

2 October 2023

## **Auckland Airport Limited (AIA)**



The company will hold its Annual Shareholders Meeting at **10.00am Tuesday 17 October 2023**.

The location is **Eden Park, 42 Reimers Ave, Kingsland, Auckland**.

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

### ***Company Overview***

AIA accounts for 84% of New Zealand's air exports by value, handles 90% of the country's airfreight, 75% of all international traveller's land there and supports employment for an estimated 20,000 people. In FY23, 15.9 million passengers passed through the airport with domestic numbers up 90% and international numbers up 473% reflecting the passing of Covid.

### ***Current Strategy***

The company's new strategy – Building a Better Future – is to build a vibrant and diverse aviation precinct – a destination that not only serves as New Zealand's busiest airport, but also a place of entertainment, business, and employment.

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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	See below.
Director share ownership	G	See below.
Executive Remuneration	A	See below.
Golden parachutes/handshakes	A	See below.
Director Independence	G	All Directors are independent.
Board Composition	G	See below.
Director Tenure	G	See below.
ASM Format	G	Hybrid meeting.
Independent Advice for the Board and Risk Management	G	See below.

**Directors 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 Director's 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 due to the relatively low percentage of fees applied each year.

**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 however there is no disclosure of the quantum, so it is not possible to determine the relationship between the salary, the STI and LTI. 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 CEO during FY23.

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 & Risk Management: 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 20-21 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:

<b>Policy Theme</b>	<b>Assessment</b>	<b>Notes</b>
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. NZSA also expects disclosure of the appointment dates of the Lead Audit Partner and Audit Firm to improve transparency for investors.

### **Environmental Sustainability**

NZSA assessment against its key policy criteria is summarised below:

<b>Policy Theme</b>	<b>Assessment</b>
Approach	G
Sustainability Governance	G
Strategy and Impacts	G
Risk and Opportunity	G
Metrics and Targets	G
Assurance	A

**Overall approach:** Auckland International Airport (AIA) first prepared some brief sustainability commentary in their 2019 Annual Report. Their Annual Report for 2023 reflects ongoing good progress. Since 2021, they have been preparing separate Greenhouse Gas Emissions and Climate Disclosure Reports as well. With the only area of improvement being assurance, when assessed against NZSA key Environmental Sustainability policy criteria, Auckland International Airport seems well-prepared to meet mandatory climate-related disclosure requirements from FY24.

**Sustainability Governance:** AIA discloses a Board skills matrix which shows the collective relative experience (high, practical, some) of the Board members in 11 competencies, including climate change & sustainability.

**Strategy and Impact:** Auckland Airport developed their sustainability strategy in 2020, which consists of four key pillars: Purpose, Place, People and Community. Their business strategy, 'Building a Better Future', includes climate change as a key consideration and the weather events of FY23 has made the Board very aware of the environmental impacts on their corporate strategy.

**Risk and Opportunity:** AIA provides a detailed disclosure of the existential risks they face, including, but not limited to, climate change and their associated mitigation strategies. They also list some climate-related opportunities, but are considered to not have a material financial impact.

**Metrics and Targets:** Auckland Airport’s GHG Inventory contains their Scope 1-3 GHG emissions profile which is subject to limited assurance by Deloitte. In FY23, the CEO as well as all members of the executive leadership team had a portion of their remuneration linked to sustainability KPIs.

**Assurance:** In order to fully meet this NZSA policy criteria, Auckland International Airport would need to provide external limited assurance for their entire Sustainability Reporting, not just their GHG Inventory.

***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.

***Financial & Performance***

Policy Theme	Assessment	Notes
Capital Management	G	
Takeover or Scheme	n/a	n/a if no takeover

Auckland International Airport’s share price rose from \$7.72 to \$7.91 (as of 11<sup>th</sup> September 2023) over the last 12 months – a 2% gain. This compares favourably with the NZX 50 which declined by 4% in the same period. The capitalisation of AIA is \$11.6b placing it 3<sup>rd</sup> out of 128 companies on the NZX by size and makes it a large company.

Metric	2021	2022	2023	Change
Revenue	\$281m	\$300m	\$626m	108%
EBITDAFI	\$172m	\$145m	\$397m	175%
Operating Margin		48%	63%	
Investment Property value change	527m	\$204	-\$140m	n/a
NPAT	\$464m	\$192m	\$43m	-77%
EPS <sup>1</sup>	\$0.315	\$0.13	\$0.03	-77%
PE Ratio	24	59	270	
Capitalisation	\$11.1b	\$11.4b	\$11.6b	2%
Current Ratio	0.39	0.12	0.27	120%
Debt Equity	0.23	0.25	0.29	19%

Operating CF	\$61m	\$101m	325m	222%
NTA Per Share <sup>1</sup>	\$5.39	\$5.53	\$5.69	3%
Dividend Per Share <sup>1</sup>	\$0.00	\$0.00	\$0.04	n/a

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

Now that covid restrictions have been fully lifted, Auckland International Airport managed to perform in a manner that resembles normality. Revenues more than doubled to \$626m compared with \$300m in 2022. However, this is still shy of the \$743m recorded in pre-covid 2019. Operating expenses increased by 47% to \$229m and contributed to a 175% increase in EBITDAFI (Earnings before Interest, Tax, Depreciation, fair value adjustments and investments in associate and joint ventures) of \$397m. Their operating margin also increased from 48% to 63%.

NPAT declined by 77%. This disparity can be explained by the line item “Investment Property value change”. This contributed **-\$140m** during 2023 compared with a positive \$204m in 2022. The most notable changes were in the Industrial section which declined by \$122m.

Operating Cashflows continued their meteoric rise, up 222% to \$325. The company has little debt with the debt equity ratio at 0.29. AIA took on an additional \$427m of long term debt.

NTA per share was up another 3% to \$5.69 and the company trades at a 39% premium to its NTA.

During FY23 dividends which are fully imputed, were resumed, and the company paid a final dividend of 4 cents per share.

Page 7 of a [market release](#) provided a forward looking statement, in which the the company; “is providing guidance of underlying profit after tax (excluding any fair value changes and other one-off items) of between \$260 million and \$280 million. In addition, Auckland Airport is also providing guidance on capital expenditure of between \$1 billion and \$1.4 billion in the year”.

Auckland Council is the largest shareholder with an 18.08% stake in the company as at balance date. This has now been reduced to 11.08% following a sale process in September 2023.

## Resolutions

### 1. To re-elect Julia Hoare as an Independent Director.

Julia Hoare was appointed to the Board 22 October 2017. Prior to her governance career, she had extensive chartered accounting experience in Australia, the United Kingdom and New Zealand and was a partner with PwC New Zealand for 20 years until 2012. Julia is the Chair of Port of Tauranga Limited, and a Director of Comvita Limited and Meridian Energy Limited. Julia is also a member of the Chapter Zero New Zealand Steering Committee.

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

**2. 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 Sunday 15 October 2023.**

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

**The Team at NZSA**