

**Financial  
Report  
2020**



## Financial Statements

This annual report covers the performances of Auckland International Airport Limited (Auckland Airport) from 1 July 2019 to 30 June 2020. This volume contains our audited financial statements. Overview information and a summary of our performance against financial and non-financial targets for the 2020 financial year are obtained in a separate volume, which may be accessed at [report.aucklandairport.co.nz](http://report.aucklandairport.co.nz).

# Financial report 2020

## Introduction

Auckland Airport is pleased to present the financial results for the year to 30 June 2020. This was a year of contrasting halves with the first half dominated by the company embarking on a historic period of infrastructure-related transformation and the second impacted by the travel restrictions put in place to mitigate the effects of the COVID-19 outbreak.

The eight-month period to February 2020 was a period of transformation for Auckland Airport, with key milestones reached in the airport infrastructure upgrade, including the commencement of four of our eight key anchor projects. Auckland Airport also focused on delivering meaningful customer improvements including launching new automated pre-security gates, the continued rollout of check-in kiosks and the completion of the international departures upgrade. International air connectivity continued to grow in the eight-month period to February 2020 with new or enhanced services launched to Vancouver and Seoul. Regrettably, domestic passenger volumes marginally fell during the first half reflecting increased yield management by airlines and the impact of Jetstar's exit from regional services.

Following the global outbreak of COVID-19 and the subsequent imposition of travel restrictions from February 2020, Auckland Airport took a number of decisive measures to withstand the challenging and unparalleled operating environment. This included the suspension of capacity-driven capital expenditure with an estimated completed project value in excess of \$2.0 billion, a substantial reduction in operating costs, undertaking a \$1.2 billion equity raise, the largest secondary issue in New Zealand's history, and a comprehensive debt restructure including extending bank loan maturities and agreeing financial covenant waivers from June 2020 to December 2021 (inclusive).

Despite all the disruption of the last four months, we remain committed to customer service and providing a safe and efficient travel experience. During the ongoing period of uncertainty, we will continue to deliver on what is most important for our customers, our community, our country, our people and our investors.

This financial report analyses our results for the 2020 financial year and its key trends. It covers the following areas:

- 2020 Financial performance summary;
- Impact of COVID-19;
- Key performance measures;
- 2020 Passenger movement analysis;
- 2020 Aircraft volume analysis;
- 2020 Financial performance analysis;
- 2020 Financial position analysis; and
- 2020 Returns for shareholders.

## 2020 Financial performance summary

This financial summary provides an overview of the financial results and key trends for the year ended 30 June 2020 compared with those for the previous financial year. Readers should refer to the notes and accounting policies set out in the financial statements for a full understanding of the basis on which the financial results are determined.

In the 2020 financial year, revenue decreased by 23.7% to \$567.0 million, with revenue across a number of business segments significantly impacted by the subdued passenger flows following the global outbreak of COVID-19. Aeronautical revenues decreased 25.3% on the prior year, reflecting reduced passenger volumes following the imposition of travel restrictions. Retail and carparking revenues decreased 37.3% and 21.7% respectively. Despite the economic headwinds, property rental income delivered moderate growth of 2.2% in the period as a result of completed developments contributing income.

Our reported profit after taxation for the 2020 financial year was \$193.9 million – a decrease of 63.0% on the prior year's reported profit of \$523.5 million. Our underlying profit after taxation for the 2020 financial year was \$188.5 million, a decrease of 31.4% on the prior year's underlying profit of \$274.7 million.

A summary of the financial results for the year to 30 June 2020 and the 2019 comparative is shown in the table below.

	2020 \$M	2019 \$M	% change
Income	567.0	743.4	(23.7)
Operating expenses	306.6	188.6	62.6
<b>Earnings before interest, taxation, depreciation, fair value adjustments and investments in associates (EBITDAFI)</b>	<b>260.4</b>	<b>554.8</b>	<b>(53.1)</b>
Reported profit after tax	193.9	523.5	(63.0)
<b>Underlying profit after tax</b>	<b>188.5</b>	<b>274.7</b>	<b>(31.4)</b>
Earnings per share (cents)	15.2	42.8	(64.5)
Underlying earnings per share (cents)	14.7	22.5	(34.7)
Ordinary dividends for the full year <sup>1</sup>			
– cents per share	-	22.25	(100.0)
– value distributed	-	269.1	(100.0)

1. Comprising the interim and final dividends.

### Underlying profit is how we measure our financial performance

The directors and management of Auckland Airport understand the importance of reported profits meeting accounting standards. Because we comply with accounting standards, investors know that comparisons can be made with confidence between different companies and that there is integrity in our reporting approach. However, we believe that an underlying profit measurement can also assist investors to understand what is happening in a business such as Auckland Airport, where revaluation changes can distort financial results or where one-off transactions, both positive and negative, can make it difficult to compare profits between years.

For several years, Auckland Airport has referred to underlying profit alongside reported results. We do so when we report our results, but also when we give our market guidance (where we exclude fair value changes and other one-off items) or when we consider dividends and our policy to pay 100% of underlying net profit after tax (excluding unrealised gains and losses arising from revaluation of property or treasury instruments and other one-off items). However, dividends are temporarily suspended while Auckland Airport has financial covenant waivers in place with our lenders. The dividend suspension is expected from the reporting periods ending 30 June 2020 to 31 December 2021.

In referring to underlying profits, we acknowledge our obligation to show investors how we have derived this result. The table below shows the reconciliation between reported profit after tax and underlying profit after tax for the years ended 30 June 2020 and 2019.

	2020			2019		
	Reported profit \$M	Adjustments \$M	Underlying profit \$M	Reported profit \$M	Adjustments \$M	Underlying profit \$M
<b>EBITDAFI per income statement<sup>1</sup></b>	<b>260.4</b>	<b>-</b>	<b>260.4</b>	<b>554.8</b>	<b>-</b>	<b>554.8</b>
Investment property fair value increase	168.6	(168.6)	-	254.0	(254.0)	-
Property, plant and equipment revaluation	(45.9)	45.9	-	(3.8)	3.8	-
Fixed asset write-offs, impairments and termination costs	-	117.5	117.5	-	-	-
Derivative fair value movement	(1.9)	1.9	-	(0.6)	0.6	-
Share of profit of associate and joint ventures	8.4	0.8	9.2	8.2	-	8.2
Impairment of investment in joint venture	(7.7)	-	(7.7)	-	-	-
Depreciation	(112.7)	-	(112.7)	(102.2)	-	(102.2)
Interest expense and other finance costs	(71.8)	-	(71.8)	(78.5)	-	(78.5)
Taxation expense	(3.5)	(2.9)	(6.4)	(108.4)	0.8	(107.6)
<b>Profit after tax</b>	<b>193.9</b>	<b>(5.4)</b>	<b>188.5</b>	<b>523.5</b>	<b>(248.8)</b>	<b>274.7</b>

1. EBITDAFI includes \$117.5 million relating to fixed asset project write-offs, impairments and termination costs.

We have made the following adjustments to show underlying profit after tax for the years ended 30 June 2020 and 2019:

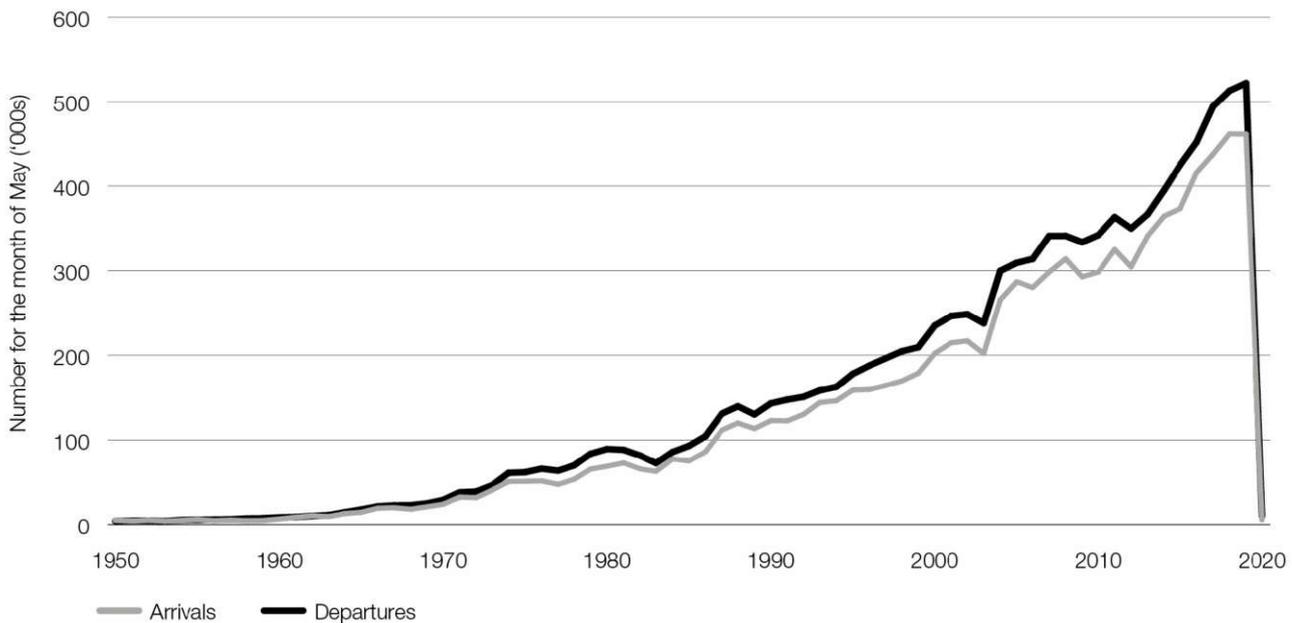
- We have reversed out the impact of revaluations of investment property in 2020 and 2019. An investor should monitor changes in investment property over time as a measure of growing value. However, a change in one particular year is too short to measure long-term performance. Changes between years can be volatile and, consequently, will impact comparisons. Finally, the revaluation is unrealised and, therefore, is not considered when determining dividends in accordance with the dividend policy;
- Consistent with the approach to revaluations of investment property, we have also reversed out the revaluation of the land, infrastructure, and runways, taxiways and aprons classes of assets within property, plant and equipment for the 2020 financial year and the building and services class of assets within property, plant and equipment for the 2019 financial year. The fair value changes in property, plant and equipment are less frequent than are investment property revaluations, which also makes comparisons between years difficult;
- We have reversed out the impact of fixed asset project write-offs, impairments and termination costs for the 2020 financial year. In response to the COVID-19 outbreak, some capital expenditure projects were abandoned and fully written off and others were suspended. Some of these abandoned or suspended projects incurred contractor termination costs. The abandonment or suspension of live capital expenditure projects is extremely rare and is the direct consequence of COVID-19. These fixed asset write-off costs, impairments and termination costs are not considered to be an element of the group's normal business activities and on this basis have been excluded from underlying profit;
- We have also reversed out the impact of derivative fair value movements. These are unrealised and relate to basis swaps that do not qualify for hedge accounting on foreign exchange hedges, as well as any ineffective valuation movements in other financial derivatives. The group holds its derivatives to maturity, so any fair value movements are expected to reverse out over their remaining lives. Further information is included in note 18(b) of the financial statements;
- In addition, we have adjusted the share of profit of associates and joint ventures in 2020 to reverse out the impacts on those profits from revaluations of investment property and financial derivatives; and
- We have also reversed out the taxation impacts of the above movements in both the 2020 and 2019 financial years.

## Impact of COVID-19

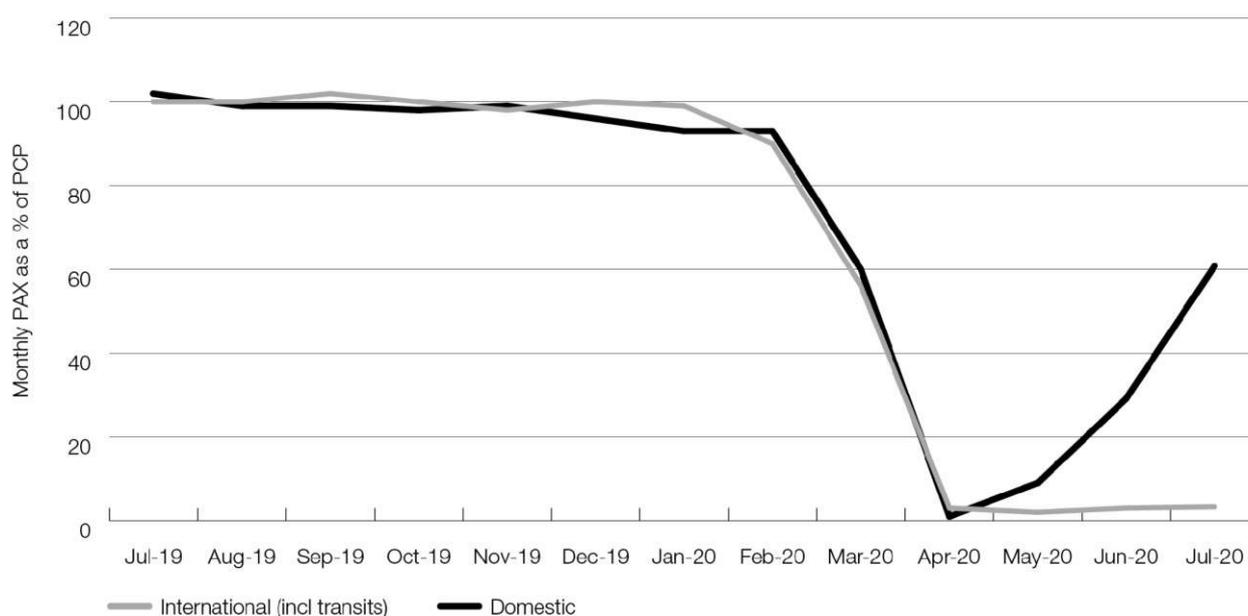
The global spread of COVID-19 and the subsequent imposition of travel restrictions has dramatically impacted Auckland Airport. The aviation industry has been fundamentally impacted by the outbreak, resulting in a substantial drop in Auckland Airport's aircraft movements and passenger numbers in the second half of the 2020 financial year.

International passenger flows are a key driver of financial performance and whilst travel restrictions remain in place, these have essentially ground to a halt. In May 2020, the number of people that arrived in New Zealand was the lowest for any month since May 1959. However, more recently we have enjoyed a gradual recovery in domestic passengers as the country emerged from its lockdown, providing opportunities for Kiwis to travel, do business and see more of our beautiful country. As at 13 August when this commentary was completed, it was unclear how significant the setback to the domestic passenger recovery would be from Auckland re-entering Alert Level 3 on 12 August and the rest of the country going into Alert Level 2.

### Number of international arrivals into and departures from New Zealand in the month of May since 1950



### Monthly passenger numbers



The impact of reduced passenger numbers extends beyond Auckland Airport's aeronautical activities and into the retail, transport and the hotel segments of the business.

Recognising the scale of disruption from ongoing travel restrictions, Auckland Airport reacted quickly and decisively to COVID-19, including:

- Implementing a significant reduction in operating expenditure, including the suspension of discretionary expenditure, reviewing work underway with external consultants, reducing the number of external contractors, reducing the remuneration of board members, executives and the majority of employees by 20%, suspending bonuses and all short-term incentives for the 2020 financial year, and the general reduction of operational activities in line with the new operating environment;
- The suspension or cancellation of capacity-driven capital expenditure with an estimated completed project value in excess of \$2.0 billion;
- The extension of all bank debt facilities maturing in the period to 31 December 2021 and the granting of waivers from the business' banking group and USPP noteholders for potential covenant breaches until 31 December 2021; and
- The completion of a \$1.2 billion equity raise to strengthen the group's balance sheet and provide liquidity for the foreseeable future.

In addition to responding to challenges in our own business, Auckland Airport recognises we are part of a wider community and we have a role to play in supporting our industry partners through the COVID-19 disruption. In support of our airline partners, Auckland Airport suspended aircraft parking charges allowing non-operating aircraft to park free of charge. Secondly, Auckland Airport has supported some of our retailers and tenants to manage through the significant disruption caused by COVID-19 by providing rental abatements and deferrals.

While a high level of uncertainty remains around the shape and timing of the recovery in travel and tourism, Auckland Airport's decisive actions position us well for the eventual recovery.

## Key performance measures

Auckland Airport monitors a wide range of financial and non-financial performance measures. Since 2013, Auckland Airport's strategy of Faster, Higher, Stronger has been very successful in growing the business and delivering improved outcomes for all of our stakeholders.

However, the imposition of travel restrictions associated with the COVID-19 pandemic has necessitated a different strategic posture by the company. Our strategy has changed to one of immediately responding to the imposition of travel restrictions, positioning the business for the recovery in travel and tourism and pursuing accelerated growth once the recovery is well underway. This strategy significantly changes the immediate priorities of the business depending on which of the 'respond', 'recover' or 'accelerate' stages that the company is operating in. As a result, the key performance measures summarised below will be more relevant over the longer term once aviation markets have recovered from COVID-19.

Measure	2020	2019	2018	% change 2019–2020	% change 2018–2019
<b>Total aircraft seat capacity</b>					
International aircraft seat capacity	10,550,424	14,062,761	13,658,147	(25.0)	3.0
Domestic aircraft seat capacity	8,645,575	11,424,084	11,143,891	(24.3)	2.5
<b>Passenger movements</b>					
International passengers	7,739,260	10,506,660	10,202,526	(26.3)	3.0
International transit passengers	734,686	1,011,328	1,063,856	(27.4)	(4.9)
Domestic passengers	7,047,108	9,593,625	9,263,666	(26.5)	3.6
<b>Maximum certified take-off weight (MCTOW)</b>					
International MCTOW (tonnes)	4,669,929	5,894,112	5,798,018	(20.8)	1.7
Domestic MCTOW (tonnes)	1,830,711	2,372,412	2,341,699	(22.8)	1.3
<b>Cargo volume</b>					
Volume of international cargo movements (tonnes)	165,005	190,905	187,258	(13.6)	1.9
<b>Passenger spend rate (PSR)</b>					
Change in International Terminal PSR	(0.5%)	6.6%	(1.8%)		
<b>Income per passenger (IPP)</b>					
Retail IPP	\$17.45	\$20.50	\$17.76	(14.9)	15.4
<b>Average revenue per parking space (ARPS)</b>					
Change in ARPS	(26.5%)	3.8%	1.9%		
<b>Return on investment</b>					
Return on capital employed	2.9%	8.3%	11.0% <sup>1</sup>		
<b>Passenger satisfaction/ Airport Service Quality (ASQ)</b>					
International	4.35 <sup>2</sup>	4.26	4.12	2.1	3.4
Domestic	4.02 <sup>2</sup>	4.03	3.97	(0.2)	1.5
<b>Rent roll</b>					
Annual rent roll \$m (property division)	104.0	100.0	90.2	4.0	10.9
<b>EBITDAFI</b>					
EBITDAFI per passenger	\$16.78	\$26.28	\$24.67	(36.2)	6.5

1. Includes \$297.4 million gain on sale of 24.6% shareholding in North Queensland Airports.

2. 2020 ASQ Survey scores reflect results to the third quarter, as fourth quarter ASQ data was not collected during the lockdown period.

## 2020 Passenger movement analysis

Passenger movements are a significant driver of value for Auckland Airport, with the majority of aeronautical revenue coming from passenger charges. International passenger volumes have a greater impact on financial performance than domestic, with the revenue generated by an international passenger being between four and five times that of a domestic passenger.

	2020	2019	% change
<b>Auckland Airport passenger movements</b>			
International arrivals	3,948,248	5,284,325	(25.3)
International departures	3,791,012	5,222,335	(27.4)
<b>International passengers excluding transits</b>	<b>7,739,260</b>	<b>10,506,660</b>	<b>(26.3)</b>
Transit passengers	734,686	1,011,328	(27.4)
<b>Total international passengers</b>	<b>8,473,946</b>	<b>11,517,988</b>	<b>(26.4)</b>
Domestic passengers	7,047,108	9,593,625	(26.5)
<b>Total passenger movements</b>	<b>15,521,054</b>	<b>21,111,613</b>	<b>(26.5)</b>

### International passenger movements

Passenger movements for the year to 30 June 2020 were characterised by contrasting periods, with the initial eight-month period tracking broadly in line with the prior year, before the imposition of travel restrictions in relation to COVID-19 resulted in passenger volumes that were a fraction of the previous years.

International passenger numbers decreased by 26.4% in the year to 30 June 2020 reflecting the impact of the travel restrictions imposed by the New Zealand Government in response to the COVID-19 outbreak.

Prior to any imposition of travel restrictions, the initial eight-month period to February 2020 was a mix of ongoing achievement and challenges, with international passenger growth tracking in line with the previous financial year. New or enhanced air services were launched to Vancouver and Seoul, along with the announcement of new services to New York and Dallas Fort Worth. However, this growth in air connectivity was met with reductions in airline seat capacity as airlines consolidated certain routes within their networks, particularly to Asia and Australia. International passenger growth was strongest across the Pacific Islands and North America in the eight months to February 2020, driven by capacity growth from both new services and additional frequency introduced on existing routes.

Passenger arrivals by country of last residence saw increases from five of our top ten largest source markets for the initial eight-month period to February 2020. The additional services to Canada helped deliver an increase in Canadian arrivals of 1,806 (4.0%). Indian arrivals increased by 4,935 (12.7%) following increased connectivity between Auckland and Singapore.

The global outbreak of the COVID-19 virus has had a significant impact on the last four months of the financial year. Airlines began reducing services in February 2020 in response to the first travel restriction imposed by the New Zealand Government on foreign nationals travelling or transiting to and from mainland China. The closure of the New Zealand border to all but New Zealand citizens and permanent residents from 20 March 2020 had an immediate and significant effect on aeronautical capacity. Airlines suspended or drastically reduced their services with international passenger numbers in the final quarter of the financial year to 30 June 2020 down 97.1% on the prior year.

The table below shows the top 20 volumes of passenger arrivals by country of last permanent residence to Auckland Airport in the 2020 financial year.

Country of last permanent residence	International passenger arrivals			% of total 2020 arrivals	% of total 2019 arrivals
	2020	2019	% change		
New Zealand	1,835,148	2,441,015	(24.8)	46.5	46.2
Australia	655,655	874,027	(25.0)	16.6	16.5
United States of America	226,693	291,469	(22.2)	5.7	5.5
China, People's Republic of	203,274	360,805	(43.7)	5.1	6.8
United Kingdom and Ireland	156,262	188,099	(16.9)	4.0	3.6
Japan	68,482	92,132	(25.7)	1.7	1.7
Germany	58,436	75,652	(22.8)	1.5	1.4
Korea, Republic of	52,555	67,988	(22.7)	1.3	1.3
Canada	52,370	62,511	(16.2)	1.3	1.2
India	48,092	58,879	(18.3)	1.2	1.1
Taiwan	34,353	44,237	(22.3)	0.9	0.8
Hong Kong	31,157	45,600	(31.7)	0.8	0.9
France	28,877	35,713	(19.1)	0.7	0.7
Singapore	26,652	37,190	(28.3)	0.7	0.7
Fiji	23,925	30,715	(22.1)	0.6	0.6
Samoa	22,981	29,523	(22.2)	0.6	0.6
South Africa	22,248	24,384	(8.8)	0.6	0.5
Malaysia	20,844	43,628	(52.2)	0.5	0.8
Netherlands	19,795	22,504	(12.0)	0.5	0.4
French Polynesia	19,301	24,764	(22.1)	0.5	0.5

SOURCE: Statistics New Zealand

### Visitor arrivals by purpose of visit

The most common purpose of international arrivals to New Zealand continued to be holidays (23.7%) and visiting friends and relatives (15.9%).

Purpose of visit	2020	2019	% change	% of total
Holiday	936,169	1,309,162	(28.5)	23.7
Visit friends/relatives	626,849	803,758	(22.0)	15.9
Foreign residents				
Business/conference	233,351	296,930	(21.4)	5.9
Education/medical	45,209	59,115	(23.5)	1.1
Other (incl. not stated/not captured)	271,522	374,345	(27.5)	6.9
New Zealand residents	1,835,148	2,441,015	(24.8)	46.5

SOURCE: Statistics New Zealand

Until the New Zealand border is reopened, visitor arrivals will largely comprise the repatriation of New Zealanders.

### Domestic passenger movements

Domestic passenger numbers similarly decreased by 26.5%, or 2,546,517 passengers, in the year to 30 June 2020 reflecting the impact of the travel restrictions imposed in response to COVID-19.

The first eight-month period to February 2020 saw domestic passenger numbers tracking slightly below the prior year, driven by airline capacity reductions on main trunk routes and Jetstar's withdrawal from regional services in December 2019.

Following the global outbreak of COVID-19, reductions in domestic services were announced in February 2020 as a result of the fall in international passenger demand. Further reductions occurred once domestic air travel was restricted to essential services only while New Zealand was under Alert Level 4 and Alert Level 3 lockdown over a period of seven weeks from 26 March 2020 to 13 May 2020. Non-essential air travel was permitted again when New Zealand entered Alert Level 2 on 14 May 2020; however, airlines were required to physically distance passengers on board the aircraft which meant that approximately 40% of domestic seat capacity operating was unsellable. On 9 June 2020 all domestic air travel restrictions were lifted when New Zealand entered Alert Level 1. This saw domestic passenger movements recover ahead of international passengers with domestic passenger numbers in the month of June 2020 at 29.1% of the prior year. Auckland re-entered Alert Level 3 on 12 August with the rest of New Zealand re-entering Alert Level 2.

## 2020 Aircraft volume analysis

Total aircraft movements in the year were 139,137, a decrease of 22.2% from the 2019 financial year, while MCTOW decreased 21.4% to 6,500,640 tonnes. The decline in MCTOW and aircraft movements reflects the reduction in both international and domestic air services as a result of the travel restrictions imposed in response to the COVID-19 pandemic.

	2020	2019	% change
<b>Aircraft movements</b>			
International	44,962	57,082	(21.2)
Domestic	94,175	121,689	(22.6)
<b>Total aircraft movements</b>	<b>139,137</b>	<b>178,771</b>	<b>(22.2)</b>
<b>MCTOW (tonnes)</b>			
International MCTOW	4,669,929	5,894,112	(20.8)
Domestic MCTOW	1,830,711	2,372,412	(22.8)
<b>Total MCTOW</b>	<b>6,500,640</b>	<b>8,266,524</b>	<b>(21.4)</b>

## 2020 Financial performance analysis

### Revenue

In the 2020 financial year, revenue decreased by 23.7% to \$567.0 million, with reduced passenger numbers having impacts across most business segments. Retail revenue was down 37.3%, Car parking revenue down 21.7% and Aeronautical rental income down 2.4%. Property rental income was subject to only minor impacts from the pandemic, increasing 2.2% on the prior year. Total aeronautical income fell 25.3% from 2019, as passenger numbers and aviation activity ground to a halt due to COVID-19.

	2020 \$M	2019 \$M	% change
<b>Operating revenue</b>			
Airfield landing charges	88.4	116.9	(24.4)
Airfield parking charges	12.2	10.7	14.0
Total airfield income	100.6	127.6	(21.2)
Passenger services charge	133.0	185.1	(28.1)
Total aeronautical income	233.6	312.7	(25.3)
Retail income	141.5	225.8	(37.3)
Car parking income	50.3	64.2	(21.7)
Rental income - Property	88.5	86.6	2.2
Rental income - Aeronautical	20.3	20.8	(2.4)
Rental income - Retail	0.4	0.4	-
Total rental income	109.2	107.8	1.3
Rates recoveries	7.7	6.7	14.9
Interest income	1.7	1.8	(5.6)
Other income	23.0	24.4	(5.7)
<b>Total revenue</b>	<b>567.0</b>	<b>743.4</b>	<b>(23.7)</b>

### Airfield income

Airfield income comprises both airfield landing charges and aircraft parking charges. Airfield landing charges are based on the MCTOW of aircraft and parking charges are based on the time aircraft are parked on the airfield. Total airfield income decreased by \$27.0 million, or 21.2%, to \$100.6 million. Total MCTOW across international and domestic landings decreased by 21.4%. This decrease reflected the reduction in air services and movements in response to the travel restrictions that were imposed in response to COVID-19.

Airfield parking charges income was \$12.2 million in the 2020 financial year, an increase of 14.0% on the prior year, driven by a combination of aircraft being parked for longer periods on the airfield and a scheduled increase in aircraft parking prices.

During the period of the COVID-19 disruption, Auckland Airport supported our airline partners by suspending aircraft parking charges, allowing non-operating aircraft to park free of charge.

### Passenger services charge

Passenger services charge (PSC) income decreased by \$52.1 million, or 28.1%, in the 2020 financial year. FY20 was the third year of the FY18-FY22 aeronautical pricing schedule and included further reductions in international passenger service charges. On 22 February 2019, Auckland Airport discounted our previously published aeronautical prices for FY20-FY22 in response to the Commerce Commission's final opinion regarding our target return for the period. The 2020 prices shown in the table below reflect these discounts.

	2019 \$	2020 \$	2020 price change %	2021 \$	2021 price change %
International PSC <sup>1</sup>	15.44	14.91	(3.4)	15.21	2.0
Domestic PSC <sup>1</sup>	2.48	2.62	5.6	2.86	9.2
Regional PSC <sup>1</sup>	2.29	2.35	2.6	2.49	6.0
Transits PSC <sup>1</sup>	4.82	5.11	6.0	5.66	10.8

1. PSC charges applied to passengers two years and older.

### Retail income

Auckland Airport earns concession revenue from retailers within the domestic and international terminals, including Duty Free, Specialty, Luxury and Destination stores, Food and Beverage outlets, Foreign Exchange and Advertising. In addition, retail income is generated through Auckland Airport's Strata Lounge in the international terminal, as well as off-airport duty and tax-free sales collected by passengers from our international terminal collection points.

The 2020 financial year saw a continuation of our retail strategy providing the best of New Zealand and the world to the travelling public. The year started with the completion of the expanded Food and Beverage offering in the departure area of the international terminal and an expansion of the food court landside in the domestic terminal. It was pleasing to see these enhancements to the retail environment resonating with travellers, delivering an increase in income per passenger and higher ASQ Survey scores reflecting improved passenger amenity.

The Mall, our online duty and tax-free shopping experience, is now in its second year of trading. International travellers are now able to purchase and collect our full online catalogue as they depart or arrive at Auckland Airport. Customers are continuing to enjoy tax-free savings on technology and core duty-free categories as well as the newly added fashion accessories. The Mall sales increased by 90% on the prior year and transactions increased by 37%.

In December 2019, Auckland Airport further extended our retail reach through our digital channels. This provided the ability for customers to order and have items directly shipped to them in mainland China. Auckland Airport's loyalty programme, Strata Club, reached another important milestone with in excess of 275,000 members in 2020, an increase of over 25% on the prior year. The programme ties our retail, lounge and parking products together to enable cross-purchasing through the provision of tailored offers to members.

During the elevated COVID-19 alert levels, the majority of retail stores in both terminals were temporarily closed. As New Zealand moved into Alert Level 1, domestic retailers gradually reopened to service the increasing number of travellers. Reflecting the current border restrictions, the majority of retailers within the international terminal still remain closed due to the low number of travellers arriving or leaving the country.

Total retail income for the 2020 financial year was \$141.5 million, a decrease of \$84.3 million, or 37.3%, on the previous financial year. Auckland Airport's retail income per international passenger was \$17.45 for the 2020 financial year, a 14.9% decrease on the prior year. This decline in income per international passenger was driven by the support Auckland Airport offered to our tenants during the challenging operating environment caused by the COVID-19 related travel restrictions.

Both international passenger spend rate (PSR) and domestic PSR held relatively stable during the 2020 financial year. The completion of our Food and Beverage offering in the international terminal resulted in an 8.1% increase in PSR. The constantly improving Duty Free offerings have led to growth in the PSR also, of 11.4%, 2.4% and 1.2% for the electronics, cosmetics and skincare, and liquor categories respectively, while wines decreased by 5.8%. Growth in these areas offset the decline in categories such as Destination, Luxury and Specialty.

Strata Lounge generated steady income growth of 16.0% at the half year prior to COVID-19. However, revenue for the full year was down 25.0% on the prior financial year due to the closure of the lounge when New Zealand went into Alert Level 4 in March 2020.

## Car parking income

Car parking income in the 2020 financial year was \$50.3 million, a decrease of \$13.9 million or 21.7%. The average revenue per space decreased by 26.5% as a result of lower demand in the second half of the financial year.

During the first eight months of the financial year, Auckland Airport continued our investment in parking capacity, technology solutions and improving the product offering. Completion of our new multi-storey car park and expansion of valet storage added a total of 2,790 spaces. In preparation for work on future construction projects, around 1,000 spaces were closed during October 2019 and January 2020 for project-enabling works and fuel pipeline works. With the suspension on the majority of capital works due to the impact of COVID-19, parking capacity has been optimised again using some of the available space that was previously set aside for capital works.

The table below outlines the number of spaces available at 30 June 2020 and 30 June 2019.

Parking capacity as at 30 June	2020	2019	change	% change
International terminal	3,315	3,392	(77)	(2.3)
Domestic terminal	2,396	3,226	(830)	(25.7)
Park and Ride <sup>1</sup>	4,372	1,427	2,945	206.4
Valet	1,995	795	1,200	150.9
Staff	800	3,092	(2,292)	(74.1)
<b>Total</b>	<b>12,878</b>	<b>11,932</b>	<b>946</b>	<b>7.9</b>

1. This includes spaces used for temporary car rental storage lease.

Demand for parking at the airport continues to be driven by New Zealand passenger movements. In response to far lower passenger numbers, from April 2020, all staff have been moved from Park and Ride to on-terminal parking, at both the domestic and international terminals.

## Rental income

Auckland Airport earns rental income from space leased in facilities, such as terminals, cargo buildings and from stand-alone investment properties. Total rental income was \$109.2 million in the 2020 financial year, an increase of 1.3% on the previous financial year. Property rental income (excluding aeronautical and retail rental income) was \$88.5 million in the 2020 financial year, an increase of \$1.9 million, or 2.2%, on the previous financial year. Revenue growth in the year reflected the completion of new property assets such as Bapcor, Airways, Percy Café, Europcar and Thrifty, as well as the full-year impact of developments completed during the previous financial year, such as EBOS, DSV and Air New Zealand ULD Storage.

Soon to be completed projects, such as Foodstuffs, DHL Expansion, Interwaste, Hellmann Worldwide Logistics, and the leasing of 27 Timberly Road, will positively impact rental income in the 2021 financial year.

As a result of the COVID-19 pandemic, Auckland Airport supported our property tenants in the fourth quarter through various rental abatements or deferrals.

Income from the ibis Budget Hotel fell \$1.5 million, or 16.0%, compared to the previous financial year reflecting lower occupancy of 76.2% in the year.

## Other income

Other income includes utilities, such as the sale of electricity, gas and water reticulation, plus transport licence fees to taxis, shuttles and other operators. Total income from these sources was \$23.0 million, a decrease of \$1.4 million, or 5.7%, on the previous financial year. This reduction was due to lower transport licence fees and revenue from marketing contributions as a result of the COVID-19 travel restrictions. These were partially offset by additional revenue from leased IT services.

## Expenses

Total expenses including depreciation, interest and taxation were \$494.6 million in the 2020 financial year, an increase of \$16.9 million, or 3.5%, on the prior year.

### Operating expenses

Following the imposition of travel restrictions associated with the COVID-19 pandemic, Auckland Airport instigated a cost reduction programme, generating significant savings in discretionary and activity-based operating expenditure in the second half of the year. However, these savings were dwarfed by \$117.5 million of fixed asset project write-offs, impairments and termination costs, plus \$5.9 million of redundancy costs and \$7.3 million of provisions for expected credit losses as some customers struggled under the impacts of COVID-19. Total operating expenses (excluding depreciation, interest and taxation) were \$306.6 million in the 2020 financial year, an increase of \$118.0 million, or 62.6%, on the prior year.

	2020 \$M	2019 \$M	% change
<b>Operating expenses</b>			
Staff	62.9	59.1	6.4
Asset management, maintenance and airport operations	77.5	81.1	(4.4)
Rates and insurance	18.0	16.1	11.8
Marketing and promotions	8.3	12.7	(34.6)
Professional services and levies	6.2	8.6	(27.9)
Fixed asset write-offs, impairments and termination costs	117.5	-	N/A
Other	16.2	11.0	47.3
<b>Total operating expenses</b>	<b>306.6</b>	<b>188.6</b>	<b>62.6</b>
Depreciation	112.7	102.2	10.3
Interest	71.8	78.5	(8.5)
Taxation	3.5	108.4	(96.8)
<b>Total expenses</b>	<b>494.6</b>	<b>477.7</b>	<b>3.5</b>

Staff costs rose \$3.8 million, or 6.4%, in the year. This reflected an increase in headcount in the first half of the year, plus \$5.9 million of redundancy costs, partially offset by the majority of staff working at 80% of their pay and 80% of hours in response to COVID-19 and the receipt of the Government's Wage Subsidy.

Asset management, maintenance and airport operations expenses decreased by \$3.6 million, or 4.4%, in the 2020 financial year. A number of outsourced operations were scaled down as a result of reduced aeronautical activity, including maintenance and operation of baggage handling assets, bus services supporting airside operations and Park and Ride, valet parking and the Strata Lounge. In addition, repairs and maintenance activity was reduced as a result of lower asset utilisation, and airport operation costs reduced following the hibernation of assets such as international terminal Pier B and Park and Ride since travel restrictions were imposed.

Rates and insurance expenses increased by \$1.9 million, or 11.8%, in the 2020 financial year with rates accounting for \$1.4 million of the increase. Rates increases were driven by Auckland Council's average general rates increase of 2.5%, the delivery of several new investment properties, as well as the delivery of new retail and commercial space within the international and domestic terminals. Rates increases on developed investment property are matched by offsetting increases in rates recoveries from tenants. The increase in insurance, including fire service levy costs, was driven by the annualised effect of the larger footprint of the terminal buildings.

Marketing and promotions expenses in the 2020 financial year declined by \$4.4 million, or 34.6%, as activity was scaled down reflecting the adverse aeronautical environment.

Fees for professional services saw a reduction of \$2.4 million, or 27.9%, to \$6.2 million in the 2020 financial year, reflecting greater use of internal resources and the impact of reductions as part of the company's cost reduction plan.

During the year to 30 June 2020, Auckland Airport incurred \$117.5 million of one-off costs associated with the write-off, impairment and termination of capital works in progress. The substantial reduction in passenger and aircraft movements due to COVID-19 has created surplus capacity within key areas of the airport's infrastructure. These costs reflect the write-down and impairment of a number of projects no longer considered necessary in the near term due to the capacity now available.

Other expenses increased by \$5.2 million, or 47.3%, in the 2020 financial year, mainly reflecting provisions that have been made for expected credit losses relating to airlines and some retail tenants.

### **Depreciation**

Depreciation expense in the 2020 financial year was \$112.7 million, an increase of \$10.5 million, or 10.3%, on the previous financial year. This increase reflects fixed assets commissioned in the year, the annualised impact of the fixed assets commissioned partway through the 2019 financial year, and an increase in the depreciable amount of the buildings and services asset class following their revaluation at 30 June 2019.

### **Interest**

Interest expense was \$71.8 million in the 2020 financial year, a decrease of \$6.7 million, or 8.5%, on the previous financial year. The reduction in interest expense reflects the combined effects of a decrease in the average interest rate for the year to 3.89% from 4.28% and an increase in the proportion of interest costs that were capitalised into capital works in progress.

### **Taxation**

Taxation expense was \$3.5 million in the 2020 financial year, a decrease of \$104.9 million on the previous financial year. The underlying tax expense was \$6.4 million, a decrease of \$101.2 million, or 94.1%, on the previous financial year. Underlying tax excludes the tax effect of fixed asset and financial derivatives revaluations. Underlying tax also excludes a deferred tax adjustment following the Government's decision to re-introduce depreciation deductions on commercial buildings for tax purposes. This amendment applies from 1 April 2020 and the depreciation rate is 2.0% diminishing value. The impact of this change increases the depreciable tax base for these assets, which results in an immediate one-off reduction in deferred tax liability and a reduction in tax expense of \$44.7 million. While this transaction is non-cash in the year ended 30 June 2020, it represents future tax benefits that will be realised as reduced income tax payments over the remaining lives of the buildings.

### **Share of profit from associates**

Our total share of the profit from associates in the 2020 financial year was \$8.4 million, comprising Tainui Auckland Airport Hotel Limited Partnership (TAAH) (\$3.9 million) and Queenstown Airport (\$4.5 million). This was a \$0.2 million increase on the \$8.2 million share of profit from associates in the previous financial year.

There was \$0.8 million of fair value losses related to derivatives for TAAH in the 2020 financial year. In the 2019 financial year, the share of profit from associates did not include any fair value gains and losses. Excluding these fair value changes, Auckland Airport's share of underlying profit from associates was up by \$1.0 million, or 12.2%, to \$9.2 million for the 2020 financial year.

### Queenstown Airport

Queenstown Airport's net profit after tax for the 2020 financial year increased by 6.0% to \$17.6 million. Auckland Airport's 24.99% share of Queenstown Airport's net profit after tax was \$4.5 million, a \$0.4 million increase on the previous financial year.

	2020 \$M	2019 \$M	% change
<b>Financial performance</b>			
Total revenue	46.7	49.6	(5.8)
EBITDAFI	31.3	34.3	(8.7)
Total net profit after tax	17.6	16.6	6.0
<b>Passenger performance</b>			
Domestic passengers	1,287,072	1,665,397	(22.7)
International passengers	583,219	655,950	(11.1)
<b>Total passengers</b>	<b>1,870,291</b>	<b>2,321,347</b>	<b>(19.4)</b>

Queenstown Airport's passenger volumes were down 19.4% to 1,870,291 compared with growth of 8.4% in the prior year. International passengers fell 11.1% and domestic passengers decreased by 22.7%, both of which were impacted by subdued passenger flows as a result of COVID-19 in the second half of the year.

In the 2020 financial year, Auckland Airport received a dividend of \$2.1 million from our investment in Queenstown Airport, relating to Queenstown Airport's 2019 financial year. Queenstown Airport's directors have resolved not to pay a dividend for the 2020 financial year.

### Tainui Auckland Airport Hotel Limited Partnership

At 30 June 2020, Auckland Airport had a 50% investment in the Novotel hotel joint venture with Tainui Group Holdings. In 2017, Auckland Airport entered into an agreement with Tainui Group Holdings and Accor Hotel Group to increase our stake in the joint venture from 20% to 50%. The first phase of the transaction was completed in February 2017 when Auckland Airport purchased a 20% stake from Tainui Group Holdings. The second phase was completed in the 2020 financial year when Auckland Airport purchased Accor Hotel Group's 10% stake in the joint venture.

In the 2020 financial year, Auckland Airport's share of underlying profit from this investment was \$4.7 million, an increase of \$0.6 million, or 14.6%, compared with the previous financial year. Auckland Airport's share of the joint venture's reported profit in the 2020 financial year was \$3.9 million.

The Novotel hotel's average occupancy rate for 2020 financial year was 87.3%, down from 93.1% in the 2019 financial year. The average daily rate decreased by 1.0%, reflecting a more competitive hotel market environment across the Auckland region. As a result of COVID-19, the Novotel entered into an exclusive contract with the Ministry of Health for the Government to use the entire hotel for managed isolation services throughout the fourth quarter.

The group assessed the joint venture for impairment following the economic impact of COVID-19. A discounted cash flow valuation assessed that the recoverable amount was lower than the carrying amount and a \$7.7 million goodwill impairment was recognised.

### Tainui Auckland Airport Hotel 2 Limited Partnership

A limited partnership between Tainui Group Holdings Limited and Auckland Airport was formed in February 2017 to build and operate a new Pullman Hotel at Auckland Airport. Auckland Airport and Tainui Group Holdings each hold a 50% stake in the partnership. To date, Auckland Airport has contributed \$22.0 million of equity into this partnership.

During the year, the partnership commenced construction of a new 311 room five-star Pullman Hotel with an initial expected completion date of March 2022. Work continues on the project; however, construction has now been broken into two phases. The first phase will involve completing the structure and full exterior so that the building is

weather-tight. The construction contract has been renegotiated to commit the partnership only to completing works in the first phase. The second phase involves the completion of the remaining interior fit-out works of the hotel and will be undertaken when the demand outlook is favourable.

Two of Auckland Airport's senior management team are directors on the board of the partnership. No directors' fees are paid in relation to these appointments, but the skills and experience of these directors are being utilised to protect and grow Auckland Airport's investment.

### Fair value changes

In the 2020 financial year, investment property fair value changes resulted in a gain in the income statement of \$168.6 million, compared with a gain of \$254.0 million in the previous financial year. Improved land values for vacant land, firming of the capitalisation rates of the property portfolio and the addition of new properties were the drivers of this increase.

As at 30 June 2020, the land, infrastructure and runway, taxiway and aprons asset classes within property, plant and equipment were revalued. These revaluations resulted in a combined \$645.7 million reduction in the carrying value of these three asset classes comprising a \$45.9 million expense to reported profit (representing downwards revaluations in excess of prior revaluation reserve balances for these assets) and a \$599.8 million decrease in revaluation reserve (representing downwards revaluations offsetting prior period upwards revaluations in the revaluation reserve). Further information is included in note 2(f) of the financial statements.

Looking at each asset class separately, the \$721.2 million reduction in the land valuation within property, plant and equipment was dominated by the reduction in land value under retail areas of the international and domestic terminals owing to COVID-19 impacts on forecast retail income. A total of \$715.9 million of this downwards revaluation was booked against prior period upwards revaluations held within the revaluation reserve, with the remaining \$5.3 million booked to reported profit.

The net upwards revaluation of infrastructure of \$35.8 million was split \$75.3 million between upwards revaluations booked to the revaluation reserve and \$39.5 million of downwards revaluations booked to reported profit. Further information is included in note 3(c) of the financial statements.

The net upwards revaluation of the runway, taxiway and apron asset class of \$39.7 million was split between \$40.8 million of upwards revaluations booked to the revaluation reserve and \$1.1 million of downwards revaluations booked to reported profit.

## 2020 Financial position analysis

As at 30 June	2020 \$M	2019 \$M	% change
Non-current assets	8,448.7	8,590.8	(1.7)
Current assets	848.5	106.3	698.2
<b>Total assets</b>	<b>9,297.2</b>	<b>8,697.1</b>	<b>6.9</b>
Non-current liabilities	2,192.8	2,104.2	4.2
Current liabilities	467.3	560.0	(16.6)
Equity	6,637.1	6,032.9	10.0
<b>Total equity and liabilities</b>	<b>9,297.2</b>	<b>8,697.1</b>	<b>6.9</b>

As at 30 June 2020, the book value of Auckland Airport's total assets was \$9,297.2 million, an increase of \$600.1 million, or 6.9%, on the prior year. This increase in total assets reflects the capital expenditure in the year, the revaluation of investment property and increased cash from the proceeds of the company's equity raise, partially offset by a reduction in the land value within the property, plant and equipment class of assets.

Shareholders' equity was \$6,637.1 million as at 30 June 2020, an increase of \$604.2 million, or 10.0%, on 30 June 2019. The movement in equity reflects the rise in

shares on issue following the \$1.2 billion equity raise during the period, retained profit for the year and the net revaluations in property, and property, plant and equipment valuations booked through the revaluation reserve.

### Capital expenditure

Category	2020		Net capex \$M	2019 \$M	% change	Key 2020 projects
	Gross capex \$M	Write-offs and impairments \$M				
Aeronautical	205.0	(52.6)	152.4	106.0	43.8	Activity in the year was focused on design and construction on several large multi-year aeronautical projects including two new taxiways and six remote aircraft stands, expansion of the arrivals biosecurity screening area, the new Domestic Jet Hub, landside expansion at the international terminal including a new pedestrian plaza, and design activity on a future second runway. As a result of the impact of COVID-19 on future aeronautical demand, these projects have been suspended.
Infrastructure and other	52.7	(3.6)	49.1	46.0	6.7	Activity in the year included enabling works required to facilitate the construction of key aeronautical-related projects, delivery activity on the Northern Transport Network, creation of dedicated High Occupancy Vehicle lanes on State Highway 20B and ongoing investment in infrastructure and core operating systems. As a result of the impact of COVID-19, the enabling works associated with suspended projects have also ceased.
Property	146.6	(0.4)	146.2	87.8	66.5	Activity in the year included completion of custom-built premises for Airways' Auckland control centre, Stage 1 of The Landing commercial centre, specialist car rental storage facilities, a warehouse development leased to ASX-listed Bapcor and a development which is currently in the process of being leased. Development on the purpose-built facility for Foodstuffs NZ continued and design activity on three pre-leased warehouse developments commenced. Construction activity was undertaken on the conversion of an existing office building into a new 4-star hotel.
Retail	14.0	(3.3)	10.7	19.0	(43.7)	The 2020 capital expenditure included the development of new Food and Beverage retail tenancies at both the international and domestic terminals and continued investment in our online retail channel, The Mall. In addition, construction of a domestic Strata Lounge was undertaken during the period; however, this was suspended due to the impact of COVID-19.
Car parking	14.7	(2.3)	12.4	25.3	(51.0)	Activity in the year included the completion of a new valet storage facility, commencing construction of a 3,000+ space Park and Ride South facility and design of a 3,000+ space multi-storey car park to be built in front of the current international terminal. Both Park and Ride South and the multi-storey carpark were suspended due to the impact of COVID-19.
<b>Total</b>	<b>433.0</b>	<b>(62.2)</b>	<b>370.8</b>	<b>284.1</b>	<b>30.5</b>	

Despite a strong start to the 2020 financial year, COVID-19 has had a significant impact on both the current year and future development plans of Auckland Airport. In the year to 30 June 2020, capital expenditure totalling \$433.0 million was undertaken reflecting a significant investment across the precinct and 52.4% up on the 2019 financial year. In response to the COVID-19 outbreak, some capital expenditure projects were abandoned and fully written off and others were suspended, with some of the latter category now

subject to uncertain timing and scope. The carrying value of some suspended projects has been impaired and, together with the project write-offs, this resulted in net capital expenditure additions of 370.8 million in the 2020 financial year.

Significant investment in aeronautical infrastructure occurred in the year with four of the company's eight key aeronautical projects entering execution phase. Construction activity began on the development of new taxiways and remote stands to the north and west of Pier B, as well as enabling and design activity for the expansion of the landside roading, public pick-up and drop-off areas, and a large multi-storey-car park in front of the international terminal, the new arrivals biosecurity screening area and the Northern Transport Network. In addition, design and enabling activities continued for the new Domestic Jet Hub and construction activity commenced on the development of High Occupancy Vehicle lanes on State Highway 20B.

The significant disruption to the business following the imposition of travel restrictions associated with COVID-19 necessitated Auckland Airport suspending the majority of our aeronautical capital programme in March 2020. Recognising the quieter operating environment, we have taken the opportunity to bring forward repair and maintenance works, including undertaking the replacement of the touchdown area of the 23L runway with minimal disruption to operations and customers. This project was completed in August 2020.

Investment property capital expenditure was underpinned by significant expenditure on a pre-leased 85,000m<sup>2</sup> office and warehouse facility for Foodstuffs NZ Limited, which is scheduled for completion in the 2021 financial year. In addition, a substantial amount of physical works was undertaken on the conversion of an existing office building into a new mid-range hotel. As a result of the impact of COVID-19, only the exterior and structural elements of this project will be completed at this stage. A decision to proceed with the internal hotel fit-out will be made when future demand conditions improve.

#### One-off costs relating to COVID-19

During the year to 30 June 2020, Auckland Airport incurred \$117.5 million of one-off operating costs associated with the write-off, impairment and termination of capital works in progress that were either abandoned or suspended, with some of the latter category now subject to uncertain completion timing and final scope.

#### Capital expenditure outlook for FY21

Capital investment in the year to 30 June 2021 is focused on completing existing roading infrastructure projects, delivering core airfield renewals such as runway slab replacement and apron works, upgrades to the baggage system to meet compliance requirements and completing pre-leased property developments.

Reflecting this, capital expenditure for the 2021 financial year is forecast to be between \$250 million and \$300 million, with the mid-point of the forecast range shown below.

Category	Forecast 2021 \$M
Aeronautical	114.0
Infrastructure and other	55.0
Property development	105.0
Retail and car parking	1.0
<b>Total capital expenditure</b>	<b>275.0</b>

The runway is at the heart of all our operations at Auckland Airport, and while the downturn in flights that came with COVID-19 has had a significant impact on the business, it has created an opportunity to increase airfield renewals activity including runway slab replacement, apron rehabilitation and airside roading renewals. In 2021 Auckland Airport will complete the 23L slab replacement project (eastern approach), undertake design and construction works on runway 05R slab replacement (western approach), sections of taxiways Bravo and Kilo, airside roading and airfield ground lighting renewals. In addition, we will replace an ageing airbridge at the international terminal, upgrade sections of the baggage handling system in advance of pending

changes to baggage screening requirements and undertake significant renewal on terminal lighting and fire systems.

Other infrastructure projects in 2021 include the completion of Northern Transport Network works on George Bolt Memorial Drive and the High Occupancy Vehicle lanes project on State Highway 20B. Both these projects will improve access to the airport precinct from the north and south. In addition, Auckland Airport intends to continue to invest in core IT infrastructure, including a major upgrade to the campus fibre network to ensure diversification and resilience of service, investment in cyber security and initiatives to restart the digital customer journey through the airport.

Property projects planned for 2021 include the completion of the Foodstuffs NZ office and warehouse development, Auckland Airport's largest single investment property development to date, and an additional three pre-leased industrial developments. In addition, Auckland Airport and Tainui Group Holdings plan to make further equity contributions to the Pullman Hotel joint venture with construction activity planned on the new hotel to complete external and structural elements.

While no major new terminal development is planned in 2021, the future development pathway for Auckland Airport will continue to be evaluated including a feasibility investigation into relocating domestic jet operations from the current domestic terminal to the international terminal. The worldwide COVID-19 pandemic will continue to impose significant uncertainty on the future development activity for the airport; however, Auckland Airport remains committed to the principle of developing new capacity as and when demand triggers are met.

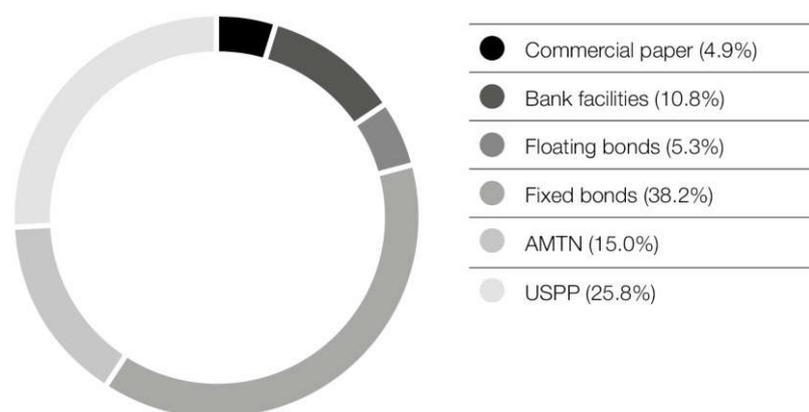
### Borrowings

As at 30 June 2020, Auckland Airport's total borrowings were \$2,145.2 million, a decrease of \$45.2 million or 2.1% on the previous year. The decrease in borrowings reflects debt repayments during the year partially, offset by increases in the fair value of existing debt. This is mainly owing to continued reductions in market interest rates and further weakening of the New Zealand dollar exchange rate.

All foreign-sourced debt (namely the USPP and the AMTN borrowings) was revalued at year-end to reflect the change in value due to appreciation in both the United States and Australian dollars versus the New Zealand dollar, as well as interest rate movements in their respective markets. The USPP debt carrying value increased by \$60.5 million and the AMTN debt carrying value increased by \$19.2 million. These exchange rate movements were matched by equal and offsetting movements in the fair value of the associated cross-currency interest rate swaps.

At 30 June 2020, Auckland Airport's borrowings comprised: USPP notes totalling \$692.4 million; AMTN notes totalling \$330.9 million; New Zealand fixed rate bonds totalling \$725.0 million; New Zealand floating rate bonds totalling \$100.0 million; drawn bank facilities totalling \$205.0 million; and commercial paper totalling \$91.9 million.

### Borrowings by category



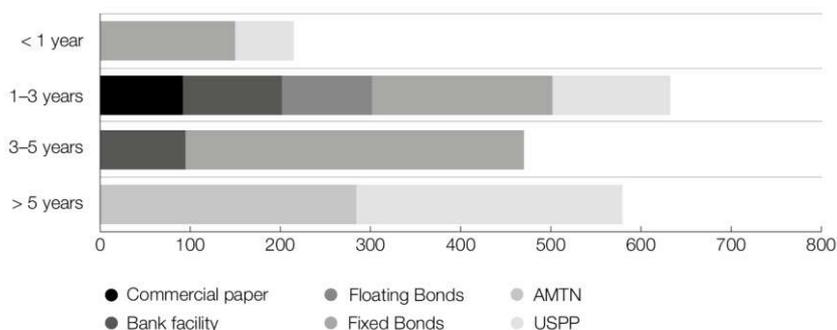
Short-term borrowings with a maturity of one year or less accounted for \$320.8 million, or 15.0%, of total borrowings. This was a decrease on the previous year's \$441.8 million. Current debt is made up of \$91.9 million of commercial paper, US \$50.0 million of USPP borrowings that mature in February 2021 and a \$150.0 million fixed rate bond that matures in May 2021.

As at 30 June 2020, Auckland Airport had total bank facilities of \$1,141.3 million, of which \$205.0 million was drawn and \$936.3 million was available in a standby capacity.

In April 2020 Auckland Airport sought covenant waivers from USPP noteholders and bank lenders in response to the expected impact of travel restrictions from COVID-19. Auckland Airport also extended all bank facilities that were to mature before 31 December 2021. At 30 June 2020, Auckland Airport had a mix of drawn and undrawn facilities with all eight banking counterparties, a full breakdown of which is available in note 18(d) of the financial statements.

The commercial paper programme had a balance of \$91.9 million at 30 June 2020. As the commercial paper is supported by undrawn facilities which mature in late FY23, they are included in the one-to-three year bracket for the purpose of the following debt maturity profile chart as at 30 June 2020, matching the maturity of the supporting bank facilities.

#### Debt maturity profile at 30 June 2020



Auckland Airport manages our exposure to financial risk on a prudent basis. This is achieved by spreading borrowings across various interest rate reset and maturity dates, and entering into financial instruments, such as interest rate swaps, in accordance with defined treasury policy parameters.

In the past year, we managed the impact of interest rate fluctuations by maintaining a policy-mandated level of fixed-rate borrowings. Further details on Auckland Airport's financial risk management objectives and policies are set out in note 18(d) of the financial statements.

Credit metrics and key lending covenants	Covenant	2020	2019	% change
Gearing	≤ 60%	23.5%	25.9%	
Interest coverage	≥ 1.5x	2.62x	5.87x	
Debt to enterprise value		19.4%	15.5%	
Net debt to enterprise value		12.5%	15.3%	
Debt to underlying EBITDAFI		5.0x	3.6x	38.9
Funds from operations interest cover		3.4x	5.4x	(37.0)
Funds from operations to net debt		18.6%	18.6%	-
Weighted average interest cost		3.89%	4.28%	
Average debt term to maturity (years)		4.66	4.12	13.1
Percentage of fixed borrowings		65.4%	60.1%	

#### Credit rating

As at 30 June 2020, Standard & Poor's long-term credit rating of Auckland Airport was 'A- Stable' and the short-term credit rating was 'A2'.

## Cash flow

Cash flow summary	2020 \$M	2019 \$M	% change
Net cash inflow from operating activities <sup>1</sup>	175.8	375.9	(53.2)
Net cash outflow from investing activities <sup>2</sup>	(396.6)	(318.7)	24.4
Net cash inflow/(outflow) from financing activities <sup>3</sup>	948.8	(126.6)	(849.4)
<b>Net (decrease)/increase in cash held</b>	<b>728.0</b>	<b>(69.4)</b>	<b>(1,149.0)</b>

1 Net cash inflow from operating activities was \$175.8 million in the 2020 financial year, a decrease of \$200.1 million, or 53.2%, on the previous financial year, which is broadly in line with the decline in earnings during the year.

2 Net cash outflow applied to investing activities was \$(396.6) million in the 2020 financial year, an increase of \$77.9 million, or 24.4%. The increase in outflows from investing activities was the result of an increase in the capital expenditure programme in the 2020 financial year.

3 Net cash inflow from financing activities was \$948.8 million in the 2020 financial year, an increase of \$1,075.4 million, or 849.4%, on the previous financial year. This was mainly due to the completion of the \$1.2 billion equity raise.

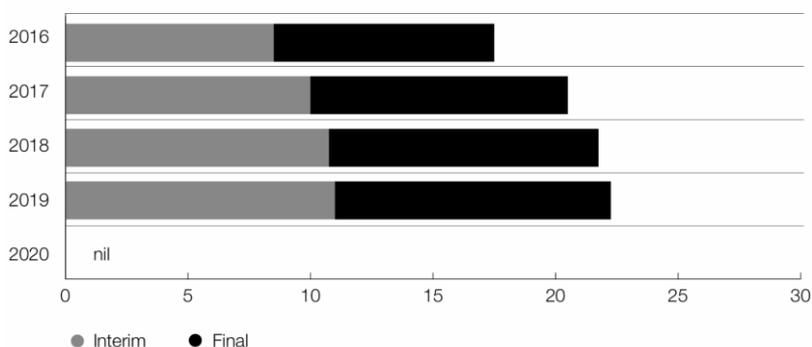
## 2020 Returns for shareholders

### Dividend policy

Auckland Airport's dividend policy is to pay 100% of underlying net profit after tax (excluding unrealised gains and losses arising from a revaluation of property or treasury instruments and other one-off items), noting that, in special circumstances, the directors may consider the payment of ordinary dividends above or below this level, subject to the company's cash flow requirements, forecast credit metrics and outlook at the time.

However, dividends are temporarily suspended while Auckland Airport has financial covenant waivers in place with our lenders. The dividend suspension is expected from the reporting periods ending 30 June 2020 to 31 December 2021. The dividend policy is reviewed annually.

### Distribution history



### Share price performance and total shareholder returns

On the back of a challenging trading environment brought about by the COVID-19 pandemic, Auckland Airport has seen significant share price decline in the year to 30 June 2020, with our share price decreasing from \$9.85 as at 30 June 2019 to \$6.57 as at 30 June 2020. Total shareholder return, including share price movement and dividends relating to the 2020 financial year, was -33.3%.

Five-year compound average total shareholder return

	Share price opening \$	Share price closing \$	Dividends cps	Total return \$	Average annual shareholder return %
1 July 2015 to 30 June 2020	4.94	6.57	82.00	2.45	8.4%

# Financial statements

FOR THE YEAR ENDED 30 JUNE 2020



# Consolidated income statement

FOR THE YEAR ENDED 30 JUNE 2020

	Notes	2020 \$M	2019 \$M
<b>Income</b>			
Airfield income		100.6	127.6
Passenger services charge		133.0	185.1
Retail income	5	141.5	225.8
Rental income	5	109.2	107.8
Rates recoveries		7.7	6.7
Car park income		50.3	64.2
Interest income		1.7	1.8
Other income		23.0	24.4
<b>Total income</b>		<b>567.0</b>	<b>743.4</b>
<b>Expenses</b>			
Staff	5	62.9	59.1
Asset management, maintenance and airport operations		77.5	81.1
Rates and insurance		18.0	16.1
Marketing and promotions		8.3	12.7
Professional services and levies		6.2	8.6
Fixed asset write-offs, impairment and termination costs	5	117.5	-
Other expenses	5	16.2	11.0
<b>Total expenses</b>		<b>306.6</b>	<b>188.6</b>
<b>Earnings before interest expense, taxation, depreciation, fair value adjustments and investments in associate and joint ventures (EBITDAFI)</b>			
		260.4	554.8
Investment property fair value change	12	168.6	254.0
Property, plant and equipment fair value revaluation	11(a)	(45.9)	(3.8)
Derivative fair value change	18(b)	(1.9)	(0.6)
Share of profit of associate and joint ventures	8	8.4	8.2
Impairment of investment in joint venture	8	(7.7)	-
<b>Earnings before interest, taxation and depreciation (EBITDA)</b>		<b>381.9</b>	<b>812.6</b>
Depreciation	11(a)	112.7	102.2
<b>Earnings before interest and taxation (EBIT)</b>		<b>269.2</b>	<b>710.4</b>
Interest expense and other finance costs	5	71.8	78.5
<b>Profit before taxation</b>		<b>197.4</b>	<b>631.9</b>
Taxation expense	7(a)	3.5	108.4
<b>Profit after taxation attributable to the owners of the parent</b>		<b>193.9</b>	<b>523.5</b>
		Cents	Cents
<b>Earnings per share</b>			
Basic and diluted earnings per share	10	15.16	42.79

The notes and accounting policies on pages 29 to 74 form part of, and are to be read in conjunction with, these financial statements.

# Consolidated statement of comprehensive income

FOR THE YEAR ENDED 30 JUNE 2020

	Notes	2020 \$M	2019 \$M
<b>Profit for the year</b>		193.9	523.5
<b>Other comprehensive income</b>			
<b>Items that will not be reclassified to the income statement</b>			
Net property, plant and equipment revaluation movement	11(a), 16(b)	(599.8)	87.6
Tax on the property, plant and equipment revaluation reserve	16(b)	(32.5)	(24.6)
<b>Items that will not be reclassified to the income statement</b>		(632.3)	63.0
<b>Items that may be reclassified subsequently to the income statement:</b>			
Cash flow hedges			
Fair value losses recognised in the cash flow hedge reserve	16(d)	(44.5)	(47.1)
Realised (gains)/losses transferred to the income statement	16(d)	(2.2)	1.6
Tax effect of movements in the cash flow hedge reserve	16(d)	13.1	13.3
Total cash flow hedge movement		(33.6)	(32.2)
Movement in cost of hedging reserve	16(e)	2.7	(4.8)
Tax effect of movement in cost of hedging reserve	16(e)	(0.8)	2.3
<b>Items that may be reclassified subsequently to the income statement</b>		(31.7)	(34.7)
<b>Total other comprehensive income</b>		(664.0)	28.3
<b>Total comprehensive income for the year, net of tax attributable to the owners of the parent</b>		(470.1)	551.8

The notes and accounting policies on pages 29 to 74 form part of, and are to be read in conjunction with, these financial statements.

# Consolidated statement of changes in equity

FOR THE YEAR ENDED 30 JUNE 2020

	Notes	Issued and paid-up capital \$M	Cancelled share reserve \$M	Property, plant and equipment revaluation reserve \$M	Share-based payments reserve \$M	Cash flow hedge reserve \$M	Cost of hedging reserve \$M	Share of reserves of associate and joint ventures \$M	Retained earnings \$M	Total \$M
<b>For the year ended 30 June 2020</b>										
<b>At 1 July 2019</b>		468.2	(609.2)	4,968.8	1.4	(67.1)	(5.8)	28.8	1,247.8	6,032.9
Profit for the year		-	-	-	-	-	-	-	193.9	193.9
Other comprehensive income		-	-	(632.3)	-	(33.6)	1.9	-	-	(664.0)
<b>Total comprehensive income</b>		-	-	(632.3)	-	(33.6)	1.9	-	193.9	(470.1)
Reclassification to retained earnings	16(b)	-	-	(2.8)	-	-	-	-	2.8	-
Shares issued	15	1,210.4	-	-	-	-	-	-	-	1,210.4
Long-term incentive plan	16(c)	-	-	-	0.2	-	-	-	-	0.2
Dividend paid	9	-	-	-	-	-	-	-	(136.3)	(136.3)
<b>At 30 June 2020</b>		1,678.6	(609.2)	4,333.7	1.6	(100.7)	(3.9)	28.8	1,308.2	6,637.1
<b>For the year ended 30 June 2019</b>										
<b>At 30 June 2018</b>		404.2	(609.2)	4,913.9	1.3	(38.2)	-	28.8	981.3	5,682.1
Adjustment on adoption of NZ IFRS 9		-	-	-	-	3.3	(3.3)	-	-	-
<b>At 1 July 2018</b>		404.2	(609.2)	4,913.9	1.3	(34.9)	(3.3)	28.8	981.3	5,682.1
Profit for the year		-	-	-	-	-	-	-	523.5	523.5
Other comprehensive income		-	-	63.0	-	(32.2)	(2.5)	-	-	28.3
<b>Total comprehensive income</b>		-	-	63.0	-	(32.2)	(2.5)	-	523.5	551.8
Reclassification to retained earnings	16(b)	-	-	(8.1)	-	-	-	-	8.1	-
Shares issued	15	64.0	-	-	-	-	-	-	-	64.0
Long-term incentive plan	16(c)	-	-	-	0.1	-	-	-	-	0.1
Dividend paid	9	-	-	-	-	-	-	-	(265.1)	(265.1)
<b>At 30 June 2019</b>		468.2	(609.2)	4,968.8	1.4	(67.1)	(5.8)	28.8	1,247.8	6,032.9

The notes and accounting policies on pages 29 to 74 form part of, and are to be read in conjunction with, these financial statements.

# Consolidated statement of financial position

AS AT 30 JUNE 2020

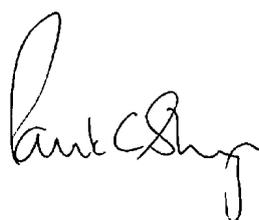
	Notes	2020 \$M	2019 \$M
<b>Non-current assets</b>			
Property, plant and equipment	11(a)	6,060.8	6,577.1
Investment properties	12	2,042.7	1,745.4
Investment in associate and joint ventures	8	114.7	105.7
Derivative financial instruments	18	230.5	162.6
		8,448.7	8,590.8
<b>Current assets</b>			
Cash and cash equivalents	13	765.3	37.3
Trade and other receivables	14	46.2	69.0
Taxation receivable		21.6	-
Derivative financial instruments	18	15.4	-
		848.5	106.3
<b>Total assets</b>		<b>9,297.2</b>	<b>8,697.1</b>

The notes and accounting policies on pages 29 to 74 form part of, and are to be read in conjunction with, these financial statements.

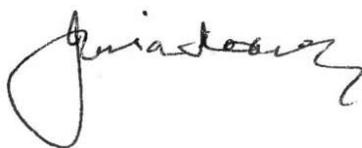
	Notes	2020 \$M	2019 \$M
<b>Shareholders' equity</b>			
Issued and paid-up capital	15	1,678.6	468.2
Reserves	16	3,650.3	4,316.9
Retained earnings		1,308.2	1,247.8
		6,637.1	6,032.9
<b>Non-current liabilities</b>			
Term borrowings	18(a)	1,824.4	1,748.6
Derivative financial instruments	18	134.6	88.4
Deferred tax liability	7(c)	231.7	265.3
Other term liabilities		2.1	1.9
		2,192.8	2,104.2
<b>Current liabilities</b>			
Accounts payable and accruals	17	106.3	101.5
Taxation payable		-	15.3
Derivative financial instruments	18	3.0	-
Short-term borrowings	18(a)	320.8	441.8
Provisions	21	37.2	1.4
		467.3	560.0
<b>Total equity and liabilities</b>		<b>9,297.2</b>	<b>8,697.1</b>

These financial statements were approved and adopted by the Board on 20 August 2020.

Signed on behalf of the Board by



Patrick Strange  
**Director**, Chair of the Board



Julia Hoare  
**Director**, Chair of the Audit and Financial Risk Committee

# Consolidated cash flow statement

FOR THE YEAR ENDED 30 JUNE 2020

	Notes	2020 \$M	2019 \$M
<b>Cash flow from operating activities</b>			
Cash was provided from:			
Receipts from customers		586.0	756.0
Interest received		1.6	2.0
		587.6	758.0
Cash was applied to:			
Payments to suppliers and employees		(242.5)	(203.6)
Income tax paid		(94.2)	(101.1)
Interest paid		(75.1)	(77.4)
		(411.8)	(382.1)
<b>Net cash flow from operating activities</b>	6	175.8	375.9
<b>Cash flow from investing activities</b>			
Cash was provided from:			
Proceeds from sale of property, plant and equipment		0.1	-
Proceeds from sale of investment properties	22(a)	-	1.5
Dividends from associate and joint ventures	8	14.9	9.2
		15.0	10.7
Cash was applied to:			
Purchase of property, plant and equipment		(240.5)	(239.1)
Interest paid - capitalised	11(a), 12	(11.8)	(7.0)
Expenditure on investment properties		(136.1)	(81.0)
Investment in joint ventures	8	(23.2)	(2.3)
		(411.6)	(329.4)
<b>Net cash flow applied to investing activities</b>		(396.6)	(318.7)
<b>Cash flow from financing activities</b>			
Cash was provided from:			
Increase in share capital	15	1,178.1	-
Increase in borrowings	18(a)	125.0	150.0
		1,303.1	150.0
Cash was applied to:			
Decrease in borrowings	18(a)	(250.0)	(75.0)
Dividends paid	9, 15	(104.3)	(201.6)
		(354.3)	(276.6)
<b>Net cash flow applied to financing activities</b>		948.8	(126.6)
Net increase/(decrease) in cash held		728.0	(69.4)
Opening cash brought forward		37.3	106.7
<b>Ending cash carried forward</b>	13	765.3	37.3

The notes and accounting policies on pages 29 to 74 form part of, and are to be read in conjunction with, these financial statements.

# Notes and accounting policies

FOR THE YEAR ENDED 30 JUNE 2020

## Notes and accounting policies CONTINUED

FOR THE YEAR ENDED 30 JUNE 2020

### 1. Corporate information

Auckland International Airport Limited (the company or Auckland Airport) is a company established under the Auckland Airport Act 1987 and was incorporated on 20 January 1988 under the *Companies Act 1955*. The original assets of Auckland Airport were vested in the company on 1 April 1988 and 13 November 1988 by an Order in Council of the New Zealand Government. The company commenced trading on 1 April 1988. The company was reregistered under the *Companies Act 1993* on 6 June 1997. The company is an FMC reporting entity under Part 7 of the *Financial Markets Conduct Act 2013*.

The financial statements presented are for Auckland Airport and its wholly owned subsidiaries, associate and joint ventures (the group). There are five active subsidiaries in the group. Auckland Airport Limited holds the group's investment in Queenstown Airport in New Zealand. Auckland Airport Holdings (No. 2) Limited holds the group's investment in the Tainui Auckland Airport Hotel Limited Partnership, which operates the Novotel hotel at Auckland Airport and the Tainui Auckland Airport Hotel 2 Limited Partnership, which is constructing a new Pullman hotel at Auckland Airport.

A third subsidiary, Auckland Airport Holdings (No. 3) Limited, wholly owns Ara Charitable Trustee Limited, which operates the Ara Charitable Trust (the Auckland Airport Jobs and Skills Hub). The other two subsidiaries are the Auckland International Airport Limited Share Purchase Plan and the Auckland Airport Limited Executive Long-Term Incentive Plan, which are consolidated because the company has control of the plans (refer note 23).

All the subsidiaries are incorporated in New Zealand.

Auckland Airport provides airport facilities, supporting infrastructure and aeronautical services in Auckland, New Zealand. The group earns revenue from aeronautical activities, on-airport retail concessions and car parking facilities, stand-alone investment properties and other charges and rents associated with operating an airport.

These financial statements were authorised for issue in accordance with a resolution of the directors on 20 August 2020.

### 2. Summary of significant accounting policies

#### (a) Basis of preparation

##### *Statutory base*

These financial statements have been prepared in accordance with the requirements of Part 7 of the *Financial Markets Conduct Act 2013* and the *NZX Main Board and Debt Market Listing Rules*.

##### *Measurement base*

The financial statements have been prepared on a historical cost basis, except for investment properties, land, buildings and services, runway, taxiways and aprons, infrastructural assets and derivative financial instruments, which have been measured at fair value.

When the group applies fair value hedges to borrowings, the carrying value of the borrowings are adjusted for fair value changes attributable to the risk being hedged.

##### *Presentation currency*

These financial statements are presented in New Zealand dollars, and all values are rounded to the nearest million dollars (\$M) and one decimal point unless otherwise indicated.

#### (b) Statement of compliance

The financial statements have been prepared in accordance with generally accepted accounting practice in New Zealand (NZ GAAP). They comply with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) and other applicable Financial Reporting Standards as appropriate for profit-oriented entities. These financial statements also comply with International Financial Reporting Standards (IFRS).

#### (c) New accounting standards and interpretations

The accounting policies set out in these financial statements are consistent for all periods presented except as identified below. The following accounting standards have been adopted in the preparation of these financial statements.

NZ IFRS 16 *Leases* is effective for annual periods beginning on or after 1 January 2019. The group has applied NZ IFRS 16 from 1 July 2019. When applying the new standard, the group reviewed:

- Leases where the group is the lessor and has concluded that these will remain as operating leases under NZ IFRS 16; and
- Leases where the group is the lessee and has concluded that there is no material impact of NZ IFRS 16 on the financial statements.

Application of this standard by the group has not materially affected any of the amounts recognised in these financial statements. However, the impact of COVID-19 has resulted in the group providing rent abatements to tenants, which materially affect the 2020 financial statements. The group has assessed that the rent abatements are not lease modifications that would be spread over the remaining terms of the leases, as there were pre-existing contractual obligations to adjust rents for the impact of COVID-19. The group has therefore recognised the abatements as negative variable lease payments with a reduction to 2020 income.

The application of this standard resulted in additional disclosures relating to the disaggregation of leased vs non-leased assets (refer to note 11 and note 12) as well as additional qualitative disclosures that are included in note 2(f) and note 2(g).

There are no other new or amended standards that are issued but not yet effective that are expected to have a material impact on the group.

#### (d) Basis of consolidation

The consolidated financial statements incorporate the assets, liabilities and results of the subsidiaries over which the group has control. On consolidation, all inter-company balances and transactions, income and expenses, and profit and losses resulting from transactions within the group have been eliminated in full.

#### (e) Investments in associate and joint ventures

The equity method of accounting is used for the three investments over which the group has significant influence but not a controlling interest.

Under the equity method, the investment in the associate is carried at cost plus post-acquisition changes in the group's share of net assets of the associate less impairment losses. Goodwill relating to the associate is included in the carrying amount of the investment.

The group's share of the associate and joint ventures' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves and the property, plant and equipment revaluation reserve is recognised in other comprehensive income and accumulated as a separate component of equity in the share of reserves of associate and joint ventures. The post-acquisition movements are included after adjustments to align the accounting policies with those of the group.

#### (f) Property, plant and equipment

Properties held for airport operations purposes are classified as property, plant and equipment.

Property, plant and equipment are initially recognised at cost.

Vehicles, plant and equipment are carried at cost less accumulated depreciation and impairment losses.

Land, buildings and services, runway, taxiways and aprons and infrastructural assets are carried at fair value, as determined by an independent registered valuer, less accumulated depreciation and any impairment losses recognised after the date of any revaluation. Land, buildings and services, runway, taxiways and aprons and infrastructural assets acquired or constructed after the date of the latest revaluation are carried at cost, which approximates fair value. Revaluations are carried out with sufficient regularity to ensure that the carrying amount does not differ materially from fair value at the balance date.

##### Revaluations

Revaluation increases are recognised in other comprehensive income and accumulated as a separate component of equity in the property, plant and equipment revaluation reserve, except to the extent that they reverse a revaluation decrease of the same asset previously recognised in the income statement, in which case the increase is recognised in the income statement.

Revaluation decreases are recognised in the income statement, except to the extent that they offset a previous revaluation increase for the same asset, in which case the decrease is recognised in other comprehensive income and accumulated as a separate component of equity in the property, plant and equipment revaluation reserve.

Accumulated depreciation as at the revaluation date is eliminated against the gross carrying amounts of the assets and the net amounts are restated to the revalued amounts of the assets.

##### Depreciation

Depreciation is calculated on a straight-line basis to allocate the cost or revalued amount of an asset, less any residual value, over its estimated useful life.

The estimated useful lives of property, plant and equipment are as follows:

Land (including reclaimed land)	Indefinite
Buildings and services	5 - 50 years
Infrastructural assets	5 - 80 years
Runway, taxiways and aprons	12 - 40 years
Vehicles, plant and equipment	3 - 10 years

##### Leased assets

Space within the terminals and certain properties used for aeronautical purposes, where the group acts as a lessor, are leased to tenants under operating leases with rentals payable monthly. Lease payments for some contracts include CPI increases, sales-based concession fees and adjustments to rentals depending on the passenger numbers.

To manage credit risk exposure where considered necessary, the group may obtain bank guarantees for the term of the lease.

Although the group is exposed to changes in the residual value at the end of the current leases, the group typically enters into new operating leases and therefore will not immediately realise any reduction in residual value at the end of these leases. Expectations about the future residual values are reflected in the fair value of the properties.

#### (g) Investment properties

Investment properties are properties held by the group to earn rental income, for capital appreciation or both (including property being constructed or developed for future use as investment property). Land held for a currently undetermined future use is classified as investment property.

Investment properties are measured initially at cost and then subsequent to that initial measurement are stated at fair value. To determine fair value, Auckland Airport commissions investment property valuations at least annually by independent valuers. Gains or losses arising from changes in the fair values of investment properties are recognised in the income statement.

If the fair value of investment property under construction cannot be reliably determined but it is expected that the fair value of the property can be reliably determined when construction is complete, then investment property under construction will be measured at cost until either its fair value can be reliably determined or construction is complete.

Transfers are made to investment property when there is a change in use. This may be evidenced by ending of owner occupation, commencement of an operating lease to another party or commencement of construction or development for future use as investment property.

## Notes and accounting policies CONTINUED

FOR THE YEAR ENDED 30 JUNE 2020

### 2. Summary of significant accounting policies CONTINUED

A property transfer from investment property to property, plant and equipment or inventory has a deemed cost for subsequent accounting at its fair value at the date of change in use. If an item of property, plant and equipment becomes an investment property, the group accounts for such property as an investment property only subsequent to the date of change in use.

Investment properties where the group acts as a lessor are leased to tenants under operating leases with rentals payable monthly. Lease payments for some contracts include CPI increases, sales-based concession fees and other adjustments to rentals, with any credit risk being managed in the same way as described for property, plant and equipment leased assets (refer to note 2(f)).

#### (h) Impairment of non-financial assets

Property, plant and equipment and investments in associate and joint ventures are assessed for indicators of impairment at each reporting date. For further information, refer to note 11(c) and note 8.

#### (i) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset. Capitalisation is suspended if active development of the qualifying asset is suspended for an extended period. Other borrowing costs are expensed as incurred.

#### (j) Financial instruments

The group's financial assets comprise cash and cash equivalents, accounts receivable and dividends receivable (classified as financial assets at amortised cost) and derivatives (classified as financial assets at fair value through profit and loss or designated as a hedge).

The group's financial liabilities comprise accounts payable and accruals, borrowings, provisions, other liabilities (classified as financial liabilities at amortised cost) and derivatives (classified as financial liabilities at fair value through profit and loss or designated as a hedge).

##### Cash

Cash in the statement of financial position and the cash flow statement comprises cash on hand, on-call deposits held with banks and short-term highly liquid investments.

##### Accounts receivable

Accounts receivable are recognised and carried at the original invoice amount less an allowance for impairment. Auckland Airport applies the "simplified approach" for including a general provision for expected credit losses as prescribed by NZ IFRS 9. This approach permits the use of lifetime expected loss provisions for all trade receivables. In addition, the collectability of individual debtors is reviewed on an ongoing basis and a specific provision for expected credit losses is made when there is evidence that Auckland Airport will not be able to collect the receivable. Debtors are written off when recovery is no longer anticipated.

##### Lease incentives and receivables

Lease incentives are initially recognised at value of the incentive and amortised over the term of the lease. Other lease receivables may arise when fixed retail or rental revenue is recognised on a straight-

line basis over the term of the lease (refer to note 2(l)). The group assesses lease incentives and receivables for impairment at each reporting date and recognises impairment losses as prescribed by NZ IFRS 9.

##### Accounts payable and accruals

Accounts payable and accruals are not interest bearing and are initially stated at their fair value and subsequently carried at amortised cost.

##### Borrowings

All borrowings are initially recognised at the value of the consideration received. The carrying value is subsequently measured at amortised cost using the effective interest method, except borrowings subject to fair value hedges, which are adjusted for effective changes in the fair value of the hedging instrument.

The increase and decrease in borrowings are reported net in the cash flow statement for bank facilities and commercial paper where the turnover is frequent and the maturities are short.

##### Derivative financial instruments

The group uses derivative financial instruments to hedge its risks associated with interest rates and foreign currency. Derivative financial instruments are recognised at fair value.

The group designates as fair value hedges derivative financial instruments on fixed-coupon debt where the fair value of the debt changes as a result of changes in market interest rates. The carrying amounts of the hedged items are adjusted for gains and losses attributable to the risk being hedged. The hedging instruments are also remeasured to fair value. Gains and losses from both are taken to the income statement.

Cash flow hedges are currently applied to future interest cash flows on variable rate loans. The effective portion of the gain or loss on the hedging instruments is recognised directly in other comprehensive income and accumulated as a separate component of equity in the cash flow hedge reserve, while the ineffective portion is recognised in the income statement. Amounts taken to equity are transferred to the income statement when the hedged transaction affects the income statement.

Changes in the fair value of the cost to convert foreign currency to New Zealand dollars (NZD) of cross-currency interest rate swaps are now separately accounted for as a cost of hedging and recognised within a new reserve within equity (cost of hedging reserve).

For hedges of a net investment in a foreign operation, gains or losses on the hedging instruments relating to the effective portion of the hedge are recognised directly in other comprehensive income and accumulated as a separate component of equity in the foreign currency translation reserve. Any gains or losses relating to the ineffective portion are recognised in the income statement. On disposal of the foreign operation, the cumulative value of such gains or losses recognised in other comprehensive income is reclassified to the income statement.

**(k) Issued and paid-up capital**

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

When the group reacquires its own shares, those treasury shares are recognised as a reduction in shareholders' equity.

**(l) Revenue recognition***Airfield income*

Airfield income consisting of landing charges and aircraft parking charges is paid by the airlines and recognised as revenue when the airport facilities are used.

*Passenger services charges*

Passenger services charges relating to arriving, departing and transiting passengers are paid by the airlines and recognised as revenue when the airport facilities are used by the passengers.

*Retail and rental income*

Retail concession fees are recognised as revenue on an accrual basis based on the turnover of the concessionaires and in accordance with the related agreements. Rent abatements are recognised as an offset to revenue as negative variable lease payments when the group has a contractual or constructive obligation to adjust fixed rent in response to significant reductions in passenger numbers or similar material adverse change. Fixed retail and rental income is recognised as revenue on a straight-line basis over the term of the leases, which may result in lease receivable balances. The group assesses lease receivable balances for impairment at each reporting period (refer note 2(j)).

*Car park income*

Revenue from public car parks is recognised when the car park utilisation has been completed. Revenue from staff car parks is recognised as revenue when the airport facilities are used.

*Other income*

Other income includes revenue from utilities provided to our tenants, such as electricity, water and gas. Revenue from utilities is recognised and billed based on customer consumption.

*Interest income*

Interest income is recognised as interest accrues using the effective interest method.

*Dividend income*

Dividends are recognised when the group's right to receive payment is established.

**(m) Employee benefits**

Employee benefits, including salaries and wages, superannuation and leave entitlements are expensed as the related service is provided.

The group also provides benefits to executives and employees of the group in the form of share-based payment transactions, whereby executives and employees render services in exchange for shares or rights over shares (equity-settled transactions) and/or cash settlements based on the price of the group's shares against performance targets (cash-settled transactions). The cost of the transactions is spread over the period in which the employees provide services and become entitled to the awards.

*Equity-settled transactions*

The cost of the equity-settled transactions with employees is measured by reference to the fair value of the equity instruments at the date at which they are granted. The cost of equity-settled transactions is recognised in the income statement, together with a corresponding increase in the share-based payment reserve in equity.

*Cash-settled transactions*

The fair value of cash-settled transactions is determined at each reporting date, and the change in fair value is recognised in the income statement with a corresponding change in the employee entitlements and phantom option plan accrual liabilities.

**(n) Income tax and other taxes***Income tax*

Current tax assets and liabilities are measured at the amount expected to be recovered from, or paid to, the taxation authorities based on the current period's taxable income.

*Deferred tax*

Deferred income tax is provided on all temporary differences at the balance date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Under NZ IAS 12, the measurement of deferred tax depends on whether an entity expects to recover an asset through use or by selling it and includes a rebuttable presumption that an investment property is recovered entirely through sale. The group has rebutted that presumption since it retains ownership in all investment property and recovers the value through use, being operating leases to tenants.

Income taxes relating to items recognised in other comprehensive income or directly in equity are recognised in other comprehensive income or directly in equity and not in the income statement.

*Goods and services tax (GST)*

Revenue, expenses, assets and liabilities are stated exclusive of GST, except for receivables and payables, which are stated with the amount of GST included.

Cash flows are included in the cash flow statement on a gross basis, and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority, is classified as part of operating activities.

Commitments and contingencies are disclosed net of the amount of GST.

## Notes and accounting policies CONTINUED

FOR THE YEAR ENDED 30 JUNE 2020

### 3. Significant accounting judgements, estimates and assumptions

In producing the financial statements, the group makes judgements, estimates and assumptions based on known facts at a point in time. These accounting judgements, estimates and assumptions will rarely exactly match the actual outcome. The judgements that have the most significant effect on the amounts recognised and the estimates and assumptions that have a significant risk of causing a material adjustment to the carrying values of assets and liabilities within the next financial year are as follows:

#### (a) Fair value of investment property

Changes to market conditions or to assumptions made in the estimation of fair value may result in changes to the fair value of investment property. The carrying value of investment property and the valuation methodology are disclosed in note 12.

#### (b) Carrying value of property, plant and equipment

Judgement is required to determine whether the fair value of land, buildings and services, runway, taxiways and aprons and infrastructural assets has changed materially from the last revaluation. The determination of fair value at the time of the revaluation requires estimates and assumptions based on market conditions at that time. Changes to estimates, assumptions or market conditions subsequent to a revaluation will result in changes to the fair value of property, plant and equipment.

Remaining useful lives and residual values are estimated based on management's judgement, previous experience and guidance from registered valuers. Changes in those estimates affect the carrying value and the depreciation expense in the income statement.

The carrying value of property, plant and equipment and the valuation methodologies and assumptions are disclosed in note 11(c).

#### (c) Movements in the carrying value of property, plant and equipment

When revaluations are carried out by independent valuers, the valuer determines a value for individual assets. This may involve allocations to individual assets from projects and allocations to individual assets within a class of assets. The allocations to individual assets may be different to the allocations performed at the time a project was completed or different to the allocations to the individual asset made at the previous asset revaluation. These differences at an asset level may be material and can impact the income statement.

#### (d) COVID-19

During March 2020 the World Health Organization declared a global pandemic in relation to COVID-19. The New Zealand Government responded to COVID-19 by closing the international border for non-residents and introducing an alert level system with restrictions on business activity and societal interaction.

The effects of these measures on Auckland Airport has been significant. Passenger numbers, both domestically and internationally, have fallen as a result of the travel restrictions, significantly impacting both the aeronautical and non-aeronautical business activities of the company. As a result, Auckland Airport has taken a number of actions, including:

- Suspension of dividends (see note 9);
- Reduced operating expenditure;
- Reduced the company's workforce;
- Rationalised operations to reflect the new environment;
- Terminated or suspended capital expenditure projects;
- Obtained extensions on all bank facilities maturing before 31 December 2021 (see note 18(a));
- Obtained bank and USPP financial covenant waivers from 30 June 2020 to 31 December 2021, inclusive (see note 18(a)); and
- Raised \$1.2 billion in equity (see note 15).

The pandemic has resulted in impacts to key estimates and judgements used in these financial statements, including:

- Recognition of rent abatements as negative variable rent (see note 2(c), note 2(l) and note 5);
- Impairment and write-off of works in progress (see note 11 and note 12);
- Provision for contract termination costs (see note 21);
- Provision for expected credit losses (see note 14); and
- Revaluations of property, plant and equipment and investment properties (see note 11 and note 12).

## 4. Segment information

### (a) Identification of reportable segments

The group has identified its operating segments based on the internal reports reviewed and used by the chief executive, as the chief operating decision-maker, in assessing performance and in determining the allocation of resources.

The operating segments are identified by management based on the nature of services provided. Discrete financial information about each of these operating segments is reported to the chief executive at least monthly. The chief executive assesses performance of the operating segments based on segment EBITDAFI. Interest income and expenditure, taxation and depreciation, fair value adjustments and share of profits of associate and joint ventures are not allocated to operating segments, as the group manages the cash position and assets at a group level.

### (b) Types of services provided

#### *Aeronautical*

The aeronautical business provides services that facilitate the movement of aircraft, passengers and cargo and provides utility services that support the airport. The aeronautical business also earns rental revenue from space leased in facilities, such as terminals.

#### *Retail*

The retail business provides services to the retailers within the terminals and provides car parking facilities for passengers, visitors and airport staff.

#### *Property*

The property business earns rental revenue from space leased on airport land outside the terminals, including cargo buildings, hangars and stand-alone investment properties.

### (c) Major customers

The group has a number of customers to which it provides services. The most significant customer in the 2020 financial year accounted for 26.6% of external revenue (2019: 24.6%). The revenue from this customer is included in all three operating segments.

### (d) Geographical areas

Revenue from the reportable segments is derived in New Zealand, it being the location where the sale occurred. Property, plant and equipment and investment property of the reportable segments are located in New Zealand. The investments in associates are not part of the reportable segments of the group.

	Aeronautical \$M	Retail \$M	Property \$M	Total \$M
<b>Year ended 30 June 2020</b>				
<b>Income from external customers</b>				
Airfield income	100.6	-	-	100.6
Passenger services charge	133.0	-	-	133.0
Retail income	-	141.5	-	141.5
Rental income	20.3	0.4	88.5	109.2
Rates recoveries	0.7	1.6	5.4	7.7
Car park income	-	50.3	-	50.3
Other income	7.7	8.1	3.1	18.9
<b>Total segment income</b>	<b>262.3</b>	<b>201.9</b>	<b>97.0</b>	<b>561.2</b>
<b>Expenses</b>				
Staff	37.3	6.0	4.3	47.6
Asset management, maintenance and airport operations	41.2	15.6	4.3	61.1
Rates and insurance	5.5	2.8	8.6	16.9
Marketing and promotions	4.4	2.9	0.3	7.6
Professional services and levies	1.5	0.4	1.5	3.4
Fixed asset write-offs, impairment and termination costs	105.4	8.4	1.8	115.6
Other expenses	5.2	1.1	2.7	9.0
<b>Total segment expenses</b>	<b>200.5</b>	<b>37.2</b>	<b>23.5</b>	<b>261.2</b>
<b>Segment earnings before interest expense, taxation, depreciation, fair value adjustments and investments in associate and joint ventures (EBITDAFI)</b>	<b>61.8</b>	<b>164.7</b>	<b>73.5</b>	<b>300.0</b>

## Notes and accounting policies CONTINUED

FOR THE YEAR ENDED 30 JUNE 2020

### 4. Segment information CONTINUED

	Aeronautical \$M	Retail \$M	Property \$M	Total \$M
<b>Year ended 30 June 2019</b>				
<b>Income from external customers</b>				
Airfield income	127.6	-	-	127.6
Passenger services charge	185.1	-	-	185.1
Retail income	-	225.8	-	225.8
Rental income	20.8	0.4	86.6	107.8
Rates recoveries	0.7	1.0	5.0	6.7
Car park income	-	64.2	-	64.2
Other income	8.0	9.9	3.1	21.0
<b>Total segment income</b>	<b>342.2</b>	<b>301.3</b>	<b>94.7</b>	<b>738.2</b>
<b>Expenses</b>				
Staff	32.6	5.2	4.3	42.1
Asset management, maintenance and airport operations	40.4	18.4	5.4	64.2
Rates and insurance	5.0	1.6	8.4	15.0
Marketing and promotions	7.4	4.2	0.6	12.2
Professional services and levies	2.1	0.8	1.8	4.7
Other expenses	2.6	2.1	2.0	6.7
<b>Total segment expenses</b>	<b>90.1</b>	<b>32.3</b>	<b>22.5</b>	<b>144.9</b>
<b>Segment earnings before interest expense, taxation, depreciation, fair value adjustments and investments in associate and joint ventures (EBITDAFI)</b>	<b>252.1</b>	<b>269.0</b>	<b>72.2</b>	<b>593.3</b>

#### (e) Reconciliation of segment income to income statement

	2020 \$M	2019 \$M
Segment income	561.2	738.2
Interest income	1.7	1.8
Other revenue	4.1	3.4
<b>Total income</b>	<b>567.0</b>	<b>743.4</b>

**(f) Reconciliation of segment EBITDAFI to income statement**

The income included in unallocated external operating income consists mainly of interest from third-party financial institutions and income from telecommunication and technology services provided to tenants. The expenses included in unallocated external operating expenses consist mainly of internal corporate and legal staff expenses and consulting fees.

	2020	2019
	\$M	\$M
<b>Segment EBITDAFI</b>	300.0	593.3
Unallocated external operating income	5.8	5.2
Unallocated external operating expenses	(45.4)	(43.7)
<b>Total EBITDAFI as per income statement</b>	260.4	554.8
Investment property fair value increase	168.6	254.0
Property, plant and equipment revaluation	(45.9)	(3.8)
Derivative fair value increase/(decrease)	(1.9)	(0.6)
Share of profit of associate and joint ventures	8.4	8.2
Impairment of investment in joint venture	(7.7)	-
Depreciation	(112.7)	(102.2)
Interest expense and other finance costs	(71.8)	(78.5)
<b>Profit before taxation</b>	197.4	631.9

## Notes and accounting policies CONTINUED

FOR THE YEAR ENDED 30 JUNE 2020

### 5. Profit for the year

	Notes	2020 \$M	2019 \$M
<b>Retail and rental income includes:</b>			
Variable lease payments		7.2	9.2
Rent abatements		(64.8)	-
Impairment of lease receivables		(15.6)	-
<b>Staff expenses comprise:</b>			
Salaries and wages		48.2	46.1
Employee benefits		4.6	4.1
Share-based payment plans	23	0.6	0.9
Defined contribution superannuation		1.9	1.7
Redundancies		5.9	-
Government wage subsidy		(4.1)	-
Other staff costs		5.8	6.3
		62.9	59.1
<b>Fixed asset write-offs, impairment and termination costs comprise:</b>			
Write-offs - property, plant and equipment	11(a)	22.1	-
Termination costs - property, plant and equipment		55.3	-
Impairment - property, plant and equipment	11(a)	39.7	-
Write-offs - investment properties	12	0.4	-
		117.5	-
<b>Other expenses include:</b>			
Directors' fees		1.4	1.5
Bad debts written off		0.6	0.1
Expected credit losses - change in provision		6.7	0.2
Loss on foreign currency movements		-	0.2
<b>Interest expense and other finance costs comprise:</b>			
Interest on bonds and related hedging instruments		40.7	41.2
Interest on bank facilities and related hedging instruments		16.9	12.4
Interest on USPP notes and related hedging instruments		13.5	17.4
Interest on AMTN notes and related hedging instruments		9.3	10.4
Interest on commercial paper and related hedging instruments		3.2	4.1
		83.6	85.5
Less capitalised borrowing costs	11(a), 12	(11.8)	(7.0)
		71.8	78.5
Interest rate for capitalised borrowing costs		3.89%	4.28%

The gross interest costs of bonds, bank facilities, USPP notes, AMTN notes and commercial paper, excluding the impact of interest rate hedges, was \$81.1 million for the year ended 30 June 2020 (2019: \$84.6 million).

The group makes contributions to a defined contribution superannuation scheme. The group has no legal or constructive obligation to make further contributions if the fund does not hold sufficient assets to pay employee benefits.

**Auditor's remuneration**

	2020	2019
	\$'000	\$'000
<b>Audit of financial statements</b>		
Audit and review of financial statements <sup>1</sup>	233.0	244.1
<b>Other services</b>		
Regulatory audit work <sup>2</sup>	50.0	48.7
Other services <sup>3</sup>	25.0	27.7
<b>Total fees paid to auditor</b>	<b>308.0</b>	<b>320.5</b>

1 The audit fee includes fees for both the annual audit of the financial statements and the review of the interim financial statements.

2 Regulatory audit work consists of the audit of airport-related regulatory disclosures.

3 Other services relate to AGM vote scrutineering, Corporate Taxpayers Group and other compliance services.

**6. Reconciliation of profit after taxation with cash flow from operating activities**

	2020	2019
	\$M	\$M
<b>Profit after taxation</b>	193.9	523.5
<b>Non-cash items</b>		
Depreciation	112.7	102.2
Deferred taxation expense	(53.8)	5.0
Fixed asset write-offs and impairment	62.2	-
Equity-accounted earnings from associate and joint ventures	(8.4)	(8.2)
Impairment of investment in joint venture	7.7	-
Property, plant and equipment fair value revaluation	45.9	3.8
Investment property fair value increase	(168.6)	(254.0)
Derivative fair value decrease	1.9	0.6
<b>Items not classified as operating activities</b>		
Gain on asset disposals	(0.1)	(0.6)
(Increase)/decrease in provisions and property, plant and equipment retentions and payables	(47.4)	53.4
Decrease/(Increase) in investment property retentions and payables	2.9	(10.0)
Items recognised directly in equity	0.5	0.6
<b>Movement in working capital</b>		
Decrease in trade and other receivables	22.8	2.5
(Decrease)/increase in taxation payable	(36.9)	2.4
Increase/(decrease) in accounts payable and provisions	40.3	(45.4)
Increase in other term liabilities	0.2	0.1
<b>Net cash flow from operating activities</b>	<b>175.8</b>	<b>375.9</b>

## Notes and accounting policies CONTINUED

FOR THE YEAR ENDED 30 JUNE 2020

### 7. Taxation

#### (a) Income tax expense

	2020	2019
	\$M	\$M
The major components of income tax are:		
<i>Current income tax</i>		
Current income tax charge	57.4	101.4
Income tax (under)/over provided in prior year	(0.1)	2.1
<i>Deferred income tax</i>		
Movement in deferred tax	(53.8)	4.9
<b>Total taxation expense</b>	<b>3.5</b>	<b>108.4</b>

#### (b) Reconciliation between prima facie taxation and tax expense

	2020	2019
	\$M	\$M
Profit before taxation	197.4	631.9
Prima facie taxation at 28%	55.3	176.9
Adjustments:		
Share of associates' tax paid earnings	(1.2)	(1.1)
Revaluation with no tax impact	(36.5)	(67.4)
Income tax over provided in prior year	(0.1)	2.0
Reinstatement of depreciation on buildings	(44.7)	-
Non-deductible asset write-offs, impairment and termination costs	32.9	-
Other	(2.2)	(2.0)
<b>Total taxation expense</b>	<b>3.5</b>	<b>108.4</b>

**(c) Deferred tax assets and liabilities**

	Balance 1 July 2019 \$M	Movement in income \$M	Movement in other comprehensive income \$M	Reinstatement of depreciation on buildings \$M	Balance 30 June 2020 \$M
<b>Deferred tax liabilities</b>					
Property, plant and equipment	202.3	(6.4)	32.5	(44.7)	183.7
Investment properties	88.9	5.9	-	-	94.8
Other	3.2	(3.0)	-	-	0.2
<b>Deferred tax liabilities</b>	<b>294.4</b>	<b>(3.5)</b>	<b>32.5</b>	<b>(44.7)</b>	<b>278.7</b>
<b>Deferred tax assets</b>					
Cash flow hedge	28.3	-	12.3	-	40.6
Provisions and accruals	0.8	5.6	-	-	6.4
<b>Deferred tax assets</b>	<b>29.1</b>	<b>5.6</b>	<b>12.3</b>	<b>-</b>	<b>47.0</b>
<b>Net deferred tax liability</b>	<b>265.3</b>	<b>(9.1)</b>	<b>20.2</b>	<b>(44.7)</b>	<b>231.7</b>

	Balance 1 July 2018 \$M	Movement in income \$M	Movement in other comprehensive income \$M	Balance 30 June 2019 \$M
<b>Deferred tax liabilities</b>				
Property, plant and equipment	179.0	(1.3)	24.6	202.3
Investment properties	84.5	4.4	-	88.9
Other	3.9	(0.7)	-	3.2
<b>Deferred tax liabilities</b>	<b>267.4</b>	<b>2.4</b>	<b>24.6</b>	<b>294.4</b>
<b>Deferred tax assets</b>				
Cash flow hedge	12.7	-	15.6	28.3
Provisions and accruals	3.3	(2.5)	-	0.8
<b>Deferred tax assets</b>	<b>16.0</b>	<b>(2.5)</b>	<b>15.6</b>	<b>29.1</b>
<b>Net deferred tax liability</b>	<b>251.4</b>	<b>4.9</b>	<b>9.0</b>	<b>265.3</b>

In March 2020, the Government re-introduced depreciation deductions on commercial buildings for tax purposes. This amendment applies from 1 April 2020 and the depreciation rate is 2% diminishing value. The impact of this change increases the depreciable tax base for these assets, which results in an immediate one-off reduction in deferred tax liability and a reduction in tax expense of \$44.7 million. While this transaction is non-cash in the year ended 30 June 2020, it represents future tax benefits that will be realised as reduced income tax payments over the remaining lives of the buildings.

**(d) Imputation credits**

	2020 \$M	2019 \$M
Imputation credits available for use in subsequent reporting periods at 30 June	0.2	(31.8)

The imputation credit account had a credit balance at 30 June 2020 and a debit balance at 30 June 2019 due to the timing of dividends paid. As required by tax legislation, the imputation credit account was in credit at 31 March 2020 and 31 March 2019.

## Notes and accounting policies CONTINUED

FOR THE YEAR ENDED 30 JUNE 2020

### 8. Associate and joint ventures

#### (a) Tainui Auckland Airport Hotel Limited Partnership (joint venture)

The partnership formed by AAPC Properties Pty Limited (Accor Hospitality), Tainui Group Holdings Limited and Auckland Airport developed and operates a 4-star plus, 263-room Novotel hotel adjacent to the international terminal at Auckland Airport. On 31 October 2019, Auckland Airport increased its investment in Tainui Auckland Airport Hotel Limited Partnership from 40% to 50% by way of acquiring Accor Hospitality's remaining 10% stake in the partnership. The 10% stake was purchased for a consideration of \$6.6 million, which included goodwill of \$4.4 million. The group's investment is now recognised as a joint venture.

The partnership has a balance date of 31 March 2020. The financial information for equity accounting purposes has been extracted from audited accounts for the period to 31 March 2020

Other transactions with the partnership are as follows:

	2020 \$M	2019 \$M
Rental income received	1.0	1.0
Facility hire fees paid	-	0.1
Future minimum rentals receivable under non-cancellable operating lease	15.0	8.8

#### (b) Tainui Auckland Airport Hotel 2 Limited Partnership (joint venture)

The partnership between Tainui Group Holdings Limited and Auckland Airport was formed in February 2017 to build and operate a new Pullman Hotel at Auckland Airport. The group and Tainui Group Holdings each hold a 50% stake in the partnership. The group has contributed \$21.7 million into the partnership (2019: had contributed \$5.2 million into the partnership).

In August 2019, the group provided a \$96.3 million, 35-month construction loan facility to the Tainui Auckland Airport Hotel 2 Limited Partnership. The loan facility was intended to be used to fund future construction costs of the Pullman Hotel. The loan facility was not drawn on by the partnership and was cancelled in March 2020.

	2020 \$M	2019 \$M
Future minimum rentals receivable under non-cancellable operating lease	22.0	-

#### (c) Queenstown Airport Corporation Limited (associate)

On 8 July 2010, Auckland Airport invested \$27.7 million in four million new shares (24.99% of the increased shares on issue) in Queenstown Airport Corporation Limited (Queenstown Airport) 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

and management accounts for the balance of the year to 30 June 2020.

The group reviewed its investment in the joint venture for indicators of impairment following the economic impact of COVID-19. The group measured the recoverable amount of its investment using a discounted cash flow valuation of the Novotel hotel. The group assessed that the recoverable amount was lower than the carrying amount of its investment and has recognised a \$7.7 million impairment in goodwill.

Two of Auckland Airport's senior management staff are directors on the boards of both the Tainui Auckland Airport Hotel Limited Partnership and the Tainui Auckland Airport Hotel 2 Limited Partnership. No directors' fees are paid in relation to these appointments but the skills and experience of these directors are being utilised to protect and grow Auckland Airport's investment.

The group considers that there are no impairment indicators for its investment, which is measured at cost of the works under construction. The boards of both Tainui Group Holdings and Auckland Airport have considered the impact of COVID-19 and resolved to continue construction of the hotel to be ready for the post-COVID-19 recovery. However, the remaining construction works will be split into two phases. The first phase is to complete the facade and structural elements to make the building watertight and fit for code compliance. The second phase will be to carry out all internal fit-outs ready for opening. The timing of the second phase will depend on the recovery in international passenger numbers following COVID-19.

Other transactions with the partnership are as follows:

	2020 \$M	2019 \$M
Future minimum rentals receivable under non-cancellable operating lease	22.0	-

strategic alliance agreement. One of Auckland Airport's senior management staff is on the board of Queenstown Airport.

A desktop valuation was undertaken by Jones Lang LaSalle Limited (JLL) at 30 June 2020 to assess for the potential impairment of land assets measured at fair value. The results of the desktop valuation concluded that there was no indication of impairment. Accordingly, the directors of Queenstown Airport have confirmed that no adjustment for the impairment of land assets is necessary at 30 June 2020.

### Summary financial information

The information below reflects the full amounts in the financial statements of the associate and joint ventures (and not the group's share of those amounts) before adjustments for depreciation expense and investment property revaluation gains to align the accounting policies with those of the group.

	Tainui Auckland Airport Hotel Limited Partnership		Tainui Auckland Airport Hotel 2 Limited Partnership		Queenstown Airport	
	2020 \$M	2019 \$M	2020 \$M	2019 \$M	2020 \$M	2019 \$M
Revenue	29.8	30.3	-	-	46.7	49.6
EBITDA	10.2	11.5	-	-	31.3	34.3
Profit after taxation	7.1	8.7	-	-	17.6	16.6
Other comprehensive loss	-	-	-	-	(0.1)	(0.2)
<b>Total comprehensive income for the year</b>	<b>7.1</b>	<b>8.7</b>	<b>-</b>	<b>-</b>	<b>17.5</b>	<b>16.4</b>
<b>Distributions</b>						
Repayment of partner contribution / dividends received	(26.0)	(18.6)	-	-	(8.3)	(7.2)
Auckland Airport share of repayment of partner contribution / dividends received	(12.8)	(7.4)	-	-	(2.1)	(1.8)

	Tainui Auckland Airport Hotel Limited Partnership		Tainui Auckland Airport Hotel 2 Limited Partnership		Queenstown Airport	
	2020 \$M	2019 \$M	2020 \$M	2019 \$M	2020 \$M	2019 \$M
Current assets	5.7	4.6	0.6	0.6	7.8	5.1
Non-current assets	60.1	48.2	42.8	9.7	390.7	366.0
<b>Total assets</b>	<b>65.8</b>	<b>52.8</b>	<b>43.4</b>	<b>10.3</b>	<b>398.5</b>	<b>371.1</b>
Current liabilities	5.5	33.0	-	-	24.1	29.0
Non-current liabilities	59.2	-	-	-	81.1	58.0
Shareholders' equity	1.1	19.8	43.4	10.3	293.3	284.1
<b>Total equity and liabilities</b>	<b>65.8</b>	<b>52.8</b>	<b>43.4</b>	<b>10.3</b>	<b>398.5</b>	<b>371.1</b>
Auckland Airport ownership	50.00%	40.00%	50.00%	50.00%	24.99%	24.99%
Auckland Airport share of shareholders' equity	0.6	7.9	21.7	5.2	73.4	71.0
Investment property depreciation and revaluation adjustment	13.8	13.1	-	-	-	-
Goodwill	6.1	9.4	-	-	-	-
Gain on purchase	-	-	-	-	(0.9)	(0.9)
<b>Carrying value of investment</b>	<b>20.5</b>	<b>30.4</b>	<b>21.7</b>	<b>5.2</b>	<b>72.5</b>	<b>70.1</b>

### Movement in the group's carrying amount of investment in associate and joint ventures

	2020 \$M	2019 \$M
Investment in associate and joint ventures at the beginning of the year	105.7	104.4
Further investment in joint ventures	23.2	2.3
Share of profit of associate and joint ventures	8.4	8.2
Impairment of investment in joint venture	(7.7)	-
Share of dividends received or repayment of partner contribution	(14.9)	(9.2)
<b>Investment in associate and joint ventures at the end of the year</b>	<b>114.7</b>	<b>105.7</b>

## Notes and accounting policies CONTINUED

FOR THE YEAR ENDED 30 JUNE 2020

### 9. Distribution to shareholders

		2020	2019
	Dividend payment date	\$M	\$M
2018 final dividend of 11.00 cps	19 October 2018	-	132.3
2019 interim dividend of 11.00 cps	5 April 2019	-	132.8
2019 final dividend of 11.25 cps	18 October 2019	136.3	-
<b>Total dividends paid</b>		<b>136.3</b>	<b>265.1</b>

Supplementary dividends of \$9.7 million (2019: \$18.2 million) are not included in the above dividends as the company receives an equivalent tax credit from Inland Revenue.

On 17 March 2020, Auckland Airport announced the cancellation of the dividend payment for the half year to 31 December 2019 after Air New Zealand and other airlines announced widespread flight cancellations and future capacity reductions for international and domestic services in response to COVID-19. Subsequently, as part of the capital restructure undertaken to position Auckland Airport to survive a potentially protracted period of depressed aeronautical activity, Auckland Airport agreed financial covenant waivers with its bank lenders and USPP noteholders and that no dividends will be paid while those waivers are in effect. Hence the Board determined that no dividend will be paid for the year ended 30 June 2020. Further information about the capital restructure is available at notes 3(d) and 18(d)(v).

### 10. Earnings per share

The earnings used in calculating basic and diluted earnings per share is net profit attributable to equity holders of \$193.9 million (2019: \$523.5 million).

The weighted average number of shares used to calculate basic and diluted earnings per share is as follows.

	2020	Restated 2019
	Shares	Shares
For basic earnings per share	1,279,220,528	1,223,361,025
Effect of dilution of share options	-	-
<b>For diluted earnings per share</b>	<b>1,279,220,528</b>	<b>1,223,361,025</b>

The company has restated the prior year basic and diluted earnings per share to reflect the small dilution that arose because the new shares issued at \$4.66 under both the institutional share placement on 15 April 2020 and the share purchase plan on 1 May 2020 (note 15) were priced at a 7.5% discount to the \$5.04 closing price on the NZX on 3 April 2020, immediately before the equity raise was announced. Technically, the extra shares allotted because of the issue discount versus the number required if there was no discount is referred to as the "implied bonus" element. The prior year comparatives have been adjusted downwards to reflect those extra bonus shares. The current year figures have also been adjusted downwards as if those bonus shares were in place for the entire financial year, rather than just from issue date.

The 2020 reported basic and diluted earnings per share is 15.16 cents (2019: 42.79 cents).

## 11. Property, plant and equipment

### (a) Reconciliation of carrying amounts at the beginning and end of the year

	Land \$M	Buildings and services \$M	Infrastructure \$M	Runway, taxiways and aprons \$M	Vehicles, plant and equipment \$M	Total \$M
<b>Year ended 30 June 2020</b>						
<b>Balances at 1 July 2019</b>						
At fair value	4,645.4	981.8	402.7	343.7	-	6,373.6
At cost	-	-	-	-	174.4	174.4
Work in progress at cost	-	75.3	42.7	54.8	57.0	229.8
Accumulated depreciation	-	(0.4)	(42.3)	(52.0)	(106.0)	(200.7)
<b>Balances at 1 July 2019</b>	<b>4,645.4</b>	<b>1,056.7</b>	<b>403.1</b>	<b>346.5</b>	<b>125.4</b>	<b>6,577.1</b>
Additions and transfers within property, plant and equipment	-	179.3	73.2	4.8	37.1	294.4
Transfers from/(to) investment property	6.9	2.6	-	-	-	9.5
Revaluation recognised in property, plant and equipment revaluation reserve	(715.9)	-	75.3	40.8	-	(599.8)
Revaluation recognised in the income statement	(5.3)	-	(39.5)	(1.1)	-	(45.9)
Impairment	-	(32.5)	(5.3)	(0.9)	(1.0)	(39.7)
Write-offs	-	(7.4)	(1.9)	-	(12.8)	(22.1)
Depreciation	-	(58.0)	(17.4)	(11.8)	(25.5)	(112.7)
Movement to 30 June 2020	(714.3)	84.0	84.4	31.8	(2.2)	(516.3)
<b>Balances at 30 June 2020</b>	<b>3,931.1</b>	<b>1,030.3</b>	<b>391.7</b>	<b>322.1</b>	<b>-</b>	<b>5,675.2</b>
At fair value	3,931.1	1,030.3	391.7	322.1	-	5,675.2
At cost	-	-	-	-	202.1	202.1
Work in progress at cost	-	167.3	96.1	56.2	53.2	372.8
Accumulated depreciation	-	(56.9)	(0.3)	-	(132.1)	(189.3)
<b>Balances at 30 June 2020</b>	<b>3,931.1</b>	<b>1,140.7</b>	<b>487.5</b>	<b>378.3</b>	<b>123.2</b>	<b>6,060.8</b>

Additions for the year ended 30 June 2020 include capitalised interest of \$6.8 million (2019: \$5.2 million).

The following categories of property, plant and equipment are leased to tenants:

- Aeronautical land, including land associated with aircraft, freight and terminal use carried at \$216.0 million (30 June 2019: \$188.6 million);
- Land associated with retail facilities within terminal buildings carried at \$1,667.5 million (30 June 2019: \$2,232.0 million); and
- Terminal building premises (within buildings and services), being 13% of total floor area or \$113.7 million (30 June 2019: 14% of total floor area or \$127.9 million).

## Notes and accounting policies CONTINUED

FOR THE YEAR ENDED 30 JUNE 2020

### 11. Property, plant and equipment CONTINUED

	Land \$M	Buildings and services \$M	Infrastructure \$M	Runway, taxiways and aprons \$M	Vehicles, plant and equipment \$M	Total \$M
<b>Year ended 30 June 2019</b>						
<b>Balances at 1 July 2018</b>						
At fair value	4,625.3	943.0	357.1	341.8	-	6,267.2
At cost	-	-	-	-	132.4	132.4
Work in progress at cost	-	140.8	26.1	47.9	33.2	248.0
Accumulated depreciation	-	(122.0)	(27.0)	(38.2)	(82.4)	(269.6)
<b>Balances at 1 July 2018</b>	<b>4,625.3</b>	<b>961.8</b>	<b>356.2</b>	<b>351.5</b>	<b>83.2</b>	<b>6,378.0</b>
Additions and transfers within property, plant and equipment	-	52.4	62.2	9.1	67.7	191.4
Transfers from/(to) investment property	20.1	6.5	-	-	(0.1)	26.5
Disposals	-	-	-	(0.3)	(0.1)	(0.4)
Revaluation recognised in property, plant and equipment revaluation reserve	-	87.6	-	-	-	87.6
Revaluation recognised in the income statement	-	(3.8)	-	-	-	(3.8)
Depreciation	-	(47.8)	(15.3)	(13.8)	(25.3)	(102.2)
Movement to 30 June 2019	20.1	94.9	46.9	(5.0)	42.2	199.1
<b>Balances at 30 June 2019</b>						
At fair value	4,645.4	981.8	402.7	343.7	-	6,373.6
At cost	-	-	-	-	174.4	174.4
Work in progress at cost	-	75.3	42.7	54.8	57.0	229.8
Accumulated depreciation	-	(0.4)	(42.3)	(52.0)	(106.0)	(200.7)
<b>Balances at 30 June 2019</b>	<b>4,645.4</b>	<b>1,056.7</b>	<b>403.1</b>	<b>346.5</b>	<b>125.4</b>	<b>6,577.1</b>

#### (b) Carrying amounts of land, buildings and services, infrastructure, runway, taxiways and aprons if measured at historical cost less accumulated depreciation

	Land \$M	Buildings and services \$M	Infrastructure \$M	Runway, taxiways and aprons \$M	Vehicles, plant and equipment \$M	Total \$M
<b>Year ended 30 June 2020</b>						
At historical cost	153.3	1,310.3	394.8	349.8	202.1	2,410.3
Work in progress at cost	-	167.3	96.1	56.2	53.2	372.8
Accumulated depreciation	-	(584.4)	(149.0)	(214.2)	(132.1)	(1,079.7)
Net carrying amount	153.3	893.2	341.9	191.8	123.2	1,703.4
<b>Year ended 30 June 2019</b>						
At historical cost	152.2	1,261.4	385.0	349.9	174.4	2,322.9
Work in progress at cost	-	75.3	42.7	54.8	57.0	229.8
Accumulated depreciation	-	(546.7)	(138.7)	(207.5)	(106.0)	(998.9)
Net carrying amount	152.2	790.0	289.0	197.2	125.4	1,553.8

### (c) Revaluation of land, buildings and services, infrastructure, runway, taxiways and aprons

At the end of each reporting period, the group makes an assessment of whether the carrying amounts differ materially from fair value and whether a revaluation is required. The assessment considers movements in the capital goods price index since the previous valuation and changes in valuations of investment property as an indicator of property, plant and equipment.

Valuations are completed in accordance with the company's asset valuation handbook, which is prepared in accordance with financial reporting and valuation standards. Management reviews the key inputs, assesses valuation movements and holds discussions with the valuers as part of the process. Discussions about the valuation processes and results are held between the group's management and the Board.

Land assets were independently valued by Savills Limited (Savills), Jones Lang LaSalle Limited (JLL), CB Richard Ellis Limited (CBRE) and Aon Risk Solutions (AON) at 30 June 2020. Infrastructure assets and runway, taxiways and aprons were independently valued by Beca Projects NZ Limited (Beca) at 30 June 2020.

Building and services assets were not revalued at 30 June 2020. The assessment is that there is not a material difference between the carrying value and the fair value of this asset class.

#### *Impairment and write-offs*

Land, infrastructure and runway, taxiways and aprons have been revalued at 30 June 2020. Building and services were last revalued at 30 June 2019. To check for any indicators of impairment for this asset class, which is periodically revalued using the optimised depreciated replacement cost method, the group considered the movements in the capital goods price index since 30 June 2019. There are no indicators of impairment.

The group has also assessed indicators of impairment for assets held at cost. There are no indicators of impairment in the vehicles, plant and equipment portfolio. However, the group assessed that the capital work in progress portfolio was impaired at 30 June 2020. The group considered the following factors, including the extent to which projects:

- are designed, consented, currently active and intended to be completed;
- are still contemplated by the airport masterplan or are a strategic priority; and
- for aeronautical-related projects, whether or not they are still expected to be included in the regulated asset base.

Projects that did not satisfy the relevant above factors were written off. Where projects satisfied the relevant above factors, the group further categorised them according to the likelihood of being completed to the original scope and design. If a project is not completed to the original design, a portion of the work already performed may be abandoned in the future. Such projects were grouped according to the assessed likelihood of material future scope changes and impaired by between 25% and 75%.

Following the revaluations, and impairment of capital work in progress, the group has also considered whether there is any further indication of impairment at the cash-generating unit level. The group has assessed that it has a single core cash-generating unit, which comprises all assets, other than investment property. The group has considered its enterprise market valuation and the long-term nature of its assets and concluded that there is no further impairment at the cash-generating unit level.

#### *Fair value measurement*

The valuers use different approaches for valuing different asset groups. Where the fair value of an asset is able to be determined by reference to market-based evidence, such as sales of comparable assets, the fair value is determined using this information. Where fair value of the asset is not able to be reliably determined using market-based evidence, discounted cash flows or optimised depreciated replacement cost is used to determine fair value. Assets acquired or constructed after the date of the latest revaluation are carried at cost, which approximates fair value.

The group's land, buildings and services, infrastructure, runway, taxiways and aprons are all categorised as Level 3 in the fair value hierarchy as described in note 18(c). During the year, there were no transfers between the levels of the fair value hierarchy.

#### *Impact of COVID-19*

The valuations least affected by COVID-19 are in respect of the group's specialised assets, including buildings and services, infrastructure and runways, taxiways and aprons and reclaimed land, which are valued on an optimised depreciated replacement cost basis. The short-term effect of COVID-19 may increase competition for construction businesses, reducing replacement costs. These may be offset by cost increases due to a lack of materials and specialised labour forces.

Airfield land is valued using the market value alternative use approach. The major inputs and assumptions that required judgement include prices for alternative land uses based on an alternative land-use plan. The alternative land-use plan assumes a large-scale multi-use development with a high proportion of residential property. The valuation has been affected by negative market sentiment for large-scale residential developments due to the expected economic downturn resulting from COVID-19.

Aeronautical land associated with aircraft, freight and non-retail terminal uses has remained stable despite COVID-19. These valuations are based on discounted cash flow analyses and have been supported by high-quality tenants who are expected to continue to trade despite COVID-19.

The most affected categories are land associated with car park facilities and retail facilities within terminal buildings. The revenue streams have been severely affected by the closure of New Zealand's borders. The major inputs and assumptions that required judgement included forecasts of the international recovery from COVID-19, the recovery of local and international air travel and expected passenger flows. The valuers reviewed management's internal forecasts and compared them with external evidence including forecasts by the International Air Transport Association (IATA), published on their website [www.iata.org/](http://www.iata.org/).

## Notes and accounting policies CONTINUED

FOR THE YEAR ENDED 30 JUNE 2020

### 11. Property, plant and equipment CONTINUED

Valuers have carried out the valuations by applying assumptions regarding the reasonably possible impacts of COVID-19 based on information available as at 30 June 2020. Given the circumstances, all of the valuations as at 30 June 2020, except for reclaimed land,

have been prepared on the basis of 'significant market uncertainty' or 'material valuation uncertainty', and therefore the valuers have advised that less certainty should be attached to their valuations than would normally be the case.

The table below summarises the valuation approach and the principal assumptions used in establishing the fair values.

Asset valuation approach	Inputs used to measure fair value	2020		2019	
		Range of significant inputs	Weighted average	Range of significant inputs	Weighted average
<b>Land</b>					
<b>Airfield land, including land for runway, taxiways, aprons and approaches</b>	Rate per sqm prior to holding costs (excluding approaches)	\$97 - 175	\$132	\$110 - 188	\$154
	Holding costs per sqm (excluding approaches)	\$31 - 61	\$44	\$40 - 68	\$56
	Holding period (excluding approaches)	5.0 years	N/A	5.0 years	N/A
	Airfield land discount rate	9.49%	N/A	9.25%	N/A
	Rate per sqm (approaches)	\$13 - 58	\$22	\$11 - 50	\$22
<b>Reclaimed land seawalls</b>	Unit costs of seawall construction per m	\$4,455 - 9,588	\$7,202	\$4,319 - 9,294	\$6,981
Optimised depreciated replacement cost	Unit costs of reclamation per sqm	\$165	\$165	\$160	\$160
<b>Aeronautical land, including land associated with aircraft, freight and terminal uses</b>	Rate per sqm (excluding commercially leased assets)	\$155 - 1,061	\$226	\$89 - 908	\$208
	Market rent (per sqm) – average	\$38 - 325	\$181	\$43 - 343	\$80
	Market capitalisation rate – average	4.88 - 6.75%	6.17%	5.00 - 8.00%	6.48%
	Terminal capitalisation rate	5.13 - 7.00%	6.42%	6.25 - 8.25%	7.16%
	Discount rate	7.00 - 9.00%	8.14%	7.88 - 10.25%	8.90%
	Rental growth rate (per annum)	2.35 - 2.57%	2.50%	2.50 - 2.85%	2.67%
<b>Land associated with car park facilities</b>	Discount rate	8.25 - 13.00%	10.76%	7.50 - 12.00%	9.91%
	Terminal capitalisation rate	6.75 - 9.00%	7.52%	6.75 - 9.00%	7.44%
	Revenue growth rate (per annum)	1.87 - 8.42%	4.43%	2.00 - 3.00%	2.61%
<b>Land associated with retail facilities within terminal buildings</b>	Discount rate	8.75 - 10.25%	10.18%	8.25 - 9.50%	9.45%
	Terminal capitalisation rate	7.63 - 7.88%	7.64%	7.50 - 7.75%	7.74%
	Revenue growth rate (per annum)	3.09 - 3.13%	3.13%	1.50 - 2.97%	1.56%
	Market capitalisation rate	6.88 - 7.88%	7.83%	6.50 - 6.88%	6.87%
<b>Other land</b>					
Direct sales comparison	Rate per sqm	\$95 - 160	\$114	\$20 - 83	\$74

Asset valuation approach	Inputs used to measure fair value	2020		2019	
		Range of significant inputs	Weighted average	Range of significant inputs	Weighted average
<b>Buildings and services</b>					
<b>Terminal buildings</b>					
Optimised depreciated replacement cost	Unit costs of construction per sqm	\$1,681 - 9,475	\$8,577	\$1,681 - 9,475	\$8,577
<b>Other buildings</b>					
Optimised depreciated replacement cost	Unit costs of construction per sqm	\$1,009 - 4,689	\$2,869	\$1,009 - 4,689	\$2,869
<b>Infrastructure</b>					
<b>Water and drainage</b>					
Optimised depreciated replacement cost	Unit costs of pipe construction per m	\$158 - 5,832	\$898	\$207 - 3,074	\$524
<b>Electricity</b>					
Optimised depreciated replacement cost	Unit costs of electrical cabling construction per m	\$141 - 450	\$409	\$162 - 517	\$370
<b>Roads</b>					
Optimised depreciated replacement cost	Unit costs of road and footpaths construction per sqm	\$58 - 185	\$111	\$2 - 168	\$112
<b>Other infrastructure assets</b>					
Optimised depreciated replacement cost	Unit costs of navigation aids and lights	\$323 - 95,559	\$12,635	\$418 - 81,731	\$11,247
	Unit costs of fuel pipe construction per m	\$3,047 - 4,352	\$4,180	\$3,661 - 5,231	\$4,656
<b>Runway, taxiways and aprons</b>					
Optimised depreciated replacement cost	Unit costs of concrete pavement construction per sqm	\$340 - 532	\$527	\$459 - 737	\$587
	Unit costs of asphalt pavement construction per sqm	\$155 - 340	\$337	\$108 - 237	\$142

The valuation inputs for land, infrastructure and runway, taxiways and aprons are from the 2020 valuation, while the prior year comparatives are from the 2018 valuation, 2016 valuation and the 2015 valuation of these assets, respectively. The valuation inputs for buildings and services are unchanged from the 2019 valuation. These assets were not revalued in 2020 as the carrying value was not assessed to be materially different from fair value.

## Notes and accounting policies CONTINUED

FOR THE YEAR ENDED 30 JUNE 2020

### 11. Property, plant and equipment CONTINUED

#### Description of different valuation approaches

VALUATION APPROACH	DESCRIPTION
Income capitalisation approach	A valuation methodology that determines fair value by capitalising a property's sustainable net income at an appropriate market-derived capitalisation rate, with subsequent capital adjustments for near-term events, typically including letting-up allowances for vacancies and pending expiries, expected short-term capital expenditure and the present value of any difference between contract and market rentals.
Discounted cash flow analysis	A valuation methodology that requires the application of financial modelling techniques. Discounted cash flow analysis requires explicit assumptions to be made regarding the prospective income and expenses of a property, such assumptions pertaining to the quantity, quality, variability, timing and duration of inflows and outflows over an assumed holding period. The assessed cash flows are discounted to present value at an appropriate market-derived discount rate to determine fair value.
Direct sales comparison approach	A valuation methodology whereby the subject property is compared to recently sold properties of a similar nature with fair value determined through the application of positive and negative adjustments for their differing attributes.
Residual value approach	A valuation technique used primarily for property that is undergoing, or is expected to undergo, redevelopment. Fair value is determined through the estimation of a gross realisation on completion of the redevelopment, with deductions made for all costs associated with converting the property to its end use, including finance costs and a typical profit margin for risks assumed by the developer.
Market value alternative use (MVAU)	A valuation methodology whereby fair value is determined as the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing, wherein the parties had each acted knowledgeably, prudently and without compulsion, with the explicit assumption that the existing use of the asset is ignored.
Optimised depreciated replacement cost (ODRC)	A valuation methodology whereby fair value is determined by calculating the cost of constructing a modern equivalent asset at current market-based input cost rates, adjusted for the remaining useful lives of the assets (depreciation) and any sub-optimal usage of the assets in their current application (optimisation). These inputs are deemed unobservable.

The table below summarises each registered valuer's valuation of property, plant and equipment.

Asset classification	Valuer	30 June 2020	Valuer	30 June 2019
		\$M		\$M
Airfield land, including land for runway, taxiways, aprons and approaches <sup>1</sup>	Savills	854.5	Savills	1,128.5
Reclaimed land seawalls <sup>1</sup>	AON / Savills	273.7	AON / Savills	282.3
Aeronautical land, including land associated with aircraft, freight and terminal uses <sup>1</sup>	JLL / Savills	452.3	JLL / Savills	188.6
Land associated with car park facilities <sup>1</sup>	CBRE	573.3	CBRE	693.3
Land associated with retail facilities within terminal buildings <sup>1</sup>	CBRE	1,667.5	CBRE	2,232.0
Other land <sup>1</sup>	JLL / Savills	109.5	CBRE / Savills	120.7
Terminal buildings <sup>2</sup>	Beca	985.7	Beca	871.3
Other buildings <sup>2</sup>	Beca	155.1	Beca	185.4
Water and drainage <sup>3</sup>	Beca	164.6	Beca	141.3
Electricity <sup>3</sup>	Beca	49.6	Beca	55.1
Roads <sup>3</sup>	Beca	156.7	Beca	113.8
Other infrastructure assets <sup>3</sup>	Beca	116.7	Beca	92.9
Runway, taxiways and aprons <sup>4</sup>	Beca	378.4	Opus	346.5
Assets carried at fair value		5,937.6		6,451.7
Vehicles, plant and equipment (carried at cost less accumulated depreciation)	N/A	123.2	N/A	125.4
<b>Balance at 30 June</b>		<b>6,060.8</b>		<b>6,577.1</b>

1 Land assets were revalued at 30 June 2020. This class was previously revalued at 30 June 2018.

2 At 30 June 2020, the assessment is that there is no material change in the fair value of buildings and services assets compared with carrying values. This class was last revalued at 30 June 2019.

3 Infrastructure assets were revalued at 30 June 2020. This class was previously revalued at 30 June 2016.

4 Runway, taxiways and aprons were revalued at 30 June 2020. This class was previously revalued at 30 June 2015.

## Notes and accounting policies CONTINUED

FOR THE YEAR ENDED 30 JUNE 2020

### 11. Property, plant and equipment CONTINUED

The following table shows the impact on the fair value due to a change in a significant unobservable input.

		Fair value measurement sensitivity to significant:	
		Increase in input	Decrease in input
<b>Unobservable inputs within the income capitalisation approach</b>			
Market rent	The valuer's assessment of the net market income attributable to the property	Increase	Decrease
Market capitalisation rate	The rate of return, determined through analysis of comparable market-related sales transactions, that is applied to the market rent to assess a property's value	Decrease	Increase
<b>Unobservable inputs within the discounted cash flow analysis</b>			
Discount rate	The rate, determined through analysis of comparable market-related sales transactions, that is applied to a property's future net cash flows to convert those cash flows into a present value	Decrease	Increase
Terminal capitalisation rate	The rate that is applied to a property's sustainable net income at the end of an assumed holding period to derive an estimated future market value	Decrease	Increase
Rental growth rate	The annual growth rate applied to the market rent over an assumed holding period	Increase	Decrease
<b>Unobservable inputs within the residual value approach</b>			
Gross development value	The estimated market value once the redevelopment is completed	Increase	Decrease
Cost of development	An estimate of the costs associated with converting the property to its end use, including finance costs and a typical profit margin for risks assumed by the developer	Decrease	Increase
Discount rate	The rate, determined through analysis of comparable market-related sales transactions, that is applied to a property's future net cash flows to convert those cash flows into a present value	Decrease	Increase
Market capitalisation rate	The rate of return, determined through analysis of comparable market-related sales transactions, that is applied to the market rent to assess a property's value	Decrease	Increase
<b>Unobservable inputs within the direct sales comparison approach</b>			
Rate per sqm	The rate per square metre of recently sold properties of a similar nature	Increase	Decrease
<b>Unobservable inputs within market value alternative use (MVAU) plus holding costs</b>			
Rate per sqm prior to holding costs	The assumed rate per square metre, based on recently sold properties, for which the group would acquire land, assuming it had not been designated for its existing use	Increase	Decrease
Holding costs per sqm	The costs of holding land while being developed to achieve land suitable for airport use	Increase	Decrease
Holding period	The expected holding period to achieve land suitable for airport use	Increase	Decrease
<b>Unobservable inputs within optimised depreciated replacement cost (ODRC)</b>			
Unit costs of construction	The costs of constructing various asset types based on a variety of sources, including recent local competitively tendered construction works, published cost information, the valuer's database of costing information and experience of typical industry rates and indexed historical cost information	Increase	Decrease

## 12. Investment properties

The table below summarises the movements in fair value of investment properties.

	Retail and service \$M	Industrial \$M	Vacant land \$M	Other \$M	Total \$M
<b>Year ended 30 June 2020</b>					
Balance at the beginning of the year	271.3	927.8	377.2	169.1	1,745.4
Additions	2.8	107.9	1.4	26.5	138.6
Disposals	-	-	-	-	-
Transfers from/(to) property, plant and equipment (note 11)	(1.2)	-	(8.3)	-	(9.5)
Transfers within investment property	(0.9)	36.8	(35.9)	-	-
Write-offs	(0.1)	(0.1)	-	(0.2)	(0.4)
Investment property fair value change	7.2	168.5	(4.2)	(2.9)	168.6
<b>Net carrying amount</b>	<b>279.1</b>	<b>1,240.9</b>	<b>330.2</b>	<b>192.5</b>	<b>2,042.7</b>
<b>Year ended 30 June 2019</b>					
Balance at the beginning of the year	263.2	764.7	241.4	156.3	1,425.6
Additions	1.8	69.0	14.3	7.7	92.8
Transfers to property, plant and equipment (note 11)	(4.6)	(14.3)	(5.0)	(2.6)	(26.5)
Transfers within investment property	-	1.9	(1.9)	-	-
Investment property fair value change	10.9	106.5	128.9	7.7	254.0
<b>Net carrying amount</b>	<b>271.3</b>	<b>927.8</b>	<b>377.2</b>	<b>169.1</b>	<b>1,745.4</b>

Additions for the year ended 30 June 2020 include capitalised interest of \$5.0 million (2019: \$1.8 million).

The group's investment properties are all categorised as Level 3 in the fair value hierarchy, as described in note 18(c).

During the year, there were no transfers of investment property between levels of the fair value hierarchy.

The basis of valuation is market value, based on each property's highest and best use. The valuation methodologies used were a direct sales comparison or a direct capitalisation of rental income, using market comparisons of capitalisation rates, supported by a discounted cash flow approach. Further details of the valuation methodologies and sensitivities are included in note 11(c). The valuation methodologies are consistent with prior years.

### Impact of COVID-19

The group's overall investment property portfolio value has remained stable despite COVID-19. The retail and service properties have been the most affected because of the dramatic fall-off in foot traffic to these stores during lockdown and the slow recovery since moving to Alert Level 1. Industrial properties have been supported by high quality tenants with long leases, including government agencies and essential services. Auckland Airport offered its tenants directly impacted by COVID-19 a mixture of rental abatements and deferrals. Rent abatements were generally limited to retail and aeronautical tenants whose businesses have been severely impacted, while deferrals were given to tenants who faced disruption, largely as a result of the Level 4 lockdown.

Valuers have carried out the valuations by applying assumptions regarding the reasonably possible impacts of COVID-19 based on information available as at 30 June 2020. Given the circumstances, the property valuations as at 30 June 2020 have been prepared on the basis of 'material valuation uncertainty', and therefore the valuers have advised that less certainty should be attached to the property valuations than would normally be the case.

All valuations have been reviewed by the group's property management team, who, notwithstanding the uncertainty due to COVID-19, have determined the valuations to be appropriate as at 30 June 2020.

## Notes and accounting policies CONTINUED

FOR THE YEAR ENDED 30 JUNE 2020

### 12. Investment properties CONTINUED

The principal assumptions used in establishing the valuations were as follows:

Asset classification and valuation approach	Inputs used to measure fair value	2020		2019	
		Range of significant inputs	Weighted average	Range of significant inputs	Weighted average
<b>Retail and service</b>					
Discounted cash flow cross-referenced to a market capitalisation of net revenues as indicated by market activity from comparable transactions	Market rent (per sqm)	\$50 - \$576	\$259	\$55 - 511	\$256
	Market capitalisation rate	5.13 - 6.26%	6.13%	5.00 - 7.00%	5.97%
	Terminal capitalisation rate	5.38 - 6.75%	6.50%	5.25 - 8.50%	6.33%
	Discount rate	6.50 - 8.00%	7.66%	7.00 - 9.00%	7.68%
	Rental growth rate (per annum)	2.32 - 2.57%	2.38%	2.24 - 2.88%	2.56%
<b>Industrial</b>					
Discounted cash flow cross-referenced to a market capitalisation of net revenues as indicated by market activity from comparable transactions	Market rent (per sqm)	\$110 - 307	\$147	\$80 - 270	\$133
	Market capitalisation rate	4.13 - 7.25%	5.30%	5.25 - 7.88%	5.84%
	Terminal capitalisation rate	4.13 - 7.63%	5.50%	5.50 - 8.50%	6.18%
	Discount rate	6.25 - 9.00%	7.12%	6.88 - 9.50%	7.70%
	Rental growth rate (per annum)	2.32 - 2.57%	2.48%	2.54 - 2.88%	2.76%
<b>Vacant land</b>					
Direct sales comparison and residual value	Rate per sqm	\$6 - 701	\$141	\$6 - 700	\$143
<b>Other</b>					
Discounted cash flow cross-referenced to a market capitalisation of net revenues as indicated by market activity from comparable transactions	Market rent (per sqm)	\$49 - 444	\$247	\$49 - 444	\$309
	Market capitalisation rate	5.13 - 7.25%	6.00%	5.13 - 7.00%	6.32%
	Terminal capitalisation rate	5.38 - 7.50%	6.27%	5.38 - 7.50%	6.61%
	Discount rate	6.75 - 9.25%	7.84%	6.88 - 9.50%	8.19%
	Rental growth rate (per annum)	2.32 - 2.57%	2.34%	2.48 - 2.88%	2.73%

The fair value of investment properties valued by each independent registered valuer is outlined below.

	2020	2019
	\$M	\$M
Colliers International Limited	431.7	423.3
Savills Limited	1,068.7	738.3
Jones Lang LaSalle Limited	534.8	518.2
Investment property carried at cost	7.5	65.6
<b>Total fair value of investment properties</b>	<b>2,042.7</b>	<b>1,745.4</b>

The investment properties assigned to valuers are rotated across the portfolio every three years, with the most recent rotation occurring in June 2019. All valuers are registered valuers and industry specialists in valuing the above types of investment properties.

*Income and expenses related to investment property*

	2020	2019
	\$M	\$M
Rental income for investment properties	66.7	63.3
Recoverable cost income	6.7	6.2
Direct operating expenses for investment properties that derived rental income	(7.7)	(7.8)
Direct operating expenses for investment properties that did not derive rental income	(2.5)	(2.7)

The following categories of investment property are leased to tenants:

- Retail and service carried at \$279.1 million (30 June 2019: \$271.3 million);
- Industrial carried at \$1,240.9 million (30 June 2019: \$927.8 million); and
- Other investment property carried at \$192.5 million (30 June 2019: \$169.1 million).

The above values include the land associated with these properties.

### 13. Cash and cash equivalents

	2020	2019
	\$M	\$M
Short-term deposits	765.1	35.2
Cash and bank balances	0.2	2.1
	765.3	37.3

Cash and bank balances earn interest at daily bank deposit rates. During the year, surplus funds were deposited on the overnight money market and term deposit at a rate of 0.25 to 1.65% (2019: at a rate of 1.50 to 2.35%).

As a result of the capital raise undertaken in response to the COVID-19 outbreak, the company has seen a significant increase to cash and cash equivalents. At 30 June 2020, Auckland Airport held total cash and cash equivalents of \$765.3 million. The short-term deposits at 30 June 2020 range from \$80.0 million to \$330.0 million and were spread across five financial institutions to minimise credit risk, with those being ANZ Bank, ASB Bank, Bank of New Zealand, Bank of Tokyo Mitsubishi and Westpac New Zealand. These financial institutions had a credit rating of 'A' or above from Standard & Poor's. The level of deposits at each financial institution recognises a balance between returns and credit risk (2019: \$3.7 million to \$19.0 million across three financial institutions).

Further details of Auckland Airport's credit risk objectives and policies is available in note 18(d).

### 14. Trade and other receivables

	2020	2019
	\$M	\$M
Trade receivables	23.9	13.6
Less: Expected credit losses	(7.6)	(0.9)
Net trade receivables	16.3	12.7
Lease incentives and receivables	27.1	22.7
Less: Impairment of lease receivables	(15.6)	-
Net lease incentives and receivables	11.5	22.7
Prepayments	9.2	7.2
GST receivable	3.2	-
Revenue accruals and other receivables	6.0	26.4
	46.2	69.0

## Notes and accounting policies CONTINUED

FOR THE YEAR ENDED 30 JUNE 2020

### 14. Trade and other receivables CONTINUED

#### Allowance for impairment

Trade receivables have general payment terms of the 1<sup>st</sup> or the 20<sup>th</sup> of the month following invoice. Movements in the provision for expected credit losses have been included in other expenses in the income statement. The group has assessed its expected credit losses using a credit risk matrix. Customers were assigned to four categories and a risk weighting applied to aged overdue balances. Because of a lack of useful historical data on which to base the 2020 COVID-19-related receivables impairment analysis, the group has applied judgement using management experience and customer interactions since the emergence of COVID-19. The categories are:

- Extreme risk – Customers in voluntary administration, liquidation or similar.
- High risk – Retail and transport customers who are most affected by New Zealand's international border closures.
- Medium risk – Airlines and other customers who are expected to be affected by COVID-19 but have alternative revenue streams or funding support.
- Low risk – Government agencies, stable property tenants, essential services, customers with explicit government support or with strengthened balance sheets.

The group recognises fixed-lease revenue on a straight-line basis over the term of a lease, which has resulted in lease receivables for future contractual rent increases being recognised in advance. The group has impaired those lease receivables where it is no longer likely that the future rent increases will be achieved.

### 15. Issued and paid-up capital

	2020	2019	2020	2019
	\$M	\$M	Shares	Shares
Opening number issued and paid-up capital at 1 July	468.2	404.2	1,210,674,696	1,201,875,336
Shares fully paid and allocated to employees by employee share scheme	0.1	0.3	21,100	64,500
Shares vested for employees participating in long-term incentive plans	0.2	0.2	89,379	125,515
Shares issued under the dividend reinvestment plan	32.0	63.5	3,620,888	8,609,345
Shares issued under the \$1.2 billion equity raise	1,178.1	-	257,510,728	-
<b>Closing issued and paid-up capital at 30 June</b>	<b>1,678.6</b>	<b>468.2</b>	<b>1,471,916,791</b>	<b>1,210,674,696</b>

All issued shares are fully paid and have no par value. The company does not limit the amount of authorised capital.

Each ordinary share confers on the holder one vote at any shareholder meeting of the company and carries the right to dividends.

#### Dividend reinvestment plan

The company has a dividend reinvestment plan, which it reinstated in April 2017. Under the plan, shareholders can elect to receive the value of their dividends in additional shares. The company considers whether the plan will apply to a dividend at each dividend announcement. Shares issued in lieu of dividends are excluded from dividends paid in the statement of cash flows. As mentioned in note 3(d) and note 9, the Board cancelled the 2020 interim dividend and has determined that no dividend will be paid for the year ended 30 June 2020.

#### Share-based payment plans

As members of the group, the shares held by the Employee Share Purchase Plan and the Executive Long-Term Incentive Plan are eliminated from the group's issued and paid-up capital. When those shares are transferred out of the plans and vested to employees, they are recognised as an increase in issued and paid-up capital. Refer to note 23 – Share-based payment plans.

#### Capital raise

On 6 April 2020, Auckland Airport announced an equity raise comprising a \$1 billion underwritten private placement and a \$200 million share purchase plan to reinforce its balance sheet and ensure the company remains well capitalised and solvent during the period of strict border controls and significantly reduced passenger numbers, revenue and profit. The company issued a total of 257,510,728 shares under the private placement and share purchase plan. Shares were issued at an issue price of \$4.66, representing a 7.5% discount to the closing price on the NZX of \$5.04 on 3 April 2020. Total capital raised of \$1,178.1 million is net of directly attributable share issue costs of \$21.9 million.

## 16. Reserves

### (a) Cancelled share reserve

	2020	2019
	\$M	\$M
<b>Balance at the beginning and end of the year</b>	(609.2)	(609.2)

The cancelled share reserve records the premium above paid-up share capital incurred on the return of capital to shareholders and on-market buy-backs of ordinary shares.

### (b) Property, plant and equipment revaluation reserve

	2020	2019
	\$M	\$M
Balance at 1 July	4,968.8	4,913.9
Reclassification to retained earnings	(2.8)	(8.1)
Revaluation	(599.8)	87.6
Movement in deferred tax	(32.5)	(24.6)
<b>Balance at 30 June</b>	<b>4,333.7</b>	<b>4,968.8</b>

The property, plant and equipment revaluation reserve records the revaluation of land, buildings and services, infrastructure, runway, taxiways and aprons. The \$599.8 million decrease in revaluation reserve, in the year ended 30 June 2020, includes a \$715.9 million decrease in land with no tax impact. This is partially offset by revaluation increases of \$75.3 million in infrastructure and \$40.8 million in runway, taxiways and aprons, which are subject to deferred tax (2019: \$87.6 million increase in buildings and services, subject to deferred tax).

### (c) Share-based payments reserve

	2020	2019
	\$M	\$M
Balance at 1 July	1.4	1.3
Long-term incentive plan expense	0.2	0.1
<b>Balance at 30 June</b>	<b>1.6</b>	<b>1.4</b>

The share-based payments reserve records the value of historical equity-settled share-based payments provided to employees, including key management personnel, as part of their remuneration.

### (d) Cash flow hedge reserve

	2020	2019
	\$M	\$M
Opening balance	(67.1)	(38.2)
Adjustment on adoption of NZ IFRS 9	-	3.3
Balance at 1 July	(67.1)	(34.9)
Fair value change in hedging instrument	(44.5)	(47.1)
Transfer to income statement	(2.2)	1.6
Movement in deferred tax	13.1	13.3
<b>Balance at 30 June</b>	<b>(100.7)</b>	<b>(67.1)</b>

The cash flow hedge reserve records the effective portion of the fair value of interest rate swaps that are designated as cash flow hedges. Amounts transferred to the income statement are included in interest expense and other finance costs.

## Notes and accounting policies CONTINUED

FOR THE YEAR ENDED 30 JUNE 2020

### 16. Reserves CONTINUED

#### (e) Cost of hedging reserve

	2020	2019
	\$M	\$M
Opening balance	(5.8)	-
Adjustment on adoption of NZ IFRS 9	-	(3.3)
Balance at 1 July	(5.8)	(3.3)
Change in currency basis spreads (when excluded from the designation)	2.7	(4.8)
Movement in deferred tax	(0.8)	2.3
<b>Balance at 30 June</b>	<b>(3.9)</b>	<b>(5.8)</b>

The cost of hedging reserve captures changes in the fair value of the cost to convert foreign currency to NZD of Auckland Airport's cross-currency interest rate swaps on USPP and AMTN debt. Prior to the adoption of NZ IFRS 9 on 1 July 2018, these changes were recognised as part of the cash flow hedge reserve.

#### (f) Share of reserves of associate and joint ventures

	2020	2019
	\$M	\$M
<b>Balance at the beginning and end of the year</b>	<b>28.8</b>	<b>28.8</b>

The share of reserves of associate and joint ventures records the group's share of movements in the cash flow hedge reserve and the property, plant and equipment revaluation reserve of the associate and joint ventures. The cash flow hedge reserve of the associate and joint ventures records the effective portion of the fair value of interest rate swaps that are designated as cash flow hedges. Amounts transferred to the income statement of the associate and joint ventures are included in the share of profit of the associate and joint ventures.

### 17. Accounts payable and accruals

	2020	2019
	\$M	\$M
Employee entitlements	8.6	9.7
GST payable	-	2.6
Property, plant and equipment retentions and payables	34.7	23.6
Investment property retentions and payables	12.4	15.3
Trade payables	7.9	9.8
Interest payables	14.5	15.2
Other payables and accruals	28.2	25.3
<b>Total accounts payable and accruals</b>	<b>106.3</b>	<b>101.5</b>

The above balances are unsecured.

The amount owing to the related parties at 30 June 2020 is \$4.9 million (2019: \$0.8 million), refer note 22.

## 18. Financial assets and liabilities

The total carrying amounts of the group's financial assets and liabilities are detailed below.

	Notes	2020 \$M	2019 \$M
<b>Current financial assets</b>			
<b>Financial assets at amortised cost</b>			
Cash and cash equivalents	13	765.3	37.3
Trade and other receivables		22.3	39.1
		787.6	76.4
<b>Derivative financial instruments</b>			
Cross-currency interest rate swaps		15.2	-
Interest basis swaps		0.2	-
<b>Total current financial assets</b>		<b>803.0</b>	<b>76.4</b>
<b>Non-current financial assets</b>			
<b>Derivative financial instruments</b>			
Cross-currency interest rate swaps		229.6	160.8
		229.6	160.8
<b>Derivative financial instruments</b>			
Interest basis swaps		0.9	1.8
<b>Total non-current financial assets</b>		<b>230.5</b>	<b>162.6</b>
<b>Total financial assets</b>		<b>1,033.5</b>	<b>239.0</b>
<b>Current financial liabilities</b>			
<b>Financial liabilities at amortised cost</b>			
Accounts payable and accruals		106.3	102.4
Short-term borrowings	18(a)	320.8	441.8
Provisions		37.2	0.5
		464.3	544.7
<b>Derivative financial instruments</b>			
Interest rate swaps - cash flow hedges		3.0	-
<b>Total current financial liabilities</b>		<b>467.3</b>	<b>544.7</b>
<b>Non-current liabilities</b>			
<b>Financial liabilities at amortised cost</b>			
Term borrowings	18(a)	1,824.4	1,748.6
Other term liabilities		2.1	1.9
		1,826.5	1,750.5
<b>Derivative financial instruments</b>			
Interest rate swaps - cash flow hedges		134.6	88.4
<b>Total non-current financial liabilities</b>		<b>1,961.1</b>	<b>1,838.9</b>
<b>Total financial liabilities</b>		<b>2,428.4</b>	<b>2,383.6</b>

The cross-currency interest rate swaps consist of a fair value hedge component and a cash flow hedge component.

### Amounts subject to potential offset

The group's derivative financial instruments are subject to enforceable master netting arrangements. Each agreement allows the parties to elect net settlement of the relevant financial assets and liabilities in the event of default of the other party. The group's financial statements do not offset assets and liabilities with the same counterparties. Instead, it reports each derivative as either an asset or liability. However, if offsets were enforced by either party, the potential net amounts (assets less liabilities) would be derivative financial assets of \$108.3 million (2019: derivative financial assets of \$74.2 million).

## Notes and accounting policies CONTINUED

FOR THE YEAR ENDED 30 JUNE 2020

### 18. Financial assets and liabilities CONTINUED

#### (a) Borrowings

At the balance date, the following borrowings were in place for the group.

	Maturity	Coupon <sup>1</sup>	2020 \$M	2019 \$M
<b>Current</b>				
Commercial paper	< 3 months	Floating	91.9	91.8
Bank facility	29/10/2019	Floating	-	100.0
Bonds	13/12/2019	4.73%	-	100.0
Bonds	11/04/2020	Floating	-	150.0
Bonds	28/05/2021	5.52%	150.0	-
USPP notes	15/02/2021	4.42%	78.9	-
<b>Total short-term borrowings</b>			<b>320.8</b>	<b>441.8</b>
<b>Non-current</b>				
Bank facility	27/10/2020	Floating	-	50.0
Bank facility	17/08/2021	Floating	-	30.0
Bank facility	31/01/2022	Floating	10.0	-
Bank facility	28/02/2022	Floating	45.0	-
Bank facility	30/11/2022	Floating	40.0	-
Bank facility	28/02/2023	Floating	15.0	-
Bank facility	16/08/2024	Floating	95.0	-
Bonds	28/05/2021	5.52%	-	150.0
Bonds	11/10/2022	Floating	100.0	-
Bonds	9/11/2022	4.28%	100.0	100.0
Bonds	17/04/2023	3.64%	100.0	100.0
Bonds	2/11/2023	3.97%	225.0	225.0
Bonds	10/10/2024	3.51%	150.0	150.0
USPP notes	15/02/2021	4.42%	-	76.0
USPP notes	12/07/2021	4.67%	80.0	76.8
USPP notes	15/02/2023	4.57%	84.0	78.8
USPP notes	25/11/2026	3.61%	449.5	400.3
AMTN notes	23/09/2027	4.50%	330.9	311.7
<b>Total term borrowings</b>			<b>1,824.4</b>	<b>1,748.6</b>
<b>Total</b>				
Commercial paper			91.9	91.8
Bank facilities			205.0	180.0
Bonds			825.0	975.0
USPP notes			692.4	631.9
AMTN notes			330.9	311.7
<b>Total borrowings</b>			<b>2,145.2</b>	<b>2,190.4</b>

<sup>1</sup> The coupon interest rate is the interest rate received by our lenders and does not reflect the group's total cost of borrowing. The group's total cost of borrowing may be higher or lower than the coupon, reflecting the impacts of hedging and amortised transaction costs.

### Movement in borrowings

	2020 \$M	2019 \$M
<b>Total borrowings at the beginning of the year</b>	2,190.4	2,060.3
Decrease in borrowings during the year	(250.0)	(75.0)
Increase in borrowings during the year	125.0	150.0
Revaluation of foreign denominated debt for changes in FX rate	31.0	(9.0)
Revaluation of debt in fair value hedge relationship	48.8	64.1
<b>Total borrowings at the end of the year</b>	<b>2,145.2</b>	<b>2,190.4</b>

#### Bank facilities

Borrowings under the drawn bank facilities and standby bank facilities are supported by a negative pledge deed.

In the year ended 30 June 2020, the company undertook the following bank financing activity:

- In August 2019, a new \$100.0 million, five-year facility was established with Mizuho Bank. The new facility replaced an existing drawn facility of the same amount that was set to mature in October 2019;
- An additional \$95.0 million, 39-month facility was also established in August 2019 with China Construction Bank;
- In December 2019, two new \$50.0 million, 12-month standby facilities were established with Bank of New Zealand and Westpac New Zealand, but these facilities were extended in April 2020;
- In March 2020, two new \$195.0 million, 12-month standby facilities were established with MUFG Bank and Westpac New Zealand, and these were extended in April 2020; and
- In April 2020, in response to COVID-19, Auckland Airport completed extensions of all bank facilities maturing before 31 December 2021. This resulted in the following extensions:

Facilities extended	Original maturity date	Extended facility date	Available \$M	Undrawn \$M
ANZ Evergreen Facility	20-Jun-21	31-Jan-22	100.0	100.0
Bank of China	17-Aug-21	31-Jan-22	30.0	20.0
Bank of New Zealand (Facility 1)	31-Oct-20	28-Feb-23	80.0	80.0
Bank of New Zealand (Facility 2)	9-Dec-20	28-Feb-22	50.0	10.0
Commonwealth Bank of Australia	27-Oct-20	30-Nov-22	96.3	56.3
MUFG Bank (Facility 1)	27-Oct-20	28-Feb-23	50.0	35.0
MUFG Bank (Facility 2)	1-Apr-21	31-Mar-22	195.0	195.0
Westpac New Zealand (Facility 1)	9-Dec-20	28-Feb-22	50.0	45.0
Westpac New Zealand (Facility 2)	25-Mar-21	31-Mar-22	195.0	195.0

In addition to the bank facility extensions, Auckland Airport also sought waivers of its financial covenants from both bank and United States Private Placement (USPP) lenders. The waivers were granted by the banks in April 2020 and by USPP investors in June 2020. The waivers cover the period from June 2020 to December 2021 (inclusive).

#### Bonds and notes

Borrowings under the bond programme are supported by a master trust deed. They are unsecured and unsubordinated. In the year ended 30 June 2020, the company undertook the following bond financing:

- The issuance of \$100.0 million of three-year floating-rate notes in October 2019;
- The repayment of a \$100.0 million seven-year 4.73% fixed-rate bond in December 2019; and
- The repayment of \$150.0 million of three-year floating-rate notes in April 2020.

During the current and prior years, there were no defaults or breaches on any of the borrowing facilities.

## Notes and accounting policies CONTINUED

FOR THE YEAR ENDED 30 JUNE 2020

### 18. Financial assets and liabilities CONTINUED

#### (b) Hedging activity and derivatives

##### Cash flow hedges

At 30 June 2020, the group held interest rate swaps where it pays a fixed rate of interest and receives a variable rate on the notional amount (in NZD). The notional amount of the interest rate swaps in a cash flow hedge at 30 June 2020 is \$1,455.0 million (2019: \$1,455.0 million). These interest rate swaps are designated as cash flow hedges of the future variable interest rate cash flows on existing and future bank facilities, commercial paper and floating rate bonds. The interest payment frequency on these borrowings is quarterly.

For cash flow hedges, the effective part of the changes in fair value of the hedging derivative are deferred in other comprehensive income and are transferred to the income statement when the hedged item affects the income statement. Any gain or loss relating to the ineffective portion of the hedging instrument in cash flow hedge relationships are recognised in the income statement.

During the year, the group assessed the cash flow hedges to be highly effective and therefore they continue to qualify for hedge accounting.

##### Cross-currency swaps

The cross-currency interest rate swaps transform a series of known fixed interest rate cash flows in a foreign currency to floating rate NZD cash flows, mitigating exposure to fair value changes in USPP notes and the AMTN notes.

For hedge accounting purposes, these swaps are aggregated and designated as two cash flow hedges and a fair value hedge. The fair value component hedges US and Australian fixed interest rates to US and Australian floating interest rates respectively.

Gains or losses on the fixed interest bonds, USPP notes, derivatives and AMTN notes in a hedging relationship with fair value hedges recognised in the income statement in interest expense during the period were:

	2020	2019
	\$M	\$M
Gains/(losses) on the USPP notes	(60.4)	(39.8)
Gains/(losses) on the AMTN notes	(19.7)	(16.3)
Gains/(losses) on the derivatives	79.0	55.8

As part of the issuance of the USPP notes and cross-currency interest rate swaps, additional basis swaps were taken out by the group to hedge the basis risk on the cross-currency interest rate swaps. The basis swaps converted the 10-year and 12-year fixed basis cost component of the cross-currency interest rate swaps to a much lower annual-resetting basis cost, thereby lowering the overall interest cost in New Zealand dollars of the US dollar USPP borrowings. The basis swaps are not hedge accounted.

The change in the fair value of the hedged risk is attributed to the carrying value of the USPP and AMTN debt. This debt revaluation is recognised in the income statement to offset the mark-to-market revaluation of the hedging derivative.

The cross-currency basis element of the cross-currency interest rate swaps are excluded from the designation and are separately recognised in other comprehensive income in a cost of hedging reserve. Additional detail on the treatment of the basis component can be found in note 16(e) – Cost of hedging reserve.

The cash flow components are hedge accounted as described above under Cash flow hedges.

At inception, each hedge relationship is formalised in hedge documentation. Hedge accounting is discontinued when the hedge instrument expires or is sold, terminated, exercised or no longer qualifies for hedge accounting. Auckland Airport determines the existence of an economic relationship between the hedging instrument and the hedged item based on the currency, amount and timing of respective cash flows, reference interest rates, tenors, repricing dates, maturities and notional amounts. Auckland Airport assesses whether the derivative designated in each hedging relationship is expected to be, and has been, effective in offsetting the changes in cash flows of the hedged item using the hypothetical derivative method.

Derivatives in hedge relationships are designated based on a hedge ratio of 1:1. In these hedge relationships the main source of ineffectiveness is the effect of the counterparty and Auckland Airport's own credit risk on the fair value of the derivatives, which is not reflected in the change in the fair value of the hedged item attributable to changes in foreign exchange and interest rates.

Gains or losses on the basis swaps recognised in the income statement and the ineffective hedging component of the swaps recognised in the income statement relating to counterparty risk during the period were:

	2020 \$M	2019 \$M
Basis swaps transacted as hedges but not qualifying for hedge accounting	(0.6)	-
Credit valuation adjustments on hedges qualifying for hedge accounting	(1.3)	(0.6)
Derivative fair value change	(1.9)	(0.6)

The group has assessed that the sensitivity of reported profit to changes in the NZD/USD basis spreads is immaterial.

The details of the hedging instruments as at 30 June 2020 and 30 June 2019 are as follows:

	Currency	Average rate	Maturity (years)	Notional amount of hedging instrument	Statement of financial position line item	Carrying amount of the hedging instrument		Change in value used for calculating hedge effectiveness \$M
						Assets \$M	Liabilities \$M	
As at 30 June 2020								
<b>Cash flow hedges</b>								
Interest rate swaps	NZD	3.68%	0 - 9	NZD \$1,455 million	Derivative financial instruments	-	137.6	(134.2)
<b>Fair value and cash flow hedges</b>								
Cross-currency swaps	NZD:USD	Floating	1 - 6	USD \$400 million	Derivative financial instruments	199.9	-	174.9
Cross-currency swaps	NZD:AUD	Floating	7	AUD \$260 million	Derivative financial instruments	44.9	-	38.8
						244.8	137.6	79.5

	Currency	Average rate	Maturity (years)	Notional amount of hedging instrument	Statement of financial position line item	Carrying amount of the hedging instrument		Change in value used for calculating hedge effectiveness \$M
						Assets \$M	Liabilities \$M	
As at 30 June 2019								
<b>Cash flow hedges</b>								
Interest rate swaps	NZD	3.69%	1 - 10	NZD \$1,455 million	Derivative financial instruments	-	88.4	(86.0)
<b>Fair value and cash flow hedges</b>								
Cross-currency swaps	NZD:USD	Floating	2 - 7	USD \$400 million	Derivative financial instruments	136.6	-	127.8
Cross-currency swaps	NZD:AUD	Floating	8	AUD \$260 million	Derivative financial instruments	24.2	-	21.0
						160.8	88.4	62.8

## Notes and accounting policies CONTINUED

FOR THE YEAR ENDED 30 JUNE 2020

### 18. Financial assets and liabilities CONTINUED

All hedging instruments can be found in the derivative financial instrument's assets and liabilities in the statement of financial position. Items taken to the income statement have been recognised in the derivative fair value (decrease)/increase.

The details of hedged items as at 30 June 2020 and 30 June 2019 are as follows:

	Statement of financial position line item	Carrying amount of the hedged item		Accumulated amount of fair value hedge adjustments on the hedged item included in the carrying amount of the hedged item		Change in value used for calculating hedge effectiveness
		Assets	Liabilities	Assets	Liabilities	
		\$M	\$M	\$M	\$M	
As at 30 June 2020						
<b>Cash flow hedges</b>						
Aggregated variable interest rate exposure	-	-	515.0	-	-	49.6
Highly probable forecast variable rate debt	-	-	-	-	-	93.0
<b>Fair value and cash flow hedges</b>						
US Private Placement (USD \$50 million)	Short-term borrowings	-	78.9	-	14.1	(13.8)
US Private Placement (USD \$400 million)	Term borrowings	-	613.5	-	188.4	(164.1)
Australian Medium Term Note (AUD \$260 million)	Term borrowings	-	330.9	-	42.4	(39.6)
		-	1,538.3	-	244.9	(74.9)

	Statement of financial position line item	Carrying amount of the hedged item		Accumulated amount of fair value hedge adjustments on the hedged item included in the carrying amount of the hedged item		Change in value used for calculating hedge effectiveness
		Assets	Liabilities	Assets	Liabilities	
		\$M	\$M	\$M	\$M	
As at 30 June 2019						
<b>Cash flow hedges</b>						
Aggregated variable interest rate exposure	-	-	390.0	-	-	32.5
Highly probable forecast variable rate debt	-	-	-	-	-	58.1
<b>Fair value and cash flow hedges</b>						
US Private Placement (USD \$400 million)	Term borrowings	-	631.9	-	142.1	(129.8)
Australian Medium Term Note (AUD \$260 million)	Term borrowings	-	311.7	-	22.7	(21.0)
		-	1,333.6	-	164.8	(60.2)

### (c) Fair value

The group selects valuation techniques that aim to maximise the use of relevant observable inputs and minimise the use of unobservable inputs, provided that sufficient data is available. All assets and liabilities for which fair value is measured are assigned to levels within the fair value hierarchy. The different levels comprise:

- **Level 1** – the fair value is calculated using quoted prices for the asset or liability in active markets;
- **Level 2** – the fair value is estimated using inputs other than quoted prices included in level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices); and
- **Level 3** – the fair value is estimated using inputs for the asset or liability that are not based on observable market data.

To determine the level used to estimate fair value, the group assesses the lowest level input that is significant to that fair value. There have been no transfers between levels of the fair value hierarchy in the year ended 30 June 2020 (2019: Nil).

The carrying value closely approximates the fair value of cash, accounts receivable, dividend receivable, other non-current assets, accounts payable and accruals, provisions and other term liabilities. The carrying amount of the group's current and non-current borrowings issued at floating rates closely approximates their fair value.

The group's bonds are classified as level 1. The fair value of the bonds is based on the quoted market prices for these instruments at balance date. The group's USPP notes and AMTN notes are classified as level 2. The fair value of the USPP notes has been determined at balance date on a discounted cash flow basis using the USD Bloomberg curve and applying discount factors to the future USD interest payment and principal payment cash flows. The fair value of the AMTN notes has been determined at balance date on a discounted cash flow basis using the AUD Bloomberg curve and applying discount factors to the future AUD interest payment and principal payment cash flows.

	2020		2019	
	Carrying amount	Fair value	Carrying amount	Fair value
	\$M	\$M	\$M	\$M
Bonds	825.0	878.9	975.0	1,031.1
USPP Notes	692.4	697.3	631.9	637.0
AMTN Notes	330.9	316.0	311.7	303.0

The group's derivative financial instruments are interest rate swaps, cross-currency interest rate swaps and basis swaps. They arise directly from raising finance for the group's operations. All the derivative financial instruments with the exception of the basis swaps are hedging instruments for financial reporting purposes. The basis swaps are transacted as hedges but do not qualify for hedge accounting.

The group's derivative financial instruments are classified as level 2. The future cash flows are estimated using the key inputs presented in the table alongside. The cash flows are discounted at a rate that reflects the credit risk of various counterparties.

Instrument	Valuation key inputs
Interest rate swaps	Forward interest rates (from observable yield curves) and contract interest rates
Basis swaps	Observable forward basis swap pricing and contract basis rates
Cross-currency interest rate swaps	Forward interest and foreign exchange rates (from observable yield curves and forward exchange rates) and contract rates

### (d) Financial risk management objectives and policies

#### (i) Credit risk

The group's maximum exposure to credit risk at 30 June 2020 is equal to the carrying value of cash, accounts receivable, dividends receivable and derivative financial instruments. Credit risk is managed by restricting the amount of cash and marketable securities that can be placed with any one institution, which will be

either the New Zealand Government or a New Zealand registered bank with an appropriate international credit rating. The group minimises its credit risk by spreading such exposures across a range of institutions, with Standard & Poor's credit ratings of 'A' or above (2019: 'A' or above).

Auckland Airport's cash and cash equivalents increased significantly at 30 June 2020 versus last financial year, following the \$1.2 billion capital raise (see further details per note 13 and note 15). The increased cash holding has increased counterparty credit risk.

The group's credit risk is also attributable to accounts receivable, which principally comprise amounts due from airlines, tenants and retail licensees. At 30 June 2020, the group identified \$7.6 million of accounts receivable relating to customers who are at risk of not being able to meet their payment obligations (2019: \$0.9 million), refer to note 14.

The group has a policy that manages exposure to credit risk by way of requiring a performance bond for material lease contracts or other customers whose credit rating or history indicates that this would be prudent. The value of performance bonds for the group is \$2.1 million (2019: \$1.9 million).

## Notes and accounting policies CONTINUED

FOR THE YEAR ENDED 30 JUNE 2020

### 18. Financial assets and liabilities CONTINUED

#### (ii) Liquidity risk

The group's objective is to maintain a balance between continuity of funding and flexibility through the use of borrowings on the money market, bank loans, commercial paper, USPP, AMTN notes and bonds.

To manage the liquidity risk, the group's policy is to maintain sufficient available funding by way of committed, but undrawn, debt facilities. As at 30 June 2020, this undrawn facility headroom was \$936.3 million (2019: \$374.0 million). The group's policy also requires the spreading of debt maturities.

#### Bank facilities

Type	Bank	Maturity	Facility currency	2020			2019		
				Available NZ \$M	Drawn NZ \$M	Undrawn NZ \$M	Available NZ \$M	Drawn NZ \$M	Undrawn NZ \$M
Multi-currency facility	ANZ Bank New Zealand	31/1/2022	NZD	100.0	-	100.0	100.0	-	100.0
Multi-currency facility	Bank of China (New Zealand)	31/1/2022	NZD	30.0	10.0	20.0	30.0	30.0	-
Multi-currency facility	Bank of New Zealand	28/2/2022	NZD	50.0	40.0	10.0	80.0	-	80.0
Multi-currency facility	Bank of New Zealand	28/2/2023	NZD	80.0	-	80.0	-	-	-
Multi-currency facility	China Construction Bank Corporation	16/11/2022	NZD	95.0	-	95.0	-	-	-
Multi-currency facility	China Construction Bank Corporation	3/4/2024	NZD	30.0	-	30.0	30.0	-	30.0
Multi-currency facility	Commonwealth Bank of Australia	30/11/2022	AUD	96.3	40.0	56.3	94.0	-	94.0
Multi-currency facility	Mizuho Bank, Ltd. Sydney Branch OBU	3/4/2022	NZD	70.0	-	70.0	70.0	-	70.0
Multi-currency facility	Mizuho Bank, Ltd. Sydney Branch OBU	26/7/2024	NZD	100.0	95.0	5.0	-	-	-
Multi-currency facility	MUFG Bank, Ltd.	29/10/2019	NZD	-	-	-	100.0	100.0	-
Multi-currency facility	MUFG Bank, Ltd.	31/3/2022	NZD	195.0	-	195.0	-	-	-
Multi-currency facility	MUFG Bank, Ltd.	28/2/2023	NZD	50.0	15.0	35.0	50.0	50.0	-
Multi-currency facility	Westpac New Zealand Limited	28/2/2022	NZD	50.0	5.0	45.0	-	-	-
Multi-currency facility	Westpac New Zealand Limited	31/3/2022	NZD	195.0	-	195.0	-	-	-
<b>Total NZD equivalent</b>				<b>1,141.3</b>	<b>205.0</b>	<b>936.3</b>	<b>554.0</b>	<b>180.0</b>	<b>374.0</b>

The following liquidity risk disclosures reflect all undiscounted principal repayments and interest payments resulting from recognised financial liabilities and financial assets as at 30 June 2020. The timing of cash flows for liabilities is based on the contractual terms of the underlying contract. Liquid non-derivative

assets comprising cash and receivables are considered in the group's overall liquidity risk. The group ensures that sufficient liquid assets or committed funding facilities are available to meet all the required short-term cash payments and expects borrowings to roll over.

*Undiscounted cash flows on financial assets and liabilities*

	Carrying amount \$M	Contractual cash flows \$M	< 1 year \$M	1 to 3 years \$M	3 to 5 years \$M	> 5 years \$M
<b>Year ended 30 June 2020</b>						
<b>Financial assets</b>						
Cash and cash equivalents	765.3	765.3	765.3	-	-	-
Accounts receivable	22.3	22.3	22.3	-	-	-
Derivative financial assets	245.9	255.9	35.2	65.1	30.5	125.1
<b>Total financial assets</b>	<b>1,033.5</b>	<b>1,043.5</b>	<b>822.8</b>	<b>65.1</b>	<b>30.5</b>	<b>125.1</b>
<b>Financial liabilities</b>						
Accounts payable, accruals and other term liabilities	(145.6)	(145.6)	(145.6)	-	-	-
Commercial paper	(91.9)	(92.0)	(92.0)	-	-	-
Bank facilities	(205.0)	(221.7)	(80.0)	(105.0)	(20.0)	-
Bonds	(825.0)	(911.9)	(150.0)	(300.0)	(375.0)	-
AMTN Notes	(330.9)	(379.0)	-	-	-	(282.6)
USPP notes	(692.4)	(739.0)	(77.5)	(155.5)	-	(394.9)
Derivative financial liabilities	(137.6)	(146.4)	(18.0)	(45.4)	(45.4)	(37.6)
Interest payable	-	-	(74.1)	(115.5)	(67.5)	(54.0)
<b>Total financial liabilities</b>	<b>(2,428.4)</b>	<b>(2,635.6)</b>	<b>(637.2)</b>	<b>(721.4)</b>	<b>(507.9)</b>	<b>(769.1)</b>
<b>Year ended 30 June 2019</b>						
<b>Financial assets</b>						
Cash and cash equivalents	37.3	37.3	37.3	-	-	-
Accounts receivable	39.1	39.1	39.1	-	-	-
Derivative financial assets	154.5	165.6	12.5	43.4	27.3	82.4
<b>Total financial assets</b>	<b>230.9</b>	<b>242.0</b>	<b>88.9</b>	<b>43.4</b>	<b>27.3</b>	<b>82.4</b>
<b>Financial liabilities</b>						
Accounts payable, accruals and other term liabilities	(104.8)	(104.8)	(104.8)	-	-	-
Commercial paper	(91.8)	(92.0)	(91.5)	-	-	-
Bank facilities	(180.0)	(188.0)	(100.0)	(80.0)	-	-
Bonds	(975.0)	(1,095.9)	(250.0)	(150.0)	(425.0)	(150.0)
USPP notes	(311.7)	(377.8)	-	-	-	(271.7)
AMTN notes	(632.0)	(727.0)	-	(148.8)	(74.4)	(372.1)
Derivative financial liabilities	(86.7)	(96.1)	(11.7)	(28.0)	(30.0)	(26.4)
Interest payable	-	-	(76.9)	(122.6)	(86.2)	(81.4)
<b>Total financial liabilities</b>	<b>(2,382.0)</b>	<b>(2,681.6)</b>	<b>(634.9)</b>	<b>(529.4)</b>	<b>(615.6)</b>	<b>(901.6)</b>

## Notes and accounting policies CONTINUED

FOR THE YEAR ENDED 30 JUNE 2020

### 18. Financial assets and liabilities CONTINUED

#### (iii) Interest rate risk

The group's exposure to market risk from changes in interest rates relates primarily to the group's borrowings. Borrowings issued at variable interest rates expose the group to changes in interest rates. Borrowings issued at fixed rates expose the group to changes in the fair value of the borrowings.

The group's policy is to manage its interest rate exposure using a mix of fixed and variable rate debt and interest rate derivatives that are accounted for as cash flow hedges or fair value hedges. The

group's policy is to keep its exposure to borrowings at fixed rates of interest between parameters set out in the group's treasury policy. At year-end, 65.4% (2019: 60.1%) of the borrowings (including the effects of the derivative financial instruments and cash and funds on deposit) were subject to fixed interest rates, which are defined as borrowings with an interest reset date greater than one year. The hedged forecast future interest payments are expected to occur at various dates between one month and nine years from 30 June 2020 (2019: one month and 10 years).

At balance date, the company had the following mix of financial assets and liabilities exposed to New Zealand variable interest rate risk after considering hedging instruments:

	2020 \$M	2019 \$M
<b>Financial assets</b>		
Cash and cash equivalents	765.3	37.3
	765.3	37.3
<b>Financial liabilities</b>		
Floating rate bonds	-	10.0
Bank facilities	-	15.0
Commercial paper	6.9	6.8
AMTN Notes	159.5	284.5
USPP Notes	489.9	489.9
	656.3	806.2
<b>Net exposure</b>	(109.0)	768.9

#### Interest rate sensitivity

The following table demonstrates the sensitivity to a change in floating interest rates of plus and minus 10 basis points, with all other variables held constant, of the company's profit before tax and equity.

	2020 \$M	2019 \$M
<b>Increase in interest rates of 10 basis points</b>		
Effect on profit before taxation	1.1	(0.8)
Effect on equity before taxation	8.0	8.8
<b>Decrease in interest rates of 10 basis points</b>		
Effect on profit before taxation	(1.1)	0.8
Effect on equity before taxation	(8.1)	(8.9)

In the previous financial year, interest rate sensitivity was provided for a 100 basis point (or 1%) shift in interest rates. Given the current low interest rates, Management has revised the sensitivity analysis to reflect movements of 10 basis points. The 2019 sensitivity numbers have been restated to reflect the new sensitivity basis.

Significant assumptions used in the interest rate sensitivity analysis include the following:

- Effect on profit before tax and effect on equity is based on net floating rate debt and funds on deposit as at 30 June 2020 of -\$109.0 million (2019: \$768.9 million). Interest rate movements of plus and minus 10 basis points have been applied to this floating rate debt to demonstrate the sensitivity to interest rate risk; and
- Effect on equity is the movement in the valuation of derivatives that are designated as cash flow hedges due to an increase or decrease in interest rates. All derivatives that are effective as at 30 June 2020 are assumed to remain effective until maturity. Therefore, any movements in these derivative valuations are taken to the cash flow hedge reserve within equity and they will reverse entirely by maturity date.

**(iv) Foreign currency risk**

The group is exposed to foreign currency risk with respect to Australian and US dollars.

Exposure to the Australian dollar arises from Australian Medium Term Notes. This exposure has been fully hedged by way of cross-currency interest rate swaps hedging both principal and interest.

Exposure to the US dollar arises from USPP borrowings denominated in that currency.

This exposure has been fully hedged by way of cross-currency interest rate swaps combined with the basis swaps, hedging US dollar exposure on both principal and interest.

The following sensitivity analysis is based on the foreign currency risk exposures in existence at the reporting date. At 30 June 2020, had the New Zealand dollar moved either up or down by 10%, with all other variables held constant, profit before taxation and equity before taxation would have been affected as follows:

	2020 \$M	2019 \$M
<b>Increase in value of NZ dollar of 10%</b>		
Impact on profit before taxation	-	(0.1)
Impact on equity before taxation	(0.6)	(0.6)
<b>Decrease in value of NZ dollar of 10%</b>		
Impact on profit before taxation	-	0.1
Impact on equity before taxation	0.5	0.5

Significant assumptions used in the foreign currency exposure sensitivity analysis include the following:

- Reasonably possible movements in foreign exchange rates were determined based on a review of the last two years' historical movements. A movement of plus or minus 10% has been applied to the exchange rates to demonstrate the sensitivity to foreign currency risk of the company's debt and associated derivative financial instruments; and
- The sensitivity was calculated by taking the spot rate as at balance date of 0.9350 (2019: 0.9571) for AUD and 0.6454 (2019: 0.6719) for USD and moving this spot rate by the reasonably possible movements of plus or minus 10% and then reconvert the foreign currency into NZD with the new spot rate. This methodology reflects the translation methodology undertaken by the group.

The cross-currency interest rate swaps correspond in amount and maturity to the relevant Australian and US dollar borrowings with no residual foreign currency risk exposure.

The cross-currency interest rate swaps consist of a fair value hedge component and a cash flow hedge component. The effective movements on the fair value hedge component are taken to the income statement along with all movements of the hedged risk on the USPP notes and AMTN notes. The effective movements of the cash flow hedge components are all taken to the cash flow hedge reserve.

The net exposure at balance date is representative of what the group was and is expecting to be exposed to in the next 12 months from balance date.

**(v) Capital risk management**

The group's objective is to maintain a capital structure mix of shareholders' equity and debt that achieves a balance between ensuring the group can continue as a going concern and providing a capital structure that maximises returns for shareholders and reduces the cost of capital to the group. The appropriate capital structure of the group is determined from consideration of our target credit rating, comparison to peers, sources of finance, borrowing costs, general shareholder expectations, the ability to distribute surplus funds efficiently, future business strategies and the ability to withstand business shocks.

The group can maintain or adjust the capital structure by adjusting the level of dividends, changing the level of capital expenditure, issuing new shares, returning capital to shareholders or selling assets to reduce debt. The group monitors the capital structure on the basis of the gearing ratio and by considering the credit rating of the company. In the year to 30 June 2020, key capital management initiatives included the cancellation of dividends (note 9), reduction in capital expenditure (note 11 and note 12) and issuance of new shares (note 15) to improve the financial position of the group.

The gearing ratio is calculated as borrowings divided by borrowings plus the market value of shareholders' equity. The gearing ratio as at 30 June 2020 is 19.4% (2019: 15.5%). The current long-term credit rating of Auckland Airport by Standard & Poor's at 30 June 2020 is 'A- Stable Outlook' (2019: 'A- Stable Outlook').

## Notes and accounting policies CONTINUED

FOR THE YEAR ENDED 30 JUNE 2020

### 19. Commitments

#### (a) Property, plant and equipment

The group had contractual obligations to purchase or develop property, plant and equipment for \$91.9 million at 30 June 2020 (2019: \$72.0 million).

#### (b) Investment property

The group had contractual obligations to either purchase, develop, repair or maintain investment property for \$64.6 million at 30 June 2020 (2019: \$183.4 million).

#### (c) Operating lease receivable – group as lessor

The group has commercial properties owned by the company that produce rental income and retail concession agreements that produce retail income.

These non-cancellable leases have remaining terms of between one month and 31 years (2019: one month and 36 years). Most leases with an initial period over three years include a clause to enable upward revision of the rental charge on contractual rent review dates according to prevailing market conditions. A very small minority can be revised downwards under normal trading conditions. However, some of the retail concession arrangements contain provisions for rental to be adjusted downwards in the event of a fall in passenger numbers.

The future minimum lease receivables have been reduced in 2020 where the group has contractual or constructive obligations to adjust fixed rent in response to COVID-19 and the associated reductions in passenger numbers.

Future minimum rental and retail income receivable under non-cancellable operating leases as at 30 June are as follows:

	2020	2019
	\$M	\$M
Within one year	90.8	267.9
Between one and two years	89.9	264.4
Between two and three years	82.3	250.2
Between three and four years	73.2	179.8
Between four and five years	65.6	71.0
After more than five years	590.5	671.2
<b>Total minimum lease payments receivable</b>	<b>992.3</b>	<b>1,704.5</b>

### 20. Contingent liabilities

#### Noise insulation

Auckland Airport Designation 1100, contained in the Auckland Unitary Plan, sets out the requirements for noise mitigation for properties affected by aircraft noise. The conditions include obligations on the company to mitigate the impact of aircraft noise through the installation of noise mitigation packages to existing dwellings and schools. The noise mitigation packages provide treatment of dwellings to achieve an internal noise environment of no more than 40dB. The company is required to subsidise 100% of treatment costs for properties in the high aircraft noise area and 75% in the medium aircraft noise area.

The aircraft noise contours included in Designation 1100 reflect the long-term predicted aircraft noise levels generated by aircraft operations from the existing runway and proposed northern runway. Annually, the company projects the level of noise that will be generated from aircraft operations for the following 12 months.

These annual projections confirm which dwellings and schools are eligible for noise mitigation each year and offers are sent out to those affected properties. It is at the discretion of the individual landowner whether they accept a noise mitigation package.

Projections are undertaken annually to determine eligibility, and the rate of acceptance of offers of treatment by landowners is variable. However, it is estimated that further costs on noise mitigation should not exceed \$8.2 million (2019: \$9.0 million), refer note 21.

#### Contractor claims

A contingent liability of \$10.4 million has been recognised for contractor claims in respect of capital works which are under ongoing independent assessment of both entitlement and value. The group has taken a highly conservative view and recognised as a contingent liability the total uncertified contractor claims.

### 21. Provisions

#### Firefighting foam clean-up

The group has an obligation to dispose of PFOS/PFOA contaminated firefighting foam inventory. PFOS/PFOA containing firefighting foam has been widely used in the airport sector, globally and throughout New Zealand. The Ministry for the Environment is yet to determine if the airport sector will need to perform any additional decontamination tasks other than disposing

of surplus inventory, but our investigations to determine the extent of any contamination are ongoing. The group has provided for the expected disposal costs as outlined in the table below. At this time, the potential cost of any yet to be determined decontamination obligations has not been provided for in the financial statements.

*Noise mitigation*

Annual projections of aircraft noise levels determine requirements for Auckland Airport to fund noise mitigation packages for dwellings and schools affected by aircraft noise. The company makes an annual offer to affected landowners and, on acceptance of an offer, the group records a provision for the estimated cost of installing that year's mitigation packages. The annual cost varies depending on the extent of properties affected and the number of offers accepted.

*Contract termination costs*

As a result of the significant disruption caused by the imposition of travel restrictions in reference to COVID-19, Auckland Airport suspended a number of construction contracts in the year. These contracts were for infrastructure projects that were providing additional capacity that is no longer considered necessary in the immediate future. The group has provided for the future costs associated with the early termination of these construction contracts.

	Foam disposal \$M	Noise mitigation \$M	Contract termination \$M	Total \$M
<b>Year ended 30 June 2020</b>				
Opening balance	0.9	0.5	-	1.4
Provisions made during the year	-	0.8	36.3	37.1
Unused amounts reversed during the year	-	-	-	-
Expenditure for the year	(0.6)	(0.7)	-	(1.3)
<b>Total provisions at year end</b>	<b>0.3</b>	<b>0.6</b>	<b>36.3</b>	<b>37.2</b>
<b>Year ended 30 June 2019</b>				
Opening balance	1.2	0.1	-	1.3
Provisions made during the year	-	1.4	-	1.4
Unused amounts reversed during the year	-	-	-	-
Expenditure for the year	(0.3)	(1.0)	-	(1.3)
<b>Total provisions at year end</b>	<b>0.9</b>	<b>0.5</b>	<b>-</b>	<b>1.4</b>

**22. Related party disclosures****(a) Transactions with related parties**

All trading with related parties, including and not limited to rentals and other sundry charges, has been made on an arm's-length commercial basis, without special privileges, except for the provision of accounting and advisory services to Auckland International Airport Marae Limited at no charge.

No guarantees have been given or received.

*Auckland Council*

Auckland Council is a significant shareholder of the company, with a shareholding in excess of 18%.

Transactions with Auckland Council and its subsidiaries are as follows:

	2020 \$M	2019 \$M
Rates	13.7	12.3
Building consent costs and other local government regulatory obligations	1.2	0.9
Water, wastewater and compliance services	3.1	2.0
Grounds maintenance	1.9	2.1
Sale of land	-	(1.5)

The amount owing to Auckland Council at 30 June 2020 is \$4.4 million (2019: \$0.4 million)

On 28 October 2010, Auckland Airport and Manukau City Council came to an agreement where Auckland Airport agreed to vest approximately 24 hectares of land in the north of the airport to the Council as public open space for the consideration of \$4.1 million. The vesting of the land will be triggered when building development in that precinct achieves certain levels.

The obligations and benefits of the agreement relating to Manukau City Council now rest with Auckland Council.

## Notes and accounting policies CONTINUED

FOR THE YEAR ENDED 30 JUNE 2020

### 22. Related party disclosures CONTINUED

#### Interest of directors in certain transactions

A number of the company's directors are also directors of other companies, and any transactions undertaken with these entities have been entered into on an arm's-length commercial basis, without special privileges. These include engineering works of \$31.0 million by Fulton Hogan during the year ended 30 June 2020 (2019: \$19.5 million). The amount owing to Fulton Hogan at 30 June 2020 is \$0.5 million (2019: \$0.4 million)

#### Associate and joint ventures

Refer to note 8 for details of transactions with associate entities and joint ventures as listed below:

- Tainui Auckland Airport Hotel Limited Partnership;
- Tainui Auckland Airport Hotel 2 Limited Partnership; and
- Queenstown Airport Corporation Limited.

#### (b) Key management personnel compensation

The table below includes the remuneration of directors and the senior management team.

	Notes	2020 \$M	2019 \$M
Directors' fees		1.4	1.5
Senior management's salary and other short-term benefits		5.9	5.6
Senior management's share-based payments	23(b)	0.5	0.6
		7.8	7.7

### 23. Share-based payment plans

#### (a) Employee share purchase plan

The purchase plan is open to all full-time and part-time employees (not directors) at an offer date. The company advances to the purchase plan all the monies necessary to purchase the shares under the purchase plan. The advances are repayable by way of deduction from the employee's regular remuneration. These advances are interest free.

The shares allocated under the purchase plan are held in trust for the employees by the trustees of the purchase plan during the restrictive period, which is the longer of three years or the period of repayment by the employee of the loan made by the trust to the employee in relation to the acquisition of shares.

Movement in ordinary shares allocated to employees under the purchase plan is as follows.

	2020 Shares	2019 Shares
<b>Shares held on behalf of employees</b>		
Opening balance	201,100	109,539
Shares issued during the year	102,631	-
Shares reallocated to employees	46,669	169,800
Shares fully paid and allocated to employees	(21,100)	(64,500)
Shares forfeited during the year	(24,100)	(13,739)
<b>Total shares held on behalf of employees</b>	305,200	201,100
Unallocated shares held by the purchase plan	20,000	92,898
<b>Total shares held by the purchase plan</b>	325,200	293,998

On 4 November 2019, shares were allocated partially from a surplus of shares held by the Trustees of the Auckland International Airport Limited Share Purchase Plan, issued at a price of \$7.933, being a 15% discount on the weighted average market selling price at which ordinary shares were sold on the NZX Main Board on 4 November 2019. On 1 November 2018, shares were allocated from a surplus of shares held by the Trustees of the Auckland International Airport Limited Share Purchase Plan, issued at a price of \$6.007, being a 15% discount on the weighted average market selling price at which ordinary shares were sold on the NZX Main Board on 1 November 2018.

## (b) Long-term incentive plan (LTI plan)

### Share rights LTI plan

In August 2019, the directors introduced a new share rights LTI plan that vests from calendar year 2022 onwards. This replaces the legacy LTI plan, with tranches currently operating under both plans. Under the new LTI plan, share rights are granted to participating executives with a three-year vesting period. Share rights, once vested and exercised, entitle the participating executives to receive shares in Auckland Airport. The vesting rules and performance hurdles are described below.

### Legacy LTI plan

In October 2015, the directors introduced an equity-settled LTI plan that vests from calendar year 2018 to calendar year 2021. Under the legacy LTI plan, shares are issued and then held in trust for participating executives for a three-year vesting period. The executives are entitled to the dividends on the shares during the vesting period at the same rate as paid to all ordinary shareholders. The vesting rules and performance hurdles are described below.

### Vesting rules and performance hurdles

The vesting rules and performance hurdles are the same for both the share rights and the legacy LTI plans. The receipt of the shares, or vesting, is at nil cost to executives and subject to remaining employed by Auckland Airport during the vesting period and achievement of total shareholder return (TSR) performance hurdles. For 50% of the shares granted under the plans, all shares will vest if TSR equals or exceeds the company's cost of equity plus 1% compounding annually (independently calculated by Jarden and PricewaterhouseCoopers). For the other 50% of shares granted, the proportion of shares that vest depends on Auckland Airport's TSR relative to a peer group. The peer group comprises the members of the Dow Jones Brookfield Airports Infrastructure Index (excluding Auckland Airport) at each grant date. To the extent that performance hurdles are not met or executives leave Auckland Airport prior to vesting, the shares or share rights are forfeited.

Grant date	Vesting date	Number of share rights				Balance at the end of the year
		Balance at the beginning of the year	Granted during the year	Vested during the year	Forfeited during the year	
27 September 2019	30 September 2022	-	161,289	-	11,024	150,265
<b>Total</b>		-	161,289	-	11,024	150,265

Grant date	Vesting date	Number of shares held on behalf of executives				Balance at the end of the year
		Balance at the beginning of the year	Granted during the year	Vested during the year	Forfeited during the year	
23 October 2016	23 October 2019	89,379	-	89,379	-	-
23 October 2017	23 October 2020	133,383	-	-	9,359	124,024
24 September 2018	24 September 2021	125,744	-	-	10,289	115,455
<b>Total</b>		348,506	-	89,379	19,648	239,479

### Fair value of share rights granted

The LTI plans are valued as nil-price in-substance options at the date at which they are granted using a probability weighted pay-off valuation model independently prepared by Jarden. The following table lists the key inputs to the valuation. Volatility estimates were derived using historical data over the past two years. The cost is recognised in the income statement over the vesting period, together with a corresponding increase in the share-based payment reserve in equity.

Grant date	Vesting date	Grant price	Risk-free interest rate range	Expected volatility of share price	Estimated fair value per share right	Share price at exercise
23 October 2016	23 October 2019	\$6.65	1.85 - 3.23%	22.7%	\$2.15	\$9.00
23 October 2017	23 October 2020	\$6.25	1.79 - 3.06%	21.9%	\$2.57	N/A
24 September 2018	24 September 2021	\$7.13	1.80 - 2.00%	18.2%	\$3.08	N/A
27 September 2019	30 September 2022	\$9.25	0.79 - 0.81%	19.8%	\$4.01	N/A

It has been assumed that participants will remain employed with the company until the vesting date.

The share-based payment expense relating to the LTI plan for the year ended 30 June 2020 is \$0.2 million (2019: \$0.1 million) with a corresponding increase in the share-based payments reserve (refer note 16(c)).

## Notes and accounting policies CONTINUED

FOR THE YEAR ENDED 30 JUNE 2020

### **24. Events subsequent to balance date**

On 27 July 2020, Auckland Airport applied for the extended wage subsidy and received \$2.2 million.

On 12 August 2020, the New Zealand Government reinstated COVID-19 Alert Level 3 for the Auckland region, which includes restrictions on non-essential travel into, out of, and within the Auckland region. The rest of New Zealand moved into Alert Level 2. As at the date of this report, the restrictions were intended to remain in place until 26 August 2020. Following the COVID-19 outbreak, the group restructured its operations, balance sheet and debt covenants to withstand a long recovery period and this temporary setback has not materially affected its plans. Please refer to <https://covid19.govt.nz/> for the latest COVID-Alert status.

On 19 August 2020, the directors of Queenstown Airport resolved that no final dividend will be declared for the year ended 30 June 2020.

## Audit Report

### INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF AUCKLAND INTERNATIONAL AIRPORT LIMITED

#### Opinion

We have audited the consolidated financial statements of Auckland International Airport Limited and its subsidiaries (the 'Group'), which comprise the consolidated statement of financial position as at 30 June 2020, and the consolidated income statement, statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements, on pages 22 to 74, present fairly, in all material respects, the consolidated financial position of the Group as at 30 June 2020, and its consolidated financial performance and cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards ('NZ IFRS') and International Financial Reporting Standards ('IFRS').

#### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing ('ISAs') and International Standards on Auditing (New Zealand) ('ISAs (NZ)'). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of the Company in accordance with Professional and Ethical Standard 1 *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)* issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)*, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Our firm carries out other assignments for the Group in the area of AGM vote scrutineer assistance and assurance reporting for regulatory reporting as well as taxation advice. These services have not impaired our independence as auditor of the Company and Group. In addition to this, partners and employees of our firm deal with the Company and its subsidiaries on normal terms within the ordinary course of trading activities of the business of the Company and its subsidiaries. The firm has no other relationship with, or interest in, the Company or any of its subsidiaries.

#### Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
<p><b>Fair Value of Revalued Property, Plant and Equipment</b></p> <p>Land, buildings and services, runway, taxiways, aprons and infrastructure property, plant and equipment ('Revalued PPE') are recorded on the statement of financial position at their fair value at the date of revaluation less any subsequent accumulated depreciation and impairment losses (if any). The Group revalues these assets at regular intervals that are sufficient to ensure that the carrying values are not materially different to their fair values. The carrying value of these assets as at 30 June 2020 is \$6,061 million.</p> <p>Land, runway, taxiways and aprons, and infrastructure assets were revalued at 30 June 2020.</p> <p>Buildings and services assets were last revalued at 30 June 2019. The Group did not carry out revaluations in 2020 on these assets as it assessed there has been no material change in fair values.</p> <p>The Group's assessment considered movements in the relevant capital goods price indices and other relevant market indicators.</p> <p>Note 11 to the financial statements provides summary information about each class of Revalued PPE, including depreciation expense by asset class and descriptions of the valuation methodologies used in the latest valuations.</p> <p>The independent registered valuers have carried out the valuations by applying assumptions (including possible rental abatements) regarding the reasonably possible impacts of COVID-19 based on information available as at 30 June 2020. Land is the main driver of the decrease in the fair value of Revalued PPE in the current year. The most affected categories are land associated with car park facilities and retail facilities in the terminal buildings. Airfield land has also been affected by negative market sentiment for large-scale residential developments due to the expected economic downturn resulting from COVID-19.</p> <p>Given the circumstances, the property valuations, with the exception of reclaimed land, as at 30 June 2020 have been prepared on the basis of 'significant market uncertainty' or 'material valuation uncertainty' and therefore the valuers have advised that less certainty should be attached to the property values than would normally be the case.</p> <p>We consider the fair value of Revalued PPE to be a key audit matter due to the materiality of the carrying amounts to the financial statements and the judgement involved in determining their fair values, including those that relate to the impacts of COVID-19.</p>	<p>In relation to the land, runway, taxiways and aprons, and infrastructure assets revalued in the current year, our audit procedures focused on the valuation process, methodologies and key inputs.</p> <p>We evaluated the Group's processes in respect of the independent valuations including the selected valuation methodologies, the internal data provided to the valuers where relevant, and the reconciliation of the valuations to the asset register.</p> <p>We evaluated the competence, objectivity and independence of the external valuers. This included assessing their professional qualifications and experience and obtaining representation from them regarding their independence and the scope of their work. We also met with the independent valuers to discuss and challenge key aspects of their valuations. We specifically discussed the impact of COVID-19 with valuers. This discussion related to the general market, as well as specific properties identified by us.</p> <p>Our procedures included, on a test basis:</p> <ul style="list-style-type: none"> <li>• Reading the valuation reports, considering whether the methodology applied was appropriate for the asset being valued, and ensuring the reports considered the impacts of COVID-19;</li> <li>• Assessing the methodology for consistency with prior valuations and considering whether any changes to the methodology were required;</li> <li>• Challenging the reasonableness of the key inputs and assumptions to the models by comparing them to observable market data where possible and understanding the impact that COVID-19 has on these key inputs and assumptions; and</li> <li>• Challenging management's COVID-19 rental abatements analysis and ensuring that these were factored into the valuation process.</li> </ul> <p>For all other PPE carried at fair value, our audit procedures focused on the appropriateness of the Group's assessment that the carrying value is not materially different to fair value.</p> <p>Our procedures included:</p> <ul style="list-style-type: none"> <li>• Assessing whether the capital goods price indices used by the Group are appropriate;</li> <li>• Comparing the capital goods price indices and other relevant inputs to observable market data and testing the accuracy of the Group's calculation of changes; and</li> <li>• Considering the appropriateness of the Group's assessment that carrying values are not materially different to fair value, including the Group's consideration of the impact of COVID-19.</li> </ul>

Key audit matter	How our audit addressed the key audit matter
<p><b>Valuation of Investment Properties</b></p> <p>Investment properties of \$2,043 million are recorded at fair value in the statement of financial position at 30 June 2020. A revaluation gain of \$169 million is recognised in the income statement.</p> <p>Revaluations are carried out annually by independent registered valuers. Estimating the fair values requires judgement and the models used include both observable and non-observable inputs.</p> <p>Vacant land (\$330 million) is valued using a direct sales comparison.</p> <p>Retail and service, industrial, and other investment properties (\$1,713 million) are valued using discounted cash flow models. The significant inputs to the discounted cash flow models are market rental rates, rental growth rates and discount rates.</p> <p>Note 12 to the financial statements provides summary information about the investment properties held by the Group and quantitative information about the key inputs to the valuation models. Note 11 (c) describes the methodologies used and provides qualitative information about the sensitivity of the models to changes in the key inputs.</p> <p>The independent registered valuers have carried out the valuations by applying assumptions (including possible rental abatements) regarding the reasonably possible impacts of COVID-19 based on information available as at 30 June 2020. Accordingly, the retail and service properties have been most affected because of the reduced foot traffic in these stores from the continued closure of New Zealand's borders to non-residents. Other properties' carrying values have been supported by tenants with long leases including government agencies and essential services. Despite the impact of COVID-19, the overall investment properties' carrying value has remained stable.</p> <p>However, given the circumstances, the property valuations as at 30 June 2020 have been prepared on the basis of 'material valuation uncertainty' and therefore the valuers have advised that less certainty should be attached to the property values than would normally be the case.</p> <p>We consider the valuation of investment properties to be a key audit matter due to the materiality of revaluation gains and carrying amounts to the financial statements and the judgement involved in determining their fair values, including those that relate to the impacts of COVID-19.</p>	<p>Our audit procedures focused on the appropriateness of the valuation methodologies and key inputs applied in the models.</p> <p>We evaluated the competence, objectivity and independence of the independent registered valuers. This included assessing their professional qualifications and experience and obtaining representation from them regarding their independence and the scope of their work. We also met with the independent valuers to discuss and challenge key aspects of their valuations. We specifically discussed the impact of COVID-19 with valuers. This discussion related to the general market, as well as specific properties identified by us.</p> <p>We performed testing on a sample of the valuation reports. Our procedures included:</p> <ul style="list-style-type: none"> <li>• Reading the valuation reports and considering whether the methodology applied was appropriate for the property being valued, and ensuring the reports considered the impact of COVID-19;</li> <li>• Assessing the methodology for consistency with the prior period and considering whether any changes to the methodology were appropriate;</li> <li>• For properties valued using the direct sales comparison approach, comparing sales information used to available market information about sales of similar properties; and</li> <li>• For properties valued using the discounted cash flow approach: <ul style="list-style-type: none"> <li>– Comparing current rental rates to the underlying lease agreements;</li> <li>– Comparing market rental rates, rental growth rates and discount rates to market data, where available.; and</li> <li>– Challenging management's COVID-19 rental abatements analysis and ensuring that these were factored into the valuation process.</li> </ul> </li> </ul> <p>In addition, we evaluated the overall reasonableness of the revaluation change in the investment property portfolio by analysing the change in fair value relative to overall market observations.</p>

### Other information

The directors are responsible on behalf of the Group for the other information. The other information comprises the information in the Annual Report that accompanies the consolidated financial statements and the audit report.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and consider whether it is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If so, we are required to report that fact. We have nothing to report in this regard.

### **Directors' responsibilities for the consolidated financial statements**

The directors are responsible on behalf of the Group for the preparation and fair presentation of the consolidated financial statements in accordance with NZ IFRS and IFRS, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible on behalf of the Group for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

### **Auditor's responsibilities for the audit of the consolidated financial statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and ISAs (NZ) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

A further description of our responsibilities for the audit of the consolidated financial statements is located on the External Reporting Board's website at:

<https://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-1>

This description forms part of our auditor's report.

### **Restriction on use**

This report is made solely to the Company's shareholders, as a body. Our audit has been undertaken so that we might state to the Company's shareholders those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company's shareholders as a body, for our audit work, for this report, or for the opinions we have formed.

The logo for Deloitte Limited, featuring the company name in a stylized, cursive script.

**Andrew Burgess, Partner  
for Deloitte Limited**

Auckland, New Zealand  
20 August 2020

This audit report relates to the consolidated financial statements of Auckland International Airport Limited (the 'Company') for the year ended 30 June 2020 included on the Company's website. The Directors are responsible for the maintenance and integrity of the Company's website. We have not been engaged to report on the integrity of the Company's website. We accept no responsibility for any changes that may have occurred to the consolidated financial statements since they were initially presented on the website. The audit report refers only to the consolidated financial statements named above. It does not provide an opinion on any other information which may have been hyperlinked to/from these consolidated financial statements. If readers of this report are concerned with the inherent risks arising from electronic data communication they should refer to the published hard copy of the audited consolidated financial statements and related audit report dated 20 August 2020 to confirm the information included in the audited consolidated financial statements presented on this website.

# Five-year summary

FOR THE YEAR ENDED 30 JUNE 2020

	2020	2019	2018	2017	2016
Group income statement	\$M	\$M	\$M	\$M	\$M
<b>Income</b>					
Airfield income	100.6	127.6	122.1	119.6	103.4
Passenger services charge	133.0	185.1	179.1	174.3	154.9
Retail income	141.5	225.8	190.6	162.8	157.5
Rental income	109.2	107.8	97.6	84.9	74.7
Rates recoveries	7.7	6.7	6.0	5.6	5.4
Car park income	50.3	64.2	61.0	56.3	52.1
Interest income	1.7	1.8	2.2	2.3	1.7
Other income	23.0	24.4	25.3	23.5	24.2
<b>Total income</b>	<b>567.0</b>	<b>743.4</b>	<b>683.9</b>	<b>629.3</b>	<b>573.9</b>
<b>Expenses</b>					
Staff	62.9	59.1	57.9	50.5	46.8
Asset management, maintenance and airport operations	77.5	81.1	69.5	55.6	49.1
Rates and insurance	18.0	16.1	13.7	12.2	11.5
Marketing and promotions	8.3	12.7	13.8	16.7	16.3
Professional services and levies	6.2	8.6	11.1	11.4	9.7
Fixed asset write-offs, impairment and termination costs	117.5	-	-	-	-
Other expenses	16.2	11.0	11.5	9.8	10.2
<b>Total expenses</b>	<b>306.6</b>	<b>188.6</b>	<b>177.5</b>	<b>156.2</b>	<b>143.6</b>
<b>Earnings before interest expense, taxation, depreciation, fair value adjustments and investments in associate and joint ventures (EBITDAFI)</b>	<b>260.4</b>	<b>554.8</b>	<b>506.4</b>	<b>473.1</b>	<b>430.3</b>
Investment property fair value change	168.6	254.0	152.2	91.9	87.1
Property, plant and equipment fair value revaluation	(45.9)	(3.8)	-	-	(16.5)
Derivative fair value change	(1.9)	(0.6)	(0.7)	2.5	(2.6)
Share of profit of associate and joint ventures	8.4	8.2	16.7	19.4	(8.4)
Gain on sale of associate	-	-	297.4	-	-
Impairment of investment in joint venture	(7.7)	-	-	-	-
<b>Earnings before interest, taxation and depreciation (EBITDA)</b>	<b>381.9</b>	<b>812.6</b>	<b>972.0</b>	<b>586.9</b>	<b>489.9</b>
Depreciation	112.7	102.2	88.9	77.9	73.0
<b>Earnings before interest and taxation (EBIT)</b>	<b>269.2</b>	<b>710.4</b>	<b>883.1</b>	<b>509.0</b>	<b>416.9</b>
Interest expense and other finance costs	71.8	78.5	77.2	72.8	79.1
<b>Profit before taxation</b>	<b>197.4</b>	<b>631.9</b>	<b>805.9</b>	<b>436.2</b>	<b>337.8</b>
Taxation expense	3.5	108.4	155.8	103.3	75.4
<b>Profit after taxation attributable to the owners of the parent</b>	<b>193.9</b>	<b>523.5</b>	<b>650.1</b>	<b>332.9</b>	<b>262.4</b>

## Five-year summary CONTINUED

FOR THE YEAR ENDED 30 JUNE 2020

	2020	2019	2018	2017	2016
Group statement of comprehensive Income	\$M	\$M	\$M	\$M	\$M
<b>Profit for the period</b>	193.9	523.5	650.1	332.9	262.4
<b>Other comprehensive income</b>					
<b>Items that will not be reclassified to the income statement</b>					
Property, plant and equipment net revaluation movements	(599.8)	87.6	1,189.6	-	784.0
Tax on the property, plant and equipment revaluation reserve	(32.5)	(24.6)	-	-	(7.1)
Movement in share of reserves of associate and joint ventures	-	-	8.0	7.5	8.9
<b>Items that will not be reclassified to the income statement</b>	<b>(632.3)</b>	<b>63.0</b>	<b>1,197.6</b>	<b>7.5</b>	<b>785.8</b>
<b>Items that may be reclassified subsequently to the income statement</b>					
Cash flow hedges					
Fair value gains/(losses) recognised in the cash flow hedge reserve	(44.5)	(47.1)	(9.5)	15.2	(36.5)
Realised (gains)/losses transferred to the income statement	(2.2)	1.6	2.9	6.7	6.0
Tax effect of movements in the cash flow hedge reserve	13.1	13.3	0.3	(6.1)	8.5
<b>Total cash flow hedge movement</b>	<b>(33.6)</b>	<b>(32.2)</b>	<b>(6.3)</b>	<b>15.8</b>	<b>(22.0)</b>
Movement in cost of hedging reserve	2.7	(4.8)	-	-	-
Tax effect of movements in the cash flow hedge reserve	(0.8)	2.3	-	-	-
Movement in share of reserves of associate and joint ventures	-	-	0.4	2.5	1.9
Movement in foreign currency translation reserve	-	-	0.8	0.2	(2.7)
<b>Items that may be reclassified subsequently to the income statement</b>	<b>(31.7)</b>	<b>(34.7)</b>	<b>(5.1)</b>	<b>18.5</b>	<b>(22.8)</b>
<b>Total other comprehensive income/(loss)</b>	<b>(664.0)</b>	<b>28.3</b>	<b>1,192.5</b>	<b>26.0</b>	<b>763.0</b>
<b>Total comprehensive income for the period, net of tax attributable to the owners of the parent</b>	<b>(470.1)</b>	<b>551.8</b>	<b>1,842.6</b>	<b>358.9</b>	<b>1,025.4</b>
Group statement of changes in equity	2020	2019	2018	2017	2016
	\$M	\$M	\$M	\$M	\$M
<b>At 1 July</b>	6,032.9	5,682.1	4,029.0	3,880.7	3,042.9
Profit for the period	193.9	523.5	650.1	332.9	262.4
Other comprehensive income/(loss)	(664.0)	28.3	1,192.5	26.0	763.0
<b>Total comprehensive income</b>	<b>(470.1)</b>	<b>551.8</b>	<b>1,842.6</b>	<b>358.9</b>	<b>1,025.4</b>
Reclassification to gain on sale of associate	-	-	8.5	-	-
Shares issued	1,210.4	64.0	55.9	15.6	0.4
Share buy back	-	-	-	-	0.1
Long-term incentive plan	0.2	0.1	0.2	0.1	-
Dividend paid	(136.3)	(265.1)	(254.1)	(226.3)	(188.1)
<b>At 30 June</b>	<b>6,637.1</b>	<b>6,032.9</b>	<b>5,682.1</b>	<b>4,029.0</b>	<b>3,880.7</b>

	2020	2019	2018	2017	2016
Group balance sheet	\$M	\$M	\$M	\$M	\$M
<b>Non-current assets</b>					
Property, plant and equipment					
Land	3,931.1	4,645.4	4,625.3	3,437.2	3,418.0
Buildings and services	1,140.7	1,056.7	961.8	754.2	612.4
Infrastructure	487.5	403.1	356.2	332.9	293.9
Runways, taxiways and aprons	378.3	346.5	351.5	354.3	333.3
Vehicles, plant and equipment	123.2	125.4	83.2	69.2	50.5
	6,060.8	6,577.1	6,378.0	4,947.8	4,708.1
Investment properties	2,042.7	1,745.4	1,425.6	1,198.0	1,048.9
Investment in associate and joint ventures	114.7	105.7	104.4	171.6	142.8
Derivative financial instruments	230.5	162.6	110.4	82.1	138.8
	8,448.7	8,590.8	8,018.4	6,399.5	6,038.6
<b>Current assets</b>					
Cash	765.3	37.3	106.7	45.1	52.6
Inventories	-	-	0.2	0.1	0.1
Trade and other receivables	46.2	69.0	71.5	55.5	42.3
Dividend receivable	-	-	-	2.7	3.3
Taxation receivable	21.6	-	-	-	3.9
Derivative financial instruments	15.4	-	-	0.6	0.7
	848.5	106.3	178.4	104.0	102.9
<b>Total assets</b>	9,297.2	8,697.1	8,196.8	6,503.5	6,141.5
<b>Shareholders' equity</b>					
Issued and paid-up capital	1,678.6	468.2	404.2	348.3	332.7
Cancelled share reserve	(609.2)	(609.2)	(609.2)	(609.2)	(609.2)
Property, plant and equipment revaluation reserve	4,333.7	4,968.8	4,913.9	3,729.1	3,730.6
Share-based payments reserve	1.6	1.4	1.3	1.1	1.0
Cash flow hedge reserve	(100.7)	(67.1)	(38.2)	(32.0)	(47.7)
Cost of hedging reserve	(3.9)	(5.8)	-	-	-
Share of reserves of associate and joint ventures	28.8	28.8	28.8	20.4	10.4
Foreign currency translation reserve	-	-	-	(9.3)	(9.5)
Retained earnings	1,308.2	1,247.8	981.3	580.6	472.4
	6,637.1	6,032.9	5,682.1	4,029.0	3,880.7
<b>Non-current liabilities</b>					
Term borrowings	1,824.4	1,748.6	1,893.5	1,635.6	1,490.0
Derivative financial instruments	134.6	88.4	38.9	36.1	56.9
Deferred tax liability	231.7	265.3	251.4	237.8	220.4
Other term liabilities	2.1	1.9	1.8	1.5	1.3
	2,192.8	2,104.2	2,185.6	1,911.0	1,768.6
<b>Current liabilities</b>					
Accounts payable	106.3	102.4	148.0	132.3	94.3
Taxation payable	-	15.3	12.9	6.4	-
Derivative financial instruments	3.0	-	1.3	2.8	0.1
Short-term borrowings	320.8	441.8	166.8	421.1	396.9
Provisions	37.2	0.5	0.1	0.9	0.9
	467.3	560.0	329.1	563.5	492.2
<b>Total equity and liabilities</b>	9,297.2	8,697.1	8,196.8	6,503.5	6,141.5

## Five-year summary CONTINUED

FOR THE YEAR ENDED 30 JUNE 2020

Group statement of cash flows	2020 \$M	2019 \$M	2018 \$M	2017 \$M	2016 \$M
<b>Cash flow from operating activities</b>					
Cash was provided from:					
Receipts from customers	586.0	756.0	674.0	615.5	569.5
Interest received	1.6	2.0	2.0	2.3	1.7
	587.6	758.0	676.0	617.8	571.2
Cash was applied to:					
Payments to suppliers and employees	(242.5)	(203.6)	(180.5)	(156.3)	(151.2)
Income tax paid	(94.2)	(101.1)	(96.4)	(81.7)	(69.9)
Interest paid	(75.1)	(77.4)	(77.9)	(72.7)	(79.6)
	(411.8)	(382.1)	(354.8)	(310.7)	(300.7)
<b>Net cash flow from operating activities</b>	175.8	375.9	321.2	307.1	270.5
<b>Cash flow from investing activities</b>					
Cash was provided from:					
Proceeds from sale of property, plant and equipment	0.1	-	-	0.1	0.1
Proceeds from sale of investment property	-	1.5	-	-	-
Proceeds from sale of investment in associate	-	-	357.4	-	-
Dividends from associate and joint ventures	14.9	9.2	15.4	20.2	15.8
	15.0	10.7	372.8	20.3	15.9
Cash was applied to:					
Purchase of property, plant and equipment	(240.5)	(239.1)	(310.3)	(247.9)	(124.4)
Interest paid - capitalised	(11.8)	(7.0)	(8.8)	(9.9)	(5.5)
Expenditure on investment properties	(136.1)	(81.0)	(77.1)	(81.2)	(103.7)
Investments in associates and joint ventures	(23.2)	(2.3)	-	(18.6)	-
Costs relating to sale of investment of associate	-	-	(10.1)	-	-
	(411.6)	(329.4)	(406.3)	(357.6)	(233.6)
<b>Net cash applied to investing activities</b>	(396.6)	(318.7)	(33.5)	(337.3)	(217.7)
<b>Cash flow from financing activities</b>					
Cash was provided from:					
Increase in share capital	1,178.1	-	-	0.1	0.4
Increase in borrowings	125.0	150.0	301.1	538.4	275.0
	1,303.1	150.0	301.1	538.5	275.4
Cash was applied to:					
Decrease in borrowings	(250.0)	(75.0)	(329.0)	(305.0)	(126.0)
Dividends paid	(104.3)	(201.6)	(198.2)	(210.8)	(188.1)
	(354.3)	(276.6)	(527.2)	(515.8)	(314.1)
<b>Net cash flow applied to financing activities</b>	948.8	(126.6)	(226.1)	22.7	(38.7)
Net increase/(decrease) in cash held	728.0	(69.4)	61.6	(7.5)	14.1
Opening cash brought forward	37.3	106.7	45.1	52.6	38.5
<b>Ending cash carried forward</b>	765.3	37.3	106.7	45.1	52.6

	2020	2019	2018	2017	2016
Capital expenditure	\$M	\$M	\$M	\$M	\$M
Aeronautical	205.0	106.0	280.6	255.4	119.7
Retail	14.0	19.0	12.5	7.2	4.6
Property development	146.6	87.8	80.2	85.7	106.4
Infrastructure and other	52.7	46.0	20.8	12.4	8.0
Car parking	14.7	25.3	11.1	14.0	4.5
<b>Total</b>	<b>433.0</b>	<b>284.1</b>	<b>405.2</b>	<b>374.7</b>	<b>243.2</b>
Passenger, aircraft and MCTOW	2020	2019	2018	2017	2016
<b>Passenger movements</b>					
International	8,473,946	11,517,988	11,266,382	10,820,535	9,688,922
Domestic	7,047,108	9,593,625	9,263,666	8,601,841	7,902,059
<b>Aircraft movements</b>					
International	44,962	57,082	55,693	54,879	49,828
Domestic	94,175	121,689	118,583	114,366	107,944
<b>MCTOW (tonnes)</b>					
International	4,669,929	5,894,112	5,798,018	5,609,244	4,910,014
Domestic	1,830,711	2,372,412	2,341,699	2,238,853	2,068,545

# Corporate governance

Auckland Airport's Board of directors is responsible for the company's corporate governance. The Board is committed to undertaking this role in accordance with internationally accepted best practice appropriate to the company's business, as well as taking account of the company's listing on both the NZX and the ASX (Foreign Exempt Listing Category). The company's corporate governance practices fully reflect and satisfy the 'NZX Corporate Governance Code 2020' (NZX Code) and the Financial Markets Authority handbook 'Corporate Governance in New Zealand - Principles and Guidelines' (FMA Handbook).

The comprehensive NZX Code sets out eight principles of good corporate governance. Consistent with the approach taken in the 2019 annual report, Auckland Airport has prepared the structure of this corporate governance section of the annual report so that

it reflects the company's compliance with those principles. This approach has been adopted to reflect the transparency of the company's corporate governance practices for the benefit of shareholders and other stakeholders. Further, although the company is not required to comply with the ASX Corporate Governance Council's 'Corporate Governance Principles and Recommendations' (4th Edition) (ASX Principles), given its Foreign Exempt Listing on the ASX, the company has regard to the ASX Principles in designing its governance framework and practices.

The company's constitution and each of the charters and policies referred to in this corporate governance section are available on the corporate information section of the company's website at [corporate.aucklandairport.co.nz](http://corporate.aucklandairport.co.nz).

## Principle 1: Code of ethical behaviour

The company has always required the highest standards of honesty and integrity from its directors and employees. This commitment is reflected in the company's ethics and code of conduct policy, which clearly articulates the minimum standards of ethical behaviour that all directors, employees, contractors and consultants of the company are expected to adhere to. The ethics and code of conduct policy recognises the company's legal and other obligations to all stakeholders. The ethics and code of conduct policy applies equally to directors and employees of the company.

The ethics and code of conduct policy deals with the company's:

- responsibility to act honestly and with personal integrity in all actions;
- responsibilities to shareholders, including protection of confidential information, restrictions on insider trading, rules for making of public statements on behalf of the company, accounting practices and cooperation with auditors;
- responsibilities to customers and suppliers of the company, and other persons using the Airport, including rules regarding unacceptable payments and inducements, treatment of third parties, non-discriminatory treatment and tendering obligations; and
- responsibilities to the community, including compliance with statutory and regulatory obligations, use of assets and resources and conflicts of interest.

The ethics and code of conduct policy also sets out procedures to be followed for reporting any concerns regarding breaches of the policy and review of its content by the Board.

The company also has a policy on share trading by directors, officers and employees, which sets out a fundamental prohibition on trading of the company's securities by any person with material information that is not generally available to the market and the obligation of confidentiality in dealing with any material information. The policy applies to ordinary shares and debt securities issued by the company, any other listed securities of the company or its

subsidiaries and any listed derivatives in respect of such securities. Under the policy, there is also a prohibition on directors or senior employees trading in the company's shares during any black-out period. The company's black-out periods are:

- the period from the close of trading on 30 June of each year until the day following the announcement to the NZX of the preliminary final statement or full-year results; and
- the period from the close of trading on 31 December of each year until the day following the announcement to the NZX of the half-year results.

The company's procedure for reporting and dealing with any concerns in respect of the conduct of its directors, employees and contractors is set out in its whistle-blower policy consistent with the requirements of the Protected Disclosures Act 2000.

## Principle 2: Board composition and performance

The Board's charter recognises the respective roles of the Board and management. The charter reflects the sound base the Board has developed for providing strategic guidance for the company and the effective oversight of management. The Board's primary governance roles are to:

- work with company management to ensure that the company's strategic goals are clearly established and communicated and that strategies are in place to achieve them;
- monitor management performance in strategy implementation;
- appoint the chief executive, review his or her performance and, where necessary, terminate the chief executive's employment;
- approve the appointment of the general counsel;
- approve remuneration policies via the People and Capability Committee;
- approve and monitor the company's financial statements and other reporting, including reporting to shareholders, and ensure that the company's obligations of continuous disclosure are met;
- ensure that the company adheres to high ethical and corporate behaviour standards;
- ensure there are procedures and systems in place to safeguard the health and safety of people working at, or visiting the, Auckland Airport precinct;
- ensure the company actively seeks ways to achieve a high level of diversity within the business;
- promote a company culture and remuneration practice that facilitates the recruitment, professional development and retention of staff;
- set specific limits on management's delegated authority for entry into new expenditure, contracts and acquisition of assets and approve commitments outside those limits; and
- ensure that the company has appropriate risk management and regulatory compliance policies in place and monitor the appropriateness and implementation of those policies.

The number of directors is determined by the Board, in accordance with the company's constitution, to ensure it is large and diverse enough to provide a range of knowledge, views and experience relevant to the company's business. The constitution requires there to be no more than eight and no fewer than three directors.

The Board currently comprises eight directors, being Patrick Strange (chair), Mark Binns, Dean Hamilton, Julia Hoare, Liz Savage, Tania Simpson, Justine Smyth and Christine Spring. The formal appointment to the Board of Liz Savage was approved by shareholders at the 2019 annual meeting on 23 October 2019. All of the directors are considered by the Board to be 'independent' directors. In judging whether a director is 'independent', the Board has regard to whether or not the director:

- is a Substantial Product Holder (as that term is defined in section 274 of the Financial Markets Conduct Act 2013) of the company, or if he or she represents or is an officer of, or otherwise associated directly with, a Substantial Product Holder of the company;
- is or has been employed in an executive capacity by the company and there has not been a period of at least three years between ceasing such employment and serving on the Board;
- has been within the last three years a material supplier or customer of the company, or is an officer or employee of, or otherwise associated with, a material supplier or customer;
- has a material contractual or other material relationship with the company other than as a director;
- has been within the last three years a principal of a material professional advisor or a material consultant to the company or another group member, or an employee materially associated with the service provided;
- has served on the Board for a length of time that, in the Board's opinion, may compromise independence;
- is free from any other interests or any business or other relationships (including familial) that could or could be perceived to interfere with the director's unfettered and independent judgement and ability to act in the best interests of the company; and
- or any associated person of the director, has derived, or is likely to derive, in the current financial year 10% or more of that person's annual revenue from, or by virtue of, a relationship (other than as a director of the company) the director or the associated person of the director has with the company or a Substantial Product Holder of the company.

## Corporate governance CONTINUED

As at the date of this annual report, the directors, including the dates of their appointment and independence, are:

Director	Qualifications	Gender	Location	Date of appointment	Tenure (years)	Independence
<b>Patrick Strange</b>	BE (Hons), PhD, CFinstD	M	NZ	22 October 2015	5	Yes
<b>Mark Binns</b>	LLB	M	NZ	1 April 2018	2	Yes
<b>Dean Hamilton</b>	BCA, CMinstD	M	NZ	1 November 2018	2	Yes
<b>Julia Hoare</b>	BCom, FCA, CMinstD	F	NZ	23 October 2017	3	Yes
<b>Liz Savage</b>	BEng, MSc, MAICD	F	AUS	23 October 2019	1	Yes
<b>Tania Simpson</b>	BA, MMM, CFinstD	F	NZ	1 November 2018	2	Yes
<b>Justine Smyth (CNZM)</b>	BCom, FCA, CFinstD	F	NZ	2 July 2012	8	Yes
<b>Christine Spring</b>	BE, MSc Eng, MBA, CMinstD	F	NZ	23 October 2014	6	Yes

The Board, with the assistance of the general counsel, is responsible for managing any conflicts of interest identified by directors.

Additionally, a biography of each director of the company is available on the corporate governance section of the company's website. The interests of each director are set out on page 99. The chief executive is not a member of the Board.

The Board considers that the roles of chair of the Board and chief executive must be separate. The Board charter requires that the chair of the Board is an independent, non-executive director.

The table on page 89 shows each director's Board committee memberships, the number of meetings of the Board and its committees held during the year and the number of those meetings attended (either in person or electronically) by each director. Minutes are taken of all Board and committee meetings.

Subject to the prior approval of the chair of the Board, any director is entitled to obtain independent professional advice relating to the affairs of the company or to the director's responsibilities as a director, at the cost of the company.

The Board has determined that directors will hold office for an initial term of no longer than three years following their first appointment. Directors may offer themselves for re-election by shareholders at the end of each three-year term. If the director is appointed by the Board between annual meetings, the three years apply from the date of the meeting next following that interim appointment. The Board's charter records these requirements, which are subject to any limitations imposed by shareholders in the annual meeting and the requirements of the constitution relating to the retirement of directors by rotation. The Board's policy is that directors shall not serve a term of longer than nine years unless the Board considers that any director serving longer than that period would be in the best interests of shareholders.

All directors enter into written agreements with the company in the form of a letter that sets out the terms and conditions of their appointment. A copy of the standard form of this letter is available on the company website at [corporate.aucklandairport.co.nz/Governance](http://corporate.aucklandairport.co.nz/Governance). This letter may be changed with the agreement of the Board.

The Board has established the Nominations Committee to focus on the selection of new directors, the induction of directors and to develop a succession plan for Board members. Appropriate

checks of any potential new director are undertaken before any appointment or putting forward to shareholders for election. The committee is required to comprise a minimum of three directors, two of whom must be independent non-executive directors and the chair of the committee is required to be an independent director. Currently, all eight directors are members of the committee, with each member being independent and Patrick Strange as chair. The Nominations Committee does not meet separately as all matters to be discussed at the committee are discussed by the full Board.

The Board seeks to ensure that it has an appropriate mix of skills, experience and diversity to ensure it is well equipped to navigate the range of issues faced by the company. The Board reviews and evaluates on a regular basis the skill mix required and identifies where gaps exist. The areas of skill and experience the Board considers to be particularly relevant include: listed governance experience, CEO experience, infrastructure, property, risk management and audit, as well as capital markets/capital structure, regulatory, shareholder/stakeholder connectivity, iwi relationships, aeronautical and customer/retail experience.

The skills and experience of the directors are set out in the Board's current skills matrix below.

	Listed Governance Experience	CEO Experience	Infrastructure	Property	Risk Management/Audit	Capital Markets/Capital Structure	Regulation Experience	Shareholder/Stakeholder Connectivity/Iwi Relations	Airports/Aeronautical	Customer Experience/Retail
Director 1	●	●	●		○	○	●	○		
Director 2	●	●	●	●	○	○	○	●		○
Director 3	●	●	○	○	●	●		●		○
Director 4	●		●	○	●	○	○	●	○	○
Director 5	●	○			○		○	○	●	●
Director 6	○		○			○	●	●		●
Director 7	●			○	●	●	○	●	○	○
Director 8	○		●		○	○	●		●	○

Primary
  Secondary
 Blank = Limited / No Experience

A definition of categories referred to above can be found on the company website at [corporate.aucklandairport.co.nz/governance](https://corporate.aucklandairport.co.nz/governance).

### Diversity

The company strongly values and supports diversity, ensuring that the company and its leadership, management and employees reflect the diverse range of individuals and groups within our society. This commitment is reflected in our diversity and inclusiveness policy which applies to all employees, contractors and directors. All activities at Auckland Airport are inclusive of a wide spectrum of perspectives, and all employees have the opportunity and are encouraged to contribute to the company in their own way.

Auckland Airport is also a founding member of Champions for Change, a group of businesses seeking to raise the focus on diversity and inclusiveness in the New Zealand business community.

The Board, with guidance from the People and Capability Committee, annually assesses the full set of objectives contained in the diversity and inclusiveness policy and measures the company's progress towards achieving them. Auckland Airport continues to make progress in delivering its objectives, in particular in relation to:

- Visible leadership commitment to promote diversity and lead diverse teams;

- Eliminating system bias;
- Ensuring people processes are equitable, inclusive and supportive of our diverse workforce;
- Partnering with the community and its members to share their cultures, languages and capabilities;
- Attracting and retaining diverse talent;
- Participating in external business initiatives that have diversity aims consistent with our company's aims;
- Having systems in place to enable employees to report discrimination concerns; and
- Providing opportunities for employees to showcase their unique talents and cultures, perspectives and life experiences.

The company has made good progress in achieving its diversity and inclusiveness objectives, but COVID-19 has delayed the final stages of work including further work on removing recruitment bias.

The People and Capability Committee of the Board receives an annual diversity and inclusion report from management on diversity within the company. In addition, the senior management team receives regular reports on diversity and wider gender demographics (where available) to assess how the company is tracking against the policy at the end of each reporting period.

## Corporate governance CONTINUED

The table below shows the gender balance and age range of people who work at Auckland Airport. In FY19 and FY20 no one identified themselves as non-binary.

	FY20				FY19			
	Male	Female	% Female	Age range	Male	Female	% Female	Age range
<b>Board</b>	3	5	62%	47-68	4	4	50%	53-67
<b>Leadership team</b>	6	2	25%	40-56	7	2	22%	39-55
<b>Direct reports to leadership team</b>	25	19	41%	28-64	29	15	34%	33-63
<b>All other employees</b>	283	174	38%	19-74	315	212	40%	18-75

Auckland Airport has a majority of women on its Board with the chairs of three of its committees also being women. Maintaining diversity has been a key design principle of the company's recent restructuring and there has been a proportionate increase in women at the leadership team and senior management levels. However, given the changes and the current hiring freeze, overall gender diversity has been relatively static from the 2019 financial year.

Another of Auckland Airport's diversity objectives is attracting and retaining a diverse workforce with 44 different nationalities being represented across the organisation.

### *Future Director*

Auckland Airport participates in the Institute of Directors' 'Future Directors' programme. The programme aims to improve the quantum, quality and diversity of 'board ready' candidates in New Zealand. The programme operates within a well-defined set of protocols at Auckland Airport.

Ms Michelle Kong completed her participation with Auckland Airport in the Future Directors programme on 30 June 2020.

### *Enhanced Parental Leave*

Auckland Airport provides a parental leave policy for permanent full-time and part-time employees, regardless of gender, sexuality, age or whether giving birth or adopting a child. If someone has been employed by Auckland Airport for a minimum of 12 months then the company tops up the Government's parental leave payments for a period of 18 weeks. In the 2020 financial year, 16 female employees took parental leave with six returning during the reporting period and seven due to return in the coming year.

The Board is encouraged and provided with opportunities to engage with employees from all levels of business without executive management present. Each Board meeting includes either a safety walk, an engagement with a business unit of the company or tour of a particular infrastructure asset or construction project. Directors have also participated in construction contractor safety and engagement forums facilitated by the company. To ensure directors and management remain current on how best to perform their duties, they are also encouraged and provided with resources to continue the development of their business skills and knowledge, including attending relevant courses, conferences and briefings.

Directors have unfettered access to the company's records and information as required for the performance of their duties. They also receive detailed information in Board papers to facilitate decision-making. New Board members take part in an induction

programme to familiarise them with the company's business and facilities.

The general counsel is responsible and accountable to the Board for:

- ensuring that Board procedures are followed and the applicable rules and regulations for the conduct of the affairs of the Board are complied with;
- ensuring the statutory functions of the Board and the company are appropriately dealt with and for bringing to the Board's attention any failure to comply with such, of which the general counsel becomes aware; and
- all matters associated with the maintenance of the Board or otherwise required for its efficient operation.

All directors have access to the advice and services of the general counsel for the purposes of the Board's affairs. The appointment of the general counsel is made on the recommendation of the chief executive and must be approved by the Board.

The following table details the attendance by each director at the relevant Board and committee meetings for the period 1 July 2019 to 30 June 2020. There were significantly more Board meetings than in previous years because of the company's response to COVID-19 and the \$1.2 billion equity raise undertaken in April 2020. In addition to the formal meetings recorded in the table

below, the Board participated in multiple online meetings and calls as part of the company's crisis management response to COVID-19 and in relation to its equity raise, where the Board was invited to attend the meetings of the Due Diligence Committee. As Brett Godfrey retired as a director of the company during this period, his attendances are not included.

Name	Board			Audit and financial risk			People and capability			Safety and operational risk			Infrastructure development <sup>1</sup>		
	Member	No. of meetings	No. of meetings attended	Member	No. of meetings	No. of meetings attended	Member	No. of meetings	No. of meetings attended	Member	No. of meetings	No. of meetings attended	Member	No. of meetings	No. of meetings attended
Patrick Strange	✓	16	16	✓	6	6	✓	4	4	✓	4	4	✓	7	7
Mark Binns	✓	16	16				✓	4	4				✓	7	7
Dean Hamilton	✓	16	16	✓	6	6				✓	4	4			
Julia Hoare	✓	16	16	✓	6	6							✓	7	6
Liz Savage <sup>2</sup>	✓	15	15				✓	3	3	✓	3	3			
Tania Simpson	✓	16	16				✓	4	4	✓	4	4			
Justine Smyth	✓	16	16	✓	6	6	✓	4	4						
Christine Spring	✓	16	16	✓	6	6				✓	4	4	✓	7	7

1. The Infrastructure Development Committee was formally disestablished on 30 June 2020 due to the significant reduction in planned development work (as a result of the impact of COVID-19).

2. Liz Savage was appointed to the Board by shareholder approval at the 2019 annual meeting on 23 October 2019 and formally commenced her role at the conclusion of the meeting.

### Review of the Board and director performance

The Board charter requires an annual review of the Board and committee composition, structure and succession to ensure they are performing in line with the obligations and the company's values and strategy. The Board assesses its own performance and

the chair of the Board continually monitors the dynamic of the directors to ensure it is working optimally at all times. The Board is planning its next formal review during the 2021 calendar year using independent experts.

### Principle 3: Board committees

The Board has set up various committees to enhance the Board's effectiveness in key areas, while still retaining overall responsibility.

The Board has established the following standing committees to ensure efficient decision-making:

- Audit and Financial Risk (details in Principles 6 and 7);
- Infrastructure Development<sup>1</sup>;
- Nominations (details in Principle 2);
- People and Capability (details in Principle 5); and
- Safety and Operational Risk (details in Principle 6).

The Board has a takeover response manual which sets out the protocol to follow if there is an unsolicited takeover offer issued to Auckland Airport. The takeover response manual requires implementation of a separate committee of the Board as well as an Auckland Airport takeover response working group that would include key external advisors.

Ad hoc committees are also established from time to time as required. A Due Diligence Committee was stood up as part of Auckland Airport's \$1.2 billion equity raise undertaken in April 2020, its members were: Justine Smyth (chair), Dean Hamilton and Julia Hoare.

Membership of each standing committee is disclosed and attendance is reported per Principle 2 above.

The Board delegates the day-to-day operations of the company to management under the control of the chief executive. Day-to-day operations are required to be conducted in accordance with strategies set by the Board. The Board's charter records this delegation and promotes clear lines of communication between the chair and the chief executive.

<sup>1</sup>The Infrastructure Development Committee was formally disestablished on 30 June 2020 due to the significant reduction in planned development work as a result of the impact of Covid-19.

## Corporate governance **CONTINUED**

### Principle 4: Reporting and disclosure

The company is committed to promoting investor confidence by providing robust, timely, accurate, complete and equal access to information in accordance with the NZX and ASX Listing Rules. The company has a written continuous disclosure and communications policy designed to ensure this occurs. Along with the other governance charters and policies, the company makes its code of ethics, insider trading and diversity policies available on the company's website.

The general counsel is the company's market disclosure officer and is responsible for monitoring the company's business to ensure compliance with its disclosure obligations. Managers reporting to the chief executive and the chief executive are required to provide the general counsel with all relevant material information, to regularly confirm that they have done so and made all reasonable enquiries to ensure this has been achieved.

The leadership team is responsible for implementing and maintaining appropriate accounting and financial reporting principles, policies and internal controls to ensure compliance with accounting standards and applicable laws and regulations.

While the Board retains overall responsibility for financial reporting, the company's external auditor, Deloitte, is responsible for planning and carrying out each external audit and review in line with applicable auditing and review standards. Deloitte is accountable to shareholders through the Audit and Financial Risk Committee and the Board respectively.

The Audit and Financial Risk Committee keeps the Board informed regarding best practice financial reporting specifically for the company's operations.

Both financial and non-financial disclosures are made at least annually, including material exposure to environmental, economic and social sustainability risks and other key risks. When these disclosures are made, the company explains how it plans to manage those risks and how operational or non-financial targets are measured.

The company produces a stand-alone sustainability report which is aligned to the Global Reporting Initiative (GRI) standard, as recognised by the Sustainable Stock Exchanges Initiative. The company also reports to and is part of the Carbon Disclosure Project, Dow Jones Sustainability Index, FTSE4Good and is a Participant Member of GRESB. More detail on the company's sustainability reporting can be found in the 2019 sustainability report at [corporate.aucklandairport.co.nz/corporate-responsibility](http://corporate.aucklandairport.co.nz/corporate-responsibility). The 2020 sustainability report will become available by the end of the 2020 calendar year.

The general counsel is responsible for releasing any relevant information to the market once it has been approved. Financial information release is approved by the Audit and Financial Risk Committee, while information released on other matters is approved by the chief executive.

Directors formally consider at each Board meeting whether there is relevant material information that should be disclosed to the market.

### Principle 5: Remuneration

The Board's People and Capability Committee is responsible for remuneration and has a formal charter it operates under. All of its members are independent, non-executive directors. The People and Capability Committee members are: Justine Smyth (chair), Mark Binns, Liz Savage, Tania Simpson and the chair of the Board is as an ex-officio member. The committee's charter outlines the relative weightings and remuneration components, as well as relevant performance criteria. The committee members' attendance at meetings is set out on page 89.

Auckland Airport is committed to remuneration transparency. Accordingly, Auckland Airport provides shareholders with detailed information about director and employee remuneration.

#### IMPACT OF COVID-19 ON REMUNERATION FY20

The COVID-19 pandemic has had a significant impact on the company, its operations and revenue.

A number of steps were taken to reduce the company's wage and salary costs during the financial year, including all directors and the chief executive voluntarily reducing base fees and salary by 20% from 16 March 2020 and the leadership team members with effect from 1 April 2020. The company also substantially reduced its fixed-term and contractor resource. In addition, the majority of staff on Individual Employment Agreements (following consultation)

reduced salaries to 80% from 1 April 2020. No short-term incentive payments will be made in the 2020 financial year and a hiring and salary freeze is currently in place. Working with the E Tū union, airport emergency service and airside and landside operations teams on Collective Employment Agreements, the company deferred to 30 June 2020 (by agreement) a scheduled pay increase which would have taken effect on 1 April 2020.

As at 30 June 2020, Auckland Airport has 158 employees on Collective Employment Agreements and 351 on Individual Employment Agreements.

On 24 June 2020, the 20% reduction in base fees/salaries for all directors, the chief executive and leadership team, along with the reduction to 80% of salaries for the majority of staff on Individual Employment Agreements, was extended to 31 August 2020.

The company's organisational structure has also been reviewed to right-size the business and ensure alignment to reduced business activity, with a number of redundancies unfortunately being confirmed as a result.

#### DIRECTOR REMUNERATION

The directors' remuneration is paid in the form of directors' fees. Additional fees are paid to the chair of the Board and in respect

of work carried out by individual directors on various Board committees to reflect the additional responsibilities of these positions. Auckland Airport also meets directors' reasonable travel and other costs associated with the company's business.

#### *Review and approval*

Each year, the People and Capability Committee reviews the level of directors' remuneration. The committee considers the skills, performance, experience and level of responsibility of directors when undertaking the review and is authorised to obtain independent advice on market conditions. After taking independent external advice, the committee makes recommendations to the Board on the appropriate allocation of fees to directors, and shareholders approve a fee pool for directors at the annual meeting.

#### *Directors' share purchase plan*

To align their incentives with shareholders, the directors have decided that they each will use 15% of their base fees to acquire shares in the company. To achieve this, the directors have entered into a share purchase plan agreement and appointed Jarden to be the manager of the plan. Jarden acquires the shares required for the plan on behalf of directors after the company's half-year and full-year results announcements. Directors remain in their share purchase plan until one year after retirement from the Board.

#### *2020 financial year*

At the 2019 annual meeting, shareholders approved a total directors' fee pool of \$1,593,350. This was \$26,630 or 1.7%, more than the directors' fee pool approved by shareholders at the 2018 annual meeting. The increase reflected consumer price index (CPI) inflation for New Zealand for the 2019 year.

In light of the impact of COVID-19 on the company, the directors have resolved not to seek any change in the director remuneration for the 2020 financial year.

In the 2020 financial year, directors received the following remuneration for their governance of Auckland Airport.

#### **Base fees of directors by position (from November 2019)**

	Chair <sup>1</sup>	Member
Board	\$260,350	\$123,250
Audit and Financial Risk Committee	\$51,600	\$25,800
Safety and Operational Risk Committee	\$27,600	\$13,800
Infrastructure Development Committee	\$27,600	\$13,800
People and Capability Committee	\$27,600	\$13,800
Ad hoc committee work (per day)	-	\$2,700

<sup>1</sup> The chair attends all meetings of the committees as an ex-officio member so he does not receive committee meeting fees.

#### **Remuneration received by directors by Board member**

Name	Director's fee (excluding expenses) <sup>1</sup>
Patrick Strange	\$243,809
Mark Binns	\$154,179
Dean Hamilton	\$152,501
Julia Hoare	\$176,674
Liz Savage	\$95,119
Tania Simpson	\$141,257
Justine Smyth	\$184,768
Christine Spring	\$178,346

<sup>1</sup> The above director remuneration includes the 15% of the base fees payable to them that they are required to use to acquire shares in the company under the share purchase plan. As Brett Godfrey retired as a director of the company during this period, his remuneration is not included in this table. For completeness, we note that Brett Godfrey received \$46,549 in the 2020 financial year.

#### **EMPLOYEE REMUNERATION**

##### *Remuneration philosophy*

The company's remuneration philosophy is to ensure that:

- staff are fairly and equitably remunerated relative to similar companies and positions within the New Zealand market;
- staff are strongly motivated to deliver shareholder value; and
- the company is able to attract and retain high-performing employees who will ensure the achievement of business objectives.

##### *Performance and development*

All employees participate in regular performance and development reviews, with end-of-year review outcomes informing decisions regarding remuneration adjustments in accordance with company policy. In addition, talent reviews are conducted each year to identify those employees with the potential to progress to more complex and/or senior roles, with outputs informing the company's succession planning approach.

##### *Annual remuneration review*

The company's annual remuneration review process requires 'one-over-one' approval. That means the approval of the Board is required for the implementation of changes to the chief executive's remuneration, as recommended by the People and Capability Committee. Likewise, the approval of the People and Capability Committee is required for the implementation of changes to the remuneration of the leadership team. The total pool available for remuneration adjustments is set by the Board at the time the annual budget is approved.

The remuneration review process involves the consideration of market information obtained from specialist advisors and, in the case of employees employed under Collective Employment Agreements, negotiations with unions.

As a result of the significant impact of COVID-19 on Auckland Airport, both a hiring and a salary freeze was implemented in March 2020, and no annual remuneration review will take place for staff in 2020.

## Corporate governance CONTINUED

### Health and other insurances

The company provides subsidised health insurance to all employees on Collective Employment Agreements. Permanent employees on an Individual Employment Agreement are eligible to participate in the company's Group Health Scheme at their own cost. The costs are paid by the employee and the insurance covers the employee, their partner and any children under 21 years of age. The company's health insurance is currently supplied by Southern Cross Health Society.

The company also provides permanent employees with the opportunity to obtain income protection and life insurance at their own cost. The company fully subsidises the cost of these insurances for employees on Collective Employment Agreements. Permanent employees on Individual Employment Agreements pay the costs for their insurances through a compulsory 1% pay deduction from their fixed annual remuneration.

The company also provides employees with domestic and international travel insurance when the travel is work related.

### Superannuation

All employees are eligible to participate in KiwiSaver. The company contributes up to 3% of each employee's paid remuneration. Any permanent employee who joined the company prior to 31 March 2012 was eligible to participate in either the Auckland Airport Mastertrust superannuation scheme (or the Lump Sum National superannuation scheme if prior to 1992). There is no cap on the amount that can be contributed by permanent employees on Individual Employment Agreements. The amount that can be contributed by permanent employees on Collective Employment Agreements is not capped, however, the company's total contribution is capped at 6% of salary, inclusive of any KiwiSaver contribution already made by the company. Up to the cap, the company contributes \$1.20 (less tax) for every \$1.00 contributed by the employee.

### Fixed annual remuneration

Auckland Airport's philosophy is to set the mid-points of fixed annual remuneration ranges at the market median for employees who are fully competent in their roles.

### Short-term incentives

In the 2020 financial year, 51 senior employees, as well as all members of the leadership team, were invited to participate in the company's discretionary short-term incentive scheme. The short-term incentive is an at-risk component of employee's fixed annual remuneration<sup>1</sup> and is payable in cash on achievement of performance targets.

Given the impact of COVID-19 on Auckland Airport's business, no short-term incentive will be payable for the 2020 financial year.

For employees who are not members of the leadership team, the short-term incentive targets range between 10% and 20% of the fixed annual remuneration. The short-term incentive target for members of the leadership team is 35% of their fixed annual remuneration and the chief executive's short-term incentive target is 50% of his base salary.<sup>2</sup>

For delivering above-target performance, an employee can earn an above-target short-term incentive payment as set out in the table below.

	Short-term incentive target	For over-performance
Employee not on leadership team	10% to 20% of fixed annual remuneration	Up to 24% of fixed annual remuneration
leadership team	35% of fixed annual remuneration	Up to 49% of fixed annual remuneration
chief executive	50% of base salary	Up to 70% of base salary

### Individual component

Half the short-term incentive is based on the employee achieving key performance targets relevant to their role. These targets are agreed with the employee's manager at the start of the performance year or, in the case of the chief executive, agreed with the Board. Operation of the short-term incentive scheme is conditional on company-wide health and safety targets being met.

The individual component includes stretch targets, as well as baseline objectives. Each participating employee has clear measures in place to determine achievement or non-achievement in any one year.

### Company component

Half of the short-term incentive is based on the company's achievement of annual financial targets set by the Board.

The company component has a clear measure in place to determine achievement or non-achievement in any one year – the achievement of the annual earnings before interest, taxation, depreciation, amortisation, fair value adjustments and investments in associates (EBITDAFI) target. If the company achieves a financial result that is significantly below the EBITDAFI target, then no company component is paid to employees. If the company achieves a financial result that is significantly above the EBITDAFI target, then payment of the company component is capped at 120% of the target for non-executive employees and 140% of the target for the leadership team and chief executive.

The Board may make one-off adjustments to the company component of the short-term incentive to guard against windfall payments, as a result of financial outcomes that employees did not influence or to ensure that employees are not unfairly penalised for material one-off adverse events outside of their control.

### Long-term incentive

Members of Auckland Airport's leadership team and the chief executive participate in the company's long-term incentive plan.

In August 2019, as a result of the legislative changes made to the Income Tax Act 2007, the Board introduced a new long-term Incentive plan that vests from calendar year 2022 onwards. This scheme is a share-rights plan and replaces the previous share-based long-term incentive plan, with tranches currently operating

<sup>1</sup> Fixed annual remuneration is the fixed sum that employees on individual employment agreements earn. The cost of insurance premiums is deducted from Fixed Annual Remuneration and the remaining amount is the base salary.

<sup>2</sup> Base salary for the chief executive means the base salary after deduction from his fixed annual remuneration of the cost of any income protection and life insurance premiums.

under both plans. Under the new long-term incentive plan, share-rights are granted to participating leadership team members with a three-year vesting period. Share-rights, once vested and exercised, entitle the participating leadership team members to receive shares in Auckland Airport. All other vesting rules and performance hurdles that existed under the previous long-term incentive plan remain in place under the new long-term incentive plan.

At the end of the 2020 financial year, the total current value of long-term incentives in place for Auckland Airport's leadership team and chief executive was \$1.1 million.

Note 23 of the financial statements provides full details of the number of incentives granted, lapsed and exercised.

### Remuneration of employees

Below is the number of employees and former employees of the company, excluding directors, who received remuneration and other benefits that totalled \$100,000 or more, in their capacity as employees during the 2020 financial year.

Amount of remuneration	Former employees	Current employees
\$100,001 to \$110,000	3	46
\$110,001 to \$120,000		39
\$120,001 to \$130,000	1	27
\$130,001 to \$140,000	1	25
\$140,001 to \$150,000		14
\$150,001 to \$160,000	1	14
\$160,001 to \$170,000		3
\$170,001 to \$180,000		4
\$180,001 to \$190,000		10
\$190,001 to \$200,000	3	1
\$200,001 to \$210,000	1	3
\$210,001 to \$220,000		2
\$220,001 to \$230,000		5
\$230,001 to \$240,000		3
\$240,001 to \$250,000		3
\$250,001 to \$260,000		2
\$270,001 to \$280,000		1
\$310,001 to \$320,000		2
\$320,001 to \$330,000		3
\$330,001 to \$340,000		1
\$380,001 to \$390,000		1
\$430,001 to \$440,000		1
\$480,000 to \$490,000	1	
\$510,001 to \$520,000		1
\$580,001 to \$590,000		1
\$710,001 to \$720,000		1
\$850,001 to \$860,000		1
\$2,400,001 to \$2,410,000		1

Employee remuneration in the preceding table includes salary, short-term and long-term incentives, the company's contributions to superannuation and health, life and income protection insurance plans.

The company enabled staff on Individual Employment Agreements who reduced their salaries to 80% to use annual leave to 'top up' their salaries to 100%, and where employees have elected to do so, this has been taken into account in the above table.

Finally, where any redundancies have been confirmed and payments made prior to 30 June 2020, these payments have been taken into account in the above table.

### CHIEF EXECUTIVE REMUNERATION

#### Base salary

Over the course of the financial year, the chief executive, Adrian Littlewood, was paid a base salary of \$1,241,743.

#### Shares

The chief executive held 118,716 shares personally in the company as at 30 June 2020 and 127,854 shares were held on trust under the long-term incentive plan which have not yet vested. A total of 1,200 shares are held on trust under the employee share purchase plan which have not yet vested.

#### Short-term incentives

The annual value of the short-term incentive scheme for the chief executive is set at 50% of his base salary (provided all performance targets are achieved). If performance is unsatisfactory in a category, then no short-term incentive is payable for that criteria. A maximum of 1.4 x the target is payable for outstanding performance by the chief executive.

The criteria used to measure the chief executive's individual performance is based on meeting certain targets focused on safety, customer, financial market and infrastructure programme outcomes.

Given the impact of COVID-19 on Auckland Airport's business, no short-term incentive performance payment was earned by the chief executive in the 2020 financial year.

## Corporate governance CONTINUED

### Long-term incentives

The chief executive participated in the Auckland Airport long-term incentive plan in the 2020 financial year.

Scheme	Financial year of grant	Grant	Number granted	Financial year exercised	Share price at exercise	Value at exercise
Share-based scheme	2016	\$301,831 <sup>1</sup>	60,139	2019	\$6.81	\$409,547
Share-based scheme	2017	\$309,377 <sup>1</sup>	46,538	2020	\$9.00	\$418,842
Share-based scheme	2018	\$631,188 <sup>1</sup>	67,652	Exercisable in 2021	N/A	N/A
Share-based scheme	2019	\$429,240 <sup>1</sup>	60,202	Exercisable in 2022	N/A	N/A
Share-rights scheme	2020	\$659,820 <sup>1</sup>	71,318	Exercisable in 2023	N/A	N/A

<sup>1</sup> Value of loan amount provided for purchase of shares.

### Superannuation

The chief executive is a member of KiwiSaver. As a member of the scheme, the chief executive is eligible to receive a company contribution up to 3% of gross taxable earnings, including the short-term incentive (for performance during 2019). For the 2020 financial year, the company contribution was \$67,922 compared to \$69,533 in the 2019 financial year.

### Notice and termination period

The notice period for the chief executive under the terms of his employment agreement is 6 months and his paid termination period is 12 months.

### Summary

The remuneration earned by the chief executive in the 2020 financial year is summarised below:

	2020 Financial year	2019 Financial year
Base salary	\$1,241,743 <sup>1</sup>	\$1,281,431
Short-term incentive earned	\$0 <sup>2</sup>	\$560,574 <sup>3</sup>
KiwiSaver, insurance and other statutory benefits	\$80,382	\$82,347
Sub-total	\$1,322,125	\$1,949,640
Long-term incentive	\$461,757 <sup>4</sup>	\$450,495 <sup>5</sup>
<b>TOTAL</b>	<b>\$1,783,882</b>	<b>\$2,400,135</b>

<sup>1</sup> This amount reflects a 20% reduction in base salary from 16 March 2020 (consistent with the reduction of directors fees) as a result of the impact of COVID-19.

<sup>2</sup> During the 2020 financial year, the chief executive was paid \$560,574 which related to his FY19 STI targets.

<sup>3</sup> During the 2019 financial year, the chief executive was paid \$585,862 which related to his FY18 STI targets.

<sup>4</sup> The 2020 financial year long-term incentive payment of \$461,757 reflects the pre-tax value of the grant made in the 2017 financial year as shown in the previous table.

<sup>5</sup> The 2019 financial year long-term Incentive payment of \$450,495 reflects the pre-tax value of the grant made in the 2016 financial year as shown in the previous table.

## COMPLIANCE

The company complies with all of the requirements of the ASX Principles (as they apply to a Foreign Exempt Listing), the NZX Code and the FMA Handbook as at the date of this annual report.

## Principle 6: Risk management

Risk management is an integral part of the company's business. The company has developed an enterprise risk management framework, designed to promote a culture which ensures a proactive and consistent approach to identifying, mitigating and managing risk on a company-wide basis.

The company's risk management policy provides clarity on roles and responsibilities in order to minimise the impact of financial, operational and environmental risk on its business. Under this policy, the Board is responsible for reviewing and ratifying the risk management structure, processes and guidelines which are developed, maintained and implemented by management. The Board also sets the company's risk-appetite on an annual basis and tracks the development of any existing risks and the emergence of new risks to the company.

The company's risk management framework is underpinned by two committees which are in place to identify and mitigate potential financial and operational risks, the Audit and Financial Risk Committee and the Safety and Operational Risk Committee, respectively. The company also has mechanisms in place to recognise and manage sustainability risks, including environmental and social risks.

The company has undertaken a robust risk assessment process to identify and minimise the impact of financial and operational risk on its business. This process is continuous and is designed to provide advanced warning of material risks before they eventuate. The process includes:

- significant risk identification;
- risk impact quantification;
- risk mitigation strategy development;
- reporting; and
- compliance, monitoring and evaluation to ensure the ongoing integrity of the risk management process.

### AUDIT AND FINANCIAL RISK

The Audit and Financial Risk Committee is responsible for financial risk management oversight. This committee's formal charter reflects this responsibility and describes its key functions. The committee provides general assistance to the Board in performing its responsibilities, with particular reference to financial risk management, financial reporting and audit functions. It includes specific responsibility to review the company's processes for identifying and managing financial risk and financial reporting processes, systems of internal control and the internal and external audit process.

The committee must have a minimum of three members, all of whom must be non-executive directors, and the majority must be independent directors. The committee is chaired by an independent chair, who must not be the chair of the Board. The current members are Julia Hoare (chair), Dean Hamilton, Justine Smyth, Christine Spring and the chair of the Board is an ex-officio member, all of whom are independent non-executive directors. Their qualifications are set out on page 86 and their attendance at meetings is on page 89.

The chief executive and the chief financial officer are required each year to confirm in writing to the Audit and Financial Risk Committee that:

- the company's financial statements are presented fairly, in all material respects, and in accordance with the relevant accounting standards;
- the statement given in the preceding paragraph is founded on a sound system of risk management and internal compliance and control, which implements the policies adopted by the Board; and
- the company's risk management and internal compliance and control system is operating efficiently and effectively in all material respects.

The Board has received assurance from the chief executive and chief financial officer that this confirmation is founded on a sound system of risk management and internal control, which is operating effectively in all respects relating to financial reporting.

The Audit and Financial Risk Committee continues to be delegated responsibility for oversight of financial risk. Further details of the responsibility of this committee are set out at Principle 7.

### SAFETY AND OPERATIONAL RISK

The company has a commitment to zero harm and to ensure that health and safety risk management is embedded into the workplace culture.

The Safety and Operational Risk Committee is responsible for oversight of the company's safety and operational risk management programme. This committee's formal charter reflects this responsibility. The company reports to the Safety and Operational Risk Committee on a number of safety and operational matters including passenger injury rates, employee injury rates, comparisons of contractor and employee injury rates, safety observations conducted and compared to the same month in the prior year.

The Safety and Operational Risk Committee oversees, reports and makes recommendations to the Board on the safety (including workplace health and safety), environmental and operational risk profile of the business. It also ensures that appropriate policies and procedures are adopted for timely and accurate identification, reporting and effective management of significant risks.

The role of the Safety and Operational Risk Committee in relation to health and safety risks, performance and management includes specific responsibility to review and monitor the application of the company's enterprise-wide processes for identifying and managing:

- health and safety matters;
- environmental issues;
- safety and operational risk; and
- compliance with applicable law and the company's own policies.

The committee must have a minimum of three members, all of whom must be non-executive directors, and the majority must be

## Corporate governance **CONTINUED**

independent directors. The committee is chaired by an independent chair, who must not be the chair of the Board. The current members are Christine Spring (chair), Dean Hamilton, Liz Savage, Tania Simpson and the chair of the Board is an ex-officio member, all of whom are independent non-executive directors. Their qualifications are set out on page 86 and their attendance at meetings on page 89.

The Safety and Operational Risk Committee reviews the performance of the company's safety management system, and safety policy statements on an annual basis and provides guidance on the approach and targets for the following year.

In 2020, the Safety and Operational Risk Committee reviewed and consolidated the company's key critical health and safety risks and management reassessed these through specific risk workshops involving staff from all areas of the business. The company reviews continue to enhance and develop the risk management process with a view to continuous improvement.

The company has a crisis management team (CMT) which has an established governance structure to effectively manage fast evolving risk situations in a robust and practical way. In 2020, the CMT was initiated for the COVID-19 response. The CMT is responsible for making strategic, business response, emergency communications, staff health and welfare and government relations decisions. The CMT is made up of leadership team members and senior employees from across the company.

The company's business is also subject to other internal and external audit and review, including in particular the regular external

audit by New Zealand's Civil Aviation Authority to ensure operational certification, as well as external audits as part of the Accident Compensation Corporation's Workplace Safety Management Practices programme.

### **SUSTAINABILITY (ENVIRONMENTAL AND SOCIAL) RISK**

The company operates in a commercial environment where there is always potential for economic, environmental and social sustainability risks. The company recognises its unique role in protecting the New Zealand natural environment and the role that the tourism sector plays in all areas of sustainability.

As set out above, the company has in place appropriate mechanisms and controls to identify where these risks are material to the company and to manage these as required. Sustainability is a key responsibility of the leadership team. In identifying sustainability risks, the company assesses common risks across the business to determine the likelihood and severity of those risks and, subsequently, whether they are a concern for the company. In addition to managing the risks associated with sustainability, the company is committed to external disclosure and benchmarking, and reports on a number of sustainability performance indicators. More detail on non-financial reporting and disclosures is set out under Principle 4 above.

Being a responsible business is a core part of the company's focus. By respecting people, the community and the environment, the company is able to grow its business sustainably and create value for all stakeholders in the long term.

## **Principle 7: Auditors**

Oversight of Auckland Airport's external audit is the responsibility of the Audit and Financial Risk Committee. Ensuring that the quality and independence of the external audit process and that the company's external financial reporting is highly reliable and credible is a key responsibility of the Audit and Financial Risk Committee.

The Audit and Financial Risk Committee has adopted an External Auditor Independence Policy which establishes a framework for the company's relationship with the company's external auditor. The External Auditor Independence Policy:

- places limitations on the extent of non-audit work that can be carried out by the external auditor;
- requires the regular rotation of the partner of the external auditor responsible for the audit of the company every five years;
- outlines the requirements for approval of external auditors; and
- requires the external auditor to monitor its independence and report to the Audit and Financial Risk Committee biannually that it has remained independent during the previous six months.

The external auditor is invited to attend meetings when it is considered appropriate by the committee. The committee meets with the auditors without any representatives of management present at least once per year. The company's external auditor also attends the annual meetings and is available to answer questions relating to the audit

The Audit and Financial Risk Committee has established a formal internal audit function for the company. This function is performed by Ernst & Young, which undertook an international benchmarking exercise comparing the company to similar businesses to ensure that its internal audit programme covers all material risks. Ernst & Young regularly reports on its activities to the Audit and Financial Risk Committee.

The Audit and Financial Risk Committee has direct communication with, and unrestricted access to, the internal and external auditors or accountants.

## Principle 8: Shareholder rights and relations

The company's communications framework and strategy is designed to ensure that communications with shareholders and all other stakeholders is managed efficiently. This strategy forms part of the disclosure and communications policy referred to under Principle 4 above. It is the company's policy that external communications will be accurate, verifiable, consistent and transparent.

The chief executive, chief financial officer and the investor relations specialist are appointed as the points of contact for analysts. The investor relations specialist is the point of contact for shareholders and can be reached at [investors@aucklandairport.co.nz](mailto:investors@aucklandairport.co.nz). The chair, chief executive, chief financial officer, general counsel and head of communications and external relations are appointed as the points of contact for media.

The company currently keeps shareholders, as well as interested stakeholders, informed through:

- the corporate section of the company website ([corporate.aucklandairport.co.nz/investors](http://corporate.aucklandairport.co.nz/investors));
- the annual report;
- the interim report;
- the sustainability report;
- the annual meeting of shareholders;
- information provided to analysts during regular briefings;
- disclosure to the NZX and ASX in accordance with the company's disclosure and communications policy; and
- media releases.

The Board considers the annual report to be an essential opportunity for communicating with shareholders. The company publishes all of its results and reports electronically on the company website. Investors may also request a hard copy of the annual report by contacting the company's share registrar, Link Market Services Limited. Contact details for the registrar appear at the end of this report.

All investors have the right to vote on major decisions that might change the nature of the company and these decisions are presented as resolutions at the company's annual meeting.

The company's annual meetings provide an opportunity for shareholders to raise questions for their Board and to make comments about the company's operations and performance. The chair may ask the chief executive and any relevant manager of the company to assist in answering questions if required.

### *Equity raise*

On 6 April 2020, Auckland Airport announced an equity raise comprising a \$1 billion underwritten private placement and a \$200 million share purchase plan to reinforce its balance sheet and ensure the company remains well capitalised and solvent during the period of strict border controls and significantly reduced passenger numbers, revenue and profit. The company offered and issued shares to existing investors under both the private placement and share purchase plan, raising a total of \$1.2 billion.

# Shareholder information

## REPORTING ENTITY

The company was incorporated on 20 January 1988, under the Companies Act 1955, and commenced trading on 1 April 1988. The company was re-registered under the Companies Act 1993 on 6 June 1997. On 25 June 1998, the company adopted a revised constitution, approved as appropriate for a publicly listed company. Further revisions of the constitution were adopted on 21 November 2000, 18 November 2002, 23 November 2004 and 30 June 2019 to comply with NZX and ASX Listing Rule requirements.

The company was registered in Australia as a foreign company under the Corporations Law on 22 January 1999 (ARBN 085 819 156) and was granted Foreign Exempt Listing Entity status by ASX on 22 April 2016.

## STOCK EXCHANGE LISTINGS

The company's shares were quoted on the NZX on 28 July 1998. The company's shares were quoted on the ASX effective 1 July 2002.

The company is not subject to chapters 6, 6A, 6B and 6C of the Australian Corporations Act dealing with the acquisition of shares (i.e. substantial holdings and takeovers).

## WAIVERS GRANTED BY NZX

*NZX class waiver and ruling dated 19 March 2020*

On 19 March 2020 NZX issued a class waiver and ruling in relation to Section 4 of the NZX Listing Rules. The company relied upon the class waiver in respect of Listing Rule 4.5.1 in relation to the April 2020 \$1 billion equity raise (**Equity Raise**) and Listing Rule 4.3.1 in relation to the April 2020 \$200 million Share Purchase Plan (**SPP**).

Under the class waiver, the placement cap under Listing Rule 4.5.1 was increased from 15% to 25%, and the cap per registered holder under Listing Rule 4.3.1 for issues under a Share Purchase Plan was increased from \$15,000 to \$50,000 and the total cap from 5% to 30% of equity securities of that class at the time of offer.

The Equity Raise involved the issuance of 17.66% of the total equity securities at the time of the offer. The SPP was offered to all eligible existing shareholders of the company, enabling them to each subscribe for up to a maximum of NZ\$50,000 of new company shares and had an average application of approximately NZ\$15,000.

## DISCIPLINARY ACTION TAKEN BY NZX, ASX OR THE FINANCIAL MARKETS AUTHORITY (FMA)

None of the NZX, the ASX or the FMA has taken any disciplinary action against the company during the financial year ending 30 June 2020.

## REGULATORY ENVIRONMENT

The company is regulated by, amongst other legislation, the Airport Authorities Act 1966 and the Civil Aviation Act 1990. The

company is an "airport company" for the purposes of the Airport Authorities Act 1966. The company has consultation obligations under the Airport Authorities Act 1966.

The company is required to comply with the Commerce Act (Specified Airport Services Information Disclosure) Determination 2010, with disclosure financial statements required to be published in November each year.

## AUDITORS

Deloitte has continued to act as external auditor of the company and has undertaken the audit of the financial statements for the 30 June 2020 year. The auditors are subject to a partner rotation policy.

## INDEMNITY AND INSURANCE

In accordance with section 162 of the Companies Act 1993 and the constitution of the company, the company has continued to indemnify and insure its directors and officers against liability to other parties (except to the company or a related party to the company) that may arise from their position as directors. The insurance does not cover liabilities arising from criminal actions.

## ENTRIES RECORDED IN THE INTERESTS REGISTER

Except for disclosures made elsewhere in this annual report, there have been no entries in the Interests Register of the company or its subsidiaries made during the year.

## DONATIONS

In accordance with section 211(1)(h) of the Companies Act 1993, Auckland Airport has during the year:

- donated \$196,150 to various charities, including sponsorship (with leverage funding) of \$83,468 to Counties Manukau Life Education Trust, the Middlemore Foundation, Leukaemia and Blood Cancer New Zealand and the Lakes District Air Rescue Trust.
- granted \$351,572 to the Auckland Airport Community Trust. The Trust distributed these funds in the 2020 calendar year to residents and community groups living and working in the Trust's area of benefit.
- contributed \$303,500 to the Ara Charitable Trust.

The above figures do not include a further \$144,000 in donations made by generous travellers into the charity globes in our terminals, which was then donated to another 12 community groups.

The company's subsidiaries did not make any donations during the year.

## EARNINGS PER SHARE

Earnings in cents per ordinary share were 15.16 cents in 2020 compared with 42.79 cents in 2019.

## CREDIT RATING

As at 30 June 2020, Standard & Poor's long-term credit rating for the company was A- Stable Outlook.

## SUBSIDIARY COMPANY DIRECTORS

Philip Neutze and Mark Thomson held office as directors of Auckland Airport Limited as at 30 June 2020.

Philip Neutze and Morag Finch held office as directors of Auckland Airport Holdings Limited and Auckland Airport Holdings (No. 2) Limited as at 30 June 2020.

Mary-Elizabeth Tuck and Morag Finch held office as directors of Auckland Airport Holdings (No. 3) Limited as at 30 June 2020.

Mary-Elizabeth Tuck and Morag Finch held office as directors of Ara Charitable Trustee Limited as at 30 June 2020.

Directors of the company's subsidiaries do not receive any remuneration or other benefits in respect of their appointments.

Richard Barker ceased being an employee of Auckland Airport on 30 June 2020. As at that date he held office as director of North Queensland Airports No. 2 (Mackay) Pty Ltd, Cairns Airport Holding Company Pty Ltd, Mackay Airport Holding Company Pty Ltd, NQ Airports Finance Pty Ltd, Cairns Airport Pty Ltd, Mackay Airport Pty Ltd, MAPL Hotel Holdings Pty Ltd and MAPL Hotel Pty Ltd.

## ANNUAL MEETING OF SHAREHOLDERS

Due to the uncertainty surrounding COVID-19, the company's annual meeting of shareholders will be held online at [www.VirtualMeeting/aia20](http://www.VirtualMeeting/aia20) on 22 October 2020 at 10.00 am.

## DIRECTORS' HOLDINGS AND DISCLOSURE OF INTERESTS

Directors held interests in the following shares in the company as at 30 June 2020:

Patrick Strange	Held personally	8,464
	Held on behalf by other person	13,358
Mark Binns	Held personally	2,572
	Held jointly with other person	17,432
Dean Hamilton	Held personally	1,670
Julia Hoare	Held personally	4,678
Liz Savage	Held Personally	
	Held on behalf by other person	383
Tania Simpson	Held personally	1,670
Justine Smyth	Held personally	15,112
	Held jointly with other persons	44,905
Christine Spring	Held personally	12,062

Directors did not hold any interests in debt securities (including listed bonds) in the company as at 30 June 2020.

## DISCLOSURE OF INTERESTS BY DIRECTORS

The following general disclosures of interests have been made by the directors in terms of section 140(2) of the Companies Act 1993, as at 30 June 2020:

*Patrick Strange*  
Chair, Chorus Limited (and subsidiary company)  
Director, Mercury NZ Limited

*Mark Binns*  
Chair, Infrastructure Reference Group  
Director, Metlifecare Limited  
Chair, Crown Infrastructure Partners Limited  
Director, Te Puia Tapapa GP Limited  
Director, Auckland War Memorial Museum

*Dean Hamilton*  
Chair, Fulton Hogan Limited  
Director, Tappenden Holdings Limited (and associated companies)  
Director, Skyline Enterprises Limited  
Director, The Warehouse Group Limited

*Julia Hoare*  
Director, The a2 Milk Company Limited (and subsidiary company)  
Director, Port of Tauranga Limited  
Director, Watercare Services Limited  
Director, AWF Madison Group Limited  
Director, Meridian Energy Limited

*Liz Savage*  
Director, Intrepid Group Limited (Australian company)  
Director, North Queensland Airports (Australian group of companies)  
Director, People Infrastructure Limited (Australian company)  
Director, Brisbane Marketing Pty Limited (Australian company)

*Tania Simpson*  
Deputy Chair, Reserve Bank of New Zealand  
Director, Tainui Group Holdings Limited  
Director, Moko Club NZ Limited  
Deputy Chair, Waitangi National Trust  
Member, Waitangi Tribunal  
Director, Waikato-Tainui Fisheries Limited  
Director, Kōwhai Consulting Limited

*Justine Smyth*  
Chair, Spark New Zealand Limited  
Chair, New Zealand Breast Cancer Foundation  
Director, Pushpay Holdings Limited

*Christine Spring*  
Director, Unison Networks Limited (and subsidiary company)  
Director, Western Sydney Airport Limited (Australian company)  
Chair, Isthmus Group Limited

## Shareholder information CONTINUED

### DISTRIBUTION OF ORDINARY SHARES AND SHAREHOLDERS

As at 30 June 2020

Size of holding	Number of shareholders	%	Number of shares	%
1 - 1,000	12,715	23.55	5,737,558	0.39
1,001 - 5,000	30,946	57.31	65,797,486	4.47
5,001 - 10,000	5,249	9.72	37,183,387	2.53
10,001 - 50,000	4,522	8.37	87,917,656	5.97
50,001 - 100,000	375	0.69	25,246,601	1.71
100,001 and over	190	0.35	1,250,668,449	84.93
Total	53,997	100%	1,472,551,137	100%

### SUBSTANTIAL PRODUCT HOLDERS

Pursuant to section 280 of the Financial Markets Conduct Act 2013, the following persons had given notice as at the balance date of 30 June 2020 that they were substantial product holders in the company and held a 'relevant interest' in the number of ordinary shares shown below:

Substantial product holder	Number of shares in which 'relevant interest' is held	Date of notice
Auckland Council	266,328,912	02.07.16

The total number of voting securities on issue as at 30 June 2020 was 1,472,551,137.

## 20 LARGEST SHAREHOLDERS

On 6 April 2020, Auckland Airport announced an equity raise comprising a \$1 billion underwritten private placement and a \$200 million share purchase plan. The company issued a total of 257,510,728 shares under the private placement and share purchase plan, raising a total of \$1.2 billion. Refer to Note 15 of the Financial Statements for further information.

The 20 largest shareholders of Auckland Airport as at 30 June 2020 are as follows:

	Shareholders	Number of shares	% of capital
Auckland Council		266,328,912	18.09
HSBC Nominees (New Zealand) Limited <sup>1</sup>		167,770,830	11.39
HSBC Nominees (New Zealand) Limited <sup>1</sup>		159,909,925	10.86
JPMorgan Chase Bank <sup>1</sup>		100,633,180	6.83
Citibank Nominees (NZ) Limited <sup>1</sup>		100,013,014	6.79
Accident Compensation Corporation <sup>1</sup>		40,595,354	2.76
HSBC Custody Nominees (Australia) Limited		31,095,885	2.11
J P Morgan Nominees Australia Limited <sup>1</sup>		29,383,995	2.00
TEA Custodians Limited <sup>1</sup>		25,988,316	1.76
BNP Paribas Nominees Pty Limited <sup>1</sup>		25,399,687	1.72
Custodial Services Limited <sup>1</sup>		17,962,562	1.22
Custodial Services Limited		17,031,616	1.16
Cogent Nominees Limited		16,452,134	1.12
Citicorp Nominees Pty Limited <sup>1</sup>		15,751,557	1.07
BNP Paribas Nominees Pty Limited		15,119,318	1.03
New Zealand Superannuation Fund Nominees Limited		14,976,739	1.02
FNZ Custodians Limited <sup>1</sup>		13,552,401	0.92
National Nominees New Zealand Limited		13,285,404	0.90
Premier Nominees Limited <sup>1</sup>		11,914,580	0.81
National Nominees New Zealand Limited <sup>1</sup>		9,874,279	0.67

<sup>1</sup> These shares are held through New Zealand Central Securities Depository Limited (NZCSD), a depository system which allows electronic trading of securities to members.

## Shareholder information CONTINUED

### INVESTOR INFORMATION

#### COMPANY PUBLICATIONS

The company informs investors of the company's business and operations by issuing an annual report (with notice of meeting) and an interim report.

Financial calendar	Half year	Full year
Results announced	February	August
Reports published	February	August
Dividends paid	April	October
Annual meeting	-	October
Disclosure financial statements	-	November

Please note that due to the uncertainty surrounding COVID-19, the annual meeting will be held online at [www.VirtualMeeting/aia20](http://www.VirtualMeeting/aia20) at 10.00 am on 22 October 2020.

#### VOTING RIGHTS

The voting rights of shareholders are set out in the company's constitution. Each holder of ordinary shares is entitled to vote at any annual meeting of shareholders. On a show of hands, each holder of ordinary shares is entitled to one vote. On a poll, one vote is counted for every ordinary share. A person is not entitled to vote when disqualified by virtue of the restrictions contained in the company's constitution and the ASX and NZX Listing Rules of the ASX and the NZX.

#### ENQUIRIES

Shareholders with enquiries about transactions, changes of address or dividend payments should contact Link Market Services Limited on +64 9 375 5998. Other questions should be directed to the company's company secretary at the registered office.

#### STOCK EXCHANGE

The company's ordinary shares trade on the NZX and the ASX. The minimum marketable parcel on the NZX is 50 shares and in Australia a 'marketable parcel' is a parcel of securities of more than AUD 500. As at 30 June 2020, 253 shareholders on the ASX and 1,894 shareholders on the NZX held fewer securities than a marketable parcel under their respective Listing Rules.

### SHARE REGISTRARS

#### NEW ZEALAND

Link Market Services Limited  
Level 11, Deloitte Centre  
80 Queen Street  
Auckland 1010  
PO Box 91976  
Auckland 1142

Phone: +64 9 375 5998

Fax: +64 9 375 5900

#### DIVIDENDS

As announced on 17 March 2020, Auckland Airport cancelled the FY20 interim dividend. In addition, in obtaining waivers from potential breaches of its financial covenants for the period through to the end of December 2021, Auckland Airport agreed with its lenders to suspend dividend payments so long as the waivers are in place. As no dividend is payable, the dividend reinvestment plan is not currently operating. Further details are available at [corporate.aucklandairport.co.nz/investors/shares-and-bonds](http://corporate.aucklandairport.co.nz/investors/shares-and-bonds).

#### LIMITATIONS ON THE ACQUISITION OF THE COMPANY'S SECURITIES

The company is incorporated in New Zealand. Therefore, it is not subject to chapters 6, 6A, 6B and 6C of the Australian Corporations Act 2001 dealing with the acquisition of shares (such as substantial holdings and takeovers). Limitations on acquisition of the securities are, however, imposed on the company under New Zealand law:

- Securities in the company are, in general, freely transferable. The only significant restrictions or limitations in relation to the acquisition of securities are those imposed by New Zealand law relating to takeovers, overseas investment and competition;
- The Takeovers Code creates a general rule under which the acquisition of more than 20% of the voting rights in the company or the increase of an existing holding of 20 percent or more of the voting rights in the company can only occur in certain permitted ways. These include a full takeover offer in accordance with the Takeovers Code, a partial takeover in accordance with the Takeovers Code, an acquisition approved by an ordinary resolution, an allotment approved by an ordinary resolution, a creeping acquisition (in certain circumstances) or compulsory acquisition if a shareholder holds 90% or more of the shares in the company;
- The Overseas Investment Act 2005 and Overseas Investment Regulations 2005 regulate certain investments in New Zealand by overseas persons. In general terms, the consent of the Overseas Investment Office is likely to be required where an 'overseas person' acquires shares or an interest in shares in the company that amount to more than 25% of the shares issued by the company or, if the overseas person already holds 25% or more, the acquisition increases that holding; and
- The Commerce Act 1986 is likely to prevent a person from acquiring shares in the company if the acquisition would have, or would be likely to have, the effect of substantially lessening competition in a market.

#### AUSTRALIA

Link Market Services Limited  
Level 12, 680 George Street  
Sydney  
NSW 2000  
Locked Bag A14  
Sydney South  
NSW 1235

Phone: +61 2 8280 7111

Fax: +61 2 9287 0303

# Corporate directory

## DIRECTORS

Patrick Strange, chair  
 Mark Binns  
 Dean Hamilton  
 Julia Hoare  
 Liz Savage  
 Tania Simpson  
 Justine Smyth  
 Christine Spring

## SENIOR MANAGEMENT

Adrian Littlewood, chief executive officer  
 Philip Neutze, chief financial officer  
 Anna Cassels-Brown, general manager operations  
 Jonathan Good, general manager technology and marketing  
 André Lovatt, general manager infrastructure  
 Scott Tasker, general manager aeronautical commercial  
 Mark Thomson, general manager property and commercial  
 Mary-Liz Tuck, general manager corporate services and general counsel

## REGISTERED OFFICE NEW ZEALAND

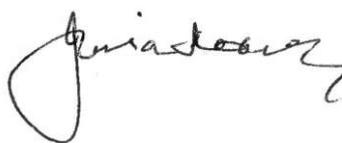
4 Leonard Isitt Drive  
 Auckland Airport Business District  
 Manukau 2022  
 New Zealand

Phone: +64 9 275 0789  
 Freephone: 0800 Airport (0800 247 7678)  
 Facsimile: +64 9 275 4927  
 Email: [tellus@aucklandairport.co.nz](mailto:tellus@aucklandairport.co.nz)  
 Website: [www.aucklandairport.co.nz](http://www.aucklandairport.co.nz)

This annual report is dated 20 August 2020 and is signed on behalf of the Board by:



**Patrick Strange**  
 Chair of the Board



**Julia Hoare**  
 Director

## REGISTERED OFFICE AUSTRALIA

c/o KPMG  
 147 Collins Street  
 Melbourne  
 Victoria 3000  
 Australia

Phone: +61 3 9288 5555  
 Facsimile: +61 3 9288 6666  
 Website: [www.kpmg.com.au](http://www.kpmg.com.au)

## MAILING ADDRESS

Auckland International Airport Limited  
 PO Box 73020  
 Auckland Airport  
 Manukau 2150  
 New Zealand

## GENERAL COUNSEL AND GENERAL MANAGER CORPORATE SERVICES

Mary-Liz Tuck

## AUDITORS

External auditor – Deloitte  
 Internal auditor – Ernst & Young  
 Share registry auditor – Grant Thornton





[aucklandairport.co.nz](http://aucklandairport.co.nz)



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