A strategic alliance to boost tourism

8 July 2010
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Strategic alliance announced:

- Auckland Airport and Queenstown Airport have formed a strategic alliance to boost tourism growth through Queenstown and Auckland.

- Alliance is established via an agreement to collaborate on air services development and destination marketing as well as pursue joint initiatives in aeronautical, retailing and property development activities.

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

- Significant passenger volume growth increases being targeted.
Strategic context

### Primary goal: to drive business growth ahead of the organic growth rate and achieve sustained double-digit profit growth

| Reallocation and maximisation of assets to build capability, maximise revenue, minimise cost, and ultimately add more value and efficiency to the core business (including through increased air-services development and tourism promotions) – this area forms the majority of our growth strategy implementation. | Aim:  
- Accelerated pax growth  
- Greater retail earnings  
- Deferral of major aero cap-ex  
- Increasing cash-flow, profits and dividends |
| --- | --- |
| Allocating additional resources to adjacent opportunities to generate faster growth, in particular through accelerating property development opportunities on Auckland Airport land holdings. | Aim:  
- Increased monetisation of commercial land asset  
- Larger and more diversified investment property rental base |
| Capturing selected opportunities to accelerate growth in international passenger volumes (our biggest value driver) by forming partnerships with selected airports that share and complement our focus on markets and carriers. | Aim:  
- Accelerated pax growth  
- Exposure to higher growth markets |
## Growth strategy update

<table>
<thead>
<tr>
<th>Theme</th>
<th>Achievements</th>
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| **WIN-WIN**  
(creating a healthier commercial environment) | • Positive regulatory environment foreshadowed in Commerce Commission draft determination  
• Northern runway construction deferred for 12 months and a further review underway  
• New roading plan developed which avoids $150m in uneconomic roading construction  
• Convincingly won the Craigie Trust claim to remove overhang on commercial land holdings  
• Stronger relations built with government and industry stakeholders |
| **FIGHTING FIT**  
(tightening our belts) | • Significantly improved the arrivals experience applying LEAN methodologies including SmartGate  
• Reduced number of suppliers significantly to improve operating efficiency and reduce cost  
• Completed a review of sourcing strategies and capital allocation/productivity  
• Successfully undertook two refinancing activities at better than market pricing |
| **MAXIMISE OUR CORE**  
(making the most of our assets) | • Progressing the first floor retail development – on time, scope and budget  
• Established new brand architecture and positioning and increased our marketing efforts to grow revenues  
• Heavily influenced transport improvements to greatly improve access to the airport  
• Auckland Airport voted the 9th best airport in the world in the 2010 Skytrax Awards  
• Won new services from Jetstar and Continental as well as winning the Asia region route marketing award  
• Positively influenced pax volumes by at least 200,000 in FY2010 |
| **SHORT-HAUL OPPORTUNITIES**  
(adjacencies) | • Comprehensively won the outcomes sought under Plan Changes 13 and 14 for north airport development  
• Defined the new property strategy and land use plan and rolled it out to market  
• Kick-started property development – now over $115million of new projects committed or under construction |
| **LONG-HAUL OPPORTUNITIES**  
(Step-outs) | • NQA investment bedded down, funded by equity raise and metrics recently published to market  
• Air services capacity commitments in excess of the acquisition business case for FY2011 achieved  
• Strategic alliance formed with Queenstown Airport to boost tourism volumes |
| **BUILDING ORGANISATIONAL CAPABILITY** | • Aligned staff performance metrics to growth strategy and earnings improvement  
• Deployed new technologies and LEAN efficiency processes to increase operational efficiencies and defer cap-ex  
• Leadership development programme introduced to lift execution rate  
• Completed reallocation of business resources and structure changes |
Strategic alliance summary

- Queenstown Airport and Auckland Airport are forming a strategic alliance to boost tourism growth and enhance the performance of their respective airport businesses.

- The key points of the alliance include:
  - Focus on coordinated destination promotion and route development discussions with airlines;
  - Joint initiatives to grow non-aeronautical revenues and accelerate property development;
  - Collaboration on asset and operational management; and
  - Investment by Auckland Airport in a minority shareholding to assist the funding of Queenstown Airport’s growth.

- The targets of the alliance are to generate an additional 176,000 pax movements per year at Queenstown by 2015, estimated to be worth in excess of $2 million annually to Queenstown Airport and in excess of $150 million annually to the Queenstown Lakes District economy.

- Auckland Airport also expects to benefit from an estimated 50,000 additional incremental passenger movements by 2015 through partnered multi-destination promotion and itinerary management.
Strategic alliance summary (ctd)

- Auckland Airport will make an initial equity investment of $27.7m in Queenstown Airport, and be issued with 24.99% of its shares
  - This commitment by Auckland Airport cements the alliance and provides incentives for both parties to maximise the benefits of the strategic alliance
  - The investment will be by way of subscription for new shares, and will be used to improve Queenstown Airport’s capital structure, and fund future capital expenditure required to maximise growth opportunities
  - An improved capital structure should also enable Queenstown Airport to pay regular dividends to its shareholders for the first time
- 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.
- The alliance agreement provides a framework for the Boards and Management teams of the two companies to interact regularly, remain fully informed, and work together for mutual benefit.
Rationale for strategic alliance

- Auckland Airport is New Zealand’s only global scale international airport and handles over 70% of all international visitors coming to New Zealand.
- Auckland Airport has invested significantly over the last 18 months in air services development, sales and destination marketing, with a strong focus on building market share in Asia.
- This investment in air-services has generated an uplift in passenger volumes in excess of 200,000 in the past year alone.
- Recent announcements include strategically important new route wins from Continental Airlines (Auckland to Houston), Jetstar (Auckland to Singapore, Cairns to Japan, Cairns to domestic Australia) and Pacific Blue (Auckland to Cairns).
- Auckland Airport can influence the New Zealand travel itineraries of international visitors via its work with airlines and the travel industry. This can be used to drive additional passenger volumes.
- In addition to standalone partial ownership benefits, Auckland Airport can grow its own long-haul passenger volumes through highly coordinated multi-destination promotion and itinerary management working in partnership with Queenstown Airport and the Queenstown Lakes District community.
Rationale for strategic alliance (ctd)

- Regarded as one of the ‘jewels in the crown’ of New Zealand tourism, Queenstown is a highly attractive destination that strengthens the business case when Auckland Airport is marketing air services into New Zealand internationally.
- Queenstown has the strongest tourism growth prospects in the country evidenced by the fact that its airport is New Zealand’s fastest growing airport.
- The alliance has already been proven in an informal sense - market trials promoting dual-destination tourism to Auckland and Queenstown has already increased capacity and volume on the Auckland–Queenstown route over the past year.
  - According to Sabre data there has been a 36% uplift in passenger volumes between Auckland and Queenstown over the last 12 months.
  - New and additional services from Air New Zealand, Jetstar and Pacific Blue.
- Queenstown is a very complementary tourism destination to Auckland, offering an opportunity to package a multi-destination offer to benefit both destinations.
- Realistic forecasts of standalone passenger volume growth into Queenstown compared to alliance-driven growth forecasts suggest strong benefits will result.
Benefits to Queenstown

Over and above the growth forecast by Queenstown Airport as a well run standalone airport business, it is expected that the Strategic Alliance will, within five years, deliver:

- An additional 176,000 (132,000 via domestic, 44,000 via direct international) passenger movements through Queenstown
  - Aeronautical revenue increases of $1.8m per annum by 2015 driven by additional passenger movements
  - Non-aeronautical revenue increases of $1.5m per annum by 2015 driven by additional passenger movements and from operational synergies
- Over 80,000 additional visitors a year arriving into Queenstown generating well in excess of $150m annually for the Queenstown Lakes District economy
- Access to operating synergies in air-service development, aeronautical operations, retail & commercial activities, property development, financial management and corporate services
- Improved capital structure for Queenstown Airport giving them capability to fund capital expenditure and pay substantial dividends to owners
- Substantive de-risking of Queenstown Airport’s own baseline traffic and financial growth forecasts
- Increased prominence of Queenstown Airport and the Queenstown Lakes District region through Auckland Airport’s air services development work, domestic and offshore marketing promotions, itinerary management with the trade, and partnerships with Cairns and Mackay airports
- Stronger trans-Tasman and domestic services and passenger flows outside of the peak seasons.
Forecast Queenstown Airport 2010-2015 Growth

- **2010 Actual**:
  - International annual pax: 811,000
  - Domestic annual pax: 0

- **2015 Standalone forecast**:
  - International annual pax: 811,000
  - Domestic annual pax: 1,072,000

- **2015 Alliance driven forecast**:
  - International annual pax: 0
  - Domestic annual pax: 1,249,000
Benefits to Auckland

- Paying a fair price for a great asset with exposure to a high growth market
- In addition to partial ownership benefits, Auckland Airport will grow its own long-haul passenger volumes through highly coordinated multi destination promotion and itinerary management, working in partnership with Queenstown Airport and the Queenstown Lakes District community
  - Additional incremental volume of an estimated 10,000 international and 40,000 domestic passengers to Auckland
- Helps build more volume on key routes, and will enable more attractive multi-destination business cases in ongoing discussions with airlines. Strengthens the Auckland offer when pitching to airlines
- Much of the work with airlines is already being undertaken on a marketing front, and the addition of Queenstown Airport increases the strength of the offer without increasing the effort
  - Makes sense to have ‘skin in the game’ to benefit from the additional passenger volumes driven to Queenstown
- Queenstown offers a very complementary seasonal holiday destination to Auckland – this alliance is an opportunity to make Auckland more than the gateway to New Zealand through complementary promotional and industry activity with Queenstown
- Will also enable the wider Auckland tourism industry to build multi-destination packages and product to increase visitor stays in Auckland and complement the tourism attributes of Auckland with those of Queenstown.
Deal structure

- Effective 8 July 2010, Auckland Airport will acquire an initial 24.99% shareholding of the increased capital in Queenstown Airport by subscribing for 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 to equalise the price per share paid for the first tranche.

- The increased price for the second tranche reflects the additional value of a shareholding over 25%, and associated constitutional protections and rights under a shareholders agreement.

- Before deciding whether to exercise the second tranche option, Queenstown Airport will seek approval from its majority shareholder, Queenstown Lakes District Council. A condition of the option exercise is that Queenstown Lakes District Council must enter into a binding shareholders’ agreement with Auckland Airport that would formalise arrangements between the shareholders.

- The option provides Queenstown Airport with the ability to implement a dividend policy of ongoing dividends, enabling Queenstown Lakes District Council to receive regular dividends for the first time from its investment.

- Auckland Airport has already received the necessary regulatory approvals to acquire a minority shareholding in Queenstown Airport.

- Auckland Airport is funding the share subscription from its current cash holdings.
Investment proposition

- Queenstown Airport has achieved high growth in the past, and this is expected to continue
- The majority of growth comes from high yield international travellers
- This translates into high revenue and EBITDA growth
- Future growth is supported by indicative schedules for FY11, and operational improvements (including installation of airfield lights and extended operating hours) which will improve the ability of airlines to provide schedules ex-Sydney, Melbourne and Auckland to better service the short-break market.

<table>
<thead>
<tr>
<th>Financial year ended</th>
<th>30-Jun-06 Actual</th>
<th>30-Jun-07 Actual</th>
<th>30-Jun-08 Actual</th>
<th>30-Jun-09 Actual</th>
<th>30-Jun-10 Forecast</th>
<th>5 year CAGR</th>
<th>30-Jun-11 Budget</th>
</tr>
</thead>
<tbody>
<tr>
<td>Domestic passenger growth %pa</td>
<td>1.4%</td>
<td>2.4%</td>
<td>6.6%</td>
<td>-4.5%</td>
<td>15.4%</td>
<td>4.1%</td>
<td>5.1%</td>
</tr>
<tr>
<td>International passenger growth %pa</td>
<td>79.7%</td>
<td>22.1%</td>
<td>16.3%</td>
<td>19.8%</td>
<td>44.2%</td>
<td>34.5%</td>
<td>38.8%</td>
</tr>
<tr>
<td>Total passenger growth %pa</td>
<td>4.6%</td>
<td>3.8%</td>
<td>7.4%</td>
<td>-2.3%</td>
<td>18.6%</td>
<td>6.2%</td>
<td>9.6%</td>
</tr>
<tr>
<td>Operating revenue $m</td>
<td>7.5</td>
<td>9.3</td>
<td>10.6</td>
<td>11.3</td>
<td>13.2</td>
<td>17.0%</td>
<td>15.1</td>
</tr>
<tr>
<td>Revenue growth %pa</td>
<td>24.6%</td>
<td>23.9%</td>
<td>14.2%</td>
<td>6.0%</td>
<td>17.5%</td>
<td>17.0%</td>
<td>14.2%</td>
</tr>
<tr>
<td>Operating EBITDA $m</td>
<td>5.4</td>
<td>6.5</td>
<td>7.1</td>
<td>7.0</td>
<td>9.1</td>
<td>16.9%</td>
<td>10.6</td>
</tr>
<tr>
<td>EBITDA growth %pa</td>
<td>28.9%</td>
<td>20.1%</td>
<td>8.8%</td>
<td>-0.5%</td>
<td>29.9%</td>
<td>16.1%</td>
<td></td>
</tr>
</tbody>
</table>
Investment proposition (ctd)

- On a multiple basis, the investment value compares well with Auckland Airport’s trading range
- Represents a “fair price”, reflective of Queenstown Airport’s high growth prospects offset by Auckland Airport’s minority position
- Auckland Airport incurs a premium for acquiring a further 5.01-10.01% reflecting increased strategic benefits and shareholders agreement.

<table>
<thead>
<tr>
<th>Comparable Multiples</th>
<th>AIA¹</th>
<th>QACL 24.99%²</th>
<th>QACL 30-35%³</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equity value</td>
<td>$m</td>
<td>2,502.9</td>
<td>83.2</td>
</tr>
<tr>
<td>plus: Debt</td>
<td>$m</td>
<td>1,087.0</td>
<td>36.0</td>
</tr>
<tr>
<td>Enterprise value</td>
<td>$m</td>
<td>3,589.9</td>
<td>119.2</td>
</tr>
<tr>
<td>EV / EBITDA (FY10F)</td>
<td>x</td>
<td>13.1</td>
<td>13.1</td>
</tr>
<tr>
<td>EV / EBITDA (FY11F)</td>
<td>x</td>
<td>12.3</td>
<td>11.2</td>
</tr>
</tbody>
</table>

1. Based on AIA share price as at 6 July 2010, debt as at 30 June 2010, and consensus broker forecasts
2. Metrics assuming QACL does not elect to issue further shares to AIA, debt forecast at 30 June 2010
3. Metrics assuming QACL issues further shares of 5.01-10.01% of share capital to AIA, debt forecast at 30 June 2010
Queenstown Airport is currently serviced by Air New Zealand, Jetstar, Qantas, and Pacific Blue, with international flights from Sydney, Brisbane, and Melbourne.

Significant capital expenditure has been spent in the previous 5 years to upgrade facilities and infrastructure:
- Currently building runway safety extensions (RESA), with $3.8m remaining to spend.
- Other projects include taxiways to increase runway capacity (approx. $9m), jet stands (approx. $3.8m), and terminal extensions as required over the next 5 years.

No price rises have been implemented since 2004.

The combined effect is low regulatory ROI measures when calculated under a typical regulatory regime (note Queenstown Airport is not captured by the Commerce Commission determination, rather reports under the AAA regulations).
NQA update

- Extensive collaboration at a working level well underway
- In active discussions about formalising operating partnership now that Technical Services Agreement between NQA and Queensland Airports Limited has been terminated
- Performance milestones for NQA have recently been published
- Strong success in building new air-services capacity into Cairns, including new services to Auckland, PNG, domestic Australia and Japan
- Passenger volumes expected to grow as Tropical North Queensland market enters its high-season
- Recent strong investment into North Queensland tourism by Australian government
- Good partnership developing between Tourism Queensland and Auckland Airport to promote outbound market from Auckland to Cairns.
Queenstown Airport overview

- Situated in the Wakatipu Basin, a short drive to Queenstown, overlooked by the Remarkables mountain range.
- 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.
- New forecasts for Queenstown Airport show scheduled passengers and non-scheduled passengers will quadruple over the next 30 years
- Queenstown Airport has scheduled year-round flights to Auckland, Christchurch and Sydney and Wellington, Melbourne and Brisbane.
Queenstown overview

- Queenstown is an international resort town in Otago, known for its commerce-oriented tourism, especially adventure and ski tourism.
- It is popular with international and New Zealand travellers alike.
- Queenstown provides adventure tourism during the day and a vibrant nightlife scene during the evenings.
- Queenstown also has a reputation for being the 'Adventure Capital of the World'
- Locally, Queenstown has a reputation as one of New Zealand's wine and cuisine centres.
- The town is the largest centre in Central Otago, and the third largest in Otago.
- Queenstown is accessible by road and air but not by rail.