

27 September 2022

Auckland Airport Limited (AIA)



The company will hold its Annual Shareholders Meeting at **10.00am Thursday 20 October 2022**.

The location is **World Cup Lounge at Eden Park, 42 Reimers Ave, Kingsland, Auckland**.

You can also join the meeting online [here](#).

Company Overview

Covid has impacted the airport over the past 2 years, however, there are signs of recovery. Whilst domestic passenger numbers were down 27% at 4.3 million international passenger numbers were up 124% at 1.3 million. International numbers are now 50% of pre-Covid levels and by summer seating capacity will be up to 70% of pre-Covid.

The company is looking to redevelop its infrastructure. The domestic terminal is 57 years old and near the end of its life. The masterplan includes expanding international operations to create a combined domestic and international jet terminal. The company is currently in consultation with its airline customers about development of the new facility, along with the upgrade of associated baggage systems and other airside and landside systems and infrastructure. Capital enabling works are already underway to support this development.

During the year Justine Smythe retired from the Board after serving 9 years and Mark Cairns was appointed to the Board. Adrian Littlewood resigned as CEO after serving almost 9 years and Carrie Hurihanganui was appointed CEO.

Current Strategy

The strategy is to develop income operations from non-airfield sources whilst ensuring the airfield operations are sized to meet demand.

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Key

The following sections calculate an objective rating against criteria contained within NZSA policies.

Colour	Meaning
G	Strong adherence to NZSA policies
A	Part adherence or a lack of disclosure as to adherence with NZSA policies
R	A clear gap in expectations compared with NZSA policies
n/a	Not applicable for the company

Governance

NZSA assessment against its key policy criteria is summarised below:

Policy Theme	Assessment	Notes
Directors Fees	G	Good disclosure.
Director share ownership	G	See below.
Executive Remuneration	A	See below.
Golden parachutes/handshakes	A	Not disclosed if these or similar payments are offered.
Director Independence	G	All Directors are independent.
Board Composition	A	See below.
Director Tenure	G	See below. All Directors have served less than 9 years.
ASM Format	G	Hybrid. See below.
Independent Advice for the Board	G	See below.

Director Fees: The company clearly states the components of Director remuneration in its [Director and Executive Remuneration Policy](#), with no opportunity for additional components. The [Board Charter](#) specifically states that retirement benefits cannot be paid to Directors.

Whilst there is no mention of share options as being excluded from Directors remuneration, NZSA believes the wording of this policy is clear in that they cannot be paid. The company does allow the payment of special exertion benefits to directors, for additional “out of scope” work.

Director Share Ownership: As disclosed in AIA’s [Director and Executive Remuneration Policy](#) Directors must apply 15% of their base fees in an initial three-year term to acquire shares or if the value of their shareholding is less than their annual Director’s fee. The scheme is managed by an independent manager.

NZSA encourages share ownership by independent directors, but does not support compulsion as this reduces the pool of available directors, may compromise independence and removes the ‘market signal’ associated with share purchases.

NZSA considers that the structure of this scheme does not act as a barrier to director diversity.

Executive Remuneration: The CEO is paid a base salary and a short-term incentive (STI) in cash and a long-term incentive (LTI) paid by way of performance share rights.

NZSA encourages fulsome disclosure in relation to any incentive payments made to the CEO, including disclosure of measures (or measure ‘groups’), weightings, targets and the level of achievement associated with any awards.

The company discloses both the ‘on-target’ STI payment (50% of base salary) and maximum (70%) for the CEO. The measure groups and their weightings are clearly disclosed for the STI, although there is no disclosure of a percentage level of achievement (versus target) for each component of STI.

The methodology associated with the LTI award is disclosed in the notes to the financial statements. NZSA would prefer this to be included with other detail associated with executive remuneration. The award is determined in two tranches, based on the achievement of both an 'absolute' shareholder return metric and a relative shareholder return, a structure supported by NZSA.

NZSA notes that no LTI was awarded to the current CEO during FY22, although an award was made to the outgoing CEO. This was a payment based on awards made in previous years.

NZSA prefers incentive structures to be weighted towards LTI, to align with the long-term interests of shareholders. Due to the lack of disclosure of the LTI target opportunity, it is not possible to determine this relationship for AIA.

Golden parachutes/handshakes: In the interests of transparency, NZSA believes there should be explicit disclosure around the severance terms associated with the CEO, including whether specific termination payments are offered.

Board Composition: The company is one of very few that participates in the IoD's Future Director programme designed to develop and mentor the next generation of Directors. NZSA expect NZX50 companies to participate as part of a responsibility to develop and mentor the next generation of Directors.

Whilst there is a skills matrix in the Annual Report it does not attribute skill sets to individual Directors to demonstrate how they contribute to the governance of the company.

The nature of the company's board indicates a commitment to thought, experiential and social diversity, with relevant experience for AIA.

Director Tenure: NZSA looks for evidence of ongoing succession or 'staggered' appointment dates that reduce the risks associated with effective knowledge transfer in the event of succession. We also prefer a term maximum of 9-12 years, unless there are exceptional circumstances that may apply.

Director appointment dates for AIA are staggered between 2014-2022, indicating a strong commitment to balancing director succession with institutional knowledge.

Independent Advice for the Board: NZSA looks for evidence, through disclosures, that a Board has access to appropriate internal and external expertise to support board assurance activities. We also look for evidence that Boards are across their risk management responsibilities.

The Board Charter offers clear disclosure that directors are able to seek external professional advice to support decision-making, paid for by AIA subject to approval of the Chair. It also states that the Board has access to the Company Secretary. It is unclear as to the extent to which other internal assurance staff have unfettered access to the Board.

Auckland Airport appears to take a broad approach to disclosure of external risks, with a clear summary of its business model shown on pages 22-23 of its annual report (including key business and strategic risks). Arguably, we note that there is limited discussion of risk mitigation actions associated with these disclosures.

There is thorough disclosure of climate-related and financial risks (including mitigations), together with a thorough description of the risk management process. We would encourage Auckland Airport to utilise its template for the disclosure of climate-related risks and controls to apply to the disclosure of business and strategic risks in its annual report.

Audit

NZSA assessment against its key policy criteria is summarised below:

Policy Theme	Assessment	Notes
Audit independence	G	Good disclosure.
Audit rotation	A	See below.

Audit Rotation: Whilst the company ensures the Lead Audit Partner is rotated at 5 years as required by the NZX Listing Rules, it does not disclose if the Audit Firm is rotated at 10 years. Notwithstanding auditor tenure, NZSA also expects disclosure of the appointment dates of the Lead Audit Partner and Audit Firm to improve transparency for investors.

Ethical and Social

NZSA assessment against its key policy criteria is summarised below:

Policy Theme	Assessment	Notes
Whistleblowing	G	Good disclosure
Political donations	G	No donations were made.

We note that AIA continues has reduced its gender pay gap from 14.06% to 13.22% during the financial year. NZSA appreciates the disclosure on these (and similar) metrics targeting social equality.

NZSA notes the climate-related disclosures on governance, strategic implications, risk & opportunities and metrics associated with the TCFD (Taskforce on Climate-related Financial Disclosures) framework (the second year the company has done so). This positions AIA well for the emerging regulatory framework currently being formalised by the NZ External Reporting Board. On current XRB Exposure Drafts, we believe that AIA would fully comply with the climate-related disclosure requirement and the expected NZSA *Environmental Sustainability* policy (see below).

At only seven pages (including the cover), the specific, succinct and factual disclosures, including measurable outcomes provided in the separate [Climate Change Disclosure Report](#) should reassure shareholders that the company is not 'greenwashing' its stakeholders.

NZSA has released a draft *Environmental Sustainability* policy for consultation, with a broader focus on environmental impacts than climate change. This is expected to be finalised in October 2022, for application from January 2023. We are currently reviewing existing corporate disclosures.

Financial & Performance

Policy Theme	Assessment	Notes
Dividends and Imputation	n/a	No dividend was paid.
Capital Raise process	n/a	n/a if no capital raised
Takeover or Scheme	n/a	n/a if no takeover

Auckland International Airport's share price rose from \$7.57 to \$7.74 (as of 16th September 2022) over the last 12 months – a 2% rise. This compares favourably with the NZX 50 which declined by 11% in the same period. The capitalisation of AIA is \$11.4b placing it 3rd out of 130 companies on the NZX by size and makes it a large company.

Metric	2022	2021	Change
Revenue	\$300m	\$281m	7%
EBITDAFI	\$145m	\$172m	-16%
Investment Property value change	\$204	527m	-61%
NPAT	\$192m	\$464m	-59%
EPS ¹	\$0.13	\$0.315	-59%
PE Ratio	59	24	
Capitalisation	\$11.4b	\$11.1b	2%
Current Ratio	0.12	0.39	-68%
Debt Equity	0.25	0.23	5%
Operating CF	\$101m	\$61m	66%
NTA Per Share ¹	\$5.53	\$5.39	3%
Dividend Per Share ¹	\$0.00	\$0.00	n/c

¹ per share figures based off actual shares at balance date (not weighted average)

The nature of their business meant that Auckland International Airport continued to be adversely affected by covid restrictions imposed both here and abroad although these restrictions have recently been lifted and this should help operations. Revenues increased slightly by 7% to \$300m compared with \$281m in 2021. However, this is well shy off the \$743m recorded in 2019 pre-covid. Operating expenses increased by 42% to \$156m and contributed to a 14% reduced EBITDAFI of \$145m.

NPAT declined by 59%. This disparity can be explained by the line item "Investment Property value change". This contributed \$204m during 2022 compared with \$572m in 2021. The most notable changes were in the Industrial section which improved by \$119m while vacant land appreciated by \$59m. AIA's stock price held up well during the year of falling EBITDAFI and falling NPAT. This seems to indicate that the market is valuing AIA stock more as a land and property holding company rather than an income generating port.

Operating Cashflows were up 66% to \$101. The company has little debt with the debt equity ratio at 0.25. AIA retired additional interest-bearing debt of \$212m dropping long term debt to \$961m,

although short term borrowings did increase by \$294m to \$516m. The current ratio at 0.12 could be of concern, but the company has room and facilities to meet short term obligations.

NTA per share was up 3% to \$5.53 and the company trades at a 40% premium to its NTA.

Dividends which are normally fully imputed, were suspended after the interim results of 2020 and have not yet resumed.

Page 5 of a market release on the 18th August [highlights an outlook statement](#) in which “Auckland Airport is providing guidance of underlying profit after tax of between \$50 million and \$100 million for the 2023 financial year and capital expenditure of between \$600 million and \$700 million”.

Resolutions

1. To elect Mark Cairns as an Independent Director.

Mark Cairns was appointed to the Board in June 2022 and is therefore required to offer himself for election. He retired last year as Chief Executive of Port of Tauranga following 16 years in the role. He is also the chair of Freightways Limited, and a director of Meridian Energy Limited and Sanford Limited.

We will vote undirected proxies **IN FAVOUR** of this resolution.

2. To re-elect Elizabeth Savage as an Independent Director.

Elizabeth Savage was appointed to the Board in October 2019. She was formerly Chief Commercial Officer of Virgin Australia. She is currently a director of Intrepid Travel Group, Intrepid Foundation, North Queensland Airports, PeopleIn Limited and Tiger HoldCo Pty Ltd, and recently chaired the Queensland Government Tourism Recovery Action Plan. She is qualified as an Aeronautical Engineer, with a master’s degree in Air Transport Management.

We will vote undirected proxies **IN FAVOUR** of this resolution.

3. To re-elect Christine Spring as an Independent Director.

Christine Spring was appointed to the Board in October 2014. She is a civil engineer and aviation business executive with over 25 years’ experience across New Zealand, Australia, United Arab

Emirates, Asia, and the Pacific Islands. She is also a director of Western Sydney Airport Limited and NZ Windfarms and the Chair of Isthmus Group Limited. If she is re-elected, she will have served 11 years at the end of that term. We would expect some indication of her future tenure during this time.

We will vote undirected proxies **IN FAVOUR** of this resolution.

4. That the Board is authorised to fix the auditor’s remuneration for the coming year.

This is an administrative resolution.

We will vote undirected proxies **IN FAVOUR** of this resolution.

Proxies

You can vote online or appoint a proxy at <https://vote.linkmarketservices.com/AIA/>

Instructions are on the Proxy/voting paper sent to you.

Voting and proxy appointments close **10.00am Tuesday 18 October 2022.**

Please note you can appoint the Association as your proxy. We will have a representative attending the meeting.

The Team at NZSA