Auckland Airport

Financial Report 2019

Financial Statements

This annual report covers the performances of Auckland International Airport Limited (Auckland Airport) from 1 July 2018 to 30 June 2019. This volume contains our audited financial statements. Overview information and a summary of our performance against financial and non-financial targets for the 2019 financial year are obtained in a separate volume, which may be accessed at report.aucklandairport.co.nz.

Financial report 2019

Introduction

Auckland Airport is pleased to present the financial results for the year to 30 June 2019, a year of solid financial performance and one where we made significant progress toward our 30-year vision for the airport of the future.

In 2019, we embarked upon an intensive programme to refine our investment plan for the delivery of a number of key aeronautical infrastructure projects that will transform the airport over the coming years. We have also focused on delivering meaningful customer improvements, including upgraded restroom facilities, generous public seating areas, a sophisticated new food and beverage experience in the international departures area, USB charging stations and a range of transport upgrades.

We remain committed to customer service, alongside the considerable activity underway at the airport to deliver additional aeronautical capacity within the complex and challenging environment of an operating airport. Enhancing our performance today, while also focusing on delivering for future needs, will continue to deliver strong results for our customers, our community, our country, our people and our investors.

This financial report analyses our results for the 2019 financial year and its key trends. It covers the following areas:

- 2019 Financial performance summary;
- Key performance measures;
- 2019 Passenger movement analysis;
- 2019 Aircraft volume analysis;
- 2019 Financial performance analysis;
- 2019 Financial position analysis; and
- 2019 Returns for shareholders.

2019 Financial performance summary

This financial summary provides an overview of the financial results and key trends for the year ended 30 June 2019 compared with those for the previous financial year. Readers should refer to the notes and accounting policies set out in the financial statements for a full understanding of the basis on which the financial results are determined.

In the 2019 financial year, revenue increased by 8.7% to $743.4 million, with strong growth maintained across several business segments. Aeronautical revenues increased 3.8% on the prior year, on the back of growth in passenger volumes and aircraft movements through the airport and growth in airfield parking charges. These were partially offset by reductions in aeronautical prices for the 2019 financial year. Retail revenue increased 18.5% following the expansion of the departure area of the International Terminal and the opening of new stores. Car parking revenues grew slightly ahead of passenger volumes, with income for the year up 5.2%. Aeronautical and property rental income delivered strong growth in the period, with revenue increases of 14.9% and 9.5% respectively.

Our reported profit after taxation for the 2019 financial year was $523.5 million – a decrease of 19.5% on the prior year's reported profit of $650.1 million. Excluding the gain arising from the sale of our investment in North Queensland Airports in the prior year and fair value changes, our underlying profit after taxation for the 2019 financial year was $274.7 million, an increase of 4.4% on the prior year's underlying profit of $263.1 million.

A summary of the financial results for the year to 30 June 2019 and the 2018 comparative are shown in the table below.

	2019 $M	2018 $M	% change
Income	743.4	683.9	8.7
Operating expenses	188.6	177.5	6.3
Earnings before interest, taxation, depreciation, fair value adjustments and investments in associates (EBITDAFI)	**554.8**	**506.4**	**9.6**
Gain on sale of associate	-	297.4	-
Reported profit after tax	523.5	650.1	(19.5)
Underlying profit after tax	**274.7**	**263.1**	**4.4**
Earnings per share (cents)	43.4	54.3	(20.1)
Underlying earnings per share (cents)	22.8	22.0	3.6
Ordinary dividends for the full year[1]			
– cents per share	22.25	21.75	2.3
– value distributed	269.1	261.1	3.1

1. Comprising the 2019 interim and final dividends.

Underlying profit is how we measure our financial performance

The directors and management of Auckland Airport understand the importance of reported profits meeting accounting standards. Because we comply with accounting standards, investors know that comparisons can be made with confidence between different companies and that there is integrity in our reporting approach. However, we 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 profit alongside reported results. We do so when we report our results, but also when we give our market guidance (where we exclude fair value changes and other one-off items) or when we consider dividends and our policy to pay 100% of underlying net profit after tax (excluding unrealised gains and losses arising from revaluation of property or treasury instruments and other one-off items). However, 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 2019 and 30 June 2018.

	2019			2018		
	Reported profit $M	Adjustments $M	Underlying profit $M	Reported profit $M	Adjustments $M	Underlying profit $M
EBITDAFI per Income Statement	**554.8**	**-**	**554.8**	**506.4**	**-**	**506.4**
Share of profit of associates	8.2	-	8.2	16.7	-	16.7
Gain on sale of associate	-	-	-	297.4	(297.4)	-
Derivative fair value movement	(0.6)	0.6	-	(0.7)	0.7	-
Investment property fair value increases	254.0	(254.0)	-	152.2	(152.2)	-
Property, plant and equipment revaluation	(3.8)	3.8	-	-	-	-
Depreciation	(102.2)	-	(102.2)	(88.9)	-	(88.9)
Interest expense and other finance costs	(78.5)	-	(78.5)	(77.2)	-	(77.2)
Taxation expense	(108.4)	0.8	(107.6)	(155.8)	61.9	(93.9)
Profit after tax	**523.5**	**(248.8)**	**274.7**	**650.1**	**(387.0)**	**263.1**

We have made the following adjustments to show underlying profit after tax for the 12-month periods ended 30 June 2019 and 30 June 2018:

- We have reversed out the gain arising from the sale of our investment in North Queensland Airports that occurred in the prior financial year. 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 2019 and 2018. An investor should monitor changes in investment property over time as a measure of growing value. However, a change in one particular year is too short to measure long-term performance. Changes between years can be volatile and, consequently, will impact comparisons. Finally, the revaluation is unrealised and, therefore, is not considered when determining dividends in accordance with the dividend policy;
- Consistent with the approach to revaluations of investment property, we have also reversed the revaluation of the building and services class of assets within property, plant and equipment for the 2019 financial year. The fair value changes in property, plant and equipment are less frequent than are investment property revaluations, which also makes comparisons between years difficult;
- We have reversed out the impact of 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 financial derivatives. The group holds its derivatives to maturity, so any fair value movements are expected to reverse out over their remaining lives. Further information is included in note 18.2 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 the prior year; and
- We have also reversed the taxation impacts of the above movements in both the 2019 and 2018 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 last three financial years 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	2019	2018	2017	% change 2018–2019	% change 2017–2018
GROW TRAVEL AND TRADE MARKETS	**Total aircraft seat capacity**					
	International aircraft seat capacity	14,062,761	13,658,147	13,273,716	3.0	2.9
	Domestic aircraft seat capacity	11,424,084	11,143,891	10,716,119	2.5	4.0
	Passenger movements					
	International passengers	10,506,660	10,202,526	9,743,279	3.0	4.7
	International transit passengers	1,011,328	1,063,856	1,077,256	(4.9)	(1.2)
	Domestic passengers	9,593,625	9,263,666	8,601,841	3.6	7.7
	Maximum certified take-off weight (MCTOW)					
	International MCTOW (tonnes)	5,894,112	5,798,018	5,609,244	1.7	3.4
	Domestic MCTOW (tonnes)	2,372,412	2,341,699	2,238,853	1.3	4.6
	Cargo volume					
	Volume of international cargo movements (tonnes)	190,905	187,258	176,756	1.9	5.9
STRENGTHEN OUR CONSUMER BUSINESS	**Passenger spend rate (PSR)**					
	Change in International Terminal PSR	6.6%	(1.8%)	(2.4%)		
	Income per passenger (IPP)					
	Retail IPP	$20.50	$17.76	$15.83	15.4	12.2
	Average revenue per parking space (ARPS)					
	Change in ARPS	3.8%	1.9%	(4.2%)		
BE FAST, EFFICIENT AND EFFECTIVE	**Return on investment**					
	Return on capital employed	8.3%	11.0%[1]	7.9%		
	Passenger satisfaction/ Airport service quality (ASQ)					
	International	4.26	4.12	4.19	3.4	(1.7)
	Domestic	4.03	3.97	4.01	1.5	(1.1)
INVEST FOR FUTURE GROWTH	**Rent roll**					
	Annual rent roll $m (property division)	100.0	90.2	72.9	10.9	23.7
ALL	**EBITDAFI**					
	EBITDAFI per passenger	$26.28	$24.67	$24.36	6.5	1.3

1. Includes $297.4 million gain on sale of associate.

2019 Passenger movement analysis

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

	2019	2018	% change
Auckland Airport passenger movements			
International arrivals	5,284,325	5,116,341	3.3
International departures	5,222,335	5,086,185	2.7
International passengers excluding transits	**10,506,660**	**10,202,526**	**3.0**
Transit passengers	1,011,328	1,063,856	(4.9)
Total international passengers	**11,517,988**	**11,266,382**	**2.2**
Domestic passengers	9,593,625	9,263,666	3.6
Total passenger movements	**21,111,613**	**20,530,048**	**2.8**

International passenger movements

International passenger numbers increased by 2.2% in the year to 30 June 2019 reflecting more moderate growth across a range of markets compared with that seen in prior years and a decline in transit numbers year on year.

International passenger growth has been strongest across the Asia, Pacific Island and North American regions this year, driven by capacity growth from both new services and additional frequency introduced on existing routes. Passengers to and from Chinese cities were up 6.2% as the use of larger aircraft catered for additional demand on key routes. Singapore passenger volumes were up 22.9% as a result of the addition of a third daily flight. Indonesian passenger volumes were up 301.5% on the prior year reflecting the Emirates Auckland-Denpasar service operating for a full year. The introduction of a new direct service between Auckland-Taipei saw an increase in capacity of 65,000 seats for the year. North America routes saw a 3.5% increase in capacity as a result of the introduction of the new Auckland-Chicago service in November 2018 and there was a 3.6% increase in capacity to the Pacific Islands due to frequency increases to the region.

In passenger arrivals by country of last residence, we saw increases from three of our five largest source markets. The additional services to the United States helped deliver an increase in American arrivals of 19,300 (7.1%). New Zealand arrivals increased by 130,700 (5.7%) and Australians by 15,800 (1.8%). Arrivals from China fell 8.7% in the year as the decline in group and indirect visitors offset the increase in visitors arriving on direct flights from Chinese cities. Visitors from the United Kingdom and Ireland declined by 2,400 (1.3%) as they favoured shorter-haul travel. Taiwanese visitor arrivals increased by 11,600 (35.7%) following the launch of the new Auckland-Taipei direct service.

The table below shows the top 20 volumes of passenger arrivals by country of last permanent residence to Auckland Airport in the 2019 financial year.

	International passenger arrivals				
Country of last permanent residence	2019	2018	% change	% of total 2019 arrivals	% of total 2018 arrivals
New Zealand	2,441,015	2,310,370	5.7	46.2	45.4
Australia	874,027	858,187	1.8	16.5	16.9
China, People's Republic of	360,805	395,075	(8.7)	6.8	7.8
United States of America	291,469	272,170	7.1	5.5	5.3
United Kingdom and Ireland	188,099	190,482	(1.3)	3.6	3.7
Japan	92,132	94,304	(2.3)	1.7	1.9
Germany	75,652	76,074	(0.6)	1.4	1.5
Korea, Republic of	67,988	72,764	(6.6)	1.3	1.4
Canada	62,511	58,472	6.9	1.2	1.1
India	58,879	61,316	(4.0)	1.1	1.2
Hong Kong	45,600	49,666	(8.2)	0.9	1.0
Taiwan	44,237	32,594	35.7	0.8	0.6
Malaysia	43,628	45,034	(3.1)	0.8	0.9
Singapore	37,190	33,626	10.6	0.7	0.7
France	35,713	38,363	(6.9)	0.7	0.8
Fiji	30,715	27,997	9.7	0.6	0.6
Samoa	29,523	26,687	10.6	0.6	0.5
French Polynesia	24,764	23,715	4.4	0.5	0.5
South Africa	24,384	19,187	27.1	0.5	0.4
Netherlands	22,504	22,832	(1.4)	0.4	0.4

SOURCE: Statistics New Zealand

Visitor arrivals by purpose of visit

The most common reasons for international arrivals continue to be holidays (24.8%) and visiting friends and relatives (15.2%). The ongoing stability in these categories reflects New Zealand's success in driving international tourism numbers and maintaining a broad mix of visit purposes to New Zealand. Auckland Airport's international passenger growth has been underpinned by growth in the New Zealand outbound market and a diverse mix of overseas markets delivering inbound passengers.

Purpose of visit		2019	2018	% change	% of total
	Holiday	1,309,162	1,328,496	-1.5	24.8
	Visit friends/relatives	803,758	814,736	-1.3	15.2
Foreign residents	Business/conference	296,930	285,216	4.1	5.6
	Education/medical	59,115	58,640	0.8	1.1
	Other (Incl. not stated/not captured)	374,345	318,883	17.4	7.1
New Zealand residents		2,441,015	2,310,370	5.7	46.2

SOURCE: Statistics New Zealand

Domestic passenger movements

Domestic passenger numbers also grew in the 2019 financial year, increasing by 3.6% or 329,959 passengers. This growth was delivered through increased capacity added on Air New Zealand's main trunk jet services, particularly on the Auckland-Queenstown route and regional passenger growth of 5.3%, following load factor improvements on regional services.

2019 Aircraft volume analysis

Total aircraft movements in the year were 178,771, an increase of 2.6% from the 2018 financial year, while MCTOW increased 1.6% to 8,266,524 tonnes. The slightly lower MCTOW growth versus aircraft movements partly reflects the withdrawal of the Emirates A380 aircraft on the Tasman and other carriers increasing the frequency of smaller aircraft.

	2019	2018	% change
Aircraft movements			
International	57,082	55,693	2.5
Domestic	121,689	118,583	2.6
Total aircraft movements	**178,771**	**174,276**	**2.6**
MCTOW (tonnes)			
International MCTOW	5,894,112	5,798,018	1.7
Domestic MCTOW	2,372,412	2,341,699	1.3
Total MCTOW	**8,266,524**	**8,139,717**	**1.6**

2019 Financial performance analysis

Revenue

In the 2019 financial year, revenue increased by 8.7% to $743.4 million, with strong revenue growth across several business segments. Retail revenue was up 18.5%, Car parking revenue up 5.2% and Aeronautical and Property rental income up 14.9% and 9.5%, respectively. Aeronautical income rose 3.8% on the prior year, as the growth in passenger and aircraft movements, as well as aircraft parking charges, was partially offset by a reduction of aeronautical charges for the second year in a row as per our aeronautical pricing schedule for the FY2018-FY2022 pricing period.

	2019 $M	2018 $M	% change
Operating revenue			
Airfield landing charges	116.9	116.8	0.1
Airfield parking charges	10.7	5.3	101.9
Total airfield income	127.6	122.1	4.5
Passenger services charge	185.1	179.1	3.4
Retail income	225.8	190.6	18.5
Car parking income	64.2	61.0	5.2
Rental income - Property	86.6	79.1	9.5
Rental income - Aeronautical	20.8	18.1	14.9
Rental income - Retail	0.4	0.4	-
Total rental income	107.8	97.6	10.5
Rates recoveries	6.7	6.0	11.7
Interest income	1.8	2.2	(18.2)
Other income	24.4	25.3	(3.6)
Total revenue	**743.4**	**683.9**	**8.7**

Airfield income

Airfield income comprises both airfield landing charges and aircraft parking charges. Airfield landing charges are based on the MCTOW of aircraft and parking charges are based on the time aircraft are parked on the airfield. Total airfield income, including landing charges and parking charges, increased by $5.5 million, or 4.5%, to $127.6 million. Total MCTOW across international and domestic landings grew by 1.6% in the year. This increase was largely offset by Auckland Airport reducing its landing charges for the 2019 financial year, resulting in airfield landing charge income being flat year on year. Aircraft parking charges were $10.7 million in the 2019 financial year, an increase of 101.9% on prior year due to a combination of aircraft being parked for longer periods on the airfield and the full year effect of the parking charge that was implemented part way through the prior year.

Passenger services charge

Passenger services charge (PSC) income increased by $6.0 million, or 3.4%, in the 2019 financial year. 2019 was the second year of the new FY2018-FY2022 aeronautical pricing schedule and included further reductions in international passenger service charges. On 22 February 2019, Auckland Airport discounted its previously published aeronautical prices for FY2020-FY2022 in response to the Commerce Commission's final opinion regarding our target return for the period. The 2020 prices shown in the table below reflect these discounts.

	2018 $	2019 $	2019 price change %	2020 $	2020 price change %
International PSC (≥ 2 years)	15.65	15.44	(1.3)	14.91	(3.4)
Domestic PSC (≥ 2 years)	2.28	2.48	8.8	2.62	5.6
Regional PSC (≥ 2 years)	2.13	2.29	7.5	2.35	2.6
Transits PSC (≥ 2 years)	4.27	4.82	12.9	5.11	6.0

Retail income

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

2019 was a landmark year for retail at Auckland Airport, with the opening of the Luxury 'high street' stores and an expanded Food and Beverage offering in the departure area of the International Terminal. New retail concepts opened during the year, alongside the previously opened new and exciting retail and Duty Free concepts, have created a retail environment offering the best of New Zealand and the world. The improved environment is being recognised by our customers, with the International Terminal annual ASQ score rising to 4.26, the highest since 2012, and the Food and Beverage precinct winning top honours at the 2019 Airport Food & Beverage (FAB) Awards in Dallas.

The Mall, our online marketplace, celebrated its first birthday during the year. The Mall makes duty free and tax free shopping even easier, by allowing passengers to shop online anywhere, anytime up to 24 hours before departure. Purchases across multiple retailers are facilitated in a single online checkout and pick up can occur at either international departures or arrivals. The number of products available in The Mall increased during the year, with the number of transactions in the second half of the year more than doubling those in the first six months. Auckland Airport's customer loyalty programme, Strata Club, reached 220,000 members in 2019, an increase of 83% on the prior year. The programme ties our retail, lounge and parking products together to seamlessly drive cross-purchasing through the provision of tailored offers to members. Following the success of Strata Lounge in the International Terminal, work is currently underway to open a Strata Lounge in the Domestic Terminal. This will provide passengers with an option to use the lounge to relax and unwind prior to departure.

Total retail income for the 2019 financial year was $225.8 million, an increase of $35.2 million, or 18.5%, on the previous financial year. Auckland Airport's retail income per international passenger was $20.50 for the 2019 financial year, a 15.4% increase on the prior year. This growth in income per international passenger was driven by the contribution from 32 new retail concepts that opened during the year, the full year effect of prior year openings and strong performance from The Collection Point and Strata Lounge.

International PSR grew 6.6% in the 2019 financial year reflecting the benefits of the largely completed international departures development. Duty Free was a significant contributor to this growth with a PSR increase of 6.1%. At a Duty Free product category level, electronics, cosmetics & skincare and liquor recorded growth in PSR of 27%, 20% and 3%, respectively, whilst wines and tobacco PSR both decreased by 7%. Growth in overall PSR was also driven by the new Luxury stores within the 'high street' area of the new international departures lounge.

Strata Lounge had another year of strong growth, with revenue up 58.5% on the previous financial year reflecting higher demand for the service, particularly at peak periods.

Car parking income

Car parking income in the 2019 financial year was $64.2 million, an increase of $3.2 million or 5.2%. The average revenue per space increased by 3.8% in the 2019 financial year as a result of an increase in demand, particularly evident in higher value products, and improved utilisation of space.

During the year, we continued our investment in parking capacity, technology solutions and improving the product offering. 1,021 spaces were lost during the year at the International Terminal due to the commencement of construction of the Pullman hotel, our new multi-storey car park and additional terminal building enabling works. In early July 2019, we opened a new multi-storey car park, which added 1,000 new spaces. This capacity is not included in the June numbers below and will help relieve capacity constraints at the International Terminal. Earlier in the year, 700 spaces were added at the Domestic Terminal through the repurposing of old cargo tenancies into parking, and additional space was gained for Valet storage in July 2019, equivalent to 500 new bays. Valet is proving a popular option for customers and it also reduces capacity requirements for close proximity parking to the terminal.

The table below outlines the number of spaces available at 30 June 2019 and 30 June 2018.

Parking capacity as at 30 June	2019	2018	change	% change
International Terminal	3,392	4,413	(1,021)	(23.1)
Domestic Terminal	3,226	2,611	615	23.6
Park & Ride	1,427	1,719	(292)	(17.0)
Valet	795	795	-	-
Staff	3,092	2,800	292	10.4
Total	**11,932**	**12,338**	**(406)**	**(3.3)**

Demand for parking at the airport continues to be driven by New Zealand passenger growth. Auckland Airport provides a range of product offerings to service the market at various competitive price points. Changes in infrastructure and consumer demands emphasise the importance of providing options for the travelling public and investing in technology solutions to improve customer experience. Technology investments during the year included car park guidance systems, improving both occupancy rates and customer experience, as well as vehicle tracking systems for Valet and an investigation of 'frictionless parking' technology.

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 $107.8 million in the 2019 financial year, an increase of 10.5% on the previous financial year. Property rental income (excluding aeronautical and retail rental income) was $86.6 million in the 2019 financial year, an increase of $7.5 million, or 9.5%, on the previous financial year. Revenue growth in the year reflected the completion of new assets such EBOS and DSV, as well as the full-year impact of developments completed during the previous financial year, such as Ministry for Primary Industries, Rohlig, Bunnings, Go Rentals, Koru Valet and the Duplex at 15 Maurice Wilson Drive. Strong rental growth in the existing portfolio and by ibis Budget Hotel also contributed to the income growth in 2019, with the latter seeing a 7.0% increase in revenues year on year.

Soon to be completed projects, such as Bapcor, Airways and The Landing Cafe, will positively impact rental income in the 2020 financial year.

Other income

Other income includes utilities, such as the sale of electricity, gas and water reticulation, plus transport licence fees to taxis, shuttles and other operators. Total income from these sources was $24.4 million, a decrease of $0.9 million, or 3.6%, on the previous financial year. This reduction was due to a combination of reasons, including a reduction in electricity line sales and recoverable on-charges as a result of fewer offices available for rent due to the International Terminal departures expansion project, repurposing the Cargo Central facility into a car park and lower IT revenues as the free Wi-Fi period was expanded to two hours.

Expenses

Total expenses were $477.7 million in the 2019 financial year, a decrease of $21.7 million, or 4.3%, on the prior year, with the majority of the decrease explained by the higher tax expense in financial year 2018 associated with the sale of our investment in North Queensland Airports.

Operating expenses

Total operating expenses (excluding depreciation, interest and taxation) were $188.6 million in the 2019 financial year, an increase of $11.1 million, or 6.3%, on the prior year. The increased operating expenses during the 2019 financial year reflect a more moderate rate of opex growth following the two years of faster growth that we forecast in mid-calendar 2017, when we announced our aeronautical prices for the next five financial years.

	2019 $M	2018 $M	% change
Operating expenses			
Staff	59.1	57.9	2.1
Asset management, maintenance and airport operations	81.1	69.5	16.7
Rates and insurance	16.1	13.7	17.5
Marketing and promotions	12.7	13.8	(8.0)
Professional services and levies	8.6	11.1	(22.5)
Other	11.0	11.5	(4.3)
Total operating expenses	**188.6**	**177.5**	**6.3**
Depreciation	102.2	88.9	15.0
Interest	78.5	77.2	1.7
Taxation	108.4	155.8	(30.4)

Staff costs rose $1.2 million, or 2.1%, reflecting an increase in permanent head count for airfield safety and compliance as part of our ongoing focus on safety. It also included higher staff costs in airport development and delivery associated with our substantial capital programme, not all of which were capitalised. These additions were partially offset by a decline in the use of casual staff and contractors.

Asset management, maintenance and airport operations expenses increased by $11.6 million, or 16.7%, in the 2019 financial year. Ongoing growth in aeronautical activity resulted in increased expenditure on precinct-wide security operations (post the tragic events in Christchurch), baggage equipment operations and additional technology services to cater for increased demand. Ongoing modernisation of our business technology platforms drove additional costs. These additional expenses were partially offset by the decrease in environmental costs, as prior year results contained a non-recurring $1.2 million provision for contaminated foam disposal, and a decline in utilities expenses. Finally, Strata Lounge, Park & Ride and Valet continued to drive higher operating costs on the back of increasing demand and frequency, which were more than offset by higher revenues.

Rates and insurance expenses increased by $2.4 million, or 17.5%, in the 2019 financial year, with rates accounting for $1.7 million of the increase. Rates increases were driven by Auckland Council's average rates increase of 2.5% across the portfolio, the addition of new properties, as well as a significant increase in capital values as part of Auckland

Council's three year rating valuations review cycle. Rates increases on developed investment property are matched by offsetting increases in rates recoveries from tenants included within other income. The increase in insurance costs was driven by the annualised effect of the larger footprint of the terminal buildings, including the level 1 international departures expansion project, and a 40% rise in the fire service levy. In addition, Directors & Officers premiums increased as a result of a challenging claims environment, particularly involving class actions against ASX listed companies.

Marketing and promotions expenditure in the 2019 financial year declined by $1.1 million, or 8.0%, as we brought marketing execution resource in-house, scaled back on other non-aeronautical activity, as part of a more targeted approach to marketing, and fewer air services required support compared to the prior year.

Fees for professional services saw a reduction of $2.5 million, or 22.5%, to $8.6 million in the 2019 financial year, as the volume of work related to regulatory matters continued to decline following our final PSE3 aero pricing decision in February this year and a number of studies or initiatives undertaken in the prior year that did not repeat in 2019.

Depreciation

Depreciation expense in the 2019 financial year was $102.2 million, an increase of $13.3 million, or 15.0%, on the previous financial year. The increase was driven by new fixed assets commissioned in the 2019 financial year, the annualised impact of the fixed assets commissioned part way through the 2018 financial year, asset splits resulting in higher depreciation rates than when initially capitalised on a project basis and some assets being reclassified from investment property to depreciable property, plant and equipment.

Interest

Interest expense was $78.5 million in the 2019 financial year, an increase of $1.3 million, or 1.7%, on the previous financial year. This was the combined result of the small increase in the average interest rate for the year to 4.28% from 4.24% and a reduction in the proportion of interest costs that were capitalised into capital works in progress.

Taxation

Taxation expense was $108.4 million in the 2019 financial year, a decrease of $47.4 million on the previous financial year. The underlying tax expense was $107.6 million, an increase of $13.7 million, or 14.6%, on the previous financial year. Underlying tax excludes capital gains tax on the sale of our investment in North Queensland Airports, as well as the tax effect of fixed asset and financial derivatives revaluations.

Share of profit from associates

Our total share of the profit from associates in the 2019 financial year was $8.2 million, comprising Tainui Auckland Airport Hotel Limited Partnership (TAAH) ($4.1 million) and Queenstown Airport ($4.1 million). This was a $8.5 million decrease on the $16.7 million share of profit in the previous financial year, which also included $8.5 million from North Queensland Airports. The sale of Auckland Airport's investment in North Queensland Airports was completed in March 2018.

There was no fair value gain/loss on financial instruments included in the 2019 financial year's share of profit from associates. In the 2018 financial year, the share of profit from associates included Auckland Airport's share of North Queensland Airports' fair value loss on financial instruments of $0.1 million and TAAH's fair valuation gain on financial instruments of $0.1 million. Excluding these fair value changes and excluding North Queensland Airports, Auckland Airport's share of underlying profit from associates was down by $0.1 million, or 1.2%, to $8.2 million for the 2019 financial year.

Queenstown Airport

Queenstown Airport's net profit after tax for the 2019 financial year rose by 11.4% to $16.6 million. Auckland Airport's 24.99% share of Queenstown Airport's net profit after tax was $4.1 million, a $0.3 million increase on the previous financial year.

	2019 $M	2018 $M	% change
Financial performance			
Total revenue	49.6	45.7	8.5
EBITDAFI	34.3	31.6	8.5
Total net profit after tax	16.6	14.9	11.4
Passenger performance			
Domestic passengers	1,665,397	1,544,225	7.8
International passengers	655,950	596,444	10.0
Total passengers	**2,321,347**	**2,140,669**	**8.4**

Queenstown Airport's passenger volumes were up 8.4% to 2,321,347 on top of last year's growth of 13.1%. International passengers rose 10.0% as further capacity was added across all the Trans-Tasman routes. In particular, the Melbourne and Brisbane routes saw significant growth following the Air New Zealand and Virgin Australia alliance split, as a result of increased competition on these routes. Similarly, domestic passengers grew 7.8%, with further capacity added on the Auckland and Wellington routes.

Auckland Airport received a dividend of $1.8 million from its investment in Queenstown Airport in the 2019 financial year, flat on the previous financial year.

Tainui Auckland Airport Hotel Limited Partnership

At 30 June 2019, 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 now expected to be completed in the 2020 financial year when Auckland Airport purchases Accor Hotel Group's 10% stake in the joint venture. In the 2019 financial year, Auckland Airport's share of underlying profit from this investment was $4.1 million, a decrease of $0.4 million, or 8.9%, compared with the previous financial year. Auckland Airport's share of the joint venture's reported profit in the 2019 financial year was also $4.1 million.

The Novotel hotel's annual average occupancy rate for the 2019 financial year increased to 93.1%, up from 92.4% in the previous financial year, while the average daily rate decreased by 0.8%, reflecting a more competitive hotel market environment across the Auckland region.

Tainui Auckland Airport Hotel 2 Limited Partnership

A limited partnership between Tainui Group Holdings Limited and Auckland Airport was formed in February 2017 to build and operate a new Pullman Hotel at Auckland Airport. Auckland Airport and Tainui Group Holdings each hold a 50% stake in the partnership. To date, Auckland Airport has contributed $5.2 million equity 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 2019 financial year, investment property fair value changes resulted in a gain in the income statement of $254.0 million, compared with a gain of $152.2 million in the previous financial year. Improved land values for vacant land, firming of the capitalisation rates of the property portfolio, the addition of new properties and improvements in lease terms were drivers of the increase.

As at 30 June 2019, the buildings and services asset class within property, plant and equipment was revalued, resulting in a gain of $87.6 million to the revaluation reserve, partially offset by a $3.8 million revaluation loss recorded in the income statement.

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. That revaluation uplift was recorded directly in other comprehensive income in the prior year. It had 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 FY2018-FY2022 period.

2019 Financial position analysis

As at 30 June	2019 $M	2018 $M	% change
Non-current assets	8,590.8	8,018.4	7.1
Current assets	106.3	178.4	(40.4)
Total assets	**8,697.1**	**8,196.8**	**6.1**
Non-current liabilities	2,104.2	2,185.6	(3.7)
Current liabilities	560.0	329.1	70.2
Equity	6,032.9	5,682.1	6.2
Total equity and liabilities	**8,697.1**	**8,196.8**	**6.1**

As at 30 June 2019, our total assets book value was $8,697.1 million, an increase of $500.3 million, or 6.1%, on the prior year. The increase in total assets is primarily the result of increased capital expenditure and the revaluation of investment property and property, plant and equipment buildings and services.

Shareholders' equity was $6,032.9 million as at 30 June 2019, an increase of $350.8 million, or 6.2%, on 30 June 2018. The movement in equity reflects the retained profit in the year, the increase in the property, plant and equipment revaluation reserve, as well as a $64.0 million rise in shares on issue as a result of the dividend reinvestment plan being operative throughout the year.

Gearing, measured as debt to debt plus the market value of shareholders' equity, decreased to 15.5% as at 30 June 2019, from 20.3% as at 30 June 2018.

Capital expenditure

For the 2019 financial year, Auckland Airport continued to implement its 30-year vision to build New Zealand's airport of the future, investing $284.1 million in airport precinct infrastructure over the period.

Key aeronautical projects during the year included the completion of the level 1 departures expansion project at the International Terminal, design activity for the development of new taxiways and remote stands to the north and west of Pier B, design and enabling activity for the expansion of the arrivals biosecurity screening area and expenditure on design and consultation for the new Domestic Jet Facility.

Investment property capital expenditure was underpinned by significant expenditure on a pre-leased 85,000m^2 office and warehouse facility for Foodstuffs NZ Limited, which is scheduled for completion in the 2021 financial year.

Infrastructure and other investment was dominated by a number of transport-related projects, including the completion of the southern bypass via Nixon Road, the introduction of dedicated bus and transit lanes in the airport precinct and design activity on the core Northern Network and Southern Network transport initiatives.

Capital expenditure summary

Category	2019 $M	2018 $M	% change	Key 2019 projects
Aeronautical	106.0	280.6	(62.2)	International Terminal level 1 expansion, design activity for development of the second runway, new taxiways and remote stands, design and enabling activity for the expansion of the arrivals biosecurity screening area and consultation and design work on the new Domestic Jet Facility.
Infrastructure and other	46.0	20.8	121.2	Completed the southern roading bypass via Nixon Road and completed the conversion of a former property tenancy into 'The Base', a custom fitted out facility for Auckland Airport's Engineering Services team. Progressed design activity on the Northern Network and Southern Network transport initiatives, which include the development of new terminal entry and exit roads and the introduction of high occupancy vehicle lanes on SH20B. Continued investment in utilities infrastructure to ensure resilience of services. Ongoing investment in technology infrastructure, including specific projects to ensure compliance with cybersecurity requirements and replacement of end-user technology across the company to standardise it and enable more effective operation and support.
Property	87.8	80.2	9.5	Completion of preleased premises for DSV and a speculative warehouse development at the Landing, which has now been leased. Continued development of a purpose-built office and warehouse facility for Foodstuffs. Commenced construction of preleased Airways premises and two speculative warehouse developments at Timberly Road, one of which has now been leased. Completed design for the conversion of an existing office building into a new 4-star hotel.
Retail	19.0	12.5	52.0	Development of new Food and Beverage retail tenancies at both the International and Domestic Terminals and continued investment in our online retail channel, The Mall.
Car parking	25.3	11.1	127.9	Completed the development of new 1,000 bay multi-storey car park building near the International Terminal and finalised the reconfiguration of the former Cargo Central property precinct into car parking facilities. Commenced the development of a new 1,000 bay Valet storage facility on Uenuku Way. 500 Valet storage spaces have been commissioned in July 2019, with the remainder scheduled to open in Q2 FY20.
Total	**284.1**	**405.2**	**(29.9)**	

A key characteristic of 2019 capital investment has been the range of design and enabling activities that have occurred across the precinct and will continue into the 2020 financial year. The implementation of our 30-year vision to build an airport of the future involves the planning and coordination of several interdependent multi-year programmes of work. Examples of this include the delivery of the new 1,000 bay multi-storey car park at the International Terminal in July 2019 in advance of losing capacity during the construction of a larger multi-storey car park in Car Park A and the development of a new Engineering Services facility to allow for the former facility to be converted into regional aircraft stands.

The 2020 financial year is forecast to be a significant year for Auckland Airport in terms of capital expenditure, with a strong lift in aeronautical infrastructure investment, roading infrastructure and investment property to meet forecast demand. Reflecting this, capital expenditure for the 2020 financial year is forecast to be between $450 million and $550 million, with the midpoint of the forecast range shown below.

Category	Forecast 2020 $M
Aeronautical	245
Infrastructure and other	63
Property development	140
Retail	13
Car parking	39
Total capital expenditure	**500**

Significant aeronautical projects scheduled in the 2020 financial year include commencing construction of new taxiway and remote stands to the north and west of Pier B, finalising the design of a new arrivals facility for the International Terminal, commencing detailed design on the development of new regional aircraft stands on the site of the former Engineering Services facility, continued design of the Northern Runway and undertaking a programme of works at the current Domestic Terminal to ensure that we have enough capacity to meet demand through to when the new Domestic Jet Facility opens. The new Domestic Jet Facility programme is complex, with many interdependencies and requiring considerable enabling works. In 2020, Auckland Airport will continue to progress its design and commence a number of related enabling packages.

Key infrastructure projects in 2020 include continuing to progress the design and execution of enabling works to support the staged delivery of significant upgrades to the Northern and Southern transport networks. These initiatives will in time deliver new terminal entry and exit roads, additional capacity on George Bolt Memorial Drive and the introduction of high occupancy vehicle lanes on SH20B. In addition to these transport initiatives, we will progress design activity on a critical project to increase supply and resilience of electricity to the airport precinct and continue to invest in core IT infrastructure, including significant upgrades to the core network, cybersecurity and business continuity.

Retail projects planned for 2020 include the construction of an Auckland Airport-owned Strata Lounge at the Domestic Terminal. This project is scheduled to be delivered in time for the summer peak, and the lounge will operate using a similar model to that in the International Terminal.

Property projects planned for 2020 include the continuation of several projects already underway, including the office and warehouse facility for Foodstuffs and the finalisation of the Airways office building and warehouse facilities on Timberly Road. In addition, Auckland Airport will commence the construction of a new warehouse for Interwaste and will begin works on Hotel 4.

In 2020, Auckland Airport will continue to develop the design and consenting of three new parking facilities: a large multi-storey car park located in Car Park A and two new Park & Ride sites, one in the North and one in the South. It is Auckland Airport's intention that at least one of these initiatives will move into the construction phase during 2020. All these initiatives are required over the medium term to enable the larger domestic integration programme, which will result in domestic jet operations moving into an integrated International and Domestic Terminal.

Borrowings

As at 30 June 2019, Auckland Airport's total borrowings were $2,190.4 million, an increase of $130.1 million on the previous year. The increase in borrowings reflects additional debt raised during the year to fund capital expenditure and increases in the fair value of existing debt, mainly owing to reductions in market interest rates and the New Zealand dollar exchange rate.

All foreign-sourced debt (namely the AMTN and the USPP borrowings) was revalued at year-end to reflect the change in value due to appreciation in both the United States and Australian dollars versus the New Zealand dollar, as well as interest rate movements in their respective markets. USPP debt carrying value increased by $39.7 million and the AMTN debt carrying value increased by $15.4 million. The exchange rate movements were matched by an equal and offsetting movement in the fair value of the associated cross-currency interest rate swaps.

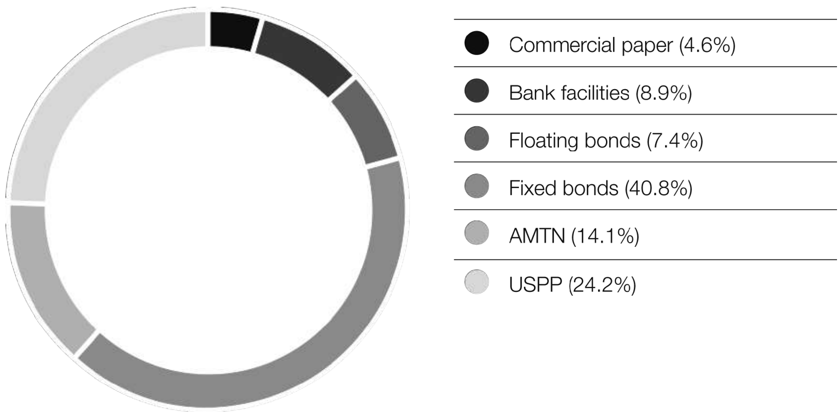
At 30 June 2019, Auckland Airport's borrowings comprised USPP notes totalling $631.9 million; AMTN notes totalling $311.7 million; New Zealand fixed rate bonds totalling $825.0 million; New Zealand floating rate bonds totalling $150.0 million; drawn bank facilities totalling $180.0 million and commercial paper totalling $91.8 million.

Short-term borrowings with a maturity of one year or less accounted for $441.8 million, or 20.2%, of total borrowings. This was an increase on the previous year's $166.8 million. Current debt is made up of $91.8 million of commercial paper, a $100 million bank facility that matures in October 2019, a $100 million fixed rate bond that matures in December 2019 and a $150.0 million floating rate bond that matures in April 2020.

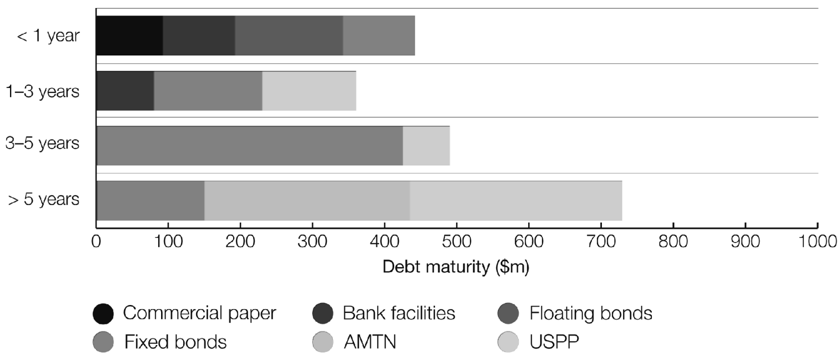
As at 30 June 2019, Auckland Airport had total bank facilities of $554.0 million, of which $180.0 million was drawn and $374.0 million was available in standby capacity. Total bank facilities included two fully drawn facilities with Bank of Tokyo totalling $150.0 million, a fully drawn $30.0 million Bank of China facility and undrawn standby facilities of $100.0 million from ANZ, $80.0 million from BNZ, $30.0 million from China Construction Bank, $94.0 million from Commonwealth Bank of Australia and $70.0 million from Mizuho Bank.

The ANZ standby facility supports our commercial paper programme, which had a balance of $91.8 million as at 30 June 2019, and provides liquidity support for general working capital. As the commercial paper is supported by the bank facility, for the purpose of the following debt maturity profile chart as at 30 June 2019, commercial paper is classified as falling into the '1-3 years' bracket, matching the maturity of the supporting ANZ facility.

Borrowings by category



Debt maturity profile at 30 June 2019



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	2019	2018	% change
Debt/Debt + market value of equity	15.5%	20.3%	
Debt/EBITDAFI	3.6	3.8	(5.3)
Funds from operations interest cover	5.4	5.0	8.0
Funds from operations to net debt	18.6%	18.4%	1.1
Weighted average interest cost	4.28%	4.24%	
Average debt term to maturity	4.12	4.93	(16.4)
Percentage of fixed borrowings	60.1%	54.7%	

Credit rating

As at 30 June 2019, 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	2019 $M	2018 $M	% change
Net cash inflow from operating activities	375.9	321.2	17.0
Net cash outflow from investing activities	(318.7)	(33.5)	851.3
Net cash outflow from financing activities	(126.6)	(226.1)	(44.0)
Net (decrease)/increase in cash held	**(69.4)**	**61.6**	**(212.7)**

Net cash inflow from operating activities was $375.9 million in the 2019 financial year, an increase of $54.7 million, or 17.0%, on the previous financial year, broadly in line with growth in earnings during the year.

Net cash outflow applied to investing activities was $318.7 million in the 2019 financial year, an increase of $285.2 million, or 851.3%. The significant increase in investing outflows in the 2019 financial year was due to the 2018 result including $357.4 million in proceeds from the sale of our investment in North Queensland Airports. This was partly offset by a decrease in the purchase of property, plant and equipment during the 2019 financial year ($71.2 million).

Net cash outflow applied to financing activities was $126.6 million in the 2019 financial year, a decrease of $99.5 million, or 44.0%, on the previous financial year, mainly due to an increase in net borrowings of $102.9 million.

2019 Returns for shareholders

Dividend policy

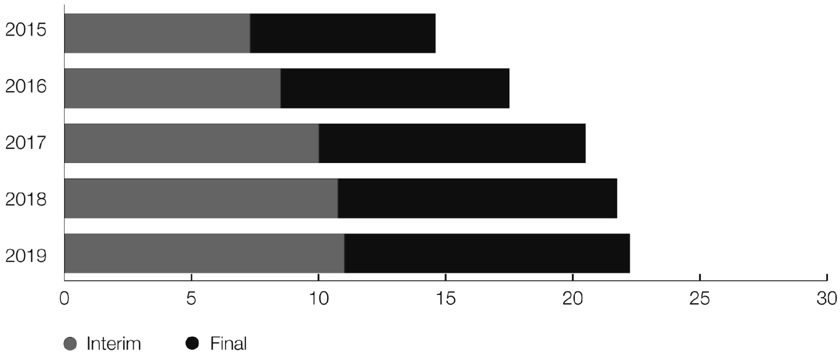
Auckland Airport's dividend policy is to pay 100% of underlying net profit after tax (excluding unrealised gains and losses arising from a revaluation of property or treasury instruments and other one-off items), noting that, in special circumstances, the directors may consider the payment of ordinary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

2019 dividend

The final dividend for the year ending 30 June 2019 is 11.25 cents per share compared to the final dividend of 11.00 cents per share in the previous financial year, an increase of 2.3% on the prior year.

The 2019 final dividend will be paid on 18 October 2019 to shareholders on the register at the close of business on 4 October 2019. 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 significant share price uplift in the year to 30 June 2019, with its share price increasing from $6.78 as at 30 June 2018 to $9.85 as at 30 June 2019. Total shareholder return, including share price movement and dividends relating to the 2019 financial year, was 48.6%.

Five-year compound average total shareholder return

	Share price opening	Share price closing	Dividends	Total return	Average annual shareholder return
	$	$	cps	$	%
1 July 2014 to 30 June 2019	3.90	9.85	96.60	6.92	22.6%

Financial statements

FOR THE YEAR ENDED 30 JUNE 2019

Consolidated income statement

FOR THE YEAR ENDED 30 JUNE 2019

	Notes	2019 $M	2018 $M
Income			
Airfield income		127.6	122.1
Passenger services charge		185.1	179.1
Retail income	5	225.8	190.6
Rental income	5	107.8	97.6
Rates recoveries		6.7	6.0
Car park income		64.2	61.0
Interest income		1.8	2.2
Other income		24.4	25.3
Total income		743.4	683.9
Expenses			
Staff	5	59.1	57.9
Asset management, maintenance and airport operations		81.1	69.5
Rates and insurance		16.1	13.7
Marketing and promotions		12.7	13.8
Professional services and levies		8.6	11.1
Other expenses	5	11.0	11.5
Total expenses		188.6	177.5
Earnings before interest expense, taxation, depreciation, fair value adjustments and investments in associates (EBITDAFI)		554.8	506.4
Share of profit of associates and joint venture	8	8.2	16.7
Gain on sale of associate		-	297.4
Derivative fair value decrease	18.2	(0.6)	(0.7)
Property, plant and equipment fair value revaluation	11(a)	(3.8)	-
Investment property fair value increase	12	254.0	152.2
Earnings before interest, taxation and depreciation (EBITDA)		812.6	972.0
Depreciation	11(a)	102.2	88.9
Earnings before interest and taxation (EBIT)		710.4	883.1
Interest expense and other finance costs	5	78.5	77.2
Profit before taxation		631.9	805.9
Taxation expense	7(a)	108.4	155.8
Profit after taxation attributable to owners of the parent		523.5	650.1
		Cents	Cents
Earnings per share			
Basic and diluted earnings per share	10	43.40	54.31

The notes and accounting policies on pages 27 to 69 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 2019

	Notes	2019 $M	2018 $M
Profit for the year		523.5	650.1
Other comprehensive income			
Items that will not be reclassified to the income statement			
Net property, plant and equipment revaluation movement	11(a), 16(ii)	87.6	1,189.6
Tax on the property, plant and equipment revaluation reserve	16(ii)	(24.6)	-
Movement in share of reserves of associates	8, 16(vi)	-	8.0
Items that will not be reclassified to the income statement		63.0	1,197.6
Items that may be reclassified subsequently to the income statement:			
Cash flow hedges			
Fair value losses recognised in the cash flow hedge reserve	16(iv)	(47.1)	(9.5)
Realised losses transferred to the income statement	16(iv)	1.6	2.9
Tax effect of movements in the cash flow hedge reserve	16(iv)	13.3	0.3
Total cash flow hedge movement		(32.2)	(6.3)
Movement in cost of hedging reserve	16(v)	(4.8)	-
Tax effect of movement in cost of hedging reserve	16(v)	2.3	-
Movement in share of reserves of associates	8, 16(vi)	-	0.4
Movement in foreign currency translation reserve		-	0.8
Items that may be reclassified subsequently to the income statement		(34.7)	(5.1)
Total other comprehensive income		28.3	1,192.5
Total comprehensive income for the year, net of tax attributable to the owners of the parent		551.8	1,842.6

The notes and accounting policies on pages 27 to 69 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 2019

	Notes	Issued and paid-up capital $M	Cancelled share reserve $M	Property, plant and equipment revaluation reserve $M	Share-based payments reserve $M	Cash flow hedge reserve $M	Cost of hedging reserve $M	Share of reserves of associates $M	Foreign currency translation reserve $M	Retained earnings $M	Total $M
For the year ended 30 June 2019											
At 30 June 2018		404.2	(609.2)	4,913.9	1.3	(38.2)	-	28.8	-	981.3	5,682.1
Adjustment on adoption of NZ IFRS 9		-	-	-	-	3.3	(3.3)	-	-	-	-
At 1 July 2018		404.2	(609.2)	4,913.9	1.3	(34.9)	(3.3)	28.8	-	981.3	5,682.1
Profit for the year		-	-	-	-	-	-	-	-	523.5	523.5
Other comprehensive income		-	-	63.0	-	(32.2)	(2.5)	-	-	-	28.3
Total comprehensive income		-	-	63.0	-	(32.2)	(2.5)	-	-	523.5	551.8
Reclassification to retained earnings	16(ii)	-	-	(8.1)	-	-	-	-	-	8.1	-
Shares issued	15	64.0	-	-	-	-	-	-	-	-	64.0
Long-Term Incentive Plan	16(iii)	-	-	-	0.1	-	-	-	-	-	0.1
Dividend paid	9	-	-	-	-	-	-	-	-	(265.1)	(265.1)
At 30 June 2019		468.2	(609.2)	4,968.8	1.4	(67.1)	(5.8)	28.8	-	1,247.8	6,032.9
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		-	-	-	-	-	-	-	8.5	-	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

The notes and accounting policies on pages 27 to 69 form part of, and are to be read in conjunction with, these financial statements.

Consolidated statement of financial position

AS AT 30 JUNE 2019

	Notes	2019 $M	2018 $M
Non-current assets			
Property, plant and equipment	11(a)	6,577.1	6,378.0
Investment properties	12	1,745.4	1,425.6
Investment in associates and joint venture	8	105.7	104.4
Derivative financial instruments	18	162.6	110.4
		8,590.8	8,018.4
Current assets			
Cash and cash equivalents	13	37.3	106.7
Inventories		-	0.2
Trade and other receivables	14	69.0	71.5
		106.3	178.4
Total assets		8,697.1	8,196.8

The notes and accounting policies on pages 27 to 69 form part of, and are to be read in conjunction with, these financial statements.

	Notes	2019 $M	2018 $M
Shareholders' equity			
Issued and paid-up capital	15	468.2	404.2
Reserves	16	4,316.9	4,296.6
Retained earnings		1,247.8	981.3
		6,032.9	5,682.1
Non-current liabilities			
Term borrowings	18.1	1,748.6	1,893.5
Derivative financial instruments	18	88.4	38.9
Deferred tax liability	7(c)	265.3	251.4
Other term liabilities		1.9	1.8
		2,104.2	2,185.6
Current liabilities			
Accounts payable and accruals	17	102.4	148.0
Taxation payable		15.3	12.9
Derivative financial instruments	18	-	1.3
Short-term borrowings	18.1	441.8	166.8
Provisions	21	0.5	0.1
		560.0	329.1
Total equity and liabilities		8,697.1	8,196.8

These financial statements were approved and adopted by the Board on 22 August 2019.

Signed on behalf of the Board by

Patrick Strange
Director, Chair of the Board

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

The notes and accounting policies on pages 27 to 69 form part of, and are to be read in conjunction with, these financial statements.

Consolidated cash flow statement

FOR THE YEAR ENDED 30 JUNE 2019

	Notes	2019 $M	2018 $M
Cash flow from operating activities			
Cash was provided from:			
Receipts from customers		756.0	674.0
Interest received		2.0	2.0
		758.0	676.0
Cash was applied to:			
Payments to suppliers and employees		(203.6)	(180.5)
Income tax paid		(101.1)	(96.4)
Interest paid		(77.4)	(77.9)
		(382.1)	(354.8)
Net cash flow from operating activities	6	375.9	321.2
Cash flow from investing activities			
Cash was provided from:			
Proceeds from sale of investment in associate		-	357.4
Proceeds from sale of investment properties	22(a)	1.5	-
Dividends from associate	8	9.2	15.4
		10.7	372.8
Cash was applied to:			
Purchase of property, plant and equipment		(239.1)	(310.3)
Interest paid - capitalised	11(a), 12	(7.0)	(8.8)
Expenditure on investment properties		(81.0)	(77.1)
Investment in joint venture	8	(2.3)	-
Costs related to sale of investment in associate		-	(10.1)
		(329.4)	(406.3)
Net cash flow applied to investing activities		(318.7)	(33.5)
Cash flow from financing activities			
Cash was provided from:			
Increase in borrowings	18.1	150.0	301.1
		150.0	301.1
Cash was applied to:			
Decrease in borrowings	18.1	(75.0)	(329.0)
Dividends paid	9, 15	(201.6)	(198.2)
		(276.6)	(527.2)
Net cash flow applied to financing activities		(126.6)	(226.1)
Net (decrease)/increase in cash held		(69.4)	61.6
Opening cash brought forward		106.7	45.1
Ending cash carried forward	13	37.3	106.7

The notes and accounting policies on pages 27 to 69 form part of, and are to be read in conjunction with, these financial statements.

Notes and accounting policies

FOR THE YEAR ENDED 30 JUNE 2019

Notes and accounting policies CONTINUED

FOR THE YEAR ENDED 30 JUNE 2019

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 venture (the group). There are six subsidiaries in the group. Auckland Airport Limited holds the group's investment in Queenstown Airport in New Zealand. Auckland Airport Holdings (No. 2) Limited holds the group's investment in the Tainui Auckland Airport Hotel Limited Partnership, which operates the Novotel hotel at Auckland Airport and the Tainui Auckland Airport Hotel 2 Limited Partnership, which is constructing a new Pullman hotel at Auckland Airport. A third subsidiary, Auckland Airport Holdings Limited, held the group's investment in North Queensland Airports (Cairns Airport and Mackay Airport in Queensland, Australia) prior to the investment being sold on 7 March 2018. A fourth subsidiary, Auckland Airport Holdings (No.3) Limited, wholly owns Ara Charitable Trustee Limited, which operates the Ara Charitable Trust (the Auckland Airport Jobs and Skills Hub). The other two subsidiaries are the Auckland International Airport Limited Share Purchase Plan and the Auckland Airport Limited Executive Long-Term Incentive Plan, which are consolidated because the company has control of the plans (refer note 23).

All the subsidiaries are incorporated in New Zealand.

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

These financial statements were authorised for issue in accordance with a resolution of the directors on 22 August 2019.

2. Summary of significant accounting policies

(a) Basis of preparation

Statutory base

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

Measurement base

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

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

Presentation currency

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

(b) Statement of compliance

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

(c) New accounting standards and interpretations

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

NZ IFRS 9 *Financial Instruments* is effective for annual periods beginning on or after 1 January 2018. NZ IFRS 9 addresses the classification and measurement of financial assets and financial liabilities and replaces the NZ IAS 39 *Financial Instruments: Recognition and Measurement* requirements for hedge accounting. Auckland Airport has applied NZ IFRS 9 retrospectively but has elected not to restate comparative information as there is no material quantitative impact on the financial statements. Changes in the fair value of the cost to convert foreign currency to New Zealand dollars (NZD) of cross-currency interest rate swaps are now separately accounted for as a cost of hedging and recognised within a new reserve within equity (cost of hedging reserve). The implementation of NZ IFRS 9 has also resulted in changes to the group's accounting policies (refer note 2(j), note 16 and note 18).

NZ IFRS 15 *Revenue from Contracts with Customers* is effective for annual reporting periods beginning on or after 1 January 2018. It replaces the revenue recognition guidance in NZ IAS 18 *Revenue* and NZ IAS 11 *Construction Contracts.* NZ IFRS 15 establishes a five-step model for revenue recognition, which is centred on identifying the performance obligations in a contract and recognising revenue when each performance obligation is satisfied. Auckland Airport has considered the new guidance and identified the main performance obligations for each of its key revenue streams. For all revenue streams in scope of NZ IFRS 15 there were no changes in timing of revenue recognition. The new standard does not apply to rental income, which is recognised under NZ IAS 17 *Leases.*

Application of these standards by the group has not materially affected any of the amounts recognised in these financial statements or the disclosures.

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 venture

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

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

The group's share of the 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.

(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.

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

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

Notes and accounting policies CONTINUED

FOR THE YEAR ENDED 30 JUNE 2019

2. Summary of significant accounting policies CONTINUED

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

(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, as per NZ IAS 39. From 1 July 2018, Auckland Airport applies the "simplified approach" for including a general provision for expected credit losses as prescribed by NZ IFRS 9. This approach permits the use of lifetime expected loss provisions for all trade receivables. In addition, the collectability of individual debtors is reviewed on an ongoing basis and a specific provision for doubtful debts is made when there is evidence that Auckland Airport will not be able to collect the receivable. Debtors are written off when recovery is no longer anticipated.

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.

The cross-currency interest rate swaps and interest rate swaps in place as at 30 June 2018 qualify as fair value and cash flow hedges under IFRS 9. Auckland Airport’s risk management strategies and hedge documentation are aligned with the requirements of IFRS 9 and these hedging relationships are therefore treated as continuing hedges.

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

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

(k) Issued and paid-up capital

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

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

(l) Revenue recognition

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

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

Retail income
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
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.

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

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

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

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

(m) Employee benefits

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

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

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

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

(n) Income tax and other taxes

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

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

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.

Notes and accounting policies CONTINUED

FOR THE YEAR ENDED 30 JUNE 2019

3. Significant accounting judgements, estimates and assumptions CONTINUED

(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.

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 2019 financial year accounted for 24.6% of external revenue (2018: 23.5%). 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 2019				
Income from external customers				
Airfield income	127.6	-	-	127.6
Passenger services charge	185.1	-	-	185.1
Retail income	-	225.8	-	225.8
Rental income	20.8	0.4	86.6	107.8
Rates recoveries	0.7	1.0	5.0	6.7
Car park income	-	64.2	-	64.2
Other income	8.0	9.9	3.1	21.0
Total segment income	342.2	301.3	94.7	738.2
Expenses				
Staff	32.6	5.2	4.3	42.1
Asset management, maintenance and airport operations	40.4	18.4	5.4	64.2
Rates and insurance	5.0	1.6	8.4	15.0
Marketing and promotions	7.4	4.2	0.6	12.2
Professional services and levies	2.1	0.8	1.8	4.7
Other expenses	2.6	2.1	2.0	6.7
Total segment expenses	90.1	32.3	22.5	144.9
Segment earnings before interest expense, taxation, depreciation, fair value adjustments and investments in associates (EBITDAFI)	252.1	269.0	72.2	593.3

Notes and accounting policies CONTINUED

FOR THE YEAR ENDED 30 JUNE 2019

4. Segment information CONTINUED

	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 expense, taxation, depreciation, fair value adjustments and investments in associates (EBITDAFI)	241.4	232.6	65.5	539.5

(e) Reconciliation of segment income to income statement

	2019 $M	2018 $M
Segment income	738.2	677.6
Interest income	1.8	2.2
Other revenue	3.4	4.1
Total income	743.4	683.9

(f) Reconciliation of segment EBITDAFI to income statement

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

	2019 $M	2018 $M
Segment EBITDAFI	593.3	539.5
Unallocated external operating income	5.2	6.3
Unallocated external operating expenses	(43.7)	(39.4)
Total EBITDAFI as per income statement	554.8	506.4
Share of profit of associates	8.2	16.7
Gain on sale of associate	-	297.4
Depreciation	(102.2)	(88.9)
Derivative fair value (decrease)/increase	(0.6)	(0.7)
Property, plant and equipment revaluation	(3.8)	-
Investment property fair value increase	254.0	152.2
Interest expense and other finance costs	(78.5)	(77.2)
Profit before taxation	631.9	805.9

Notes and accounting policies CONTINUED

FOR THE YEAR ENDED 30 JUNE 2019

5. Profit for the year

	Notes	2019 $M	2018 $M
Retail and rental income includes:			
Contingent rent		9.2	11.7
Staff expenses comprise:			
Salaries and wages		46.1	44.3
Employee benefits		4.1	5.6
Share-based payment plans	23	0.9	0.4
Defined contribution superannuation		1.7	1.5
Other staff costs		6.3	6.1
		59.1	57.9
Other expenses include:			
Directors' fees		1.5	1.4
Bad and doubtful debts written off		0.1	0.7
Doubtful debts - change in provision		0.2	(0.1)
Loss on foreign currency movements		0.2	-
Interest expense and other finance costs comprise:			
Interest on bonds and related hedging instruments		41.2	38.8
Interest on bank facilities and related hedging instruments		12.4	16.3
Interest on USPP notes and related hedging instruments		17.4	17.3
Interest on AMTN notes and related hedging instruments		10.4	9.2
Interest on commercial paper and related hedging instruments		4.1	4.4
		85.5	86.0
Less capitalised borrowing costs	11(a), 12	(7.0)	(8.8)
		78.5	77.2
Interest rate for capitalised borrowing costs		4.28%	4.24%

The gross interest costs of bonds, bank facilities, USPP notes, AMTN notes and commercial paper, excluding the impact of interest rate hedges, was $84.6 million for the year ended 30 June 2019 (2018: $84.2 million).

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

Auditor's remuneration

	2019 $'000	2018 $'000
Audit of financial statements		
Audit and review of financial statements[1]	244.1	236.3
Other services		
Regulatory audit work[2]	48.7	58.3
Other services[3]	27.7	30.0
Total fees paid to auditor	320.5	324.6

1 The audit fee includes fees for both the annual audit of the financial statements and the review of the interim financial statements.
2 Regulatory audit work consists of the audit of airport-related regulatory disclosures.
3 Other services relate to AGM vote scrutineering, Corporate Taxpayers Group and other compliance services.

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

	2019 $M	2018 $M
Profit after taxation	523.5	650.1
Non-cash items		
Depreciation	102.2	88.9
Deferred taxation expense	5.0	13.9
Equity accounted earnings from associates	(8.2)	(16.7)
Property, plant and equipment fair value revaluation	3.8	-
Investment property fair value increase	(254.0)	(152.2)
Derivative fair value decrease	0.6	0.7
Items not classified as operating activities		
(Gain)/loss on asset disposals	(0.6)	0.2
Gain on sale of associate	-	(297.4)
Withholding tax deducted on sale of associate	-	39.0
Decrease/(increase) in provisions and property, plant and equipment retentions and payables	53.4	(13.7)
(Increase)/decrease in investment property retentions and payables	(10.0)	4.0
Items recognised directly in equity	0.6	-
Movement in working capital		
Decrease/(increase) in trade and other receivables	2.5	(16.1)
Increase in taxation payable	2.4	6.5
(Decrease)/increase in accounts payable	(45.4)	13.7
Increase in other term liabilities	0.1	0.3
Net cash flow from operating activities	375.9	321.2

Notes and accounting policies CONTINUED

FOR THE YEAR ENDED 30 JUNE 2019

7. Taxation

(a) Income tax expense

	2019 $M	2018 $M
The major components of income tax are:		
Current income tax		
Current income tax charge	101.4	143.5
Income tax over provided in prior year	2.1	(1.6)
Deferred income tax		
Movement in deferred tax	4.9	13.9
Total taxation expense	108.4	155.8

(b) Reconciliation between prima facie taxation and tax expense

	2019 $M	2018 $M
Profit before taxation	631.9	805.9
Prima facie taxation at 28%	176.9	225.7
Adjustments:		
Share of associates' tax paid earnings	(1.1)	(3.5)
Revaluation with no tax impact	(67.4)	(27.7)
Income tax over provided in prior year	2.0	(1.6)
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	(2.0)	(0.2)
Total taxation expense	108.4	155.8

(c) Deferred tax assets and liabilities

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

	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

(d) Imputation credits

	2019 $M	2018 $M
Imputation credits available for use in subsequent reporting periods at 30 June	(31.8)	(29.0)

The imputation credit account had a debit balance at 30 June 2019 and 30 June 2018 due to the timing of dividends paid. As required by tax legislation, the imputation credit account was in credit at 31 March 2019 and 31 March 2018.

Notes and accounting policies CONTINUED

FOR THE YEAR ENDED 30 JUNE 2019

8. Associates and joint venture

(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 ending 30 June 2020.

The partnership has a balance date of 31 March 2019. The financial information for equity accounting purposes has been extracted from audited accounts for the period to 31 March 2019 and management accounts for the balance of the year to 30 June 2019.

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.

Other transactions with the partnership are as follows:

	2019 $M	2018 $M
Rental income received	1.0	1.0
Facility hire fees paid	0.1	-
Future minimum rentals receivable under non-cancellable operating lease	8.8	9.2

(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 $5.2 million into the partnership.

(c) Queenstown Airport Corporation Limited (associate)

On 8 July 2010, Auckland Airport invested $27.7 million in four million new shares (24.99% of the increased shares on issue) in Queenstown Airport Corporation Limited (Queenstown Airport) and formed a strategic alliance. The strategic alliance commits both airports to work together to drive more tourist traffic into New Zealand and through the two airports. The airport companies also pursue operational synergies and benefits in other areas, such as aeronautical operations, retailing activities and property development. The group does not earn fees for the services provided by Auckland Airport's management staff under the strategic alliance agreement. One of Auckland Airport's senior management staff is on the board of Queenstown Airport.

Summary financial information

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

	Tainui Auckland Airport Hotel Limited Partnership		Tainui Auckland Airport Hotel 2 Limited Partnership		Queenstown Airport	
	2019 $M	2018 $M	2019 $M	2018 $M	2019 $M	2018 $M
Revenue	30.3	30.7	-	-	49.6	45.7
EBITDA	11.5	12.1	-	-	34.3	31.6
Profit after taxation	8.7	9.4	-	-	16.6	14.9
Other comprehensive income (loss)	-	-	-	-	(0.2)	32.2
Total comprehensive income for the year	8.7	9.4	-	-	16.4	47.1
Distributions						
Repayment of partner contribution / dividends received	(18.6)	(9.9)	-	-	(7.2)	(7.2)
Auckland Airport share of repayment of partner contribution / dividends received	(7.4)	(4.0)	-	-	(1.8)	(1.8)

	Tainui Auckland Airport Hotel Limited Partnership		Tainui Auckland Airport Hotel 2 Limited Partnership		Queenstown Airport	
	2019 $M	2018 $M	2019 $M	2018 $M	2019 $M	2018 $M
Current assets	4.6	4.3	0.6	6.0	5.1	6.1
Non-current assets	48.2	48.7	9.7	-	366.0	350.0
Total assets	52.8	53.0	10.3	6.0	371.1	356.1
Current liabilities	33.0	5.2	-	-	29.0	8.7
Non-current liabilities	-	18.0	-	-	58.0	72.5
Shareholders' equity	19.8	29.8	10.3	6.0	284.1	274.9
Total equity and liabilities	52.8	53.0	10.3	6.0	371.1	356.1
Auckland Airport ownership	40.00%	40.00%	50.00%	50.00%	24.99%	24.99%
Auckland Airport share of shareholders' equity	7.9	11.9	5.2	3.0	71.0	68.7
Investment property depreciation and revaluation adjustment	13.1	12.4	-	-	-	-
Goodwill	9.4	9.4	-	-	-	-
Gain on purchase	-	-	-	-	(0.9)	(0.9)
Carrying value of investment	30.4	33.7	5.2	3.0	70.1	67.8

Notes and accounting policies CONTINUED

FOR THE YEAR ENDED 30 JUNE 2019

8. Associates and joint venture CONTINUED

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

	Notes	2019 $M	2018 $M
Investment in associates and joint venture at the beginning of the year		104.4	171.6
Further investment in joint venture		2.3	-
Disposal of investment in associate		-	(78.1)
Share of profit of associates and joint venture		8.2	16.7
Share of reserves of associates	16(vi)	-	8.4
Share of dividends received or repayment of partner contribution		(9.2)	(15.0)
Foreign currency translation		-	0.8
Investment in associates and joint venture at the end of the year		105.7	104.4

9. Distribution to shareholders

	Dividend payment date	2019 $M	2018 $M
2017 final dividend of 10.50 cps	20 October 2017	-	125.3
2018 interim dividend of 10.75 cps	5 April 2018	-	128.8
2018 final dividend of 11.00 cps	19 October 2018	132.3	-
2019 interim dividend of 11.00 cps	5 April 2019	132.8	-
Total dividends paid		265.1	254.1

Supplementary dividends of $18.2 million (2018: $16.4 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 $523.5 million (2018: $650.1 million).

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

	2019 Shares	2018 Shares
For basic earnings per share	1,206,269,145	1,196,956,832
Effect of dilution of share options	-	-
For diluted earnings per share	1,206,269,145	1,196,956,832

The 2019 reported basic and diluted earnings per share is 43.40 cents (2018: 54.31 cents).

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 2019						
Balances at 1 July 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 1 July 2018	4,625.3	961.8	356.2	351.5	83.2	6,378.0
Additions and transfers within property, plant and equipment	-	52.4	62.2	9.1	67.7	191.4
Transfers from/(to) investment property	20.1	6.5	-	-	(0.1)	26.5
Disposals	-	-	-	(0.3)	(0.1)	(0.4)
Revaluation recognised in property, plant and equipment revaluation reserve	-	87.6	-	-	-	87.6
Revaluation recognised in the income statement	-	(3.8)	-	-	-	(3.8)
Depreciation	-	(47.8)	(15.3)	(13.8)	(25.3)	(102.2)
Movement to 30 June 2019	20.1	94.9	46.9	(5.0)	42.2	199.1
Balances at 30 June 2019						
At fair value	4,645.4	981.8	402.7	343.7	-	6,373.6
At cost	-	-	-	-	174.4	174.4
Work in progress at cost	-	75.3	42.7	54.8	57.0	229.8
Accumulated depreciation	-	(0.4)	(42.3)	(52.0)	(106.0)	(200.7)
Balances at 30 June 2019	4,645.4	1,056.7	403.1	346.5	125.4	6,577.1

Additions for the year ended 30 June 2019 include capitalised interest of $5.2 million (2018: $7.6 million).

Notes and accounting policies CONTINUED

FOR THE YEAR ENDED 30 JUNE 2019

11. Property, plant and equipment CONTINUED

	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

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

	Land	Buildings and services	Infrastructure	Runway, taxiways and aprons	Vehicles, plant and equipment	Total
	$M	$M	$M	$M	$M	$M
Year end 30 June 2019						
At historical cost	152.2	1,261.4	385.0	349.9	174.4	2,322.9
Work in progress at cost	-	75.3	42.7	54.8	57.0	229.8
Accumulated depreciation	-	(546.7)	(138.7)	(207.5)	(106.0)	(998.9)
Net carrying amount	152.2	790.0	289.0	197.2	125.4	1,553.8
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

(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.

Building and services assets were independently valued by Beca Projects NZ Limited (Beca) at 30 June 2019.

Land, infrastructure and runway, taxiways and aprons were not revalued at 30 June 2019. The assessment is that there is not a material difference between the carrying value and the fair value of those asset classes. Land assets were independently valued by Savills Limited (Savills), Jones Lang LaSalle Ltd (JLL), CB Richard Ellis Limited (CBRE) and Aon Risk Solutions (AON) as at 30 June 2018.

Infrastructure assets were independently revalued by Beca as at 30 June 2016. 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.

Notes and accounting policies CONTINUED

FOR THE YEAR ENDED 30 JUNE 2019

11. Property, plant and equipment CONTINUED

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

		2019		2018	
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	$110 - 188	$154
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	$40 - 68	$56
	Holding period (excluding approaches)	5.0 years	N/A	5.0 years	N/A
	Airfield land discount rate	9.25%	N/A	9.25%	N/A
	Rate per sqm (approaches)	$11 - 50	$22	$11 - 50	$22
Reclaimed land seawalls	Unit costs of seawall construction per m	$4,319 - 9,294	$6,981	$4,319 - 9,294	$6,981
Optimised depreciated replacement cost	Unit costs of reclamation per sqm	160	$160	160	$160
Aeronautical land, including land associated with aircraft, freight and terminal uses	Rate per sqm (excluding commercially leased assets)	$89 - 908	$208	$89 - 908	$208
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	$43 - 343	$80
	Market capitalisation rate – average	5.00 - 8.00%	6.48%	5.00 - 8.00%	6.48%
	Terminal capitalisation rate	6.25 - 8.25%	7.16%	6.25 - 8.25%	7.16%
	Discount rate	7.88 - 10.25%	8.90%	7.88 - 10.25%	8.90%
	Rental growth rate (per annum)	2.50 - 2.85%	2.67%	2.50 - 2.85%	2.67%
Land associated with car park facilities	Discount rate	7.50 - 12.00%	9.91%	7.50 - 12.00%	9.91%
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%	6.75 - 9.00%	7.44%
	Revenue growth rate (per annum)	2.00 - 3.00%	2.61%	2.00 - 3.00%	2.61%
	Market capitalisation rate	6.50 - 8.80%	7.29%	6.50 - 8.80%	7.29%
Land associated with retail facilities within terminal buildings	Discount rate	8.25 - 9.50%	9.45%	8.25 - 9.50%	9.45%
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%	7.50 - 7.75%	7.74%
	Revenue growth rate (per annum)	1.50 - 2.97%	1.56%	1.50 - 2.97%	1.56%
	Market capitalisation rate	6.50 - 6.88%	6.87%	6.50 - 6.88%	6.87%
Other land					
Direct sales comparison	Rate per sqm	$20 - 83	$74	$20 - 83	$74

Asset valuation approach	Inputs used to measure fair value	2019 Range of significant inputs	2019 Weighted average	2018 Range of significant inputs	2018 Weighted average
Buildings and services					
Terminal buildings					
Optimised depreciated replacement cost	Unit costs of construction per sqm	$1,681 - 9,475	$8,577	$2,491 - 8,349	$6,016
Other buildings					
Optimised depreciated replacement cost	Unit costs of construction per sqm	$1,009 - 4,689	$2,869	$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 buildings and services are from the 2019 valuation, and the prior year comparatives are from the 2015 valuation. The valuation inputs for land are from the 2018 valuation. The valuation inputs for infrastructure are from the 2016 valuation, and the valuation inputs for runway, taxiways and aprons are from the 2015 valuation.

Notes and accounting policies CONTINUED

FOR THE YEAR ENDED 30 JUNE 2019

11. Property, plant and equipment CONTINUED

Description of different valuation approaches

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

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

Asset classification	Valuer	Fair value at 30 June 2019 $M	Valuer	Fair value at 30 June 2018 $M
Airfield land, including land for runway, taxiways, aprons and approaches[1]	Savills	1,128.5	Savills	1,122.5
Reclaimed land seawalls[1]	AON / Savills	282.3	AON / Savills	271.1
Aeronautical land, including land associated with aircraft, freight and terminal uses[1]	JLL / Savills	188.6	JLL / Savills	167.7
Land associated with car park facilities[1]	CBRE	693.3	CBRE	701.1
Land associated with retail facilities within terminal buildings[1]	CBRE	2,232.0	CBRE	2,232.0
Other land[1]	CBRE / Savills	120.7	CBRE / Savills	130.8
Terminal buildings[2]	Beca	871.3	Opus	853.5
Other buildings[2]	Beca	185.4	Opus	108.3
Water and drainage[3]	Beca	141.3	Beca	134.8
Electricity[3]	Beca	55.1	Beca	53.7
Roads[3]	Beca	113.8	Beca	63.1
Other infrastructure assets[3]	Beca	92.9	Beca	104.7
Runway, taxiways and aprons[4]	Opus	346.5	Opus	351.5
Assets carried at fair value		6,451.7		6,294.8
Vehicles, plant and equipment (carried at cost less accumulated depreciation)	N/A	125.4		83.2
Balance at 30 June		6,577.1		6,378.0

1 At 30 June 2019, the assessment is that there is no material change in the fair value of land compared with carrying value. This class was last revalued at 30 June 2018.
2 Buildings and services were revalued at 30 June 2019. This class was previously revalued at 30 June 2015.
3 At 30 June 2019, 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.
4 At 30 June 2019, the assessment is that there is no material change in the fair value of runway, taxiways and aprons compared with carrying value. This class was last revalued at 30 June 2015.

Notes and accounting policies CONTINUED

FOR THE YEAR ENDED 30 JUNE 2019

11. Property, plant and equipment CONTINUED

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

		Fair value measurement sensitivity to significant:	
		Increase in input	Decrease in input
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

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 2019					
Balance at the beginning of the year	263.2	764.7	241.4	156.3	1,425.6
Additions	1.8	69.0	14.3	7.7	92.8
Disposals	-	-	(0.5)	-	(0.5)
Transfers from/(to) property, plant and equipment (note 11)	(4.6)	(14.3)	(5.0)	(2.6)	(26.5)
Transfers within investment property	-	1.9	(1.9)	-	-
Investment property fair value increase	10.9	106.5	128.9	7.7	254.0
Net carrying amount	271.3	927.8	377.2	169.1	1,745.4
Year end 30 June 2018					
Balance at the beginning of the year	212.9	616.9	252.9	115.3	1,198.0
Additions	9.4	47.8	1.2	15.9	74.3
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	-
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

Additions for the year ended 30 June 2019 include capitalised interest of $1.8 million (2018: $1.2 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.

Notes and accounting policies CONTINUED

FOR THE YEAR ENDED 30 JUNE 2019

12. Investment properties CONTINUED

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

		2019		2018	
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)	$55 - 511	$256	$44 - 663	$220
	Market capitalisation rate	5.00 - 7.00%	5.97%	5.00 - 7.50%	6.54%
	Terminal capitalisation rate	5.25 - 8.50%	6.33%	5.50 - 8.00%	6.87%
	Discount rate	7.00 - 9.00%	7.68%	6.75 - 9.30%	8.24%
	Rental growth rate (per annum)	2.24 - 2.88%	2.56%	2.00 - 3.00%	2.26%
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)	$80 - 270	$133	$99 - 289	$131
	Market capitalisation rate	5.25 - 7.88%	5.84%	4.33 - 8.25%	6.07%
	Terminal capitalisation rate	5.50 - 8.50%	6.18%	5.50 - 8.50%	6.50%
	Discount rate	6.88 - 9.50%	7.70%	6.88 - 9.68%	8.01%
	Rental growth rate (per annum)	2.54 - 2.88%	2.76%	2.85 - 4.00%	3.37%
Vacant land					
Direct sales comparison and residual value	Rate per sqm	$6 - 700	$143	$6 - 500	$90
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)	$49 - 444	$309	$240 - 407	$351
	Market capitalisation rate	5.13 - 7.00%	6.32%	5.43 - 7.50%	6.65%
	Terminal capitalisation rate	5.38 - 7.50%	6.61%	6.50 - 7.75%	7.07%
	Discount rate	6.88 - 9.50%	8.19%	7.25 - 9.57%	8.49%
	Rental growth rate (per annum)	2.48 - 2.88%	2.73%	2.25 - 4.00%	3.34%

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

	2019 $M	2018 $M
Colliers International Limited	423.3	471.8
Savills Limited	738.3	445.9
Jones Lang LaSalle Incorporated	518.2	470.5
Investment property carried at cost	65.6	37.4
Total fair value of investment properties	1,745.4	1,425.6

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

Income and expenses related to investment property

	2019 $M	2018 $M
Rental income for investment properties	63.3	55.4
Recoverable cost income	6.2	5.3
Direct operating expenses for investment properties that derived rental income	(7.8)	(6.5)
Direct operating expenses for investment properties that did not derive rental income	(2.7)	(1.8)

13. Cash and cash equivalents

	2019 $M	2018 $M
Short-term deposits	35.2	102.7
Cash and bank balances	2.1	4.0
	37.3	106.7

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 1.50-2.35% (2018: at a rate of 1.75-3.06%). At 30 June 2019, the short-term deposits were held with three financial institutions, with no more than $50.0 million with a single institution (2018: three financial institutions, with no more than $50.0 million with a single institution).

14. Trade and other receivables

	2019 $M	2018 $M
Trade receivables	13.6	32.0
Less: Provision for doubtful debts	(0.9)	(0.7)
Net trade receivables	12.7	31.3
Lease incentives and prepayments	29.9	18.0
Revenue accruals and other receivables	26.4	22.2
	69.0	71.5

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

	2019 $M	2018 $M	2019 Shares	2018 Shares
Opening number issued and paid-up capital at 1 July	404.2	348.3	1,201,875,336	1,192,614,174
Shares fully paid and allocated to employees by employee share scheme	0.3	-	64,500	12,000
Shares vested for employees participating in long-term incentive plans	0.2	-	125,515	-
Shares issued under the dividend reinvestment plan	63.5	55.9	8,609,345	9,249,162
Closing issued and paid-up capital at 30 June	468.2	404.2	1,210,674,696	1,201,875,336

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 2019, 64,500 shares were allocated to employees (2018: 12,000). Refer to note 23 Share-based payment plans.

Notes and accounting policies CONTINUED

FOR THE YEAR ENDED 30 JUNE 2019

16. Reserves

(i) Cancelled share reserve

	2019 $M	2018 $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

	2019 $M	2018 $M
Balance at 1 July	4,913.9	3,729.0
Reclassification to retained earnings	(8.1)	(4.7)
Revaluation	87.6	1,189.6
Movement in deferred tax	(24.6)	-
Balance at 30 June	4,968.8	4,913.9

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

	2019 $M	2018 $M
Balance at 1 July	1.3	1.1
Long-Term Incentive Plan expense	0.1	0.2
Balance at 30 June	1.4	1.3

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

	2019 $M	2018 $M
Opening balance	(38.2)	(31.9)
Adjustment on adoption of NZ IFRS 9	3.3	-
Balance at 1 July	(34.9)	(31.9)
Fair value change in hedging instrument	(47.1)	(9.5)
Transfer to income statement	1.6	2.9
Movement in deferred tax	13.3	0.3
Balance at 30 June	(67.1)	(38.2)

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.

16. Reserves CONTINUED

(v) Cost of hedging reserve

	2019 $M	2018 $M
Opening balance	-	-
Adjustment on adoption of NZ IFRS 9	(3.3)	-
Balance at 1 July	(3.3)	-
Change in currency basis spreads (when excluded from the designation)	(4.8)	-
Movement in deferred tax	2.3	-
Balance at 30 June	(5.8)	-

The cost of hedging reserve captures changes in the fair value of the cost to convert foreign currency to NZD of Auckland Airport's cross-currency interest rate swaps on USPP and AMTN debt. This is a new accounting treatment since the adoption of NZ IFRS 9 on 1 July 2018 (refer note 2). These changes were previously recognised as part of the cash flow hedge reserve.

(vi) Share of reserves of associates

	2019 $M	2018 $M
Balance at 1 July	28.8	20.4
Share of reserves of associates	-	8.4
Balance at 30 June	28.8	28.8

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.

17. Accounts payable and accruals

	2019 $M	2018 $M
Employee entitlements	9.7	9.5
GST payable	2.6	2.9
Property, plant and equipment retentions and payables	23.6	77.0
Investment property retentions and payables	15.3	5.3
Trade payables	9.8	7.6
Interest payables	15.2	14.8
Other payables and accruals	26.2	30.9
Total accounts payable and accruals	102.4	148.0

The above balances are unsecured.

The amount owing to the related parties at 30 June 2019 is $0.8 million (2018: $1.0 million).

Notes and accounting policies CONTINUED

FOR THE YEAR ENDED 30 JUNE 2019

18. Financial assets and liabilities

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

	Notes	2019 $M	2018 $M
Current financial assets			
Financial assets at amortised cost (30 June 2018: Loans and receivables)			
Cash and cash equivalents	13	37.3	106.7
Trade and other receivables		39.1	53.5
Total current financial assets		**76.4**	**160.2**
Non-current financial assets			
Derivative financial instruments			
Cross-currency interest rate swaps		160.8	108.6
		160.8	108.6
Derivative financial instruments			
Interest basis swaps		1.8	1.8
Total non-current financial assets		**162.6**	**110.4**
Total financial assets		**239.0**	**270.6**
Current financial liabilities			
Financial liabilities at amortised cost			
Accounts payable and accruals		102.4	148.0
Short-term borrowings	18.1	441.8	166.8
Provisions		0.5	0.1
		544.7	314.9
Derivative financial instruments			
Interest rate swaps - cash flow hedges		-	1.3
Total current financial liabilities		**544.7**	**316.2**
Non-current liabilities			
Financial liabilities at amortised cost			
Term borrowings	18.1	1,748.6	1,893.5
Other term liabilities		1.9	1.8
		1,750.5	1,895.3
Derivative financial instruments			
Interest rate swaps - cash flow hedges		88.4	38.9
Total non-current financial liabilities		**1,838.9**	**1,934.2**
Total financial liabilities		**2,383.6**	**2,250.4**

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

Amounts subject to potential offset

The group's derivative financial instruments are subject to enforceable master netting arrangements. Each agreement allows the parties to elect net settlement of the relevant financial assets and liabilities in the event of default of the other party. The group's financial statements do not offset assets and liabilities with the same counterparties. Instead 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 $74.2 million (2018: derivative financial assets of $70.2 million).

18.1 Borrowings

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

	Maturity	Coupon[1]	2019 $M	2018 $M
Current				
Commercial paper	< 3 months	Floating	91.8	91.8
Bank facility	29/10/2019	Floating	100.0	-
Bonds	1/10/2018	Floating	-	75.0
Bonds	13/12/2019	4.73%	100.0	-
Bonds	11/04/2020	Floating	150.0	-
Total short-term borrowings			441.8	166.8
Non-current				
Bank facility	29/10/2019	Floating	-	100.0
Bank facility	27/10/2020	Floating	50.0	50.0
Bank facility	17/08/2021	Floating	30.0	30.0
Bonds	13/12/2019	4.73%	-	100.0
Bonds	11/04/2020	Floating	-	150.0
Bonds	28/05/2021	5.52%	150.0	150.0
Bonds	9/11/2022	4.28%	100.0	100.0
Bonds	17/04/2023	3.64%	100.0	100.0
Bonds	2/11/2023	3.97%	225.0	225.0
Bonds	10/10/2024	3.51%	150.0	-
USPP notes	15/02/2021	4.42%	76.0	74.4
USPP notes	12/07/2021	4.67%	76.8	74.9
USPP notes	15/02/2023	4.57%	78.8	75.4
USPP notes	25/11/2026	3.61%	400.3	367.5
AMTN notes	23/09/2027	4.50%	311.7	296.3
Total term borrowings			1,748.6	1,893.5
Total				
Commercial paper			91.8	91.8
Bank facilities			180.0	180.0
Bonds			975.0	900.0
USPP notes			631.9	592.2
AMTN notes			311.7	296.3
Total borrowings			2,190.4	2,060.3

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.

Notes and accounting policies CONTINUED

FOR THE YEAR ENDED 30 JUNE 2019

18. Financial assets and liabilities CONTINUED

	2019 $M	2018 $M
Total borrowings at the beginning of the year	2,060.3	2,056.6
Decrease in borrowings during the year	(75.0)	(329.0)
Increase in borrowings during the year	150.0	301.1
Premium received for issue at non-market rates	-	5.4
Revaluation of foreign denominated debt for changes in FX rate	(9.0)	50.9
Revaluation of debt in fair value hedge relationship	64.1	(24.7)
Total borrowings at the end of the year	2,190.4	2,060.3

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 2019, the company undertook the following bank financing activity:

- In July 2018, a new $100.0 million evergreen standby facility with ANZ Bank of New Zealand was established. The new facility is perpetual in nature with an initial review period of 15 months. There was a corresponding reduction in existing standby facilities of $100.0 million; and
- In March 2019, a new $70.0 million standby facility was established with Mizuho Bank and a new $30.0 million standby facility was established with China Construction Bank. The facility with Mizuho Bank has an initial life of three years, whereas the facility with China Construction Bank has an initial life of five years. The new facilities replaced $100.0 million of undrawn standby facilities that matured during the period.

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 2019, the company undertook the following bond financing:

- The repayment of $75.0 million of three-year, floating rate notes in October 2018; and
- The issuance of $150.0 million of six-year, 3.51% fixed rate bonds in October 2018.

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 2019, the group held interest rate swaps where it pays a fixed rate of interest and receives a variable rate on the notional amount (in NZD). The notional amount of the interest rate swaps in a cash flow hedge at 30 June 2019 is $1,455.0 million (2018: $980.0 million). These interest rate swaps are designated as cash flow hedges of the future variable interest rate cash flows on existing and future bank facilities, commercial paper and floating rate bonds. The interest payment frequency on these borrowings is quarterly.

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

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

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

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

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

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

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

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

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

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

	2019 $M	2018 $M
Gains/(losses) on the fixed interest bonds	-	(0.3)
Gains/(losses) on the USPP notes	(39.8)	27.3
Gains/(losses) on the derivatives	55.8	(24.1)
Gains/(losses) on the AMTN notes	(16.3)	(3.0)

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

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:

	2019 $M	2018 $M
Basis swaps transacted as hedges but not qualifying for hedge accounting	-	(1.2)
Credit valuation adjustments on hedges qualifying for hedge accounting	(0.6)	0.5
Derivative fair value (decrease)/increase	(0.6)	(0.7)

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

Notes and accounting policies CONTINUED

FOR THE YEAR ENDED 30 JUNE 2019

18. Financial assets and liabilities CONTINUED

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

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

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

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

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

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); and
- **Level 3** – the fair value is estimated using inputs for the asset or liability that are not based on observable market data.

To determine the level used to estimate fair value, the group assesses the lowest level input that is significant to that fair value.

There have been no transfers between levels of the fair value hierarchy in the year ended 30 June 2019 (2018: 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.

	2019		2018	
	Carrying amount	Fair value	Carrying amount	Fair value
	$M	$M	$M	$M
Bonds	975.0	1,031.1	900.0	930.1
USPP Notes	631.9	637.0	592.2	599.8
AMTN Notes	311.7	303.0	296.3	303.2

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 2019 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 Poor's credit ratings of A or above (2018: A 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 $1.9 million (2018: $1.7 million). There are no significant concentrations of credit risk.

Notes and accounting policies CONTINUED

FOR THE YEAR ENDED 30 JUNE 2019

18. Financial assets and liabilities CONTINUED

(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 2019, this undrawn facility headroom was $374.0 million (2018: $378.5 million). The group's policy also requires the spreading of debt maturities.

Bank facilities

				2019			2018		
			Facility	Available	Drawn	Undrawn	Available	Drawn	Undrawn
Type	Bank	Maturity	currency	NZ $M	NZ $M	NZ $M	NZ $M	NZ $M	NZ $M
Multi-currency facility	Bank of New Zealand	7/4/2019	NZD	-	-	-	125.0	-	125.0
Multi-currency facility	Westpac	7/4/2019	NZD	-	-	-	75.0	-	75.0
Multi-currency facility	ANZ Bank New Zealand	30/9/2020	NZD	100.0	-	100.0	-	-	-
Multi-currency facility	Commonwealth Bank of Australia	27/10/2020	AUD	94.0	-	94.0	98.5	-	98.5
Multi-currency facility	Bank of New Zealand	31/10/2020	NZD	80.0	-	80.0	80.0	-	80.0
Multi-currency facility	Mizuho Bank, Ltd. Sydney Branch OBU	3/4/2022	NZD	70.0	-	70.0	-	-	-
Multi-currency facility	China Construction Bank Corporation	3/4/2024	NZD	30.0	-	30.0	-	-	-
Multi-currency facility	Bank of Tokyo Mitsubishi UFJ	29/10/2019	NZD	100.0	100.0	-	100.0	100.0	-
Multi-currency facility	Bank of Tokyo Mitsubishi UFJ	27/10/2020	NZD	50.0	50.0	-	50.0	50.0	-
Multi-currency facility	Bank of China (New Zealand)	17/8/2021	NZD	30.0	30.0	-	30.0	30.0	-
			Total NZD equivalent	**554.0**	**180.0**	**374.0**	**558.5**	**180.0**	**378.5**

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 2019. The timing of cash flows for liabilities is based on the contractual terms of the underlying contract. Liquid non-derivative assets comprising cash and receivables are considered in the group's overall liquidity risk. The group ensures that sufficient liquid assets or committed funding facilities are available to meet all the required short-term cash payments and expects borrowings to roll over.

Undiscounted cash flows on financial assets and liabilities

	Carrying amount $M	Contractual cash flows $M	< 1 year $M	1 to 3 years $M	3 to 5 years $M	> 5 years $M
Year ended 30 June 2019						
Financial assets						
Cash and cash equivalents	-	-	37.3	-	-	-
Accounts receivable	-	-	39.1	-	-	-
Derivative financial assets	154.5	165.6	12.5	43.4	27.3	82.4
Total financial assets	154.5	165.6	88.9	43.4	27.3	82.4
Financial liabilities						
Accounts payable, accruals, provisions and other term liabilities	(104.8)	(104.8)	(104.8)	-	-	-
Commercial paper	(91.8)	(92.0)	(91.5)	-	-	-
Bank facilities	(180.0)	(188.0)	(100.0)	(80.0)	-	-
Bonds	(975.0)	(1,095.9)	(250.0)	(150.0)	(425.0)	(150.0)
AMTN Notes	(311.7)	(377.8)	-	-	-	(271.7)
USPP notes	(632.0)	(727.0)	-	(148.8)	(74.4)	(372.1)
Derivative financial liabilities	(86.7)	(96.1)	(11.7)	(28.0)	(30.0)	(26.4)
Interest payable	-	-	(76.9)	(122.6)	(86.2)	(81.4)
Total financial liabilities	(2,382.0)	(2,681.6)	(634.9)	(529.4)	(615.6)	(901.6)
Year ended 30 June 2018						
Financial assets						
Cash and cash equivalents	-	-	106.7	-	-	-
Accounts receivable	-	-	53.5	-	-	-
Derivative financial assets	110.4	118.8	8.6	21.4	21.3	67.5
Total financial assets	110.4	118.8	168.8	21.4	21.3	67.5
Financial liabilities						
Accounts payable, accruals, provisions and other term liabilities	(149.9)	(149.9)	(149.9)	-	-	-
Commercial paper	(91.8)	(92.0)	(92.0)	-	-	-
Bank facilities	(180.0)	(190.2)	-	(150.0)	(30.0)	-
Bonds	(900.0)	(1,028.1)	(75.0)	(400.0)	(200.0)	(225.0)
USPP notes	(592.2)	(745.7)	-	-	-	(284.5)
AMTN notes	(296.3)	(408.6)	-	(73.9)	(147.8)	(369.5)
Derivative financial liabilities	(40.2)	(42.4)	(9.4)	(15.6)	(12.8)	(4.6)
Interest payable	-	-	(76.6)	(135.9)	(93.6)	(110.7)
Total financial liabilities	(2,250.4)	(2,656.9)	(402.9)	(775.4)	(484.2)	(994.3)

Notes and accounting policies CONTINUED

FOR THE YEAR ENDED 30 JUNE 2019

18. Financial assets and liabilities 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, 60.1% (2018: 54.7%) 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 2019 (2018: 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.

	2019 $M	2018 $M
Financial assets		
Cash and cash equivalents	37.3	106.7
	37.3	106.7
Financial liabilities		
Floating rate bonds	10.0	85.0
Bank facilities	15.0	15.0
Commercial paper	6.8	6.8
AMTN Notes	284.5	284.5
USPP Notes	489.9	489.9
	806.2	881.2
Net exposure	768.9	774.5

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.

	2019 $M	2018 $M
Increase in interest rates of 100 basis points		
Effect on profit before taxation	(7.7)	(7.8)
Effect on equity before taxation	56.0	31.5
Decrease in interest rates of 100 basis points		
Effect on profit before taxation	7.7	7.8
Effect on equity before taxation	(61.2)	(34.0)

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 2019 of $768.9 million (2018: $774.5 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; and
- Effect on equity is the movement in the valuation of derivatives that are designated as cash flow hedges due to an increase or decrease in interest rates. All derivatives that are effective as at 30 June 2019 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 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 2019, 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.

	2019 $M	2018 $M
Increase in value of NZ dollar of 10%		
Impact on profit before taxation	(0.1)	(0.2)
Impact on equity before taxation	(0.6)	(5.5)
Decrease in value of NZ dollar of 10%		
Impact on profit before taxation	0.1	0.3
Impact on equity before taxation	0.5	6.8

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

- Reasonably possible movements in foreign exchange rates were determined based on a review of the last two years' historical movements. A movement of plus or minus 10% has been applied to the exchange rates to demonstrate the sensitivity to foreign currency risk of the company's debt and associated derivative financial instruments; and
- The sensitivity was calculated by taking the spot rate as at balance date of 0.9571 (2018: 0.9138) for AUD and 0.6719 (2018: 0.6766) for USD and moving this spot rate by the reasonably possible movements of plus or minus 10% and then reconverting 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 2019 is 15.5% (2018: 20.3%). The current long-term credit rating of Auckland Airport by Standard & Poor's at 30 June 2019 is A- Stable Outlook (2018: A- Stable Outlook).

Notes and accounting policies CONTINUED

FOR THE YEAR ENDED 30 JUNE 2019

19. Commitments

(a) Property, plant and equipment

The group had contractual obligations to purchase or develop property, plant and equipment for $72.0 million at 30 June 2019 (2018: $77.2 million).

(b) Investment property

The group had contractual obligations to either purchase, develop, repair or maintain investment property for $183.4 million at 30 June 2019 (2018: $178.2 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 36 years (2018: one month and 34 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.

	2019 $M	2018 $M
Within one year	267.9	270.8
After one year but no more than five years	765.4	937.5
After more than five years	671.2	626.8
Total minimum lease payments receivable	1,704.5	1,835.1

20. Contingent liabilities

Noise insulation

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

The aircraft noise contours included in Designation 1100 reflect the long-term predicted aircraft noise levels generated by aircraft operations from the existing runway and proposed northern runway. Annually, the company projects the level of noise that will be generated from aircraft operations for the following 12 months. These annual projections confirm which dwellings and schools are eligible for noise mitigation each year and offers are sent out to those affected properties. It is at the discretion of the individual landowner whether they accept a noise mitigation package.

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

Firefighting foam clean up

The group has an obligation to dispose of PFOS/PFOA contaminated firefighting foam inventory.

PFOS/PFOA containing firefighting foam has been widely used in the airport sector, globally and throughout New Zealand. The Ministry for the Environment is yet to determine if the airport sector will need to perform any additional decontamination tasks other than disposing of surplus inventory, but our investigations to determine the extent of any contamination are ongoing. The group has provided for the expected disposal costs as outlined in the table below. At this time, the potential cost of any yet to be determined decontamination obligations has not been provided for in the financial statements.

	2019 $M	2018 $M
Opening balance	1.2	-
Provisions made in the period	-	1.2
Expenditure in the period	(0.3)	-
Total provision for foam disposal costs	0.9	1.2

21. Provisions for noise mitigation

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

	2019 $M	2018 $M
Opening balance	0.1	0.9
Provisions made in the period	1.4	1.2
Expenditure in the period	(1.0)	(2.0)
Total provision for noise mitigation	0.5	0.1

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.

Transactions with Auckland Council and its subsidiaries are as follows.

	2019 $M	2018 $M
Rates	12.3	10.6
Building consent costs and other local government regulatory obligations	0.9	1.3
Water, wastewater and compliance services	2.0	2.5
Grounds maintenance	2.1	1.6
Sale of land	(1.5)	-

Interest of directors in certain transactions

A number of the company's directors are also directors of other companies, and any transactions undertaken with these entities have been entered into on an arm's length commercial basis, without special privileges. These include engineering works of $19.5 million by Fulton Hogan during the year ended 30 June 2019 (2018: $16.3 million).

Associates and joint venture

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

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

Notes and accounting policies CONTINUED

FOR THE YEAR ENDED 30 JUNE 2019

22. Related party disclosures CONTINUED

(b) Key management personnel compensation

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

	Notes	2019 $M	2018 $M
Directors' fees		1.5	1.4
Senior management's salary and other short-term benefits		5.6	5.4
Senior management's share-based payments	23(b)	0.6	3.5
		7.7	10.3

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.

In September 2018, the directors approved a change to the purchase plan to take advantage of the reformed tax rules for widely offered employee share schemes that came into force in March 2018. The change enables eligible employees to acquire more shares than in previous years. The resulting increase in shares held on behalf of employees was sourced entirely from previously unallocated shares held by the purchase plan.

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

	2019 Shares	2018 Shares
Shares held on behalf of employees		
Opening balance	109,539	104,039
Shares reallocated to employees	169,800	30,100
Shares fully paid and allocated to employees	(64,500)	(12,000)
Shares forfeited during the year	(13,739)	(12,600)
Total shares held on behalf of employees	201,100	109,539
Unallocated shares held by the purchase plan	92,898	217,072
Total shares held by the purchase plan	293,998	326,611

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

(b) Long-Term Incentive Plan – equity settled

In October 2015, the directors introduced an equity-settled Long-Term Incentive Plan (LTI plan) that vests from calendar year 2018 onwards. Under the 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 Jarden and PricewaterhouseCoopers). For the other 50% of shares granted, the proportion of shares that vest depends on Auckland Airport's TSR relative to a peer group. The peer group comprises the members of the Dow Jones Brookfield Airports Infrastructure Index (excluding Auckland Airport) at each grant date. To the extent that performance hurdles are not met or executives leave Auckland Airport prior to vesting, the shares 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	125,515	-	125,515	-	-
23 October 2016	23 October 2019	98,298	-	-	8,919	89,379
23 October 2017	23 October 2020	143,672	-	-	10,289	133,383
24 September 2018	24 September 2021	-	134,962	-	9,218	125,744
Total LTI plan		367,485	134,962	125,515	28,426	348,506

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 Jarden. The following table lists the key inputs to the valuation. Volatility estimates were derived using historical data over the past two years. The cost is recognised in the income statement over the vesting period, together with a corresponding increase in the share-based payment reserve in equity.

Grant date	Vesting date	Grant price	Risk free interest rate range	Expected volatility of share price	Estimated fair value per share right	Share price at exercise
23 October 2015	23 October 2018	$5.02	2.56 - 3.00%	18.1%	$1.58	$6.81
23 October 2016	23 October 2019	$6.65	1.85 - 3.23%	22.7%	$2.15	N/A
23 October 2017	23 October 2020	$6.25	1.79 - 3.06%	21.9%	$2.57	N/A
24 September 2018	24 September 2021	$7.13	1.80 - 2.00%	18.2%	$3.08	N/A

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 2019 is $0.1 million (2018: $0.2 million) with a corresponding increase in the share-based payments reserve (refer note 16 (iii)).

24. Events subsequent to balance date

On 22 August 2019, the directors approved the payment of a fully imputed final dividend of 11.25 cents per share amounting to $132.8 million to be paid on 18 October 2019.

On 21 August 2019, Queenstown Airport paid a dividend of $7.3 million. The group's share of the dividend is $1.8 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 2019, 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 20 to 69, present fairly, in all material respects, the consolidated financial position of the Group as at 30 June 2019, 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. These services have not impaired our independence as auditor of the Company and Group. In addition to this, partners and employees of our firm deal with the Company and its subsidiaries on normal terms within the ordinary course of trading activities of the business of the Company and its subsidiaries. The firm has no other relationship with, or interest in, the Company or any of its subsidiaries.

Key audit matters

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

Key audit matter	How our audit addressed the key audit matter
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 2019 is $6,452 million. Buildings and services assets were revalued at 30 June 2019. Land assets were revalued at 30 June 2018, infrastructure assets at 30 June 2016 and runway, taxiways and aprons were last revalued at 30 June 2015. The Group did not carry out revaluations in 2019 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 and other relevant market indicators Note 11 to the financial statements provides summary information about each class of Revalued PPE, including depreciation expense by asset class and descriptions of the valuation methodologies used in the latest valuations. 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 buildings and services 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. 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 observable market data where possible. 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 and other relevant inputs to observable market data and testing the accuracy of the Group's calculation of changes; and • 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 $1,745 million are recorded at fair value in the statement of financial position at 30 June 2019. A revaluation gain of $254 million is recognised 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 ($377 million) is valued using a direct sales comparison approach. Retail and service, industrial, and other investment properties ($1,368 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
22 August 2019

This audit report relates to the consolidated financial statements of Auckland International Airport Limited (the 'Company') for the year ended 30 June 2019 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 22 August 2019 to confirm the information included in the audited consolidated financial statements presented on this website.

Five-year summary

FOR THE YEAR ENDED 30 JUNE 2019

Group income statement	2019 $M	2018 $M	2017 $M	2016 $M	2015 $M
Income					
Airfield income	127.6	122.1	119.6	103.4	93.3
Passenger services charge	185.1	179.1	174.3	154.9	140.9
Retail income	225.8	190.6	162.8	157.5	132.0
Rental income	107.8	97.6	84.9	74.7	64.6
Rates recoveries	6.7	6.0	5.6	5.4	5.1
Car park income	64.2	61.0	56.3	52.1	46.6
Interest income	1.8	2.2	2.3	1.7	3.3
Other income	24.4	25.3	23.5	24.2	22.7
Total income	743.4	683.9	629.3	573.9	508.5
Expenses					
Staff	59.1	57.9	50.5	46.8	46.3
Asset management, maintenance and airport operations	81.1	69.5	55.6	49.1	44.2
Rates and insurance	16.1	13.7	12.2	11.5	10.7
Marketing and promotions	12.7	13.8	16.7	16.3	13.2
Other expenses	19.6	22.6	21.2	19.9	14.1
Total expenses	188.6	177.5	156.2	143.6	128.5
Earnings before interest, taxation, depreciation, fair value adjustments and investments in associates (EBITDAFI)	554.8	506.4	473.1	430.3	380.0
Share of profit/(loss) of associates	8.2	16.7	19.4	(8.4)	12.5
Gain on sale of associates	-	297.4	-	-	-
Derivative fair value increase/(decrease)	(0.6)	(0.7)	2.5	(2.6)	(0.7)
Property, plant and equipment fair value revaluation	(3.8)	-	-	(16.5)	(11.9)
Investment property fair value increase	254.0	152.2	91.9	87.1	57.2
Earnings before interest, taxation and depreciation (EBITDA)	812.6	972.0	586.9	489.9	437.1
Depreciation	102.2	88.9	77.9	73.0	64.8
Earnings before interest and taxation (EBIT)	710.4	883.1	509.0	416.9	372.3
Interest expense and other finance costs	78.5	77.2	72.8	79.1	86.0
Profit before taxation	631.9	805.9	436.2	337.8	286.3
Taxation expense	108.4	155.8	103.3	75.4	62.8
Profit after taxation	523.5	650.1	332.9	262.4	223.5

Group statement of comprehensive Income	2019 $M	2018 $M	2017 $M	2016 $M	2015 $M
Profit for the period	523.5	650.1	332.9	262.4	223.5
Other comprehensive income					
Items that will not be reclassified to the income statement					
Property, plant and equipment net revaluation movements	87.6	1,189.6	-	784.0	109.3
Tax on the property, plant and equipment revaluation reserve	(24.6)	-	-	(7.1)	(30.1)
Movement in share of reserves of associates	-	8.0	7.5	8.9	-
Items that will not be reclassified to the income statement	63.0	1,197.6	7.5	785.8	79.2
Items that may be reclassified subsequently to the income statement					
Cash flow hedges					
Fair value gains/(losses) recognised in the cash flow hedge reserve	(47.1)	(9.5)	15.2	(36.5)	(25.5)
Realised (gains)/losses transferred to the income statement	1.6	2.9	6.7	6.0	9.2
Tax effect of movements in the cash flow hedge reserve	13.3	0.3	(6.1)	8.5	4.6
Total cash flow hedge movement	(32.2)	(6.3)	15.8	(22.0)	(11.7)
Movement in cost of hedging reserve	(4.8)	-	-	-	-
Tax effect of movements in the cash flow hedge reserve	2.3	-	-	-	-
Movement in share of reserves of associates	-	0.4	2.5	1.9	1.7
Movement in foreign currency translation reserve	-	0.8	0.2	(2.7)	1.7
Items that may be reclassified subsequently to the income statement	(34.7)	(5.1)	18.5	(22.8)	(8.3)
Total other comprehensive income/(loss)	28.3	1,192.5	26.0	763.0	70.9
Total comprehensive income for the period, net of tax attributable to the owners of the parent	551.8	1,842.6	358.9	1,025.4	294.4

Group statement of changes in equity	2019 $M	2018 $M	2017 $M	2016 $M	2015 $M
At 1 July	5,682.1	4,029.0	3,880.7	3,042.9	2,918.7
Profit for the period	523.5	650.1	332.9	262.4	223.5
Other comprehensive income/(loss)	28.3	1,192.5	26.0	763.0	70.9
Total comprehensive income	551.8	1,842.6	358.9	1,025.4	294.4
Reclassification to gain on sale of associate	-	8.5	-	-	-
Shares issued	64.0	55.9	15.6	0.4	-
Share buy back	-	-	-	0.1	-
Long-Term Incentive Plan	0.1	0.2	0.1	-	-
Dividend paid	(265.1)	(254.1)	(226.3)	(188.1)	(170.2)
At 30 June	6,032.9	5,682.1	4,029.0	3,880.7	3,042.9

Five-year summary CONTINUED

FOR THE YEAR ENDED 30 JUNE 2019

Group balance sheet	2019 $M	2018 $M	2017 $M	2016 $M	2015 $M
Non-current assets					
Property, plant and equipment					
Land	4,645.4	4,625.3	3,437.2	3,418.0	2,657.7
Buildings and services	1,056.7	961.8	754.2	612.4	583.0
Infrastructure	403.1	356.2	332.9	293.9	278.8
Runways, taxiways and aprons	346.5	351.5	354.3	333.3	320.2
Vehicles, plant and equipment	125.4	83.2	69.2	50.5	44.4
	6,577.1	6,378.0	4,947.8	4,708.1	3,884.1
Investment properties	1,745.4	1,425.6	1,198.0	1,048.9	848.1
Investment in associates	105.7	104.4	171.6	142.8	163.6
Derivative financial instruments	162.6	110.4	82.1	138.8	118.3
	8,590.8	8,018.4	6,399.5	6,038.6	5,014.1
Current assets					
Cash	37.3	106.7	45.1	52.6	38.5
Inventories	-	0.2	0.1	0.1	-
Trade and other receivables	69.0	71.5	55.5	42.3	36.6
Dividend receivable	-	-	2.7	3.3	2.8
Taxation receivable	-	-	-	3.9	9.5
Derivative financial instruments	-	-	0.6	0.7	-
	106.3	178.4	104.0	102.9	87.4
Total assets	8,697.1	8,196.8	6,503.5	6,141.5	5,101.5
Shareholders' equity					
Issued and paid-up capital	468.2	404.2	348.3	332.7	332.3
Cancelled share reserve	(609.2)	(609.2)	(609.2)	(609.2)	(609.2)
Property, plant and equipment revaluation reserve	4,968.8	4,913.9	3,729.1	3,730.6	2,958.5
Share-based payments reserve	1.4	1.3	1.1	1.0	0.9
Cash flow hedge reserve	(67.1)	(38.2)	(32.0)	(47.7)	(25.7)
Cost of hedging reserve	(5.8)	-	-	-	-
Share of reserves of associates	28.8	28.8	20.4	10.4	(0.4)
Foreign currency translation reserve	-	-	(9.3)	(9.5)	(6.8)
Retained earnings	1,247.8	981.3	580.6	472.4	393.3
	6,032.9	5,682.1	4,029.0	3,880.7	3,042.9
Non-current liabilities					
Term borrowings	1,748.6	1,893.5	1,635.6	1,490.0	1,504.9
Derivative financial instruments	88.4	38.9	36.1	56.9	22.2
Deferred tax liability	265.3	251.4	237.8	220.4	220.3
Other term liabilities	1.9	1.8	1.5	1.3	1.3
	2,104.2	2,185.6	1,911.0	1,768.6	1,748.7
Current liabilities					
Accounts payable	102.4	148.0	132.3	94.3	88.8
Taxation payable	15.3	12.9	6.4	-	-
Derivative financial instruments	-	1.3	2.8	0.1	1.7
Short-term borrowings	441.8	166.8	421.1	396.9	217.6
Provisions	0.5	0.1	0.9	0.9	1.8
	560.0	329.1	563.5	492.2	309.9

Group statement of cash flows	2019 $M	2018 $M	2017 $M	2016 $M	2015 $M
Cash flow from operating activities					
Cash was provided from:					
Receipts from customers	756.0	674.0	615.5	569.5	500.6
Interest received	2.0	2.0	2.3	1.7	3.3
	758.0	676.0	617.8	571.2	503.9
Cash was applied to:					
Payments to suppliers and employees	(203.6)	(180.5)	(156.3)	(151.2)	(116.0)
Income tax paid	(101.1)	(96.4)	(81.7)	(69.9)	(79.5)
Interest paid	(77.4)	(77.9)	(72.7)	(79.6)	(86.2)
	(382.1)	(354.8)	(310.7)	(300.7)	(281.7)
Net cash flow from operating activities	375.9	321.2	307.1	270.5	222.2
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	1.5	-	-	-	0.5
Proceeds from sale of investment in associate	-	357.4	-	-	-
Dividends from associates	9.2	15.4	20.2	15.8	13.1
	10.7	372.8	20.3	15.9	13.9
Cash was applied to:					
Purchase of property, plant and equipment	(239.1)	(310.3)	(247.9)	(124.4)	(79.0)
Interest paid - capitalised	(7.0)	(8.8)	(9.9)	(5.5)	(4.3)
Expenditure on investment properties	(81.0)	(77.1)	(81.2)	(103.7)	(61.2)
Other investing activities	(2.3)	-	(18.6)	-	-
Costs relating to sale of investment of associate	-	(10.1)	-	-	-
	(329.4)	(406.3)	(357.6)	(233.6)	(144.5)
Net cash applied to investing activities	(318.7)	(33.5)	(337.3)	(217.7)	(130.6)
Cash flow from financing activities					
Cash was provided from:					
Increase in share capital	-	-	0.1	0.4	-
Increase in borrowings	150.0	301.1	538.4	275.0	565.8
	150.0	301.1	538.5	275.4	565.8
Cash was applied to:					
Share buy back	-	-	-	-	-
Decrease in borrowings	(75.0)	(329.0)	(305.0)	(126.0)	(490.1)
Dividends paid	(201.6)	(198.2)	(210.8)	(188.1)	(170.2)
	(276.6)	(527.2)	(515.8)	(314.1)	(660.3)
Net cash flow applied to financing activities	(126.6)	(226.1)	22.7	(38.7)	(94.5)
Net increase/(decrease) in cash held	(69.4)	61.6	(7.5)	14.1	(2.9)
Opening cash brought forward	106.7	45.1	52.6	38.5	41.4
Ending cash carried forward	37.3	106.7	45.1	52.6	38.5

Five-year summary CONTINUED

FOR THE YEAR ENDED 30 JUNE 2019

Capital expenditure	2019 $M	2018 $M	2017 $M	2016 $M	2015 $M
Aeronautical	106.0	280.6	255.4	119.7	68.3
Retail	19.0	12.5	7.2	4.6	3.1
Property development	87.8	80.2	85.7	106.4	67.0
Infrastructure and other	46.0	20.8	12.4	8.0	4.2
Car parking	25.3	11.1	14.0	4.5	5.0
Total	284.1	405.2	374.7	243.2	147.6

Passenger, aircraft and MCTOW	2019	2018	2017	2016	2015
Passenger movements					
International	11,517,988	11,266,382	10,820,535	9,688,922	8,905,758
Domestic	9,593,625	9,263,666	8,601,841	7,902,059	7,198,595
Aircraft movements					
International	57,082	55,693	54,879	49,828	46,692
Domestic	121,689	118,583	114,366	107,944	104,264
MCTOW (tonnes)					
International	5,894,112	5,798,018	5,609,244	4,910,014	4,556,051
Domestic	2,372,412	2,341,699	2,238,853	2,068,545	1,890,764

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 2019' (NZX Code) and the Financial Markets Authority handbook 'Corporate Governance in New Zealand - Principles and Guidelines' (FMA Handbook). The company transitioned to the updated NZX Listing Rules and 'NZX Corporate Governance Code 2019' from 1 July 2019.

The comprehensive NZX Code sets out eight fundamental principles of good corporate governance. Consistent with the approach taken in the 2018 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 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 of public statements on behalf of the company, accounting practices and cooperation with auditors;
- responsibilities to customers and suppliers of the company, and other persons using the Airport, including rules regarding unacceptable payments and inducements, treatment of third parties' non-discriminatory treatment and tendering obligations; and
- responsibilities to the community, including compliance with statutory and regulatory obligations, use of assets and resources and conflicts of interest.

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

The company also has a policy on share trading by directors, officers and employees, which can be found on the company website at corporate.aucklandairport.co.nz/Governance. The policy sets out a fundamental prohibition on trading of the company's securities by any person with material information that is not generally available to the market and the obligation of confidentiality in dealing with any material information. The policy applies to ordinary shares and debt securities issued by the company, any other listed securities of the company or its subsidiaries and any listed derivatives in respect of such securities. Under the policy there is also a prohibition on directors or senior employees trading in the company's shares during any black-out period. The company's black-out periods are:

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

The company's procedure for reporting and dealing with any concerns in respect of the conduct of its directors, employees and contractors fully complies with the requirements of the Protected Disclosures Act 2000.

Corporate governance CONTINUED

Principle 2: Board composition and performance

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

- work with company management to ensure that the company's strategic goals are clearly established and communicated and that strategies are in place to achieve them;
- monitor management performance in strategy implementation;
- appoint the chief executive, review his or her performance and, where necessary, terminate the chief executive's employment;
- approve the appointment of the general counsel;
- approve remuneration policies 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 the, Auckland Airport precinct;
- ensure the company actively seeks ways to achieve a high level of diversity within the business;
- promote a company culture and remuneration practice that facilitates the recruitment, professional development and retention of staff;
- set specific limits on management's delegated authority for entry into new expenditure, contracts and acquisition of assets and approve commitments outside those limits; and
- ensure that the company has appropriate risk management and regulatory compliance policies in place and monitor the appropriateness and implementation of those policies.

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

The Board currently comprises eight directors, being Patrick Strange (chair), Mark Binns, Brett Godfrey, Dean Hamilton, Julia Hoare, Tania Simpson, Justine Smyth and Christine Spring. The formal appointments to the Board of Mark Binns (joined 1 April 2018), Dean Hamilton (joined 1 November 2018) and Tania Simpson (joined 1 November 2018) were approved by shareholders at the 2018 annual meeting on 31 October 2018. All of the directors are considered by the Board to be 'independent' directors. In judging whether a director is 'independent', the Board has regard to whether or not the director:

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

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
Patrick Strange	BE (Hons), PhD, CFInstD	M	NZ	22 October 2015	4	Yes
Mark Binns	LLB	M	NZ	1 April 2018	1	Yes
Brett Godfrey	BCom, ACA	M	AUS	28 October 2010	9	Yes
Dean Hamilton	BCA, CMInstD	M	NZ	1 November 2018	1	Yes
Julia Hoare	BCom, FCA, CMInstD	F	NZ	23 October 2017	2	Yes
Tania Simpson	BA, MMM, CFInstD	F	NZ	1 November 2018	1	Yes
Justine Smyth	BCom, FCA, CFInstD	F	NZ	2 July 2012	7	Yes
Christine Spring	BE, MSc Eng, MBA, CMInstD	F	NZ	23 October 2014	5	Yes

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

Additionally, a biography of each director of the company is available on the corporate governance section of the company's website at corporate.aucklandairport.co.nz/BoardofDirectors. The interests of each director are set out on page 94. 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 84 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 apply from the date of the meeting next following that interim appointment. The Board's charter records these requirements, which are subject to any limitations imposed by shareholders in the annual meeting and the requirements of the constitution relating to the retirement of directors by rotation. The Board's policy is that directors shall not serve a term of longer than nine years unless the Board considers that any director serving longer than that period would be in the best interests of shareholders. The Board's nominations policy can be found on the company website at corporate.aucklandairport.co.nz/Governance.

All directors enter into written agreements with the company in the form of a letter that sets out the terms and conditions of their appointment. A copy of the standard form of this letter is available on the company website at corporate.aucklandairport.co.nz/Governance. 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 a minimum of three directors, two of whom must be independent non-executive directors and the chair of the committee is required to be an independent director. Currently, all eight directors are members of the committee, with each member being independent and Patrick Strange as chair. The Nominations Committee does not meet separately as all matters to be discussed at the committee are discussed by the full Board.

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

Corporate governance CONTINUED

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

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

● Primary ○ Secondary Blank = Limited / No Experience

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

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 website at corporate.aucklandairport.co.nz/ Governance. The Board, with guidance from the People and Capability Committee, annually assesses the objectives contained in the diversity policy and the company's progress toward achieving them.

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

Auckland Airport continues to make strong progress in delivering its diversity and inclusion objectives of:

- Visible leadership commitment;
- Eliminate system bias;
- Diversity-friendly workplaces;
- Attract and retain diverse talent; and
- Learn from the like-minded.

In the 2019 financial year, a programme of work has been committed to that includes the introduction of paid parental leave and flexible working arrangements policies to support our diversity-friendly workplace objective. There has also been significant progress within our cultural fluency programme and visible leadership commitment with all members of Auckland Airport's leadership team participating in the Indigenous Growth Cultural Capital for Executives programme and the implementation of unconscious bias learning modules for all managers and employees. Another key strategic priority has been to ensure Auckland Airport continues to operate within a fair and equitable remuneration framework. We also continue to work with, and learn from, other like-minded organisations through our ongoing association with the Global Women's Champions for Change programme.

The table below shows the gender balance and age range of people who work at Auckland Airport.

	Male	Female	Female (2018)	% of Female (2019)	Age range
Board	4	4	3	50	53-67
Leadership Team	7	2	1	22	39-55
Employees	344	227	193	40	18-75

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 attending relevant courses, conferences and briefings.

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

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

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

Ad hoc committees, such as the Aeronautical Pricing Committee and Terminal Development Plan Committee, are also established from time to time in respect of regulatory compliance and other matters relevant to the company. To better reflect the increasing development taking place at Auckland Airport, the ad hoc Terminal Development Committee was replaced with the Infrastructure Development Committee in December 2018. The committee must have a minimum of four 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 Mark Binns (chair), Julia Hoare, Christine Spring and Patrick Strange, all of whom are independent non-executive directors. Their qualifications are set out on page 81 and their attendance at meetings on page 84.

Corporate governance CONTINUED

The following table details the attendance by each director at the relevant Board and committee meetings for the period 1 July 2018 to 30 June 2019. As Sir Henry van der Heyden and James Miller retired as directors of the company during this period, their attendances are not included.

Name	Board			Audit and financial risk			People and capability			Safety and operational risk			Infrastructure development			Aeronautical pricing (Ad-hoc)			Terminal development plan (Ad-hoc)		
	Member	No. of meetings	No. of meetings attended	Member	No. of meetings	No. of meetings attended	Member	No. of meetings	No. of meetings attended	Member	No. of meetings	No. of meetings attended	Member	No. of meetings	No. of meetings attended	Member	No. of meetings	No. of meetings attended	Member	No. of meetings	No. of meetings attended
Patrick Strange[1]	✓	7	7	✓	5	5	✓	3	3	✓	4	4	✓	4	4	✓	2	2	✓	3	3
Mark Binns[2]	✓	7	7				✓	3	3				✓	4	4				✓	3	3
Brett Godfrey	✓	7	6				✓	3	3	✓	4	4									
Dean Hamilton[3]	✓	5	5	✓	3	3				✓	2	2									
Julia Hoare	✓	7	7	✓	5	5							✓	4	4				✓	1	1
Tania Simpson[4]	✓	5	4				✓	2	2	✓	2	2									
Justine Smyth	✓	7	7	✓	5	5	✓	3	3							✓	2	2			
Christine Spring	✓	7	7	✓	5	5				✓	4	4	✓	4	4	✓	2	2	✓	3	3

1 Patrick Strange was appointed as chair of the Board on 31 October 2018.

2 Mark Binns began his role as a director on 1 April 2018, and was formally appointed to the Board by Shareholder approval at the 2018 annual meeting on 31 October 2018.

3 Dean Hamilton was formally appointed to the Board by Shareholder approval at the 2018 annual meeting on 31 October 2018 and began his role on 1 November 2018.

4 Tania Simpson was also formally appointed to the Board by Shareholder approval at the 2018 annual meeting on 31 October 2018 and began her role on 1 November 2018.

Review of the Board and director performance

The company has a procedure to regularly assess the Board as well as each committee's 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.

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;
- Infrastructure Development;
- Nominations;
- People and Capability; 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 that 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 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 and diversity policies available on the company's website.

The general counsel is the company's market disclosure officer and is responsible for monitoring the company's business to ensure the compliance with its disclosure obligations. Managers reporting to the chief executive are required to provide the general counsel 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 2018 CSR Report can be found on the company website at corporate.aucklandairport.co.nz/corporate-responsibility, and the 2019 report will become available by the end of 2019.

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

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

Principle 5: Remuneration

The Board's People and Capability Committee is responsible for remuneration and has a formal charter it operates under. All of its members are non-executive directors. The People and Capability Committee members are Justine Smyth (chair), Mark Binns, Brett Godfrey, Tania Simpson 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 website at corporate.aucklandairport.co.nz/Governance. The committee members' attendance at meetings is set out on page 84.

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 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. To achieve this, the directors have entered into a share purchase plan agreement and appointed Jarden (previously First NZ Capital) to be the manager of the plan. Jarden acquires the shares required for the plan on behalf of directors after the company's half-year and full-year results announcements. Directors remain in their share purchase plan until one year after retirement from the Board.

2019 financial year

At the 2018 annual meeting, shareholders approved a total directors' fee pool of $1,566,720. This was $36,720, or 2.4%, more than the directors' fee pool approved by shareholders at the 2017 annual meeting.

In the 2019 financial year, directors received the following remuneration for their governance of Auckland Airport:

Base fees of directors by position (from November 2018)

	Chair[1]	Member
Board	$256,000	$121,160
Audit and Financial Risk Committee	$50,799	$25,390
Safety and Operational Risk Committee	$27,136	$13,570
Infrastructure Development Committee	$27,136	$13,570
People and Capability Committee	$27,136	$13,570
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.

Corporate governance CONTINUED

Remuneration received by directors by Board member

Name	Director's fee (excluding expenses)[1]
Patrick Strange	$218,940.00
Mark Binns	$159,280.08
Brett Godfrey	$147,140.00
Dean Hamilton	$106,746.67
Julia Hoare	$169,327.67
Tania Simpson	$98,866.67
Justine Smyth	$178,489.83
Christine Spring	$185,274.83

1 The above director remuneration includes the 15% of the base fees payable to them that they are required to use to acquire shares in the company under the share purchase plan.

As Sir Henry van der Heyden and James Miller retired as directors of the company during this period, their remuneration is not included in this table. For completeness, we note that Sir Henry van der Heyden received $82,819.63 and James Miller received $56,366.33 in the 2019 financial year.

Future Director

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

- the Future Director participates in Board and committee meetings but does not take part in the actual decision-making;
- the term of the Future Director's appointment is 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 appointed Ms Michelle Kong on 30 January 2019 to participate in the Future Directors programme for the next 18 months.

EMPLOYEE REMUNERATION

Remuneration philosophy
The company's remuneration philosophy is to ensure that:

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

Performance and development
All employees of the company participate every six months in formal performance and development reviews. The outcomes of the end-of-year reviews inform decisions regarding remuneration adjustments in accordance with company policy. Additionally, formal talent reviews are conducted each year that identify employees with potential to progress to more senior roles. 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 Collective Employment Agreements. Permanent employees on an Individual Employment Agreement are eligible to participate in the company's Group Health Scheme at their own cost. The costs are paid by the employee and the insurance covers the employee, 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 Collective Employment Agreements. Permanent employees on Individual Employment Agreements pay the costs for their insurances through a compulsory 1% pay deduction from their fixed annual remuneration.

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

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

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

Short-term incentives
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 2019 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 range between 10% and 20% of the fixed annual remuneration. The short-term incentive target for members of the Leadership Team is 35% 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 below.

	Short-term incentive target	For over-performance
Employee not on Leadership Team	10% to 20% of fixed annual remuneration	Up to 24% of fixed annual remuneration
Leadership Team	35% of fixed annual remuneration	Up to 49% of fixed annual remuneration
Chief Executive	50% of base salary	Up to 70% of base salary

Individual component
Half the short-term incentive is based on the employee achieving key performance targets relevant to 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 that employees did not influence or to ensure that employees are not unfairly penalised for material one-off adverse events outside of their control.

Long-term incentive

Members of Auckland Airport's Leadership Team and the chief executive participate in the company's Long-Term Incentive Plan.

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. The final financial year that payments were made under this legacy plan was 2018.

The current Long-Term Incentive Plan is a share-based plan. At the end of the 2019 financial year, the total current value of long-term incentives in place for Auckland Airport's Leadership Team and Chief Executive was $1.0 million.

Note 23 of the financial statements 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 that totalled $100,000 or more, in their capacity as employees during the 2019 financial year.

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

The above employee remuneration 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.

CHIEF EXECUTIVE REMUNERATION

Base salary
Over the course of the financial year, the chief executive, Adrian Littlewood, earned a base salary of $1,281,430.82.

Shares
The chief executive held 61,449 shares personally in the company as at 30 June 2019 and 174,392 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 performance is unsatisfactory in a category, then no short-term incentive is payable for that criteria. A maximum of 1.4 x the target is payable for outstanding performance by the chief executive.

For the 2019 financial year, the chief executive earned a total short-term incentive payment of $585,862.50, which was based on his performance for the 2018 financial year against criteria set out in the table below. The payment of $585,862.50 made in 2019 reflects 79% achievement of the chief executive's individual performance criteria for the 2018 financial year. As at the date of this report, the chief executive's performance against his 2019 short-term incentive targets has not yet been assessed and any payment in relation to the 2019 short-term incentives will be made in the 2020 financial year.

Short-term incentive criteria 2019 financial year		Weighting
Individual Performance Criteria		
-	Financial and market outcomes	12.5%
-	Customer and guest objectives	12.5%
-	Infrastructure	12.5%
-	Safety, strategy and performance	12.5%
Total Individual Performance Criteria		50%
Company Performance Criteria		50%
Total		100%

Long-term incentives
The chief executive participated in the Auckland Airport lLong-Term Incentive Plan in the 2019 financial year. His remuneration includes shares issued under the current Long-Term Incentive Plan.

Scheme	Financial year of grant	Grant	Number granted	Financial year exercised	Share price at exercise	Value at exercise
Phantom options	2015	$455,000	1,486,929	2018	$6.75	$1,801,980
Share-based scheme	2016	$301,831[1]	60,139	2019	$6.81	$409,547
Share-based scheme	2017	$309,377[1]	46,538	Exercisable in 2020	N/A	N/A
Share-based scheme	2018	$631,188[1]	67,652	Exercisable in 2021	N/A	N/A
Share-based scheme	2019	$429,240[1]	60,202	Exercisable in 2022	N/A	N/A

1 Value of loan amount provided for purchase of shares.

Superannuation
The chief executive is a member of KiwiSaver. As a member of the scheme the chief executive is eligible to receive a company contribution up to 3% of gross taxable earnings, including the short-term incentive. For the 2019 financial year, the company contribution was $69,533.66 compared to $104,752.95 in the 2018 financial year.

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

Summary
The remuneration paid to the chief executive is summarised below:

Remuneration element	2019 Financial year	2018 Financial year
Base salary	$1,281,431	$1,262,352
Short-term incentive	$585,862	$427,433
KiwiSaver, insurance & other statutory benefits	$82,347	$117,377
Sub-total	$1,949,640	$1,807,161
Long-term incentive	$450,495[1]	$1,801,980[2]
TOTAL	$2,400,135	$3,609,142

1 The 2019 financial year long-term Incentive payment of $450,495 reflects the pre-tax value of the grant made in the 2016 financial year as shown in the previous table.
2 The final financial year in which a grant of phantom options made under the legacy LTI scheme (in financial year 2015) could be exercised was 2018. The exercise of the phantom options in financial year 2018 that were granted in the 2015 financial year was subject to a cap of 2 x his base salary for financial year 2015.

COMPLIANCE

The company complies with all of the requirements of the ASX Principles, 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.

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, Dean Hamilton, Tania Simpson and Patrick Strange, all of whom are independent non-executive directors. Their qualifications are set out on page 81 and their attendance at meetings on page 84.

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, which undertook an international benchmarking exercise comparing the company to similar businesses to ensure that its internal audit programme covers all material risks. Ernst & Young regularly reports on its activities to the Audit and Financial Risk Committee.

The 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 in place appropriate mechanisms and controls 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 2018 is available on the company website at corporate.aucklandairport.co.nz/corporate-responsibility, and the 2019 report will become available by the end of 2019.

Principle 7: Audit and Financial Risk

The Audit and Financial Risk Committee is responsible for financial risk management oversight. This committee's formal charter reflects this responsibility and describes its 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 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 Julia Hoare (chair), Dean Hamilton, Justine Smyth, Christine Spring and Patrick Strange, all of whom are independent non-executive directors. Their qualifications are set out on page 81 and their attendance at meetings on page 84.

The external auditor is invited to attend meetings when it is considered appropriate by the committee. The committee meets with the auditors without any representatives of management present at least once per year.

The 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 website at corporate.aucklandairport.co.nz/Governance. This policy establishes a framework for the company's relationship with our external auditor and it places limitations on the extent of non-audit work that 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 communications framework and strategy is designed to ensure that communications with shareholders and all other stakeholders is managed efficiently. This strategy forms part of the disclosure and communications policy referred to under Principle 4, which can be found on the company website at corporate.aucklandairport.co.nz/Governance. It is the company's policy that external communications will be accurate, verifiable, consistent and transparent.

The chief executive, chief financial officer and the investor relations specialist are appointed as the points of contact for analysts. The chair, chief executive, chief financial officer, general counsel and manager of 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 website (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 the NZX and ASX in accordance with the company's disclosure and communications policy; and
- media releases.

The Board considers the annual report to be an essential opportunity for communicating with shareholders. The company publishes its annual and interim results and reports and environmental management plan electronically on the company 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 auditor also attends the annual meeting and is 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 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

Waiver dated 12 September 2018

The company was issued with waivers of the previous Listing Rules 5.2.3 and 7.11.1 by NZX on 12 September 2018 (for a period of six months from 11 October 2018) in respect of the company's October 2018 issue of $150 million of unsecured, unsubordinated, fixed rate notes (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 waiver 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 half-year 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 NZXR 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.

Listing Rule 7.11.1 provides that an Issuer making an issue of debt securities quoted or to be quoted shall proceed to allotment within five business days after the latest date on which applications close. The company was given a waiver from Rule 7.11.1 to structure the offer so that the allotment date was ten business days after the closing date.

NZX's class ruling dated 19 November 2018

On November 2018, NZX granted a class ruling to all issuers transitioning to the new Listing Rules. Waivers granted prior to 1 January 2019 will continue to have effect from a transitioning issuer's transition date to 30 June 2020, in respect of the application of such waivers and/or rulings to the comparable new NZX Listing Rule. During this transitional period, NZX Regulation will redocument the grandfathered waivers to reflect updated Listing Rule references and language. Redocumented waivers will then continue to apply after 30 June 2020.

As part of its transition to the new NZX Listing Rules on 1 July 2019, Auckland Airport requested that NZX redocument the following existing waiver to have continuing effect after the transition date:

Waiver dated 28 November 2012

NZX granted a waiver of the previous Listing Rule 11.1.1 in relation to the company's quoted bonds. This allows the company to refuse a transfer of bonds if the transfer is not in multiples of $1,000 or would result in the transferor holding an aggregate principal amount of less than $10,000 of the relevant series of bonds (if not zero).

In accordance with the above, Auckland Airport relies on NZX's class ruling dated 19 November 2018.

The effect of this ruling is that the waiver mentioned above will continue to have effect after Auckland Airport's transition to the new Listing Rules, and NZX Regulation will redocument the waiver to reflect updated Listing Rule references and language. Auckland Airport will, therefore, be able to continue to rely on the waiver.

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

None of the NZX, the ASX or the FMA has taken any disciplinary action against the company during the financial year ending 30 June 2019.

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 external auditor of the company and has undertaken the audit of the financial statements for the 30 June 2019 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 $279,000 to various charities during the year. This figure does not include a further $120,000 in donations made by generous travellers into the charity globes in our terminals, which was then donated to another 12 community groups.

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 $140,250.

The company also granted $345,781 to the Auckland Airport Community Trust. The Trust distributed these funds in the 2019 calendar year 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 43.40 cents in 2019 compared with 54.31 cents in 2018.

CREDIT RATING

As at 30 June 2019, Standard & Poor's long-term credit rating for the company was A- Stable Outlook.

SUBSIDIARY COMPANY DIRECTORS

Philip Neutze and Mark Thomson held office as directors of Auckland Airport Limited as at 30 June 2019.

Philip Neutze and Morag Finch held office as directors of Auckland Airport Holdings Limited and Auckland Airport Holdings (No. 2) Limited as at 30 June 2019.

Mary-Elizabeth Tuck and Morag Finch held office as directors of Auckland Airport Holdings (No. 3) Limited as at 30 June 2019.

Mary-Elizabeth Tuck and Morag Finch held office as directors of Ara Charitable Trustee Limited as at 30 June 2019.

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 Ellerslie Event Centre, 80 Ascot Ave, Remuera, Auckland on 23 October 2019 at 10.00 am.

DIRECTORS' HOLDINGS AND DISCLOSURE OF INTERESTS

Directors held interests in the following shares in the company as at 30 June 2019:

Patrick Strange	Held personally	5,511
	Held on behalf by other person	10,000
Mark Binns	Held personally	1,176
	Held jointly with other person	13,050
Brett Godfrey	Held personally	17,610
Dean Hamilton	Held personally	263
Julia Hoare	Held personally	2,074
Tania Simpson	Held personally	263
Justine Smyth	Held personally	13,716
	Held jointly with other persons	94,176
Christine Spring	Held personally	7,538

Directors did not have any debt securities (including listed bonds) in the company as at 30 June 2019.

Shareholder information CONTINUED

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:

Patrick Strange
Chair, Chorus Limited (and subsidiary company)
Director, Mercury NZ Limited
Director, Essential Energy Limited (Australian company)

Mark Binns
Director, Globalforce Toolco Limited (and subsidiary companies)
Director, Metlifecare Limited
Director, Crown Infrastructure Partners Limited
Director, Te Puia Tapapa GP Limited
Trustee, Auckland War Memorial Museum

Brett Godfrey
Chair, Active New Zealand General Partner Limited
Director, Westjet Airlines Limited (Canadian company)
Chair, Tourism and Events Queensland (Australian company)

Dean Hamilton
Director, Fulton Hogan Limited (and subsidiary companies)
Director, Tappenden Holdings Limited (and subsidiary/associated companies)

Julia Hoare
Director, New Zealand Post Limited
Director, The a2 Milk Company Limited (and subsidiary company)
Director, Port of Tauranga Limited
Director, Watercare Services Limited
Director, AWF Madison Group Limited

Tania Simpson
Director, Reserve Bank of New Zealand
Director, Ngāi Tahu Tourism Limited
Director, Tainui Group Holdings Limited
Member, Deep South National Science Challenge
Deputy Chair, Waitangi National Trust
Trustee, Radio Maniapoto (Te Reo Irirangi o Maniapoto)
Member, New Zealand Conservation Authority
Member, Waitangi Tribunal
Director, Waikato-Tainui Fisheries Limited
Director, Kōwhai Consulting Limited

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

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

DISTRIBUTION OF ORDINARY SHARES AND SHAREHOLDERS

As at 30 June 2019

Size of holding	Number of shareholders	%	Number of shares	%
1 - 1,000	8,708	17.60	4,275,646	0.35
1,001 - 5,000	30,705	62.06	64,239,642	5.30
5,001 - 10,000	5,180	10.47	37,103,846	3.06
10,001 - 50,000	4,360	8.82	83,931,577	6.94
50,001 - 100,000	341	0.69	22,987,630	1.90
100,001 and over	180	0.36	998,778,549	82.45
Total	49,474	100%	1,211,316,890	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 2019 that they were substantial product holders in the company and held a 'relevant interest' in the number of ordinary shares shown below:

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

The total number of voting securities on issue as at 30 June 2019 was 1,211,316,890.

Shareholder information CONTINUED

20 LARGEST SHAREHOLDERS

As at 30 June 2019

Shareholders	Number of shares	% of capital
Auckland Council	266,328,912	21.99
HSBC Nominees (New Zealand) Limited[1]	158,564,554	13.09
HSBC Nominees (New Zealand) Limited[1]	134,707,248	11.12
JPMorgan Chase Bank[1]	72,769,120	6.01
Citibank Nominees (NZ) Limited[1]	61,620,643	5.09
Accident Compensation Corporation[1]	24,473,064	2.02
Custodial Services Limited	17,803,096	1.47
BNP Paribas Nominees Pty Limited[1]	16,930,401	1.4
New Zealand Superannuation Fund Nominees Limited[1]	16,748,681	1.38
TEA Custodians Limited[1]	14,999,497	1.24
Cogent Nominees Limited[1]	14,140,197	1.17
Custodial Services Limited	13,841,222	1.14
FNZ Custodians Limited	11,965,591	0.99
National Nominees New Zealand Limited[1]	9,254,219	0.76
HSBC Custody Nominees (Australia) Limited	9,058,729	0.75
Custodial Services Limited	8,684,361	0.72
Premier Nominees Limited[1]	8,569,641	0.71
J P Morgan Nominees Australia Limited	8,183,659	0.68
BNP Paribas Nominees (NZ) Ltd[1]	7,919,593	0.65
Private Nominees Limited[1]	7,720,543	0.64

1 These shares are held through New Zealand Central Securities Depository Limited (NZCSD), a depository system which allows electronic trading of securities to members.

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	Febraury	August
Dividends paid	April	October
Annual meeting	-	October
Disclosure financial statements	-	November

Please note that the annual meeting will be held at 10.00 am on 23 October 2019 at Ellerslie Event Centre, 80 Ascot Ave, Remuera, Auckland.

VOTING RIGHTS

The voting rights of shareholders are set out in the company's constitution. Each holder of ordinary shares is entitled to vote at any annual meeting of shareholders. On a show of hands, each holder of ordinary shares is entitled to one vote. On a poll, one vote is counted for every ordinary share. A person is not entitled to vote when disqualified by virtue of the restrictions contained in the company's constitution and the ASX and NZX Listing Rules of the ASX and the NZX.

ENQUIRIES

Shareholders with enquiries about transactions, changes of address or dividend payments should contact Link Market Services Limited on +64 9 375 5998. Other questions should be directed to the company's company secretary at the registered office.

STOCK EXCHANGE

The company's ordinary shares trade on the NZX and the ASX. The minimum marketable parcel on the NZX is 50 shares and in Australia a 'marketable parcel' is a parcel of securities of more than AUD 500. As at 30 June 2019, 97 shareholders on the ASX and 265 shareholders on the NZX held fewer securities than a marketable parcel under their respective Listing Rules.

DIVIDENDS

Shareholders may elect to have their dividends direct credited to their bank accounts. 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/investors/shares-and-bonds.

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 2001 dealing with the acquisition of shares (such as substantial holdings and takeovers). Limitations on acquisition of the securities are, however, imposed on the company under New Zealand law:

- Securities in the company are, in general, freely transferable. The only significant restrictions or limitations in relation to the acquisition of securities are those imposed by New Zealand law relating to takeovers, overseas investment and competition;
- The Takeovers Code creates a general rule under which the acquisition of more than 20 percent of the voting rights in the company or the increase of an existing holding of 20 percent or more of the voting rights in the company can only occur in certain permitted ways. These include a full takeover offer in accordance with the Takeovers Code, a partial takeover in accordance with the Takeovers Code, an acquisition approved by an ordinary resolution, an allotment approved by an ordinary resolution, a creeping acquisition (in certain circumstances) or compulsory acquisition if a shareholder holds 90% or more of the shares in the company;
- The Overseas Investment Act 2005 and Overseas Investment Regulations 2005 regulate certain investments in New Zealand by overseas persons. In general terms, the consent of the Overseas Investment Office is likely to be required where an 'overseas person' acquires shares or an interest in shares in the company that amount to more than 25% of the shares issued by the company or, if the overseas person already holds 25% or more, the acquisition increases that holding; and
- The Commerce Act 1986 is likely to prevent a person from acquiring shares in the company if the acquisition would have, or would be likely to have, the effect of substantially lessening competition in a market.

SHARE REGISTRARS

NEW ZEALAND

Link Market Services Limited
Level 11, Deloitte Centre
80 Queen Street
Auckland 1010
PO Box 91976
Auckland 1142

Phone: +64 9 375 5998
Fax: +64 9 375 5900

AUSTRALIA

Link Market Services Limited
Level 12
680 George Street
Sydney
NSW 2000
Locked Bag A14
Sydney South
NSW 1235

Phone: +61 2 8280 7111
Fax: +61 2 9287 0303

Corporate directory

DIRECTORS

Patrick Strange, chair
Mark Binns
Brett Godfrey
Dean Hamilton
Julia Hoare
Tania Simpson
Justine Smyth
Christine Spring

SENIOR MANAGEMENT

Adrian Littlewood, chief executive officer
Philip Neutze, chief financial officer
Richard Barker, general manager retail and commercial
Anna Cassels-Brown, general manager operations
Jonathan Good, general manager technology and marketing
André Lovatt, general manager airport development and delivery
Scott Tasker, general manager aeronautical commercial
Mark Thomson, general manager property
Mary-Liz Tuck, general manager corporate services and general counsel

REGISTERED OFFICE NEW ZEALAND

4 Leonard Isitt Drive
Auckland Airport Business District
Manukau 2022
New Zealand

Phone: +64 9 275 0789
Freephone: 0800 Airport (0800 247 7678)
Facsimile: +64 9 275 4927
Email: tellus@aucklandairport.co.nz
Website: www.aucklandairport.co.nz

REGISTERED OFFICE AUSTRALIA

c/o KPMG
147 Collins Street
Melbourne
Victoria 3000
Australia

Phone: +61 3 9288 5555
Facsimile: +61 3 9288 6666
Website: www.kpmg.com.au

MAILING ADDRESS

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

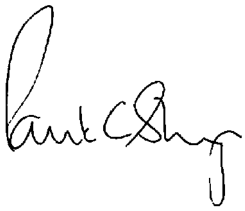
GENERAL COUNSEL & GENERAL MANAGER CORPORATE SERVICES

Mary-Liz Tuck

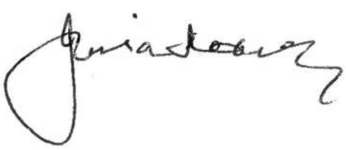
AUDITORS

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

This annual report is dated 22 August 2019 and is signed on behalf of the Board by:



Patrick Strange
Chair of the Board



Julia Hoare
Director

Building
Delivering
Planning
Building
Delivering
Planning
Building
Delivering
Planning
Building
Delivering
Planning
Building
Delivering
Planning
Building
Delivering
Planning
Building
Delivering
Planning
Building
Delivering
Planning
Building
Delivering
Planning
Building
Delivering

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

Please recycle me