Auckland Airport

Annual Report 2018

2018 Financial Statements

Financial Statements

This annual report covers the performance of Auckland International Airport Limited (Auckland Airport) from 1 July 2017 to 30 June 2018. This volume contains our audited financial statements. Overview information and a summary of our performance against financial and non-financial targets for the 2018 financial year are contained in a separate volume, which may be accessed at report.aucklandairport.co.nz

Financial report 2018

Introduction

Auckland Airport is pleased to present the financial results for the year to 30 June 2018, a year of strong financial performance and one where we made major strides in building our airport of the future.

The ongoing growth in New Zealand tourism continues to drive our need to significantly invest in infrastructure to accommodate the increasing numbers of passengers and aircraft coming to Auckland Airport. We are undertaking the most significant programme of upgrading aeronautical infrastructure in our history whilst also making substantial investment in non-aeronautical activities such as road transport, retail and property. 2018 can be defined as a year where we have delivered major new aeronautical infrastructure, undertaken considerable investment in improving customer experience and continued our extensive detailed planning of the future infrastructure delivery programme.

With the considerable activity underway at the airport we remain focused on managing the increasing demands on the business and delivering additional capacity within the complex and challenging environment of an operating airport, all the while being committed to delivering a strong customer experience. Working on our performance today, while remaining focused on delivering for future needs, ensures we can deliver results for our customers, our community, our country, our people and our investors.

This financial report analyses our results for the 2018 financial year and its key trends. It covers the following areas:

- 2018 Financial performance summary;
- Key performance measures;
- 2018 Passenger movement analysis;
- 2018 Aircraft volume analysis;
- 2018 Financial performance analysis;
- 2018 Financial position analysis; and
- 2018 Returns for shareholders.

2018 Financial performance summary

This financial summary provides an overview of the financial results and key trends for the year ended 30 June 2018 compared with those for the previous financial year. Readers should refer to the accompanying notes and accounting policies as set out in the financial statements for a full understanding of the basis on which the financial results are determined.

In the 2018 financial year, revenue increased by 8.7% to $683.9 million with strong growth across several business segments. Aeronautical revenues rose 2.5% on the prior year, reflecting the continued growth seen in passenger and aircraft movements through the airport, partially offset by the reduced aeronautical charges that applied in the first year of this aeronautical price period. Retail revenue increased 17.1% as a result of the new space added in the departure area of the International Terminal and the opening of a number of exciting new store concepts. Aeronautical and property rental income achieved double-digit growth, with revenue increases of 10.4% and 16.2% respectively. Car parking also experienced strong growth, with revenue up 8.3%.

Our reported profit after taxation for the 2018 financial year was $650.1 million – an increase of 95.3% on the prior year reported profit of $332.9 million. Excluding the gain arising from the sale of our investment in North Queensland Airports and fair value changes, our underlying profit after taxation for the 2018 financial year was $263.1 million, an increase of 6.2% on the prior year's underlying profit of $247.8 million.

A summary of the financial results for the year to 30 June 2018 and the 2017 comparative are shown in the table below.

	2018 $M	2017 $M	% change
Income	683.9	629.3	8.7
Operating expenses	177.5	156.2	13.6
Earnings before interest, taxation, depreciation, fair value adjustments and investments in associates (EBITDAFI)	**506.4**	**473.1**	**7.0**
Gain on sale of associate	297.4	-	-
Reported profit after tax	650.1	332.9	95.3
Underlying profit after tax	**263.1**	**247.8**	**6.2**
Earnings per share (cents)	54.3	28.0	93.9
Underlying earnings per share (cents)	22.0	20.8	5.8
Ordinary dividends for the full year			
– cents per share	21.75	20.50	6.1

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 also believe that an underlying profit measurement can 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 profits 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, in referring to underlying profits, we acknowledge our obligation to show investors how we have derived this result.

The table below shows how we reconcile reported profit after tax to underlying profit after tax for the years ending 30 June 2018 and 30 June 2017.

	2018			2017		
	Reported profit $M	Adjustments $M	Underlying profit $M	Reported profit $M	Adjustments $M	Underlying profit $M
EBITDAFI per Income Statement	**506.4**	**-**	**506.4**	**473.1**	**-**	**473.1**
Share of profit of associates	16.7	-	16.7	19.4	(4.5)	14.9
Gain on sale of associate	297.4	(297.4)	-	-	-	-
Derivative fair value movement	(0.7)	0.7	-	2.5	(2.5)	-
Investment property fair value increases	152.2	(152.2)	-	91.9	(91.9)	-
Property, plant and equipment revaluation	-	-	-	-	-	-
Depreciation	(88.9)	-	(88.9)	(77.9)	-	(77.9)
Interest expense and other finance costs	(77.2)	-	(77.2)	(72.8)	-	(72.8)
Taxation expense	(155.8)	61.9	(93.9)	(103.3)	13.8	(89.5)
Profit after tax	**650.1**	**(387.0)**	**263.1**	**332.9**	**(85.1)**	**247.8**

We have made the following adjustments to show underlying profit after tax for the 12-month periods ended 30 June 2018 and 30 June 2017:

- We have reversed out the gain arising from the sale of our investment in North Queensland Airports. This sale was a one-off transaction that does not reflect normal business activities;
- We have reversed out the impact of revaluations of investment property in 2018 and 2017. 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. None of the property, plant and equipment revaluation in 2018 affected reported profit. Therefore, no underlying profit adjustment was required in 2018, nor in 2017 in which there was no property, plant and equipment revaluation;
- We have reversed out the impact of derivative fair value movements. These are unrealised and relate to basis swaps that do not qualify for hedge accounting as well as the ineffective valuation movement in other 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 18.2 of the financial statements;
- In addition, to be consistent, we have adjusted the revaluations of investment property and financial derivatives that are contained within the share of profit of associates in 2018 and 2017; and
- We have also reversed the taxation impacts of the above movements in both the 2018 and 2017 financial years.

Key performance measures

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

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

The key performance measures are outlined in the following table. It lists each measure, provides the corresponding performance outcome for the 2018 financial year and indicates which of our four strategic themes is most relevant to the performance measure. Commentaries on performance outcomes are included in the analysis in the remainder of this financial report.

Strategy	Measure	2018	2017	2016	% change 2017–2018	% change 2016–2017
GROW TRAVEL AND TRADE MARKETS	**Total aircraft seat capacity**					
	International aircraft seat capacity	14,011,402	13,319,080	11,630,058	5.2	14.5
	Domestic aircraft seat capacity	10,903,821	10,520,325	9,937,754	3.6	5.9
	Passenger movements					
	International passengers	10,202,526	9,743,279	8,779,566	4.7	11.0
	International transit passengers	1,063,856	1,077,256	909,356	(1.2)	18.5
	Domestic passengers	9,263,666	8,601,841	7,902,059	7.7	8.9
	Maximum certified take-off weight (MCTOW)					
	International MCTOW (tonnes)	5,798,018	5,609,244	4,910,014	3.4	14.2
	Domestic MCTOW (tonnes)	2,341,699	2,238,853	2,068,545	4.6	8.2
	Cargo volume					
	Volume of cargo movements (tonnes)	187,258	176,756	178,595	5.9	(1.0)
STRENGTHEN OUR CONSUMER BUSINESS	**Passenger spend rate (PSR)**					
	Change in International Terminal PSR	(1.8%)	(2.4%)	(1.3%)		
	Income per passenger (IPP)					
	Retail IPP	$17.76	$15.83	$17.05	12.2	(7.2)
	Average revenue per parking space (ARPS)					
	Change in ARPS	1.9%	(4.2%)	11.6%		
BE FAST, EFFICIENT AND EFFECTIVE	**Return on investment**					
	Return on capital employed*	11.0%	7.9%	6.7%		
	Passenger satisfaction/ Airport service quality (ASQ)					
	International	4.12	4.19	4.21	(1.7)	(0.5)
	Domestic	3.97	4.01	3.99	(1.1)	0.5
INVEST FOR FUTURE GROWTH	**Rent roll**					
	Annual rent roll $m (property division)	90.2	72.9	63.0	23.7	15.7
ALL	**EBITDAFI**					
	EBITDAFI per passenger	$24.67	$24.36	$24.46	1.3	(0.4)

* Includes $297.4 million gain on sale of associate

2018 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 ones, with the aeronautical revenue generated by an international passenger approximately four times that of a domestic passenger.

	2018	2017	% change
Auckland Airport passenger movements			
International arrivals	5,116,341	4,906,383	4.3
International departures	5,086,185	4,836,896	5.2
International passengers excluding transits	**10,202,526**	**9,743,279**	**4.7**
Transit passengers	1,063,856	1,077,256	(1.2)
Total international passengers	**11,266,382**	**10,820,535**	**4.1**
Domestic passengers	9,263,666	8,601,841	7.7
Total passenger movements	**20,530,048**	**19,422,376**	**5.7**

International passenger numbers (excluding transits) increased by 4.7% in the year to 30 June 2018 reflecting a strong outcome across a broad range of routes and markets.

International passenger growth has been strong across the Asia, Middle East and Pacific Island regions this year at 13.0%, driven by capacity growth arising from both new services and larger aircraft introduced on existing routes. Asian markets have particularly benefited from increased capacity with passengers to and from China up 10.5%, Hong Kong up 14.1%, Japan up 11.7% and Thailand up 26.8%. The Middle East saw a 42% increase in capacity predominately as a result of the Auckland-Doha service operating for a full year and upgaging by Emirates on its direct service. There was a 7% increase in capacity to the Pacific Islands as a result of increased frequency and use of larger aircraft.

In absolute passenger arrivals by country of last residence, we saw increases from three of our five largest source markets. The additional services to Asia helped deliver an increase in Chinese arrivals of 39,000 (10.9%), driven by return to growth in group and dual travel (Australia and New Zealand). New Zealand arrivals increased by 127,000 (5.8%), and Americans by 5,000 (1.9%). Visitors from Australia declined by 11,000 (-1.2%), reflecting a combination of a reduction in Tasman services following the withdrawal of Emirates Auckland-Tasman routes and the absence of major sporting events such as the World Masters Games and the British & Irish Lions rugby tour in the 2018 financial year. The capacity gap left by Emirates is expected to be closed by the other carriers operating across the Tasman from November 2018. Visitors from the United Kingdom and Ireland declined by 10,000 (-5.1%), also impacted by the absence of the World Masters Games and the British & Irish Lions rugby tour in the 2018 financial year.

The table below shows the top 20 volumes of passenger arrivals by country of last permanent residence in the 2018 financial year.

	Auckland Airport passenger arrivals				
Country of last permanent residence	2018	2017	% change	% of total 2018 arrivals	% of total 2017 arrivals
New Zealand	2,310,370	2,183,028	5.8	45.4	44.7
Australia	858,187	869,027	(1.2)	16.9	17.8
People's Republic of China	395,075	356,315	10.9	7.8	7.3
United States of America	272,170	267,037	1.9	5.3	5.5
United Kingdom and Ireland	190,482	200,703	(5.1)	3.7	4.1
Japan	94,304	93,630	0.7	1.9	1.9
Germany	76,074	79,580	(4.4)	1.5	1.6
Korea, Republic of	72,780	64,845	12.2	1.4	1.3
India	61,316	52,301	17.2	1.2	1.2
Canada	58,472	57,486	1.7	1.1	1.1
Hong Kong	49,666	42,740	16.2	1.0	1.0
Malaysia	45,034	48,578	(7.3)	0.9	0.9
France	38,363	36,659	4.6	0.8	0.8
Singapore	33,626	33,669	(0.1)	0.7	0.7
Taiwan	32,594	25,994	25.4	0.6	0.6
Fiji	27,997	26,960	3.8	0.6	0.5
Samoa	26,687	26,037	2.5	0.5	0.5
French Polynesia	23,715	21,360	11.0	0.5	0.4
Netherlands	22,832	21,974	3.9	0.4	0.4
Thailand	22,181	20,788	6.7	0.4	0.4

SOURCE: Statistics New Zealand

Visitor arrivals by purpose of visit

The most common purpose of visit for international arrivals continues to be holidays (26.0%) and visiting friends and relatives (15.9%). The continued growth in these categories reflects the ongoing success New Zealand has had in driving international tourism numbers and maintaining a broad mix of purposes of visits through the airport. With a growing origin traffic base (New Zealand outbound), New Zealand's attractiveness as a destination and the mix of source markets of inbound passengers, all underpin Auckland Airport's passenger growth.

Purpose of visit		2018	2017	% change	% of total
	Holiday/vacation	1,328,496	1,289,248	3.0	26.0
	Visit friends/relatives	814,736	788,304	3.4	15.9
Foreign residents	Business/conference	285,216	275,360	3.6	5.6
	Education/medical	58,640	55,712	5.3	1.1
	Other (Incl. not stated/not captured)	318,883	314,731	1.3	6.2
New Zealand residents		2,310,370	2,183,028	5.8	45.2

SOURCE: Statistics New Zealand

Domestic passenger movements

Domestic passenger numbers also grew strongly in the 2018 financial year, increasing by 7.7% or 661,825 passengers. This growth, above industry and airlines' expectations, was delivered through increased frequencies on Air New Zealand's main trunk jet services, particularly on the Auckland-Queenstown route and regional passenger growth of 8.0% following Air New Zealand adding another 164,000 seats over the year to regional services.

2018 Aircraft volume analysis

Total aircraft movements in the year were 174,276, an increase of 3.0% from the 2017 financial year, while MCTOW increased 3.7% to 8,139,717 tonnes. The slightly higher MCTOW growth versus aircraft movements reflects the continuing trend of larger aircraft, particularly international, using Auckland Airport.

	2018	2017	% change
Aircraft movements			
International	55,693	54,879	1.5
Domestic	118,583	114,366	3.7
Total aircraft movements	**174,276**	**169,245**	**3.0**
MCTOW (tonnes)			
International MCTOW	5,798,018	5,609,244	3.4
Domestic MCTOW	2,341,699	2,238,853	4.6
Total MCTOW	**8,139,717**	**7,848,097**	**3.7**

2018 Financial performance analysis

Revenue

In the 2018 financial year, revenue increased by 8.7% to $683.9 million with strong revenue growth across several business segments. Retail revenue was up 17.1%, Car parking revenue up 8.3% and Aeronautical and Property rental income achieving double-digit growth, with revenue increases of 10.4% and 16.2% respectively. Aeronautical income was up 2.5% on the prior year as the growth in passenger and aircraft movements was partially offset by the reduction of aeronautical charges in the first year of our new FY2018 – 2022 aeronautical pricing schedule.

	2018 $M	2017 $M	% change
Operating revenue			
Airfield landing charges	116.8	119.6	(2.3)
Airfield parking charges	5.3	-	n/a
Total airfield income	122.1	119.6	2.1
Passenger services charge	179.1	174.3	2.8
Retail income	190.6	162.8	17.1
Car parking income	61.0	56.3	8.3
Rental income - Property	79.1	68.1	16.2
Rental income - Aeronautical	18.1	16.4	10.4
Rental income - Retail	0.4	0.4	-
Total rental income	97.6	84.9	15.0
Rates recoveries	6.0	5.6	7.1
Interest income	2.2	2.3	(4.3)
Other income	25.3	23.5	7.7
Total revenue	**683.9**	**629.3**	**8.7**

Airfield income

Airfield income is comprised of both airfield landing charges and aircraft parking charges. Airfield landing charges are based on the MCTOW of aircraft. Total MCTOW across international and domestic landings grew by 3.7% in the 2018 financial year, while landing charge prices decreased by approximately 5.7%. As a result, airfield landing charge income decreased by $2.8 million or 2.3%. 2018 was the first year aircraft parking charges were introduced, delivering $5.3 million in revenue for the year. Total airfield income, including landing charges and parking charges, increased by $2.5 million or 2.1% to $122.1 million.

Passenger services charge

Passenger services charge (PSC) income increased by $4.8 million or 2.8% in the 2018 financial year. The 2018 financial year was the first year of the new FY2018 – 2022 aeronautical pricing schedule which included reductions in charges for international and regional passengers. The 2019 prices are also shown below.

	2017 $	2018 $	2018 price change %	2019 $	2019 price change %
International PSC (≥ 2 years)	16.09	15.65	(2.7)	15.44	(1.3)
Domestic PSC (≥ 2 years)	2.18	2.28	4.6	2.48	8.8
Regional PSC (≥ 2 years)	2.18	2.13	(2.3)	2.29	7.5
Transits PSC (≥ 2 years)	4.03	4.27	6.0	4.82	12.9

Retail income

Auckland Airport earns concession revenue from retailers within the Domestic and International Terminals, including Duty Free and Specialty stores, Food and Beverage outlets, Foreign Exchange and Advertising as well as some Off-airport retailers. In addition, income is generated through Auckland Airport's Strata Lounge in the International Terminal.

2018 was a milestone year in the progress of our most complex project to date, the expansion of the International Terminal emigration processing and dwell space. Following the opening of the first stage on 30 June 2017, which provided an expanded new security screening area and a new location for the Duty Free stores, the current year saw a number of important project deliveries. In December 2017, the second stage of the Duty Free stores and the Destination precinct including a new dwell space was opened, providing an enhanced customer experience through a number of new store concepts. In June we were pleased to see the first of the retail high street stores open to the public providing a range of leading luxury brands. These new stores, alongside the exciting concepts and Duty Free environment opened earlier in the year have created an exciting and dynamic retail environment in the departure area of the International Terminal that is well on the way to delivering a broader range of stores, brands and products that offer the best of New Zealand and the world.

The upcoming opening of the remaining stores in the Specialty high street and expanded Food and Beverage areas in second half of calendar 2018 will complete the international departures redevelopment and will further lift the overall customer experience. At completion, customers travelling through the International Terminal will be able to experience 37 new store concepts, including 11 new Luxury stores, 7 new Destination, 15 new Food and Beverage and 4 new Specialty stores in a more spacious and relaxed ambient environment.

Total retail income for the 2018 financial year was $190.6 million, an increase of $27.8 million or 17.1% on the previous financial year. Auckland Airport’s retail income per international passenger was $17.76 for the 2018 financial year, a 12.2% increase on the previous financial year. This growth in income per passenger was driven by the duty free operators moving into a new and refreshed area at the start of the financial year and increased space in December 2017, plus an overall improved trading environment from the addition of new retailers and new store concepts opening during the period that provide a greater range of choice for the travelling public. Income from retail channels of Advertising, The Collection Point and Strata Lounge grew by 24.5% on the previous financial year.

The international passenger spend rate (PSR) fell 1.8% in the 2018 financial year as passenger growth combined with an improved retail choice was offset by the disruption from the international departure area redevelopment. PSR in the Speciality category was particularly adversely affected by the redevelopment with many retailers trading out of temporary stores for significant parts of the year. Excluding the Specialty store category, international PSR grew by 4.1%. Duty Free was a strong contributor to this growth with a PSR increase of 7.8% on the previous financial year. In isolation, Duty Free departures had a PSR uplift of 14.5%, reflecting improved trading performance from their new locations and the expanded space from December. At a Duty Free product category level, electronics, cosmetics & skincare and liquor & wine recorded growth in PSR of

31%, 13% and 1% respectively whilst fragrances and tobacco decreased by 4% and 14% respectively.

Strata Lounge in the International Terminal had another year of strong growth with revenue up 23.7% on the previous financial year following the Strata Lounge moving into its new and improved space in September 2017. The new lounge has been recognised internationally and the outstanding customer experience and world-class facilities continue to drive demand.

Auckland Airport's customer loyalty programme, Strata Club, which was launched in April 2017, had great success during the year in growing member numbers. The sign-up rate was particularly strong during the engaging Spin & Win campaign and June 2018 saw Strata Club membership tick over 120,000 members. The programme aims to tie our retail, lounge and parking products together to seamlessly drive cross-purchasing of products and services through the provision of tailored offers to members.

Car parking income

Car parking income in the 2018 financial year was $61.0 million, an increase of $4.7 million or 8.3%. During the year we continued our investment in parking capacity, adding 326 spaces across both Domestic Terminal and Park & Ride. Our work on optimising usage continued with a second phase of staff parking near the International Terminal being relocated to Park & Ride to provide additional capacity for the travelling public. The staff parking relocation to Park & Ride was supported by increased frequency of bus services to the terminal and improved access from the south through Nixon Road, reducing traffic on the core precinct. From December 2017, the new commercial access to the Domestic Terminal was opened allowing buses, taxis and shuttles to enter the forecourt through a different route in order to further improve traffic flow. The new commercial access resulted in a loss of 120 Domestic Terminal car parks, but this was more than offset by the additional 159 parks added to Car park K, located a short walk north of the Domestic Terminal.

The table below outlines the number of spaces available at 30 June 2018 and 30 June 2017.

Parking capacity as at 30 June	2018	2017	change	% change
International Terminal	4,413	3,770	643	17.1
Domestic Terminal	2,611	2,572	39	1.5
Park & Ride	1,719	1,432	287	20.0
Valet	795	795	-	-
Staff	2,800	2,920	(120)	(4.1)
Total	**12,338**	**11,489**	**849**	**7.4**

Demand for parking at the airport continues to be strong driven by New Zealand passenger growth. Auckland Airport has provided a range of product offerings to service the market at various competitive price points. Driving demand through tailored products such as Valet and Park & Ride Express has allowed the average transaction value to increase by 5.0% on the previous financial year through yield management rather than general price increases. Further investment in parking infrastructure is to be made in 2019 to ensure we meet growing demand.

The average revenue per space increased by 1.9% in the 2018 financial year as a result of an increase in demand, particularly evident through higher value products, and improved utilisation of space. Average revenue per space is based on revenue divided by the average number of spaces during the year.

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 $97.6 million in the 2018 financial year, an increase of 15.0% on the previous financial year. Property rental income (excluding aeronautical and retail rental income) was $79.1 million in the 2018 financial year, an increase of $11.0 million or 16.2% on the previous financial year. Revenue growth in the year was driven by new assets such as 15 Maurice Wilson, Rohlig Logistics, the Bunnings distribution centre and a new facility for the Ministry of Primary Industries, as well as the full-year impact of developments completed during the previous financial year, such as Fonterra Brands' new distribution centre, 23 Timberly Road, and the Quad 7 office building. Strong rental growth in the existing portfolio and performance by the ibis Budget Hotel also contributed to the income growth in 2018, with the latter seeing a 13.8% increase in revenues year on year.

Soon to be completed projects such as the office and warehouse facility for DSV logistics will positively impact rental income in the 2019 financial year.

Other income

Other income includes utilities, such as the sale of electricity, gas, water reticulation and transport licence fees to taxis, shuttles and other operators. Total income from these sources was $25.3 million, an increase of $1.8 million or 7.7% on the previous financial year primarily due to a 16.3% increase in electricity line sales and a 12.4% increase in barrier entry fees from transport operators.

Expenses

Total expenses were $499.4 million in the 2018 financial year, an increase of $89.2 million or 21.7% on the prior year, with the majority of the increase coming from tax related to the sale of North Queensland Airports.

Operating expenses

Total operating expenses (excluding depreciation, interest and taxation) were $177.5 million in the 2018 financial year, an increase of $21.3 million or 13.6% on the prior year.

	2018 $M	2017 $M	% change
Operating expenses			
Staff	57.9	50.5	14.7
Asset management, maintenance and airport operations	69.5	55.6	25.0
Rates and insurance	13.7	12.2	12.3
Marketing and promotions	13.8	16.7	(17.4)
Professional services and levies	11.1	11.4	(2.6)
Other	11.5	9.8	17.3
Total operating expenses	**177.5**	**156.2**	**13.6**
Depreciation	88.9	77.9	14.1
Interest	77.2	72.8	6.0
Taxation	155.8	103.3	50.8

The operating expenses increase during the 2018 financial year reflects ongoing strong growth in aeronautical and non-aeronautical commercial activities. Staff costs increased $7.4 million or 14.7% as a result of additional head count in emergency services, maintenance and engineering services, reflecting a focus on safety and operational performance, as well as costs associated with the ongoing improvement in our business technology systems and processes. A key area of focus was customer experience, which contributed to higher staff numbers in customer transformation, commercial operations and head office functions.

Asset management, maintenance and airport operations expenses increased by $13.9 million, or 25.0% in the 2018 financial year. Continuing growth in aeronautical activity required increased expenditure on airside bus services, baggage equipment operations and additional investment in technology services to cater for this increased demand. The optimisation of our business technology operations incurred costs of $1.6 million and the disposal of now-banned contaminated fire truck foam – an industry-wide issue – has resulted in one-off costs of $1.2 million. In addition, the expanding terminal footprint has driven additional cleaning and utilities expenses. Finally, passengers benefited from the new and expanded Strata Lounge and increased frequency of Park & Ride bus services, which drove higher operating costs as well as higher revenues for both products.

Rates and insurance expenses increased by $1.5 million, or 12.3%, in the 2018 financial year, split evenly between rates and insurance. The increase in insurance costs was driven by the larger footprint of the terminal buildings and a 40% increase in the fire service levy. Rates increases were driven by additional charges for newly developed investment properties and average rates increases of 2.5% across the portfolio, as well as the introduction of a new targeted rate on commercial accommodation providers. Rates increases on developed investment property are matched by offsetting increases in rates recoveries from tenants included within other income.

Marketing and promotions expenditure in the 2018 financial year declined by $2.9 million, or 17.4%, primarily as a result of fewer new air services being launched compared to the prior year, and fewer existing services requiring marketing support.

Fees for professional services saw a reduction of $0.3 million, or 2.6%, to $11.1 million in the 2018 financial year as the volume of work related to the setting of aeronautical prices for FY18-FY22 and other regulatory matters declined slightly, partially offset by an increase in fees on key projects such as the fuel shortage feasibility study, Masterplanning activities, transportation and business technology optimisation studies.

Other expenses increased by $1.7 million, or 17.3%, to $11.5 million in the 2018 financial year, split approximately 50/50 between costs such as registry expenses, company memberships, printing and stationery, and our ongoing work in improving transport and trade on the precinct.

Depreciation

Depreciation expense in the 2018 financial year was $88.9 million, an increase of $11.0 million, or 14.1%, on the previous financial year. The increase on the prior year was driven by increased fixed asset commissioning reflecting recent years' accelerated aeronautical capital expenditure.

Interest

Interest expense was $77.2 million in the 2018 financial year, an increase of $4.4 million, or 6.0%, on the previous financial year. The increase in the average debt balance of 9.4% for the 2018 financial year was partially offset by the decrease in the average cost of funds. Decreasing floating interest rates and the successful refinancing of debt from historically higher rates helped reduce the average cost of funds from 4.46% in the previous financial year to 4.24% in 2018. Capitalised interest decreased from $9.9 million in the previous financial year to $8.8 million in 2018 following the completion of a number of significant projects early in the financial year.

Taxation

Taxation expense was $155.8 million in the 2018 financial year, an increase of $52.5 million on the previous financial year. After adjusting for the tax on the gain on sale of our investment in North Queensland Airports and fair value increases in derivatives and investment property, the underlying tax expense was $93.9 million in the financial year to 30 June 2018. This was an increase of $4.4 million or 4.9% on the previous financial year, broadly reflecting the growth in underlying profit for the year.

Share of profit from associates

Our total share of the profit from associates in the 2018 financial year was $16.7 million, comprising North Queensland Airports ($8.5 million), Tainui Auckland Airport Hotel Limited Partnership (TAAH) ($4.4 million) and Queenstown Airport ($3.8 million). This was a $2.7 million decrease on the $19.4 million profit in the previous financial year, primarily due to only including an eight months share of North Queensland Airports' profit in the 2018 financial year.

Included in the 2018 financial year's share of profit from associates is: our share of North Queensland Airports' fair value loss on financial instruments of $0.1 million (2017: gain of $0.6 million); and TAAH's fair valuation gain on financial instruments of $0.1 million (2017: $0.1 million). Included in the 2017 financial year's share of profit from associates there were also: North Queensland Airports' gain on revaluation of investment property of $2.3 million; and TAAH's fair valuation gain on investment property of $2.6 million. Excluding these fair value changes, Auckland Airport's share of underlying profit from associates was up by 12.1% to $16.7 million for the 2018 financial year (2017: $14.9 million).

North Queensland Airports

In January 2018, Auckland Airport announced it had offered its 24.55% stake in North Queensland Airports to the other existing shareholders for A$370 million. The sale was completed in March 2018 after securing necessary regulatory and counter-party approvals.

Queenstown Airport

Auckland Airport's 24.99% share of Queenstown Airport's net profit after tax for the 2018 financial year was $3.8 million, a $0.8 million increase on the previous financial year.

	2018 $M	2017 $M	% change
Financial performance			
Total revenue	45.7	39.0	17.2
EBITDAFI	31.6	26.2	20.6
Total net profit after tax	14.9	12.1	23.1
Passenger performance			
Domestic passengers	1,544,393	1,360,158	13.5
International passengers	596,276	532,285	12.0
Total passengers	**2,140,669**	**1,892,443**	**13.1**

Queenstown Airport delivered another strong result with passenger movements of two million per annum reached for the first time in December 2017. For the financial year ended 30 June 2018 passenger movements 2,140,669, up 13.1% on last year's growth of 14.6%. International passengers rose 12.0% as further capacity was added across the Sydney and Melbourne routes. Similarly, domestic passengers grew 13.5% with further capacity added on the Auckland and Wellington routes. The Wellington route saw increased competition as Jetstar reintroduced its regular jet service in March 2018 operating 3 flights weekly, and Air New Zealand increased capacity.

Auckland Airport received a dividend of $1.8 million from its investment in Queenstown Airport in the 2018 financial year, up from $1.6 million in the previous financial year.

Tainui Auckland Airport Hotel Limited Partnership

At 30 June 2018, Auckland Airport had a 40% investment in the Novotel hotel joint venture with Tainui Group Holdings and Accor Hotel Group. In 2017, Auckland Airport entered into an agreement with Tainui Group Holdings and Accor Hotel Group to increase its 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 is expected to be completed in 2019 financial year when Auckland Airport purchases Accor Hotel Group's 10% stake in the joint venture. In the 2018 financial year, Auckland Airport's share of underlying profit from this investment was $4.5 million, an increase of $1.8 million, or 66.7%, compared with the previous financial year, due to the 20% stake purchase. Auckland Airport's share of reported profit in the 2018 financial year was $4.4 million.

The Novotel hotel's annual average occupancy rate for the 2018 financial year increased to 92.4%, up from 90.8% in the previous financial year. The average daily rate increased by 5.4% in the 2018 financial year driven by strong demand for airport-adjacent accommodation.

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. The group and Tainui Group Holdings each hold a 50% stake in the partnership. The group has contributed $3.0 million into the partnership.

Two of Auckland Airport's senior management staff 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 2018 financial year, investment property fair value changes resulted in a gain in the income statement of $152.2 million, compared with a gain of $91.9 million in the previous financial year. Continued improvements in lease terms during the year combined with firming of the capitalisation rates of the property portfolio and improved land values for undeveloped land, were the key reasons for the increase.

Also, as at 30 June 2018, the land asset class within property, plant and equipment was revalued, resulting in an upward movement of $1,189.6 million. This land was revalued most recently as at 30 June 2016. The revaluation uplift was recorded directly in other comprehensive income. This revaluation has no impact on the value of Auckland Airport's regulatory asset values as presented in the annual disclosure statements, nor on our aeronautical pricing for the FY18-FY22 period. Similar to the investment property revaluation, firming capitalisation rates and decreasing discount rates were a strong driver of the property, plant and equipment land valuation increase along with the increased land area underlying the expanded car parking and in-terminal retail areas, plus increases in the future earnings potential of those areas driven by the recent expansions and upgrades.

2018 Financial position analysis

As at 30 June	2018 $M	2017 $M	% change
Non-current assets	8,018.4	6,399.5	25.3
Current assets	178.4	104.0	71.5
Total assets	**8,196.8**	**6,503.5**	**26.0**
Non-current liabilities	2,185.6	1,911.0	14.4
Current liabilities	329.1	563.5	(41.6)
Equity	5,682.1	4,029.0	41.0
Total equity and liabilities	**8,196.8**	**6,503.5**	**26.0**

As at 30 June 2018 our total assets book value was $8,196.8 million, an increase of $1,693.3 million, or 26.0%, on 30 June 2017. The increase in total assets is primarily the result of increased capital expenditure and the revaluation of property, plant and equipment land.

Shareholders' equity was $5,682.1 million as at 30 June 2018, an increase of $1,653.1 million, or 41.0%, on 30 June 2017. The movement in equity reflects the profit in the year, the increase in the property, plant and equipment revaluation reserve, as well as a $55.9 million rise in shares on issue reflecting the dividend reinvestment plan being operative throughout the year.

Gearing, measured as debt to debt plus the market value of shareholders' equity increased to 20.4% as at 30 June 2018, up from 19.5% as at 30 June 2017.

Capital expenditure

For the 2018 financial year, Auckland Airport invested $405.2 million on building New Zealand's airport of the future. The scale of the investment programme is unprecedented in the company's history and reflects the substantial investment in aeronautical terminal assets, roading and property development to cater for ongoing growth across the business. In 2018, concurrent works were undertaken on two major aeronautical projects being the International Terminal level 1 departure expansion and the Pier B expansion, the latter of which was completed ahead of scheduled and under budget in February 2018.

Category	2018 $M	2017 $M	% change	Key 2018 projects
Aeronautical	280.6	255.4	9.9	International Terminal level 1 expansion, Pier B expansion (gates 17-18), planning activity on the new Domestic Jet facility and expansion of MPI facilities and airfield concrete pavement replacement.
Infrastructure and other	20.8	12.4	67.7	Commencement of a number of roading upgrade projects across the airport campus including southern bypass via Nixon Road, upgrades to the Landing Drive / George Bolt Memorial Drive roundabout, addition of high occupancy vehicle lane on Tom Pearce Drive, upgrade of the primary water main to the airport campus and continued investment in IT infrastructure.
Property	80.2	85.7	(6.4)	Completion of preleased warehouse for Bunnings and preleased custom facilities for Ministry of Primary Industries; commenced construction of preleased warehouse and office facilities for DSV and Foodstuffs.
Retail	12.5	7.2	73.6	Continuation of our new online retail channel, The Mall, which launched in June 2018, redevelopment of International Terminal airside and landside retail stores and delivery of a new Collection Point store front.
Car parking	11.1	14.0	(20.7)	Increased capacity and improvements to access at Park & Ride North, commencement of reconfiguration of historic property precinct into car parking facilities, commencement of development of new multi-story car park building in the vicinity of the International Terminal and minor expansion of Domestic Terminal car parks.
Total	**405.2**	**374.7**	**8.1**	

The implementation of our 30-year vision to build the airport of the future continues and we are currently investing more than $1 million every day on our core airport infrastructure. This investment is spread across many projects, with over 40 capital expenditure projects with spend greater than $1.0 million occuring during the 2018 financial year.

In 2018, we continued the expansion of the level 1 departure area at the International Terminal, the largest single development ever undertaken at Auckland Airport with new passenger dwell space, retail offerings and public conveniences being delivered throughout the year. In addition, we completed the Pier B expansion, adding two contact gates to the International Terminal, each able to handle one Code F aircraft such as an A380 or a B787 or two Code C aircraft like an A320. In 2018, we have also undertaken extensive planning and enabling activities for a number of major projects which are scheduled to commence construction in the next two years including the new domestic jet facility that will be integrated with the existing International Terminal, an expanded MPI arrivals area, the expansion of taxilanes and new remote aircraft stands on the airfield, a large multi-story car park next to the new domestic jet facility and a new roading network for the International Terminal.

The 2019 financial year is forecast to be another record year for Auckland Airport in terms of capital investment, with the conclusion of the level 1 departure area expansion and a number of major projects moving into the delivery phase. The increased investment in capital projects is spread across all facets of the business including aeronautical, car parking, property and roading. Reflecting this, capital expenditure for the 2019 financial year is forecast to be between $450 million and $550 million, with the high end of the forecast range shown below.

Category	Forecast 2019 $M
Aeronautical	260
Infrastructure and other	100
Retail	15
Property development	130
Car parking	45
Total capital expenditure	**550**

The significant aeronautical projects scheduled in the financial year ended 30 June 2019 include the completion the level 1 departures expansion at the International Terminal, commencing the development of new taxiways, remote stands and aprons in the vicinity of the expanded Pier B, upgrading Taxiway Alpha to a contingent runway, the planning and enabling works for the new Domestic Jet Facility and the expansion of the MPI arrivals area.

Key infrastructure projects during 2019 will include the upgrade of the primary water main to the airport campus and continued investment in IT infrastructure to further improve resilience and enable greater collaboration and data sharing by the many stakeholders that operate at Auckland Airport. Through continued enhanced collaboration, customer journey times through the terminal and precinct are expected to be reduced. In addition, we will also invest in a number of transport-related projects to address peak road congestion within the airport campus. These include the completion of the southern bypass via Nixon Road, the introduction of dedicated bus lanes in core sections of the airport precinct, enabling works on a new terminal exit road servicing the International Terminal and the construction of a pedestrian bridge over George Bolt Memorial Drive.

Property projects planned for 2019 include a large Foodstuffs office and warehouse development, the largest single property project Auckland Airport has ever undertaken, the Airways New Zealand office building, a new hotel development and the conclusion of the warehouse and office build for DSV Logistics.

In 2019 we will undertake a number of new car parking projects including the completion of a new multi-story car park in Car Park E that will add a net 500 bays, conversion of the Cargo Central property precinct into additional Domestic Terminal parking, commencing construction of a southern Park & Ride facility off Puhunui Road and continuing design of a large multi-story car park next to the new Domestic Jet Facility.

Borrowings

As at 30 June 2018, Auckland Airport's total borrowings were $2,060.3 million, flat on the previous year. Additional debt raised during the year to fund capital expenditure and increases in the fair value of existing debt were offset by debt repayments from the proceeds of the North Queensland Airports sale.

During the year Auckland Airport issued Australian medium term notes ("AMTN") equating to NZ$126.5 million. All foreign sourced debt (namely the AMTN and the USPP debt) 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. USPP debt carrying value increased by $17.6 million and the AMTN debt carrying value increased by $8.9 million. The exchange rate movements were matched by an equal and offsetting movement in fair value of the associated cross currency interest rate swaps.

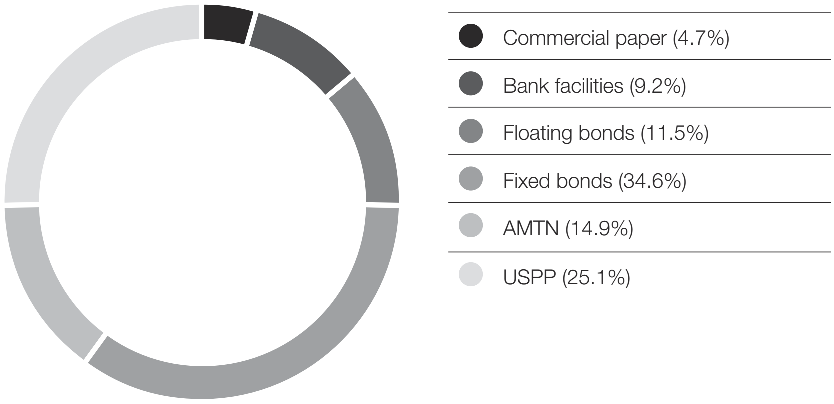
At 30 June 2018, Auckland Airport's borrowings comprised USPP notes totalling $592.2 million; AMTN notes totalling $296.3 million; New Zealand fixed rate bonds totalling $675.0 million; drawn bank facilities totalling $180.0 million; New Zealand floating rate bonds totalling $225.0 million and commercial paper totalling $91.8 million.

Short-term borrowings with a maturity of one year or less accounted for $166.8 million, or 8.1%, of total borrowings. This was a decrease on the previous year's $421.1 million. Current debt is made up of $91.8 million of commercial paper and a $75.0 million floating rate bond that matures in October 2018.

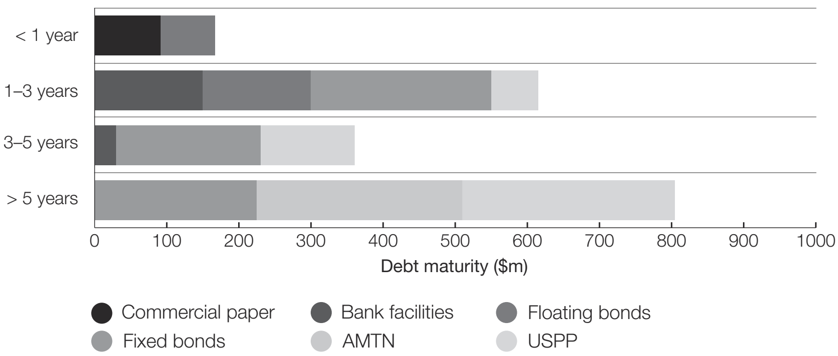
As at 30 June 2018, Auckland Airport had total bank facilities of $558.5 million, of which $180.0 million was drawn and $378.5 million was available in standby capacity. As at 30 June 2018, total bank facilities included two fully drawn facilities with Bank of Tokyo totalling $150.0 million, a fully drawn $30.0 million Bank of China facility and undrawn standby facilities of $75.0 million from Westpac, $205.0 million from BNZ and $98.5 million from Commonwealth Bank of Australia.

The BNZ standby facility supports our commercial paper programme, which had a balance of $91.8 million as at 30 June 2018, and provides liquidity support for general working capital. As the commercial paper is supported by the bank facility, the following debt maturity profile chart, as at 30 June 2018, includes the commercial paper in the 'less than 1 year' bracket, matching the maturity of the supporting BNZ facility.

Borrowings by category



Debt maturity profile at 30 June 2018



Auckland Airport manages its exposure to financial risk on a prudent basis. This is achieved by spreading borrowings across various roll-over 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 18.4 of the financial statements.

Key credit metrics	2018	2017	% change
Debt/Debt + market value of equity	20.4%	19.5%	
Debt/EBITDAFI	3.8	4.3	(11.6)
Funds from operations interest cover	5.0	4.9	1.4
Funds from operations to net debt	18.4%	16.6%	10.7
Weighted average interest cost	4.24%	4.46%	
Average debt term to maturity	4.93	4.74	4.0
Percentage of fixed borrowings	54.7%	51.4%	

Capital structure and credit rating

As at 30 June 2018, Standard & Poor's long-term credit rating of Auckland Airport was 'A- Stable' and the short-term credit rating was 'A2'. Standard & Poor's 'A- Stable' rating reflects the strong ability of Auckland Airport to meet its financial commitments.

Cash flow

Cash flow summary	2018 $M	2017 $M	% change
Net cash inflow from operating activities	321.2	307.1	4.6
Net cash outflow from investing activities	(33.5)	(337.3)	(90.1)
Net cash (outflow)/inflow from financing activities	(226.1)	22.7	n/a
Net (decrease)/increase in cash held	**61.6**	**(7.5)**	**n/a**

Net cash inflow from operating activities was $321.2 million in the 2018 financial year, an increase of $14.1 million, or 4.6%, on the previous financial year, broadly in line with growth in earnings during the year.

Net cash outflow applied to investing activities was $33.5 million in the 2018 financial year, a decrease of $303.8 million, or 90.1%, due to the proceeds of the sale of our investment in North Queensland Airports more than offsetting the $62.4 million increase in the purchase of property, plant and equipment.

Net cash outflow applied to financing activities was $226.1 million in the 2018 financial year, compared to a net cash inflow of $22.7 million in 2017 as proceeds from the sale of our investment in North Queensland Airports were in part used to repay debt.

2018 Returns for shareholders

Dividend policy

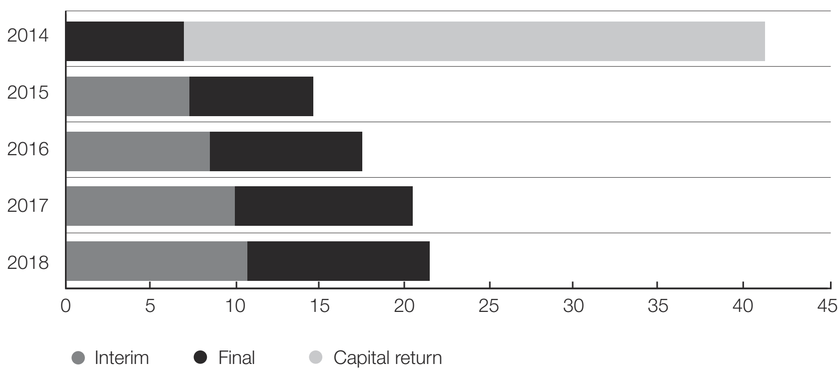
Auckland Airport's dividend policy is to pay 100% of underlying net profit after tax (excluding unrealised gains and losses arising from a revaluation of property or treasury instruments and other one-off items), noting that, in special circumstances, the directors may consider the payment of ordinary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

2018 dividend

The final dividend for the year ending 30 June 2018 is 11.00 cents per share compared to the final dividend of 10.50 cents per share in the previous financial year, an increase of 4.8%.

The 2018 final dividend will be paid on 19 October 2018 to shareholders on the register at the close of business on 5 October 2018. The dividend will carry full imputation credits at the company tax rate of 28%. In addition, the normal supplementary dividend, sourced from corresponding tax credits available to the company, will be paid to non-resident shareholders.

Distribution history



Share price performance and total shareholder returns

Auckland Airport has seen some share price volatility in the year to 30 June 2018, with its share price decreasing from $7.13 as at 30 June 2017 to $6.78 as at 30 June 2018. Total shareholder return, including share price movement and dividends relating to the 2018 financial year, is (1.9%).

Five-year compound average total shareholder return

	Share price opening	Share price closing	Dividend	Total return	Average annual shareholder return
	$	$	cps	$	%
1 July 2013 to 30 June 2018	2.97	6.78	81.35	4.62	20.7%

Consolidated income statement

FOR THE YEAR ENDED 30 JUNE 2018

	Notes	2018 $M	2017 $M
Income			
Airfield income		122.1	119.6
Passenger services charge		179.1	174.3
Retail income	5	190.6	162.8
Rental income	5	97.6	84.9
Rates recoveries		6.0	5.6
Car park income		61.0	56.3
Interest income		2.2	2.3
Other income		25.3	23.5
Total income		683.9	629.3
Expenses			
Staff	5	57.9	50.5
Asset management, maintenance and airport operations		69.5	55.6
Rates and insurance		13.7	12.2
Marketing and promotions		13.8	16.7
Professional services and levies		11.1	11.4
Other expenses	5	11.5	9.8
Total expenses		177.5	156.2
Earnings before interest expense, taxation, depreciation, fair value adjustments and investments in associates (EBITDAFI)		506.4	473.1
Share of profit of associates and joint ventures	8	16.7	19.4
Gain on sale of associate	8	297.4	-
Derivative fair value (decrease)/ increase	18.2	(0.7)	2.5
Investment property fair value increase	12	152.2	91.9
Earnings before interest, taxation and depreciation (EBITDA)		972.0	586.9
Depreciation	11(a)	88.9	77.9
Earnings before interest and taxation (EBIT)		883.1	509.0
Interest expense and other finance costs	5	77.2	72.8
Profit before taxation		805.9	436.2
Taxation expense	7(a)	155.8	103.3
Profit after taxation attributable to owners of the parent		650.1	332.9
		Cents	Cents
Earnings per share			
Basic and diluted earnings per share	10	54.31	27.96

The notes and accounting policies on pages 26 to 66 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 2018

	Notes	2018 $M	2017 $M
Profit for the year		650.1	332.9
Other comprehensive income			
Items that will not be reclassified to the income statement			
Net property, plant and equipment revaluation movement	11(a), 16(ii)	1,189.6	-
Movement in share of reserves of associates	8, 16(v)	8.0	7.5
Items that will not be reclassified to the income statement		1,197.6	7.5
Items that may be reclassified subsequently to the income statement:			
Cash flow hedges			
Fair value (losses)/gains recognised in the cash flow hedge reserve	16(iv)	(9.5)	15.2
Realised losses transferred to the income statement	16(iv)	2.9	6.7
Tax effect of movements in the cash flow hedge reserve	16(iv)	0.3	(6.1)
Total cash flow hedge movement		(6.3)	15.8
Movement in share of reserves of associates	8, 16(v)	0.4	2.5
Movement in foreign currency translation reserve	16(vi)	0.8	0.2
Items that may be reclassified subsequently to the income statement		(5.1)	18.5
Total other comprehensive income		1,192.5	26.0
Total comprehensive income for the year, net of tax attributable to the owners of the parent		1,842.6	358.9

The notes and accounting policies on pages 26 to 66 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 2018

	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	Share of reserves of associates $M	Foreign currency translation reserve $M	Retained earnings $M	Total $M
For the year ended 30 June 2018										
At 1 July 2017		348.3	(609.2)	3,729.0	1.1	(31.9)	20.4	(9.3)	580.6	4,029.0
Profit for the year		-	-	-	-	-	-	-	650.1	650.1
Other comprehensive income		-	-	1,189.6	-	(6.3)	8.4	0.8	-	1,192.5
Total comprehensive income		-	-	1,189.6	-	(6.3)	8.4	0.8	650.1	1,842.6
Reclassification to retained earnings	16(ii)	-	-	(4.7)	-	-	-	-	4.7	-
Reclassification to gain on sale of associate	8	-	-	-	-	-	-	8.5	-	8.5
Shares issued	15	55.9	-	-	-	-	-	-	-	55.9
Long-term incentive plan	16(iii)	-	-	-	0.2	-	-	-	-	0.2
Dividend paid	9	-	-	-	-	-	-	-	(254.1)	(254.1)
At 30 June 2018		404.2	(609.2)	4,913.9	1.3	(38.2)	28.8	-	981.3	5,682.1
For the year ended 30 June 2017										
At 1 July 2016		332.7	(609.2)	3,730.6	1.0	(47.7)	10.4	(9.5)	472.4	3,880.7
Profit for the year		-	-	-	-	-	-	-	332.9	332.9
Other comprehensive income/(loss)		-	-	-	-	15.8	10.0	0.2	-	26.0
Total comprehensive income/(loss)		-	-	-	-	15.8	10.0	0.2	332.9	358.9
Reclassification to retained earnings	16(ii)	-	-	(1.6)	-	-	-	-	1.6	-
Shares issued	15	15.6	-	-	-	-	-	-	-	15.6
Long-term incentive plan	16(iii)	-	-	-	0.1	-	-	-	-	0.1
Dividend paid	9	-	-	-	-	-	-	-	(226.3)	(226.3)
At 30 June 2017		348.3	(609.2)	3,729.0	1.1	(31.9)	20.4	(9.3)	580.6	4,029.0

The notes and accounting policies on pages 26 to 66 form part of and are to be read in conjunction with these financial statements.

Consolidated statement of financial position

AS AT 30 JUNE 2018

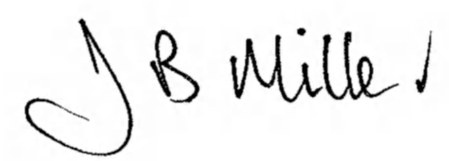
	Notes	2018 $M	2017 $M
Non-current assets			
Property, plant and equipment	11(a)	6,378.0	4,947.8
Investment properties	12	1,425.6	1,198.0
Investment in associates and joint ventures	8	104.4	171.6
Derivative financial instruments	18	110.4	82.1
		8,018.4	6,399.5
Current assets			
Cash and cash equivalents	13	106.7	45.1
Inventories		0.2	0.1
Trade and other receivables	14	71.5	55.5
Dividends receivable		-	2.7
Derivative financial instruments	18	-	0.6
		178.4	104.0
Total assets		8,196.8	6,503.5

The notes and accounting policies on pages 26 to 66 form part of and are to be read in conjunction with these financial statements.

	Notes	2018 $M	2017 $M
Shareholders' equity			
Issued and paid-up capital	15	404.2	348.3
Reserves	16	4,296.6	3,100.1
Retained earnings		981.3	580.6
		5,682.1	4,029.0
Non-current liabilities			
Term borrowings	18.1	1,893.5	1,635.6
Derivative financial instruments	18	38.9	36.1
Deferred tax liability	7(c)	251.4	237.8
Other term liabilities		1.8	1.5
		2,185.6	1,911.0
Current liabilities			
Accounts payable and accruals	17	148.0	132.3
Taxation payable		12.9	6.4
Derivative financial instruments	18	1.3	2.8
Short-term borrowings	18.1	166.8	421.1
Provisions	21	0.1	0.9
		329.1	563.5
Total equity and liabilities		8,196.8	6,503.5

These financial statements were approved and adopted by the Board on 23 August 2018.

Signed on behalf of the Board by



Sir Henry van der Heyden
Director, Chair of the Board

James Miller
Director, Chair of the Audit and Financial Risk Committee

The notes and accounting policies on pages 26 to 66 form part of and are to be read in conjunction with these financial statements.

Consolidated cash flow statement

FOR THE YEAR ENDED 30 JUNE 2018

	Notes	2018 $M	2017 $M
Cash flow from operating activities			
Cash was provided from:			
Receipts from customers		674.0	615.5
Interest received		2.0	2.3
		676.0	617.8
Cash was applied to:			
Payments to suppliers and employees		(180.5)	(156.3)
Income tax paid		(96.4)	(81.7)
Interest paid		(77.9)	(72.7)
		(354.8)	(310.7)
Net cash flow from operating activities	6	321.2	307.1
Cash flow from investing activities			
Cash was provided from:			
Proceeds from sale of property, plant and equipment		-	0.1
Proceeds from sale of investment in associate	8	357.4	-
Dividends from associate		15.4	20.2
		372.8	20.3
Cash was applied to:			
Purchase of property, plant and equipment		(310.3)	(247.9)
Interest paid – capitalised		(8.8)	(9.9)
Expenditure on investment properties		(77.1)	(81.2)
Investment in associates		-	(18.6)
Costs related to sale of investment in associate		(10.1)	-
		(406.3)	(357.6)
Net cash flow applied to investing activities		(33.5)	(337.3)
Cash flow from financing activities			
Cash was provided from:			
Increase in share capital	15	-	0.1
Increase in borrowings	18.1	301.1	538.4
		301.1	538.5
Cash was applied to:			
Decrease in borrowings	18.1	(329.0)	(305.0)
Dividends paid	9, 15	(198.2)	(210.8)
		(527.2)	(515.8)
Net cash flow applied to financing activities		(226.1)	22.7
Net increase/(decrease) in cash held		61.6	(7.5)
Opening cash brought forward		45.1	52.6
Ending cash carried forward	13	106.7	45.1

The notes and accounting policies on pages 26 to 66 form part of and are to be read in conjunction with these financial statements.

Notes and accounting policies

FOR THE YEAR ENDED 30 JUNE 2018

Notes and accounting policies CONTINUED

FOR THE YEAR ENDED 30 JUNE 2018

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, associates and joint ventures (the group). There are five subsidiaries in the group, one of which held the investment in North Queensland Airports which was sold on 7 March 2018. Two of the subsidiaries are Auckland Airport Limited and Auckland Airport Holdings (No. 2) Limited. These subsidiaries hold the group's investments in Queenstown Airport in New Zealand, 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 Limited, held the group's investment in North Queensland Airports (Cairns Airport and Mackay Airport in Queensland, Australia) prior to the investment being sold in March 2018 (refer note 8(c)). 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 23 August 2018.

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 movements in the effective fair value of the hedging instrument.

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. 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 opposite:

- Amendments to IAS 7 *Statement of Cash Flows* is effective for annual periods beginning on or after 1 January 2017. The amendment introduces additional disclosures that will enable users of financial statements to evaluate changes in liabilities arising from financing activities. A reconciliation of movements in borrowings has been included in note 18.1 Borrowings.

New or revised standards and interpretations that have been approved but are not yet effective have not been adopted by the group for the annual reporting period ended 30 June 2018. These will be applied when they become mandatory. The significant items are as follows:

- NZ IFRS 9 *Financial Instruments* is effective for annual periods beginning on or after 1 January 2018. NZ IFRS 9 addresses the classification, measurement and recognition of financial assets and financial liabilities and amends the current NZ IAS 39 requirements for hedge accounting. The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the group's disclosures about its financial instruments particularly in the year of adoption of the new standard. But the group's assessment is that there will be no material quantitative impact on the financial statements and all existing hedges will remain effective. The group intends to apply the standard from 1 July 2018.
- NZ IFRS 15 *Revenue from Contracts with Customers* is effective for annual periods beginning on or after 1 January 2018. It replaces the current revenue recognition guidance in NZ IAS 18 *Revenue* and NZ IAS 11 *Construction Contracts.* Revenue is recognised when a customer obtains control of a good or service. The group's assessment is that there will be no material quantitative impact on the financial statements. The group reviewed contracts with customers for key revenue streams including airfield income, passenger service charge, car park and other income. The group's current revenue

recognition is materially consistent with NZ IFRS 15 for those revenue streams. The new standard does not apply to rental income, which is recognised under NZ IAS 17. The group will apply NZ IFRS 15 from 1 July 2018.

- NZ IFRS 16 *Leases* is effective for annual periods beginning on or after 1 January 2019. NZ IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases. The accounting requirements for lessors are substantially the same as those in NZ IAS 17. The group reviewed leases where the group is the lessor and has concluded that these remain as operating leases under NZ IFRS 16. The group also reviewed leases where the group is the lessee and has concluded that there is no material impact on the financial statements. The group will apply NZ IFRS 16 from 1 July 2019.

(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 intercompany balances and transactions, income and expenses, and profit and losses resulting from transactions within the group have been eliminated in full.

(e) Investments in associates and joint ventures

The equity method of accounting is used for the four 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 associates' 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 associates. The post-acquisition movements are included after adjustments to align the accounting policies with those of the group.

The results of North Queensland Airports that have an Australian dollar functional currency are translated to New Zealand dollars at an average exchange rate for the year. Assets and liabilities are translated at the closing exchange rate at the balance date.

Exchange differences arising from the translation of the net investment in North Queensland Airport and of the foreign currency instruments designated as hedges of the net investment are initially recognised in other comprehensive income and accumulated in the foreign currency translation reserve. On disposal of the investment in North Queensland Airport, the value in the foreign currency translation reserve was reclassified to the income statement within gain on sale of associate (refer note 16(vi)).

(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

(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.

Notes and accounting policies CONTINUED

FOR THE YEAR ENDED 30 JUNE 2018

2. Summary of significant accounting policies CONTINUED

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.

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.

(h) Impairment of non-financial assets

Property, plant and equipment, investments in associates and joint ventures are assessed for indicators of impairment at each reporting date.

(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. 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 loans and receivables) and derivatives (classified as held for trading 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 held for trading 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 for any uncollectible amounts when there is objective evidence of impairment.

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.

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

Rendering of services
Airfield income and passenger services charges are recognised as revenue when the airport facilities are used.

Retail concession fees are recognised as revenue on an accrual basis based upon the turnover of the concessionaires and in accordance with the related agreements.

Rental income is recognised as revenue on a straight-line basis over the term of the leases on leases where the group is the lessor.

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.

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.

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.

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.

Notes and accounting policies CONTINUED

FOR THE YEAR ENDED 30 JUNE 2018

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 associates 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 2018 financial year accounted for 23.5% of external revenue (2017: 24.0%). 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
Year ended 30 June 2018				
Income from external customers				
Airfield income	122.1	-	-	122.1
Passenger services charge	179.1	-	-	179.1
Retail income	-	190.6	-	190.6
Rental income	18.1	0.4	79.1	97.6
Rates recoveries	0.7	0.8	4.5	6.0
Car park income	-	61.0	-	61.0
Other income	8.5	10.2	2.5	21.2
Total segment income	328.5	263.0	86.1	677.6
Expenses				
Staff	29.3	4.8	4.0	38.1
Asset management, maintenance and airport operations	40.8	15.9	4.2	60.9
Rates and insurance	4.3	1.5	7.0	12.8
Marketing and promotions	7.4	5.1	0.6	13.1
Professional services and levies	3.4	1.0	1.8	6.2
Other expenses	1.9	2.1	3.0	7.0
Total segment expenses	87.1	30.4	20.6	138.1
Segment earnings before interest, taxation and depreciation (segment EBITDAFI)	241.4	232.6	65.5	539.5

	Aeronautical $M	Retail $M	Property $M	Total $M
Year ended 30 June 2017				
Income from external customers				
Airfield income	119.6	-	-	119.6
Passenger services charge	174.3	-	-	174.3
Retail income	-	162.8	-	162.8
Rental income	16.4	0.4	68.1	84.9
Rates recoveries	0.6	0.8	4.2	5.6
Car park income	-	56.3	-	56.3
Other income	7.6	9.2	2.5	19.3
Total segment income	318.5	229.5	74.8	622.8
Expenses				
Staff	27.5	4.3	3.1	34.9
Asset management, maintenance and airport operations	35.1	12.4	3.9	51.4
Rates and insurance	3.7	1.5	6.4	11.6
Marketing and promotions	10.7	3.8	0.4	14.9
Professional services and levies	2.3	0.3	0.6	3.2
Other expenses	1.5	1.4	2.2	5.1
Total segment expenses	80.8	23.7	16.6	121.1
Segment earnings before interest, taxation and depreciation (segment EBITDAFI)	237.7	205.8	58.2	501.7

(e) Reconciliation of segment income to income statement

	2018 $M	2017 $M
Segment income	677.6	622.8
Interest income	2.2	2.3
Other revenue	4.1	4.2
Total income	683.9	629.3

Notes and accounting policies CONTINUED

FOR THE YEAR ENDED 30 JUNE 2018

4. Segment information CONTINUED

(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 corporate staff expenses and corporate legal and consulting fees.

	2018 $M	2017 $M
Segment EBITDAFI	539.5	501.7
Unallocated external operating income	6.3	6.5
Unallocated external operating expenses	(39.4)	(35.1)
Share of profit of associates	16.7	19.4
Gain on sale of associate	297.4	-
Depreciation	(88.9)	(77.9)
Derivative fair value (decrease)/increase	(0.7)	2.5
Investment property fair value increase	152.2	91.9
Interest expense and other finance costs	(77.2)	(72.8)
Profit before taxation	805.9	436.2

5. Profit for the year

	Notes	2018 $M	2017 $M
Retail and rental income includes:			
Contingent rent		11.7	15.7
Staff expenses comprise:			
Salaries and wages		44.3	38.3
Employee benefits		5.6	4.2
Share-based payment plans	23	0.4	1.5
Defined contribution superannuation		1.5	1.5
Other staff costs		6.1	5.0
		57.9	50.5
Other expenses include:			
Audit fees for statutory audit and half-year review		0.2	0.2
Auditor's regulatory audit, AGM, tax and consultants fees		0.1	0.1
Directors' fees		1.4	1.4
Bad and doubtful debts written off		0.7	-
Doubtful debts - change in provision		(0.1)	0.2
Interest expense and other finance costs comprise:			
Interest on bonds and related hedging instruments		38.8	40.2
Interest on bank facilities and related hedging instruments		16.3	18.3
Interest on USPP notes and related hedging instruments		17.3	18.2
Interest on AMTN notes and related hedging instruments		9.2	1.7
Interest on commercial paper and related hedging instruments		4.4	4.3
		86.0	82.7
Less capitalised borrowing costs	11(a), 12	(8.8)	(9.9)
		77.2	72.8
Interest rate for capitalised borrowing costs		4.24%	4.46%

The gross interest costs of bonds, bank facilities, USPP notes, AMTN notes and commercial paper excluding the impact of interest rate hedges was $84.2 million for the year ended 30 June 2018 (2017: $78.1 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.

Notes and accounting policies CONTINUED

FOR THE YEAR ENDED 30 JUNE 2018

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

	2018 $M	2017 $M
Profit after taxation	650.1	332.9
Non-cash items		
Depreciation	88.9	77.9
Deferred taxation expense	13.9	11.3
Equity accounted earnings from associates	(16.7)	(19.4)
Investment property fair value increase	(152.2)	(91.9)
Derivative fair value decrease/(increase)	0.7	(2.5)
Items not classified as operating activities		
Loss/(gain) on asset disposals	0.2	(0.1)
Gain on sale of associate	(297.4)	-
Withholding tax deducted on sale of associate	39.0	-
Increase in provisions and property, plant and equipment retentions and payables	(13.7)	(38.5)
Decrease in investment property retentions and payables	4.0	2.1
Movement in working capital		
(Increase)/decrease in trade and other receivables	(16.1)	(13.2)
Increase/(decrease) in taxation payable	6.5	10.3
Increase/(decrease) in accounts payable	13.7	38.0
Increase/(decrease) in other term liabilities	0.3	0.2
Net cash flow from operating activities	321.2	307.1

7. Taxation

(a) Income tax expense

	2018 $M	2017 $M
The major components of income tax are:		
Current income tax		
Current income tax charge	143.5	93.3
Income tax over provided in prior year	(1.6)	(1.3)
Deferred income tax		
Movement in deferred tax	13.9	11.3
Total taxation expense	155.8	103.3

(b) Reconciliation between prima facie taxation and tax expense

	2018 $M	2017 $M
Profit before taxation	805.9	436.2
Prima facie taxation at 28%	225.7	122.1
Adjustments:		
Share of associates' tax paid earnings	(3.5)	(4.2)
Revaluation with no tax impact	(27.7)	(13.4)
Income tax over provided in prior year	(1.6)	(1.3)
Australian tax losses not previously recognised	(20.0)	-
Non-assessable capital gains	(16.0)	
Difference in overseas tax rates	(3.3)	-
Foreign currency translation reserve transferred to income statement	2.4	-
Other	(0.2)	0.1
Total taxation expense	155.8	103.3

Notes and accounting policies CONTINUED

FOR THE YEAR ENDED 30 JUNE 2018

7. Taxation CONTINUED

(c) Deferred tax assets and liabilities

	Balance 1 July 2017 $M	Movement in income $M	Movement in other comprehensive income $M	Balance 30 June 2018 $M
Deferred tax liabilities				
Property, plant and equipment	179.8	(0.8)	-	179.0
Investment properties	66.5	18.0	-	84.5
Foreign currency hedge	4.5	(4.5)	-	-
Other	3.7	0.2	-	3.9
Deferred tax liabilities	254.5	12.9	-	267.4
Deferred tax assets				
Cash flow hedge	12.4	-	0.3	12.7
Provisions and accruals	4.3	(1.0)	-	3.3
Deferred tax assets	16.7	(1.0)	0.3	16.0
Net deferred tax liability	237.8	13.9	(0.3)	251.4

	Balance 1 July 2016 $M	Movement in income $M	Movement in other comprehensive income $M	Balance 30 June 2017 $M
Deferred tax liabilities				
Property, plant and equipment	183.8	(4.0)	-	179.8
Investment properties	52.9	13.6	-	66.5
Foreign currency hedge	4.5	-	-	4.5
Other	2.8	0.9	-	3.7
Deferred tax liabilities	244.0	10.5	-	254.5
Deferred tax assets				
Cash flow hedge	18.5	-	(6.1)	12.4
Provisions and accruals	5.1	(0.8)	-	4.3
Deferred tax assets	23.6	(0.8)	(6.1)	16.7
Net deferred tax liability	220.4	11.3	6.1	237.8

(d) Imputation credits

	2018 $M	2017 $M
Imputation credits available for use in subsequent reporting periods at 30 June	(29.0)	(31.1)

The imputation credit account had a debit balance at 30 June 2018 and 30 June 2017 due to the timing of dividends paid. As required by tax legislation, the imputation credit account was in credit at 31 March 2018 and 31 March 2017.

8. Associates and joint ventures

(a) Tainui Auckland Airport Hotel Limited Partnership (associate)

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. In February 2017, Auckland Airport purchased a 20% share in the Tainui Auckland Airport Hotel Partnership from Tainui Group Holdings Limited, increasing Auckland Airport's stake to 40%. There is also an agreement to further increase its investment in the partnership by purchasing the stake owned by Accor Hospitality, subject to certain conditions which will increase the group's share to 50%. That purchase is currently expected to occur in the year ended 30 June 2019.

Other transactions with the partnership are as follows.

The partnership has a balance date of 31 March 2018. The financial information for equity accounting purposes has been extracted from audited accounts for the period to 31 March 2018 and management accounts for the balance of the year to 30 June 2018.

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.

	2018 $M	2017 $M
Rental income received	1.0	1.0
Future minimum rentals receivable under non-cancellable operating lease	9.2	9.6

(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 $3.0 million into the partnership.

(c) Stapled Securities of North Queensland Airports (associate)

On 7 March 2018, Auckland Airport sold its 24.55% share in North Queensland Airports to Perron Investments, The Infrastructure Fund and IIF Cairns Mackay Investment Limited. The consideration for the sale was AUD 370.0 million. The group purchased the stake in North Queensland Airports on 13 January 2010 for AUD132.8 million (NZD166.7 million). During the year ended 30 June 2018, Auckland Airport also received directors' fees of $0.2 million (2017: $0.2 million) for the provision of two of Auckland Airport's senior management staff, one on each of the two boards of directors of North Queensland Airports.

The funds were used to repay the AUD 90 million loan, which had been taken to partly hedge exchange rate movements on the investment. The cumulative value of the gains or losses recognised in the foreign currency translation reserve through other comprehensive income have been reclassified to gain on sale of associate in the income statement.

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

Notes and accounting policies CONTINUED

FOR THE YEAR ENDED 30 JUNE 2018

8. Associates and joint ventures CONTINUED

Summary financial information

The information below reflects the full amounts in the financial statements of the associates 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		North Queensland Airports[1]		Queenstown Airport	
	2018 $M	2017 $M	2018 $M	2017 $M	2018 $M	2017 $M	2018 $M	2017 $M
Revenue	30.7	28.7	-	-	n/a	149.3	45.7	39.0
EBITDA	12.1	11.7	-	-	n/a	100.8	31.6	26.2
Profit after taxation	9.4	8.9	-	-	n/a	49.0	14.9	12.1
Other comprehensive income/(loss)	-	-	-	-	n/a	9.6	32.2	30.5
Total comprehensive income for the year	9.4	8.9	-	-	n/a	58.6	47.1	42.6
Distributions								
Repayment of partner contribution/dividends received	(9.9)	(10.2)	-	-	n/a	(60.9)	(7.2)	(6.3)
Auckland Airport share of repayment of partner contribution/dividends received	(4.0)	(2.9)	-	-	(9.2)	(15.0)	(1.8)	(1.6)

1 The extract from the North Queensland Airports income statement has been converted from AUD to NZD at the average rates for the year ended 30 June 2017: $0.9561.

	Tainui Auckland Airport Hotel Limited Partnership		Tainui Auckland Airport Hotel 2 Limited Partnership		North Queensland Airports[1]		Queenstown Airport	
	2018 $M	2017 $M	2018 $M	2017 $M	2018 $M	2017 $M	2018 $M	2017 $M
Current assets	4.3	3.9	6.0	6.0	n/a	53.3	6.1	4.7
Non-current assets	48.7	49.8	-	-	n/a	665.3	350.0	301.1
Goodwill	-	-	-	-	n/a	198.3	-	-
Total assets	53.0	53.7	6.0	6.0	n/a	916.9	356.1	305.8
Current liabilities	5.2	5.4	-	-	n/a	423.7	8.8	8.6
Non-current liabilities	18.0	18.0	-	-	n/a	258.4	72.5	62.2
Shareholders' equity	29.8	30.3	6.0	6.0	n/a	234.8	274.9	235.0
Total equity and liabilities	53.0	53.7	6.0	6.0	n/a	916.9	356.2	305.8
Auckland Airport ownership	40.00%	40.00%	50.00%	50.00%	-	24.55%	24.99%	24.99%
Auckland Airport share of shareholders' equity	11.9	12.1	3.0	3.0	-	57.7	68.7	58.7
Investment property depreciation and revaluation adjustment	12.4	11.8	-	-	-	-	-	-
Goodwill	9.4	9.4	-	-	-	19.8	-	-
Gain on purchase	-	-	-	-	-	-	(0.9)	(0.9)
Carrying value of investment	33.7	33.3	3.0	3.0	-	77.5	67.8	57.8

1 The extract from the North Queensland Airports statement of financial position has been converted from AUD to NZD at the rate at 30 June 2017: $0.9525.

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

	Notes	2018 $M	2017 $M
Investment in associates and joint ventures at beginning of year		171.6	142.8
Further investment in associates and joint ventures		-	18.6
Disposal of investment in associate		(78.1)	-
Share of profit of associates and joint ventures		16.7	19.4
Share of reserves of associates	16(v)	8.4	10.0
Share of dividends received and repayment of partner contribution		(15.0)	(19.6)
Foreign currency translation	16(vi)	0.8	0.4
Investment in associates and joint ventures at end of the year		104.4	171.6

9. Distribution to shareholders

	Dividend payment date	2018 $M	2017 $M
2016 final dividend of 9.00 cps	13 October 2016	-	107.2
2017 interim dividend of 10.00 cps	4 April 2017	-	119.1
2017 final dividend of 10.50 cps	20 October 2017	125.3	-
2018 interim dividend of 10.75 cps	5 April 2018	128.8	-
Total dividends paid		254.1	226.3

Supplementary dividends of $16.4 million (2017: $15.2 million) are not included in the above dividends as the company receives an equivalent tax credit from Inland Revenue.

10. Earnings per share

The earnings used in calculating basic and diluted earnings per share is net profit attributable to equity holders of $650.1 million (2017: $332.9 million).

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

	2018 Shares	2017 Shares
For basic earnings per share	1,196,956,832	1,190,841,542
Effect of dilution of share options	-	-
For diluted earnings per share	1,196,956,832	1,190,841,542

The 2018 reported basic and diluted earnings per share is 54.31 cents (2017: 27.96 cents).

Notes and accounting policies CONTINUED

FOR THE YEAR ENDED 30 JUNE 2018

11. Property, plant and equipment

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

	Land	Buildings and services	Infrastructure	Runway, taxiways and aprons	Vehicles, plant and equipment	Total
	$M	$M	$M	$M	$M	$M
Year end 30 June 2018						
Balances at 1 July 2017						
At fair value	3,437.1	612.8	322.4	334.5	-	4,706.8
At cost	-	-	-	-	107.2	107.2
Work in progress at cost	-	220.1	23.5	44.3	32.9	320.8
Accumulated depreciation	-	(78.6)	(13.0)	(24.5)	(70.9)	(187.0)
Balances at 1 July 2017	3,437.1	754.3	332.9	354.3	69.2	4,947.8
Additions and transfers within property, plant and equipment	(0.3)	250.9	37.4	11.1	31.7	330.8
Transfers from/(to) investment property	(1.1)	-	-	-	-	(1.1)
Disposals	-	-	(0.2)	-	-	(0.2)
Revaluation recognised in property, plant and equipment revaluation reserve	1,189.6	-	-	-	-	1,189.6
Depreciation	-	(43.4)	(13.9)	(13.9)	(17.7)	(88.9)
Movement to 30 June 2018	1,188.2	207.5	23.3	(2.8)	14.0	1,430.2
Balances at 30 June 2018						
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)
Balances at 30 June 2018	4,625.3	961.8	356.2	351.5	83.2	6,378.0

Additions for the year ended 30 June 2018 include capitalised interest of $7.6 million (2017: $7.9 million).

	Land	Buildings and services	Infrastructure	Runway, taxiways and aprons	Vehicles, plant and equipment	Total
	$M	$M	$M	$M	$M	$M
Year end 30 June 2017						
Balances at 1 July 2016						
At fair value	3,418.0	582.4	276.3	293.3	-	4,570.0
At cost	-	-	-	-	95.1	95.1
Work in progress at cost	-	69.1	18.0	51.7	16.0	154.8
Accumulated depreciation	-	(39.1)	(0.4)	(11.7)	(60.6)	(111.8)
Balances at 1 July 2016	3,418.0	612.4	293.9	333.3	50.5	4,708.1
Additions and transfers within property, plant and equipment	-	176.6	51.7	33.8	31.7	293.8
Transfers from/(to) investment property	19.1	4.7	-	-	-	23.8
Depreciation	-	(39.4)	(12.7)	(12.8)	(13.0)	(77.9)
Movement to 30 June 2017	19.1	141.9	39.0	21.0	18.7	239.7
Balances at 30 June 2017						
At fair value	3,437.1	612.8	322.4	334.5	-	4,706.8
At cost	-	-	-	-	107.2	107.2
Work in progress at cost	-	220.1	23.5	44.3	32.9	320.8
Accumulated depreciation	-	(78.6)	(13.0)	(24.5)	(70.9)	(187.0)
Balances at 30 June 2017	3,437.1	754.3	332.9	354.3	69.2	4,947.8

Notes and accounting policies CONTINUED

FOR THE YEAR ENDED 30 JUNE 2018

11. Property, plant and equipment CONTINUED

(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
Year end 30 June 2018						
At historical cost	150.7	1,179.4	339.4	348.3	135.4	2,153.2
Work in progress at cost	-	140.8	26.1	47.9	33.2	248.0
Accumulated depreciation	-	(535.8)	(127.2)	(198.3)	(82.4)	(943.7)
Net carrying amount	150.7	784.4	238.3	197.9	86.2	1,457.5
Year end 30 June 2017						
At historical cost	149.6	849.6	306.3	344.3	107.2	1,757.0
Work in progress at cost	-	220.1	23.5	44.3	32.9	320.8
Accumulated depreciation	-	(502.1)	(118.1)	(191.3)	(70.9)	(882.4)
Net carrying amount	149.6	567.6	211.7	197.3	69.2	1,195.4

(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.

The group revalued land assets at 30 June 2018. Land assets were independently valued by Savills Limited (Savills), Jones Lang LaSalle Ltd (JLL), CB Richard Ellis Limited (CBRE) and Aon Risk Solutions (AON).

At 30 June 2018, the assessment is that there is no material change compared with carryng value in the fair value of infrastructure, buildings and services and runway, taxiways and aprons. Infrastructure assets were independently revalued by Beca Projects NZ Limited (Beca) as at 30 June 2016. Buildings and services and runway, taxiways and aprons were independently revalued by Opus as at 30 June 2015.

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

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

		2018		2017	
Asset valuation approach	**Inputs used to measure fair value**	**Range of significant inputs**	**Weighted average**	**Range of significant inputs**	**Weighted average**
Land					
Airfield land, including land for runway, taxiways, aprons and approaches	Rate per sqm prior to holding costs (excluding approaches)	$110-188	$154	$103-171	$133
Market value alternative use valuation plus development and holding costs to achieve land suitable for airport use and direct sales comparison	Holding costs per sqm (excluding approaches)	$40-68	$56	$38-62	$48
	Holding period (excluding approaches)	5.0 years	N/A	5.0 years	N/A
	Airfield land discount rate	9.25%	N/A	9.00%	N/A
	Rate per sqm (approaches)	$11-50	$22	$11-50	$16
Reclaimed land seawalls	Unit costs of seawall construction per m	$4,319-9,294	$6,981	$4,211-8,666	$6,125
Optimised depreciated replacement cost	Unit costs of reclamation per sqm	$160	$160	$94-127	$117
Aeronautical land, including land associated with aircraft, freight and terminal uses	Rate per sqm (excluding commercially leased assets)	$89-908	$208	$78-793	$177
Discounted cash flow cross-referenced to a market capitalisation of net revenues as indicated by market activity from comparable transactions and direct sales comparison	Market rent (per sqm) – average	$43-343	$80	$41-304	$106
	Market capitalisation rate – average	5.00-8.00%	6.48%	4.23-7.52%	6.23%
	Terminal capitalisation rate	6.25-8.25%	7.16%	7.00-8.50%	6.30%
	Discount rate	7.88-10.25%	8.90%	8.25-9.25%	8.45%
	Rental growth rate (per annum)	2.50-2.85%	2.67%	2.61-2.80%	2.70%
Land associated with car parking facilities	Discount rate	7.50-12.00%	9.91%	9.00-11.25%	11.00%
Discounted cash flow cross-referenced to a market capitalisation of net revenues as indicated by market activity from comparable transactions	Terminal capitalisation rate	6.75-9.00%	7.44%	7.00-7.50%	7.43%
	Revenue growth rate (per annum)	2.00-3.00%	2.61%	2.03-3.21%	3.09%
	Market capitalisation rate	6.50-8.80%	7.29%	6.95-7.51%	7.44%
Land associated with retail facilities within terminal buildings	Discount rate	8.25-9.50%	9.45%	12.50-12.50%	12.50%
Discounted cash flow cross-referenced to a market capitalisation of net revenues as indicated by market activity from comparable transactions	Terminal capitalisation rate	7.50-7.75%	7.74%	9.25-9.25%	9.25%
	Revenue growth rate (per annum)	1.50-2.97%	1.56%	4.11-5.38%	4.18%
	Market capitalisation rate	6.50-6.88%	6.87%	8.38-8.50%	8.38%
Other land					
Direct sales comparison	Rate per sqm	$20-83	$74	$18-66	$58

Notes and accounting policies CONTINUED

FOR THE YEAR ENDED 30 JUNE 2018

11. Property, plant and equipment CONTINUED

		2018		2017	
Asset valuation approach	**Inputs used to measure fair value**	**Range of significant inputs**	**Weighted average**	**Range of significant inputs**	**Weighted average**
Buildings and services					
Terminal buildings					
Optimised depreciated replacement cost	Unit costs of construction per sqm	$2,491-8,349	$6,016	$2,491-8,349	$6,016
Other buildings					
Optimised depreciated replacement cost	Unit costs of construction per sqm	$636-2,374	$1,282	$636-2,374	$1,282
Infrastructure					
Water and drainage					
Optimised depreciated replacement cost	Unit costs of pipe construction per m	$207-3,074	$524	$207-3,074	$524
Electricity					
Optimised depreciated replacement cost	Unit costs of electrical cabling construction per m	$162-517	$370	$162-517	$370
Roads					
Optimised depreciated replacement cost	Unit costs of road and footpaths construction per sqm	$2-168	$112	$2-168	$112
Other infrastructure assets					
Optimised depreciated replacement cost	Unit costs of navigation aids and lights	$418-81,731	$11,247	$418-81,731	$11,247
	Unit costs of fuel pipe construction per m	$3,661-5,231	$4,656	$3,661-5,231	$4,656
Runway, taxiways and aprons					
Optimised depreciated replacement cost	Unit costs of concrete pavement construction per sqm	$459-737	$587	$459-737	$587
	Unit costs of asphalt pavement construction per sqm	$108-237	$142	$108-237	$142

The valuation inputs for land are from the 2018 valuation and the prior year comparatives are from the 2016 valuations. The valuation inputs for infrastructure are from the 2016 valuation, and the valuation inputs for buildings and services and runway, taxiways and aprons are from the 2015 valuation.

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 which 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 life of the assets (depreciation) and any sub-optimal usage of the assets in their current application (optimisation). These inputs are deemed unobservable.

Notes and accounting policies CONTINUED

FOR THE YEAR ENDED 30 JUNE 2018

11. Property, plant and equipment CONTINUED

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

Asset classification	Valuer	Fair value at 30 June 2018 $M	Valuer	Fair value at 30 June 2017 $M
Airfield land, including land for runway, taxiways, aprons and approaches[1]	Savills	1,122.5	Savills	1,020.4
Reclaimed land seawalls[1]	AON / Savills	271.1	Opus / Savills	205.1
Aeronautical land, including land associated with aircraft, freight and terminal uses[1]	JLL / Savills	167.7	JLL	120.0
Land associated with car park facilities[1]	CBRE	701.1	Colliers	542.0
Land associated with retail facilities within terminal buildings[1]	CBRE	2,232.0	Colliers	1,433.8
Other land[1]	CBRE / Savills	130.8	Savills	115.9
Terminal buildings[2]	Opus	853.5	Opus	665.9
Other buildings[2]	Opus	108.3	Opus	88.3
Water and drainage[3]	Beca	134.8	Beca	125.1
Electricity[3]	Beca	53.7	Beca	47.6
Roads[3]	Beca	63.1	Beca	62.2
Other infrastructure assets[3]	Beca	104.7	Beca	98.0
Runway, taxiways and aprons[2]	Opus	351.5	Opus	354.3
Assets carried at fair value		6,294.8		4,878.6
Vehicles, plant and equipment (carried at cost less accumulated depreciation)	N/A	83.2		69.2
Balance at 30 June		6,378.0		4,947.8

1 Land was revalued at 30 June 2018. This class was previously revalued at 30 June 2016.
2 At 30 June 2018, the assessment is that there is no material change in the fair value of buildings and services and runway, taxiways and aprons compared with carrying value. Those classes were last revalued at 30 June 2015.
3 At 30 June 2018, the assessment is that there is no material change in the fair value of infrastructure assets compared with carrying value. This class was last revalued at 30 June 2016.

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**
Unobservable inputs within the income capitalisation approach			
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
Unobservable inputs within the discounted cash flow analysis			
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
Unobservable inputs within the residual value approach			
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
Unobservable inputs within the direct sales comparison approach			
Rate per sqm	The rate per square metre of recently sold properties of a similar nature	Increase	Decrease
Unobservable inputs within market value alternative use (MVAU) plus holding costs			
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
Unobservable inputs within optimised depreciated replacement cost (ODRC)			
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

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Notes and accounting policies CONTINUED

FOR THE YEAR ENDED 30 JUNE 2018

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
Year end 30 June 2018					
Balance at the beginning of the year	212.9	616.9	252.9	115.3	1,198.0
Additions - subsequent expenditure	7.4	29.7	1.2	15.9	54.2
Additions - acquisitions or development	2.0	18.1	-	-	20.1
Transfers from/(to) property, plant and equipment (note 11)	-	(1.0)	2.1	-	1.1
Transfers within investment property	14.3	27.8	(42.8)	0.7	0.0
Investment property fair value increase	26.6	73.2	28.0	24.4	152.2
Net carrying amount	263.2	764.7	241.4	156.3	1,425.6
Year end 30 June 2017					
Balance at the beginning of the year	191.4	507.0	254.9	95.6	1,048.9
Additions - subsequent expenditure	0.2	49.4	10.2	13.7	73.5
Additions - acquisitions or development	4.5	0.7	-	2.3	7.5
Transfers from/(to) property, plant and equipment (note 11)	-	-	(19.1)	(4.7)	(23.8)
Transfers within investment property	-	4.9	(6.5)	1.6	-
Investment property fair value increase	16.8	54.9	13.4	6.8	91.9
Net carrying amount	212.9	616.9	252.9	115.3	1,198.0

Additions for the year ended 30 June 2018 include capitalised interest of $1.2 million (2017: $2.0 million).

The group's investment properties are all categorised as Level 3 in the fair value hierarchy, as described in note 18.3.

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.

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

		2018		2017	
Asset classification and valuation approach	**Inputs used to measure fair value**	**Range of significant inputs**	**Weighted average**	**Range of significant inputs**	**Weighted average**
Retail and service					
Discounted cash flow cross-referenced to a market capitalisation of net revenues as indicated by market activity from comparable transactions.	Market rent (per sqm)	$44-663	$220	$41-639	$248
	Market capitalisation rate	5.00-7.50%	6.54%	5.75-7.75%	6.88%
	Terminal capitalisation rate	5.50-8.00%	6.87%	6.00-8.00%	7.15%
	Discount rate	6.75-9.30%	8.24%	7.50-9.63%	8.91%
	Rental growth rate (per annum)	2.00-3.00%	2.26%	2.50-3.12%	2.19%
Industrial					
Discounted cash flow cross-referenced to a market capitalisation of net revenues as indicated by market activity from comparable transactions.	Market rent (per sqm)	$99-289	$131	$94-265	$132
	Market capitalisation rate	4.33-8.25%	6.07%	5.50-9.50%	5.53%
	Terminal capitalisation rate	5.50-8.50%	6.50%	6.00-9.75%	6.86%
	Discount rate	6.88-9.68%	8.01%	7.25-11.53%	8.36%
	Rental growth rate (per annum)	2.85-4.00%	3.37%	2.50-3.00%	2.70%
Vacant land					
Direct sales comparison and residual value.	Rate per sqm	$6-500	$90	$6-470	$83
Other					
Discounted cash flow cross-referenced to a market capitalisation of net revenues as indicated by market activity from comparable transactions.	Market rent (per sqm)	$240-407	$351	$196-460	$344
	Market capitalisation rate	5.43-7.50%	6.65%	6.50-7.50%	7.10%
	Terminal capitalisation rate	6.50-7.75%	7.07%	6.75-7.75%	7.37%
	Discount rate	7.25-9.57%	8.49%	8.25-9.65%	9.19%
	Rental growth rate (per annum)	2.25-4.00%	3.34%	2.50-2.97%	2.94%

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

	2018 $M	2017 $M
Colliers International Limited	471.8	340.5
Savills Limited	445.9	420.3
Jones Lang LaSalle Incoporated	470.5	385.5
Investment property carried at cost	37.4	51.7
Total fair value of investment properties	1,425.6	1,198.0

The investment properties assigned to valuers are rotated across the portfolio every three years, with the last rotation in June 2016. All valuers are registered valuers and industry specialists in valuing these types of investment properties.

Income and expenses related to investment property

	2018 $M	2017 $M
Rental income for investment properties	55.4	51.4
Recoverable cost income	5.3	5.2
Direct operating expenses for investment properties that derived rental income	(6.5)	(6.3)
Direct operating expenses for investment properties that did not derive rental income	(1.8)	(1.4)

Notes and accounting policies CONTINUED

FOR THE YEAR ENDED 30 JUNE 2018

13. Cash and cash equivalents

	2018 $M	2017 $M
Short-term deposits	102.7	40.8
Cash and bank balances	4.0	4.3
	106.7	45.1

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 1.75–3.06% (2017: at a rate of 1.75–2.45%). At 30 June 2018, the short-term deposits were held with three financial institutions, with no more than $50.0 million with a single institution (2017: two financial institutions with no more than $40 million with a single institution).

14. Trade and other receivables

	2018 $M	2017 $M
Trade receivables	32.0	18.3
Less: Provision for doubtful debts	(0.7)	(0.7)
Net trade receivables	31.3	17.6
Prepayments	18.0	11.6
Revenue accruals and other receivables	22.2	26.3
	71.5	55.5

Allowance for impairment

Trade receivables have general payment terms of the 1st or the 20th of the month following invoice. Movements in the provision for doubtful debts have been included in other expenses in the income statement. No individual amount within the provision for doubtful debts is material.

15. Issued and paid-up capital

	2018 $M	2017 $M	2018 Shares	2017 Shares
Opening number issued and paid-up capital at 1 July	348.3	332.7	1,192,614,174	1,190,267,548
Shares fully paid and allocated to employees by employee share scheme	-	0.1	12,000	19,290
Shares issued under the dividend reinvestment plan	55.9	15.5	9,249,162	2,327,336
Closing issued and paid-up capital at 30 June	404.2	348.3	1,201,875,336	1,192,614,174

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.

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 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 allocated or vested to employees, they are recognised as an increase in issued and paid-up capital. In the year ended 30 June 2018,12,000 shares were allocated to employees (2017: 19,290). Refer to note 23 Share-based payment plans.

16. Reserves

(i) Cancelled share reserve

	2018 $M	2017 $M
Balance at the beginning and end of the year	(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.

(ii) Property, plant and equipment revaluation reserve

	2018 $M	2017 $M
Balance at 1 July	3,729.0	3,730.6
Reclassification to retained earnings	(4.7)	(1.6)
Revaluation	1,189.6	-
Balance at 30 June	4,913.9	3,729.0

The property, plant and equipment revaluation reserve records the revaluation of land, buildings and services, infrastructure, runway, taxiways and aprons.

(iii) Share-based payments reserve

	2018 $M	2017 $M
Balance at 1 July	1.1	1.0
Long-term incentive plan expense	0.2	0.1
Balance at 30 June	1.3	1.1

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.

(iv) Cash flow hedge reserve

	2018 $M	2017 $M
Balance at 1 July	(31.9)	(47.7)
Fair value change in hedging instrument	(9.5)	15.2
Transfer to income statement	2.9	6.7
Movement in deferred tax	0.3	(6.1)
Balance at 30 June	(38.2)	(31.9)

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 2018

16. Reserves CONTINUED

(v) Share of reserves of associates

	2018 $M	2017 $M
Balance at 1 July	20.4	10.4
Share of reserves of associates	8.4	10.0
Balance at 30 June	28.8	20.4

The share of reserves of associates records the group's share of movements in the cash flow hedge reserve and the property, plant and equipment revaluation reserve of the associates. The cash flow hedge reserve of the associates 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 are included in the share of profit of an associate.

(vi) Foreign currency translation reserve

	2018 $M	2017 $M
Balance at 1 July	(9.3)	(9.5)
Fair value change in hedging instrument	-	(0.2)
Foreign currency translation	0.8	0.4
Transfer to income statement	8.5	-
Balance at 30 June	-	(9.3)

The foreign currency translation reserve records gain and losses on the hedges of the group's investment in North Queensland Airports. The group sold its investment on 7 March 2018 and the cumulative losses were transferred to gain on sale of associate in the income statement. Further information is included in note 8 Associates and joint ventures.

17. Accounts payable and accruals

	2018 $M	2017 $M
Employee entitlements	9.5	7.2
Phantom option plan accrual (refer note 23(c))	-	3.3
GST payable	2.9	2.2
Property, plant and equipment retentions and payables	77.0	63.3
Investment property retentions and payables	5.3	9.3
Trade payables	7.6	5.4
Interest payables	14.8	13.5
Other payables and accruals	30.9	28.1
Total accounts payable and accruals	148.0	132.3

The above balances are unsecured.

The amount owing to the related parties at 30 June 2018 is $1.0 million (2017: $1.2 million).

18. Financial assets and liabilities

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

	Notes	2018 $M	2017 $M
Current financial assets			
Loan and receivables			
Cash and cash equivalents	13	106.7	45.1
Trade and other receivables		53.5	43.9
Dividends receivable		-	2.7
		160.2	91.7
Derivative financial instruments			
Interest rate swaps - fair value hedges		-	0.6
Total current financial assets		**160.2**	**92.3**
Non-current financial assets			
Derivative financial instruments			
Cross-currency interest rate swaps		108.6	78.1
Interest rate swaps - cash flow hedges		-	1.0
		108.6	79.1
Derivative financial instruments			
Interest basis swaps		1.8	3.0
Total non-current financial assets		**110.4**	**82.1**
Total financial assets		**270.6**	**174.4**
Current financial liabilities			
Financial liabilities at amortised cost			
Accounts payable and accruals		148.0	132.3
Short-term borrowings	18.1	166.8	421.1
Provisions		0.1	0.9
		314.9	554.3
Derivative financial instruments			
Interest rate swaps - cash flow hedges		1.3	2.8
Total current financial liabilities		**316.2**	**557.1**
Non-current liabilities			
Financial liabilities at amortised cost			
Term borrowings	18.1	1,893.5	1,635.5
Other term liabilities		1.8	1.5
		1,895.3	1,637.0
Derivative financial instruments			
Cross-currency interest rate swaps		-	4.1
Interest rate swaps - cash flow hedges		38.9	32.0
Total non-current financial liabilities		**1,934.2**	**1,673.1**
Total financial liabilities		**2,250.4**	**2,230.2**

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

Notes and accounting policies CONTINUED

FOR THE YEAR ENDED 30 JUNE 2018

18. Financial assets and liabilities CONTINUED

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 we report 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 $70.2 million (2017: derivative financial assets of $43.8 million).

18.1 Borrowings

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

	Maturity	Coupon[1]	2018 $M	2017 $M
Current				
Commercial paper	< 3 months	Floating	91.8	91.8
Bank facility	29/10/2017	Floating	-	45.0
Bank facility	01/12/2017	Floating	-	84.0
Bank facility	07/04/2018	Floating	-	100.0
Bonds	17/10/2017	5.47%	-	100.3
Bonds	01/10/2018	Floating	75.0	-
Total short-term borrowings			166.8	421.1
Non-current				
Bank facility	29/10/2019	Floating	100.0	100.0
Bank facility	27/10/2020	Floating	50.0	-
Bank facility	17/08/2021	Floating	30.0	-
Bonds	01/10/2018	Floating	-	75.0
Bonds	13/12/2019	4.73%	100.0	100.0
Bonds	13/04/2020	Floating	150.0	150.0
Bonds	28/05/2021	5.52%	150.0	150.0
Bonds	09/11/2022	4.28%	100.0	100.0
Bonds	17/04/2023	3.64%	100.0	-
Bonds	02/11/2023	3.97%	225.0	225.0
USPP notes	15/02/2021	4.42%	74.4	71.3
USPP notes	12/07/2021	4.67%	74.9	72.1
USPP notes	15/02/2023	4.57%	75.4	73.1
USPP notes	25/11/2026	3.61%	367.5	358.1
AMTN notes	23/09/2027	4.50%	296.3	160.9
Total term borrowings			1,893.5	1,635.5
Total				
Commercial paper			91.8	91.8
Bank facilities			180.0	329.0
Bonds			900.0	900.3
USPP notes			592.2	574.6
AMTN notes			296.3	160.9
Total borrowings			2,060.3	2,056.6

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

	2018 $M	2017 $M
Total borrowings at the beginning of the year	2,056.6	1,886.9
Decrease in borrowings during the year	(329.0)	(305.0)
Increase in borrowings during the year	301.1	538.4
Premium received for issue at non-market rates	5.4	-
Revaluation of foreign denominated debt for changes in FX rate	50.9	(22.1)
Revaluation of debt in fair value hedge relationship	(24.7)	(41.7)
Total borrowings at the end of the year	2,060.3	2,056.6

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 2018, the company undertook the following bank financing activity:

- In November 2017 a drawn NZD45 million facility with Bank of Tokyo Mitsubishi expired. The facility was replaced with a new three year NZD50 million facility, also with Bank of Tokyo Mitsubishi.
- In November 2017 a drawn AUD80 million facility with Commonwealth Bank of Australia was repaid and closed, one month short of its expiry. The facility was replaced with a new partially drawn three year AUD90 million facility, also with Commonwealth Bank of Australia.
- In November 2017 the Company established a new NZD30 million facility with the Bank of China.
- In March 2018 a NZD100 million facility with Commonwealth Bank of Australia was repaid and not replaced.

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 2018, the company undertook the following bond financing:

- The repayment of NZD100.0 million of six year, 5.47 per cent bonds in October 2017.
- The issuance of NZD100.0 million of five and a half year, 3.64 per cent bonds in October 2017.
- The issuance of AUD110.0 million of ten year, 4.5 per cent Australian medium term notes (AMTN) in October 2017.

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

18.2 Hedging activity and derivatives

Cash flow hedges
At 30 June 2018, 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 and AUD). The notional amount of the interest rate swaps in a cash flow hedge at 30 June 2018 is $980.0 million (2017: $905.0 million). These interest rate swaps are designated as cash flow hedges of the future variable interest rate cash flows on exisitng and future bank facilities, commercial paper and floating rate bonds. The interest payment frequency on these borrowings is quarterly.

During the year, the group assessed the cash flow hedges to be highly effective. The only ineffectiveness required to be recognised in the income statement was the ineffective portion of a cash flow hedge prior to redesignation and recognition of counterparty credit risk associated with the derivatives.

Fair value hedges
The group's use of fair value hedges includes cross-currency interest rate swaps and interest rate swaps where it receives a fixed rate of interest and pays a variable rate on the notional amount.

At 30 June 2018, the notional amount of fair value hedges is $774.4 million, which is comprised of cross-currency interest rate swaps. The notional amount of interest rate swaps is nil (30 June 2017: 703.3 million, comprised of cross-currency interest rate swaps of $653.3 million and interest rate swaps of $50.0 million).

The cross-currency interest rate swaps transform a series of known fixed debt interest cash flows to mitigate exposure to fair value changes in fixed interest bonds, AMTN notes and the USPP notes. The cross-currency interest rate swaps consist of a fair value hedge component and a cash flow hedge component.

Notes and accounting policies CONTINUED

FOR THE YEAR ENDED 30 JUNE 2018

18.2 Hedging activity and derivatives CONTINUED

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

	2018 $M	2017 $M
Gains/(losses) on the fixed interest bonds	(0.3)	1.0
Gains/(losses) on the USPP notes	27.3	43.9
Gains/(losses) on the derivatives	(24.1)	(39.5)
Gains/(losses) on the AMTN notes	(3.0)	(3.5)

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 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.

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:

	2018 $M	2017 $M
Basis swaps transacted as hedges but not qualifying for hedge accounting	(1.2)	(0.1)
Credit valuation adjustments on hedges qualifying for hedge accounting	0.5	2.6
Derivative fair value (decrease)/increase	(0.7)	2.5

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

18.3 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).
- **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 2018 (2017: 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.

	2018		2017	
	Carrying amount	Fair value	Carrying amount	Fair value
	$M	$M	$M	$M
Bonds	900.0	930.1	900.3	926.5
USPP Notes	592.2	599.8	574.6	584.7
AMTN Notes	296.3	303.2	160.9	165.1

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

18.4 Financial risk management objectives and policies

(a) Credit risk

The group's maximum exposure to credit risk at 30 June 2018 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 and Poors' credit ratings of A or above (2017: AA- or above).

The group's credit risk is also attributable to accounts receivable, which principally comprise amounts due from airlines, tenants and licensees. There are no significant accounts receivable balances relating to customers who have previously defaulted on amounts due.

The group has a policy that manages exposure to credit risk by way of requiring a performance bond for some customers whose credit rating or history indicates that this would be prudent. The value of performance bonds for the group is $1.7 million (2017: $1.5 million). There are no significant concentrations of credit risk.

(b) 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 2018, this undrawn facility headroom was $378.5 million (2017: $280.0 million). The group's policy also requires the spreading of debt maturities.

Notes and accounting policies CONTINUED

FOR THE YEAR ENDED 30 JUNE 2018

18.4 Financial risk management objectives and policies CONTINUED

Bank facilities

				2018			2017		
Type	Bank	Maturity	Facility currency	Available NZ $M	Drawn NZ $M	Undrawn NZ $M	Available NZ $M	Drawn NZ $M	Undrawn NZ $M
Standby facility	ANZ Bank New Zealand	30/11/2017	NZD	-	-	-	80.0	-	80.0
Standby facility	Bank of New Zealand	07/04/2019	NZD	125.0	-	125.0	125.0	-	125.0
Standby facility	Westpac	07/04/2019	NZD	75.0	-	75.0	75.0	-	75.0
Standby facility	Bank of New Zealand	31/10/2020	NZD	80.0	-	80.0	-	-	-
Multi-currency facility	Bank of Tokyo Mitsubishi UFJ	29/10/2017	NZD & AUD	-	-	-	45.0	45.0	-
Multi-currency facility	Commonwealth Bank of Australia	01/12/2017	AUD	-	-	-	84.0	84.0	-
Multi-currency facility	Commonwealth Bank of Australia	07/04/2018	NZD & AUD	-	-	-	100.0	100.0	-
Multi-currency facility	Commonwealth Bank of Australia	27/10/2020	AUD	98.5	-	98.5	-	-	-
Multi-currency facility	Bank of Tokyo Mitsubishi UFJ	29/10/2019	NZD & AUD	100.0	100.0	-	100.0	100.0	-
Multi-currency facility	Bank of Tokyo Mitsubishi UFJ	27/10/2020	NZD	50.0	50.0	-	-	-	-
Multi-currency facility	Bank of China (New Zealand)	17/08/2021	NZD	30.0	30.0	-	-	-	-
			Total NZD equivalent	**558.5**	**180.0**	**378.5**	**609.0**	**329.0**	**280.0**

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 2018. 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

	< 1 year $M	1 to 3 years $M	3 to 5 years $M	> 5 years $M	Total $M
Year ended 30 June 2018					
Financial assets					
Cash and cash equivalents	106.7	-	-	-	106.7
Accounts receivable	53.5	-	-	-	53.5
Derivative financial assets	8.6	21.4	21.3	67.5	118.8
Total financial assets	168.8	21.4	21.3	67.5	279.0
Financial liabilities					
Accounts payable, accruals, provisions and other term liabilities	(149.9)	-	-	-	(149.9)
Commercial paper	(92.0)	-	-	-	(92.0)
Bank facilities	-	(150.0)	(30.0)	-	(180.0)
Bonds	(75.0)	(400.0)	(200.0)	(225.0)	(900.0)
AMTN Notes	-	-	-	(284.5)	(284.5)
USPP notes	-	(73.9)	(147.8)	(369.5)	(591.2)
Derivative financial liabilities	(9.4)	(15.6)	(12.8)	(4.6)	(42.4)
Interest payable	(76.6)	(135.9)	(93.6)	(110.7)	(416.8)
Total financial liabilities	(402.9)	(775.4)	(484.2)	(994.3)	(2,656.8)
Year ended 30 June 2017					
Financial assets					
Cash and cash equivalents	45.1	-	-	-	45.1
Accounts receivable	43.9	-	-	-	43.9
Dividend receivable	2.7	-	-	-	2.7
Derivative financial assets	4.9	2.5	11.4	100.1	118.9
Total financial assets	96.6	2.5	11.4	100.1	210.6
Financial liabilities					
Accounts payable, accruals, provisions and other term liabilities	(134.7)	-	-	-	(134.7)
Commercial paper	(92.0)	-	-	-	(92.0)
Bank facilities	(229.0)	(100.0)	-	-	(329.0)
Bonds	(100.0)	(325.0)	(150.0)	(325.0)	(900.0)
USPP notes	-	-	-	(169.9)	(169.9)
AMTN notes	-	-	(143.7)	(468.2)	(611.9)
Derivative financial liabilities	(10.1)	(13.8)	(10.6)	(7.6)	(42.1)
Interest payable	(66.9)	(124.8)	(90.6)	(126.1)	(408.4)
Total financial liabilities	(632.7)	(563.6)	(394.9)	(1,096.8)	(2,688.0)

Notes and accounting policies CONTINUED

FOR THE YEAR ENDED 30 JUNE 2018

18.4 Financial risk management objectives and policies CONTINUED

(c) 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, 54.7% (2017: 51.4%) 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 10 years from 30 June 2018 (2017: 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.

	2018 $M	2017 $M
Financial assets		
Cash and cash equivalents	106.7	45.1
	106.7	45.1
Financial liabilities		
Bonds in fair value hedge	-	50.0
Floating rate bonds	85.0	85.0
Bank facilities	15.0	139.0
Commercial paper	6.8	31.8
AMTN Notes	284.5	163.4
USPP Notes	489.9	489.9
	881.2	959.1
Net exposure	774.5	914.0

Interest rate sensitivity

The following table demonstrates the sensitivity to a change in floating interest rates of plus and minus 100 basis points, with all other variables held constant, of the company's profit before tax and equity.

	2018 $M	2017 $M
Increase in interest rates of 100 basis points		
Effect on profit before taxation	(7.8)	(9.1)
Effect on equity before taxation	31.5	29.8
Decrease in interest rates of 100 basis points		
Effect on profit before taxation	7.8	9.1
Effect on equity before taxation	(34.0)	(32.1)

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 2018 of $774.5 million (2017: $914.0 million). Interest rate movements of plus and minus 100 basis points have been applied to this floating rate debt to demonstrate the sensitivity to interest rate risk.
- 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 2018 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.

(d) Foreign currency risk

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

Exposure to the Australian dollar previously arose from the translation risk related to the investment in North Queensland Airports. This exposure was hedged by a bank facility that was drawn down in Australian dollars to a total of AUD90.0 million. On 7 March 2018 the group sold its investment in North Queensland Airports and repaid the bank facility. Further information is included in note 8 Associates and joint ventures.

Exposure to the Australian dollar also arises from Australian note borrowings. 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 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 AMTN notes and USPP 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.

The following sensitivity analysis is based on the foreign currency risk exposures in existence at the reporting date. At 30 June 2018, had the New Zealand dollar moved either up or down 10%, with all other variables held constant, post-tax profit and other comprehensive income would have been affected as follows.

	2018 $M	2017 $M
Increase in value of NZ dollar of 10%		
Impact on profit before taxation	(0.2)	(0.1)
Impact on equity before taxation	(5.5)	(3.8)
Decrease in value of NZ dollar of 10%		
Impact on profit before taxation	0.3	0.2
Impact on equity before taxation	6.8	4.7

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.

- The sensitivity was calculated by taking the spot rate as at balance date of 0.91375 (2017: 0.9525) for AUD and 0.6766 (2017: 0.7322) for USD and moving this spot rate by the reasonably possible movements of plus or minus 10% and then re converting the foreign currency into NZD with the new spot rate. This methodology reflects the translation methodology undertaken by the group.

(e) 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.

The gearing ratio is calculated as borrowings divided by borrowings plus the market value of shareholders' equity. The gearing ratio as at 30 June 2018 is 20.3% (2017: 19.5%). The current long-term credit rating of Auckland Airport by Standard & Poor's at 30 June 2018 is A- Stable Outlook (2017: A- Stable Outlook).

Notes and accounting policies CONTINUED

FOR THE YEAR ENDED 30 JUNE 2018

19. Commitments

(a) Property, plant and equipment

The group had contractual obligations to purchase or develop property, plant and equipment for $77.2 million at 30 June 2018 (2017: $150.2 million).

(b) Investment property

The group had contractual obligations to purchase or develop investment property for $173.1 million at 30 June 2018 (2017: $57.6 million).

The group has contractual commitments for repairs, maintenance and enhancements on investment property for $5.1 million at balance date (2017: $1.7 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 34 years (2017: one month and 35 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.

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

	2018 $M	2017 $M
Within one year	270.8	204.0
After one year but no more than five years	937.5	655.8
After more than five years	626.8	201.7
Total minimum lease payments receivable	1,835.1	1,061.5

20. Contingent liabilities

Noise insulation

In December 2001, the Environment Court ratified an agreement that had been reached between Manukau City Council, the company and other interested parties on the location and future operation of a second runway to the north and parallel to the existing runway.

The Environment Court determination includes a number of conditions that apply to the operation of the airport. These conditions include obligations on the company to mitigate the impacts of aircraft noise on affected properties in the local community. The obligations include the company offering acoustic treatment packages to schools and existing homes within defined areas. Noise levels are monitored continually, and as the noise impact area increases, additional offers will need to be made. The obligation does not extend to new houses. The second runway to the north may be extended beyond the length of the runway previously planned. Overall, it is estimated that approximately 4,000 homes will eventually be offered assistance including those homes that may be affected by the extended runway.

As it is not possible to accurately predict the rate of change in aircraft noise levels over time nor the rate of acceptance of offers of treatment to homeowners, the company cannot accurately predict the overall cost or timing of acoustic treatment. However, it is estimated that, overall, further costs should not exceed $9.0 million (refer note 21).

Firefighting foam clean up

The 2018 financial result contains a $1.2 million provision for the costs expected to be incurred during the 2019 financial year to dispose of PFOS/PFOA contaminated fire fighting 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 we have commissioned preliminary investigations to determine the extent of any contamination. At this time, the potential cost of any yet to be determined decontamination obligations has not been provided for in the financial statements.

21. Provisions for noise mitigation

The group has an obligation to fund the acoustic treatment of homes and schools within defined areas when noise exceeds certain thresholds and when the offer of acoustic treatment is accepted. On acceptance of offers, the group records a provision for the estimated cost of fulfilling the obligation. The amount of the provision will change depending on the number of offers accepted, a revision in the estimate of the cost of offers and when the acoustic treatment expenditure is incurred. As directly attributable costs of a future second runway, the costs are capitalised to the extent they are not recoverable from other parties.

Since 2005, the company has made acoustic treatment offers to a total of 2,700 houses and six schools. Homeowners of 654 homes and six schools have accepted these offers. The last offers were made in February 2018.

	2018 $M	2017 $M
Opening balance	0.9	0.9
Provisions made in the period	1.2	1.6
Expenditure in the period	(2.0)	(1.6)
Total provision for noise mitigation	0.1	0.9

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 20%.

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.

Costs incurred for goods and services received from Auckland Council and its subsidiaries are as follows.

	2018 $M	2017 $M
Rates	10.6	9.9
Building consent costs and other local government regulatory obligations	1.3	1.2
Water, wastewater and compliance services	2.5	2.2
Grounds maintenance	1.6	2.1
Roads acquired	-	3.3

Associates and joint ventures

Refer to note 8 for details of transactions with associate entities and joint ventures.

Notes and accounting policies CONTINUED

FOR THE YEAR ENDED 30 JUNE 2018

22. Related party disclosures CONTINUED

(b) Key management personnel compensation

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

	Notes	2018 $M	2017 $M
Directors' fees		1.4	1.4
Senior management's salary and other short-term benefits		5.4	5.6
Senior management's share-based payments	23(b), 23(c)	3.5	3.2
		10.3	10.2

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.

	2018 Shares	2017 Shares
Shares held on behalf of employees		
Opening balance	104,039	119,929
Shares issued during the year	30,100	14,500
Shares fully paid and allocated during the year	(12,000)	(19,290)
Shares forfeited during the year	(12,600)	(11,100)
Total shares held on behalf of employees	109,539	104,039
Unallocated shares held by the purchase plan	217,072	246,101
Total shares held by the purchase plan	326,611	350,140

On 1 November 2017 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 $5.213, 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 2017. On 1 November 2016 shares were issued at a price of $6.13, being a 15% discount on the average market selling price over the 10 trading days ending on 5 October 2016.

(b) Long-term incentive plan – equity settled

In October 2015, the directors introduced a new equity-settled long-term incentive plan (LTI plan) that vests from calendar year 2018 onwards. This plan replaces the previous phantom option plan. Under the new 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 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 plan, all shares will vest if TSR equals or exceeds the company's cost of equity plus 1% compounding annually (independently calculated by First NZ Capital 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 are forfeited.

		Number of shares held on behalf of executives				
Grant date	Vesting date	Balance at the beginning of the year	Granted during the year	Vested during the year	Forfeited during the year	Balance at the end of the year
23 October 2015	23 October 2018	141,654	-	-	16,139	125,515
23 October 2016	23 October 2019	110,180	-	-	11,882	98,298
23 October 2017	23 October 2020	-	143,672	-	-	143,672
Total LTI plan		251,834	143,672	-	28,021	367,485

Fair value of share rights granted

The LTI plan is valued as nil-price in-substance options at the date at which they are granted using a probability weighted payoff valuation model independently prepared by First NZ Capital. 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
23 October 2015	23 October 2018	$5.02	2.56-3.00%	18.1%	$1.58
23 October 2016	23 October 2019	$6.65	1.85-3.23%	22.7%	$2.15
23 October 2017	23 October 2020	$6.25	1.79-3.06%	21.9%	$2.57

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 2018 is $0.2 million (2017: $0.1 million) with a corresponding increase in the share-based payments reserve (refer note 16 (iii)).

Notes and accounting policies CONTINUED

FOR THE YEAR ENDED 30 JUNE 2018

23. Share-based payment plans CONTINUED

(c) Long-term incentive - phantom options

In October 2015, the directors introduced the new executive share plan effective from calendar year 2015, which replaced the old phantom plans.

The old phantom plan involved the notional allocation of options at prevailing market rates to participating executives. The vesting period for these phantom options was three years from the date of issue. Once the phantom options became exercisable, they remained exercisable for the next two years, subject to a total shareholder return hurdle being met. The gross amount payable was the volume-weighted average price of the shares over the previous 20 trading days less the initial share price for those phantom options on the day the phantom options were issued. The amount paid in the 2018 financial year was subject to a cap, based on a multiple of an executive's fixed annual remuneration in the year the options were issued (three years prior to vesting).

As at 30 June 2018 all phantom options have been exercised or lapsed. Therefore, the estimate of the fair value of the cash-settled phantom plans for all the participating executives is nil (2017: $3.3 million).

An expense of $0.4 million (2017: $1.4 million) relating to the change in fair value or cash payments has been included in staff expenses in the income statement. Cash payments under the phantom plan were $3.4 million during the year ended 30 June 2018 (2017: $3.2 million).

As at 30 June 2018

Issue date	Date exercisable	Expiry date	Number granted	Number lapsed	Number exercised	Number at 30 June 2018	Number exercisable at 30 June 2018	Share price to meet hurdle rate at 30 June 2018
27/8/2014	27/8/2017	27/8/2019	3,875,494	1,231,047	2,644,447	-	-	N/A
			3,875,494	1,231,047	2,644,447	-	-	

As at 30 June 2017

Issue date	Date exercisable	Expiry date	Number granted	Number lapsed	Number exercised	Number at 30 June 2017	Number exercisable at 30 June 2017	Share price to meet hurdle rate at 30 June 2017
22/8/2013	22/8/2016	22/8/2018	3,700,804	1,132,354	2,568,450	-	-	$3.83
27/8/2014	27/8/2017	27/8/2019	3,875,494	1,231,047	-	2,644,447	-	$4.14
			7,576,298	2,363,401	2,568,450	2,644,447	-	

Payouts under the above phantom option scheme were subject to caps each year.

24. Events subsequent to balance date

On 23 August 2018, the directors approved the payment of a fully imputed final dividend of 11.0 cents per share amounting to $132.3 million to be paid on 19 October 2018.

On 22 August 2018, Queenstown Airport paid a dividend of $6.2 million. The group's share of the dividend is $1.5 million.

Deloitte.

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 2018, 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 19 to 66, present fairly, in all material respects, the consolidated financial position of the Group as at 30 June 2018, 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 Group in accordance with Professional and Ethical Standard 1 (Revised) *Code of Ethics for Assurance Practitioners* issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants*, 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 and consulting services. 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.

Audit materiality

We consider materiality primarily in terms of the magnitude of misstatement in the financial statements of the Group that in our judgement would make it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced (the 'quantitative' materiality). In addition, we also assess whether other matters that come to our attention during the audit would in our judgement change or influence the decisions of such a person (the 'qualitative' materiality). We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

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
Fair Value of Revalued Property, Plant and Equipment 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 2018 is $6,378 million. Land assets were revalued at 30 June 2018. Infrastructure assets were revalued at 30 June 2016 and runway, taxiways, aprons, buildings and services assets were last revalued at 30 June 2015. The Group did not carry out revaluations in 2018 on these assets as it assessed there has been no material change in fair values. The Group's assessment considered movements in the relevant capital goods price indices. Note 11(a) 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. 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.	In relation to the Land assets revalued in the current year our audit procedures focused on the valuation process, methodologies and key inputs. We evaluated the Group's processes in respect of the independent valuation including the selected valuation methodologies, the internal data provided to the valuers where relevant, and the reconciliation of the valuations to the asset register. 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 held discussions with the valuers to obtain an understanding of the valuation models, the key inputs, estimates and judgments applied and performed. Our procedures included, on a test basis: • Reading the valuation reports and considering whether the methodology applied was appropriate for the asset being valued; • Assessing the methodology for consistency with prior valuations and considering whether any changes to the methodology were required; and • Challenging the reasonableness of the key inputs and assumptions to the models by comparing them to current market evidence and the Group's internal data. Valuations using the discounted cash flow and capitalisation of income approach: • We tested, where relevant, the information provided by the Group to the valuers including comparing cash flows to underlying records. • We compared the assumptions relating to growth, terminal capitalisation rates and discount rates to available economic data. • We reviewed the valuers' processes for comparing the values calculated using the discounted cash flow methodology to their alternative calculations under the market capitalisation or direct sales comparison approaches where relevant. Valuations using the direct sales comparison approach or an alternative use approach: • We compared relevant data to observable market information where possible, including challenging the valuers' determinations regarding feasible alternative uses for the land parcels. • We compared the data provided by the various valuers and considered whether they were consistent. • We considered whether adjustments made to the market data for property-specific attributes were appropriate based on our knowledge of the property. 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. Our procedures included: • Assessing whether the capital goods price indices used by the Group are appropriate; • Comparing the capital goods price indices to observable market data and testing the accuracy of the Group's calculation of changes; and • Testing the accuracy of the Group's calculation of the the impact on fair value of changes in capital goods price indices. • Considering the appropriateness of the Group's assessment that carrying values are not materially different to fair value.

Key audit matter	How our audit addressed the key audit matter
Valuation of Investment Properties Investment properties of $1,425.6 million are recorded at fair value in the statement of financial position at 30 June 2018. A revaluation gain of $152.2m is recorded in the income statement. 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. Vacant land ($241.4 million) is valued using a direct sales comparison or residual value approach. Retail and service, industrial, and other investment properties ($1,184.2 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. 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. 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.	Our audit procedures focused on the appropriateness of the valuation methodologies and key inputs applied in the models. 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 performed testing on a sample of the valuation reports. Our procedures included: • Reading the valuation reports and considering whether the methodology applied was appropriate for the property being valued; • Assessing the methodology for consistency with the prior period and considering whether any changes to the methodology were appropriate; • For properties valued using the direct sales comparison approach, comparing sales information used to available market information about sales of similar properties; and • For properties valued using the discounted cash flow approach: – Comparing current rental rates to the underlying lease agreements; and – Comparing market rental rates, rental growth rates, and discount rates to market data where available. 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.

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.

Deloitte Limited

Andrew Burgess, Partner
for Deloitte Limited
Auckland, New Zealand
23 August 2018

This audit report relates to the consolidated financial statements of Auckland International Airport Limited (the 'Company') for the year ended 30 June 2018 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 23 August 2018 to confirm the information included in the audited consolidated financial statements presented on this website

Five-year summary

FOR THE YEAR ENDED 30 JUNE 2018

Group income statement	2018 $M	2017 $M	2016 $M	2015 $M	2014 $M
Income					
Airfield income	122.1	119.6	103.4	93.3	87.6
Passenger services charge	179.1	174.3	154.9	140.9	131.5
Retail income	190.6	162.8	157.5	132.0	127.1
Rental income	97.6	84.9	74.7	64.6	59.3
Rates recoveries	6.0	5.6	5.4	5.1	4.6
Car park income	61.0	56.3	52.1	46.6	42.8
Interest income	2.2	2.3	1.7	3.3	2.0
Other income	25.3	23.5	24.2	22.7	20.9
Total income	683.9	629.3	573.9	508.5	475.8
Expenses					
Staff	57.9	50.5	46.8	46.3	42.5
Asset management, maintenance and airport operations	69.5	55.6	49.1	44.2	40.3
Rates and insurance	13.7	12.2	11.5	10.7	10.1
Marketing and promotions	13.8	16.7	16.3	13.2	13.7
Other expenses	22.6	21.2	19.9	14.1	14.0
Total expenses	177.5	156.2	143.6	128.5	120.6
Earnings before interest, taxation, depreciation, fair value adjustments and investments in associates (EBITDAFI)	506.4	473.1	430.3	380.0	355.2
Share of profit/(loss) of associates	16.7	19.4	(8.4)	12.5	11.6
Gain on sale of associate	297.4	-	-	-	-
Derivative fair value increase/(decrease)	(0.7)	2.5	(2.6)	(0.7)	0.6
Property, plant and equipment fair value revaluation	-	-	(16.5)	(11.9)	4.1
Investment property fair value increase	152.2	91.9	87.1	57.2	42.0
Earnings before interest, taxation and depreciation (EBITDA)	972.0	586.9	489.9	437.1	413.5
Depreciation	88.9	77.9	73.0	64.8	63.5
Earnings before interest and taxation (EBIT)	883.1	509.0	416.9	372.3	350.0
Interest expense and other finance costs	77.2	72.8	79.1	86.0	68.2
Profit before taxation	805.9	436.2	337.8	286.3	281.8
Taxation expense	155.8	103.3	75.4	62.8	65.9
Profit after taxation	650.1	332.9	262.4	223.5	215.9

Five-year summary CONTINUED

FOR THE YEAR ENDED 30 JUNE 2018

Group statement of comprehensive Income	2018 $M	2017 $M	2016 $M	2015 $M	2014 $M
Profit for the period	650.1	332.9	262.4	223.5	215.9
Other comprehensive income					
Items that will not be reclassified to income statement					
Property, plant and equipment net revaluation movements	1,189.6	-	784.0	109.3	734.8
Tax on the property, plant and equipment revaluation reserve	-	-	(7.1)	(30.1)	-
Movement in share of reserves of associates	8.0	7.5	8.9	-	-
Items that will not be reclassified to income statement	1,197.6	7.5	785.8	79.2	734.8
Items that may be reclassified subsequently to income statement					
Cash flow hedges					
Fair value gains/(losses) recognised in the cash flow hedge reserve	(9.5)	15.2	(36.5)	(25.5)	(3.1)
Realised (gains)/losses transferred to the income statement	2.9	6.7	6.0	9.2	8.7
Tax effect of movements in the cash flow hedge reserve	0.3	(6.1)	8.5	4.6	(1.6)
Total cash flow hedge movement	(6.3)	15.8	(22.0)	(11.7)	4.0
Movement in share of reserves of associates	0.4	2.5	1.9	1.7	8.4
Movement in foreign currency translation reserve	0.8	0.2	(2.7)	1.7	(7.0)
Items that may be reclassified subsequently to income statement	(5.1)	18.5	(22.8)	(8.3)	5.4
Total other comprehensive income/(loss)	1,192.5	26.0	763.0	70.9	740.2
Total comprehensive income for the period, net of tax attributable to the owners of the parent	1,842.6	358.9	1,025.4	294.4	956.1

Group statement of changes in equity	2018 $M	2017 $M	2016 $M	2015 $M	2014 $M
At 1 July	4,029.0	3,880.7	3,042.9	2,918.7	2,499.4
Profit for the period	650.1	332.9	262.4	223.5	215.9
Other comprehensive income/(loss)	1,192.5	26.0	763.0	70.9	740.2
Total comprehensive income	1,842.6	358.9	1,025.4	294.4	956.1
Reclassification to gain on sale of associate	8.5	-	-	-	-
Shares issued	55.9	15.6	0.4	-	-
Share buy-back	-	-	0.1	-	-
Capital return and share cancellation	-	-	-	-	(454.1)
Long-term incentive plan	0.2	0.1	-	-	-
Dividend paid	(254.1)	(226.3)	(188.1)	(170.2)	(82.7)[1]
At 30 June	5,682.1	4,029.0	3,880.7	3,042.9	2,918.7

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

Group balance sheet	2018 $M	2017 $M	2016 $M	2015 $M	2014 $M
Non-current assets					
Property, plant and equipment					
Freehold land	4,625.3	3,437.2	3,418.0	2,657.7	2,649.7
Buildings and services	961.8	754.2	612.4	583.0	499.0
Infrastructure	356.2	332.9	293.9	278.8	281.5
Runway, taxiways and aprons	351.5	354.3	333.3	320.2	298.2
Vehicles, plant and equipment	83.2	69.2	50.5	44.4	33.1
	6,378.0	4,947.8	4,708.1	3,884.1	3,761.5
Investment properties	1,425.6	1,198.0	1,048.9	848.1	733.4
Investment in associates	104.4	171.6	142.8	163.6	158.4
Derivative financial instruments	110.4	82.1	138.8	118.3	6.9
	8,018.4	6,399.5	6,038.6	5,014.1	4,660.2
Current assets					
Cash	106.7	45.1	52.6	38.5	41.4
Inventories	0.2	0.1	0.1		-
Trade and other receivables	71.5	55.5	42.3	36.6	29.0
Dividend receivable	-	2.7	3.3	2.8	2.7
Taxation receivable	-	-	3.9	9.5	-
Derivative financial instruments	-	0.6	0.7	-	0.5
	178.4	104.0	102.9	87.4	73.6
Total assets	8,196.8	6,503.5	6,141.5	5,101.5	4,733.8
Shareholders' equity					
Issued and paid-up capital	404.2	348.3	332.7	332.3	332.3
Cancelled share reserve	(609.2)	(609.2)	(609.2)	(609.2)	(609.2)
Property, plant and equipment revaluation reserve	4,913.9	3,729.1	3,730.6	2,958.5	2,880.6
Share-based payments reserve	1.3	1.1	1.0	0.9	0.9
Cash flow hedge reserve	(38.2)	(32.0)	(47.7)	(25.7)	(14.0)
Share of reserves of associates	28.8	20.4	10.4	(0.4)	(2.1)
Foreign currency translation reserve	-	(9.3)	(9.5)	(6.8)	(8.5)
Retained earnings	981.3	580.6	472.4	393.3	338.7
	5,682.1	4,029.0	3,880.7	3,042.9	2,918.7
Non-current liabilities					
Term borrowings	1,893.5	1,635.6	1,490.0	1,504.9	1,126.8
Derivative financial instruments	38.9	36.1	56.9	22.2	33.1
Deferred tax liability	251.4	237.8	220.4	220.3	200.2
Other term liabilities	1.8	1.5	1.3	1.3	0.7
	2,185.6	1,911.0	1,768.6	1,748.7	1,360.8
Current liabilities					
Accounts payable	148.0	132.3	94.3	88.8	69.5
Taxation payable	12.9	6.4	-	-	2.8
Derivative financial instruments	1.3	2.8	0.1	1.7	-
Short-term borrowings	166.8	421.1	396.9	217.6	380.1
Provisions	0.1	0.9	0.9	1.8	1.9
	329.1	563.5	492.2	309.9	454.3
Total equity and liabilities	8,196.8	6,503.5	6,141.5	5,101.5	4,733.8

Five-year summary CONTINUED

FOR THE YEAR ENDED 30 JUNE 2018

Group statement of cash flows	2018 $M	2017 $M	2016 $M	2015 $M	2014 $M
Cash flow from operating activities					
Cash was provided from:					
Receipts from customers	674.0	615.5	569.5	500.6	471.6
Interest received	2.0	2.3	1.7	3.3	2.1
	676.0	617.8	571.2	503.9	473.7
Cash was applied to:					
Payments to suppliers and employees	(180.5)	(156.3)	(151.2)	(116.0)	(116.4)
Income tax paid	(96.4)	(81.7)	(69.9)	(79.5)	(79.1)
Interest paid	(77.9)	(72.7)	(79.6)	(86.2)	(66.6)
	(354.8)	(310.7)	(300.7)	(281.7)	(262.0)
Net cash flow from operating activities	321.2	307.1	270.5	222.2	211.7
Cash flow from investing activities					
Cash was provided from:					
Proceeds from sale of assets	-	0.1	0.1	0.3	-
Proceeds from sale of investment property	-	-	-	0.5	-
Proceeds from sale of investment in associate	357.4	-	-	-	-
Dividends from associates	15.4	20.2	15.8	13.1	16.8
	372.8	20.3	15.9	13.9	16.8
Cash was applied to:					
Purchase of property, plant and equipment	(310.3)	(247.9)	(124.4)	(79.0)	(60.7)
Interest paid - capitalised	(8.8)	(9.9)	(5.5)	(4.3)	(3.2)
Expenditure on investment properties	(77.1)	(81.2)	(103.7)	(61.2)	(55.6)
Other investing activities	-	(18.6)	-	-	-
Costs relating to sale of investment of associate	(10.1)	-	-	-	-
	(406.3)	(357.6)	(233.6)	(144.5)	(119.5)
Net cash applied to investing activities	(33.5)	(337.3)	(217.7)	(130.6)	(102.7)
Cash flow from financing activities					
Cash was provided from:					
Increase in share capital	-	0.1	0.4	-	-
Increase in borrowings	301.1	538.4	275.0	565.8	450.0
	301.1	538.5	275.4	565.8	450.0
Cash was applied to:					
Share buy-back	-	-	-	-	(454.1)
Decrease in borrowings	(329.0)	(305.0)	(126.0)	(490.1)	(50.0)
Dividends paid	(198.2)	(210.8)	(188.1)	(170.2)	(82.7)
	(527.2)	(515.8)	(314.1)	(660.3)	(586.8)
Net cash flow applied to financing activities	(226.1)	22.7	(38.7)	(94.5)	(136.8)
Net increase/(decrease) in cash held	61.6	(7.5)	14.1	(2.9)	(27.8)
Opening cash brought forward	45.1	52.6	38.5	41.4	69.2
Ending cash carried forward	106.7	45.1	52.6	38.5	41.4

Capital expenditure	2018 $M	2017 $M	2016 $M	2015 $M	2014 $M
Aeronautical	280.6	255.4	119.7	68.3	33.3
Retail	12.5	7.2	4.6	3.1	6.1
Property development	80.2	85.7	106.4	67.0	54.1
Infrastructure and other	20.8	12.4	8.0	4.2	22.5
Car parking	11.1	14.0	4.5	5.0	5.5
Total	405.2	374.7	243.2	147.6	121.5

Passenger, aircraft and MCTOW	2018	2017	2016	2015	2014
Passenger movements					
International[1]	11,266,382	10,820,535	9,688,922	8,905,758	8,437,976
Domestic	9,263,666	8,601,841	7,902,059	7,198,595	6,911,689
Aircraft movements					
International	55,693	54,879	49,828	46,692	45,809
Domestic	118,583	114,366	107,944	104,264	107,454
MCTOW (tonnes)					
International	5,798,018	5,609,244	4,910,014	4,556,051	4,339,266
Domestic	2,341,699	2,238,853	2,068,545	1,890,764	1,879,199

1 A refinement in transit reporting from Immigration New Zealand in June 2018 has resulted in Auckland Airport restating international passenger data from June 2013 onwards.

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 2017' (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 fundamental principles of good corporate governance. Consistent with the approach taken in the 2017 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 fundamental 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' (3rd 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.

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 documents the minimum standards of ethical behaviour that all directors, employees, contractors and consultants of the company are expected to adhere to. The policy can be found on the company's website at corporate.aucklandairport.co.nz/Governance. The ethics and code of conduct policy recognises the company's legal and other obligations to all legitimate 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 public statements on behalf of the company, accounting practices and co-operation 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 for annual review of its content by the Board.

The company also has a policy on share trading by directors, officers and employees which can be found on the company's website at corporate.aucklandairport.co.nz/Governance. The policy sets out a fundamental prohibition on trading of the company's securities 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 of the preliminary final statement or full-year results to the NZX; and
- the period from the close of trading on 31 December of each year until the day following the announcement of the half-year results to the NZX.

The company's procedure for reporting and dealing with any concerns in respect of the conduct of its directors, employees, contractors and consultants fully complies 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 the company's 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 and company secretary;
- approve remuneration policies applicable to senior management 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 Auckland Airport;
- ensure the company actively seeks ways to achieve a high level of diversity within the business;
- promote a company culture and remuneration practice which 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 are no more than eight and no fewer than three directors.

The Board currently comprises eight directors, being Sir Henry van der Heyden, Julia Hoare, Brett Godfrey, James Miller, Justine Smyth, Christine Spring, Patrick Strange and Mark Binns. Mark Binns' formal appointment to the Board is subject to shareholder approval at the 2018 annual meeting. 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 adviser 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 period that, in the Board's opinion, could or could reasonably be perceived to materially interfere with the director's ability to act in the best interests of the company;
- 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, the dates of their appointment and independence, are:

Director	Qualifications	Gender	Location	Date of Appointment	Tenure (years)	Independence
Sir Henry van der Heyden	KNZM, BE (Hons)	M	NZ	4/Sep/09	9	Yes
Mark Binns	LLB	M	NZ	4/Apr/18	0	Yes
Brett Godfrey	BCom, ACA	M	AUS	28/Oct/10	8	Yes
Julia Hoare	BCom, FCA, AMInstD	F	NZ	23/Oct/17	1	Yes
James Miller	BCom, FCA, AMInstD	M	NZ	4/Sep/09	9	Yes
Justine Smyth	BCom, FCA, CFInstD	F	NZ	2/Jul/12	6	Yes
Christine Spring	BE, MSc Eng, MBA,CMInstD	F	NZ	23/Oct/14	4	Yes
Patrick Strange	BE (Hons), PhD, CFInstD	M	NZ	22/Oct/15	3	Yes

A biography of each director of the company is available on the corporate governance section of the company's website at corporate.aucklandairport.co.nz/BoardofDirectors. The interests of each director are set out on page 89**.** 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 80 shows a list of 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 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 applies 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. The Board nominations policy can be found on the company's website at corporate.aucklandairport.co.nz/Governance.

All directors enter into written agreements with the company in the form of a letter which sets out the terms and conditions of their appointment. A copy of the standard form of this letter is available on the company's website at 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 security holders for election. The committee is required to comprise of 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 Sir Henry van der Heyden 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 which the Board considers to be particularly relevant include Listed Governance Experience, CEO experience, infrastructure, property, risk management and audit as well as capital markets, regulatory, shareholder connectivity, aeronautical and retail experience. The skills and experience of the directors is set out in the Board's current skills matrix below.

2018 SKILLS MATRIX

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

● Key Area of Expertise ○ Some Experience Blank = Limited / No Experience

A definition of categories referred to above can be found on the company's website at corporate.aucklandairport.co.nz/ Governance.

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. A copy of the diversity policy can be found on the company's website at corporate.aucklandairport.co.nz/ Governance.

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

To demonstrate the diversity of the company's workforce, we set out below a table showing the range of people who work at Auckland Airport.

	Male	Female	% of female (2017)	% of female (2018)	Age range	Ethnicities[1]
Board	5	3	38	38	52-66	1
Leadership team	7	1	22	13	43-54	1
Employees	305	193	38	39	19-72	31

1 The ethnicities of the people Auckland Airport employ include: African, Asian, Australian, Cook Island, Croatian, English, European, Filipino, Fijian, Greek, Indian, Irish, Korean, Latin America, Māori, Moldovan, Samoan, Middle Eastern New Zealand, Niuean, Persian, Russian, Samoan, South African, Taiwanese, Tongan, Vietnamese and Welsh - noting that not everyone who works at Auckland Airport chooses to disclose their ethnicity.

Corporate governance CONTINUED

The Board strongly supports increasing diversity in corporate governance. The Board participates in the 'Future Directors' programme to help grow New Zealand's pool of potential talent for governance roles.

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 Board receives regular briefings on the company's operations from senior management and tours of the company's facilities keep the Board abreast of developments. 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 by attending relevant courses, conferences and briefings.

The general counsel and company secretary 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 and company secretary 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 & company secretary for the purposes of the Board's affairs. The appointment of the general counsel and company secretary 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 2017 to 30 June 2018. As Richard Didsbury and Michelle Guthrie retired as directors of the company during this period, their attendances are not included. Ad-hoc committees, such as the aeronautical pricing committee and terminal development plan committee are established from time to time in respect of regulatory compliance and other matters relevant to the company.

Name	Status	Board			Audit and financial risk			People and capability			Safety and operational risk		
		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
Sir Henry van der Heyden	Independent non executive	✓	8	8	✓	5	5	✓	3	3	✓	4	4
Mark Binns[1]	Independent non executive	✓	3	3				✓	1	1	✓	1	1
Brett Godfrey	Independent non executive	✓	8	7				✓	3	2	✓	4	4
Julia Hoare[2]	Independent non executive	✓	6	6	✓	2	2						
James Miller	Independent non executive	✓	8	8	✓	5	5						
Justine Smyth	Independent non executive	✓	8	8	✓	5	5	✓	3	3			
Christine Spring	Independent non executive	✓	8	8	✓	5	5				✓	4	4
Patrick Strange[3]	Independent non executive	✓	8	7	✓	3	3	✓	2	2	✓	4	4

1 Mark Binns began his role as director on 4 April 2018, his formal appointment to the Board is subject to shareholder approval at the 2018 annual meeting.

2 Julia Hoare began her role as a director on 23 October 2017.

3 At the November 2017 Board meeting Patrick Strange moved from the Audit and Financial Risk Committee to the People and Capability Committee.

Review of the Board and director performance

The company has a procedure to regularly assess the Board as well as each committees performance, to ensure they are performing in line with the obligations and the company's values and strategy. The nominations committee has developed a process for evaluating performance taken from external reviews. These results are then prioritised and evaluated in subsequent reviews.

Principle 3: Board committees

In accordance with the Board charter, various committees have been set up 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;
- people and capability;
- nominations; and
- safety and operational risk.

The roles of these committees are detailed in other parts of this report but each committee operates under a written charter which sets out its roles and responsibilities. Membership of each committee is disclosed and member attendance is periodically reported.

In addition, the Board has established appropriate protocols to be followed if there is a takeover offer issued to Auckland Airport, including communication between insiders and any bidder. The scope of independent advisory reports in this respect are available upon request from shareholders.

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.

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. That policy can be found on the company's website at corporate.aucklandairport.co.nz/Governance. In addition, the company makes its code of ethics, insider trading, diversity and a number of other policies available on the company's website.

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

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 stand-alone corporate social responsibility (CSR) reports. The 2017 CSR Report can be found on the company's website at corporate.aucklandairport.co.nz/CSR and the 2018 CSR report will become available in October.

The general counsel and company secretary 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 which 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 which it operates under. All of its members are non-executive directors. The people and capability committee members are Justine Smyth (Chair), Mark Binns, Brett Godfrey, Sir Henry van der Heyden and Patrick Strange. Each member is an independent, non-executive director. The committee's charter outlines the relative weightings and remuneration components as well as relevant performance criteria and can be found on the company's website at corporate.aucklandairport.co.nz/Governance. The committee members' attendance at meetings is set out on page 80.

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

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

Corporate governance CONTINUED

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 fee to acquire shares in the company. In order to achieve this, the directors have entered into a share purchase plan agreement and appointed First NZ Capital to be the manager of the plan. First NZ Capital 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.

2018 financial year
At the 2017 annual meeting, shareholders approved a total directors' fee pool of $1,530,000. This was $27,353, or 2%, more than the directors' fee pool approved by shareholders at the 2016 annual meeting.

In the 2018 financial year, directors received the following remuneration for their governance of Auckland Airport:

Base fees of directors by position (from October 2017)

	Chair[1]	Member
Board	$250,000	$118,320
Safety and operational risk committee	$26,500	$13,250
Audit and financial risk committee	$50,779	$23,390
People and capability committee	$26,500	$13,250
Ad hoc committee work (per day)	______	$2,650

1 The chair attends all meetings of the committees but he does not receive additional meeting fees.

Remuneration received by directors (from October 2017)

Name	Director's fee (excluding expenses)
Sir Henry van der Heyden	$250,000.00
Mark Binns	$39,442.98
Brett Godfrey	$144,900.93
Julia Hoare	$98,234.64
James Miller	$176,491.94
Justine Smyth	$169,343.07
Christine Spring	$170,661.94
Patrick Strange	$155,462.78

The above director remuneration includes fees for any ad hoc committee work and 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.

Future Directors programme

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:

- the Future Director participates in all Board and committee meetings, but does not take part in the actual decision-making;
- the term of the Future Director's appointment is for one year, but this can be extended at the Board's discretion;
- the Future Director is not offered a seat on the Auckland Airport Board at the end of the programme; and
- an ex-gratia payment may be made to the Future Director at the Board's discretion.

Auckland Airport extended Ms Kiriwaitingi Rei's role as part of the Future Directors programme during the 2018 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
Every six months, all employees of the company participate in a formal performance and development review. The outcomes of the end of year review inform decisions regarding remuneration adjustments in accordance with company policy. Additionally, formal talent reviews which identify employees with potential to progress to more senior roles are conducted each year. The outputs of talent reviews form the basis of the company's succession plans.

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 agreements, negotiations with unions.

Health and other insurances
The company provides subsidised health insurance to all employees on a collective employment agreement. 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, his/her 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 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 a Collective Employment Agreement. 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. There is no cap on the amount that can be contributed by permanent employees on an Individual Employment Agreement. The amount that can be contributed by permanent employees on a Collective Employment Agreement 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 role.

Short-term incentives
Forty-three senior Auckland Airport employees as well as all members of the leadership team were invited to participate in the company's short-term incentive scheme during the 2018 financial year. The short-term incentive is an at-risk component of employee remuneration, and is in addition to fixed annual remuneration[1] and payable in cash on achievement of performance targets.

For employees who are not on the leadership team, the short-term incentive targets are 10%, 15% and 20% of the fixed annual remuneration. The short-term incentive target for members of the leadership team is 30% of fixed annual remuneration and the chief executive's short-term incentive target is 50% of his base salary.[2]

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

	Short-term incentive target	For over-performance
Employee not on leadership team	10% of fixed annual remuneration	Up to 12% of base salary
Employee not on leadership team	15% of fixed annual remuneration	Up to 18% of base salary
Employee not on leadership team	20% of fixed annual remuneration	Up to 24% of base salary
Leadership team	30% of fixed annual remuneration	Up to 42% of base salary
Chief executive	50% of fixed annual remuneration	Up to 70% of base salary

Individual component
Half the short-term incentive is based on the employee achieving key performance targets relevant to his or her 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. Every member of the leadership team, including the chief executive, has health and safety related short-term incentive targets.

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 which employees did not influence or to ensure that employees are not unfairly penalised for material one-off adverse events outside 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.

Given the company's continuing strong performance and growth in share price, in the 2016 financial year the Board introduced a new long- term incentive plan to provide greater cost certainty and market alignment. It also amended the previous long-term incentive plan – which was a phantom-option plan – by capping its potential rewards. 2018 was the final financial year that payments were made under this legacy plan.

The current long-term incentive plan is a share-based plan. At the end of the 2018 financial year, the total current value of long-term incentives in place for Auckland Airport's leadership team and chief executive was $ 0.6 million.

Note 23 of the financial statements, on page 64, provides full details of the number of incentives granted, lapsed and exercised.

1 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.
2 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.

Corporate governance CONTINUED

Remuneration of employees

Below is the number of employees and former employees of the company, excluding directors, who received remuneration and other benefits which totalled $100,000 or more, in their capacity as employees during the 2018 financial year.

Amount of remuneration	Former employees	Current employees
$100,001 to $110,000	0	31
$110,001 to $120,000	6	27
$120,001 to $130,000	1	30
$130,001 to $140,000	4	18
$140,001 to $150,000	3	16
$150,001 to $160,000	1	9
$160,001 to $170,000	1	8
$170,001 to $180,000		5
$180,001 to $190,000		2
$190,001 to $200,000		3
$200,001 to $210,000	4	4
$210,001 to $220,000	1	5
$220,001 to $230,000	1	2
$230,001 to $240,000	1	1
$240,001 to $250,000		1
$250,001 to $260,000		1
$260,001 to $270,000	1	1
$280,001 to $290,000		1
$290,001 to $300,000	1	1
$300,001 to $310,000		2
$310,001 to $320,000		1
$320,001 to $330,000	1	
$340,000 to $350,000		1
$360,001 to $370,000		1
$410,001 to $420,000		1
$600,001 to $610,000		1
$760,001 to $770,000	1	
$780,001 to $790,000		1
$800,001 to $810,000		1
$1,050,001 to $1,060,000		1
$3,600,001 to $3,610,000		1

This employee remuneration chart includes salary, short-term and long-term incentives, the company's contributions to superannuation, health, life and income protection insurance plans and any termination payments received in their capacity as employees.

Remuneration consultant

To ensure the Board has access to independent advice and expertise on director and chief executive remuneration, it has retained Una Diver and Mike Hogan at Ernst & Young as independent remuneration consultants. Instructions in relation to the work required of Ms Diver and Mr Hogan come directly from Justine Smyth, Chair of the people and capability committee.

CHIEF EXECUTIVE REMUNERATION

Base salary
Over the course of the financial year, the chief executive, Adrian Littlewood, earned a base salary of $1,262,351.99.

Shares
The chief executive held 810 shares personally in the company as at 30 June 2018 and 174,329 shares were held on trust under the long-term incentive plan and 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 a performance is unsatisfactory, then no short-term incentive is payable for that criteria. A maximum of 1.4 times the target is payable for outstanding performance by the chief executive.

For the 2018 financial year, the chief executive earned a total short-term incentive payment of $427,432.69, which was based on his performance for the 2017 financial year against criteria set out in the table below.

Short-term incentive criteria	Weighting
Individual Performance Criteria	
- Financial and market outcomes	12.50%
- Infrastructure and operations	12.50%
- Strategy and future business development	12.50%
- Leadership, safety and people outcomes	12.50%
Total individual performance criteria	50%
Company Performance Criteria	50%
Total	100%

The payment made in the 2018 financial year reflects 91% (0.9 times target) achievement of the chief executive's individual performance criteria for the 2017 financial year. In the 2017 financial year the chief executive's total short-term incentive payment was $563,119, which was based on his performance for the 2016 financial year against performance criteria. As at the date of this report, the chief executive's performance against his 2018 short-term incentive targets has not yet been assessed and any payment in relation to the 2018 short-term incentives will be made in the 2019 financial year.

Long-term Incentives

The chief executive participated in the Auckland Airport long-term incentive plan in the 2018 financial year. His remuneration includes both phantom options from the legacy long-term incentive plan that ran until financial year 2018 and shares issued under the new long-term incentive plan.

Share	Financial Year of Grant	Grant[1]	Number Granted	Financial Year Exercised	Share Price at Exercise	Value at Exercise
Phantom options	2014	$429,250	1,578,125	2017	$7.62	$1,700,000[2]
Phantom options	2015	$455,000	1,486,929	2018	$6.75	$1,801,980[2]
Shares - based scheme	2016	$301,831[1]	60,139	Exerciseable in 2019	N/A	N/A
Shares - based scheme	2017	$309,377[1]	46,538	Exerciseable in 2020	N/A	N/A
Shares - based scheme	2018	$631,188[1]	67,652	Exerciseable in 2021	N/A	N/A

1 Value of loan amount provided for purchase of shares.
2 Capped at 2 X base salary as at grant year.

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 the 2018 financial year the company contribution was $104,752.95 compared to $95,625 in the 2017 financial year.

Notice and termination period

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

Summary

The remuneration paid to the chief executive is summarised below:

Remuneration element	2017 financial year	2018 financial year
Base salary	$923,515	$1,262,352
Short-term incentive	$563,119	$427,433
Kiwisaver, insurance and other statutory benefits	$105,736	$117,377
Sub-total	$1,592,370	$1,807,162
Long-term incentive[1]	$1,700,000	$1,801,980
Total	$3,292,370	$3,609,142

1 2018 is the final financial year in which a grant of phantom options made under the legacy LTI scheme (in financial year 2015) can be exercised. The exercise of the phantom options in financial 2018 that were granted in the 2015 financial year was subject to a cap of 2 times his base salary for financial year 2015.

COMPLIANCE

The company complies with all of the requirements of the NZX Code and the FMA Handbook as at the date of this annual report.

Corporate governance CONTINUED

Principle 6: Risk management

Risk management is an integral part of the company's business. The company has two committees 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. The company has systems to identify and minimise the impact of financial and operational risk on its business. These systems include a process to enable:

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

AUDIT AND FINANCIAL RISK

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 role of this committee are set out at Principle 7 below.

SAFETY AND OPERATIONAL RISK

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 safety and operational risk committee's charter and the company's risk management policy can be found on the company website at corporate.aucklandairport.co.nz/Governance.

The 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.

It 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 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), Brett Godfrey, Mark Binns, Sir Henry van der Heyden and Patrick Strange, all of whom are independent, non-executive directors. Their qualifications are set out on page 78 and their attendance at meetings on page 80.

The company continues to enhance and develop its risk management process with a view to continuous improvement.

The company has established a formal internal audit function. This function is performed by Ernst & Young. Ernst & Young (ensured their internal audit scope captured all relevant risks elements by completing a global benchmarking exercise comparing the company to similar businesses. Ernst & Young regularly reports on its activities to the audit and financial risk committee.

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. As set out above, the company has appropriate mechanisms and controls in place to identify where these risks are material and to manage these as required.

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. A copy of the company's CSR Report 2017 is available on the company website at corporate.aucklandairport.co.nz/CSR and the 2018 CSR report will become available in October.

Principle 7: Auditors

The audit and financial risk committee is responsible for financial risk management oversight. This committee's formal charter reflects this responsibility and describes its function which includes, but is not limited to, ensuring the quality and independence of the external audit process. The audit and financial risk committee's charter can be found on the company's website at corporate.aucklandairport.co.nz/Governance. 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 James Miller (chair), Julia Hoare, Justine Smyth, Christine Spring and Sir Henry van der Heyden, all of whom are independent, non-executive directors. Their qualifications are set out on page 78 and their attendance at meetings on page 80.

The external auditors are 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 audit and financial risk committee has adopted a policy in respect of the independence of the external auditor. This policy can be found on the company's website at corporate.aucklandairport.co.nz/Governance. This policy establishes a framework for the company's relationship with our external auditors and it places limitations on the extent of non-audit work which can be carried out by the external auditor, and requires the regular rotation of the partner of the external auditor responsible for the audit of the company every five years.

Principle 8: Shareholder rights and relations

The company's communication framework and strategy is designed to ensure that communication with shareholders and all other stakeholders is managed efficiently. This strategy forms part of the disclosure and communications policy referred to under Principle 4 which can be found on the company website at corporate.aucklandairport.co.nz/Governance. It is the company's policy that external communications are 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 chair, chief executive, chief financial officer, general counsel and company secretary and manager public affairs 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's website at corporate.aucklandairport.co.nz/investors;
- the annual report;
- the interim report;
- the CSR Report;
- the annual meeting of shareholders;
- information provided to analysts during regular briefings;
- disclosure to 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 its annual and interim results and reports and environmental management plan electronically on the company's website at corporate.aucklandairport.co.nz/ResultsandReports. 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.

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. The company's external auditors also attend the annual meeting, and are available to answer questions relating to the conduct of the external audit and the preparation and content of the auditor's report.

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 and 23 November 2004 in order 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

The company was issued with a waiver of Listing Rule 5.2.3 by NZX on 6 October 2017 (for a period of six months from 18 October 2017) in respect of the company's October 2017 issue of $100 million of unsecured and unsubordinated fixed rate bonds (Bonds).

Listing Rule 5.2.3 (as modified by NZX's ruling on Rule 5.2.3 issued on 29 September 2015) provides that a class of securities will generally not be considered for quotation unless those securities are held by at least 100 members of the public, holding at least 25% of the number of securities in the class issued, with each member holding at least a minimum holding.

The waiver was granted on the conditions that (i) the wavier and its implications were disclosed in the terms sheet for the Bonds, (ii) the waiver, its conditions and their implications are disclosed in the company's interim and annual reports, (iii) the terms sheet for the Bonds disclosed liquidity in the Bonds as a risk, and (iv) the company is to notify NZX if there is a material reduction in the total number of, and/or percentage of the Bonds, held by members of the public holding at least a minimum holding of the Bonds.

The effect of the waiver from Listing Rule 5.2.3 is that the Bonds may not be widely held and there may be reduced liquidity in the Bonds.

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

Neither NZX, ASX or FMA has taken any disciplinary action against the company during the financial year ending 30 June 2018.

REGULATORY ENVIRONMENT

The company is regulated by, amongst other things, 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 auditors of the company, and has undertaken the audit of the financial statements for the 30 June 2018 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, the company records it donated $385,458 to 52 community groups across Auckland. This figure includes donations made by generous travellers into the charity globes in our terminals. Auckland Airport also sponsored Counties Manukau Life Education Trust, the Auckland Arts Festival, ASB Polyfest, the Second Nature Charitable Trust, Leukaemia and Blood Cancer New Zealand and the Lakes District Air Rescue Trust. The total amount of these sponsorships (including leverage funding) was $201,690.

The company also granted $372,021 to the Auckland Airport Community Trust. The Trust distributes these funds to residents and community groups living and working in the Trust's area of benefit (parts of the city most affected by aircraft noise).

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

EARNINGS PER SHARE

Earnings in cents per ordinary share were 54.31 cents in 2018 compared with 27.96 cents in 2017.

CREDIT RATING

As at 30 June 2018, Standard & Poor's long-term credit rating for the company was A- Stable Outlook.

SUBSIDIARY COMPANY DIRECTORS

Scott Weenink and Mark Thomson held office as directors of Auckland Airport Limited as at 30 June 2018.

Philip Neutze and Scott Weenink held office as directors of Auckland Airport Holdings Limited and Auckland Airport Holdings (No. 2) Limited as at 30 June 2018.

Anna Cassels-Brown and Morag Finch held office as directors of Auckland Airport Holdings (No. 3) Limited as at 30 June 2018.

Anna Cassels-Brown and Morag Finch held office as directors of Ara Charitable Trustee Limited as at 30 June 2018.

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

Richard Barker 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

The company's annual meeting of shareholders will be held at the Vodafone Events Centre, 770 Great South Road, Manukau, on 31 October 2018 at 10am.

DIRECTORS' HOLDINGS AND DISCLOSURE OF INTERESTS

Directors held interests in the following shares in the company as at 30 June 2018:

Sir Henry van der Heyden	Held personally	27,207
Mark Binns	Held personally	13,050
Brett Godfrey	Held personally	16,028
Julia Hoare	Held personally	448
James Miller	Held personally	17,504
Justine Smyth	Held personally	12,134
	Held by Associated Persons	94,176
Christine Spring	Held personally	5,764
Patrick Strange	Held personally	3,635
	Held by Associated Persons	10,000

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:

Sir Henry van der Heyden
Chair, Tainui Group Holdings Limited
Chair, Manuka SA
Chair, Rabobank Australia Limited
Chair, Rabobank New Zealand Limited
Director, Pascaro Investments Limited
Director, Foodstuffs North Island Limited
Director, Foodstuffs New Zealand Limited

Mark Binns
Chair, GlobalForce ToolCo Limited
Director, Metlifecare
Director, Crown Infrastructure Partners (formerly Crown Fibre Holdings)
Director, Te Puia Tapapa GP Limited
Trustee, Auckland War Memorial Museum

Brett Godfrey
Director, Westjet Airlines Limited

Julia Hoare
Director, NZ Post Limited
Director, The a2 Milk Company Limited
Director, Port of Tauranga Limited
Director, Watercare Services Limited
Director, AWF Madison Limited

James Miller
Chair, NZX Limited
Director, Mercury NZ Limited
Director, Accident Compensation Corporation

Justine Smyth
Chair, Spark New Zealand Limited
Chair, New Zealand Breast Cancer Foundation

Christine Spring
Director, Western Sydney Airport Limited
Director, Unison Networks Limited
Director, Unison Contracting Services Limited

Patrick Strange
Chair, Chorus Limited
Director, Mercury NZ Limited
Director, NZX Limited
Director, Essential Energy

Shareholder information CONTINUED

DISTRIBUTION OF ORDINARY SHARES AND SHAREHOLDERS

As at 30 June 2018

Size of holding	Number of shareholders	%	Number of shares	%
1 to 1000	8,081	16.01	4,206,713	0.35
1001 to 5000	31,567	62.58	66,037,170	5.49
5001 to 10000	5,538	10.98	39,797,385	3.31
10001 to 50000	4,706	9.33	91,114,473	7.58
50001 to 100000	371	0.74	25,128,935	2.09
100001 and Over	182	0.36	976,287,907	81.18
Total	50,445	100	1,202,572,583	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 2018 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 Investments Limited	266,328,912	02.07.16
The total number of voting securities on issue as at 30 June 2018 was 1,202,572,583.		

The total number of voting securities on issue as at 30 June 2018 was 1,202,572,583.

20 LARGEST SHAREHOLDERS

As at 30 June 2018

Shareholder	Number of shares	% of capital
New Zealand Central Securities Depository Limited[1]	543,424,093	45.19
Auckland Council Investments Limited	266,328,912	22.15
Custodial Services Limited	19,247,836	1.6
BNP Paribas Nominees Pty Ltd	15,482,921	1.29
FNZ Custodians Limited	12,883,599	1.07
Custodial Services Limited	11,600,323	0.96
Custodial Services Limited	8,549,290	0.71
Forsyth Barr Custodians Limited	6,477,925	0.54
Custodial Services Limited	6,029,217	0.5
HSBC Custody Nominees (Australia) Limited	5,054,668	0.42
Investment Custodial Services Limited	4,928,752	0.41
JBWere (NZ) Nominees Limited	4,918,835	0.41
Netwealth Investments Limited	4,851,685	0.4
J P Morgan Nominees Australia Limited	4,842,198	0.4
New Zealand Depository Nominee Limited	4,802,764	0.4
Custodial Services Limited	2,796,269	0.23
PT Booster Investments Nominees Limited	2,740,606	0.23
Custodial Services Limited	2,197,025	0.18
Masfen Securities Limited	2,049,085	0.17
FNZ Custodians Limited	1,994,972	0.17

1 New Zealand Central Securities Depository Limited (NZCSD) is a depository system which allows electronic trading of securities to members. As at 30 June 2018, the 10 largest shareholdings in the company held through NZCSD were:

Shareholder	Number of shares	% of capital
HSBC Nominees (New Zealand) Limited	154,199,678	28.38
HSBC Nominees (New Zealand) Limited	128,747,385	23.69
Citibank Nominees (NZ) Limited	65,686,142	12.09
JPMorgan Chase Bank	59,893,572	11.02
Accident Compensation Corporation	27,301,517	5.02
New Zealand Superannuation Fund Nominees Limited	21,183,826	3.90
TEA Custodians Limited	17,316,365	3.19
Cogent Nominees Limited	15,085,774	2.78
National Nominees New Zealand Limited	10,312,890	1.90
BNP Paribas Nominees NZ Limited	9,285,434	1.71

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 the annual meeting will be held at 10am on 31 October 2018 at the Vodafone Events Centre, 770 Great South Road, Manukau.

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 NZX and ASX. The minimum marketable parcel on NZX is 50 shares and in Australia a 'marketable parcel' is a parcel of securities of more than AUD 500. As at 30 June 2018, 81 shareholders on ASX and 186 shareholders on NZX held fewer securities than a marketable parcel under the Listing Rules of ASX.

DIVIDENDS

Shareholders may elect to have their dividends direct credited to their bank account. From time to time, the company also offers shareholders the opportunity to participate in a dividend reinvestment plan. As at the date of this report, the dividend reinvestment plan is operating. Further details are available at corporate.aucklandairport.co.nz/Dividends.

LIMITATIONS ON THE ACQUISITION OF THE COMPANY'S SECURITIES

The company is incorporated in New Zealand. As such, it is not subject to Chapters 6, 6A, 6B and 6C of the Australian Corporations Act 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 as follows:

- 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% 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.
- 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.

SHARE REGISTRARS

NEW ZEALAND

Link Market Services Limited
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Auckland 1010
PO Box 91976
Auckland 1142

Phone: +64 9 375 5998

AUSTRALIA

Link Market Services Limited
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680 George Street
Sydney
NSW 2000
Locked Bag A14
Sydney South
NSW 1235

Phone: +61 2 8280 7111

Corporate directory

DIRECTORS

Sir Henry van der Heyden, chair
Mark Binns*
Brett Godfrey
Julia Hoare
James Miller
Justine Smyth
Christine Spring
Patrick Strange

*subject to approval by shareholders at the 2018 annual meeting.

SENIOR MANAGEMENT

Adrian Littlewood, chief executive
Philip Neutze, chief financial officer
Richard Barker, general manager retail and commercial
Anna Cassels-Brown, general manager operations
Jason Delamore, general manager marketing and technology
André Lovatt, general manager airport development and delivery
Scott Tasker, general manager aeronautical commercial
Mark Thomson, general manager property

REGISTERED OFFICE NEW ZEALAND

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Manukau 2022
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Website: www.aucklandairport.co.nz

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Facsimile: +61 3 9288 6666
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MAILING ADDRESS

Auckland International Airport Limited
PO Box 73020
Auckland Airport
Manukau 2150
New Zealand

ACTING GENERAL COUNSEL

Greg Milner-White

ACTING COMPANY SECRETARY

Morag Finch

AUDITORS

External auditor – Deloitte
Internal auditor – Ernst & Young
Share registry auditor – Grant Thornton

INDEPENDENT REMUNERATION CONSULTANTS

Mike Hogan & Una Diver - Ernst & Young

This annual report is dated 23 August 2018 and is signed on behalf of the Board by:

Sir Henry van der Heyden
Chair of the Board

James Miller
Director

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Online report

View our interactive report at **report.aucklandairport.co.nz** It has been designed for ease of online use, with tablets in mind.

aucklandairport.co.nz

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