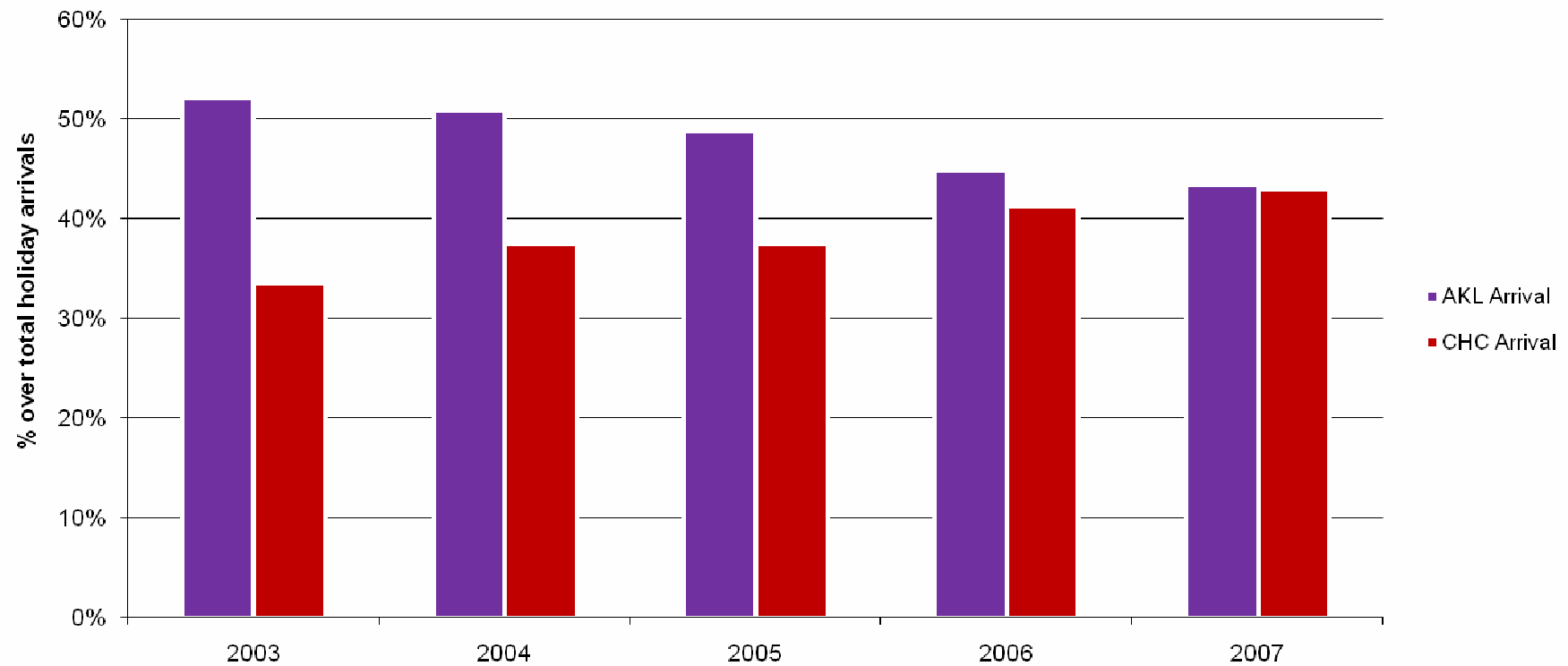


Base - International Visitor Arrival

# AUSTRALIA INTERNATIONAL HOLIDAY OPPORTUNITY

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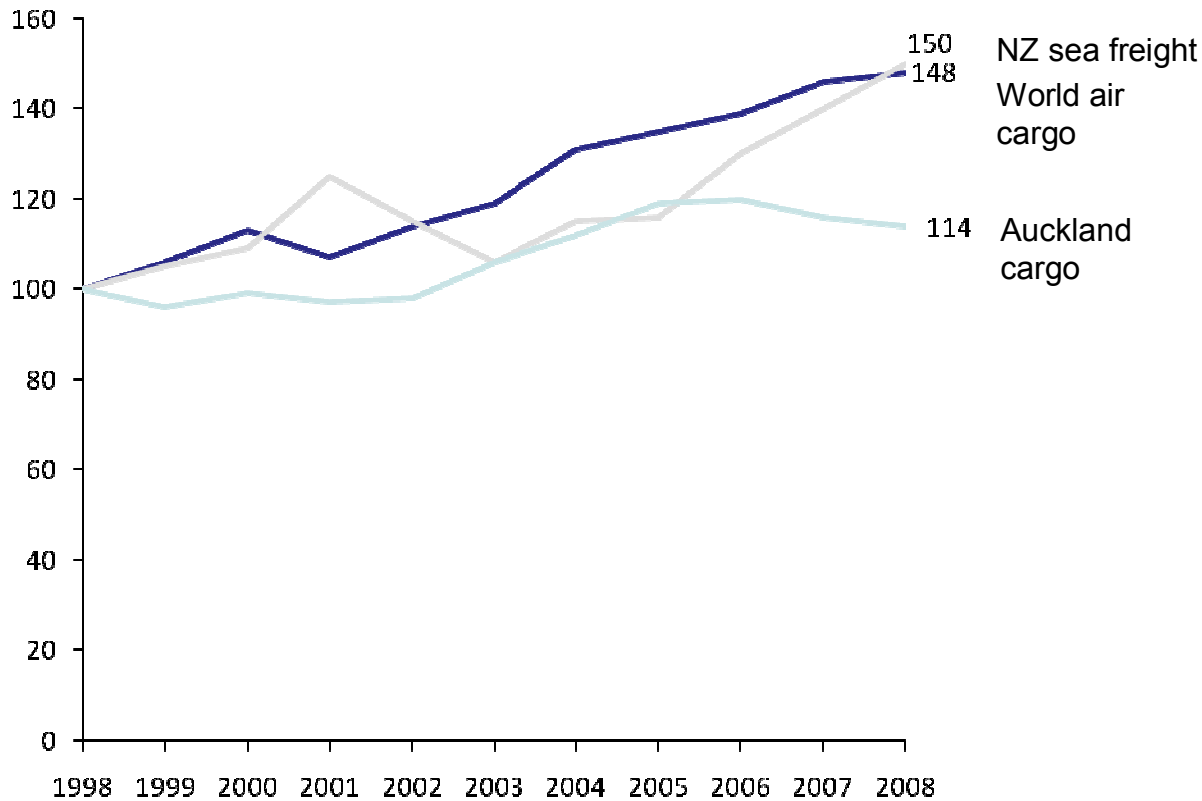
Aus Holiday Tourists (Arrivals only) Across all Routes



Source: Statistics NZ

# CARGO GROWTH SIGNIFICANTLY BELOW POTENTIAL

## Cargo



\*Index 1998 = 100

- Auckland cargo significantly trailing benchmarks
- Anecdotal evidence points to current cargo practices and facilities stunting growth
- Exporters have goods available and are willing to freight by air
- Concerted effort to understand better airline cargo economics

Source: Annual Report, Boeing World Air Cargo Forecast, Statistics New Zealand, UN WTO Website "Tourism Highlights".



# Aeronautical Division Presentation



# BACKGROUND – AERONAUTICAL DIVISION

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<b>Aeronautical revenue</b>	<b>2008</b>	<b>% of total revenue</b>
Airfield income	\$70.1m	19.9%
Passenger Service Charges	\$66.9m	19.0%
Terminal Services Charges	\$22.9m	6.5%
<b>Total Aeronautical Revenue</b>	<b>\$159.9m</b>	<b>45.5%</b>

## Aeronautical charges:

- Airfield charges calculated on maximum certificated take-off weight
- Passenger service charges are calculated on a per arriving and departing passenger (currently \$13 per pax)
- Terminal service charges are calculated on a per passenger and aircraft movement basis for use of terminal facilities

# KEY AERONAUTICAL INITIATIVES

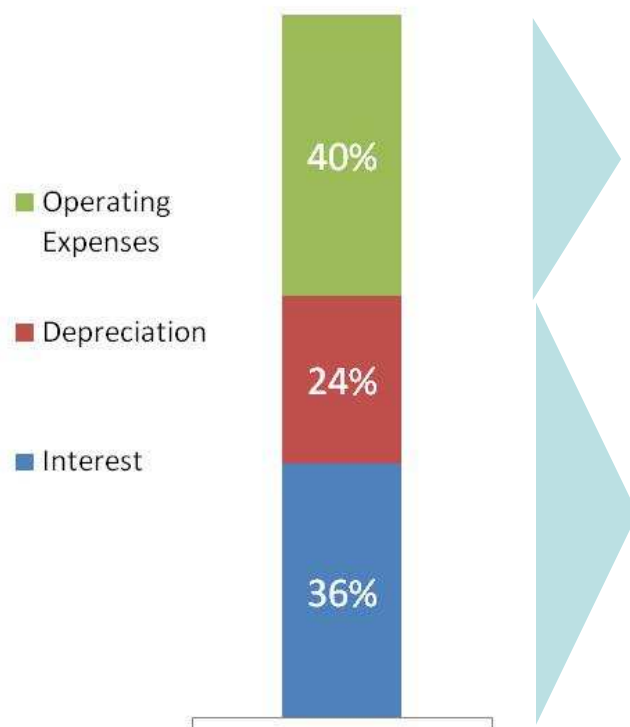
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- Lean process improvement:
  - Passengers
  - Aircraft movements
  - Cargo
- Improve workforce productivity
- Develop differentiated service lines for airlines and low cost carriers in particular (Good, Better, Best)
- Offer a range of service experiences for passengers
- Design new commercial models with airlines and suppliers
- Minimise the policy and rules impositions coming from government



# COSTS - WE WON'T SAVE OUR WAY TO PROSPERITY BUT WE WILL GET THEM DOWN

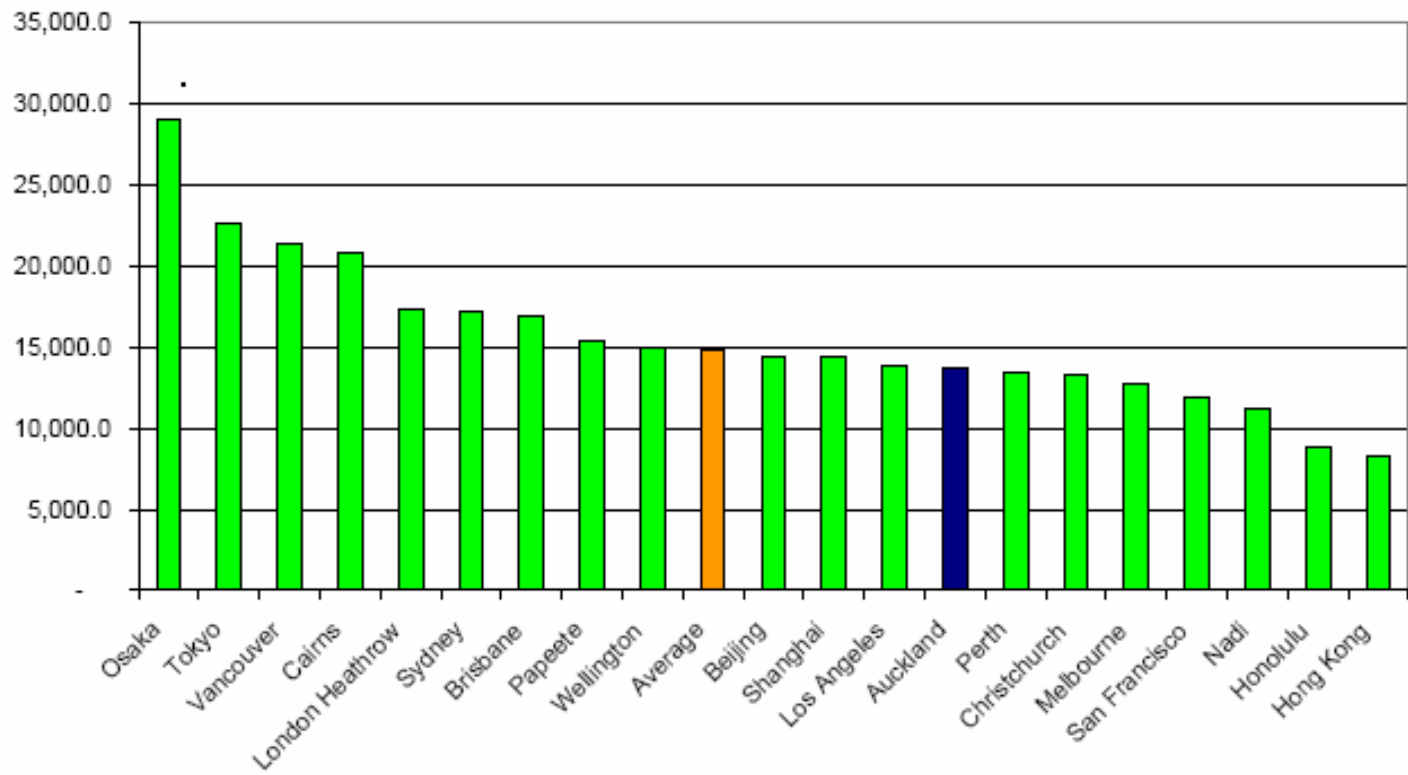
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- Half the operating costs are fixed. Only 20% of costs (approximately \$40m) are controllable
- Capital related costs represent 60% of total pre-tax costs
- Change in capital spend and capital allocation key driver
- Funding cost management also important driver of profit

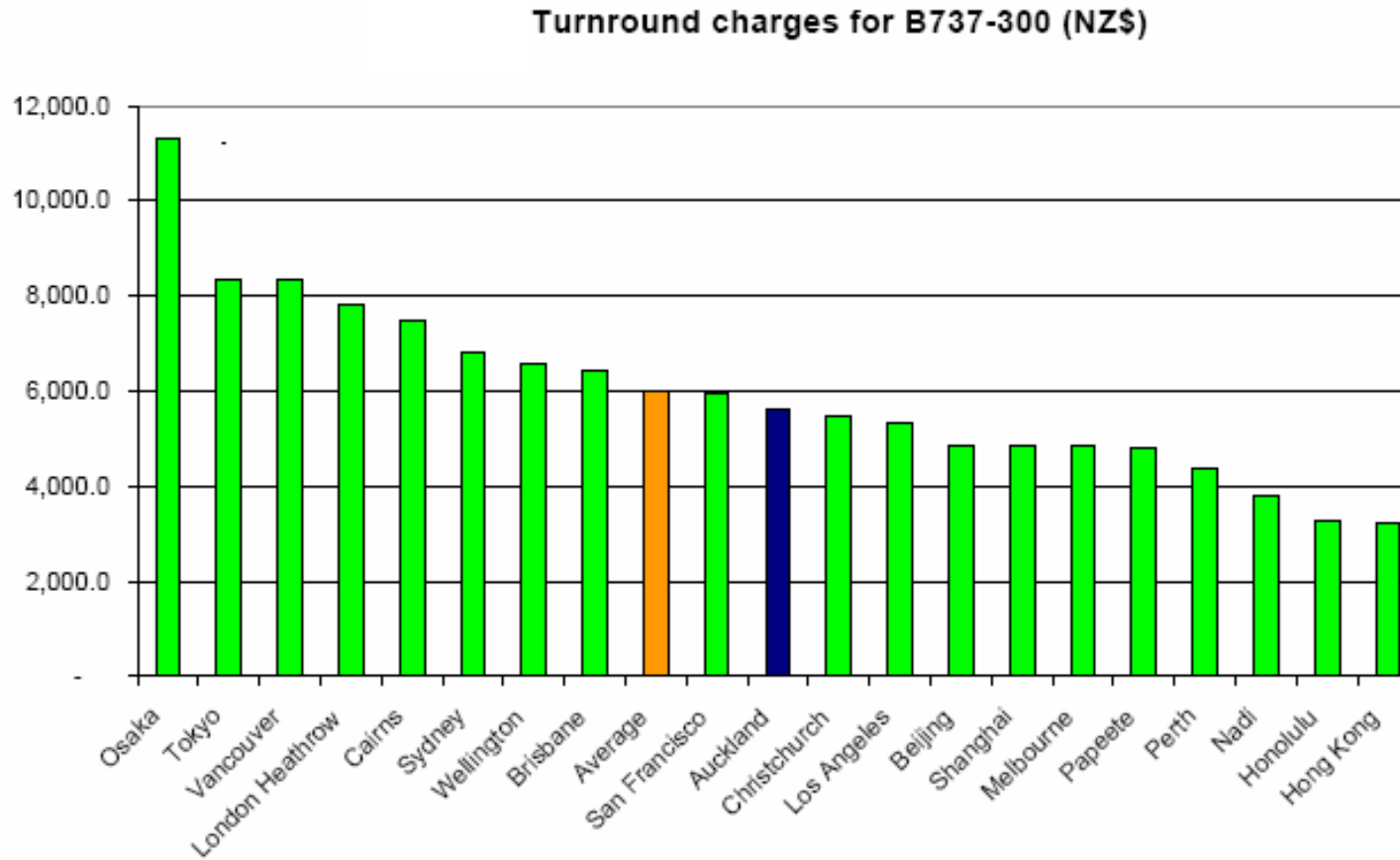
# TURNAROUND CHARGES FOR A B777-200ER

Turnround charges for B777-200ER (NZ\$)



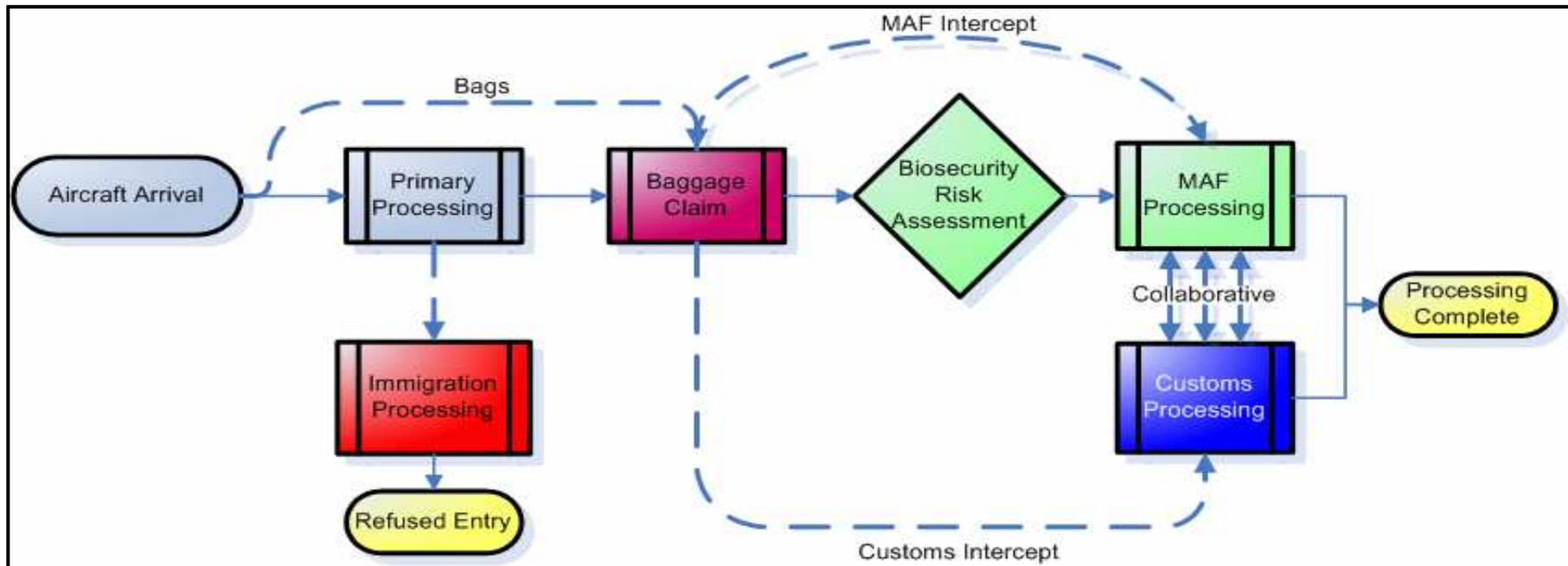
Source: Jacobs Consultancy 2009

# TURNAROUND CHARGES FOR A B737-300



Source: Jacobs Consultancy 2009

# LEAN SIX SIGMA PILOT STUDY – ARRIVALS PROCESS



# CAPITAL SPEND

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- Pier B recently completed
- Northern Runway under construction
- Terminal 3B on hold



# Retail Division Presentation



# BACKGROUND – RETAIL DIVISION

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- Retail Division revenue in 2008 was \$132.7m – contributing 38% of total revenue
- Retail Division revenue includes:
  - Duty free (on and off airport)
  - Foreign exchange
  - Food and beverage
  - Specialty retail
  - Car Parking
- Retail income is based on minimum annual guarantee (MAG) and category concessions
- MAG is part of commercial arrangement typically agreed through competitive tender process

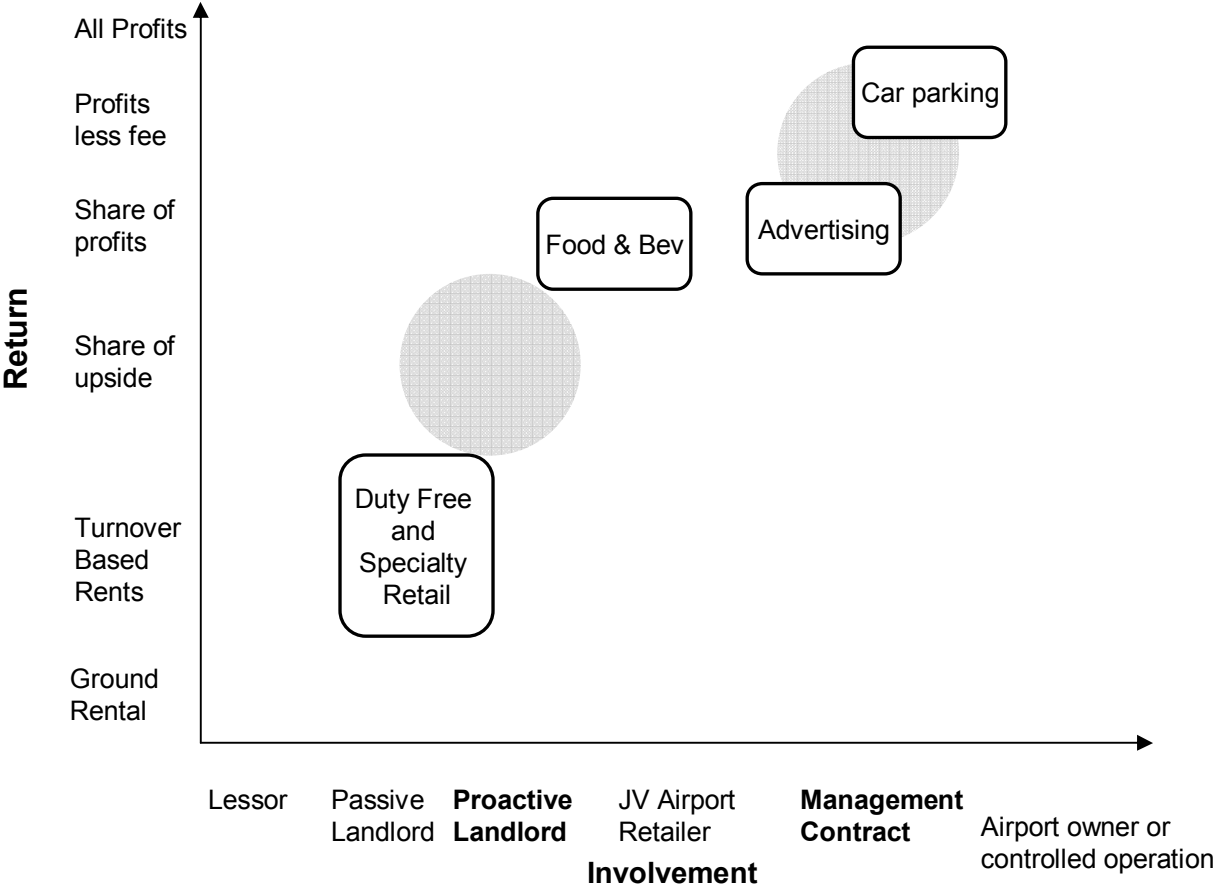
# DRIVING RETAIL PERFORMANCE

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- Adopting proactive landlord approach
- Understanding retail revenue drivers
- Maximising the dual duty-free operator model
- Lifting retail operational performance
- Improving the retail experience
- Linking optimal retailer mix to customer needs and opportunities
- Clarifying airport retail proposition and deliver supporting marketing programmes

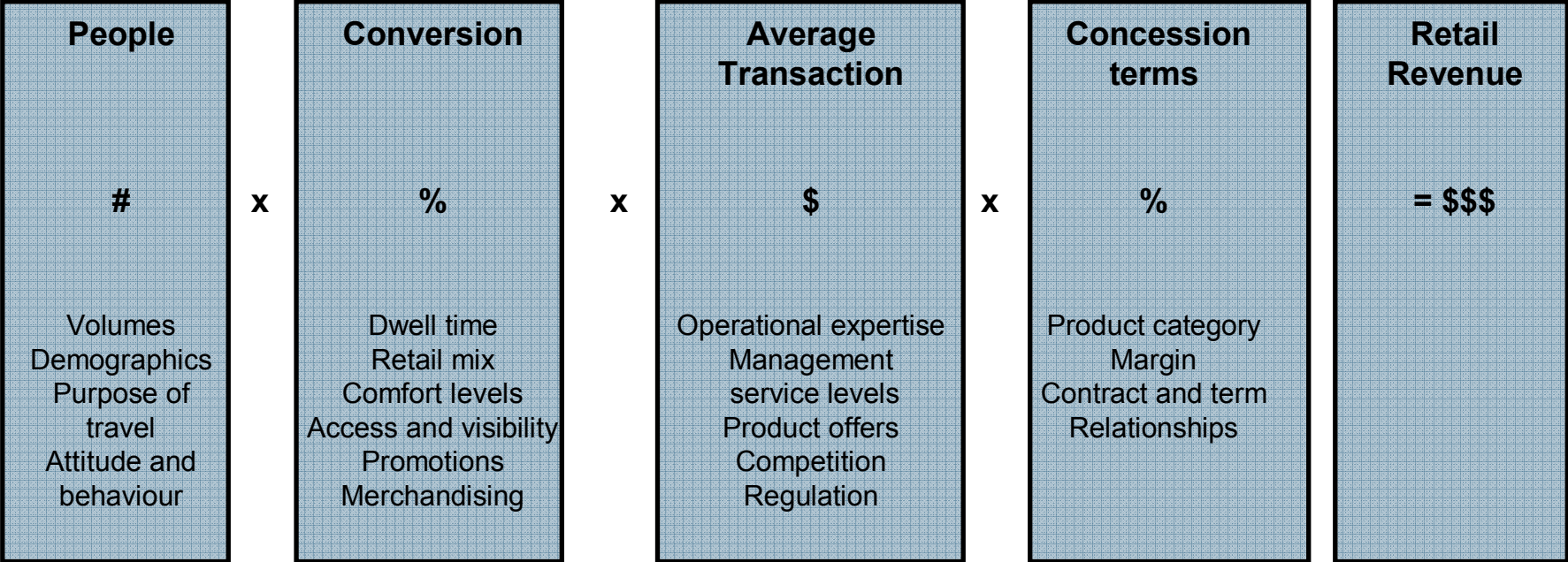


# MOVE FROM PASSIVE TO PROACTIVE LANDLORD MODEL



- Retailing is not traditionally a core skill of an infrastructure operator
- However investment in active management of retail operators can drive quality and sales

# UNDERSTANDING THE RETAIL REVENUE DRIVERS



# MAXIMISING THE DUAL DUTY-FREE OPERATOR MODEL

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- **Opportunities**

- Widen consumer offers in sub categories
- Competition will grow awareness and stimulate demand
- Lift operational overall effectiveness for airport retailing
- Chance for flexible and innovative approach to product selection and sales

- **Challenges**

- Customer transition from current operators
- Operational transition through development project
- Risk of duplication – however this risk somewhat mitigated through selection of Australasian based operator

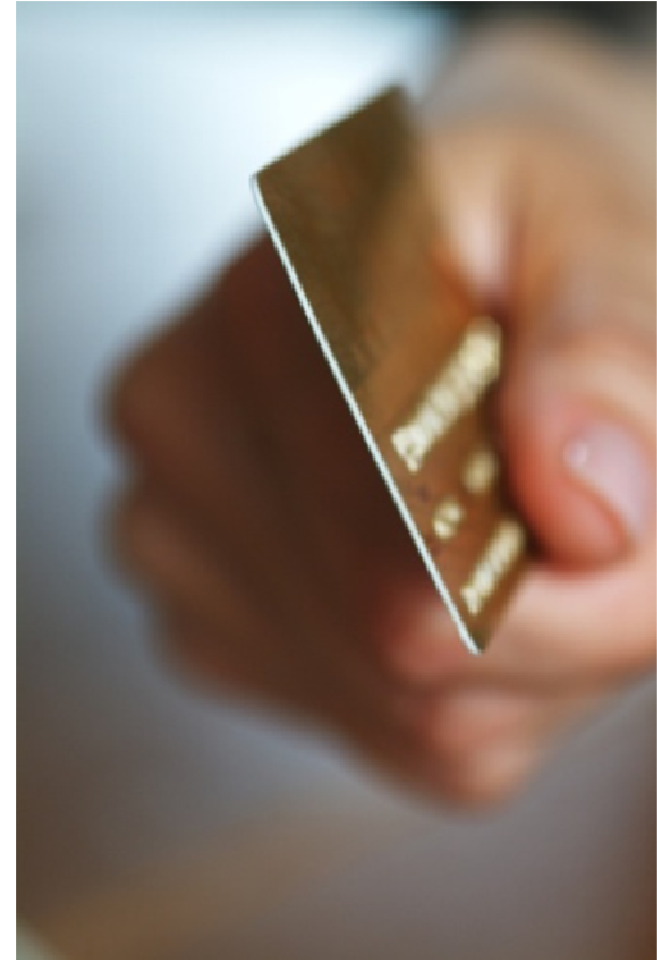


# LIFTING RETAIL OPERATIONAL PERFORMANCE

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- Better understanding of customer needs and behaviours and tune offers accordingly
- Addressing current customer perceptions about airport retail
- Driving retail conversion/average transaction value by supporting retailers' operational performance, e.g:
  - product mix
  - staff training
  - merchandising
  - quality data collection/analysis

Lifting conversion rate delivers biggest impact on retail results



# IMPROVING THE RETAIL EXPERIENCE

- Airside passenger spend rate (PSR) 3-4 times higher than landside
- Improve PSR by changing retail balance to 70% airside
- Improve duty free penetration by introducing walk through duty free shops
- Increase dwell time by:
  - Intuitive way finding
  - Clearly indicating to passengers that exciting retail experience is airside not landside
  - Food and beverage with seating area airside
- Revamp of passenger experience by revamping interior design and adding new services, introducing 'zones' e.g. kids zone





# CAR PARKING FACILITIES IMPROVING

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## International terminal

- Proximate short-term and long-term parking options
- 3,200 public parking bays, plus 1,900 for staff



## Domestic terminal

- Multi-level car park with direct connectivity into terminal
- 2,200 public bays, plus 500 for staff
- Covered and uncovered parking



## Park & Ride

- Opened December 2008,
- 650 parking bays
- Prominent location, 24/7 shuttle with GPS, high-security

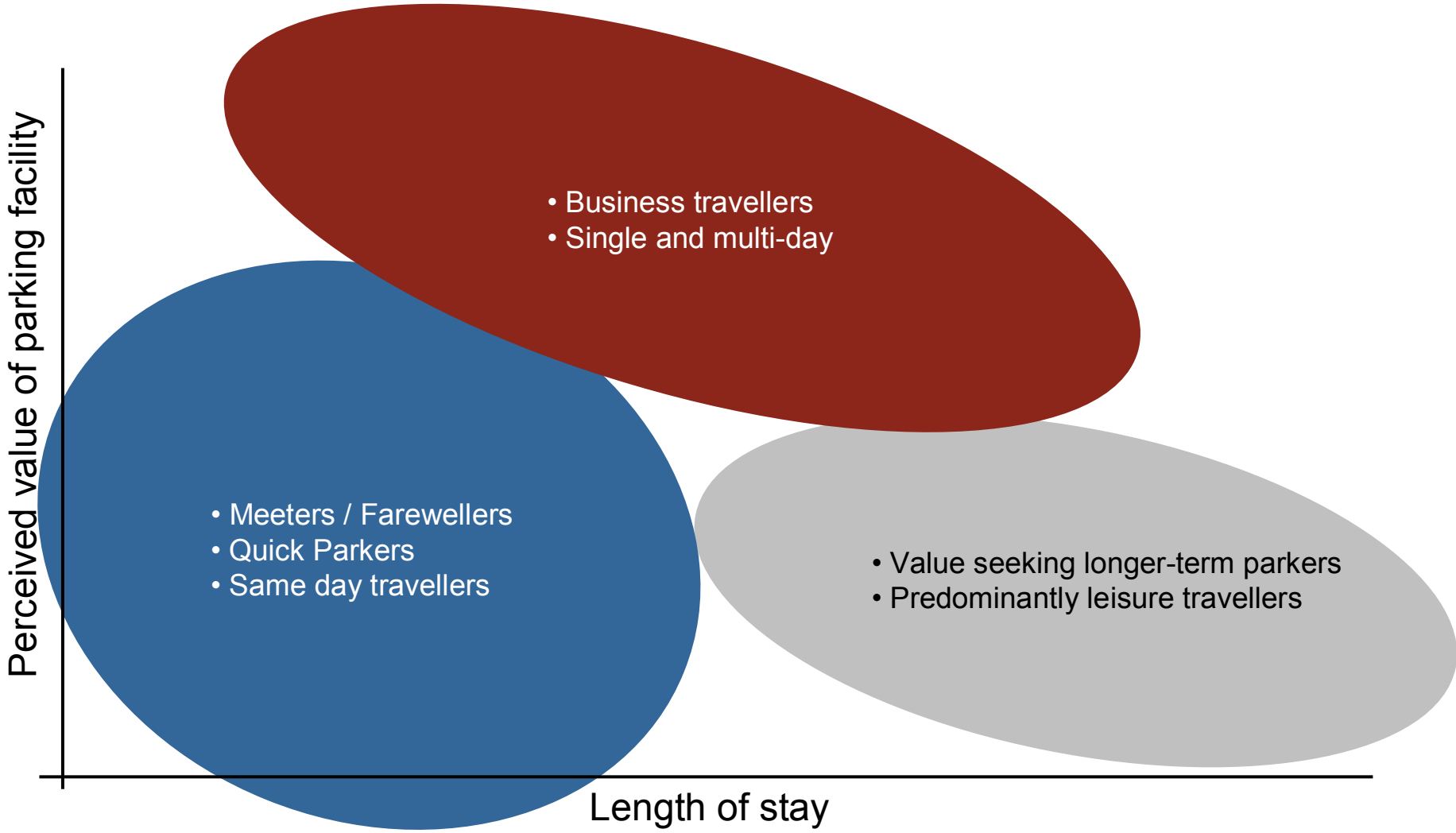
# A COMPETITIVE MARKET IN PARKING

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- 12 separate parking operators, predominantly in the Airport Oaks area
- Over 3,500 parking bays off-terminals
- Wide range of competitive pricing option eg, book a trans-Tasman flight and get 7 days free parking
- In addition to off-airport operators, both Air New Zealand and Qantas provide valet parking services at the terminals



# CUSTOMER SEGMENTED APPROACH TO PARKING PRODUCTS



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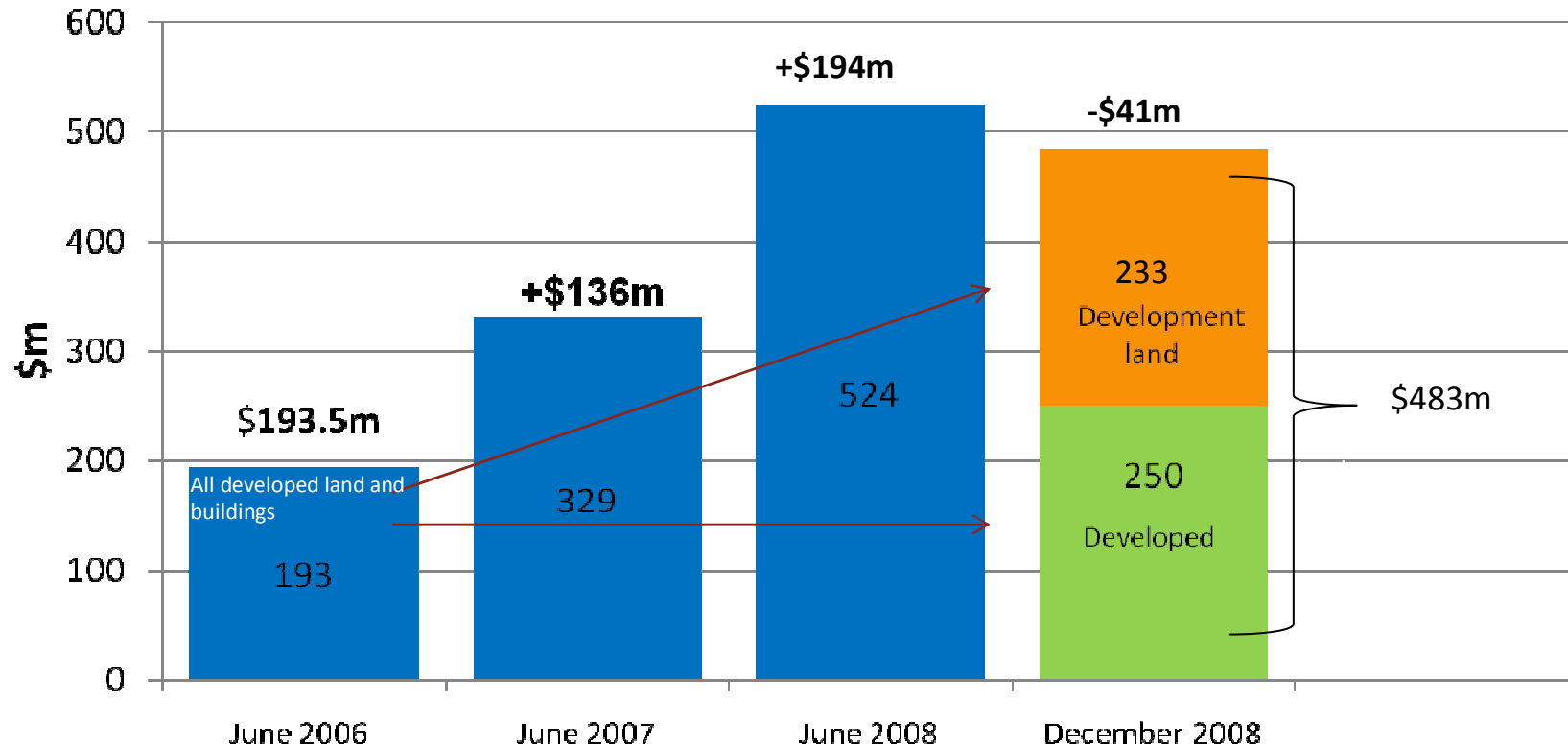
# Property Division Presentation



# BACKGROUND – PROPERTY DIVISION

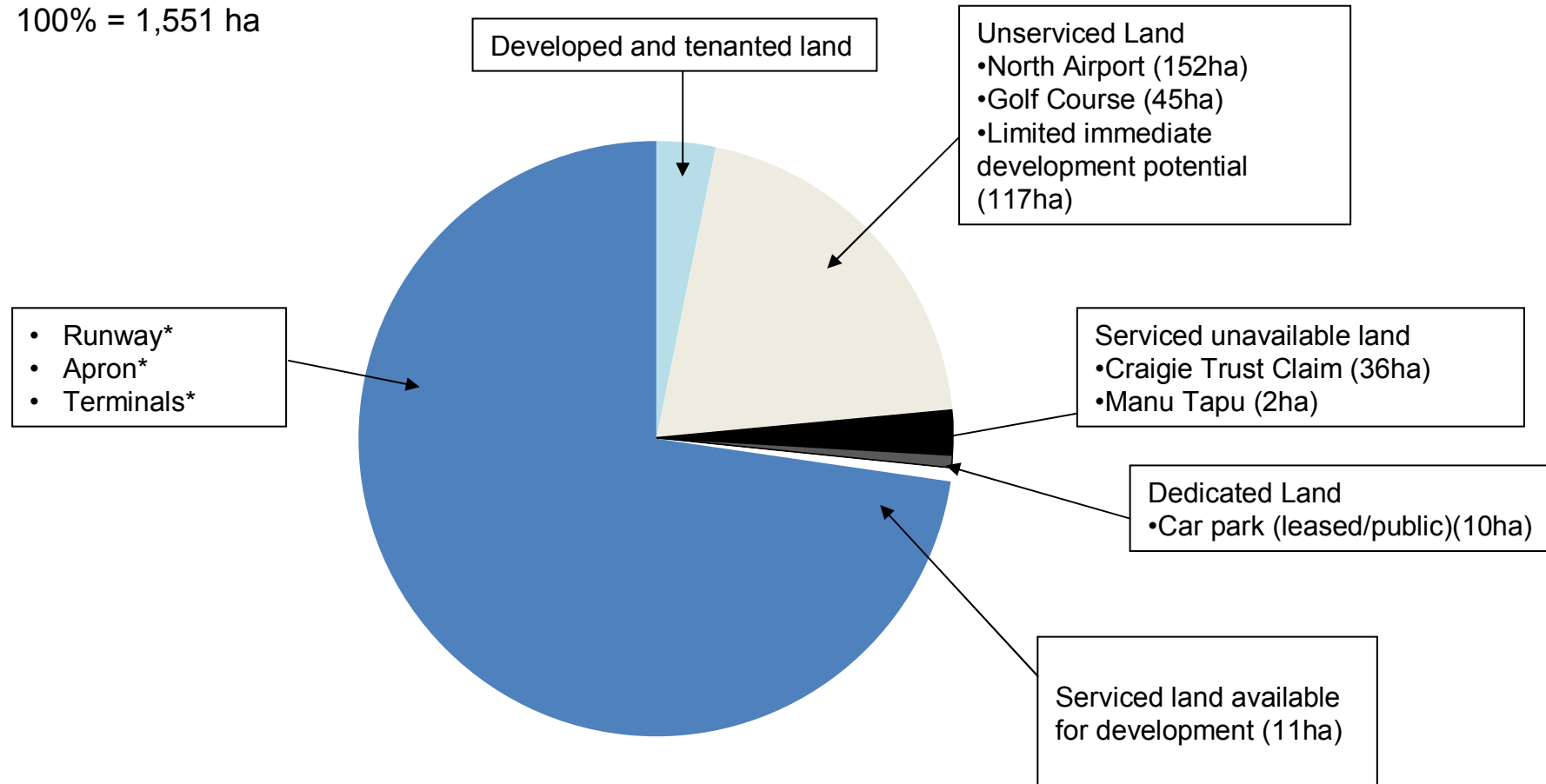
Investment Property Revenue \$21m

**Investment Property Value  
2006 -2009**



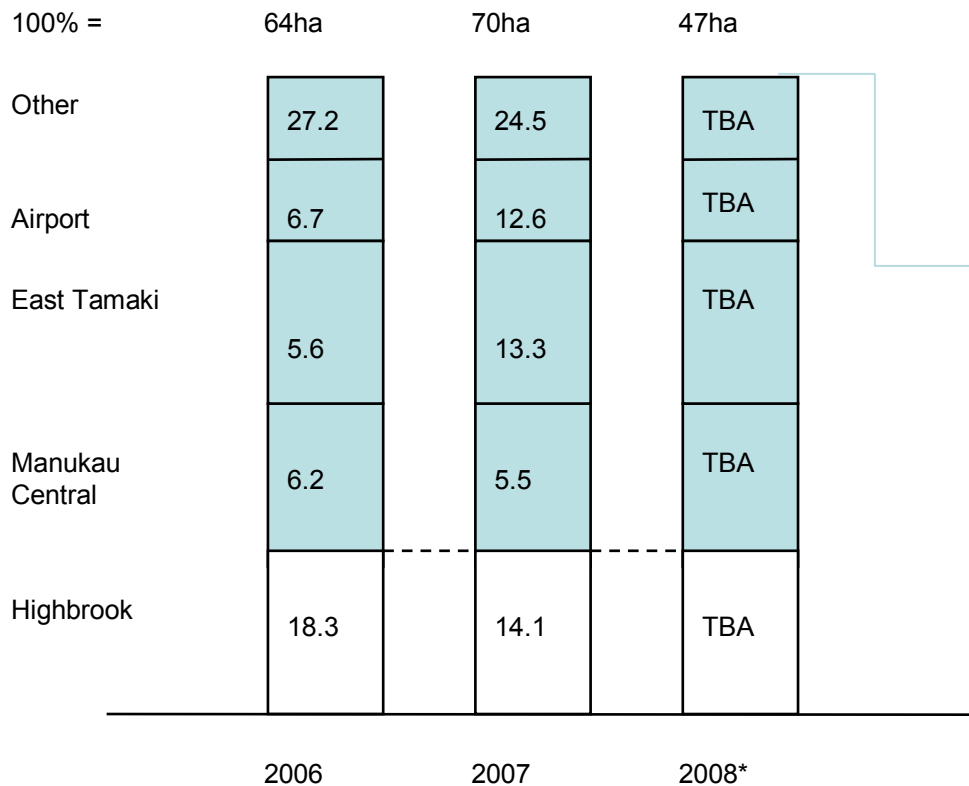
# PORTFOLIO MAKE-UP

Current land holding  
100% = 1,551 ha



# RECENT LAND ABSORPTION RATES IN MANUKAU

Manukau land absorption rate, percent



- The average industrial land absorption rate in Manukau is estimated at **48 ha/p.a.** (based on 12 year analysis)
- Long run average absorption in Airport location is approximately 10 ha/p.a.
- We will seek to maximise/increase it by increasing the amenity, however it is unlikely we will be able to shift it significantly

\* Current breakdown unavailable

Source: MCC Economic Development

# REINVIGORATE AND GROW PROPERTY DEVELOPMENT

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- The last development project undertaken by the airport property group was Expeditors committed in September 2005 and completed in February 2007
- Auckland Airport has 363ha of land identified for development, representing a significant opportunity but also a large non-cash generating asset
- In addition there are further development opportunities within the land utilised for aeronautical and parking activities (e.g. ITB hotels)
- A flexible approach to development and ownership structures will potentially increase the rate of development through new opportunities, capital or expertise. e.g ground leases, joint ventures, etc.
- The rate of development will be constrained by market demand although can be maximised by growing market share through three strategies:
  - 1. Location of Choice**
  - 2. Customer aligned development**
  - 3. Attract magnet activities to stimulate demand**



# PROPERTY – THREE CORE STRATEGIES

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## LOCATION OF CHOICE

- For airport-related businesses, identify ways to leverage better the Airport proximity and operations, resulting in higher revenues through rents, concessions or licences
- For other businesses, leverage Auckland Airport as a single-ownership, comprehensively planned and managed estate with superior attributes (e.g. zoning, services and recreational amenities, security, etc)

## CUSTOMER-ALIGNED DEVELOPMENT

- Identify customers (existing and potential) that are key players in their markets and have sufficient critical mass and ongoing/expanding space requirements
- Seek to meet the majority of these customers' space requirements both on Airport and elsewhere
- Auckland Airport has a number of existing “natural” customers, e.g. logistics, airlines, border agencies

## ATTRACT MAGNET ACTIVITIES TO STIMULATE DEMAND

- Encourage/incentivise tenants or facilities that will either attract other businesses to cluster on Airport land, or cause Airport users to spend more time in Airport facilities
- Examples could be training facilities, conference/exhibition centres, etc

# PROPERTY – STRATEGY IMPLEMENTATION

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<b>From</b>	<b>To</b>	<b>Implications</b>
<ul style="list-style-type: none"><li>• Location of choice because of airport</li></ul>	<ul style="list-style-type: none"><li>• Location of choice on broad range of attributes</li></ul>	<ul style="list-style-type: none"><li>• Faster land absorption and higher value use options</li></ul>
<ul style="list-style-type: none"><li>• Location based customer focus</li></ul>	<ul style="list-style-type: none"><li>• Customer aligned “property partner” approach</li></ul>	<ul style="list-style-type: none"><li>• Global logistics companies want a partner not a whole lot of individual providers</li></ul>
<ul style="list-style-type: none"><li>• Aeronautical activities</li></ul>	<ul style="list-style-type: none"><li>• Magnet activities that attract non-aeronautical related customers</li></ul>	<ul style="list-style-type: none"><li>• Stimulate demand</li></ul>

Source: Team analysis

# Corporate Presentation



# KEY CORPORATE INITIATIVES

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- Work to create a more stable commercial environment including working to define and stabilise the regulatory environment
- Implement new Capital Allocation approach reflecting new strategy
- Investigate Step-Out opportunities
- Review and lock-down core master-planning issues



# REGULATORY ENVIRONMENT - BACKGROUND

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- The Airport Authorities Act (AAA) requires Airports to act commercially and in view of the differing business drivers of airports and airlines and the need for timely investment, the AAA provides for:
  - Dual till pricing environment
  - Consultation on aeronautical charges at least every five years
  - Consultation on capital expenditure decisions exceeding 20% of the aeronautical asset base
  - Annual information disclosure relative to the aeronautical asset base, pricing and service standards
- Subject to the consultation requirements above, the provision for airport companies to make a final decision on pricing with ability for airlines to test the rigour via judicial review
- The objectives of Part 4 of the Commerce Amendment Act:
  - Incentives to innovate and invest
  - Incentives to improve efficiency and quality
  - Share the benefits of efficiency gains with consumers
  - Limit ability to extract excessive profits

# REGULATORY ENVIRONMENT – WHAT’S CHANGED

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## FROM - AAA

- Dual till
- Consultation process
- Information disclosure
- Airport sets disclosure inputs



## TO - CAA

- Dual till
  - Consultation process
  - Information disclosure
  - Com Com recommends disclosure inputs
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## PROCESS OF REVIEW – COMMERCE ACT REQUIREMENTS

2009	Guidelines Discussion Paper	- May 2009
	Information Disclosure Discussion Paper	- Q2
	Regulatory Guidelines Conference	- Q3
2010	Information Disclosure Decision Paper	- Q2
	Input Methodologies Determinations	- Q2
2011	No activity	
2012	Report to Ministers on Airport’s Information Disclosure	- Post 2012

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# STABLE COMMERCIAL ENVIRONMENT

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- Focussed on providing options which fill out the demand curve
- Need to facilitate a healthy stable of airlines with differentiated market propositions (low cost, full service, premium etc)
- Want our airline customers to be profitable and sustainable
- Acknowledge our customers' desire to reduce their unit costs
- Need to earn an appropriate return from our investments and activities
- Should be held to account for investing wisely
- Strong incentives provided by the dual till environment to invest appropriately

# CAPITAL ALLOCATION PROGRAMME

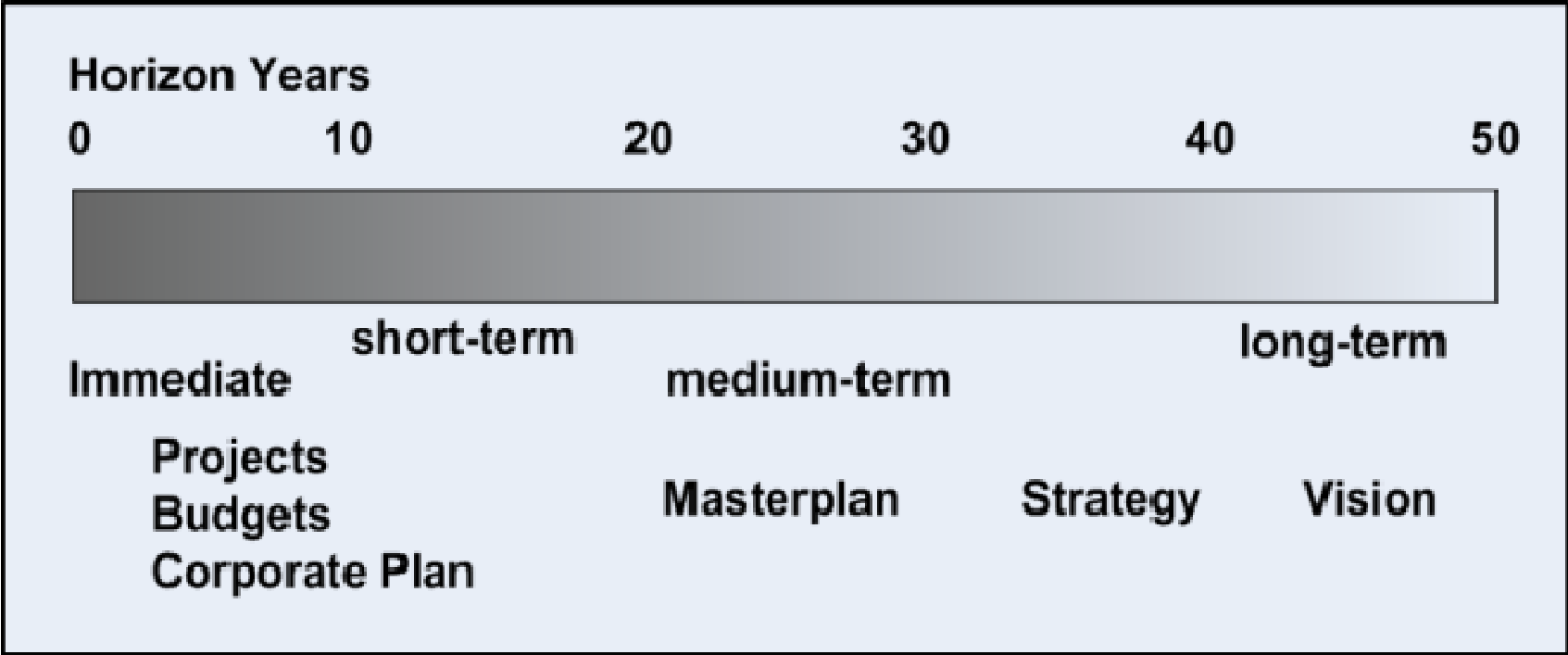
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We have risk-assessed the capital spend plan in terms of current requirements and will be working to address the possible challenges. There will be a focus on “sweating the assets”.

<b>Area of Spend</b>	<b>Comments</b>
<b>Growth (or capacity)</b> <i>Accommodating customer growth requirements (Volume)</i>	<i>The prior years of investment leave us well placed to deal with Aeronautical volumes. Major spend over the next 2-3 years is on the Northern Runway (\$30m Total) and First Floor International Terminal Redevelopment (\$40m Total)</i>
<b>Quality and Regulatory</b> <i>Complying with new obligations</i>	<i>Driven by laws, rules or standards. Focus is on influencing sensible risk weighted standards that drive favourable economic outcomes.</i>
<b>Capital Maintenance</b> <i>Maintaining existing assets</i>	<i>Focus is on asset management to optimise life cycle costs and Life prolongation/replacement of existing assets. Maintenance spend will be effectively managed.</i>
<b>Profit Seeking</b> <i>Setting yield or profitable returns (Yield)</i>	<i>Any discretionary Capital Spend will require a compelling business case.</i>



# AIRPORT PLANNING HORIZONS



# CAREFULLY SELECTED STEP- OUTS ALIGNED TO CORE COMPETENCIES

- Opportunities exist for us to leverage our underlying operational capabilities and customer relationships to grow beyond the Auckland Airport business or grounds. Examples include:
  - **Airport sector** - consider opportunities if they arise for good value
  - **Investment property** - actively pursue commercial & industrial opportunities in Auckland region, focused on similar sectors for tenants
  - **Freight/logistics** - actively pursue opportunities
- Well defined acquisition criteria are essential:
  - Consistent with corporate strategy
  - Leverage core competencies
  - Strict investment benchmarks: value creating with better than WACC returns
  - Does not risk core business

Step-out investments likely to be modest in nature.  
• Unlikely that potential investments will represent more than 5% of total assets over next three years.

