

October 1st 2024

Auckland Airport Limited (AIA)



The company will hold its Annual Shareholders Meeting at **10.00am Thursday 17 October 2024**.

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

You can also join the meeting [at this link](#).

Company Overview

The airport hosts twenty-seven airlines flying to forty-two international destinations and twenty-three domestic destinations. It had 158,000 aircraft movements and 18.5 million passenger movements during the year and handled 185,000 tonnes of international cargo. Its 1500ha of land holdings hosts 320 business including three hotels, two of which the company has a stake in. Over 20,000 people work in and around the airport.

The Chair Patrick Strange, who has served on the Board since 2015, will retire at the ASM and be replaced by Julia Hoare.

During September, the company raised \$1.4 billion in capital by way of an institutional placement (\$1.2b) and a share purchase plan (\$200m), to support funding of its domestic terminal.

Current Strategy

The strategy “Building a Better Future” is to create a vibrant precinct of travel, trade and hospitality that connects people and place, contributes to the prosperity to the community and supports the wider economy.

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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. See below.
Independent Advice for the Board and Risk Management	G	See below.

Directors Fees: Generally good disclosure. 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: 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.

CEO 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 versus target for each component associated with any awards. This methodology is supported by the new [NZX Remuneration Reporting Template](#).

Auckland Airport disclose 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, as is the achievement against targets.

The methodology associated with the LTI *award* is not disclosed (eg, share rights awarded as a percentage of base remuneration), so it is not possible to determine the relationship between the salary, the STI and LTI. For LTI, NZSA would prefer an explicit disclosure as to the remuneration model for the CEO at award, in addition to the *vested* outcome.

Vesting is based on the achievement of both an 'absolute' shareholder return metric and a relative shareholder return, a structure supported by NZSA. The company notes that it is considering a change to benchmarks to reflect NZ listed companies; this is likely to be supported by NZSA.

NZSA notes that no LTI vested to the CEO during FY24.

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 any sign-on, retention, loss of benefits from a previous employer, takeover bonus and severance terms (including notice periods) 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 range from 2014 to 2022.

ASM Format: NZSA prefers 'hybrid' ASM's (i.e., physical, and virtual) as a way of promoting shareholder engagement while maximising participation.

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 in 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. We note the company has published a separate Greenhouse Gas Emissions 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: The company ensures the Lead Audit Partner is rotated at 5 years as required by the NZX Listing Rules. 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:

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

Overall approach: AIA have now provided their first mandatory climate-related disclosures for FY24 in their Annual Report, based on strong disclosure in FY23. Once again, they have performed well in most areas of their sustainability disclosure.

NZSA policies encourage issuers to take a “broad approach” to environmental risks; this may result in disclosures that offer more insight into relevant environmental risks for the business beyond climate change. The nature of AIA disclosures indicate that a broad approach is in place.

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. They also dedicate human resource to sustainability issues by way of their Safety,

Sustainability and Operational Risk Committee of the Board, and a management role of Head of Master Planning & Sustainability.

Strategy and Impact: Auckland Airport have conducted scientific modelling of physical climate hazards that pose a risk to the company. They identified their most significant physical risk to the company as the flooding of aeronautical infrastructure (many will remember the flooding at the airport in 2023). As a company in a high-carbon industry, they are committed to reducing their carbon footprint as outlined in their decarbonisation pathway.

Risk and Opportunity: AIA provide 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 once again subject to limited assurance by Deloitte. As of FY24, the CEO as well as all members of the executive leadership team have a portion of their remuneration linked to sustainability KPIs. They disclosed a number of environmental metrics and associated targets.

Assurance: As was noted last year, in order to fully meet this NZSA policy criteria, Auckland International Airport would need to provide external limited assurance for all aspects of their 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 are made.

Financial & Performance

Policy Theme	Assessment	Notes
Capital Management	G	See comments below
Takeover or Scheme	n/a	

Capital Raise: The company raised a total of \$1.4b in new capital in September 2024, via an institutional placement (\$1.2b) and a retail share purchase plan (\$200m). The differential between the two components was based on the active participation of retail investors in the last capital raise.

While outside the financial year, this has attracted some commentary over the last few weeks. NZSA has reflected two concerns, related to the level of discount (7%) for an issue that was ultimately

oversubscribed, as well as the use of a share purchase plan (SPP) rather than a renounceable, entitlement offer (AREO) for the retail component.

We consider that the scale of the placement as compared with the retail offer allowed the company to reduce all risk associated with the longer timeframes associated with an AREO structure, while the level of discount is significant in the context of a quality asset and a capital raise focused on growth. In this context, we would have expected an AREO structure to fully reflect value to shareholders who are unable to participate.

NZSA recognises that the dilution rate for non-participating shareholders is relatively low in a New Zealand context at 12%, the SPP cap was increased to \$150k to cater for most retail holders, downside protection is being offers to shareholders and the company retains the ability to accept oversubscriptions from retail participants in case there is greater retail participation than usual.

Financial Summary: Auckland International Airport's share price fell from \$7.86 to \$7.54 (as of 19th September 2024) over the last 12 months – a 4% decline. This compares unfavourably with the NZX 50 which rose by 11% in the same period. The capitalisation of AIA is \$11.2b placing it 3rd out of 124 companies on the NZX by size and makes it a large company.

Metric	2021	2022	2023	2024	Change
Revenue	\$281m	\$300m	\$626m	\$896m	43%
EBITDAFI	\$172m	\$145m	\$397m	\$614m	55%
Operating Margin		48%	63%	69%	
Investment Property change	527m	\$204	-\$140m	-\$15m	n/a
NPAT	\$464m	\$192m	\$43m	\$5.5m	-87%
EPS ¹	\$0.315	\$0.13	\$0.03	\$0.004	-87%
PE Ratio	24	59	270	2,029	
Capitalisation	\$11.1b	\$11.4b	\$11.6b	\$11.2B	-4%
Current Ratio	0.39	0.12	0.27	0.54	99%
Debt Equity	0.23	0.25	0.29	0.44	51%
Operating CF	\$61m	\$101m	325m	\$496m	53%
NTA Per Share ¹	\$5.39	\$5.53	\$5.69	\$5.82	30%
Dividend Per Share ¹	\$0.00	\$0.00	\$0.04	\$0.1325	231%

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

FY24 was a good year for AIA with most metrics improving markedly, although off low bases. **Revenues** were up 43% to \$896m compared with \$626m in 2023 and higher than the \$743m recorded in pre-covid 2019. Operating expenses were up 23% to \$282m these 2 variables contributed to a 55% increase in EBITDAFI (Earnings before Interest, Tax, Depreciation, fair value adjustments and investments in associate and joint ventures) of \$614m. Their **operating margin** continued to increase to 69%.

NPAT however fell to \$5.5m after a one off adverse (non-cash) tax adjustment of \$292.8m affected the bottom line. This was as a result of new tax legislation.

Operating Cashflows continued their meteoric rise, up 53% to \$496. The company has low debt with the debt equity ratio at 0.44. AIA took on an additional \$1,015m of long-term debt but reduced its short-term commitments. Debt is a mixture of bank facilities and bonds.

NTA per share was up another 2% to \$5.82 and the company trades at a 30% premium to its NTA.

During FY24, and on the back of an improved performance, dividends which are fully imputed, increased to \$0.1325.

On page 29 of an [investor presentation](#), Auckland Airport provide forward looking guidance in which they: “reconfirm underlying earnings guidance of between \$260 million and \$280 million reflecting anticipated domestic and international passenger numbers of circa 8.6 million and circa 10.3 million respectively; and – lifting capital expenditure guidance to between \$1,100 million and \$1,400 million in the year reflecting the significant investment across the airport precinct”.

Auckland Council is the largest shareholder with an 11.03% stake in the company. They will not be participating in the capital raise.

Resolutions

1. To elect Grant Devonport as an Independent Director.

Grant Devonport is an experienced Chief Financial Officer and transformational leader with over 25 years of multinational experience. He was recently the Chief Financial Officer of Australia Pacific Airports Corporation which owns Melbourne Airport and Launceston Airports, retiring at the end of January 2024. He is currently a non-executive director of MOVE Logistics Group Limited and is the Chair of the Risk and Audit Committee at MOVE Logistics Group.

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

2. To re-elect Mark Binns as an Independent Director.

Mark Binns was appointed to the Board 31 October 2018. He was previously being CEO at Meridian Energy Ltd from 2012 to 2017, during which he prepared the company for New Zealand’s largest IPO, and the Chief Executive of the infrastructure division of Fletcher Building Limited, being involved in construction and heavy building materials, during a career with the company over 22 years.

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

3. To re-elect Dean Hamilton as an Independent Director.

Dean Hamilton was appointed to the Board 31 October 2018. He has significant CEO and financial markets experience, most recently being the CEO of Silver Fern Farms Ltd where he led the

business through a period of significant change and improvement in financial performance. Dean had 12 years' experience at Deutsche Bank working in both Australia and New Zealand where he advised a wide range of companies on M&A, capital management, corporate restructuring and capital raising. He is the Chair of Fulton Hogan and Executive Chair of Ryman Healthcare Limited. He is also a Director of The Warehouse Group Limited and Tappenden Holdings Limited.

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

4. To re-elect Tania Simpson as an Independent Director.

Tania Simpson was appointed to the Board 31 October 2018. Tania's background includes 14 years as a Director of Mighty River Power from its beginning as a state-owned enterprise through to its successful listing in 2013. Tania is known for her work within Māori communities. Her experience includes time spent as a Māori Advisory Officer for the Housing Corporation of NZ before moving into central government as a Senior Policy Analyst on housing policies. She has also helped negotiate agreements for Māori communities and has worked on a number of Treaty claim and settlements. Tania is the Deputy Chair of the Waitangi National Trust. She is also a Director of Tainui Group Holdings Ltd, Meridian Energy Limited. Tui TopCo Limited (Waste Management NZ Limited) and Ukaipo Limited. Tania is a member of the Waitangi Tribunal.

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

5. 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 15 October 2024.**

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

The Team at NZSA