Auckland Airport

Annual Report 2017

2017 Financial Statements /

Upgrading international departure experience / New and expanded security screening and processing area / New retail hub / New passenger lounge / Roading and public transport upgrades / Providing more gates for international aircraft / Expanding our airfield / New five-star hotel / Building a new domestic jet terminal / Improving international arrival experience / Upgrading international check-in area / Second runway /

Building the future…

...The biggest changes in our history are now being delivered.

Financial Statements

This annual report covers the performance of Auckland International Airport Limited (Auckland Airport) from 1 July 2016 to 30 June 2017. This volume contains our audited financial statements. Overview information and a summary of our performance against financial and non-financial targets for the 2017 financial year are contained in a separate volume, which may be accessed at report.aucklandairport.co.nz

Financial report 2017

Introduction

In the past year we have once again delivered strong financial results across the business, with our Faster, Higher, Stronger strategy continuing to perform strongly. The attractiveness of New Zealand as a travel destination, coupled with our efforts to sustainably grow travel markets, has continued to deliver strong growth for the company.

The strong and ongoing growth in New Zealand tourism is driving our need to significantly invest in infrastructure to accommodate the increasing numbers of passengers and aircraft. We are undertaking the most significant programme of upgrading aeronautical infrastructure in our history while also making substantial investment in non-aeronautical activities, such as road transport, retail and property.

We remain focused on managing the increasing demands on the business and delivering additional capacity within the complex and challenging environment of an operating airport. Working on our performance today, while remaining focused on our future, ensures we can deliver results for our customers, our city and our country, as well as our investors.

This financial report analyses our results for the 2017 financial year and the key trends. It covers the following areas:

- 2017 Financial performance summary
- Key financial performance measures
- 2017 Passenger movement analysis
- 2017 Aircraft volume analysis
- 2017 Financial performance analysis
- 2017 Financial position analysis
- 2017 Returns for shareholders.

2017 Financial performance summary

This financial summary provides an overview of the financial results and key trends for the year ended 30 June 2017 compared with those for the previous financial year. Readers should refer to the accompanying notes and accounting policies as set out in the financial statements for a full understanding of the basis on which the financial results are determined.

In the 2017 financial year, revenue increased by 9.7% to $629.3 million with revenue growth strong across a number of business segments. Double-digit growth was achieved in aeronautical and property rental income with revenue increases of 13.8% and 15.2% respectively.

Car park income also experienced strong growth, up 8.1%. Retail revenue increased 3.4%, a solid performance despite the disruption from the significant upgrade underway in the departure area of the international terminal.

Our reported profit after taxation for the 2017 financial year is $332.9 million – an increase of 26.9% on the prior year reported profit of $262.4 million. Excluding fair value changes, our underlying profit after taxation for the 2017 financial year is $247.8 million, an increase of 16.5% on the prior year underlying profit of $212.7 million.

Key financial results are shown in the table below.

	2017 $M	2016 $M	% change
Income	629.3	573.9	9.7
Expenses	156.2	143.6	8.8
Earnings before interest, taxation, depreciation, fair value adjustments and investments in associates (EBITDAFI)	**473.1**	**430.3**	**9.9**
Reported profit after tax	332.9	262.4	26.9
Underlying profit after tax	247.8	212.7	16.5
Earnings per share (cents)	28.0	22.1	26.7
Underlying earnings per share (cents)	20.8	17.9	16.2
Ordinary dividends for the full year			
– cents per share	20.5	17.5	17.1
– dollars paid	244.4	208.3	17.3

Underlying profit is how we measure our success

The directors and management of Auckland Airport understand the importance of reported profits meeting accounting standards. Because we comply with accounting standards, investors know that comparisons can be made with confidence between different companies and that there is integrity in our reporting approach. However, we also believe that an underlying profit measurement can assist investors to understand what is happening in a business such as Auckland Airport, where revaluation changes can distort financial results or where one-off transactions, both positive and negative, can make it difficult to compare profits between years.

For several years, Auckland Airport has referred to underlying profits alongside reported results. We do so when we report our results but also when we give our market guidance (where we exclude fair value changes and other one-off items) or when we consider dividends and our policy to pay 100% of 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 and underlying profit after tax for the year ending 30 June 2017 and 30 June 2016.

	2017			2016		
	Reported profit $M	Adjustments $M	Underlying profit $M	Reported profit $M	Adjustments $M	Underlying profit $M
EBITDAFI per Income Statement	**473.1**	**–**	**473.1**	**430.3**	**–**	**430.3**
Share of profit of associates	19.4	(4.5)	14.9	(8.4)	19.9	11.5
Derivative fair value movement	2.5	(2.5)	–	(2.6)	2.6	–
Investment property fair value increases	91.9	(91.9)	–	87.1	(87.1)	–
Property, plant and equipment revaluation decrease	–	–	–	(16.5)	16.5	–
Depreciation	(77.9)	–	(77.9)	(73.0)	–	(73.0)
Interest expense and other finance costs	(72.8)	–	(72.8)	(79.1)	–	(79.1)
Other taxation expense	(103.3)	13.8	(89.5)	(75.4)	(1.6)	(77.0)
Profit after tax	**332.9**	**(85.1)**	**247.8**	**262.4**	**(49.7)**	**212.7**

We have made the following adjustments to show underlying profit after tax for the 12 month periods ended 30 June 2017 and 30 June 2016:

- We have reversed out the impact of revaluations of investment property in 2017 and 2016. 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 also have reversed the revaluation of the land and infrastructure class of assets within property, plant and equipment for the 2016 financial year. No property, plant and equipment revaluation occurred in the 2017 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.
- The group recognises gains or losses in the income statement arising from valuation movements in interest rate derivatives which are not hedge accounted and where the counterparty credit risk on derivatives impacts accounting hedging relationships. These gains or losses, like investment property, are unrealised and interest rate derivative valuation movements are expected to reverse out over their lives.
- 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 2017 and 2016.
- We have also reversed the taxation impacts of the above valuation movements in both the 2017 and 2016 financial years.

Key financial performance measures

Auckland Airport monitors a wide range of financial and non-financial performance measures. This year we have again considered the most relevant measures of financial performance 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 productivity of our assets, processes and operations.
→ 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 financial performance measures are outlined in the following table. The table lists each measure, provides the corresponding performance outcome for the 2017 financial year and indicates which of our four strategic themes is most relevant to the financial performance measure.

Commentaries on financial performance outcomes are included in the analysis in the remainder of this financial report.

STRATEGY	MEASURE	2017	2016	2015	% change 2016–2017	% change 2015–2016
→ GROW TRAVEL AND TRADE MARKETS	**Total aircraft seat capacity**					
	International aircraft seat capacity	13,319,080	11,630,058	10,816,313	14.5	7.5
	Domestic aircraft seat capacity	10,520,325	9,937,754	9,065,388	5.9	9.6
	Passenger movements					
	International passenger movements	9,742,980	8,779,566	8,124,435	11.0	8.1
	International transit passenger movements	675,752	578,706	493,756	16.8	17.2
	Domestic passenger movements	8,601,841	7,902,059	7,198,595	8.9	9.8
	Maximum certified take-off weight (MCTOW)					
	International MCTOW (tonnes)	5,609,244	4,910,014	4,556,051	14.2	7.8
	Domestic MCTOW (tonnes)	2,238,853	2,068,545	1,890,764	8.2	9.4
→ STRENGTHEN OUR CONSUMER BUSINESS	**Passenger spend rate (PSR)**					
	Change in international terminal PSR	(2.4%)	(1.3%)	(1.0%)		
	Average revenue per parking space (ARPS)					
	Change in ARPS	(4.2%)	11.6%	(5.4%)		
→ BE FAST, EFFICIENT AND EFFECTIVE	**Return on investment**					
	Return on capital employed	7.9%	6.7%*	7.4%		
	Passenger satisfaction/ Airport service quality (ASQ)					
	International	4.19	4.21	4.16	(0.5)	1.2
	Domestic	4.01	3.99	4.03	0.5	(1.0)
→ INVEST FOR FUTURE GROWTH	**Rent roll**					
	Annual rent roll $m (property division)	72.9	63.0	56.1	15.7	12.3
→ ALL	**EBITDAFI**					
	EBITDAFI per passenger	$24.87	$24.93	$24.03	(0.2)	3.7

* The decrease in return on capital employed in 2016 resulted from the large increase in shareholders' equity which was dominated by the $784 million increase in the property, plant and equipment, land and infrastructure valuation. Return on capital employed is calculated as EBIT divided by total assets less current liabilities (excluding short-term borrowings).

2017 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 passenger volumes, with the aeronautical revenue generated by an international passenger approximately four times that of a domestic passenger.

	2017	2016	% change
Auckland Airport passenger movements*			
International arrivals	4,906,383	4,420,659	11.0
International departures	4,836,597	4,358,907	11.0
International passengers excluding transits	9,742,980	8,779,566	11.0
Transit passengers	675,752	578,706	16.8
Total international passengers	10,418,732	9,358,272	11.3
Domestic passengers	8,601,841	7,902,059	8.9
Total passenger movements	19,020,573	17,260,331	10.2

* Auckland Airport has refined its passenger and movements data from August 2016 onwards, resulting in a minor restatement of prior year comparatives. The numbers above are consistent with published monthly traffic data.

International passenger numbers (excluding transits) increased by 11.0% in the year to 30 June 2017. This was a very strong outcome across a broad range of routes and markets.

In the 2017 financial year, our work to grow travel markets with airlines and other travel partners continued the strong performance achieved in recent years. International passenger growth has been strong across the Americas, European, Asia and Australian markets this year, driven by capacity growth. European markets have benefited from increased connectivity with passengers from the United Kingdom up 16.9%, Germany up 17.0% and France up 14.6% following the expansion of European connections through Qatar, Dubai, Bangkok and Beijing.

The number of international airlines serving Auckland substantially increased during the 2017 financial year from 23 to 30 with the launch of United Airlines, Hong Kong Airlines, Tianjin Airlines, Hainan Airlines, Qatar Airways, Sichuan Airlines and Norfolk Island Airlines. Capacity increases were seen across all regions including a 25% increase on North American services, a 7% increase on the Tasman and a 28% increase in capacity to mainland China. South America saw a 20% increase in both capacity and passenger numbers this year. New services and larger aircraft delivered an impressive year of growth to and through the Middle East where capacity increased by 485.8%.

In absolute passenger arrivals by country of last residence, we saw strong increases from four of our five largest source markets. The additional services to North America helped deliver a United States arrivals increase of 63,464 (31.2%) while New Zealand arrivals increased by 200,448 (10.1%), and Australians by 51,573 (6.3%). Visitors from the United Kingdom increased by 29,052 (16.9%) to pass 200,000 for the year. However, after several years of strong passenger growth, arrivals of Chinese residents saw a slight decline of 2,955 (-0.8%). This decline was driven by a change in visitor type with a higher proportion of independent travellers and some signs of displacement of Chinese passengers by international traffic from other global origin airports hubbing through Chinese ports. Owing to strong transiting passenger numbers from other regions, load factors on Chinese routes remained steady despite the 28% increase in capacity to mainland China and the slight decline in Chinese resident traffic.

The table below shows the top 20 volumes of arrivals by country of last permanent residence in the 2017 financial year.

Country of last permanent residence	2017 Auckland Airport arrivals	2016 Auckland Airport arrivals	% change	% of total 2017 arrivals	% of total 2016 arrivals
New Zealand	2,183,028	1,982,580	10.1	44.7	44.9
Australia	869,027	817,454	6.3	17.8	18.5
People's Republic of China	356,315	359,270	(0.8)	7.3	8.1
United States of America	267,037	203,573	31.2	5.5	4.6
United Kingdom and Ireland	200,703	171,651	16.9	4.1	3.9
Japan	93,630	87,235	7.3	1.9	2.0
Germany	79,580	68,001	17.0	1.6	1.5
Korea, Republic of	64,845	57,972	11.9	1.3	1.3
Canada	57,486	48,866	17.6	1.2	1.1
India	52,301	49,284	6.1	1.1	1.1
Malaysia	48,578	30,058	61.6	1.0	0.7
Hong Kong	42,740	33,929	26.0	0.9	0.8
France	36,659	31,987	14.6	0.8	0.7
Singapore	33,669	32,408	3.9	0.7	0.7
Fiji	26,960	25,632	5.2	0.6	0.6
Samoa	26,037	23,984	8.6	0.5	0.5
Taiwan	25,994	23,062	12.7	0.5	0.5
Netherlands	21,974	18,412	19.3	0.4	0.4
Tonga	21,448	19,758	8.6	0.4	0.4
French Polynesia	21,360	17,187	24.3	0.4	0.4

SOURCE: STATISTICS NEW ZEALAND

Visitor arrivals by purpose of visit

The most common purposes of visit for international arrivals continue to be holidays (26.3%) and visiting friends and relatives (16.1%). The strong growth in these categories reflects the success New Zealand has had in growing international tourism numbers. The other segments have also shown good growth, helping to maintain the broad mix of purposes of visits through the airport. The combination of a strong origin traffic base (New Zealand outbound), New Zealand's attractiveness as a destination and the mix of source markets of inbound passengers supports Auckland Airport's resilient passenger growth.

Purpose of visit		2017	2016	% change	% of total
	Holiday/vacation	1,289,248	1,135,936	13.5	26.3
	Visit friends/relatives	788,304	726,416	8.5	16.1
Foreign residents	Business/conference	275,360	258,848	6.4	5.6
	Education/medical	55,712	54,080	3.0	1.1
	Other (incl. not stated/not captured)	314,731	262,799	19.8	6.4
New Zealand residents		2,183,028	1,982,580	10.1	44.5

SOURCE: STATISTICS NEW ZEALAND

Domestic passenger movements

Domestic passenger numbers also grew strongly in the 2017 financial year, increasing by 8.9% or 699,782 passengers. This growth was delivered by increased frequencies on Air New Zealand main trunk jet services including a full year of Queenstown after-dark services. The balance was delivered through regional passenger growth of 16.1% with Air New Zealand and Jetstar adding another 330,000 regional seats over the year on regional services.

2017 Aircraft volume analysis

Total aircraft movements in the year were 169,245, an increase of 7.3% from the 2016 financial year, while total maximum certified take-off weight (MCTOW) increased to 7,848,097, an increase of 12.5%. The strong growth in MCTOW reflects the trend of larger aircraft, particularly international, using Auckland Airport.

	2017	2016	% change
Aircraft movements			
International aircraft movements	54,879	49,828	10.1
Domestic aircraft movements	114,366	107,944	5.9
Total aircraft movements	169,245	157,772	7.3
MCTOW (tonnes)			
International MCTOW	5,609,244	4,910,014	14.2
Domestic MCTOW	2,238,853	2,068,545	8.2
Total MCTOW	7,848,097	6,978,559	12.5

2017 Financial performance analysis

Revenue

Auckland Airport's total revenue was $629.3 million in the 2017 financial year, an increase of $55.4 million or 9.7% on the previous financial year. Double-digit growth was achieved in aeronautical and rental income with revenue increases of 13.8% and 13.7% respectively. Car park income also had strong growth, up 8.1%. Retail revenue increased 3.4%, impacted by disruption from the international departure area upgrade.

	2017 $M	2016 $M	% change
Operating revenue			
Airfield income	119.6	103.4	15.7
Passenger services charge	174.3	154.9	12.5
Retail income	162.8	157.5	3.4
Car park income	56.3	52.1	8.1
Rental income – Property	68.1	59.1	15.2
Rental income – Aeronautical	16.4	15.1	8.6
Rental income – Retail	0.4	0.5	(20.0)
Total rental income	84.9	74.7	13.7
Rates recoveries	5.6	5.4	3.7
Interest income	2.3	1.7	35.3
Other income	23.5	24.2	(2.9)
Total revenue	629.3	573.9	9.7

Airfield income

Airfield landing charges are based on the MCTOW of aircraft. Total MCTOW across international and domestic landings grew by 12.5% in the 2017 financial year. MCTOW growth, together with the 2.5% price increase in landing charges, delivered an airfield income increase of $16.2 million or 15.7%.

Passenger services charge

Passenger services charge (PSC) income increased by $19.4 million or 12.5% in the 2017 financial year, in line with passenger growth and prices.

	2017 $	2016 $	2017 price change %	2018 $	2018 price change %
International PSC (≥ 2 years)	16.09	15.85	1.5	15.65	(2.7)
Domestic PSC (≥ 2 years)	2.18	2.13	2.3	2.28	4.6
Regional PSC (≥ 2 years)	2.18	2.13	2.3	2.13	(2.3)
Transits PSC (≥ 2 years)	4.03	3.93	2.5	4.27	6.0

The 2018 financial year is the first year of the new FY18 – FY22 published aeronautical pricing schedule.

Retail income

Auckland Airport earns concession revenue from retailers within the domestic and international terminals, including duty free and specialty stores, food and beverage outlets, foreign exchange and advertising as well as some off-airport retailers. In addition, income is generated through our VIP lounge offering in international departures.

The substantial redevelopment of the departure and dwell area of the international terminal entered its first year of significant works in 2017. Alongside an upgraded security processing zone and increased dwell space to cater for the significant growth in passenger numbers, the project will deliver a 65% increase in area for retail activities. The enlarged floor space will enhance customers' departure experience and enable Auckland Airport to provide a broader range of stores, brands and products that offers the best of New Zealand and the world. Given the significant scale of the project, it has resulted in disruption to a number of stores during the year as we have had to relocate and reduce the space in which many of the stores have operated. On 30 June 2017, we reached an important milestone in the project and were pleased that the first section of our exciting new duty free retail experience opened to the travelling public.

Total retail income for the 2017 financial year was $162.8 million, an increase of $5.3 million or 3.4% on the previous financial year. Auckland Airport's retail income per international passenger (IPP) was $16.15 for the 2017 financial year, a 5.4% decrease excluding a one-off accrual release in the 2016 financial year. The international passenger spend rate (PSR) fell 2.4% in the 2017 financial year as strong passenger growth was offset by the full-year effect of disruption from the international departure redevelopment. Duty free PSR increased by 2% on the previous financial year reflecting continued focus by the new duty free retailers to hold or grow the core categories through a broader product range and offers. At a category level, cosmetics and electronics recorded solid PSR growth of 7% and 33% respectively, while liquor and fragrances both tracked slightly behind passenger growth with a 2% decline in PSR. The categories most affected by disruption in the international terminal were specialty, destination and news and books under which several stores were relocated (often to smaller kiosks) or closed due to the redevelopment programme. PSR for specialty, destination and news and books fell 9%, 12% and 11% respectively on the previous financial year. Food and beverage, however, recorded PSR growth of 6% underpinned by growth from most stores in the category.

The retail tender process for the new space in level 1 is entering its final stages after careful consideration of the mix of stores and brands. There has been significant interest with strong bids received from several NZ, Australasian and global retailers.

The Emperor Lounge in the international terminal has had another year of incredible growth with revenue up 47% on the previous financial year. As part of the international terminal level 1 redevelopment, the creation of the new and improved Strata Lounge is entering its final stages and will unlock the potential for further growth.

The launch of our new Strata Club in April 2017 has begun to reward and recognise our passengers by personalising their experience through the airport and incentivising spend. The programme aims to tie our retail, lounge and parking offerings together to seamlessly drive cross-purchasing across all products and services.

Car park income

Car park income in the 2017 financial year was $56.3 million, an increase of $4.2 million or 8.1%. During the year we continued our investment in adding parking capacity, building 1,461 parks across Domestic, Valet and Park & Ride. Our work on optimising usage continued with staff parking near the international terminal being relocated to Park & Ride to provide additional higher value capacity for the travelling public.

The table below outlines the number of spaces available at 30 June 2017 and 30 June 2016.

	30 Jun-17	30 Jun-16	Change	% change
Parking capacity				
International Terminal	3,770	3,596	174	4.8
Domestic Terminal	2,572	2,541	31	1.2
Park & Ride	1,432	1,161	271	23.3
Valet	795	413	382	92.5
Staff	2,920	2,317	603	26.0
Total	11,489	10,028	1,461	14.6

The investment to expand both Park & Ride and the provision of a more frequent bus services resulted in strong Park & Ride income growth of 24% in the 2017 financial year. The substantial increase in additional spaces and competitive pricing at Valet also unlocked demand, resulting in income growth of 63%.

As a result of the increased number of spaces, primarily at Park & Ride and Valet, the average revenue per space (ARPS) in the 2017 financial year decreased 4.2%. ARPS is based on revenue divided by the average number of spaces during the year.

Rental income

Auckland Airport earns rental income from space leased in facilities, such as terminals and cargo buildings, and from stand-alone investment properties. Total rental income was $84.9 million in the 2017 financial year, an increase of 13.7% on the previous financial year. Property rental income (excluding aeronautical and retail rental income) was $68.1 million in the 2017 financial year, an increase of $9.0 million or 15.2% on the previous financial year. Income growth in the year was due to new assets such as 23 Timberly Road, Agility and the full-year impact of developments completed during the previous financial year, such as Coca-Cola Amatil, 11 Maurice Wilson Avenue and Fuji Xerox. Strong growth in rental from the existing portfolio and in the ibis Budget hotel also contributed to the income growth in 2017.

There are a number of projects that have been recently completed or are expected to be completed in the next six to eight months (such as the new Fonterra warehouse and the new MPI office building) that will positively impact rental income in the 2018 financial year.

Other income

Other income includes utilities, such as the sale of electricity, gas, water reticulation, and transport licence fees to taxis, shuttles and other operators. Total income from these sources was $23.5 million, a decrease of $0.7 million or 2.9% on the previous financial year primarily due to the implementation of new taxi tariffs in 2017.

Expenses

Total operating expenses (excluding depreciation and interest) were $156.2 million in the 2017 financial year, an increase of $12.6 million or 8.8% on the prior year.

	2017 $M	2016 $M	% change
Operating expenses			
Staff	50.5	46.8	7.9
Asset management, maintenance and airport operations	55.6	49.1	13.2
Rates and insurance	12.2	11.5	6.1
Marketing and promotions	16.7	16.3	2.5
Professional services and levies	11.4	9.7	17.5
Other	9.8	10.2	(3.9)
Total operating expenses	156.2	143.6	8.8

Operating expenses

Operating expense growth during the 2017 financial year reflects ongoing strong growth in aeronautical and commercial activities. Staff costs increased $3.7 million or 7.9%, reflecting higher head count in engineering support services, customer services, apron tower and head office to plan and deliver infrastructure and services to cater for ongoing growth across the business. This increase was partially offset by a reduction in short-term incentive payments.

Asset management, maintenance and airport operations expenses increased by $6.5 million, or 13.2%, in the 2017 financial year. The growth in aeronautical activity required increased expenditure on air-side bus services, baggage equipment and investment in technology. In addition, further investment was made in Emperor Lounge and Park & Ride during the year, driving higher costs and higher profits from these activities.

Rates and insurance expenses increased by $0.7 million, or 6.1%, in the 2017 financial year, driven by additional charges for newly developed investment property and average rates increases of 1.9% across the portfolio. Rates increases on developed investment property are matched by offsetting increases in rates recoveries within other income.

Marketing and promotions expenditure growth of $0.4 million, or 2.5%, in the 2017 financial year was driven by aeronautical marketing spend to help establish and sustain long-term capacity and revenue growth. Aircraft seat capacity increased by 2.3 million seats, or 10.5%, in the 2017 financial year demonstrating the value generated by aeronautical marketing activities.

Fees for professional services increased by $1.7 million, or 17.5%, to $11.4 million in the 2017 financial year. The majority of this relates to legal and consulting fees incurred researching and submitting on the Commerce Commission's "Input Methodology Review" of airport economic regulation, and setting aeronautical prices for FY18-FY22. Along with business as usual consultancy services, a key project in the year was refreshing the company's long-term transport strategy.

Depreciation

Depreciation expense in the 2017 financial year was $77.9 million, an increase of $4.9 million, or 6.7%, on the previous financial year. The increase on the prior year reflects the commissioning of new assets in the period as a result of the increased capital expenditure over the past two years.

Interest

Interest expense was $72.8 million in the 2017 financial year, a decrease of $6.3 million, or 8.0%, on the previous financial year. The increase in the average debt balance of 12.2% for the 2017 financial year was more than offset by the decrease in the average cost of funds. Decreasing cash rates and the successful refinancing of debt from historically higher rates helped reduce the average cost of funds from 5.09% in the previous financial year to 4.46% in 2017. The company's increased capital expenditure has also increased the amount of interest capitalised onto the balance sheet from $5.5 million in the previous financial year to $9.9 million in the year ended 30 June 2017.

Taxation

Taxation expense was $103.3 million in the 2017 financial year, an increase of $27.9 million on the previous financial year. After adjusting for the effect of the fair value increases in derivatives and investment property, underlying tax expense was $89.5 million in the financial year to 30 June 2017. This was an increase of $12.5 million or 16.2% on the previous financial year ending 30 June 2016, reflecting the growth in underlying profit for the year.

Share of profit from associates

Our total share of the profit from associates in the 2017 financial year was $19.4 million, comprising North Queensland Airports (NQA) ($11.0 million), Tainui Auckland Airport Hotel Limited Partnership (TAAH) ($5.4 million) and Queenstown Airport ($3.0 million). This was an improvement on the $8.4 million loss in the previous financial year.

Included in the 2017 financial year's share of profit from associates of $19.4 million (2016: loss $8.4 million) is: NQA's gain on revaluation of investment property of $2.3 million (2016: $1.7 million), our share of NQA's fair value gain on financial instruments of $0.6 million (2016: loss of $8.1 million) and an adjustment of $1.1 million to NQA's 2016 asset impairment of $15.7 million; TAAH's fair valuation gain on investment property of $2.6 million (2016: $2.3 million); and TAAH's fair valuation gain on financial instruments of $0.1 million (2016: loss of $0.1 million). Excluding these fair value changes, Auckland Airport's share of underlying profit from associates was up by 29.6% to $14.9 million for the 2017 financial year (2016: $11.5 million).

North Queensland Airports

Extract from North Queensland Airports' full company results

	2017 AU$M	2016 AU$M	% change
Financial performance			
Total revenue	142.7	134.6	6.0
EBITDAFI	87.3	83.8	4.2
Net profit after tax	46.8	(54.8)	185.4
Passenger performance			
Domestic passengers – Mackay	774,969	845,582	(8.4)
Domestic passengers – Cairns	4,391,405	4,243,305	3.5
International passengers (excluding transits) – Cairns	667,650	621,536	7.4
International passengers (including transits) – Cairns	839,253	767,774	9.3

Auckland Airport's 24.55% share of NQA's net profit after tax was $11.0 million. The reported profit includes a number of non-cash items including fair value gains on investment property and fair value gains on financial instruments. Excluding Auckland Airport's share of NQA's non-cash revaluations, the underlying 2017 net profit after tax result was $9.2 million.

Passenger growth was strong at Cairns Airport in the 2017 financial year with international passengers up 9.3% and domestic passengers up 3.5%. The strong international passenger growth was driven by growth on the airport's Tokyo and Osaka routes, a new international airline (Jin Air) and increased flight frequencies by Hong Kong Airlines, SilkAir and Jetstar. Mackay Airport passenger numbers were down 8.4%, in part due to its Sydney route being cancelled and the ongoing softening of the mining and resources industry.

Auckland Airport received AU$14.1 million in dividends from its investment in NQA during the 2017 financial year (including AU$2.6 million declared and receivable as at 30 June 2017), up 10.1% on AU$12.8 million in the previous financial year (including AU$2.5 million declared and receivable as at 30 June 2016).

Queenstown Airport

	2017 $M	2016 $M	% change
Financial performance			
Total revenue	39.0	31.5	23.8
EBITDAFI	26.2	21.5	21.9
Net profit after tax	12.1	7.8	55.1
Passenger performance			
Domestic passenger volumes	1,360,158	1,176,330	15.6
International passenger volumes	532,285	474,779	12.1
Total passengers	1,892,443	1,651,109	14.6

Auckland Airport's 24.99% share of Queenstown Airport's net profit after tax for the 2017 financial year was $3.0 million, a 57.9% increase on the previous financial year.

Queenstown Airport's outstanding passenger growth continued in the 2017 financial year with total passengers up another 14.6% on top of last year's growth of 18.1%. International passenger numbers rose reflecting capacity additions by all international airlines, particularly those on the Sydney and Melbourne routes. Domestic passenger numbers were up 15.6%, driven in part by seat capacity increases on the Auckland-Queenstown route following the addition of two more daily Air New Zealand A320 flights, and the first-year anniversary of after-dark services at the airport. In the 2017 financial year Queenstown Airport started welcoming evening flights during winter months, allowing the airport to maximise its operating hours of 6am to 10pm and reduce peak-time pressure on its facilities and services. Operating leverage created by higher passenger volumes drove an increase in Queenstown Airport's underlying net profit before tax of 55.1%.

Auckland Airport received a dividend of $1.6 million from its investment in Queenstown Airport in the 2017 financial year, up from $1.3 million in the previous financial year.

Tainui Auckland Airport Hotel Limited Partnership

Auckland Airport at 30 June 2017 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 completed in February 2017 when Auckland Airport purchased a 20% stake from Tainui Group Holdings. The second phase is forecast to complete in the 2019 financial year when Auckland Airport purchases Accor Hotel Group's 10% stake in the joint venture. In the 2017 financial year, Auckland Airport's share of profit from this investment was $5.4 million, an increase of $1.5 million, or 38.5%, compared with the previous financial year. Excluding TAAH's fair valuation gains on investment property and financial instruments, Auckland Airport's share of underlying profit from this investment was $2.7 million, an increase of $1.0 million, or 58.8%, compared with the previous financial year.

Reflecting greater demand for accommodation at the airport, the Novotel hotel's annual average occupancy rate for the 2017 financial year increased to 91% – up from 89% in the previous financial year – and the average daily rate increased by 12%.

Fair value changes

In the 2017 financial year, investment property fair value changes resulted in a gain in the income statement of $91.9 million, compared with a gain of $87.1 million in the previous financial year. As was the case last year, this increase was due to continued improvements in lease terms during the period combined with firming of the capitalisation rates of the property portfolio, as well as improved land values for undeveloped land.

The land and infrastructure classes of assets within property, plant and equipment were last revalued as at 30 June 2016.

2017 Financial position analysis

As at 30 June	2017 $M	2016 $M	% change
Non-current assets	6,399.5	6,038.6	6.0
Current assets	104.0	102.9	1.1
Total assets	6,503.5	6,141.5	5.9
Non-current liabilities	1,911.0	1,768.6	8.1
Current liabilities	563.5	492.2	14.5
Equity	4,029.0	3,880.7	3.8
Total equity and liabilities	6,503.5	6,141.5	5.9

As at 30 June 2017 our total assets book value was $6,503.5 million, an increase of $362.0 million, or 5.9%, on 30 June 2016. The increase in total assets is primarily the result of increased capital expenditure in the year attributable to property, plant and equipment.

Shareholders' equity was $4,029.0 million as at 30 June 2017, an increase of $148.3 million, or 3.8%, on 30 June 2016. The movement in equity primarily reflected the profit in the year and also included a $15.5 million increase in shares on issue following the reinstatement of the dividend reinvestment plan for the 2017 interim dividend.

Gearing, measured as debt to debt plus the market value of shareholders' equity, marginally decreased to 19.5% as at 30 June 2017, from 19.7% as at 30 June 2016.

Capital expenditure

For the 2017 financial year, Auckland Airport invested $374.7 million on building New Zealand's airport of the future. The quantum of the capital expenditure in 2017 represents a significant step change compared to previous years (2016: $243.2 million) and reflects an accelerated development programme to cater for ongoing strong growth across the business. In 2017, concurrent works were undertaken on two major aeronautical projects, being the international terminal level 1 expansion and the Pier B expansion.

Category	2017 $M	2016 $M	% change	Key 2017 projects
Aeronautical	255.4	119.7	113.4	International terminal level 1 expansion, Pier B expansion (gates 17-18), new fully serviced airfield stand, upgrade of two remote airfield stands, taxiway development, airfield concrete pavement replacement, increased check-in capacity including new counters and mobile kiosks.
Infrastructure and other	12.4	8.0	55.0	IT infrastructure upgrade, introduction of new contract management system, increased investment in IT security systems and implementation of Strata Club customer loyalty programme.
Property	85.7	106.4	(19.5)	Fonterra offices and warehouse development, purpose-built facilities for Ministry of Primary Industries, Quad 7 development, The Landing precinct development, Röhlig Logistics office and warehouse development and construction of a warehouse in The Landing precinct and development of a preleased warehouse for Bunnings.
Retail	7.2	4.6	56.5	Relocation and expansion of existing Emperor Lounge facility and commenced development of a new online retail channel scheduled for launch mid-FY18.
Car parking	14.0	4.5	211.1	Increased capacity at Park & Ride and expansion of Valet and a domestic terminal car park.
Total	**374.7**	**243.2**	**54.1**	

The implementation of our 30-year vision to build the airport of the future is now well underway and we are currently investing more than $1 million every working day in our core airport infrastructure. This investment is spread across many projects, with over 44 capital expenditure projects currently underway that are each valued at more than $1 million.

Construction is well underway on the international terminal level 1 expansion with the new and expanded security screening and processing area as well as the first half of the new stores for our two anchor duty free operators opening to the travelling public. Construction on the Pier B expansion (gates 17–18) at the international terminal is also well underway and remains on schedule to deliver Gate 17 by the 2017/18 summer peak season and Gate 18 in the first quarter of calendar 2018.

Reflecting the continued growth across all areas of the business, capital expenditure for the 2018 financial year is forecast to be between $410 and $460 million, with a midpoint of $435 million as shown below.

Category	Forecast 2018 $M
Aeronautical	274
Infrastructure and other	35
Property	80
Retail, car parking	46
Total capital expenditure	435

Major aeronautical projects in the financial year ended 30 June 2018 include the continuation of the Pier B expansion, international terminal level 1 expansion and the commencement of design and enabling works for the new domestic jet terminal adjacent to Pier A of the international terminal. Property projects such as the Bunnings warehouse, purpose-built facilities for both Ministry of Primary Industries and Airways New Zealand and enabling works at The Landing to support further development will drive continued growth in investment property income. In 2018 we will undertake a number of new car parking projects including commencing construction of a new 1,000 bay multi-storey car park in Car Park E and commencing design of a large multi-storey car park opposite the international terminal building. In addition to this, we will invest in a number of transport-related projects to address peak road congestion within the airport campus. These include the introduction of bus lanes for George Bolt Memorial Drive and Tom Pearce Drive, upgrades of existing intersections and roundabouts, upgrade of Nixon Road to provide a southern bypass and construction of a pedestrian bridge over George Bolt Memorial Drive.

Borrowings

As at 30 June 2017, Auckland Airport's total borrowings were $2,056.6 million, an increase of $169.7 million on 30 June 2016. The increase in borrowings reflects higher capital expenditure incurred throughout the financial year 2017.

During 2017, Auckland Airport successfully completed its inaugural Australian medium term note (AMTN) issue, raising AU$150.0 million. Foreign dollar borrowings were revalued at year end to reflect movements in foreign exchange rates over the year. As a result, the carrying value of Auckland Airport's USPP debt decreased by $60.3 million and the carrying value of AMTN debt decreased by $2.5 million. The exchange rate movements were matched by an equal and offsetting movement in the cross currency interest rate swaps fair value.

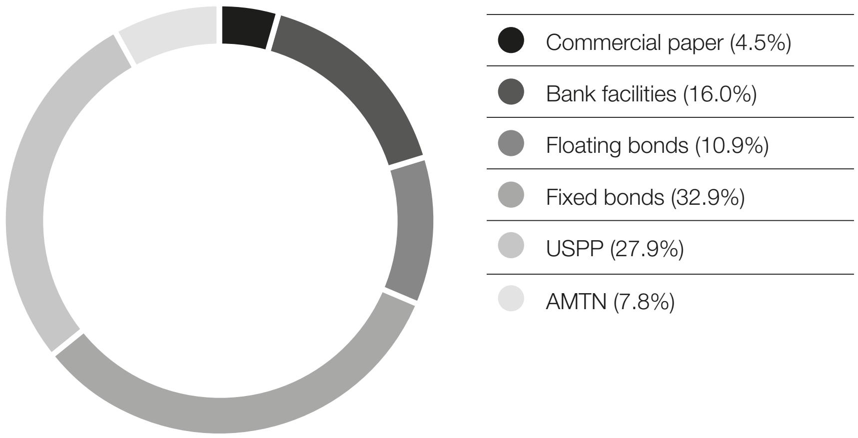
Auckland Airport's borrowings comprise USPP notes totalling $574.6 million; AMTN notes totalling $160.9 million; fixed rate bonds totalling $675.3 million; drawn bank facilities totalling $329.0 million; floating rate bonds totalling $225.0 million and commercial paper totalling $91.8 million.

Short-term borrowings, with a maturity of one year or less, accounted for $421.1 million, or 20.5%, of total borrowings. This was an increase on the previous year's $396.9 million. Current debt is made up of $91.8 million commercial paper; a $100.0 million bond which matures in October 2017; $45.0 million bank facility which matures in October 2017; an AU$80 million bank facility that matures in December 2017 and a $100 million bank facility which matures in April 2018.

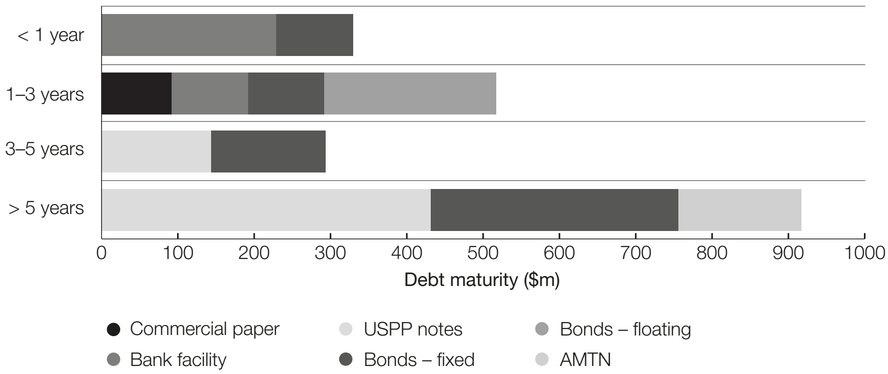
As at 30 June 2017, Auckland Airport had total bank facilities of $609.0 million, of which $329.0 million was drawn and $280.0 million was available in standby capacity. As at 30 June 2017, total bank facilities included two fully drawn facilities with Bank of Tokyo totalling $145.0 million; a fully drawn AU$80.0 million Commonwealth Bank of Australia facility; a fully drawn NZD100.0 million Commonwealth Bank of Australia facility; and undrawn standby facilities of $80.0 million from ANZ, $75.0 million from Westpac and $125.0 million from BNZ.

The longer-dated BNZ standby facility supports our commercial paper programme, which has a balance of $91.8 million as at 30 June 2017, and provides liquidity support for general working capital. As the commercial paper is supported by the bank facility, the following debt maturity profile chart, as at 30 June 2017, includes the commercial paper in the 'one to three year' brackets, matching the maturity of the supporting BNZ facility.

Borrowings by category



Debt maturity profile at 30 June 2017



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.

Auckland Airport has a foreign currency exposure via its investment in North Queensland Airports, from Australian to New Zealand dollars. Any movement in the value of this investment due to foreign currency translation is included in the foreign currency translation reserve (FCTR). As at 30 June 2017, Auckland Airport had AU$80.0 million of bank facilities drawn as a partial hedge of the currency exposure on our NQA investment. At a consolidated group level, the foreign exchange movements on these bank facilities are also taken to the FCTR to partially offset the movements from the revaluation of the investment.

Key credit metrics

	2017	2016	% change
Debt/Debt + market value of equity (as at 30 June)	19.5%	19.7%	
Debt/EBITDAFI (as at 30 June)	4.3	4.4	(2.3)
Funds from operations interest cover (as at 30 June)	4.9	4.6	6.5
Weighted average interest cost (12 months to 30 June)	4.46%	5.09%	
Average debt maturity profile (as at 30 June, years)	4.74	4.29	10.5
Percentage of fixed borrowings (as at 30 June)	51.4%	48.9%	

Capital structure and credit rating

As at 30 June 2017, Standard & Poor's (S&P) long-term credit rating of Auckland Airport was 'A- Stable' and the short-term credit rating was 'A2'. S&P's 'A- Stable' rating reflects the strong ability of Auckland Airport to meet its financial commitments.

Cash flow

Cash flow summary	2017 $M	2016 $M	% change
Net cash inflow from operating activities	307.1	270.5	13.5
Net cash outflow applied to investing activities	(337.3)	(217.7)	54.9
Net cash inflow/(outflow) applied to financing activities	22.7	(38.7)	158.7
Net (decrease)/increase in cash held	(7.5)	14.1	(153.2)

Net cash inflow from operating activities was $307.1 million in the 2017 financial year, an increase of $36.6 million, or 13.5%, on the previous financial year. Consistent with prior years, the growth in net cash flow from operating activities was broadly in line with growth in earnings.

Net cash outflow applied to investing activities was $337.3 million in the 2017 financial year, an increase of $119.6 million, or 54.9%, due to an increase in the purchase of property, plant and equipment ($123.5 million) and additional investment in the Novotel of $18.6 million, partly offset by a reduction in cash outflow for investment property.

Net cash inflow applied to financing activities was $22.7 million in the 2017 financial year, an increase of $61.4 million on the previous financial year. Offsetting the $226.3 million of dividend payments, cash flows from financing activities for the 2017 financial year included a net inflow from the reinstated dividend reinvestment plan of $15.5 million and additional borrowings of approximately $223.4 million to fund increased capital expenditure.

2017 Returns for shareholders

Dividend policy

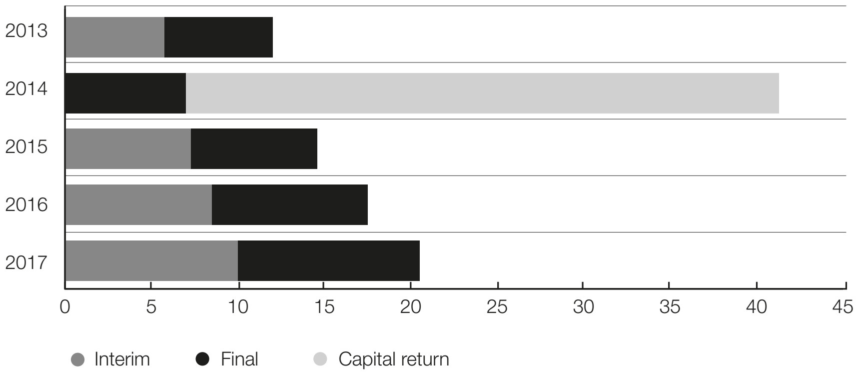
Auckland Airport's dividend policy is to pay 100% of underlying net profit after tax (excluding unrealised gains and losses arising from a revaluation of property or treasury instruments and other one-off items), noting that, in special circumstances, the directors may consider the payment of ordinary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

2017 dividend

The final dividend for the year ending 30 June 2017 is 10.5 cents per share compared with the final dividend of 9.0 cents per share in the previous financial year, an increase of 16.7%.

The 2017 final dividend will be paid on 20 October 2017 to shareholders on the register at the close of business on 6 October 2017. 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 further share price growth in the year to 30 June 2017, with its share price increasing from $6.50 as at 30 June 2016 to $7.13 as at 30 June 2017. Total shareholder return, including share price appreciation and final dividends relating to the 2017 financial year, is 12.8%.

Five year compound average total shareholder return

	Share price opening $	Share price closing $	Dividend cps	Total return $	Average annual shareholder return %
1 July 2012 to 30 June 2017	2.44	7.13	71.60	5.41	26.3

Consolidated income statement

FOR THE YEAR ENDED 30 JUNE 2017

	Notes	2017 $M	2016 $M
Income			
Airfield income		119.6	103.4
Passenger services charge		174.3	154.9
Retail income	5	162.8	157.5
Rental income	5	84.9	74.7
Rates recoveries		5.6	5.4
Car park income		56.3	52.1
Interest income		2.3	1.7
Other income		23.5	24.2
Total income		629.3	573.9
Expenses			
Staff	5	50.5	46.8
Asset management, maintenance and airport operations		55.6	49.1
Rates and insurance		12.2	11.5
Marketing and promotions		16.7	16.3
Professional services and levies		11.4	9.7
Other expenses	5	9.8	10.2
Total expenses		156.2	143.6
Earnings before interest expense, taxation, depreciation, fair value adjustments and investments in associates (EBITDAFI)		473.1	430.3
Share of profit/(loss) of associates and joint ventures	8	19.4	(8.4)
Derivative fair value increase/(decrease)	18.2	2.5	(2.6)
Property, plant and equipment fair value revaluation	11(a)	–	(16.5)
Investment property fair value increase	12	91.9	87.1
Earnings before interest, taxation and depreciation (EBITDA)		586.9	489.9
Depreciation	11(a)	77.9	73.0
Earnings before interest and taxation (EBIT)		509.0	416.9
Interest expense and other finance costs	5	72.8	79.1
Profit before taxation		436.2	337.8
Taxation expense	7(a)	103.3	75.4
Profit after taxation attributable to owners of the parent		332.9	262.4

		Cents	Cents
Earnings per share			
Basic and diluted earnings per share	10	27.96	22.05

The notes and accounting policies on pages 26 to 64 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 2017

	Notes	2017 $M	2016 $M
Profit for the year		332.9	262.4
Other comprehensive income			
Items that will not be reclassified to the income statement			
Net property, plant and equipment revaluation movement	11(a),16(ii)	–	784.0
Tax on the property, plant and equipment revaluation reserve	16(ii)	–	(7.1)
Movement in share of reserves of associates	8, 16(v)	7.5	8.9
Items that will not be reclassified to the income statement		7.5	785.8
Items that may be reclassified subsequently to the income statement:			
Cash flow hedges			
Fair value gains/(losses) recognised in the cash flow hedge reserve	16(iv)	15.2	(36.5)
Realised losses transferred to the income statement	16(iv)	6.7	6.0
Tax effect of movements in the cash flow hedge reserve	16(iv)	(6.1)	8.5
Total cash flow hedge movement		15.8	(22.0)
Movement in share of reserves of associates	8, 16(v)	2.5	1.9
Movement in foreign currency translation reserve	16(vi)	0.2	(2.7)
Items that may be reclassified subsequently to the income statement		18.5	(22.8)
Total other comprehensive income		26.0	763.0
Total comprehensive income for the year, net of tax attributable to the owners of the parent		358.9	1,025.4

The notes and accounting policies on pages 26 to 64 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 2017

For the year ended 30 June 2017	Notes	Issued and paid-up capital $M	Cancelled share reserve $M	Property, plant and equipment revaluation reserve $M	Share-based payments reserve $M	Cash flow hedge reserve $M	Share of reserves of associates $M	Foreign currency translation reserve $M	Retained earnings $M	Total $M
At 1 July 2016		332.7	(609.2)	3,730.6	1.0	(47.7)	10.4	(9.5)	472.4	3,880.7
Profit for the year		–	–	–	–	–	–	–	332.9	332.9
Other comprehensive income		–	–	–	–	15.8	10.0	0.2	–	26.0
Total comprehensive income		–	–	–	–	15.8	10.0	0.2	332.9	358.9
Reclassification to retained earnings	16(ii)	–	–	(1.6)	–	–	–	–	1.6	–
Shares issued	15	15.6	–	–	–	–	–	–	–	15.6
Long-term incentive plan	16(iii)	–	–	–	0.1	–	–	–	–	0.1
Dividend paid	9	–	–	–	–	–	–	–	(226.3)	(226.3)
At 30 June 2017		348.3	(609.2)	3,729.0	1.1	(31.9)	20.4	(9.3)	580.6	4,029.0
For the year ended 30 June 2016										
At 1 July 2015		332.3	(609.2)	2,958.5	0.9	(25.7)	(0.4)	(6.8)	393.3	3,042.9
Profit for the year		–	–	–	–	–	–	–	262.4	262.4
Other comprehensive income/(loss)		–	–	776.9	–	(22.0)	10.8	(2.7)	–	763.0
Total comprehensive income/(loss)		–	–	776.9	–	(22.0)	10.8	(2.7)	262.4	1,025.4
Reclassification to retained earnings	16(ii)	–	–	(4.8)	–	–	–	–	4.8	–
Shares issued	15	0.4	–	–	–	–	–	–	–	0.4
Long-term incentive plan	16(iii)	–	–	–	0.1	–	–	–	–	0.1
Dividend paid	9	–	–	–	–	–	–	–	(188.1)	(188.1)
At 30 June 2016		332.7	(609.2)	3,730.6	1.0	(47.7)	10.4	(9.5)	472.4	3,880.7

The notes and accounting policies on pages 26 to 64 form part of and are to be read in conjunction with these financial statements.

Consolidated statement of financial position

AS AT 30 JUNE 2017

	Notes	2017 $M	2016 $M
Non-current assets			
Property, plant and equipment	11(a)	4,947.8	4,708.1
Investment properties	12	1,198.0	1,048.9
Investment in associates	8	171.6	142.8
Derivative financial instruments	18	82.1	138.8
		6,399.5	6,038.6
Current assets			
Cash and cash equivalents	13	45.1	52.6
Inventories		0.1	0.1
Trade and other receivables	14	55.5	42.3
Dividends receivable		2.7	3.3
Taxation receivable		–	3.9
Derivative financial instruments	18	0.6	0.7
		104.0	102.9
Total assets		6,503.5	6,141.5

The notes and accounting policies on pages 26 to 64 form part of and are to be read in conjunction with these financial statements.

	Notes	2017 $M	2016 $M
Shareholders' equity			
Issued and paid-up capital	15	348.3	332.7
Reserves	16	3,100.1	3,075.6
Retained earnings		580.6	472.4
		4,029.0	3,880.7
Non-current liabilities			
Term borrowings	18.1	1,635.6	1,490.0
Derivative financial instruments	18	36.1	56.9
Deferred tax liability	7(c)	237.8	220.4
Other term liabilities		1.5	1.3
		1,911.0	1,768.6
Current liabilities			
Accounts payable and accruals	17	132.3	94.3
Taxation payable		6.4	–
Derivative financial instruments	18	2.8	0.1
Short-term borrowings	18.1	421.1	396.9
Provisions	21	0.9	0.9
		563.5	492.2
Total equity and liabilities		6,503.5	6,141.5

These financial statements were approved and adopted by the Board on 23 August 2017.

Signed on behalf of the Board by:

Sir Henry van der Heyden
Director, Chair of the Board

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

The notes and accounting policies on pages 26 to 64 form part of and are to be read in conjunction with these financial statements.

Consolidated cash flow statement

FOR THE YEAR ENDED 30 JUNE 2017

	Notes	2017 $M	2016 $M
Cash flow from operating activities			
Cash was provided from:			
Receipts from customers		615.5	569.5
Interest received		2.3	1.7
		617.8	571.2
Cash was applied to:			
Payments to suppliers and employees		(156.3)	(151.2)
Income tax paid		(81.7)	(69.9)
Interest paid		(72.7)	(79.6)
		(310.7)	(300.7)
Net cash flow from operating activities	6	307.1	270.5
Cash flow from investing activities			
Cash was provided from:			
Proceeds from sale of property, plant and equipment		0.1	0.1
Dividends from associate		20.2	15.8
		20.3	15.9
Cash was applied to:			
Purchase of property, plant and equipment		(247.9)	(124.4)
Interest paid – capitalised		(9.9)	(5.5)
Expenditure on investment properties		(81.2)	(103.7)
Investment in associates		(18.6)	–
		(357.6)	(233.6)
Net cash flow applied to investing activities		(337.3)	(217.7)
Cash flow from financing activities			
Cash was provided from:			
Increase in share capital	15	0.1	0.4
Increase in borrowings		538.4	275.0
		538.5	275.4
Cash was applied to:			
Decrease in borrowings		(305.0)	(126.0)
Dividends paid	9	(210.8)	(188.1)
		(515.8)	(314.1)
Net cash flow applied to financing activities		22.7	(38.7)
Net (decrease)/increase in cash held		(7.5)	14.1
Opening cash brought forward		52.6	38.5
Ending cash carried forward	13	45.1	52.6

The notes and accounting policies on pages 26 to 64 form part of and are to be read in conjunction with these financial statements.

Notes and accounting policies

FOR THE YEAR ENDED 30 JUNE 2017

Notes and accounting policies

FOR THE YEAR ENDED 30 JUNE 2017

1. Corporate information

Auckland International Airport Limited (the company or Auckland Airport) is a company established under the Auckland Airport Act 1987 and was incorporated on 20 January 1988 under the Companies Act 1955. The original assets of Auckland Airport were vested in the company on 1 April 1988 and 13 November 1988 by an Order in Council of the New Zealand Government. The company commenced trading on 1 April 1988. The company was reregistered under the Companies Act 1993 on 6 June 1997. The company is an FMC reporting entity under Part 7 of the Financial Markets Conduct Act 2013.

The financial statements presented are for Auckland Airport and its wholly owned subsidiaries, associates and joint ventures (the group). There are five subsidiaries in the group. Three of the subsidiaries are Auckland Airport Limited, Auckland Airport Holdings Limited and Auckland Airport Holdings (No. 2) Limited. These subsidiaries hold the group's investments in North Queensland Airports (Cairns Airport and Mackay Airport in Queensland, Australia), Queenstown Airport in New Zealand, the Tainui Auckland Airport Hotel Limited Partnership, which operates the Novotel hotel at Auckland Airport, and the Tainui Auckland Airport Hotel 2 Limited Partnership, which is constructing a new Pullman hotel at Auckland Airport. 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 and supporting infrastructure in Auckland, New Zealand. The group earns revenue from aeronautical activities, on-airport retail concessions and car parking facilities, stand-alone investment properties and other charges and rents associated with operating an airport.

These financial statements were authorised for issue in accordance with a resolution of the directors on 23 August 2017.

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.

The carrying values of recognised assets and liabilities that are hedged items in fair value hedges, and would otherwise be carried at cost or amortised at cost, are adjusted to record changes in the fair values attributable to the risks that are 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. 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. The group did not adopt any new accounting standards, interpretation or amendments.

New or revised standards and interpretations that have been approved but are not yet effective have not been adopted by the group for the annual reporting period ended 30 June 2017. These will be applied when they become mandatory. The significant items are as follows:

- NZ IFRS 9 *Financial Instruments* is effective for annual periods beginning on or after 1 January 2018. NZ IFRS 9 addresses the classification, measurement and recognition of financial assets and financial liabilities and relaxes the current NZ IAS 39 requirements for hedge accounting. The group's assessment is that there will be no material quantitative impact on the financial statements and all existing hedges will remain effective. The group intends to apply the standard from 1 July 2018.
- NZ IFRS 15 *Revenue from Contracts with Customers* is effective for annual periods beginning on or after 1 January 2018. It replaces the current revenue recognition guidance in NZ IAS 18 *Revenue* and NZ IAS 11 *Construction Contracts*. Revenue is recognised when a customer obtains control of a good or service. The group has commenced a project to review the impact of NZ IFRS 15 and will indicate the quantitative impact, if any, in its 31 December 2017 interim report. The group will apply this standard from 1 July 2018.
- NZ IFRS 16 *Leases* is effective for annual periods beginning on or after 1 January 2019. NZ IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases. The accounting requirements for lessors are substantially the same as those in NZ IAS 17, and while the group is yet to assess NZ IFRS 16's full impact, it is expected to be immaterial. The group will apply this standard 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

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.

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

Exchange differences arising from the translation of the net investment in North Queensland Airport and of the foreign currency instruments designated as hedges of the net investment are recognised in other comprehensive income and accumulated in the foreign currency translation reserve.

(f) Property, plant and equipment

Properties held for airport operation 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 the fair value of the property can be reliably determined when construction is complete, then investment property under construction will be measured at cost until either its fair value can be reliably determined or construction is complete.

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

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

(h) Impairment of non-financial assets

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

Notes and accounting policies CONTINUED

FOR THE YEAR ENDED 30 JUNE 2017

2. Summary of significant accounting policies CONTINUED

(i) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset. Other borrowing costs are expensed as incurred.

(j) Financial instruments

The group's financial assets comprise cash and cash equivalents, accounts receivable and dividends receivable (classified as loans and receivables) and derivatives (classified as held for trading or designated as a hedge).

The group's financial liabilities comprise accounts payable and accruals, borrowings, provisions, other liabilities (classified as financial liabilities at amortised cost) and derivatives (classified as held for trading or designated as a hedge).

Cash

Cash in the statement of financial position and the cash flow statement comprises cash on hand, on-call deposits held with banks and short-term highly liquid investments.

Accounts receivable

Accounts receivable are recognised and carried at the original invoice amount less an allowance for impairment for any uncollectible amounts when there is objective evidence of impairment.

Accounts payable and accruals

Accounts payable and accruals are not interest bearing and are initially stated at their fair value and subsequently carried at amortised cost. Due to their short-term nature, they are not discounted to net present value.

Borrowings

All borrowings are initially recognised at the fair value of the consideration received, less directly attributable transaction costs, and subsequently measured at amortised cost using the effective interest method.

The increase and decrease in borrowings are reported net in the cash flow statement for bank facilities and commercial paper where the turnover is frequent and the maturities are short.

Derivative financial instruments

The group uses derivative financial instruments to hedge its risks associated with interest rates and foreign currency. Derivative financial instruments are recognised at fair value.

The group designates as fair value hedges derivative financial instruments on fixed-coupon debt where the fair value of the debt changes as a result of changes in market interest rates. The carrying amounts of the hedged items are adjusted for gains and losses attributable to the risk being hedged. The hedging instruments are also remeasured to fair value. Gains and losses from both are taken to the income statement.

Cash flow hedges are currently applied to future interest cash flows on variable rate loans. The effective portion of the gain or loss on the hedging instruments is recognised directly in other comprehensive income and accumulated as a separate component of equity in the cash flow hedge reserve, while the ineffective portion is recognised in the income statement. Amounts taken to equity are transferred to the income statement when the hedged transaction affects the income statement.

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

(k) Issued and paid-up capital

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

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

(l) Revenue recognition

Rendering of services

Airfield income, the passenger services charge and the terminal service charge are recognised as revenue when the airport facilities are used.

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

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

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

Interest income

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

Dividend income

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

(m) Employee benefits

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

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

Equity-settled transactions

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

Cash-settled transactions

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

(n) Income tax and other taxes

Income tax

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

Deferred tax

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

Income taxes relating to items recognised in other comprehensive income or directly in equity are recognised in other comprehensive income or directly in equity and not in the income statement.

Goods and services tax (GST)

Revenue, expenses, assets and liabilities are stated exclusive of GST, except for receivables and payables, which are stated with the amount of GST included.

Cash flows are included in the cash flow statement on a gross basis, and the GST component of cash flows arising from investing and financing activities, which is recoverable from or payable to the taxation authority, is classified as part of operating activities.

Commitments and contingencies are disclosed net of the amount of GST.

3. Significant accounting judgements, estimates and assumptions

In producing the financial statements, the group makes judgements, estimates and assumptions based on known facts at a point in time. These accounting judgements, estimates and assumptions will rarely exactly match the actual outcome. The judgements that have the most significant effect on the amounts recognised and the estimates and assumptions that have a significant risk of causing a material adjustment to the carrying values of assets and liabilities within the next financial year are as follows.

(a) Fair value of investment property

Changes to market conditions or to assumptions made in the estimation of fair value may result in changes to the fair value of investment property. The carrying value of investment property and the valuation methodology are disclosed in note 12.

(b) Carrying value of property, plant and equipment

Judgement is required to determine whether the fair value of land, buildings and services, runway, taxiways and aprons and infrastructural assets has changed materially from the last revaluation. The determination of fair value at the time of the revaluation requires estimates and assumptions based on market conditions at that time. Changes to estimates, assumptions or market conditions subsequent to a revaluation will result in changes to the fair value of property, plant and equipment.

Remaining useful lives and residual values are estimated based on management's judgement, previous experience and guidance from registered valuers. Changes in those estimates affect the carrying value and the depreciation expense in the income statement.

The carrying value of property, plant and equipment and the valuation methodologies and assumptions are disclosed in note 11(c).

(c) Movements in the carrying value of property, plant and equipment

When revaluations are carried out by independent valuers, the valuer determines a value for individual assets. This may involve allocations to individual assets from projects and allocations to individual assets within a class of assets. The allocations to individual assets may be different to the allocations performed at the time a project was completed or different to the allocations to the individual asset made at the previous asset revaluation. These differences at an asset level may be material and can impact the income statement.

Notes and accounting policies CONTINUED

FOR THE YEAR ENDED 30 JUNE 2017

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 2017 financial year accounted for 24.0% of external revenue (2016: 25.1%). 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 2017				
Income from external customers				
Airfield income	119.6	–	–	119.6
Passenger services charge	174.3	–	–	174.3
Retail income	–	162.8	–	162.8
Rental income	16.4	0.4	68.1	84.9
Rates recoveries	0.6	0.8	4.2	5.6
Car park income	–	56.3	–	56.3
Other income	7.6	9.2	2.5	19.3
Total segment income	318.5	229.5	74.8	622.8
Expenses				
Staff	27.5	4.3	3.1	34.9
Asset management, maintenance and airport operations	35.1	12.4	3.9	51.4
Rates and insurance	3.7	1.5	6.4	11.6
Marketing and promotions	10.7	3.8	0.4	14.9
Professional services and levies	2.3	0.3	0.6	3.2
Other expenses	1.5	1.4	2.2	5.1
Total segment expenses	80.8	23.7	16.6	121.1
Segment earnings before interest, taxation and depreciation (segment EBITDAFI)	237.7	205.8	58.2	501.7

	Aeronautical $M	Retail $M	Property $M	Total $M
Year ended 30 June 2016				
Income from external customers				
Airfield income	103.4	–	–	103.4
Passenger services charge	154.9	–	–	154.9
Retail income	–	157.5	–	157.5
Rental income	15.1	0.5	59.1	74.7
Rates recoveries	0.7	0.8	3.9	5.4
Car park income	–	52.1	–	52.1
Other income	7.5	9.2	2.2	18.9
Total segment income	281.6	220.1	65.2	566.9
Expenses				
Staff	24.3	4.2	2.7	31.2
Asset management, maintenance and airport operations	31.7	11.4	3.7	46.8
Rates and insurance	3.6	1.5	5.7	10.8
Marketing and promotions	10.0	3.4	0.5	13.9
Professional services and levies	2.5	0.5	1.1	4.1
Other expenses	1.7	1.3	1.9	4.9
Total segment expenses	73.8	22.3	15.6	111.7
Segment earnings before interest, taxation and depreciation (segment EBITDAFI)	207.8	197.8	49.6	455.2

(e) Reconciliation of segment income to income statement

	2017 $M	2016 $M
Segment income	622.8	566.9
Interest income	2.3	1.7
Other revenue	4.2	5.3
Total income	629.3	573.9

Notes and accounting policies CONTINUED

FOR THE YEAR ENDED 30 JUNE 2017

4. Segment information CONTINUED

(f) Reconciliation of segment EBITDAFI to income statement

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

	2017 $M	2016 $M
Segment EBITDAFI	501.7	455.2
Unallocated external operating income	6.5	7.0
Unallocated external operating expenses	(35.1)	(31.9)
Share of profit / (loss) of associates	19.4	(8.4)
Depreciation	(77.9)	(73.0)
Derivative fair value increase/(decrease)	2.5	(2.6)
Property, plant and equipment revaluation	–	(16.5)
Investment property fair value increase	91.9	87.1
Interest expense and other finance costs	(72.8)	(79.1)
Profit before taxation	436.2	337.8

5. Profit for the year

	Notes	2017 $M	2016 $M
Retail and Rental Income includes:			
Contingent rent		15.7	14.9
Staff expenses comprise:			
Salaries and wages		38.3	34.7
Employee benefits		4.2	4.9
Share-based payment plans	23	1.5	1.5
Defined contribution superannuation		1.5	1.5
Other staff costs		5.0	4.2
		50.5	46.8
Other expenses include:			
Audit fees for statutory audit and half-year review		0.2	0.2
Auditor's regulatory audit, AGM, tax and consultants' fees		0.1	0.1
Directors' fees		1.4	1.3
Bad and doubtful debts written off		–	0.4
Doubtful debts – change in provision		0.2	–
Loss on foreign currency movements		–	0.1
Interest expense and other finance costs comprise:			
Interest on bonds and related hedging instruments		40.2	44.9
Interest on bank facilities and related hedging instruments		18.3	13.5
Interest on USPP notes and related hedging instruments		18.2	21.6
Interest on AMTN notes and related hedging instruments		1.7	–
Interest on commercial paper and related hedging instruments		4.3	4.6
		82.7	84.6
Less capitalised borrowing costs	11(a), 12	(9.9)	(5.5)
		72.8	79.1
Interest rate for capitalised borrowing costs		4.46%	5.09%

The gross interest costs of bonds, bank facilities, USPP notes, AMTN notes and commercial paper excluding the impact of interest rate hedges was $72.8 million for the year ended 30 June 2017 (2016: $79.1 million).

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

Notes and accounting policies CONTINUED

FOR THE YEAR ENDED 30 JUNE 2017

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

	2017 $M	2016 $M
Profit after taxation	332.9	262.4
Non-cash items		
Depreciation	77.9	73.0
Bad debts and doubtful debts	–	0.1
Deferred taxation expense	11.3	(3.0)
Equity accounted earnings from associates	(19.4)	8.4
Property, plant and equipment fair value revaluation	–	16.5
Investment property fair value increase	(91.9)	(87.1)
Derivative fair value increase	(2.5)	2.6
Loss/(gain) on foreign currency movements	–	0.1
Items not classified as operating activities		
(Gain)/loss on asset disposals	(0.1)	(0.1)
(Increase)/decrease in provisions and property, plant and equipment retentions and payables	(38.5)	(9.0)
Decrease/(increase) in investment property retentions and payables	2.1	(0.5)
Items recognised directly in equity	–	2.9
Movement in working capital		
(Increase)/decrease in trade and other receivables	(13.2)	(6.0)
Decrease/(increase) in taxation receivables	10.3	5.6
Increase/(decrease) in accounts payable	38.0	4.6
Increase/(decrease) in other term liabilities	0.2	–
Net cash flow from operating activities	**307.1**	**270.5**

7. Taxation

	2017 $M	2016 $M
(a) Income tax expense		
The major components of income tax are:		
Current income tax		
Current income tax charge	93.3	80.4
Income tax over provided in prior year	(1.3)	(2.0)
Deferred income tax		
Movement in deferred tax	11.3	(3.0)
Total taxation expense	103.3	75.4

	2017 $M	2016 $M
(b) Reconciliation between prima facie taxation and tax expense		
Profit before taxation	436.2	337.8
Prima facie taxation at 28%	122.1	94.6
Adjustments:		
Share of associates' tax paid (earnings)/loss	(4.2)	3.4
Revaluation with no tax impact	(13.4)	(21.4)
Income tax over provided in prior year	(1.3)	(2.0)
Other	0.1	0.8
Total taxation expense	103.3	75.4

Notes and accounting policies CONTINUED

FOR THE YEAR ENDED 30 JUNE 2017

7. Taxation CONTINUED

(c) Deferred tax assets and liabilities

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

	Balance 1 July 2015 $M	Movement in income $M	Movement in other comprehensive income $M	Balance 30 June 2016 $M
Deferred tax liabilities				
Property, plant and equipment	188.9	(12.2)	7.1	183.8
Investment properties	45.4	7.5	–	52.9
Foreign currency hedge	–	–	4.5	4.5
Other	2.0	0.8	–	2.8
Deferred tax liabilities	236.3	(3.9)	11.6	244.0
Deferred tax assets				
Cash flow hedge	10.0	–	8.5	18.5
Provisions and accruals	6.0	(0.9)	–	5.1
Deferred tax assets	16.0	(0.9)	8.5	23.6
Net deferred tax liability	220.3	(3.0)	3.1	220.4

At 30 June 2017, the group had accumulated tax losses in Australia of AUD57.5 million (30 June 2016: AUD56.6 million) relating to the group's investment in North Queensland Airports. Deferred tax assets have not been recognised in respect of these Australian tax losses. This is because future Australian interest deductions are expected to offset any taxable distributed profits from North Queensland Airports in the Australian tax jurisdiction in the foreseeable future.

(d) Imputation credits

	2017 $M	2016 $M
Imputation credits available for use in subsequent reporting periods at 30 June	(31.1)	(36.0)

The imputation credit account had a debit balance at 30 June 2017 and 30 June 2016. As required by tax legislation, the imputation credit account was in credit at 31 March 2017 and 31 March 2016.

8. Associates and joint ventures

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

The limited 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. On 14 February 2017, Auckland Airport agreed to invest an additional $23.0 million in the Tainui Auckland Airport Hotel Partnership by purchasing the stake owned by Accor Hospitality and a portion of the stake owned by Tainui Group Holdings Limited, subject to certain conditions. On 28 February 2017, Auckland Airport purchased a 20% share from Tainui Group Holdings Limited at a cost of $15.6 million, increasing Auckland Airport's stake to 40%. When the remaining purchase from Accor Hospitality is completed, the group will own 50% of the investment in the Novotel hotel and Tainui Group Holdings Limited will own the remaining 50%. This is currently expected to occur in the year ended 30 June 2019.

The partnership has a balance date of 31 March 2017. The financial information for equity accounting purposes has been extracted from audited accounts for the period to 31 March 2017 and management accounts for the balance of the year to 30 June 2017.

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.

Other transactions with the partnership are as follows:

	2017 $M	2016 $M
Rental income received	1.0	0.9
Facility hire fees paid	–	0.1
Future minimum rentals receivable under non-cancellable operating lease	9.6	10.0

(b) Tainui Auckland Airport Hotel 2 Limited Partnership (joint venture)

The limited partnership between Tainui Group Holdings Limited and Auckland Airport was formed in February 2017 to build and operate a new Pullman Hotel at Auckland Airport. The group and Tainui Group Holdings each hold a 50% stake in the partnership. The group contributed $3.0 million into the partnership.

Two of Auckland Airport's senior management staff are directors on the board of the partnership. No directors' fees are paid in relation to these appointments, but the skills and experience of these directors are being utilised to protect and grow Auckland Airport's investment.

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

Auckland Airport group owns a 24.55% stake in North Queensland Airports, the operator of Cairns and Mackay Airports in Queensland. The group purchased the stake in North Queensland Airports on 13 January 2010 for AUD132.8 million (NZD166.7 million).

During the year ended 30 June 2017, Auckland Airport received directors' fees of $0.2 million (2016: $0.2 million) for the provision of two of Auckland Airport's senior management staff who are each on one of the two boards of directors of North Queensland Airports. These directors apply their airport industry knowledge and skills, supported by the expertise of the other senior management of Auckland Airport, to protect and grow the value of the investment.

The bank financiers of North Queensland Airports have a security interest in the stapled securities held by Auckland Airport Holdings Limited in North Queensland Airports. There is no recourse to any other assets held by the group.

(d) Queenstown Airport Corporation Limited (associate)

On 8 July 2010, Auckland Airport invested $27.7 million in 4.0 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.

Notes and accounting policies CONTINUED

FOR THE YEAR ENDED 30 JUNE 2017

8. Associates and joint ventures CONTINUED

Summary financial information

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

	Tainui Auckland Airport Hotel Limited Partnership		Tainui Auckland Airport Hotel 2 Limited Partnership		North Queensland Airports[1]		Queenstown Airport	
	2017 $M	2016 $M	2017 $M	2016 $M	2017 $M	2016 $M	2017 $M	2016 $M
Revenue	28.7	26.0	–	–	149.3	146.8	39.0	31.5
EBITDA	11.7	9.2	–	–	100.8	32.2	26.2	21.5
Profit/(loss) after taxation	8.9	6.3	–	–	49.0	(59.8)	12.1	7.8
Other comprehensive income	–	–	–	–	9.6	10.8	30.5	34.9
Total comprehensive income/(loss) for the year	8.9	6.3	–	–	58.6	(49.0)	42.6	42.7
Distributions								
Repayment of partner contribution / dividends received	(10.2)	(7.1)	–	–	(60.9)	(55.4)	(6.3)	(5.2)
Auckland Airport share of repayment of partner contribution / dividends received	(2.9)	(1.4)	–	–	(15.0)	(13.6)	(1.6)	(1.3)

1. The extract from the North Queensland Airports income statement has been converted from AUD to NZD at the average rates for the year ended 30 June 2017: $0.9561, 30 June 2016: $0.9170. During the prior year ended 30 June 2016, North Queensland Airports recognised impairment losses of AUD60.8 million (NZD64.1 million) in relation to Mackay Airport and the ibis Mackay hotel. Auckland Airport group's share of the impairment was AUD14.9 million (NZD15.7 million).

	Tainui Auckland Airport Hotel Limited Partnership		Tainui Auckland Airport Hotel 2 Limited Partnership		North Queensland Airports[1]		Queenstown Airport	
	2017 $M	2016 $M	2017 $M	2016 $M	2017 $M	2016 $M	2017 $M	2016 $M
Current assets	3.9	3.8	6.0	–	53.3	43.0	4.7	3.8
Non-current assets	49.8	51.1	–	–	665.3	679.8	301.1	252.4
Goodwill	–	–	–	–	198.3	202.2	–	–
Total assets	53.7	54.9	6.0	–	916.9	925.0	305.8	256.2
Current liabilities	5.4	5.2	–	–	423.7	51.0	8.6	4.9
Non-current liabilities	18.0	18.0	–	–	258.4	633.8	62.2	52.5
Shareholders' equity	30.3	31.7	6.0	–	234.8	240.3	235.0	198.6
Total equity and liabilities	53.7	54.9	6.0	–	916.9	925.1	305.8	256.0
Auckland Airport ownership	40.00%	20.00%	50.00%	–	24.55%	24.55%	24.99%	24.99%
Auckland Airport share of shareholders' equity	12.1	6.3	3.0	–	57.7	59.0	58.7	49.6
Investment property revaluation	11.8	8.9	–	–	–	–	–	–
Goodwill	9.4	–	–	–	19.8	19.7	–	–
Gain on purchase	–	–	–	–	–	–	(0.9)	(0.9)
Subsequent adjustments made by associate	–	–	–	–	–	–	–	–
Carrying value of investment	33.3	15.2	3.0	–	77.5	78.7	57.8	48.7

1. The extract from the North Queensland Airports statement of financial position has been converted from AUD to NZD at the rate at 30 June 2017 $0.9525, 30 June 2016: $0.9552.

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

	Notes	2017 $M	2016 $M
Investment in associates and joint ventures at beginning of year		142.8	163.6
Further investment in associates and joint ventures		18.6	–
Share of profit/(loss) of associates and joint ventures		19.4	(8.4)
Share of reserves of associates and joint ventures	16(v)	10.0	10.8
Share of dividends received and repayment of partner contribution		(19.6)	(16.3)
Foreign currency translation	16(vi)	0.4	(6.9)
Investment in associates and joint ventures at end of the year		171.6	142.8

9. Distribution to shareholders

	Dividend payment date	2017 $M	2016 $M
2015 final dividend of 7.30 cps	16 October 2015	–	86.9
2016 interim dividend of 8.50 cps	7 April 2016	–	101.2
2016 final dividend of 9.00 cps	13 October 2016	107.2	–
2017 interim dividend of 10.00 cps	4 April 2017	119.1	–
Total dividends paid		226.3	188.1

Supplementary dividends of $15.2 million (2016: $12.1 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 $332.9 million (2016: $262.4 million).

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

	2017 Shares	2016 Shares
For basic earnings per share	1,190,841,542	1,190,213,008
Effect of dilution of share options	–	–
For dilutive earnings per share	1,190,841,542	1,190,213,008

The 2017 reported basic and diluted earnings per share is 27.96 cents (2016: 22.05 cents).

Notes and accounting policies CONTINUED

FOR THE YEAR ENDED 30 JUNE 2017

11. Property, plant and equipment

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

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

Additions for the year ended 30 June 2017 include capitalised interest of $7.9 million (2016: $3.7 million).

Year end 30 June 2016	Land $M	Buildings and services $M	Infrastructure $M	Runway, taxiways and aprons $M	Vehicles, plant and equipment $M	Total $M
Balances at 1 July 2015						
At fair value	2,657.7	548.8	320.1	279.3	–	3,805.9
At cost	–	–	–	–	92.6	92.6
Work in progress at cost	–	34.5	3.0	40.9	14.3	92.7
Accumulated depreciation	–	(0.3)	(44.3)	–	(62.5)	(107.1)
Balances at 1 July 2015	2,657.7	583.0	278.8	320.2	44.4	3,884.1
Additions and transfers within property, plant and equipment	–	76.7	18.3	25.1	17.0	137.2
Transfers from/(to) investment property	0.5	(8.4)	0.5	(0.3)	0.1	(7.7)
Revaluation recognised in property, plant and equipment revaluation reserve	758.5	–	25.5	–	–	784.0
Revaluation recognised in the income statement	1.3	–	(17.8)	–	–	(16.5)
Depreciation	–	(38.9)	(11.4)	(11.7)	(11.0)	(73.0)
Movement to 30 June 2016	760.3	29.4	15.1	13.1	6.1	824.0
Balances at 30 June 2016						
At fair value	3,418.0	582.4	276.3	293.3	–	4,570.0
At cost	–	–	–	–	95.1	95.1
Work in progress at cost	–	69.1	18.0	51.7	16.0	154.8
Accumulated depreciation	–	(39.1)	(0.4)	(11.7)	(60.6)	(111.8)
Balances at 30 June 2016	3,418.0	612.4	293.9	333.3	50.5	4,708.1

Notes and accounting policies CONTINUED

FOR THE YEAR ENDED 30 JUNE 2017

11. Property, plant and equipment CONTINUED

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

Year end 30 June 2017	Land $M	Buildings and services $M	Infrastructure $M	Runway, taxiways and aprons $M	Vehicles, plant and equipment $M	Total $M
At historical cost	149.6	849.6	306.3	344.3	107.2	1,757.0
Work in progress at cost	–	220.1	23.5	44.3	32.9	320.8
Accumulated depreciation	–	(502.1)	(118.1)	(191.3)	(70.9)	(882.4)
Net carrying amount	149.6	567.6	211.7	197.3	69.2	1,195.4
Year end 30 June 2016						
At historical cost	133.4	828.2	264.4	303.1	95.1	1,624.2
Work in progress at cost	–	69.1	18.0	51.7	16.0	154.8
Accumulated depreciation	–	(480.2)	(110.8)	(180.7)	(60.6)	(832.3)
Net carrying amount	133.4	417.1	171.6	174.1	50.5	946.7

(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.

At 30 June 2017, the assessment is that there is no material change in the fair value of property, plant and equipment compared with carrying value. Buildings and services and runway, taxiways and aprons were independently revalued by Opus International Consultants Limited (Opus) as at 30 June 2015. Infrastructure assets were independently revalued by Beca Projects NZ Limited (Beca) as at 30 June 2016. Land assets were independently revalued by Colliers International Limited (Colliers), Savills Limited (Savills), Jones Lang LaSalle Ltd (JLL) and Opus as at 30 June 2016.

Fair value measurement

The valuers use different approaches for valuing different asset groups. Where the fair value of an asset is able to be determined by reference to market-based evidence, such as sales of comparable assets, the fair value is determined using this information. Where fair value of the asset is not able to be reliably determined using market-based evidence, discounted cash flows or optimised depreciated replacement cost is used to determine fair value. Assets acquired or constructed after the date of the latest revaluation are carried at cost, which approximates fair value.

The group's land, buildings and services, infrastructure, runway, taxiways and aprons are all categorised as Level 3 in the fair value hierarchy as described in note 18.3. During the year, there were no transfers between the levels of the fair value hierarchy.

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

		2017		2016	
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 Market value alternative use valuation plus development and holding costs to achieve land suitable for airport use and direct sales comparison	Rate per sqm prior to holding costs (excluding approaches)	$103–171	$133	$103–171	$133
	Holding costs per sqm (excluding approaches)	$38–62	$48	$38–62	$48
	Holding period (excluding approaches)	5.0 years	N/A	5.0 years	N/A
	Airfield land discount rate	9.00%	N/A	9.00%	N/A
	Rate per sqm (approaches)	$11–50	$16	$11–50	$16
Reclaimed land seawalls Optimised depreciated replacement cost	Unit costs of seawall construction per m	$4,211–8,666	$6,125	$4,211–8,666	$6,125
	Unit costs of reclamation per sqm	$94–127	$117	$94–127	$117
Aeronautical land, including land associated with aircraft, freight and terminal uses Discounted cash flow cross-referenced to a market capitalisation of net revenues as indicated by market activity from comparable transactions and direct sales comparison	Rate per sqm (excluding commercially leased assets)	$78–793	$177	$78–793	$177
	Market rent (per sqm) – average	$41–304	$106	$41–304	$106
	Market capitalisation rate – average	4.23–7.52%	6.23%	4.23–7.52%	6.23%
	Terminal capitalisation rate	7.00–8.50%	6.30%	7.00–8.50%	6.30%
	Discount rate	8.25–9.25%	8.45%	8.25–9.25%	8.45%
	Rental growth rate (per annum)	2.61–2.80%	2.70%	2.61–2.80%	2.70%
Land associated with car park facilities Discounted cash flow cross-referenced to a market capitalisation of net revenues as indicated by market activity from comparable transactions	Discount rate	9.00–11.25%	11.00%	9.00–11.25%	11.00%
	Terminal capitalisation rate	7.00–7.50%	7.43%	7.00–7.50%	7.43%
	Revenue growth rate (per annum)	2.03–3.21%	3.09%	2.03–3.21%	3.09%
	Market capitalisation rate	6.95–7.51%	7.44%	6.95–7.51%	7.44%
Land associated with retail facilities within terminal buildings Discounted cash flow cross-referenced to a market capitalisation of net revenues as indicated by market activity from comparable transactions	Discount rate	12.50–12.50%	12.50%	12.50–12.50%	12.50%
	Terminal capitalisation rate	9.25–9.25%	9.25%	9.25–9.25%	9.25%
	Revenue growth rate (per annum)	4.11–5.38%	4.18%	4.11–5.38%	4.18%
	Market capitalisation rate	8.38–8.50%	8.38%	8.38–8.50%	8.38%
Other land Direct sales comparison	Rate per sqm	$18–66	$58	$18–66	$58

Notes and accounting policies CONTINUED

FOR THE YEAR ENDED 30 JUNE 2017

11. Property, plant and equipment CONTINUED

Asset valuation approach	Inputs used to measure fair value	2017 Range of significant inputs	2017 Weighted average	2016 Range of significant inputs	2016 Weighted average
Buildings and services					
Terminal buildings Optimised depreciated replacement cost	Unit costs of construction sqm	$2,491–8,349	$6,016	$2,491–8,349	$6,016
Other buildings Optimised depreciated replacement cost	Unit costs of construction sqm	$636–2,374	$1,282	$636–2,374	$1,282
Infrastructure					
Water and drainage Optimised depreciated replacement cost	Unit costs of pipe construction m	$207–3,074	$524	$207–3,074	$524
Electricity Optimised depreciated replacement cost	Unit costs of electrical cabling construction m	$162–517	$370	$162–517	$370
Roads Optimised depreciated replacement cost	Unit costs of road and footpaths construction 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 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 sqm	$459–737	$587	$459–737	$587
	Unit costs of asphalt pavement construction sqm	$108–237	$142	$108–237	$142

The valuation inputs for infrastructure and land are from the 2016 valuation, and the valuation inputs for buildings and services and runway, taxiways and aprons are from the 2015 valuation.

Description of different valuation approaches

VALUATION APPROACH	DESCRIPTION
Income capitalisation approach	A valuation methodology that determines fair value by capitalising a property's sustainable net income at an appropriate market-derived capitalisation rate with subsequent capital adjustments for near-term events, typically including letting-up allowances for vacancies and pending expiries, expected short-term capital expenditure and the present value of any difference between contract and market rentals.
Discounted cash flow analysis	A valuation methodology that requires the application of financial modelling techniques. Discounted cash flow analysis requires explicit assumptions to be made regarding the prospective income and expenses of a property, such assumptions pertaining to the quantity, quality, variability, timing and duration of inflows and outflows over an assumed holding period. The assessed cash flows are discounted to present value at an appropriate market-derived discount rate to determine fair value.
Direct sales comparison approach	A valuation methodology whereby the subject property is compared to recently sold properties of a similar nature with fair value determined through the application of positive and negative adjustments for their differing attributes.
Residual value approach	A valuation technique used primarily for property which is undergoing, or is expected to undergo, redevelopment. Fair value is determined through the estimation of a gross realisation on completion of the redevelopment with deductions made for all costs associated with converting the property to its end use including finance costs and a typical profit margin for risks assumed by the developer.
Market value alternative use (MVAU)	A valuation methodology whereby fair value is determined as the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing, wherein the parties had each acted knowledgeably, prudently and without compulsion, with the explicit assumption that the existing use of the asset is ignored.
Optimised depreciated replacement cost (ODRC)	A valuation methodology whereby fair value is determined by calculating the cost of constructing a modern equivalent asset at current market-based input cost rates, adjusted for the remaining useful life of the assets (depreciation) and any suboptimal 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	Last valued by	Last valuation date	Fair value at 30 June 2017 $M	Fair value at 30 June 2016 $M
Airfield land, including land for runway, taxiways, aprons and approaches[1]	Savills	30 June 2016	1,020.4	1,016.4
Reclaimed land seawalls[1]	Opus / Savills	30 June 2016	205.1	205.1
Aeronautical land, including land associated with aircraft, freight and terminal uses[1]	JLL	30 June 2016	120.0	120.0
Land associated with car park facilities[1]	Colliers	30 June 2016	542.0	544.8
Land associated with retail facilities within terminal buildings[1]	Colliers	30 June 2016	1,433.8	1,433.8
Other land[1]	Savills	30 June 2016	115.9	97.9
Terminal buildings[2]	Opus	30 June 2015	665.9	539.1
Other buildings[2]	Opus	30 June 2015	88.3	73.3
Water and drainage[1]	Beca	30 June 2016	125.1	123.3
Electricity[1]	Beca	30 June 2016	47.6	46.8
Roads[1]	Beca	30 June 2016	62.2	52.7
Other infrastructure assets[1]	Beca	30 June 2016	98.0	71.1
Runway, taxiways and aprons[2]	Opus	30 June 2015	354.3	333.3
Assets carried at fair value			4,878.6	4,657.6
Vehicles, plant and equipment (carried at cost less accumulated depreciation)	N/A		69.2	50.5
Balance at 30 June			4,947.8	4,708.1

1. At 30 June 2017, the assessment is that there is no material change in the fair value of land and infrastructure assets compared with carrying value. Those classes were last revalued at 30 June 2016.
2. At 30 June 2017, the assessment is that there is no material change in the fair value of buildings and services and runway, taxiways and aprons compared with carrying value. Those classes were last revalued at 30 June 2015.

Notes and accounting policies CONTINUED

FOR THE YEAR ENDED 30 JUNE 2017

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 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.

Year end 30 June 2017	Retail and service $M	Industrial $M	Vacant land $M	Other $M	Total $M
Balance at the beginning of the year	191.4	507.0	254.9	95.6	1,048.9
Additions – subsequent expenditure	0.2	49.4	10.2	13.7	73.5
Additions – acquisitions or development	4.5	0.7	–	2.3	7.5
Transfers from (to) property, plant and equipment (note 11)	–	–	(19.1)	(4.7)	(23.8)
Transfers within investment property	–	4.9	(6.5)	1.6	–
Investment property fair value increase	16.8	54.9	13.4	6.8	91.9
Net carrying amount	212.9	616.9	252.9	115.3	1,198.0
Year end 30 June 2016					
Balance at the beginning of the year	175.3	378.0	234.6	60.2	848.1
Additions – subsequent expenditure	–	47.2	4.2	15.9	67.3
Additions – acquisitions or development	0.4	18.0	19.4	0.9	38.7
Transfers from (to) property, plant and equipment (note 11)	–	(2.6)	–	10.3	7.7
Transfers within investment property	–	13.2	(13.2)	–	–
Investment property fair value increase	15.7	53.2	9.9	8.3	87.1
Net carrying amount	191.4	507.0	254.9	95.6	1,048.9

Additions for the year ended 30 June 2017 include capitalised interest of $2.0 million (2016: $1.8 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 2017

12. Investment properties CONTINUED

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

		2017		2016	
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)	$41–639	$248	$41–579	$239
	Market capitalisation rate	5.75–7.75%	6.88%	5.75–8.50%	7.06%
	Terminal capitalisation rate	6.00–8.00%	7.15%	6.00–8.75%	7.24%
	Discount rate	7.50–9.63%	8.91%	7.75–10.50%	9.31%
	Rental growth rate (per annum)	2.50–3.12%	2.19%	2.61–2.80%	2.68%
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)	$94–265	$132	$92–263	$128
	Market capitalisation rate	5.50–9.50%	5.53%	5.75–9.25%	6.85%
	Terminal capitalisation rate	6.00–9.75%	6.86%	6.00–9.50%	7.14%
	Discount rate	7.25–11.53%	8.36%	7.50–11.00%	8.41%
	Rental growth rate (per annum)	2.50–3.00%	2.70%	2.61–2.80%	2.70%
Vacant land					
Direct sales comparison and residual value	Rate per sqm	$6–470	$83	$8–425	$84
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)	$196–460	$344	$196–460	$336
	Market capitalisation rate	6.50–7.50%	7.10%	6.75–8.00%	7.28%
	Terminal capitalisation rate	6.75–7.75%	7.37%	7.00–8.25%	7.54%
	Discount rate	8.25–9.65%	9.19%	8.25–9.75%	9.03%
	Rental growth rate (per annum)	2.50–2.97%	2.94%	2.61–2.80%	2.78%

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

	2017 $M	2016 $M
Colliers International Limited	340.5	322.2
Savills Limited	420.3	381.8
Jones Lang LaSalle Incorporated	385.5	314.7
Investment property carried at cost	51.7	30.2
Total fair value of investment properties	1,198.0	1,048.9

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

Income and expenses related to investment property

	2017 $M	2016 $M
Rental income for investment properties	51.4	43.7
Recoverable cost income	5.2	5.1
Direct operating expenses for investment properties that derived rental income	(6.3)	(6.2)
Direct operating expenses for investment properties that did not derive rental income	(1.4)	(0.4)

13. Cash and cash equivalents

	2017 $M	2016 $M
Short-term deposits	40.8	48.7
Cash and bank balances	4.3	3.9
	45.1	52.6

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 between 1.75 – 2.45% (2016: at a rate of 2.25 – 3.45%). At 30 June 2017, the short-term deposits were held with two financial institutions, with no more than $40.0 million with a single institution.

14. Trade and other receivables

	2017 $M	2016 $M
Trade receivables	18.3	7.5
Less: Provision for doubtful debts	(0.7)	(0.5)
Net trade receivables	17.6	7.0
Prepayments	11.6	10.4
Revenue accruals and other receivables	26.3	24.9
	55.5	42.3

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

	2017 $M	2016 $M	2017 Shares	2016 Shares
Opening issued and paid-up capital at 1 July	332.7	332.3	1,190,267,548	1,190,128,107
Shares fully paid and allocated to employees by employee share scheme	0.1	0.4	19,290	139,441
Shares issued under the dividend reinvestment plan	15.5	–	2,327,336	–
Closing issued and paid-up capital at 30 June	348.3	332.7	1,192,614,174	1,190,267,548

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.

In April 2017 the company reinstated its dividend reinvestment plan. 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.

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. 19,290 shares were allocated to employees in the year ended 30 June 2017 (2016: 139,441). Refer to note 23 Share-based payment plans.

Notes and accounting policies CONTINUED

FOR THE YEAR ENDED 30 JUNE 2017

16. Reserves

(i) Cancelled share reserve

	2017 $M	2016 $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

	2017 $M	2016 $M
Balance at 1 July	3,730.6	2,958.5
Reclassification to retained earnings	(1.6)	(4.8)
Revaluation	–	784.0
Movement in deferred tax	–	(7.1)
Balance at 30 June	3,729.0	3,730.6

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

	2017 $M	2016 $M
Balance at 1 July	1.0	0.9
Long term incentive plan expense	0.1	0.1
Balance at 30 June	1.1	1.0

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

	2017 $M	2016 $M
Balance at 1 July	(47.7)	(25.7)
Fair value change in hedging instrument	15.2	(36.5)
Transfer to income statement	6.7	6.0
Movement in deferred tax	(6.1)	8.5
Balance at 30 June	(31.9)	(47.7)

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.

(v) Share of reserves of associates

	2017 $M	2016 $M
Balance at 1 July	10.4	(0.4)
Share of reserves of associates	10.0	10.8
Balance at 30 June	20.4	10.4

The share of reserves of associates records the group's share of movements in the cash flow hedge reserve and the property, plant and equipment revaluation reserve of the associates. The cash flow hedge reserve of the associates records the effective portion of the fair value of interest rate swaps that are designated as cash flow hedges. Amounts transferred to the income statement of the associate are included in the share of profit of an associate. To ensure consistency with the current year, the movement in share of reserves of associates has been restated in the prior year to separately disclose the portion that will not be reclassified to the income statement.

(vi) Foreign currency translation reserve

	2017 $M	2016 $M
Balance at 1 July	(9.5)	(6.8)
Fair value change in hedging instrument	(0.2)	4.2
Foreign currency translation	0.4	(6.9)
Balance at 30 June	(9.3)	(9.5)

The foreign currency translation reserve records gains and losses on the hedges of the group's investment in North Queensland Airports.

17. Accounts payable and accruals

	2017 $M	2016 $M
Employee entitlements	7.2	7.3
Phantom option plan accrual (refer note 23(c))	3.3	5.3
GST payable	2.2	(0.4)
Property, plant and equipment retentions and payables	63.3	24.8
Investment property retentions and payables	9.3	11.4
Trade payables	5.4	3.9
Interest payables	13.5	13.4
Other payables and accruals	28.1	28.6
Total Accounts payable and accruals	132.3	94.3

The above balances are unsecured.

Amount owing to the related parties at 30 June 2017 is $1.2 million (2016: $0.3 million).

Notes and accounting policies CONTINUED

FOR THE YEAR ENDED 30 JUNE 2017

18. Financial assets and liabilities

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

	Notes	2017 $M	2016 $M
Current financial assets			
Loan and receivables			
Cash and cash equivalents	13	45.1	52.6
Trade and other receivables		43.9	31.9
Dividends receivable		2.7	3.3
		91.7	87.8
Derivative financial instruments			
Interest rate swaps – fair value hedges		0.6	0.7
Total current financial assets		92.3	88.5
Non-current financial assets			
Derivative financial instruments			
Cross-currency interest rate swaps		78.1	134.3
Interest rate swaps – fair value hedges		–	1.5
Interest rate swaps – cash flow hedges		1.0	–
		79.1	135.8
Derivative financial instruments			
Interest basis swaps		3.0	3.0
Total non-current financial assets		82.1	138.8
Total financial assets		174.4	227.3
Current financial liabilities			
Financial liabilities at amortised cost			
Accounts payable and accruals		132.3	94.3
Short-term borrowings	18.1	421.1	396.9
Provisions		0.9	0.9
		554.3	492.1
Derivative financial instruments			
Interest rate swaps – cash flow hedges		2.8	0.1
Total current financial liabilities		557.1	492.2
Non-current liabilities			
Financial liabilities at amortised cost			
Term borrowings	18.1	1,635.5	1,490.0
Other term liabilities		1.5	1.3
		1,637.0	1,491.3
Derivative financial instruments			
Cross-currency interest rate swaps		4.1	–
Interest rate swaps – cash flow hedges		32.0	56.9
Total non-current financial liabilities		1,673.1	1,548.2
Total financial liabilities		2,230.2	2,040.4

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 does not offset assets and liabilities with the same counterparties. However, the potential net amounts if offsets were to occur would be derivative financial assets of $43.8 million and nil derivative financial liabilities (2016: derivative financial assets of $82.5 million and nil derivative financial liabilities).

18.1 Borrowings

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

	Maturity	Coupon	2017 $M	2016 $M
Current				
Commercial paper	< 3 months	Floating	91.8	91.8
Bank facility	29/10/2017	Floating	45.0	–
Bank facility	1/12/2017	Floating	84.0	–
Bank facility	7/04/2018	Floating	100.0	–
Bonds	9/11/2015	7.25%	–	25.1
Bonds	10/08/2016	8.00%	–	130.0
Bonds	15/11/2016	8.00%	–	150.0
Bonds	17/10/2017	5.47%	100.3	–
Total short-term borrowings			421.1	396.9
Non-current				
Bank facility	29/10/2017	Floating	–	45.0
Bank facility	1/12/2017	Floating	–	83.8
Bank facility	7/04/2018	Floating	–	100.0
Bank facility	29/10/2019	Floating	100.0	100.0
Bonds	17/10/2017	5.47%	–	101.2
Bonds	1/10/2018	Floating	75.0	75.0
Bonds	13/12/2019	4.73%	100.0	100.0
Bonds	13/04/2020	Floating	150.0	–
Bonds	28/05/2021	5.52%	150.0	150.0
Bonds	9/11/2022	4.28%	100.0	100.0
Bonds	2/11/2023	3.97%	225.0	–
USPP notes	15/02/2021	4.42%	71.3	77.0
USPP notes	12/07/2021	4.67%	72.1	78.1
USPP notes	15/02/2023	4.57%	73.1	80.1
USPP notes	25/11/2026	3.61%	358.1	399.8
AMTN notes	23/09/2027	4.50%	160.9	–
Total term borrowings			1,635.5	1,490.0
Total				
Commercial paper			91.8	91.8
Bank facilities			329.0	328.8
Bonds			900.3	831.3
USPP notes			574.6	635.0
AMTN notes			160.9	–
Total borrowings			2,056.6	1,886.9

Notes and accounting policies CONTINUED

FOR THE YEAR ENDED 30 JUNE 2017

18.1 Borrowings CONTINUED

Bank facilities

Borrowings under the drawn bank facilities and standby bank facilities are supported by a negative pledge deed.

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 2017, the company undertook the following bond financing:

- The repayment of NZ$25.0 million of seven year fixed rate bonds in August 2016.
- The issuance of NZ$225.0 million of seven year fixed rate bonds in November 2016.
- The repayment of NZ$130.0 million of eight year fixed rate bonds in November 2016.
- The issuance of AU$150.0 million of ten and a half year Australian medium term notes (AMTN) in March 2017.
- The issuance of NZ$150.0 million of three year floating rate notes in April 2017.
- The repayment of NZ$150.0 million of three year floating rate notes in April 2017.

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

18.2 Hedging activity and derivatives

Cash flow hedges

At 30 June 2017, the group held interest rate swaps where it pays a fixed rate of interest and receives a variable rate on the notional amount (in NZD and AUD). The notional amount of the interest rate swaps in a cash flow hedge at 30 June 2017 is $905.0 million (2016: $922.2 million). These interest rate swaps are designated as cash flow hedges of the future variable interest rate cash flows on bank facilities and commercial paper. The interest payment frequency on these borrowings is quarterly.

At 30 June 2017, the group held cross-currency interest rate swaps, that comprise both a cash flow hedge component, in respect of exchange rate risk, and a fair value hedge component. These are described in more detail under Fair value hedges.

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

Fair value hedges

At 30 June 2017, the group held interest rate swaps and cross-currency interest rate swaps where it receives a fixed rate of interest and pays a variable rate on the notional amount. The notional amount of the interest rate swaps and cross-currency interest rate swaps at 30 June 2017 is $703.3 million (including $653.3 million of cross-currency interest rate swaps) (2016: $564.9 million, including $489.9 million of cross-currency interest rate swaps). These interest rate swaps and cross-currency interest rate swaps transform a series of known fixed debt interest cash flows to future variable debt interest cash flows to mitigate exposure to fair value changes in fixed interest bonds, Australian notes and the USPP notes. These interest rate swaps are designated as fair value hedges and the cross-currency interest rate swaps consist of a fair value hedge component and a cash flow hedge component.

Gains or losses on the derivatives and fixed interest bonds and USPP notes for fair value hedges recognised in the income statement in interest expense during the period were:

	2017 $M	2016 $M
Gains/(losses) on the fixed interest bonds	1.0	0.5
Gains/(losses) on the USPP notes	43.9	(44.0)
Gains/(losses) on the derivatives	(39.5)	41.6
Gains/(losses) on the Australian notes	(3.5)	–

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

Gains or losses on the basis swaps recognised in the income statement and the ineffective hedging component of the swaps recognised in the income statement relating to counterparty risk during the period were:

	2017 $M	2016 $M
Basis swaps transacted as hedges but not qualifying for hedge accounting	(0.1)	(0.4)
Credit valuation adjustments on hedges qualifying for hedge accounting	2.6	(1.8)
Ineffective portion of cash flow hedge prior to redesignation	–	(0.4)
Derivative fair value (decrease)/increase	2.5	(2.6)

The following table demonstrates the basis swap sensitivity to a change in NZD/USD basis spread. The basis swaps taken out by the group to annually reset the basis cost on the cross-currency interest rate swaps are not hedge accounted, therefore all fair value movements are recognised in the income statement. The sensitivity on this basis spread was calculated by taking the spot 10-year basis spread and moving this spot rate by the reasonably possible movement of plus and minus 10 points.

	2017 $M	2016 $M
Increase of NZD/USD basis spread of 10 points		
Impact on profit before taxation	(0.8)	(0.9)
Decrease of NZD/USD basis spread of 10 points		
Impact on profit before taxation	0.8	0.9

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 in active markets.
- **Level 2** – the fair value is estimated using inputs other than quoted prices included in level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices).
- **Level 3** – the fair value is estimated using inputs for the asset or liability that are not based on observable market data.

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

There have been no transfers between levels of the fair value hierarchy in the year ended 30 June 2017.

The carrying value approximates the fair value of cash, accounts receivable, dividend receivable, other non-current assets, derivative financial instruments, 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 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 Australian 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 Australian 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.

	2017		2016	
	Carrying amount $M	Fair value $M	Carrying amount $M	Fair value $M
Bonds	900.3	926.5	831.3	869.3
USPP Notes	574.6	584.7	635.0	627.6
Australian Notes	160.9	165.1	–	–

Notes and accounting policies CONTINUED

FOR THE YEAR ENDED 30 JUNE 2017

18.3 Fair value CONTINUED

The group's derivative financial instruments are interest rate swaps, cross-currency interest rate swaps and basis swaps. They arise directly from the group's operations as part of raising finance for the group's operations or providing a net investment hedge for the group. 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 2017 is equal to the carrying value for 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 AA- or above.

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

The group has a policy that manages exposure to credit risk by way of requiring a performance bond for some customers whose credit rating or history indicates that this would be prudent. The value of performance bonds for the group is $1.5 million (2016: $1.3 million). There are no significant concentrations of credit risk.

(b) Liquidity risk

The group's objective is to maintain a balance between continuity of funding and flexibility through the use of borrowings on the money market, bank loans, commercial paper, USPP, Australian 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 2017, this facility headroom was $280.0 million (2016: $280.0 million). The group's policy also requires the spreading of debt maturities.

Bank facilities

				2017			2016		
Type	Bank	Maturity	Facility currency	Available NZ $M	Drawn NZ $M	Undrawn NZ $M	Available NZ $M	Drawn NZ $M	Undrawn NZ $M
Standby facility	ANZ Bank New Zealand	30/11/2017	NZD	80.0	–	80.0	80.0	–	80.0
Standby facility	Bank of New Zealand	7/4/2019	NZD	125.0	–	125.0	125.0	–	125.0
Standby facility	Westpac	7/4/2019	NZD	75.0	–	75.0	75.0	–	75.0
Multi-currency facility	Bank of Tokyo Mitsubishi UFJ	29/10/2017	NZD & AUD	45.0	45.0	–	45.0	45.0	–
Multi-currency facility	Bank of Tokyo Mitsubishi UFJ	29/10/2019	NZD & AUD	100.0	100.0	–	100.0	100.0	–
Multi-currency facility	Commonwealth Bank of Australia	1/12/2017	AUD	84.0	84.0	–	83.8	83.8	–
Multi-currency facility	Commonwealth Bank of Australia	7/4/2018	NZD	100.0	100.0	–	100.0	100.0	–
			Total NZD equivalent	**609.0**	**329.0**	**280.0**	**608.8**	**328.8**	**280.0**

The following liquidity risk disclosures reflect all undiscounted repayments and interest resulting from recognised financial liabilities and financial assets as at 30 June 2017. The timing of cash flows for liabilities is based on the contractual terms of the underlying contract. Liquid non-derivative assets comprising cash and receivables are considered in the group's overall liquidity risk. The group ensures that sufficient liquid assets or committed funding facilities are available to meet all the required short-term cash payments and expects borrowings to roll over.

Undiscounted cash flows on financial assets and liabilities

	< 1 year $M	1 to 3 years $M	3 to 5 years $M	> 5 years $M	Total $M
Year ended 30 June 2017					
Financial assets					
Cash and cash equivalents	45.1	–	–	–	45.1
Accounts receivable	43.9	–	–	–	43.9
Dividend receivable	2.7	–	–	–	2.7
Derivative financial assets	4.9	2.5	11.4	100.1	118.9
Total financial assets	96.6	2.5	11.4	100.1	210.6
Financial liabilities					
Accounts payable, accruals, provisions and other term liabilities	(134.7)	–	–	–	(134.7)
Commercial paper	(92.0)	–	–	–	(92.0)
Bank facilities	(229.0)	(100.0)	–	–	(329.0)
Bonds	(100.0)	(325.0)	(150.0)	(325.0)	(900.0)
AMTN Notes	–	–	–	(169.9)	(169.9)
USPP notes	–	–	(143.7)	(468.2)	(611.9)
Derivative financial liabilities	(10.1)	(13.8)	(10.6)	(7.6)	(42.1)
Interest payable	(66.9)	(124.8)	(90.6)	(126.1)	(408.4)
Total financial liabilities	(632.7)	(563.6)	(394.9)	(1,096.8)	(2,688.0)
Year ended 30 June 2016					
Financial assets					
Cash and cash equivalents	52.6	–	–	–	52.6
Accounts receivable	31.9	–	–	–	31.9
Dividend receivable	3.3	–	–	–	3.3
Derivative financial assets	5.6	10.0	20.4	158.9	194.9
Total financial assets	93.4	10.0	20.4	158.9	282.7
Financial liabilities					
Accounts payable, accruals, provisions and other term liabilities	(96.5)	–	–	–	(96.5)
Commercial paper	(92.0)	–	–	–	(92.0)
Bank facilities	–	(228.8)	(100.0)	–	(328.8)
Bonds	(305.0)	(175.0)	(250.0)	(100.0)	(830.0)
USPP notes	–	–	(76.6)	(566.1)	(642.7)
Derivative financial liabilities	(9.8)	(18.9)	(14.9)	(19.9)	(63.5)
Interest payable	(64.3)	(92.8)	(71.0)	(79.8)	(307.9)
Total financial liabilities	(567.6)	(515.5)	(512.5)	(765.8)	(2,361.4)

Notes and accounting policies CONTINUED

FOR THE YEAR ENDED 30 JUNE 2017

18.4 Financial risk management objectives and policies CONTINUED

(c) Interest rate risk

The group's exposure to market risk from changes in interest rates relates primarily to the group's short-term and long-term 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, 51.4% (2016: 48.9%) 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 2017 (2016: 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.

	2017 $M	2016 $M
Financial assets		
Cash and cash equivalents	45.1	52.6
	45.1	52.6
Financial liabilities		
Bonds in fair value hedge	50.0	75.0
Floating rate bonds	85.0	145.0
Bank facilities	139.0	146.9
Commercial paper	31.8	32.0
AMTN Notes	163.4	–
USPP Notes	489.9	489.9
	959.1	888.8
Net exposure	914.0	836.2

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.

	2017 $M	2016 $M
Increase in interest rates of 100 basis points		
Effect on profit before taxation	(9.1)	(8.9)
Effect on equity before taxation	29.8	33.8
Decrease in interest rates of 100 basis points		
Effect on profit before taxation	9.1	8.9
Effect on equity before taxation	(32.1)	(36.9)

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 2017 of $914.0 million (2016: $836.2 million). An interest rate of plus and minus 100 basis points has therefore been applied to this floating rate debt to demonstrate the sensitivity of interest rate risk.
- Effect on cash flow hedge reserve is the movement in valuation of derivatives in a cash flow hedge relationship as at the end of each reporting period due to increase and decrease in interest rates. All derivatives that are effective as at 30 June 2017 are assumed to remain effective until maturity, therefore any movements in these derivative valuations are taken to the cash flow hedge reserve.

(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 the translation risk related to the investment in North Queensland Airports. This exposure is hedged by a bank facility that is drawn down in Australian dollars to a total of AUD80.0 million (2016: AUD80.0 million).

Exposure to the Australian dollar also arises from Australian note borrowings. This exposure has been fully hedged by way of cross-currency interest rate swaps hedging both principal and interest.

Exposure to the US dollar arises from USPP borrowings denominated in that currency. This exposure has been fully hedged by way of cross-currency interest rate swaps combined with the basis swaps, hedging US dollar exposure on both principal and interest.

The cross-currency interest rate swaps correspond in amount and maturity to the relevant Australian and US dollar borrowings with no residual foreign currency risk exposure.

The cross-currency interest rate swaps consist of a fair value hedge component and a cash flow hedge component. The effective movements on the fair value hedge component are taken to the income statement along with all movements of the hedged risk on the Australian 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 2017, had the New Zealand dollar moved, as illustrated in the table below, with all other variables held constant, post-tax profit and other comprehensive income would have been affected as follows.

	2017 $M	2016 $M
Increase in value of NZ dollar of 10%		
Impact on profit before taxation	(0.1)	–
Impact on equity before taxation	(23.6)	(55.1)
Decrease in value of NZ dollar of 10%		
Impact on profit before taxation	0.2	0.1
Impact on equity before taxation	38.6	67.4

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 therefore been applied to the exchange rates to demonstrate the sensitivity to foreign currency risk of the company's investment in foreign operations, debt and associated derivative financial instruments.
- The sensitivity was calculated by taking the spot rate as at balance date of 0.9525 (2016: 0.9552) for AUD and 0.7322 (2016: 0.7109) 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 appropriate 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 investment, 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 2017 is 19.5% (2016: 19.7%). The current long-term credit rating of Auckland Airport by Standard & Poor's at 30 June 2017 is A- Stable Outlook (2016: A- Stable Outlook).

Notes and accounting policies CONTINUED

FOR THE YEAR ENDED 30 JUNE 2017

19. Commitments

(a) Property, plant and equipment

The group had contractual obligations to suppliers to purchase or develop property, plant and equipment for $150.2 million at balance date (2016: $157.0 million).

(b) Investment property

The group had contractual obligations to suppliers to purchase or develop investment property for $53.4 million at balance date (2016: $83.8 million). The group has further contractual obligations to tenants to purchase or develop investment property for $4.1 million at balance date (2016: $3.0 million).

The group has contractual commitments for repairs, maintenance and enhancements on investment property for $1.7 million at balance date (2016: $1.6 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 35 years. All leases include a clause to enable upward revision of the rental charge on contractual rent review dates according to prevailing market conditions.

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

	2017 $M	2016 $M
Within one year	204.0	196.6
After one year but no more than five years	655.8	576.7
After more than five years	201.7	260.3
Total minimum lease payments receivable	1,061.5	1,033.6

20. Contingent liabilities

Noise insulation

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

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

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

21. Provisions for noise mitigation

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

Since 2005, the company has made 3,784 acoustic treatment offers to a total of 1,800 houses and six schools. Homeowners of 542 homes and six schools have accepted these offers. The last offers were made in June 2017.

	2017 $M	2016 $M
Opening balance	0.9	1.8
Provisions made in the period	1.6	–
Expenditure in the period	(1.6)	(0.9)
Total provision for noise mitigation	0.9	0.9

22. Related party disclosures

(a) Transactions with related parties

All trading with related parties, including and not limited to rentals and other sundry charges, has been made on an arms 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 same agreement also rationalised the road network within the airport with some roads to be transferred between the parties and some roads to be acquired by Auckland Airport. This transaction was completed on 20 February 2017 at a cost of $3.3 million.

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

	2017 $M	2016 $M
Rates	9.9	9.4
Building consent costs and other local government regulatory obligations	1.2	1.7
Water, wastewater and compliance services	2.2	2.2
Grounds maintenance	2.1	1.8
Roads acquired	3.3	–

Associates and joint ventures

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

Notes and accounting policies CONTINUED

FOR THE YEAR ENDED 30 JUNE 2017

22. Related party disclosures CONTINUED

b) Key management personnel compensation

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

	Notes	2017 $M	2016 $M
Directors' fees		1.4	1.3
Senior management's salary and other short-term benefits		5.6	5.5
Senior management's share-based payments	23(b), 23(c)	3.2	6.1
		10.2	12.9

23. Share-based payment plans

(a) Employee share purchase plan

The purchase plan is open to all full-time and part-time employees (not directors) at an offer date. The company advances to the purchase plan all the monies necessary to purchase the shares under the purchase plan. The advances are repayable by way of deduction from the employee's regular remuneration. These advances are interest free.

The shares allocated under the purchase plan are held in trust for the employees by the trustees of the purchase plan during the restrictive period, which is the longer of three years or the period of repayment by the employee of the loan made by the trust to the employee in relation to the acquisition of shares.

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

	2017 Shares	2016 Shares
Shares held on behalf of employees		
Opening balance	119,929	171,630
Shares issued during the year	14,500	94,100
Shares fully paid and allocated during the year	(19,290)	(139,441)
Shares forfeited during the year	(11,100)	(6,360)
Total shares held on behalf of employees	104,039	119,929
Unallocated shares held by the purchase plan	246,101	206,469
Total shares held by the purchase plan	350,140	326,398

On 1 November 2016 shares were issued at a price of $6.13, being a 15% discount on the average market selling price over the 10 trading days ending on 5 October 2016. On 21 November 2015 shares were issued at a price of $4.20, being a 15% discount on the average market selling price over the 10 trading days ending on 8 October 2015.

(b) Long-term incentive plan – equity settled

In October 2015, the directors introduced a new equity-settled long-term incentive plan (LTI plan) that will vest from calendar year 2018 onwards. This plan replaces the previous phantom option plan. Under the new LTI plan, shares are issued and then held in trust for participating executives for a three-year vesting period. The executives are entitled to the dividends on the shares during the vesting period at the same rate as paid to all ordinary shareholders. The receipt of the shares, or vesting, is at nil cost to executives and subject to remaining employed by Auckland Airport during the vesting period and achievement of total shareholder return (TSR) performance hurdles. For 50% of the shares granted under the plan, all shares will vest if TSR equals or exceeds the company's cost of equity plus 1%. 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	166,002	–	–	24,348	141,654
23 October 2016	23 October 2019	–	119,250	–	9,070	110,180
Total LTI plan		166,002	119,250	–	33,418	251,834

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

Grant date	Vesting date	Grant price	Risk-free interest rate range	Expected volatility of share price	Estimated fair value per share right
23 October 2015	23 October 2018	$5.02	2.56–3.00%	18.1%	$1.58
23 October 2016	23 October 2019	$6.65	1.85–3.23%	22.7%	$2.15

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 2017 is $0.1 million (2016: $0.1 million) with a corresponding increase in the share-based payments reserve (refer note 16 (iii)).

(c) Long-term incentive – phantom options

The previous approach to leadership remuneration adopted by the directors was a cash-settled phantom option plan (phantom plan) for each calendar year from 2011 to 2014. In October 2015, the directors introduced the new executive share plan effective from calendar year 2015, which replaces the phantom plans.

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

The chief executive, Mr Adrian Littlewood, participated in each of the phantom option plans from 2011 to 2014 relating to his former role as general manager – retail and commercial and his current role as chief executive. Mr Littlewood has not participated in any other phantom option plans.

Mr Littlewood's participation in the phantom plans as chief executive resulted in the phantom option allocation of 1,578,125 and 1,486,929 phantom options for calendar 2013 and 2014 respectively.

In the year ended 30 June 2015, following a review of executive remuneration, the Board introduced a cap to the financial rewards payable upon the exercise of phantom options. Mr Littlewood's potential financial rewards upon exercise of phantom options is capped at two times his fixed annual remuneration for 2013 and 2014.

As at 30 June 2017, the estimate of the fair value of the cash-settled phantom plans for all the participating executives is $3.3 million (2016: $5.3 million).

An expense of $1.4 million (2016: $1.4 million) relating to the change in fair value or cash payments has been included in staff expenses in the income statement. Cash payments under the phantom plan were $3.2 million during the year ended 30 June 2017 (2016: $6.1 million).

Notes and accounting policies CONTINUED

FOR THE YEAR ENDED 30 JUNE 2017

23. Share-based payment plans CONTINUED

To assist the estimate of the fair value of the liability of the phantom option plans, the company undertakes a valuation of the phantom options, as measured at the reporting date, using the Black-Scholes methodology taking into account the terms and conditions for the instruments including the caps that were introduced in 2015. The expected life of each phantom option assumes that participants exercise the phantom option at the optimal time to maximise expected value.

The following table lists the key inputs to the Black-Scholes methodology used for the years ended 30 June 2017 and 30 June 2016.

	Assumptions 2017	Assumptions 2016
Expected volatility	22.70%	20.00%
Risk-free interest rate range	1.84–2.90%	2.02–2.35%
Share price at 30 June	$7.130	$6.500

Phantom options

As at 30 June 2017

Issue date	Date exercisable	Expiry date	Number granted	Number lapsed	Number exercised	Number at 30 June 2017	Number exercisable at 30 June 2017	Share price to meet hurdle rate at 30 June 2017
22/08/13	22/08/16	22/08/18	3,700,804	1,132,354	2,568,450[1]	–	–	$3.83
27/08/14	27/08/17	27/08/19	3,875,494	1,231,047	–	2,644,447	–	$4.14
			7,576,298	2,363,401	2,568,450	2,644,447	–	

As at 30 June 2016

Issue date	Date exercisable	Expiry date	Number granted	Number lapsed	Number exercised	Number at 30 June 2016	Number exercisable at 30 June 2016	Share price to meet hurdle rate at 30 June 2016
31/08/12	31/08/15	31/08/17	4,694,576	1,391,516	3,303,060[1]	–	–	N/A
22/08/13	22/08/16	22/08/18	3,700,804	1,132,354	–	2,568,450	–	$3.83
27/08/14	27/08/17	27/08/19	3,875,494	745,753	–	3,129,741	–	$4.14
			12,270,874	3,269,623	3,303,060	5,698,191	–	

1 Payouts under the above phantom option scheme may or may not be subject to caps each year depending on share price.

24. Events subsequent to balance date

On 23 August 2017, the directors approved the payment of a fully imputed final dividend of 10.5 cents per share amounting to $125.3 million to be paid on 20 October 2017.

On 22 August 2017, the directors of Queenstown Airport declared a dividend of $6.2 million. The group's share of the dividend is $1.5 million.

Deloitte.

Audit Report

INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF AUCKLAND INTERNATIONAL AIRPORT LIMITED

Opinion

We have audited the consolidated financial statements of Auckland International Airport Limited and its subsidiaries (the 'Group'), which comprise the consolidated statement of financial position as at 30 June 2017, and the consolidated income statement, statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements, on pages 19-64, present fairly, in all material respects, the consolidated financial position of the Group as at 30 June 2017, and its consolidated financial performance and cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards ('NZ IFRS') and International Financial Reporting Standards ('IFRS').

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing ('ISAs') and International Standards on Auditing (New Zealand) ('ISAs (NZ)'). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of the Group in accordance with Professional and Ethical Standard 1 (Revised) *Code of Ethics for Assurance Practitioners* issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants*, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Our firm carries out other assignments for the Group in the area of AGM vote scrutineer assistance and assurance reporting for regulatory reporting as well as taxation advice and consulting services. These services have not impaired our independence as auditor of the Company and Group. In addition to this, partners and employees of our firm deal with the Company and its subsidiaries on normal terms within the ordinary course of trading activities of the business of the Company and its subsidiaries. The firm has no other relationship with, or interest in, the Company or any of its subsidiaries.

Audit materiality

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

Key audit matters

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

Key audit matter	How our audit addressed the key audit matter
Fair Value of Revalued Property, Plant and Equipment Land, buildings and services, runway, taxiways, aprons and infrastructure property, plant and equipment ('Revalued PPE') are recorded on the statement of financial position at their fair value at the date of revaluation less any subsequent accumulated depreciation and impairment losses (if any). The Group revalues these assets at regular intervals that are sufficient to ensure that the carrying values are not materially different to their fair values. The carrying value of these assets as at 30 June 2017 is $4,878.6 million. Land and infrastructure assets were revalued at 30 June 2016 and runway, taxiways, aprons, buildings and services assets were last revalued at 30 June 2015. The Group did not carry out revaluations in 2017 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 changes in valuations of comparable properties. 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.	Our audit procedures focused on the appropriateness of the Group's assessment that the carrying value of Revalued PPE is not materially different to fair value. Our procedures included: • For assets previously valued using optimised depreciated replacement cost: – Assessing whether the capital goods price indices used by the Group are appropriate; – Comparing the capital goods price indices to observable market data and testing the accuracy of the Group's calculation of changes; and • For other assets: – Assessing whether the properties used by the Group are appropriately comparable, based on the nature of the revalued land; – Testing the accuracy of the Group's calculation of the change in fair value of the comparable property by reference to valuations of those properties; and • Testing the accuracy of the Group's calculation of the impact on fair value of changes in capital goods price indices and comparable properties respectively; and • Considering the appropriateness of the Group's assessment that carrying values are not materially different to fair value.
Valuation of Investment Properties Investment properties of $1,198.0 million are recorded at fair value in the statement of financial position at 30 June 2017. A revaluation gain of $91.9m is recorded in the income statement. Revaluations are carried out annually by independent registered valuers. Estimating the fair values requires judgement and the models used include both observable and non-observable inputs. Vacant land ($252.9 million) is valued using a direct sales comparison or residual value approach. Retail and service, industrial, and other investment properties ($945.1 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.

Deloitte Limited

Andrew Burgess, Partner
for Deloitte Limited
Auckland, New Zealand
23 August 2017

This audit report relates to the consolidated financial statements of Auckland International Airport Limited (the 'Company') for the year ended 30 June 2017 included on the Company's website. The Directors are responsible for the maintenance and integrity of the Company's website. We have not been engaged to report on the integrity of the Company's website. We accept no responsibility for any changes that may have occurred to the consolidated financial statements since they were initially presented on the website. The audit report refers only to the consolidated financial statements named above. It does not provide an opinion on any other information which may have been hyperlinked to/from these consolidated financial statements. If readers of this report are concerned with the inherent risks arising from electronic data communication they should refer to the published hard copy of the audited consolidated financial statements and related audit report dated 23 August 2017 to confirm the information included in the audited consolidated financial statements presented on this website.

Five-year summary

FOR THE YEAR ENDED 30 JUNE 2017

Group income statement	2017 $M	2016 $M	2015 $M	2014 $M	2013 $M
Income					
Airfield income	119.6	103.4	93.3	87.6	81.6
Passenger services charge	174.3	154.9	140.9	131.5	120.2
Retail income	162.8	157.5	132.0	127.1	124.3
Rental income	84.9	74.7	64.6	59.3	55.4
Rates recoveries	5.6	5.4	5.1	4.6	4.2
Car park income	56.3	52.1	46.6	42.8	40.4
Interest income	2.3	1.7	3.3	2.0	2.8
Other income	23.5	24.2	22.7	20.9	19.6
Total income	629.3	573.9	508.5	475.8	448.5
Expenses					
Staff	50.5	46.8	46.3	42.5	40.0
Asset management, maintenance and airport operations	55.6	49.1	44.2	40.3	39.6
Rates and insurance	12.2	11.5	10.7	10.1	9.7
Marketing and promotions	16.7	16.3	13.2	13.7	14.1
Other expenses	21.2	19.9	14.1	14.0	14.2
Total expenses	156.2	143.6	128.5	120.6	117.6
Earnings before interest, taxation, depreciation, fair value adjustments and investments in associates (EBITDAFI)	473.1	430.3	380.0	355.2	330.9
Share of (loss)/profit of associates	19.4	(8.4)	12.5	11.6	9.9
Derivative fair value (decrease)/increase	2.5	(2.6)	(0.7)	0.6	1.5
Property, plant and equipment fair value revaluation	–	(16.5)	(11.9)	4.1	–
Investment property fair value increase	91.9	87.1	57.2	42.0	23.1
Earnings before interest, taxation and depreciation (EBITDA)	586.9	489.9	437.1	413.5	365.4
Depreciation	77.9	73.0	64.8	63.5	62.1
Earnings before interest and taxation (EBIT)	509.0	416.9	372.3	350.0	303.3
Interest expense and other finance costs	72.8	79.1	86.0	68.2	66.7
Profit before taxation	436.2	337.8	286.3	281.8	236.6
Taxation expense	103.3	75.4	62.8	65.9	58.6
Profit after taxation	332.9	262.4	223.5	215.9	178.0

Group statement of comprehensive Income	2017 $M	2016 $M	2015 $M	2014 $M	2013 $M
Profit for the period	332.9	262.4	223.5	215.9	178.0
Other comprehensive income					
Items that will not be reclassified to income statement					
Property, plant and equipment net revaluation movements	–	784.0	109.3	734.8	–
Tax on the property, plant and equipment revaluation reserve	–	(7.1)	(30.1)	–	(0.5)
Movement in share of reserves of associates	7.5	8.9	–	–	–
Items that will not be reclassified to income statement	7.5	785.8	79.2	734.8	(0.5)
Items that may be reclassified subsequently to income statement					
Cash flow hedges					
Fair value gains/(losses) recognised in the cash flow hedge reserve	15.2	(36.5)	(25.5)	(3.1)	3.2
Realised (gains)/losses transferred to the income statement	6.7	6.0	9.2	8.7	8.8
Tax effect of movements in the cash flow hedge reserve	(6.1)	8.5	4.6	(1.6)	(3.3)
Total cash flow hedge movement	15.8	(22.0)	(11.7)	4.0	8.7
Movement in share of reserves of associates	2.5	1.9	1.7	8.4	0.8
Movement in foreign currency translation reserve	0.2	(2.7)	1.7	(7.0)	(3.5)
Items that may be reclassified subsequently to income statement	18.5	(22.8)	(8.3)	5.4	6.0
Total other comprehensive income/(loss)	26.0	763.0	70.9	740.2	5.5
Total comprehensive income for the period, net of tax attributable to the owners of the parent	358.9	1,025.4	294.4	956.1	183.5

Group statement of changes in equity	2017 $M	2016 $M	2015 $M	2014 $M	2013 $M
At 1 July	3,880.7	3,042.9	2,918.7	2,499.4	2,472.7
Profit for the period	332.9	262.4	223.5	215.9	178.0
Other comprehensive income/(loss)	26.0	763.0	70.9	740.2	5.5
Total comprehensive income	358.9	1,025.4	294.4	956.1	183.5
Shares issued	15.6	0.4	–	–	–
Share buy-back	–	0.1	–	–	–
Capital return and share cancellation	–	–	–	(454.1)	–
Long-term incentive plan	0.1	–	–	–	–
Dividend paid	(226.3)	(188.1)	(170.2)	(82.7)[1]	(156.8)
At 30 June	4,029.0	3,880.7	3,042.9	2,918.7	2,499.4

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

Five-year summary CONTINUED

FOR THE YEAR ENDED 30 JUNE 2017

Group balance sheet	2017 $M	2016 $M	2015 $M	2014 $M	2013 $M
Non-current assets					
Property, plant and equipment					
Freehold land	3,437.2	3,418.0	2,657.7	2,649.7	1,912.1
Buildings and services	754.2	612.4	583.0	499.0	504.7
Infrastructure	332.9	293.9	278.8	281.5	273.2
Runways, taxiways and aprons	354.3	333.3	320.2	298.2	308.7
Vehicles, plant and equipment	69.2	50.5	44.4	33.1	21.5
	4,947.8	4,708.1	3,884.1	3,761.5	3,020.2
Investment properties	1,198.0	1,048.9	848.1	733.4	635.9
Investment in associates	171.6	142.8	163.6	158.4	165.7
Derivative financial instruments	82.1	138.8	118.3	6.9	17.1
	6,399.5	6,038.6	5,014.1	4,660.2	3,838.9
Current assets					
Cash	45.1	52.6	38.5	41.4	69.2
Inventories	0.1	0.1	–	–	–
Trade and other receivables	55.5	42.3	36.6	29.0	26.8
Dividend receivable	2.7	3.3	2.8	2.7	3.6
Taxation receivable	–	3.9	9.5	–	–
Derivative financial instruments	0.6	0.7	–	0.5	–
	104.0	102.9	87.4	73.6	99.6
Total assets	6,503.5	6,141.5	5,101.5	4,733.8	3,938.5

Shareholders’ equity	2017 $M	2016 $M	2015 $M	2014 $M	2013 $M
Issued and paid-up capital	348.3	332.7	332.3	332.3	348.8
Cancelled share reserve	(609.2)	(609.2)	(609.2)	(609.2)	(171.6)
Property, plant and equipment revaluation reserve	3,729.1	3,730.6	2,958.5	2,880.6	2,147.7
Share-based payments reserve	1.1	1.0	0.9	0.9	0.9
Cash flow hedge reserve	(32.0)	(47.7)	(25.7)	(14.0)	(18.0)
Share of reserves of associates	20.4	10.4	(0.4)	(2.1)	(10.5)
Foreign currency translation reserve	(9.3)	(9.5)	(6.8)	(8.5)	(1.5)
Retained earnings	580.6	472.4	393.3	338.7	203.6
	4,029.0	3,880.7	3,042.9	2,918.7	2,499.4
Non-current liabilities					
Term borrowings	1,635.6	1,490.0	1,504.9	1,126.8	1,010.3
Derivative financial instruments	36.1	56.9	22.2	33.1	21.7
Deferred tax liability	237.8	220.4	220.3	200.2	200.2
Other term liabilities	1.5	1.3	1.3	0.7	0.7
	1,911.0	1,768.6	1,748.7	1,360.8	1,232.9
Current liabilities					
Accounts payable	132.3	94.3	88.8	69.5	62.2
Taxation payable	6.4	–	–	2.8	10.4
Derivative financial instruments	2.8	0.1	1.7	–	–
Short-term borrowings	421.1	396.9	217.6	380.1	131.7
Provisions	0.9	0.9	1.8	1.9	1.9
	563.5	492.2	309.9	454.3	206.2
Total equity and liabilities	6,503.5	6,141.5	5,101.5	4,733.8	3,938.5

Five-year summary CONTINUED

FOR THE YEAR ENDED 30 JUNE 2017

Group statement of cash flows	2017 $M	2016 $M	2015 $M	2014 $M	2013 $M
Cash flow from operating activities					
Cash was provided from:					
Receipts from customers	615.5	569.5	500.6	471.6	441.9
Interest received	2.3	1.7	3.3	2.1	2.8
	617.8	571.2	503.9	473.7	444.7
Cash was applied to:					
Payments to suppliers and employees	(156.3)	(151.2)	(116.0)	(116.4)	(112.1)
Income tax paid	(81.7)	(69.9)	(79.5)	(79.1)	(57.3)
Interest paid	(72.7)	(79.6)	(86.2)	(66.6)	(67.5)
	(310.7)	(300.7)	(281.7)	(262.0)	(236.9)
Net cash flow from operating activities	307.1	270.5	222.2	211.7	207.8
Cash flow from investing activities					
Cash was provided from:					
Proceeds from sale of assets	0.1	0.1	0.3	–	–
Proceeds from sale of investment property	–	–	0.5	–	–
Dividends from associates	20.2	15.8	13.1	16.8	14.3
	20.3	15.9	13.9	16.8	14.3
Cash was applied to:					
Purchase of property, plant and equipment	(247.9)	(124.4)	(79.0)	(60.7)	(55.0)
Interest paid – capitalised	(9.9)	(5.5)	(4.3)	(3.2)	(2.2)
Expenditure on investment properties	(81.2)	(103.7)	(61.2)	(55.6)	(32.2)
Other investing activities	(18.6)	–	–	–	–
	(357.6)	(233.6)	(144.5)	(119.5)	(89.5)
Net cash applied to investing activities	(337.3)	(217.7)	(130.6)	(102.7)	(75.2)
Cash flow from financing activities					
Cash was provided from:					
Increase in share capital	0.1	0.4	–	–	–
Increase in borrowings	538.4	275.0	565.8	450.0	175.4
	538.5	275.4	565.8	450.0	175.4
Cash was applied to:					
Share buy-back	–	–	–	(454.1)	–
Decrease in borrowings	(305.0)	(126.0)	(490.1)	(50.0)	(125.0)
Dividends paid	(210.8)	(188.1)	(170.2)	(82.7)	(156.7)
	(515.8)	(314.1)	(660.3)	(586.8)	(281.7)
Net cash flow applied to financing activities	22.7	(38.7)	(94.5)	(136.8)	(106.3)
Net (decrease)/increase in cash held	(7.5)	14.1	(2.9)	(27.8)	26.3
Opening cash brought forward	52.6	38.5	41.4	69.2	42.8
Ending cash carried forward	45.1	52.6	38.5	41.4	69.2

Capital expenditure	2017 $M	2016 $M	2015 $M	2014 $M	2013 $M
Aeronautical	255.4	119.7	68.3	33.3	51.2
Infrastructure and other	12.4	8.0	4.2	22.5	3.1
Retail	7.2	4.6	3.1	6.1	0.9
Property development	85.7	106.4	67.0	54.1	37.1
Car parking	14.0	4.5	5.0	5.5	1.1
Total	374.7	243.2	147.6	121.5	93.5

Passenger, aircraft and MCTOW	2017	2016	2015	2014	2013
Passenger movements					
International*	10,418,732	9,358,272	8,618,191	8,150,396	7,755,678
Domestic	8,601,841	7,902,059	7,198,595	6,911,689	6,760,537
Aircraft movements					
International*	54,879	49,828	46,692	45,809	44,314
Domestic*	114,366	107,944	104,264	107,454	110,832
MCTOW (tonnes)					
International*	5,609,244	4,910,014	4,556,051	4,339,266	4,104,679
Domestic*	2,238,853	2,068,545	1,890,764	1,879,199	1,824,689

* Auckland Airport has refined its passenger and movements data from August 2016 onwards, resulting in a minor restatement of prior year comparatives. The numbers above are consistent with published monthly traffic data.

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 Australian Stock Exchange (ASX) (Foreign Exempt Listing Category). The company's corporate governance practices fully reflect and satisfy the Financial Markets Authority handbook 'Corporate Governance in New Zealand – Principles and Guidelines' (FMA Handbook) and the 'NZX Corporate Governance Code 2017' (NZX Code). As Auckland Airport is fully compliant with the FMA Handbook and the NZX Code, and as a consequence of Auckland Airport having a Foreign Exempt Listing on the ASX, Auckland Airport is also compliant with the ASX Corporate Governance Council's 'Corporate Governance Principles and Recommendations' (3rd Edition) (ASX Principles).

The comprehensive NZX Code sets out eight fundamental principles of good corporate governance. The structure of this corporate governance section of the annual report reflects the company's compliance with those fundamental principles. This approach has been adopted to lift the transparency of the company's corporate governance practices for the benefit of shareholders and other stakeholders. The NZX Code is to be introduced in October 2017 so this section of the report differs slightly from previous years (which were based largely on the ASX Principles) in order to reflect the updated requirements of the NZX Code.

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 co-operation with auditors;
- responsibilities to customers and suppliers of the company, and other persons using the Airport including rules regarding unacceptable payments and inducements, treatment of third parties, non-discriminatory treatment and tendering obligations; and
- responsibilities to the community including compliance with statutory and regulatory obligations, use of assets and resources and conflicts of interest.

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

The company also has a policy on share trading by directors, officers and employees which can be found on the company website at corporate.aucklandairport.co.nz/Governance.

The policy sets out a fundamental prohibition on trading of the company's securities and the obligation of confidentiality in dealing with any material information. The policy applies to ordinary shares and debt securities issued by the company, any other listed securities of the company or its subsidiaries and any listed derivatives in respect of such securities. Under the policy there is also a prohibition on directors or senior employees trading in the company's shares during any black-out period. The company's black-out periods are:

- the period from the close of trading on 30 June of each year until the day following the announcement 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.

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 & company secretary;
- approve remuneration policies applicable to senior management via the people and capability committee;
- approve and monitor the company's financial statements and other reporting, including reporting to shareholders, and ensure that the company's obligations of continuous disclosure are met;
- ensure that the company adheres to high ethical and corporate behaviour standards;
- ensure there are procedures and systems in place to safeguard the health and safety of people working at or visiting Auckland Airport;
- ensure the company has measurable objectives in place for achieving diversity within the business;
- promote a company culture and remuneration practice which facilitates the recruitment, professional development and retention of staff;
- set specific limits on management's delegated authority for entry into new expenditure, contracts and acquisition of assets and approve commitments outside those limits; and
- ensure that the company has appropriate risk management and regulatory compliance policies in place, and monitor the appropriateness and implementation of those policies.

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

The Board currently comprises eight directors, being Sir Henry van der Heyden, Richard Didsbury, Brett Godfrey, Michelle Guthrie, James Miller, Justine Smyth, Christine Spring and Patrick Strange. All of the directors are considered by the Board to be 'independent' directors. In judging whether a director is 'independent', the Board has regard to whether or not the director:

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

Corporate governance CONTINUED

As at the date of this annual report, the directors, the dates of their appointment and their independence are:

Director	Qualifications	Gender	Location	Date of appointment	Tenure (years)	Independence
Sir Henry van der Heyden	KNZM, BE (Hons)	M	NZ	4 September 2009	8	Yes
Richard Didsbury	BE	M	NZ	20 November 2007	10	Yes
Brett Godfrey	BCom, ACA	M	AUS	28 October 2010	7	Yes
Michelle Guthrie	BA, LLB (Hons)	F	AUS	24 October 2013	4	Yes
James Miller	BCom, FCA, AMInstD	M	NZ	4 September 2009	8	Yes
Justine Smyth	BCom, FCA	F	NZ	2 July 2012	5	Yes
Christine Spring	BE, MSc Eng, MBA	F	NZ	23 October 2014	3	Yes
Patrick Strange	BE (Hons), PhD	M	NZ	22 October 2015	2	Yes

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 87. 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 and the Board charter requires that the chair of the Board is an independent, non-executive director.

The table on page 78 shows a list of each director's Board committee memberships, the number of Board and Committee meetings held during the year, and the number of those meetings attended by each director. Minutes are taken of all Board and committee meetings.

Subject to the prior approval of the chair of the Board, any director is entitled to obtain independent professional advice relating to the affairs of the company or to the director's responsibilities as a director, at the cost of the company.

The Board has determined that directors will hold office for an initial term of no longer than three years following their first appointment. Directors may offer themselves for re-election by shareholders at the end of each three-year term. If the director is appointed by the Board between annual meetings, the three years applies from the date of the next annual meeting following that interim appointment. The Board's charter records these requirements, which are subject to any limitations imposed by shareholders in the annual meeting, and the requirements of the constitution relating to the retirement of directors by rotation. The Board's policy is that directors shall not serve a term of longer than nine years unless the Board considers that any director serving longer than that period would be in the best interests of shareholders. The Board nominations policy can be found on the company website at corporate.aucklandairport.co.nz/Governance.

All directors enter into written agreements with the company in the form of a letter which sets out the terms and conditions of their appointment. A copy of the standard form of this letter is available on the company 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 shareholders 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 Sir Henry van der Heyden as chair. The nominations committee does not meet separately as all matters to be discussed at the committee are discussed by the full Board.

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

2017 SKILLS MATRIX

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

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

A definition of categories referred to above can be found on the company 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 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) in order to assess how the company or committee is tracking against the policy at the end of each reporting period.

The following table sets out the breakdown of gender diversity across the company.

	Male		Female		% of female	
	2016	2017	2016	2017	2016	2017
Board	5	5	3	3	38%	38%
Leadership Team	7	7	2	2	22%	22%
Employees	266	295	146	181	35%	38%

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

Directors have unfettered access to the company's records and information as required for the performance of their duties. They also receive detailed information in Board papers to facilitate decision-making. New Board members take part in an induction programme to familiarise them with the company's business and facilities.

The Board receives regular briefings on the company's operations from senior management and tours of the company's facilities keep the Board abreast of developments. To ensure directors and management remain current on how best to perform their duties, they are also encouraged and provided with resources to continue the development of their business skills and knowledge, including by attending relevant training, courses, conferences and briefings. The directors and management also build broader market knowledge by carrying out site visits of relevant off-shore airports and businesses including discussing relevant issues with senior management.

Corporate governance CONTINUED

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

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

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

The following table details the attendance by each director at the relevant Board and committee meetings for the period 1 July 2016 to 30 June 2017.

Ad-hoc committees, such as the aeronautical pricing committee, are established from time to time in respect of regulatory compliance and other matters relevant to the company. The aeronautical pricing committee advised management on the aeronautical pricing consultation process and comprised James Miller, Justine Smyth, Patrick Strange and Christine Spring.

Name	Board			Audit and Financial Risk			People and Capability			Safety and Operational Risk		
	Member	No. of meetings	No. of meetings attended	Member	No. of meetings	No. of meetings attended	Member	No. of meetings	No. of meetings attended	Member	No. of meetings	No. of meetings attended
Sir Henry van der Heyden	✓	8	8	✓	5	5	✓	3	3	✓	3	3
James Miller	✓	8	7[1]	✓	5	5						
Justine Smyth	✓	8	8	✓	5	5	✓	3	3			
Christine Spring	✓	8	8	✓[2]			✓	3	3	✓	3	3
Patrick Strange	✓	8	8	✓	5	4				✓	3	3
Richard Didsbury	✓	8	7							✓	3	3
Brett Godfrey	✓	8	7				✓	3	3	✓	3	3
Michelle Guthrie	✓	8	8				✓	3	3			

1 Mr Miller was absent from the May 2017 Board meeting due to a family bereavement.

2 Ms Spring joined the audit and financial risk committee in March 2017, however no meetings were held between her appointment and 30 June 2017.

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 people and capability committee has developed a process for evaluating performance taken from external reviews. These results are then prioritised and evaluated in subsequent reviews.

Principle 3: Board Committees

In accordance with the Board Charter, various committees have been set up to enhance the Board's effectiveness in key areas while still retaining overall responsibility.

The Board has established the following standing committees to ensure efficient decision-making:

- audit and financial risk;
- people and capability;
- nominations; and
- safety and operational risk.

The roles of these committees are detailed in other parts of this report but each committee operates under a written charter which sets out the roles and responsibilities of each committee.

Membership of each committee is disclosed and member attendance is periodically reported.

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

The Board delegates the day-to-day operations of the company to management under the control of the chief executive. Day-to-day operations are required to be conducted in accordance with strategies set by the Board. The Board's charter records this delegation and promotes clear lines of communication between the chair and the chief executive.

Principle 4: Reporting and Disclosure

The company is committed to promoting investor confidence by providing robust, timely, accurate, complete and equal access to information in accordance with the NZX and ASX Listing Rules. The company has a written disclosure and communications policy designed to ensure this occurs. That policy can be found on the company website at corporate.aucklandairport.co.nz/Governance. In addition, throughout this report you will see that the company makes its code of ethics, insider trading, diversity and remuneration policies available on the company's website.

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

Both financial and non-financial disclosures are made at least annually, including material exposure to environmental, economic and social sustainability risks and other key risks. When these disclosures are made the company explains how it plans to manage those risks and how operational or non-financial targets are measured. The company produces stand-alone corporate social responsibility (CSR) reports. The 2016 CSR Report can be found on the company website at corporate.aucklandairport.co.nz/CSR

The general counsel & company secretary is responsible for releasing any relevant information to the market once it has been approved. Financial information release is approved by the audit and financial risk committee, while information released on other matters is approved by the chief executive.

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

Principle 5: Remuneration

The Board's people and capability committee is responsible for remuneration and has a formal charter which it operates under. All of its members are non-executive directors. The people and capability committee members are Justine Smyth (Chair), Brett Godfrey, Sir Henry van der Heyden and Michelle Guthrie. 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 78.

Auckland Airport is committed to remuneration transparency. As a result, the company has decided to provide shareholders with more information about director and employee remuneration than it has in previous financial years.

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

2017 Financial Year

At the 2016 annual meeting, shareholders approved a total directors' fee pool of $1,502,647. This was $36,650, or 2.5%, more than the directors' fee pool approved by shareholders at the 2015 annual meeting.

In the 2017 financial year, directors received the following remuneration for their governance of Auckland Airport:

Base Fees of Directors by Position (from October 2016)

	Chair	Member
Board	$250,000[1]	$116,000
Safety and Operational Risk Committee	$25,000	$12,500
Audit and Financial Risk Committee	$50,779	$25,390
People and Capability Committee	$25,000	$12,500
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

Corporate governance CONTINUED

Remuneration received by Directors by Board Member

Name	Director's fee (excluding expenses)
Sir Henry van der Heyden	$248,485.70
Richard Didsbury	$158,309.53
Brett Godfrey	$139,518.48
Michelle Guthrie	$127,563.98
James Miller	$176,595.95
Justine Smyth	$192,123.40
Christine Spring	$167,420.64
Patrick Strange	$162,280.90

The above director remuneration includes the 15% of the base fees payable to them which is used to acquire shares in the company under the share purchase plan.

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 all Board and committee meetings, but does not take part in the actual decision-making;
- the term of the Future Director's appointment is for one year;
- 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 selected Ms A. Kiriwaitingi Rei to participate in the Future Directors programme during the 2017 financial year.

EMPLOYEE REMUNERATION

Remuneration Philosophy

The company's remuneration philosophy is to ensure that:

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

Performance and Development

Every six months employees of the company participate in a formal performance and development review. The outcomes of the end of year review inform decisions regarding remuneration adjustments in accordance with company policy. Additionally, formal talent reviews are conducted each year which 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 a Collective Employment Agreement. Permanent employees on an Individual Employment Agreement are eligible to participate in the company's Group Health Scheme at their own cost. The costs are paid by the employee and the insurance covers the employee, his/her partner and any children under 21 years of age. The company's health insurance is currently supplied by Southern Cross Health Society.

The company also provides employees with the opportunity to obtain income protection and life insurance at their own cost. The company fully subsidises the cost of these insurances for employees on a Collective Employment Agreement. Permanent employees on Individual Employment Agreements pay the costs for their insurances through a compulsory 1% pay deduction from their fixed annual remuneration.

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

Superannuation

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

Fixed Annual Remuneration

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

Short-Term Incentives

Thirty-one 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 2017 financial year. The short-term incentive is an at-risk component of employee remuneration, and is in addition to fixed annual remuneration and payable in cash on achievement of performance targets.

For employees who are not on the Leadership Team, the short-term incentive targets are 10%, 15% and 20% of fixed annual remuneration[1], depending on level of seniority within the company. The short-term incentive target for members of the Leadership Team is 30% of fixed annual remuneration and the chief executive's short-term incentive target is 50% of his base salary[2].

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

Organisational level	Short term incentive target	For over-performance
Employee not on Leadership Team	10% of fixed annual remuneration	Up to 12% of fixed annual remuneration
Employee not on Leadership Team	15% of fixed annual remuneration	Up to 18% of fixed annual remuneration
Employee not on Leadership Team	20% of fixed annual remuneration	Up to 24% of fixed annual remuneration
Leadership Team	30% of fixed annual remuneration	Up to 42% 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 which employees did not influence or to ensure that employees are not unfairly penalised for material one-off adverse events outside their control.

Long-Term Incentive

Members of Auckland Airport's Leadership Team and the chief executive participate in the company's long-term incentive plan.

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

The new long-term incentive plan is a share-based plan. At the end of the 2017 financial year, the total current value of long-term incentives in place for Auckland Airport's Leadership Team and Chief Executive was $3.5 million.

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

1 Fixed annual remuneration is the fixed sum that employees on individual employment agreements earn. The cost of insurance premiums is deducted from fixed annual remuneration and the remaining amount is the base salary.

2 Base salary for the chief executive means the base salary after deduction from his fixed annual remuneration of the cost of any income protection and life insurance premiums.

Corporate governance CONTINUED

Remuneration of Employees

Below is the number of employees and former employees of the company, excluding directors, who received remuneration and other benefits which totalled $100,000 or more, in their capacity as employees during the 2017 financial year.

Amount of remuneration	Former Employees	Current Employees
$100,001 to $110,000		43
$110,001 to $120,000	7	29
$120,001 to $130,000	2	22
$130,001 to $140,000		26
$140,001 to $150,000	1	7
$150,001 to $160,000	1	9
$160,001 to $170,000		11
$170,001 to $180,000		6
$180,001 to $190,000		3
$190,001 to $200,000		2
$200,001 to $210,000		2
$210,001 to $220,000		2
$220,001 to $230,000		6
$230,001 to $240,000		3
$240,001 to $250,000		3
$250,001 to $260,000		1
$260,001 to $270,000	1	
$280,001 to $290,000		1
$300,001 to $310,000		1
$320,001 to $330,000		1
$380,001 to $390,000		1
$570,001 to $580,000		1
$600,001 to $610,000		1
$770,001 to $780,000		1
$790,001 to $800,000		1
$1,000,001 to $1,010,000		1
$1,090,001 to $1,100,000	1	
$3,290,001 to $3,300,000		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.

Remuneration Consultant

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

CHIEF EXECUTIVE REMUNERATION

Base Salary

Over the course of the financial year the chief executive earned a base salary of $923,515.

Shares

The chief executive held 810 shares personally in the company as at 30 June 2017 and 106,677 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 50% of his base salary (provided all performance targets are achieved). If a performance is unsatisfactory, then no short-term incentive is payable for that criteria. A maximum of 1.4 x the target is payable for outstanding performance by the chief executive.

In the 2017 financial year, the chief executive was paid a total short-term incentive payment of $563,119, which was based on his performance for the 2016 financial year against criteria set out in the table below.

Short-Term Incentive Criteria 2016 Financial Year	Weighting
Individual Performance Criteria	
– Financial outcomes	8.75%
– Infrastructure and operations	8.75%
– Tourism market development	8.75%
– Non-aeronautical growth	8.75%
– Leadership, safety and people outcomes	15%
Total Individual Performance Criteria	50%
Company Performance Criteria	50%
Total	100%

The payment made in the 2017 financial year reflects 110% (1.1 x target) achievement of the chief executive's individual performance criteria for the 2016 financial year. In the 2016 financial year the chief executive's total short-term incentive payment was $546,455, which was based on his performance for the 2015 financial year against performance criteria. As at the date of this report, the chief executive's performance against his 2017 short-term incentive targets has not yet been assessed and any payment in relation to the 2017 short-term incentives will be made in the 2018 financial year.

Long-Term Incentives

The chief executive participated in the Auckland Airport long-term incentive plan in the 2017 financial year. His remuneration includes both phantom options from the legacy long-term incentive plan, and shares issued under the new long-term incentive plan.

Scheme	Financial Year of Grant	Grant[1]	Number Granted	Financial Year Exercised	Share price at Exercise	Value at Exercise
Phantom options	2013	$260,256[4]	1,577,311	2016	$4.95	$1,812,500[2]
Phantom options	2014	$429,250	1,578,125	2017	$7.62	$1,700,000[3]
Phantom options	2015	$455,000	1,486,929	Exercisable in 2018	N/A	N/A[3]
Shares-based scheme	2016	$301,831[1]	60,139	Exercisable in 2019	N/A	N/A
Shares-based scheme	2017	$309,377[1]	46,538	Exercisable in 2020	N/A	N/A

1 Value of loan amount provided for purchase of shares.

2 2013 capped at 2.5 x base salary as at the grant year.

3 2014 and 2015 capped at 2 x base salary as at the grant year.

4 The 2013 grant was a blended grant based on the chief executive's prior executive role as GM retail & commercial and current position.

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 2017 financial year the company contribution was $95,625 compared with $98,786 in the 2016 financial year.

Notice and termination period

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

Summary

The remuneration paid to the chief executive is summarised below.

Remuneration Element	2016 Financial Year	2017 Financial Year
Base Salary	$900,990	$923,515
Short-Term Incentive	$546,455	$563,119
KiwiSaver, Insurance & other statutory benefits	$140,113	$105,736
Subtotal	$1,587,558	$1,592,370
Long-Term Incentive[2] (exercised value)	$1,812,500[1]	$1,700,000[2]
TOTAL	$3,400,058	$3,292,370

1 The exercise of phantom options in FY16 that were granted in FY13 was subject to a cap of 2.5 times his base salary at the grant year.

2 The exercise of the phantom options in FY17 that were granted in FY14 is subject at exercise date to a cap of 2 times his base salary at the grant year. FY18 is the final year in which a grant of phantom options made under the legacy LTI scheme (in FY15) will be exercised.

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 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.

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 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 the timely and accurate identification and reporting, and effective management of the 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 Richard Didsbury (chair), Brett Godfrey, Christine Spring, Sir Henry van der Heyden and Patrick Strange, all of whom are independent non-executive directors. Their qualifications are set out on page 76 and attendance at meetings on page 78.

The audit and financial risk committee continues to be delegated responsibility for oversight of financial risk. Further details of the role of this committee are set out at Principle 7 below.

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 (EY). EY 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.

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 2016 is available on the company website at corporate.aucklandairport.co.nz/CSR.

Principle 7: Auditors

The audit and financial risk committee is responsible for financial risk management oversight. This committee's formal charter reflects this responsibility and describes its function. 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 the financial risk management, financial reporting and audit functions. It includes specific responsibility to review the company's processes for identifying and managing financial risk; and financial reporting processes, systems of internal control, and the internal and external audit process.

The committee must have a minimum of three members, all of whom must be non-executive directors, and the majority must be independent directors. The committee is chaired by an independent chair, who must not be the chair of the Board. The current members are James Miller (chair), Richard Didsbury, Justine Smyth, Christine Spring and Patrick Strange, all of whom are independent non-executive directors. Their qualifications are set out on page 76 and attendance at meetings on page 78.

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

The audit and financial risk committee has adopted a policy in respect of the independence of the external auditor. This policy can be found on the company website at corporate.aucklandairport.co.nz/Governance.

This policy establishes a framework for the company's relationship with our external auditors and it places limitations on the extent of non-audit work which can be carried out by the external auditor, and requires the regular rotation of the partner of the external auditor responsible for the audit of the company every five years.

Principle 8: Shareholder Rights and Relations

The company's communication framework and strategy is designed to ensure that communication with shareholders and all other stakeholders is managed efficiently. This strategy forms part of the disclosure and communications policy referred to under Principle 4 which can be found on the company website at corporate.aucklandairport.co.nz/Governance. It is the company's policy that external communications 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 & company secretary, and manager public affairs are appointed as the points of contact for media.

The company currently keeps shareholders, as well as interested stakeholders, informed through:

- the corporate section of the company website (corporate.aucklandairport.co.nz/Investors);
- the annual report;
- the interim report;
- 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 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 meeting provides an opportunity for shareholders to raise questions for their Board, and to make comments about the company's operations and performance. The chair may ask the chief executive and any relevant manager of the company to assist in answering questions if required. The company's external auditors also attend the annual meeting, and are available to answer questions relating to the conduct of the external audit and the preparation and content of the auditor's report.

Shareholder information

The company was incorporated on 20 January 1988, under the Companies Act 1955, and commenced trading on 1 April 1988. The company was re-registered under the Companies Act 1993 on 6 June 1997. On 25 June 1998, the company adopted a revised constitution, approved as appropriate for a publicly listed company. Further revisions of the constitution were adopted on 21 November 2000, 18 November 2002 and 23 November 2004 in order to comply with NZX and ASX Listing Rule requirements.

The company was registered in Australia as a foreign company under the Corporations Law on 22 January 1999 (ARBN 085 819 156) and was granted Foreign Exempt Listing Entity status by ASX on 22 April 2016.

STOCK EXCHANGE LISTINGS

The company's shares were quoted on the NZX on 28 July 1998. The company's shares were quoted on the ASX effective 1 July 2002.

The company is not subject to chapters 6, 6A, 6B and 6C of the Australian Corporations Act dealing with the acquisition of shares (i.e. substantial holdings and takeovers).

WAIVERS GRANTED BY THE NZX

The company was issued with a waiver of Listing Rule 5.2.3 by NZX on 13 October 2016 (for a period of six months from 3 November 2016) in respect of the company's November 2016 issue of $225 million of unsecured and unsubordinated fixed rate bonds (Bonds).

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

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

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

DISCIPLINARY ACTION TAKEN BY THE 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 2017.

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 and disclosure obligations under the Airport Authorities Act 1966.

The company is required to comply with the Commerce Act (Specified Airport Services Information Disclosure) Determination 2010, with disclosure financial statements required to be published in November each year.

AUDITORS

Deloitte has continued to act as auditors of the company, and has undertaken the audit of the financial statements for the 30 June 2017 year. The auditors are subject to a partner rotation policy and a new partner will be appointed for the new financial year.

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 that it donated a total of $51,655 to various charities during the year. The company also made other community contributions in the amount of $244,730. The company's subsidiaries did not make any donations during the year. The company has a policy of not making any donations to political parties.

EARNINGS PER SHARE

Earnings in cents per ordinary share were 27.96 cents in 2017 compared with 22.05 cents in 2016.

CREDIT RATING

As at 30 June 2017, the Standard & Poor's long-term debt rating for the company was A- Stable Outlook.

SUBSIDIARY AND AFFILIATE COMPANY DIRECTORS

Scott Weenink and Mark Thomson held office as directors of Auckland Airport Limited as at 30 June 2017.

Philip Neutze and Scott Weenink held office as directors of Auckland Airport Holdings Limited and Auckland Airport Holdings (No. 2) Limited as at 30 June 2017.

Anna Cassels-Brown and Justine Hollows held office as directors of Auckland Airport Holdings (No. 3) Limited as at 30 June 2017.

Anna Cassels-Brown and Justine Hollows held office as directors of Ara Charitable Trustee Limited as at 30 June 2017.

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.

Scott Weenink held office as Director of North Queensland Airports No. 1 (Mackay) Pty Ltd, Mackay Airport Property Holding Pty Ltd, Cairns Airport Property Holding Pty Ltd and Mackay Airport Property Holding (Hotel) Pty Ltd.

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

ANNUAL MEETING OF SHAREHOLDERS

The company's annual meeting of shareholders will be held at the Vodafone Events Centre, 770 Great South Road, Manukau, on 26 October 2017 at 10:00am.

DIRECTORS' HOLDINGS AND DISCLOSURE OF INTERESTS

Directors held interests in the following shares in the company as at 30 June 2017:

Sir Henry van der Heyden	Held personally	22,664
Richard Didsbury	Held personally	14,988
	Held by Associated Persons	3,945
Brett Godfrey	Held personally	14,303
Michelle Guthrie	Held personally	6,472
James Miller	Held personally	15,236
Justine Smyth	Held personally	10,409
	Held by Associated Persons	94,176
Christine Spring	Held personally	3,870
Patrick Strange	Held personally	1,910
	Held by Associated Persons	10,000

DISCLOSURE OF INTERESTS BY DIRECTORS

The following general disclosures of interests have been made by the directors in terms of section 140(2) of the Companies Act 1993:

Sir Henry van der Heyden

Chair, Tainui Group Holdings Limited
Chair, Manuka SA
Chair, Rabobank New Zealand Limited
Director, Rabobank Australia Limited
Director, Pascaro Investments Limited
Director, Foodstuffs North Island Limited

Richard Didsbury

Chair, NX2 Hold GP
Director, SKYCITY Entertainment Group Limited
Director, Kiwi Property Group Limited

Brett Godfrey

Director, Westjet Airlines Limited

Michelle Guthrie

Director, Australian Broadcasting Corporation

James Miller

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

Justine Smyth

Director, Spark New Zealand Limited
Chair, New Zealand Breast Cancer Foundation

Christine Spring

Director, Holmes GP Structures Limited

Patrick Strange

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

Shareholder information CONTINUED

DISTRIBUTION OF ORDINARY SHARES AND SHAREHOLDERS

AS AT 30 JUNE 2017

Size of holding	Number of shareholders	%	Number of shares	%
1 – 1,000	6,532	13.54	3,544,541	0.3
1,001 – 5,000	30,986	64.23	64,195,018	5.38
5,001 – 10,000	5,428	11.25	39,012,581	3.27
10,001 – 50,000	4,736	9.82	91,896,818	7.7
50,001 – 100,000	361	0.75	24,303,776	2.04
100,001 and over	199	0.41	970,266,951	81.32
Total	**48,242**		**1,193,219,685**	

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 2017 that they were substantial product holders in the company and held a ‘relevant interest’ in the number of ordinary shares shown below:

Substantial product holder	Number of shares in which ‘relevant interest’ is held	Date of notice
Auckland Council Investments Limited	266,328,912	31.05.16

The total number of voting securities on issue as at 30 June 2017 was 1,193,219,685.

20 LARGEST SHAREHOLDERS

AS AT 30 JUNE 2017

Shareholder	Number of shares	% of capital
New Zealand Central Securities Depository Limited[1]	518,634,645	43.47
Auckland Council Investments Limited	266,328,912	22.32
Custodial Services Limited	20,035,730	1.68
HSBC Custody Nominees (Australia) Limited	15,517,384	1.3
BNP Paribas Nominees Pty Limited	15,337,363	1.29
FNZ Custodians Limited	11,211,046	0.94
JP Morgan Nominees Australia Limited	10,229,509	0.86
Custodial Services Limited	9,019,046	0.76
Custodial Services Limited	8,002,603	0.67
Forsyth Barr Custodians Limited	7,322,542	0.61
National Nominees Limited	6,805,738	0.57
Custodial Services Limited	5,890,929	0.49
Investment Custodial Services Limited	5,547,480	0.46
JBWERE(NZ) Nominees Limited	4,305,152	0.36
New Zealand Depository Nominee Limited	3,623,036	0.3
BNP Paribas Noms Pty Limited	2,776,692	0.23
Masfen Securities Limited	2,434,127	0.2
Custodial Services Limited	2,409,513	0.2
Pt Booster Investments Nominees Limited	2,406,047	0.2
FNZ Custodians Limited	2,367,688	0.2

1 New Zealand Central Securities Depository Limited (NZCSD) is a depository system which allows electronic trading of securities to members. As at 30 June 2017, the 10 largest shareholdings in the company held through NZCSD were:

Shareholder	Number of shares	% of capital
HSBC Nominees (New Zealand) Limited	142,305,952	11.93
HSBC Nominees (New Zealand) Limited	115,375,264	9.67
Citibank Nominees (NZ) Limited	67,638,714	5.67
JPMorgan Chase Bank	59,646,695	5.00
Accident Compensation Corporation	27,856,611	2.33
New Zealand Superannuation Fund Nominees Limited	18,954,908	1.59
Tea Custodians Limited	16,398,069	1.37
National Nominees New Zealand Limited	12,331,768	1.03
Cogent Nominees Limited	10,732,163	0.9
Guardian Nominees No. 2 Ltd	10,010,665	0.84

Shareholder information CONTINUED

INVESTOR INFORMATION

COMPANY PUBLICATIONS

The company informs investors of the company's business and operations by issuing an annual report (with notice of meeting) and an interim report.

FINANCIAL CALENDAR	Half year	Full year
Results announced	February	August
Reports published	February	August
Dividends paid	April	October
Annual meeting	–	October
Disclosure financial statements	–	November

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 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 2017, 66 shareholders on the ASX and 115 shareholders on the NZX held fewer securities than a marketable parcel under the Listing Rules of the ASX.

DIVIDENDS

Shareholders may elect to have their dividends direct credited to their bank account.

DIVIDEND REINVESTMENT PLAN

The company also offers shareholders the opportunity to participate in a dividend reinvestment plan. This gives shareholders the option to receive additional shares (at discounted prices) in the company rather than, or in combination with, receiving their dividends. As at the date of this report, the dividend reinvestment plan is operating and enables shareholders to purchase Auckland Airport shares at a discount of 2.5% versus market price. Further details are available at corporate.aucklandairport.co.nz/Dividends.

LIMITATIONS ON THE ACQUISITION OF THE COMPANY'S SECURITIES

The company is incorporated in New Zealand. As such, it is not subject to Chapters 6, 6A, 6B and 6C of the Australian Corporations Act dealing with the acquisition of shares (such as substantial holdings and takeovers). Limitations on acquisition of the securities are, however, imposed on the company under New Zealand law as follows:

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

SHARE REGISTRARS

NEW ZEALAND

Link Market Services Limited
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80 Queen Street
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PO Box 91976
Auckland 1142

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Fax: +64 9 375 5900

AUSTRALIA

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680 George Street
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NSW 2000
Locked Bag A14
Sydney South
NSW 1235

Phone: +61 2 8280 7111

Fax: +61 2 9287 0303

Corporate directory

DIRECTORS

Sir Henry van der Heyden, chair
Richard Didsbury
Brett Godfrey
Michelle Guthrie
James Miller
Justine Smyth
Christine Spring
Patrick Strange

SENIOR MANAGEMENT

Adrian Littlewood, chief executive
Philip Neutze, chief financial officer
Richard Barker, general manager retail and commercial
Scott Tasker, general manager aeronautical commercial
Anna Cassels-Brown, general manager people and safety
Jason Delamore, general manager marketing and technology
Steven Crook, acting general manager airport development and delivery
Judy Nicholl, general manager aeronautical operations
Mark Thomson, general manager property

REGISTERED OFFICE NEW ZEALAND

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

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Website: www.aucklandairport.co.nz

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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 & COMPANY SECRETARY

Scott Weenink

AUDITORS

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

INDEPENDENT REMUNERATION ADVISERS

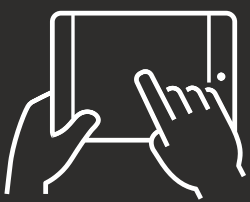
Ernst & Young

This Annual Report is dated 23 August 2017 and is signed on behalf of the Board by:

Sir Henry van der Heyden
Chair of the Board

James Miller
Director

insightcreative.co.nz AIAL099



Online report

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

aucklandairport.co.nz

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